# Resilience

When a natural disaster strikes, providing victims with food, water, shelter, and medical care is the first order of business. But after these basic needs are met, obtaining cash or gaining access to savings to cover emergency expenses becomes a top priority for individuals and business owners. The better the contingency capabilities of the financial system—including financial institutions and payments processing—the easier and faster the economy can recover and begin to return to normalcy.

The Federal Reserve plays an important but mostly behind-the-scenes role in fostering the resilience of the U.S. financial system, and the Fed provided that support in the wake of Hurricanes Katrina, Dennis, Rita, and Wilma in 2005. Following Katrina, the Fed began working to ensure that banks had enough cash (see page 12) to meet the spike in demand that followed the storm.

But the Fed's work didn't stop there. It also worked with banks to process automated clearinghouse payments (ACH) when banks' contingency arrangements failed and implemented alternative arrangements for processing checks. In addition, Federal Reserve staff coordinated with other regulatory agencies to monitor the financial condition of banks and made its discount window available for lending.

Keeping the threads of all these efforts together during Hurricane Katrina was Pat Barron, first vice president and chief operating officer of the Atlanta Fed. Barron was supported by hundreds of Atlanta Fed staff in these endeavors. He was also in continuous contact with New Orleans Branch Manager Bob Musso, other Federal Reserve Banks, members of the Atlanta Fed's board of directors, and state and federal banking regulators as well as governmental authorities and industry associations.

For Barron and the Fed, however, the highest priority in such circumstances is staff safety. To address the extraordinary conditions created by Hurricane Katrina, the bank used its Web site and 24/7 phone lines to reach the 179 employees of the New Orleans branch. It took weeks, but eventually all employees were accounted for in the wake of the disaster.

With much of the infrastructure in New Orleans and along the Gulf Coast knocked out for what clearly would be an extended period, extraordinary measures were also necessary to resume the processing of checks between financial institutions and the Atlanta Fed's New Orleans branch. By August 31, two days after Katrina hit land, the bank's Atlanta office had taken on the check processing work of the New Orleans Branch. With New Orleans staff still getting their personal lives in order, check processing work initially was handled by Atlanta Fed employees working overtime and by volunteers from other Sixth District offices and other Federal Reserve Banks.

In the weeks following the storm, more than sixty New Orleans check processing employees relocated to Atlanta with their families and lived in temporary quarters to take on the work. While local check clearinghouses in the New Orleans zone were inoperable, the Atlanta check shop was processing 1.5 million extra items a day in addition to the normal daily volume of 4.2 million items.

First Vice President Pat Barron set up a response center in his office, maintaining continuous contact with banks, regulators, and Fed operations staff who struggled to keep cash flowing and checks moving in the wake of Hurricane Katrina.

Atlanta Fed staff also worked closely with financial institutions affected by the storm to expedite their resumption of ACH payments, which are critical because they are used for the huge volume of direct deposits of paychecks and direct payments of items such as car loans. Although it took days and even weeks in certain cases, banks and credit unions were ultimately able to retrieve their own ACH files and begin their normal operations.

The viability of financial institutions in the hurricane-afflicted areas was a public policy concern of the Federal Reserve and other regulatory agencies. To monitor the status of banks, the federal and state banking authorities exchanged calls on a daily basis. The Fed's credit facilities, as usual, were available for emergency needs.

The federal financial regulatory agencies, including the Fed, offered guidance to banks in the affected areas, encouraging institutions to open their lobbies to other banks whose premises might be unusable so that customers could be served, urging financial institutions to offer deferments on mortgage payments, and reminding consumers to get in touch with their banking institutions about their financial situation.

By early October, a month after Katrina hit, the resilient New Orleans Branch reopened for cash operations and eliminated the contingency arrangements for paying, receiving, and processing cash that had been in place since the hurricane's onset.

But other contingency operations continued as new issues arose. For example, the Fed also had to deal with checks and cash that had been sitting in floodwaters for days or weeks, arranging for alternative processing methods and safe disposal of the items. Taken all together, these decisive actions helped keep payments flowing in the wake of the disaster and enabled the local economy to take its first steps toward recovery.

The stories that follow tell of both personal triumphs and professional resilience in the aftermath of Katrina.

The Atlanta Fed's New Orleans Branch remained staffed thanks to the efforts of a stalwart band of employees, like Jude Miller (left) and Mike Fieramusca, who stayed behind when the city was evacuated.

# Holding the fort during and after the storm

For thirteen days and nights, Mike Fieramusca ate military-style "meals ready to eat" (MREs), drank and bathed in water siphoned from a 20,000-gallon reserve tank, and, as the situation called for, slept on cots in the boiler room of the Atlanta Fed's New Orleans Branch. "It's my job to stay here and make sure this building survives whatever is thrown at it," said Fieramusca, the New Orleans building superintendent. "If we don't have this building, folks don't have a place to work."

The deteriorating conditions outside created a demanding test of patience and resourcefulness inside the branch. As the temperature climbed above 95 degrees, Fieramusca and two Federal Reserve law enforcement officers fashioned standard-issue post-Katrina survival uniforms—T-shirts, shorts, and bulletproof vests. Carrying a fire extinguisher, Fieramusca moved constantly about the property to check on essential functions. A persistent worry was flaming ash from a nearby fire that rained down on the building's rooftop.

As a small and determined group held on, Senior Financial Services Project Leader Jude Miller rushed to bring in relief. Starting from his native southwestern Louisiana, Miller began his own epic journey, driving his truck east across low-lying back roads. Using his personal radio equipment to stay in touch with Fed management in Atlanta and Birmingham, Miller made frequent stops in the countryside to purchase fuel and other supplies for the branch, at several points negotiating for purchases in Cajun French.

At Baton Rouge, Miller joined a group of Federal Reserve protection officers who had driven from Atlanta, and from there he led the group along the treacherous route to New Orleans. The convoy passed many miles of traffic by riding on the shoulder, making its way along roads jammed with heavily armed and upset civilians and past military checkpoints. U.S. Army soldiers waved the convoy through after Miller turned on flashing blue lights on his truck and showed federal homeland security authorization papers—official documents provided by the Fed Board of Governors in Washington.

Finally, Miller and his convoy reached the branch, and Fieramusca opened the gate to let the group with the much-needed fuel, water, food, clothing, toothbrushes, and other supplies—and, above all, manpower—into the parking lot. The building was secure for the remainder of the emergency period.

## Making cash a priority

Financial Services Administrator Adrienne Slack, under the direction of New Orleans Branch Manager Bob Musso, worked from her contingency site at the Atlanta Fed's Birmingham office to implement alternative ways to get cash to the region's banks.

Just before Hurricane Katrina hit land, Adrienne Slack fled her home in New Orleans, driving with her husband and three children to Birmingham, Alabama. As the storm pounded the Gulf Coast, she reported for work as financial services administator for the cash function office at the Atlanta Fed's Birmingham Branch. There, she learned that her home was under eight feet of water because of a breach in the London Avenue Canal. Despite this personal heartbreak, she focused her professional energies on her immediate role: the pressing need to get cash flowing into depository institutions.

Along the devastated Gulf Coast, conditions for cash delivery could not have been worse. Roads were destroyed, fuel was scarce, and the New Orleans Branch was cut off from the rest of the world. But Slack was armed with a contingency plan for cash services. The Atlanta Fed quickly authorized the release of $60 million in cash from a strategic inventory location in Louisiana. Currency distribution for Mississippi and Louisiana was moved into the bank's Birmingham facility, and New Orleans staff were in position there to work around the clock to deliver fresh currency and remove from circulation large quantities of contaminated coins and cash. In addition, Slack arranged for Fed System "buddy banks" in Jacksonville, Houston, Atlanta, and Memphis to pay out currency in affected areas.

Even with this unprecedented support from other Fed offices, more efforts were needed. Slack quickly initiated a plan to hire private armored carriers to make daily runs to deliver cash from the Federal Reserve Bank of Dallas's Houston Branch to banks in Baton Rouge and Lafayette and from the Birmingham Branch to depository institutions in Mobile, Alabama, and Pensacola, Florida. To clear the way for these deliveries, Slack worked with other Fed staff to negotiate agreements with federal and state authorities to allow priority passage and refueling of the cash-ferrying vehicles.

In December, after the New Orleans Branch had reopened, the Slacks left Birmingham even though they had no home to return to. Waiting for a FEMA trailer, they moved into a small cabin on a cruise ship docked in New Orleans. Even with cramped living conditions, Slack was glad to be back in her own office and grateful to be part of the effort to help her community recover. "The support and teamwork of the Federal Reserve System were outstanding," she said, "and our cash strategy worked just as it was supposed to work to bring money where it was needed most."


## A community banker who stepped up

Atlanta Fed New Orleans Branch Director David Johnson kept his bank in Hattiesburg, Mississippi, open, despite the loss of electric power, to cash checks and provide much-needed currency to residents fleeing the Gulf Coast.

With hurricane winds gusting up to 120 miles per hour and storm surges taking out everything in their path, coastal residents in Mississippi pushed upstate, and roads and highways in the lower half of the state filled with people. Katrina hit on a Monday, and on Tuesday David E. Johnson, chairman and chief executive officer of The First Bancshares and The First, had no access to his bank branches in the Hattiesburg area. By Wednesday, as the chaos of the storm's aftermath forced more and more coastal residents away from their homes, Johnson—an Atlanta Fed director—and his managers met and made the decision to open the branches.

On Thursday the bank was one of the first to open in Laurel—in the dark, without power or phone service. Friday Johnson opened his office in Picayune, again without power. The Hattiesburg office was one of the few in the area with electricity, and by midweek after Katrina's landfall, the area had swelled by 150,000 people escaping the storm's aftermath.

With power on at Johnson's bank and next door at a large gas station, people flooded the local streets. Gasoline was a big factor in First Bank's decision to open. The two precious commodities for evacuees were gas and cash. As cars sat waiting in long lines to fill up their gas tanks, one person from a vehicle could run across the lawn to the bank to cash a check. No ATMs were operating, so the bank's management decided to work with the Fed's contingency cash services to bring in larger-than-normal supplies of cash to meet the needs of people driving away from the coast.

No matter where a person banked, First Bank cashed a check for up to $100 on the faith of a valid ID. The bank had no way to verify the check and no idea what the potential downside risk would be. Through Thursday, Friday, and Saturday and even on the Labor Day Monday holiday, First Bank stayed the course. Johnson, in shorts and a T-shirt, stood outside in the sweltering heat cashing checks. The bank cashed checks from noncustomers, checks drawn on competitors' banks, FEMA checks, and Red Cross checks—almost half a million dollars in all. The bank waived nearly $10,000 in insufficient funds charges, but in the end its loss was no worse than on any average banking day, netting out to about $300.

Johnson's decision to help evacuees resulted ultimately in a 20 percent increase in deposits for the bank and the opening of more new accounts during a shorter period of time than the bank had ever seen.