

THE POWER TO PARTICIPATE



The American dream rests on the foundation of full participation in sound, competitive financial markets. The Federal Reserve Bank of Chicago works to help ensure financial empowerment for citizens in the Seventh Federal Reserve District through its research, consumer education, and community programs.

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Ask most people what the Federal Reserve does and they mention setting interest rates. The Fed's monetary policy activities are well known these days, which is appropriate because they are so important. Yet the Fed plays a key role in other areas that have a powerful impact on individuals' lives. One of these lesser-known but important roles for the Chicago Fed is the subject of this annual report: fostering "financial empowerment." The Chicago Fed's 2100 employees—including economists, customer service representatives, bank examiners, and operations staff—work in a variety of ways to help provide an environment in which financial empowerment can flourish.

What does financial empowerment mean? I would define it as ensuring that all individuals have an opportunity to participate fully in sound, competitive financial markets. There are two aspects to financial empowerment: assuring adequate information for all parties, and providing an infrastructure that supports good-faith transactions and mutual trust.

Information and trust form the foundation of our free-market economy. Information is

the fuel that powers competition. Buyers and sellers need adequate information to make rational economic decisions. Trust is also a necessity for an economic system based on mutually beneficial exchange. "Without mutual trust, and market participants abiding by a rule of law, no economy can prosper," Fed Chairman Alan Greenspan once stated. "Our system works fundamentally on individual fair dealing." Providing information and education and promoting trustworthy transactions help to ensure that all individuals have an opportunity to be full market participants.

The Fed provides the foundation for financial empowerment through its monetary policy, supervision and regulation, and financial services activities. As a policymaker, the Federal Reserve promotes a healthy growing economy with price stability. As a provider of financial services, the Fed helps ensure the safety and efficiency of the payments system. And as a supervisor and regulator, the Fed fosters a sound banking system. The Federal Reserve's responsibilities in this area include ensuring the fair and equitable treatment of consumers in their financial transactions,

ruling on applications from banks seeking to merge or buy another bank, and working with banks and community groups to encourage local economic development.

The Chicago Fed also contributes in a more direct way to financial empowerment through its research efforts, outreach initiatives, and community programs. You'll see in these pages how Chicago Fed research on banking and finance supports effective, informed decision-making by policymakers, business leaders and community groups. In particular, the report highlights a collaborative research effort by the Chicago Fed and the University of Chicago, which focuses on the use of mainstream financial markets in ethnic neighborhoods.

The report also describes the Bank's various outreach efforts, including Project Money\$mart, a major new initiative designed to increase financial literacy. Forming partnerships is another strategy for achieving financial empowerment. One example is the Bank's partnership with the U.S. Treasury to address the challenges faced by those who do not have a bank account. The Chicago Fed has

FROM LEFT: FIRST VICE PRESIDENT WILLIAM CONRAD,
CHAIRMAN ARTHUR MARTINEZ,
PRESIDENT AND CHIEF EXECUTIVE OFFICER MICHAEL MOSKOW,
AND DEPUTY CHAIRMAN ROBERT DARNALL.



also been a leader in developing innovative partnerships in both urban and rural areas to encourage community and economic development. As part of this effort, the Bank has served as a catalyst in bringing together a broad range of key players involved in the lending process. Through these initiatives, the Bank has helped to eliminate barriers affecting the ability of creditworthy customers to obtain small business and mortgage loans.

Why is financial empowerment so important? Access to credit and financial services is essential to business owners, prospective entrepreneurs, and families because it provides them with the ability to build their dreams as full and active participants in the economy. The benefits are not limited to individuals. Financial empowerment also promotes economic vitality in neighborhoods, a key factor in community development.

Of course, fostering full and active participation does not mean inappropriately influencing an individual's financial decisions. Nor does financial empowerment mean that depository institutions should make unsound loans or not make a profit in providing services. Yet there are many consumers who could make better financial decisions if they

were better informed. And there are many underserved markets that offer business opportunities for lenders. Ensuring that all individuals have an opportunity to be full participants in sound, competitive financial markets provides important benefits for consumers, businesses, and for the economy as a whole.

The Chicago Fed had another successful year in 2000, as indicated by the listing of key accomplishments on pages 16–17. The Bank's success reflects the hard work and commitment of our staff and the leadership and counsel of our directors in Chicago and Detroit. I would like to thank our staff and our directors for their dedication. I would like to extend my special appreciation to Lester McKeever and Verne Istock, who have completed their service as directors on the Chicago board. The Chicago Fed has benefited tremendously from the support and leadership of Verne as well as Lester, who provided especially noteworthy service as the Bank's chairman for three years.

Finally, I would like to welcome William Osborn and W. James Farrell to the Chicago board. Each brings important knowledge and experience to our board deliberations.

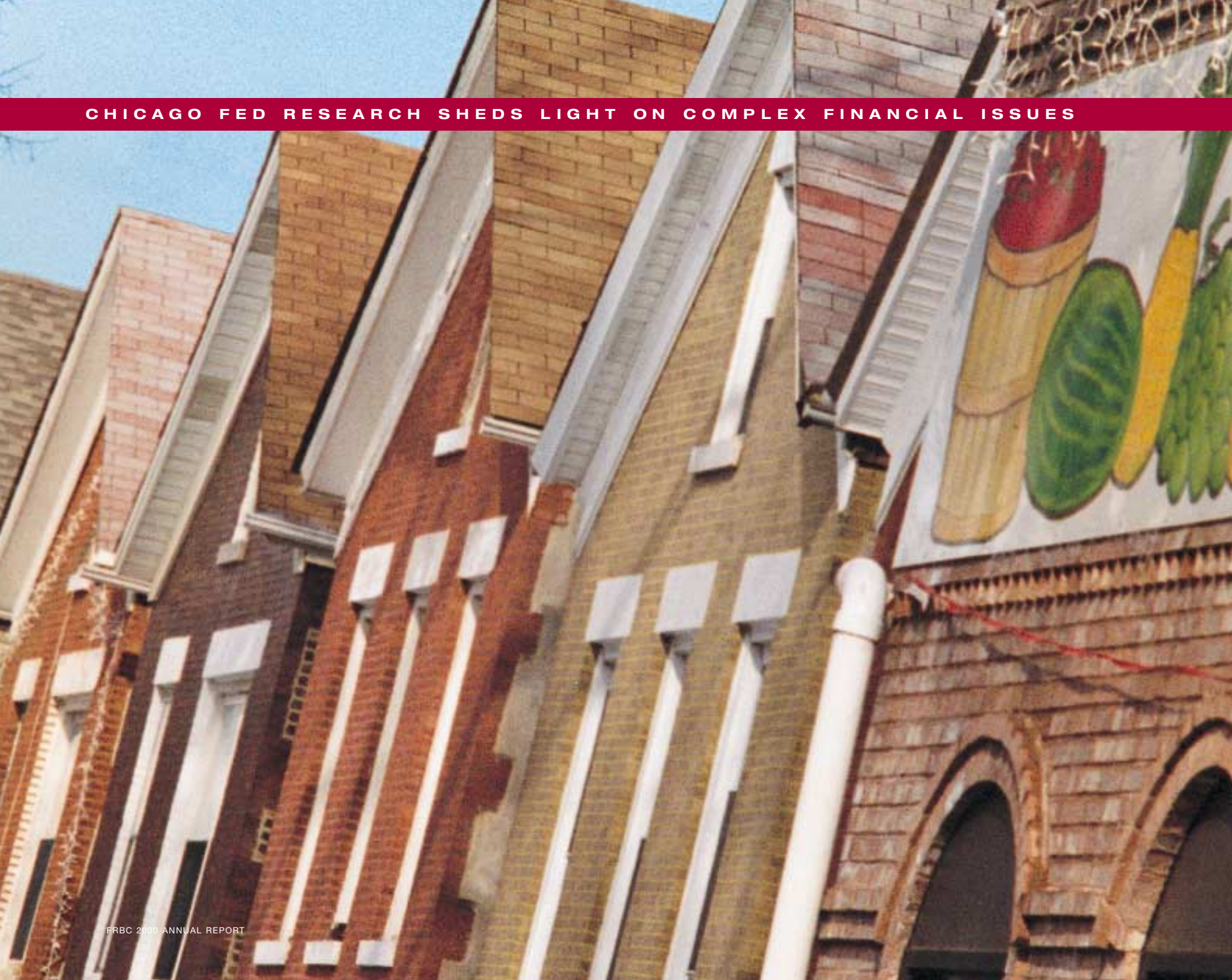
While 2000 was a year of achievement for the Bank, it was marked by a very sad event for the Chicago Fed family—the tragic death of Nancy M. Goodman. Nancy was senior vice president in charge of Community and Corporate Affairs and a member of the Management Committee when she passed away on May 31st. She was a valued colleague and trusted adviser to me and many others at the Chicago Fed. Nancy will be greatly missed, but she leaves a legacy as an outstanding communicator and exceptional leader.

Thanks to the efforts of dedicated staff such as Nancy, the Chicago Fed is well-positioned to meet the challenges of 2001. We will continue to be guided by our vision, which reaffirms our mission to serve the public interest, and commits us to set the standard of excellence in the Federal Reserve System and provide services of unmatched value to our customers and stakeholders.



MICHAEL H. MOSKOW
PRESIDENT AND CHIEF EXECUTIVE OFFICER
MARCH 20, 2001

CHICAGO FED RESEARCH SHEDS LIGHT ON COMPLEX FINANCIAL ISSUES

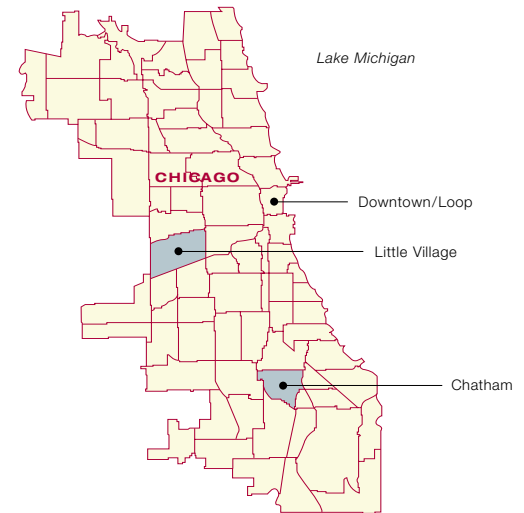




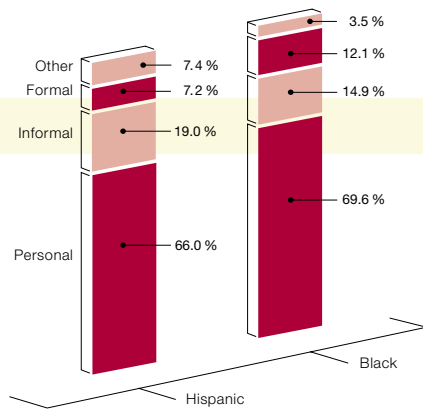
The Chicago Fed encourages financial empowerment by conducting high-quality research and analyses on a wide variety of banking and finance issues.

Full participation in sound, competitive markets is furthered when policymakers, lenders, community groups, and others better understand the complex issues related to access to credit and financial services. The Chicago Fed supports this need with scholarly research and analyses on a wide variety of banking and financial topics. The Bank has examined such topics as how the Community Reinvestment Act (CRA) influences lenders and the impact of bank mergers on competitiveness in geographic markets.

Given its CRA responsibilities, the Federal Reserve has a particular interest in community and economic development. To this end, the Federal Reserve provides financial institutions, community organizations and others with information on the Community Reinvestment Act, community development, and issues related to credit access. On behalf of the Federal Reserve System, the Chicago Fed developed an innovative web resource, the Consumer and Economic Development Research and Information Center or CEDRIC (Chicagofed.org/Cedric). This web site provides a single source for finding research on consumer and economic development issues produced by the Federal Reserve and others.



Among the Bank's efforts is research on the use of mainstream financial markets among specific racial or ethnic groups. Researchers from the Chicago Fed in cooperation with researchers from the Center for Urban Inequality at the University of Chicago conducted surveys in two Chicago neighborhoods: Little Village, a predominantly Hispanic community, and Chatham, a predominantly Black community. This research focused on ethnic/racial differences in the use of financial services by households and access to credit for small-business owners, providing important insights not often captured in nationwide studies.



SOURCE OF FUNDS (AVERAGE PROPORTION) USED FOR BUSINESS START-UPS IN CHATHAM AND LITTLE VILLAGE
Numbers may not total 100 due to rounding.

Credit Availability for Small Businesses

One issue the researchers studied is whether ethnic differences affected availability of credit for small business owners or entrepreneurs in these two Chicago neighborhoods. They looked at ethnic differences in the use of formal financing from financial institutions as well as informal financing, such as loans or gifts from family, friends, or business associates. The results showed that for the two neighborhoods combined, only about 11 percent of the funds needed to start a firm were from formal sources. Sixty-four percent of start-up funds came from personal savings and about 19 percent from informal sources.

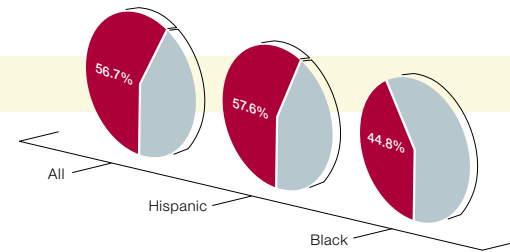
The study also compared levels of start-up funding across ethnic/racial groups. After adjusting for industry type and demographic and human capital characteristics, the researchers found statistically significant differences in start-up funding among Hispanic and Black owners of comparable small

businesses. In particular, they found that Black owners start their businesses with only about half of the start-up funds used by comparable Hispanic business owners.

The gap in start-up funding between Black and Hispanic owners does not appear to stem from differences in personal savings. The research indicates that the gap is due partly to Hispanic owners' heavier use of financing from non-personal sources such as informal gifts or loans from family, friends, or business associates.

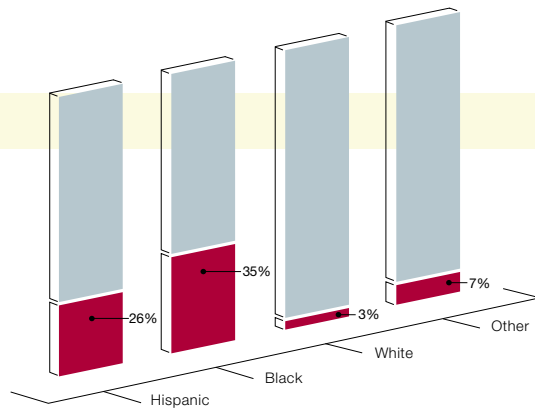
Regarding on-going credit needs, the research finds that Hispanic owners working with a Hispanic supplier or a nearby supplier results in more credit being obtained by Hispanic-owned firms. No comparable relationships are observed for the Black-owned firms.

The research highlights the importance of personal savings and of informal financing

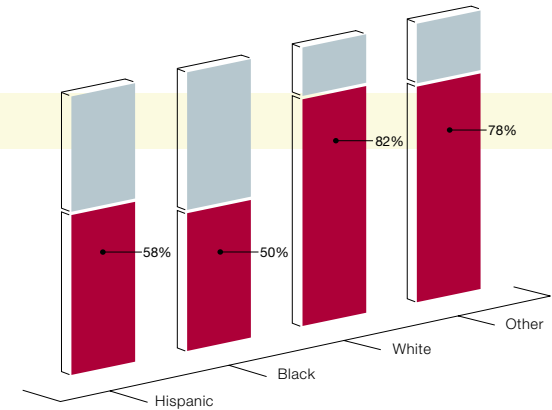


PERCENT OF BUSINESS OWNERS OFFERED CREDIT BY SUPPLIERS IN CHATHAM AND LITTLE VILLAGE

sources in meeting the need for start-up funding for ethnic neighborhoods. The research findings suggest that it may be worth exploring innovative approaches to meeting credit and capital needs that combine the flexibility and informational advantages of informal financing networks with the formal sector's ability to mobilize financial capital. Community development financial institutions and micro-lending pools are examples of ways of combining the strengths of formal and informal sources of capital.



PERCENT OF POPULATION WITHOUT A BANK ACCOUNT
Chicago Six-County Metropolitan Area



PERCENT OF POPULATION WITH A SAVINGS ACCOUNT
Chicago Six-County Metropolitan Area

Financial Services Use and Homeownership

Using data from the neighborhood surveys and from a survey of Chicago's six-county metropolitan area, the researchers examined the use of financial services and homeownership decisions made by minority consumers.

Consistent with figures reported for the nation, the researchers found that roughly 10 percent of households in the Chicago metro area do not have a banking account. These households were significantly more likely to be younger, to have lower income, and to be less educated. In addition, households without a banking account were more likely to consist of members of a minority group and to reside in a low-income neighborhood. The most common reasons cited for not having or for closing a checking account were high minimum balance or fees, not writing enough checks, or not having enough money to open an account. Households without banking accounts, especially those

residing in low-to-moderate-income neighborhoods, tended to meet their financial services needs by using check-cashing establishments such as currency exchanges.

The research indicates that educating consumers about the benefits of using mainstream financial-services providers will help those without a banking account take advantage of cost savings and build a long-term relationship with a formal financial institution. In addition, greater access to credit opportunities is likely to result from this important relationship-building process.

The characteristics that significantly influence the homeownership decision in Chatham and Little Village were household income, education and, in the case of immigrants in Little Village, years since migration to the U.S. In addition, homeowners tended to have an existing banking relationship more so than non-homeowners.

The research suggests that asset-building initiatives, flexible home-loan programs, and affordable housing programs may help increase the level of homeownership. Community development lending initiatives, as prescribed by the CRA, also can meet the needs of lower-income and minority households seeking to purchase a home. Given the fundamental importance of having an established banking relationship prior to homeownership, education efforts about the home financing process and the benefits of having a banking account may also foster homeownership. These types of programs and initiatives should enhance a household's ability to make informed financial decisions as well as foster community economic development and neighborhood stability.

HELPING CONSUMERS MAKE GOOD CREDIT CHOICES



AR2000



AR2000



AR2000

The Chicago Fed is at the forefront of helping consumers become financially empowered through informed decisions.

An important part of financial empowerment is having the knowledge to make good financial choices. The Chicago Fed works actively to provide consumers key skills that allow them to manage their money more effectively and ultimately achieve their financial goals. A key initiative in this area is Project Money\$mart, a comprehensive financial literacy campaign the Chicago Fed kicked off in 2000.

The Money\$mart campaign is a multi-faceted effort. During 2000 the Money\$mart program developed a brochure, a web site at Chicagofed.org, and a speakers bureau to provide important consumer information

to those “underserved” in the marketplace. The Chicago Fed is also partnering with other groups, including co-sponsoring a conference with the Women’s Self-Employment Project, to provide financial information to low- and moderate-income women. Efforts in 2001 will include a newspaper-in-education partnership with the *Chicago Sun-Times* promoting financial literacy in the classroom.

The Chicago Fed’s outreach also includes extensive, ongoing programs to educate teachers and consumers about economics and banking, including financial literacy. In 2000, the Bank increased its education to

consumers on abusive lending practices, commonly referred to as “predatory lending,” an effort that will continue in 2001. Additional topics in 2001 include financial privacy and identity theft.

In a variety of different areas, in a variety of different ways, the Chicago Fed helps ensure consumers have the information they need to make good choices and be financially empowered.



A PRESENTATION BY CHICAGO FED SPEAKER JEFF SIEGEL AT THE NORTHWEST SENIOR CENTER IN CHICAGO MOTIVATED FLORENCE TUN TO ESTABLISH A TRUST. BEFORE SETTING UP THE TRUST, SHE CONFERRED WITH HER BANKER, STEFANIE SCARP, AT MANUFACTURERS BANK IN CHICAGO.

CHICAGO FED SPEARHEADS PARTNERSHIPS



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The Bank has served as a catalyst in launching innovative partnerships aimed at promoting access to credit, capital, and housing.

A key responsibility for the Federal Reserve is serving as an intermediary in encouraging communication and collaboration between depository institutions, community groups, government agencies, trade associations, and other key stakeholders. Ultimately, the goal is to enhance policies and practices that affect access to credit, capital, and housing. In recent years, the Chicago Fed has worked to accomplish this goal by initiating a series of innovative and voluntary programs that bring together a wide range of players.

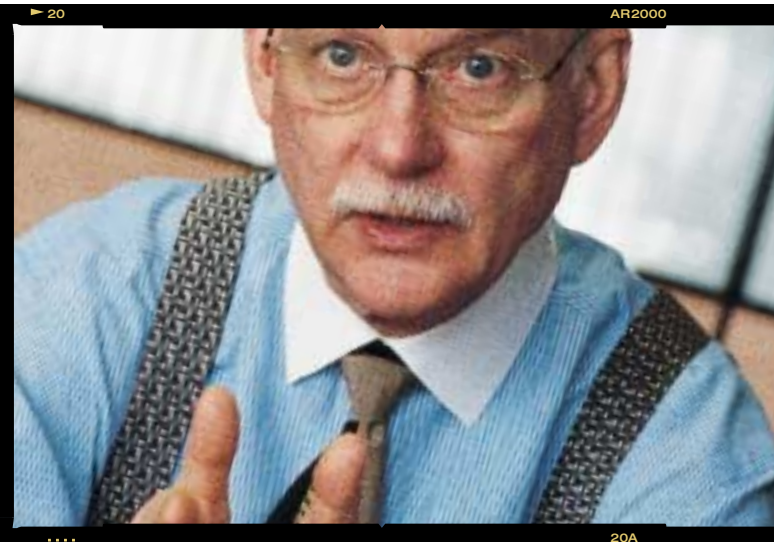
The first of these programs was the Mortgage Credit Access Partnership (MCAP), which involved more than 100 organizations. MCAP's mission was to address policies and practices related to the home purchase and

financing process in the Chicago area, with a focus on low- and moderate-income and/or minority communities. Among the implemented recommendations developed through MCAP was an amendment to the Illinois Appraiser Licensure Act requiring fair housing and fair lending training for licensees. MCAP efforts also led to the creation of a Foreclosure Intervention Program (FIP). To date, FIP has helped over 400 families in the Chicago area avoid foreclosure and remain in their homes. A similar program modeled on MCAP, called the Housing Opportunity Partnership for Southeast Wisconsin (HOPS), was initiated in Milwaukee in 2000.

The Small Enterprise Capital Access Partnership (SECAP) is similar to MCAP in

format, but focuses on access to capital and credit for small business owners. SECAP has a particular focus on under-served segments in the marketplace, primarily female- and minority-owned businesses. Among other important issues, SECAP is addressing the quality of technical assistance (TA) provided in metro Chicago. TA groups assist business owners in preparing business plans and in addressing marketing, financial, and management needs. By establishing a set of quality standards for TA providers and a related training program, SECAP hopes to foster higher quality assistance and more effective relationships between lenders and TA providers.

Other key SECAP recommendations include establishing a targeted venture capital fund for smaller, women- and minority-owned businesses, and a web-based information clearinghouse for entrepreneurs with information on financing sources, seminars, technical assistance providers, and other resources.



AMONG THE INNOVATIVE PARTNERSHIPS INITIATED BY THE CHICAGO FED IS THE SMALL ENTERPRISE CAPITAL ACCESS PARTNERSHIP (SECAP). SECAP TASK FORCE LEADERS TOM ULLMANN, GERRI NORINGTON, AND ROSS CARLSON DISCUSS HOW TO IMPLEMENT A SECAP RECOMMENDATION TO ENHANCE THE TECHNICAL ASSISTANCE PROVIDED TO SMALL BUSINESS OWNERS.

REACHING OUT TO RURAL CITIZENS



The Chicago Fed has responded to economic development issues in America's heartland by helping to develop workable strategies through conferences and other outreach.

Financial empowerment is sometimes considered an urban issue, but rural citizens share the concerns of all Americans about their economic future. Rural areas in the Midwest face a continuing population shift to the cities, affecting the level of job creation in small communities. This shift also raises questions about the future of family farming as a sustainable occupation. Ultimately the questions center on quality of life, which impacts how rural areas can compete to attract and retain educated workers and larger-scale employers.

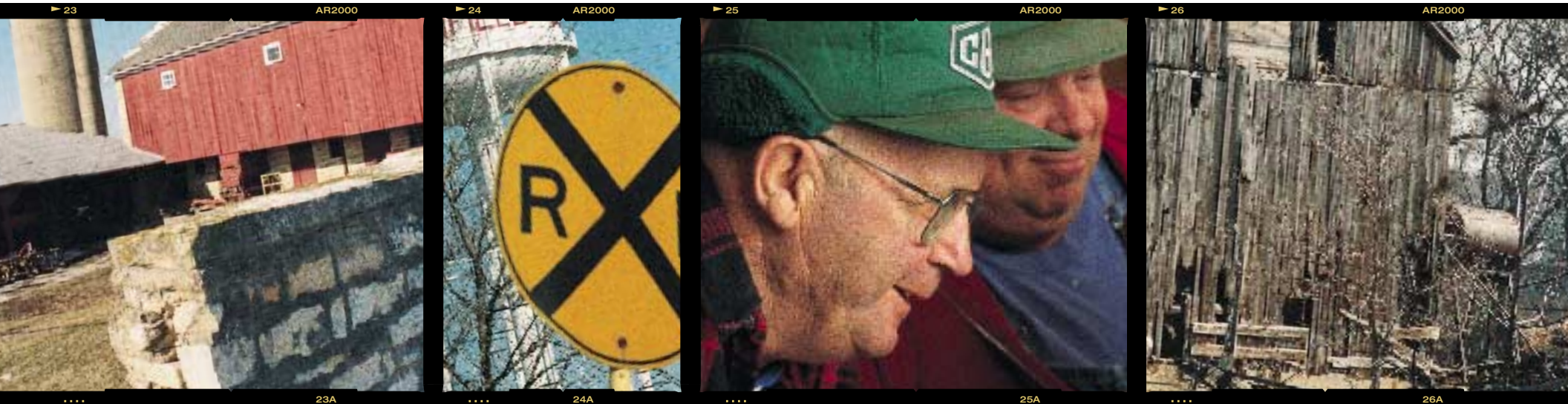
The structural changes taking place in the farm sector are inevitable, but there are ways to ease the transition. The Chicago

Fed has responded to these concerns through a series of conferences, workshops, and other forums on housing and economic development issues in our nation's heartland. The Bank's goal is to explore these complex issues, foster partnerships, and develop workable strategies.

The conferences, workshops, and forums featured a wide range of speakers, including national and local legislators, state governors, and experts in various fields such as population statistics, commodity prices, recreational development, and attracting high-tech firms with infrastructure improvements. In addition to these events, individual meetings were

held with community leaders, bankers, and others to share information and strategies on lending programs and initiatives.

The Chicago Fed's philosophy is to act as a catalyst in bringing people together to focus on a problem with the goal of developing effective strategies for change. Rural development will continue to play an important role in the Fed's community development initiatives.



THE INCREASING ENCROACHMENT OF SUBURBIA INTO RURAL AREAS SYMBOLIZES THE STRUCTURAL CHANGES TAKING PLACE IN RURAL ECONOMIES. THE CHICAGO FED SPONSORS A VARIETY OF PROGRAMS FOCUSING ON HOUSING AND ECONOMIC DEVELOPMENT ISSUES IN OUR NATION'S HEARTLAND.

FINANCIAL EMPOWERMENT STARTS WITH A BANK ACCOUNT



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Through an innovative partnership with the U.S. Treasury, the Chicago Fed is working to raise awareness of and promote research on consumers without a banking account.

For most of us, the first step to financial empowerment is opening a bank account. From there a world of financial services opens up, including access to credit. Yet an estimated 10 percent of the American population does not have a checking or savings account.

A Chicago Fed/U.S. Treasury initiative is addressing the issues posed by having a large number of individuals without a banking account. For example, the U.S. government pays more to make federal benefit payments by check than by electronic payment. In addition, those without a banking account, often low- or moderate-income individuals, face an unnecessary financial burden. Most

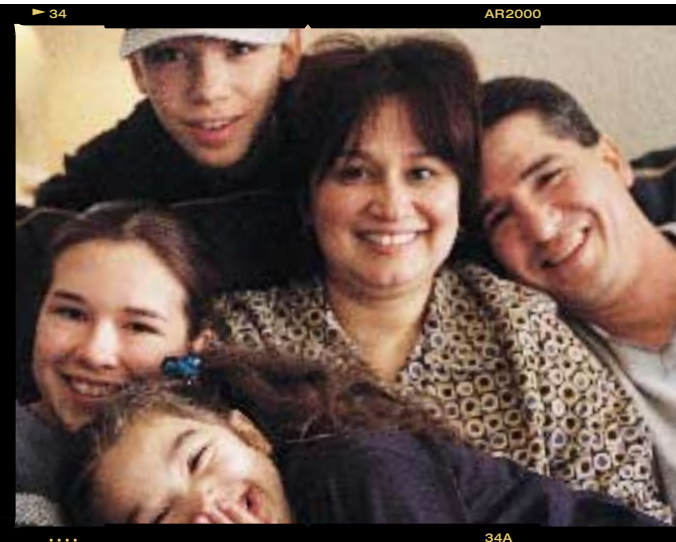
of those without a bank account turn to check cashing operations to pay bills—where fees are higher than what banks charge. These fees can be significant, especially for those on a limited income. The Treasury estimates that the average lifetime cost of all such charges for low-income individuals is \$15,000.

The non-monetary costs of not having a bank account also contribute to the challenges faced by low- and moderate-income individuals. Not only are they less able to access credit, they have more difficulty gaining the financial skills that come from working with a bank, including using credit.

The Chicago Fed is working with the U.S. Treasury to promote research on and

understanding of this issue. A key initiative in 2000 was developing a web site at Chicagofed.org to foster the sharing of information on resources, pilot programs, and research.

The web site includes an annotated and searchable bibliography that is being expanded to include abstracts describing each entry and available Internet links to the document. The site uses non-technical language to ensure that these documents are useful for a broad audience, including bankers. In the future, the web site will be used to promote additional Fed outreach such as conferences and other initiatives.



HAVING AN ESTABLISHED RELATIONSHIP WITH A DEPOSITORY INSTITUTION CAN HELP AVOID PROBLEMS IN MAKING MAJOR CREDIT DECISIONS SUCH AS REFINANCING A HOUSE. THE LOPEZ FAMILY ENJOYS THEIR HOME AFTER WORKING WITH NEIGHBORHOOD HOUSING SERVICES (NHS) TO RESOLVE IRREGULARITIES THEY ENCOUNTERED WHEN THEY REFINANCED.

1ST QUARTER

- The Chicago Fed, along with other Reserve Banks, launched the Check Modernization initiative in response to changes in the industry and requests from customers for more uniform services.



- The Bank hosted a System conference that focused on Federal Reserve discount window lending to depository institutions.

- Supervision and Regulation launched a successful year in which approximately 900 inspections, examinations and risk assessments were conducted.
- The System's Business Development Office (BDO), located at the Chicago Fed, played a key role in determining how to respond to the findings of a National Customer Service Satisfaction Survey.



- Economic Advisor Robert Bliss examined the pitfalls in inferring risk from financial market data, one of 31 working papers published by Economic Research during the year.

- The Bank commented on proposed revisions to the international framework for bank capital, one of a series of responses to requests for comment on complex policy issues during 2000.

2ND QUARTER

- TAAPSLink, the Internet tender submission application, was rolled out to approximately 980 Treasury auction submitters.
- The redesigned \$5 and \$10 bills, containing enhanced security features, were distributed to financial institutions.



- Generally regarded as the leading conference of its kind, the 36th annual Conference on Bank Structure and Competition focused on the changing financial industry and regulation.

4TH QUARTER

- The BDO launched the Business Development University, a comprehensive collection of training modules for all business development representatives throughout the System.
- The Chicago Fed brought together auto executives, economists and labor leaders for an Auto Outlook Symposium, one of two such conferences held during the year.

- The Research Department sponsored a September conference entitled "Risk Management in the Global Economy: Measurement, Management and Macroeconomic Implications" with the *Journal of Banking and Finance*.



- The Bank brought together 125 key leaders from the financial services industry to evaluate the prospects for migration to electronic payments during a two-day conference co-sponsored with the Illinois Institute of Technology and the University of Michigan.

- Check Operations successfully met all System quality measures designed to help ensure efficient operations and superior customer service.
- The Bank reinforced its customer service goals during Customer Focus Week, which was centered around the theme, "Taking Action for Our Customers/Stakeholders."



- The Bank unveiled its new and improved external web site.

- Economic Research had 12 papers published and 13 additional articles accepted for future publication in scholarly journals during 2000.
- Economic Research staff analyzed 345 formal bank/bank holding company merger applications in 2000.



- The Chicago Fed organized and hosted the first Alumni Leadership Conference for about 60 senior Fed leaders from around the System.

- Supervision and Regulation was chosen to serve as the System's "competency center" on merchant banking in preparation for the Fed's new responsibilities under the Gramm-Leach-Bliley Act.



- The Chicago Fed worked with two other Reserve Banks and the Board of Governors to launch the IT Knowledge Web, which serves as a System repository for information on the supervision of Internet banking.

- The Chicago Fed kicked off its financial literacy initiative, "Project Money\$mart," a program designed to help educate consumers about personal finance.



- The Bank successfully conducted testing of FedLine® for the Web cash ordering with pilot banks.
- Senior Vice President and General Counsel William Gram explored some of the risks associated with commerce in virtual markets in a research paper, one of a series of articles on electronic payment systems written by Reserve Bank staff.



- Employees celebrated the Bank's first annual Diversity Week by highlighting their cultural richness.
- The Print Shop relocated to its new onsite location and transitioned from offset to electronic printing technology.

- The Bank processed more than 43 percent of its check volume through the Electronic Cash Letter deposit option in 2000.

- The Seventh District Cash Department was rated the second most efficient currency processor in the System for 2000.

- The Detroit Branch successfully adopted the Enterprise-Wide Adjustments system as part of an effort to provide better, more uniform service to customers.

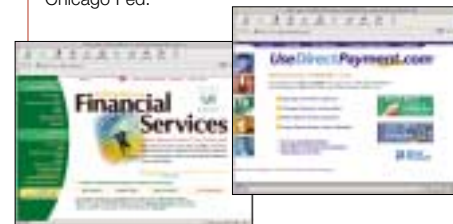


- The Bank launched a mentoring program as part of an effort to encourage employee development.

- The Customer Service Unit handled nearly 100,000 inquiries from financial institutions.

- Economic Research sponsored a December conference, "Designing an Effective Deposit Insurance Structure: An International Perspective," with the Bank for International Settlements.

- The Bank enhanced its infrastructure technology, which allowed for the development of the new UseDirectPayment.com web site and for increased function for the System Financial Services web site maintained by the Chicago Fed.



- The BDO redesigned the National Account Program to manage the System's largest customer accounts more effectively across district lines.

- Supervision and Regulation made significant progress in the execution of risk-focused supervision, including implementing a higher level of integration of safety and soundness, trust, and Information Technology exams; strengthening expertise on issues related to large, complex banking organizations; and focusing on risk in allocating examination resources.

At the Chicago Fed, volunteerism means helping people, strengthening our communities, and creating partnerships with groups outside the Bank.

During the year 2000, Bank employees in Chicago, Detroit, Des Moines, Indianapolis, Milwaukee, and Peoria continued their spirit of volunteerism by becoming involved in a number of community-related projects.

Seventh District employees participated in a wide variety of volunteer projects by contributing both time and money to various charitable organizations in their communities.

Listed to the right are just a few of the volunteer activities in which Chicago Fed staff took part during 2000.



• Participating in several fundraising walk-a-thons, which benefited the American Heart Association, the Greater Chicago Food Depository, the March of Dimes and Multiple Sclerosis.



• Contributing to hunger-relief efforts by sorting and packaging food for the needy at the Greater Chicago Food Depository and helping to collect food from major food conventions.

• Fostering youth motivation by mentoring at-risk high school students and participating in Groundhog Shadow Day, where high school students observed employees at work.

• Serving food each month at Detroit's Open Door Soup Kitchen for the homeless and underprivileged.

SEVENTH DISTRICT EMPLOYEES VOLUNTEER TO ASSIST MANY WORTHY ORGANIZATIONS. HERE BANK VOLUNTEERS SPEND TIME AT THE GREATER CHICAGO FOOD DEPOSITORY SORTING AND PACKAGING FOOD FOR THE NEEDY.



• Helping to raise funds for the Raleigh Children's Hospital and the Make-A-Wish Foundation in Indianapolis.



• Teaching the basics of economics to elementary and high school students through the Junior Achievement program.

• Collecting clothing for the Milwaukee-based Sojourner Truth House—a shelter for battered women and children.

• Taking a group of kids sponsored by Big Brothers Big Sisters of Central Iowa to an Iowa Cubs baseball game.



• Collecting items for the Women's Crisis Prevention Center in Peoria.

• Contributing clothing, food, money, and toys to various charities during the holiday season.

DIRECTORS



2000 BOARD OF DIRECTORS, FEDERAL RESERVE BANK OF CHICAGO, FROM LEFT TO RIGHT: VERNE ISTOCK, LESTER MCKEEVER, ALAN TUBBS, ROBERT DARNALL, CONNIE EVANS, JAMES KEYES, JACK EVANS, ROBERT YOHANAN, AND ARTHUR MARTINEZ.

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Maquoketa, Iowa

Robert R. Yohanán

Managing Director and
Chief Executive Officer
First Bank & Trust
Evanston, Illinois

Two new directors joined
the board in 2001:

*W. James Farrell, chairman
and chief executive officer,
Illinois Tool Works, Inc.,
Glenview, Illinois, replaced
Lester McKeever, whose term
expired on December 31, 2000.*

*William A. Osborn, chairman
and chief executive officer,
Northern Trust Corp. and
Northern Trust Co., Chicago,
Illinois, will complete Verne
Istock's unexpired term.*



2000 BOARD OF DIRECTORS, DETROIT BRANCH, FROM LEFT TO RIGHT: RICHARD BELL, STEPHEN POLK, TIMOTHY LEULIETTE, DAVID WAGNER, EDESEL FORD, IRMA ELDER, AND MARK GAFFNEY.

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and Chief Executive Officer
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OFFICERS



FEDERAL RESERVE BANK OF CHICAGO MANAGEMENT COMMITTEE, FROM LEFT TO RIGHT: WILLIAM CONRAD, MICHAEL MOSKOW, ANGELA ROBINSON, JOHN WIXTED, RICHARD ANSTEE, DEIRDRE GEHANT, DAVID ALLARDICE, AND WILLIAM BAROUSKI.

Michael H. Moskow
President and
Chief Executive Officer

William C. Conrad
First Vice President and
Chief Operating Officer

CENTRAL BANK ACTIVITIES*

Economic Research and Programs

William C. Hunter
Senior Vice President and
Director of Research

Edward J. Green
Senior Policy Advisor

Jean L. Valerius
Vice President and
Senior Policy Advisor

Regional Economic Programs

William A. Testa
Vice President and
Economic Advisor

Financial Markets Regulation and Payments Issues

Douglas D. Evanoff
Vice President and
Economic Advisor

Elijah Brewer III
Assistant Vice President
and Economic Advisor

James T. Moser
Research Officer and
Economic Advisor

Robert R. Bliss
Senior Economist and
Economic Advisor

Robert DeYoung
Senior Economist and
Economic Advisor

David A. Marshall
Senior Economist and
Economic Advisor

Macroeconomic Policy Research

Charles L. Evans
Vice President and
Economic Advisor

Anne Marie L. Goczy
Assistant Vice President
and Economic Advisor

William A. Strauss
Senior Economist and
Economic Advisor

Microeconomic Policy Research

Daniel G. Sullivan
Vice President and
Economic Advisor

Paula R. Worthington
Research Officer and
Economic Advisor

Statistics

Angela D. Robinson
Vice President and Director
of Research Statistics
and Equal Employment
Opportunity Officer

Loretta C. Ardaugh
Statistical Reports Officer

Supervision and Regulation

John J. Wixted, Jr.
Senior Vice President

Administration

James A. Bluemle
Vice President and
Division Leader

Kathleen E. Benson
Director

Catherine M. Bourke
Director

Sheryn E. Bormann
Director

Bank and Bank Holding Company Supervision

Richard C. Cahill
Vice President and
Division Leader

Robert A. Bechaz
Regional Director–Illinois

Philip G. Jackson
Director

Jeffrey A. Jensen
Regional Director–Iowa

William H. Lossie
Director, Supervisory
Resource Group

Joseph J. Turk
Regional Director–
Indiana and Michigan

Karen Whalen-Ward
Regional Director–
Wisconsin

Compliance/Community Reinvestment Act

Douglas J. Kasl
Vice President and
Division Leader

Richard D. Chelsvig
Regional Director–
Wisconsin

Michael R. Jarrell
Regional Director–
Indiana and Michigan

Martha L. Muhs
Regional Director–Iowa

Arthur J. Zaino
Regional Director–Illinois

Global Supervision

James W. Nelson
Vice President and
Division Leader

A. Raymond Bacon
Director

Adrian B. D'Silva
Director

Mark H. Kawa
Supervisory Director

Catharine M. Lemieux
Director

Ralph A. Livesay
Supervisory Director

Michael E. Plaskett
Supervisory Director

Human Resource Development and Technology

David E. Ritter
Vice President
and Division Leader

Gregory J. Bartnicki
Director

Frederick L. Miller
Director

SERVICES TO DEPOSITORY INSTITUTIONS

Business Development

Richard P. Anstee
Senior Vice President

Business Development Office

Jeffrey S. Anderson
Vice President

Valerie J. Van Meter
Vice President

Strategic Marketing and Customer Service

Kathleen H. Williams
Vice President

Rosemarie V. Gould
Administrative Officer

*Includes directors and senior economist and economic advisors as well as officers.



FEDERAL RESERVE BANK OF CHICAGO MANAGEMENT COMMITTEE CONTINUED, FROM LEFT TO RIGHT: CHARLES FURBEE, WILLIAM HUNTER, EDWARD GREEN, JEROME JOHN, WILLIAM GRAM, NATE WUERFFEL, CYNTHIA CASTILLO, THOMAS CIESIELSKI, CARL VANDER WILT, GLENN HANSEN, AND BARBARA BENSON.

Financial Services

Charles W. Furbee
Senior Vice President

Check, Electronic and Fiscal Services

Thomas G. Ciesielski
Vice President

Yvonne H. Montgomery
Vice President

Mary H. Sherburne
Vice President

Annette L. Jelley
Assistant Vice President

Cynthia L. Rasche
Assistant Vice President

James M. Rudny
Assistant Vice President

Eve M. Boboch
Operations Officer

Regional Offices

Des Moines Office
L. Edward Ketchmark
Assistant Vice President

Indianapolis Office
Donna M. Yates
Assistant Vice President

Jeffrey R. Van Treese
Operations Officer

Milwaukee Office

Michael J. Hoppe
Assistant Vice President

Leatrice S. Mack
Marketing Officer

Peoria Facility

Tyler K. Smith
Assistant Vice President

Branch Operations and Cash Operations

David R. Allardice
Senior Vice President and Branch Manager

Cash Operations
Jerome D. Nicolas
Vice President

Guadalupe Garcia
Assistant Vice President

Detroit Branch

Brian D. Egan
Vice President

Valerie J. Van Meter
Vice President

Patrick A. Garrean
Assistant Vice President

Linda S. McDonald
Assistant Vice President

Donna M. Dziak
Operations Officer

SUPPORT FUNCTIONS

Community and Corporate Affairs

Consumer and Community Affairs

Alicia Williams
Vice President

Corporate Communications

James R. Holland
Corporate Communications Officer and Assistant Vice President

Robert W. Lapinski
Corporate Communications Officer and Assistant Vice President

Corporate and Support Services

Jerome F. John
Senior Vice President
Facilities Management, General Services and Protection

Kristi L. Zimmermann
Vice President

Michael Carano
Assistant Vice President

William J. O'Connor
Assistant Vice President

Human Resource Services

Barbara D. Benson
Vice President

Margaret K. Koenigs
Assistant Vice President

Richard F. Opalinski
Assistant Vice President

Deidre A. Gehant
Personnel Officer

Information Technology Services

William A. Barouski
Senior Vice President

Business Technology
Frank S. McKenna
Vice President

Jeffery B. Marcus
Assistant Vice President

Ira R. Zilist
Assistant Vice President

Human Capital

Brenda D. Ladipo
Assistant Vice President

Information Security

Lysette R. Bailey
Assistant Vice President

Network Services

R. Steve Crain
Assistant Vice President

Business Resumption, Asset Management, Budget and Facilities

Anthony J. Tempelman
Assistant Vice President

Legal Department

William H. Gram
Senior Vice President and General Counsel

Elizabeth A. Knospe
Vice President and Associate General Counsel

Yurii Skorin
Vice President and Associate General Counsel

Anna M. Voytovich
Assistant Vice President and Assistant General Counsel

Financial Management Services, Accounting, Loans, Payment System Risk and Reserves and Financial Markets

Carl E. Vander Wilt
Senior Vice President and Chief Financial Officer

Loans, Accounting, Payment System Risk and Reserves

Gerard J. Nick
Vice President

Robert A. Lyon
Advisor

Financial and Management Services

Ellen J. Bromagen
Assistant Vice President

Office of the General Auditor

Glenn C. Hansen
General Auditor

Robert M. Casey
Assistant General Auditor

Joseph B. Green
Assistant Vice President

As of December 31, 2000

ADVISORY COUNCILS

Federal Advisory Council Seventh District Representative

Norman R. Bobins
President and Chief
Executive Officer
LaSalle Bank, NA
Chicago, Illinois

Advisory Council on Agriculture, Labor, and Small Business

Sandra Batie
East Lansing,
Michigan
Michigan State
University

Michael Charles
Fusilier
Manchester, Michigan
Fusilier Family Farm
& Greenhouse

Connie Greig
Estherville, Iowa
Little Acorn Ranch

Ron Heck
Perry, Iowa
Checkers, Inc.

Mark Legan
Coatesville, Indiana
Legan Livestock
and Grain

Jerome Rowe
Dalton City, Illinois
Farmers Cooperative
Grain Co.

Gary Steiner
Mondovi, Wisconsin
Wisconsin Farm
Bureau

Leland Strom
Elgin, Illinois
Strom Farm

Terry Tucker
Milford, Indiana
Maple Leaf Farms, Inc.

Leigh Tuckey
Lancaster, Wisconsin
LeighBert Farms

J. Edward Yanos
Cambridge City,
Indiana
Yanos Farms
Member-at-Large

Margaret Blackshere
Chicago, Illinois
Illinois State
Federation of Labor
& Congress of
Industrial Organization

J. Michael Borden
Janesville, Wisconsin
Hufcor Inc.

Carl Camden
Troy, Michigan
Kelly Services, Inc.
Member-at-Large

John Challenger
Chicago, Illinois
Challenger, Gray &
Christmas, Inc.
Member-at-Large

Sheila Cochran
Milwaukee, Wisconsin
Milwaukee County
Labor Council,
AFL-CIO

Carl Gallman
Westchester, Illinois
International
Association of
Machinists &
Aerospace Workers

Thomas Hargrove
East Chicago, Indiana
United Steelworkers
of America

Matthew Harper
Des Moines, Iowa
Pioneer Hi-Bred
International, Inc.
Member-at-Large

Paul Korman
Des Plaines, Illinois
United Auto Workers

David Newby
Milwaukee, Wisconsin
Wisconsin State
AFL-CIO

Robert Crawford, Jr.
Arlington Heights,
Illinois
Brook Furniture
Rental, Inc.

Thomas Crosby
Crestwood, Illinois
American National/The
Insurance Exchange

Ralph Deger
Butler, Wisconsin
Bushman Equipment,
Inc.

David Fisher
Des Moines, Iowa
Onthank Company

George Franco
Milwaukee, Wisconsin
National Financial
Corporation (NFC)

Yolanda Gomez-
Stupka
Southfield, Michigan
Michigan Hispanic
Chamber of
Commerce

Jan Hayhow
Okemos, Michigan
Michiganiana, Inc.

Christopher LaMothe
Indianapolis, Indiana
Indiana Chamber of
Commerce

Ritch LeGrand
Sioux City, Iowa
LeGrand & Company
Member-at-Large

Karen Lennon
Chicago, Illinois
SomerCor 504, Inc.

Jeffrey Padden
Lansing, Michigan
Public Policy
Associates, Inc.

Community Bank Council

Illinois
Douglas C. Mills
First Busey Corporation
Urbana, Illinois

John Rodda
Capstone Bank
Watseka, Illinois

Indiana
Calvin Bellamy
Bank Calumet
Hammond, Indiana

John W. Corey
Lafayette Savings
Bank, FSB,
Lafayette, Indiana

Cathy E. McHenry
Fairmount State Bank
Fairmount, Indiana

James L. Saner, Sr.
Peoples Trust
Company
Brookville, Indiana

Iowa
J. Michael Earley
Bankers Trust
Company
Des Moines, Iowa

Dwight Seegmiller
Hills Bank & Trust
Company
Hills, Iowa

Paul Swenson
Iowa Trust &
Savings Bank
Oskaloosa, Iowa

Richard A. Waller
Security
National Bank
Sioux City, Iowa

Michigan
Robert E. Churchill
Citizens National Bank
of Cheboygan
Cheboygan, Michigan

Charles B. Cook
Marshall Savings
Bank, FSB
Marshall, Michigan

William C. Nill
First State Bank of
East Detroit
St. Clair Shores,
Michigan

Wisconsin
Richard A. Hansen
Johnson International,
Inc.—Johnson Bank
Racine, Wisconsin

Bradley O. Yocum
State Bank of
Howards Grove
Howards Grove,
Wisconsin

Customer Advisory Groups

Central Illinois
Sally Boers
Southside Trust
& Savings Bank
Peoria, Illinois

Craig Becker
Southeast National
Bank of Moline
Moline, Illinois

Mitch Bormeman
Heritage Bank of
Central Illinois
Trivoli, Illinois

Pete Jain
Citizens Equity
Federal Credit Union
Peoria, Illinois

Michael King
Peoples Bank of
Macon,
Macon, Illinois

Wilbur R. Lancaster
Union Planters Bank
Decatur, Illinois

Linda Little
BankIllinois
Champaign, Illinois

Diane McCluskey
Independent Bankers'
Bank of Illinois
Springfield, Illinois

John McEvoy
Metro Bank
East Moline, Illinois

Mike McKenzie
First Capital Bank
Peoria, Illinois

Randall Ross
First Mid-Illinois
Bank & Trust, N.A.
Mattoon, Illinois

Jerald Sarnes
The Havana
National Bank
Havana, Illinois

Donald Schlorff
Busey Bank
Urbana, Illinois

**Chicago
Metropolitan**
John Collins
Great Lakes
Credit Union
Great Lakes, Illinois

John Dabrowski
Devon Bank
Chicago, Illinois

Thomas Darovic
Superior Bank, FSB
Oak Brook Terrace,
Illinois

Edward Furticella
Peoples Bank SB
Munster, Indiana

Larry Gardner
1st Source Bank
South Bend, Indiana

Keith Gottschalk
Old Kent Bank
Aurora, Illinois

Savannah Hannah
Bank Financial
Chicago Ridge, Illinois

Ron Hunt
American
Chartered Bank
Schaumburg, Illinois

Mary Kosar
NLSB
New Lenox, Illinois

Richard Marra
Metro Federal
Credit Union
Arlington Heights,
Illinois

Brian D. Payne
National City Bank
Springfield, Illinois

Charles Sanger
Bank Calumet
Hammond, Indiana

Deborah Schneider
First Midwest
Bank, N.A.
Joliet, Illinois

Larry Stewart
AMCORE
Financial, Inc.
Rockford, Illinois

Barbara Yeates
Cole Taylor Bank
Chicago, Illinois

Indiana
H. Matthew Ayers
State Bank of Lizton
Lizton, Indiana

Steven Bailey
First Bank of Berne
Berne, Indiana

Lynn Bierlein
Salin Bancshares, Inc.
Indianapolis, Indiana

Debbie L. Cox
Irwin Union Bank
& Trust
Columbus, Indiana

Steven D. Flowers
Bank One
Indianapolis, NA
Indianapolis, Indiana

Dee Ann Hammel First Federal Savings Bank Huntington, Indiana	Victor Quinn Quad City Bank & Trust Bettendorf, Iowa	Victoria Sager Central State Bank Beulah, Michigan	Linda Kaminski Kalamazoo County State Bank Schoolcraft, Michigan	Stephen M. Mazurek Bank of Lenawee Adrian, Michigan	Tom Hoekstra First Community FCU Parchment, Michigan	Werner Kant Educators Credit Union Racine, Wisconsin
Stan V. Hart Terre Haute First National Bank Terre Haute, Indiana	Marti T. Rodamaker First Citizens National Bank Mason City, Iowa	Nancy Sorensen West Shore Bank Scottsville, Michigan	Linda Comps-Klinge State Bank of Caledonia Caledonia, Michigan	Mark Slade Bank of Ann Arbor Ann Arbor, Michigan	Jeff Jackson Michigan State University CU East Lansing, Michigan	Steve Max Firstar Bank Milwaukee, Wisconsin
Rita Hyden Union Bank and Trust North Vernon, Indiana	Robert A. Steen Bridge Community Bank Mechanicsville, Iowa	Kenneth Sterling First Community Bank Harbor Springs, Michigan	Patricia Lunog Alliance Banking Company New Buffalo, Michigan	Vonda Zuhlke Tri-County Bank Brown City, Michigan	Lynne Kindy Team One CU Saginaw, Michigan	James Mingey M&I Data Services Milwaukee, Wisconsin
Sherrri Jones Phillips Electronic Credit Union Fort Wayne, Indiana	Steve Tscherter Lincoln Savings Bank Reinbeck, Iowa	Janie Williamson Huron Community Bank East Tawas, Michigan	Wendell Stoeffler Ionia County National Bank Ionia, Michigan	Kendall Rieman Thumb National Bank & Trust Co. Pigeon, Michigan	Michele Myrick E&A CU Marysville, Michigan	Ronald L. Slater Bankers Bank Madison, Wisconsin
Jim Miller Greenfield Banking Company Greenfield, Indiana	Northern Michigan Dennis P. Angner Isabella Bank & Trust Mt. Pleasant, Michigan	Kathleen Vogt Community State Bank St. Charles, Michigan	Brad Slagh Byron Center State Bank Byron Center, Michigan	Michigan Credit Unions Steve Brewer Capital Area School Employees CU Lansing, Michigan	Mark Schuiling Dow Chemical Employees CU Midland, Michigan	Thomas Smith Johnson Bank Kenosha, Wisconsin
Robert J. Ralston Lafayette Bank & Trust Company Lafayette, Indiana	Nikki Cole State Savings Bank of Frankfort Frankfort, Michigan	Western Michigan Don Baldwin Sturgis Bank & Trust Sturgis, Michigan	Detroit Metropolitan Gordon Bade Capac State Bank Capac, Michigan	Jackie Buchanan T&C FCU Pontiac, Michigan	Bill Shermer Grand Rapids Teachers CU Grand Rapids, Michigan	Leonard Steele Associated Data Services Green Bay, Wisconsin
Glen Raver Union Bank and Trust Greensburg, Indiana	Jan Davison Commercial Bank Alma, Michigan	Robert De Jonge Grand Bank Grand Rapids, Michigan	Aleta Bame Metrobank Farmington Hills, Michigan	Cathy Burnham Credit Union One Ferndale, Michigan	Lisa Tyrell T&C FFCU Pontiac, Michigan	Mara Todorvic Bank One Data Services Milwaukee, Wisconsin
Iowa Daniel G. Augustine Security National Bank Sioux City, Iowa	Susan A. Eno Citizens National Bank of Cheboygan Cheboygan, Michigan	Cindy Dwyer Hillsdale County National Bank Hillsdale, Michigan	Richard Bauer Fidelity Bank Birmingham, Michigan	Debbie Burley Community Choice CU Redford, Michigan	Wisconsin Paul Adamski Pineries Bank Stevens Point, Wisconsin	Terry Anderegg Mutual Savings Bank Milwaukee, Wisconsin
Linda Donner First American Bank Fort Dodge, Iowa	Marilyne Joy Charlevoix State Bank Charlevoix, Michigan	Linda Grouleau Eaton Federal Savings Bank Charlotte, Michigan	Daniel Brown Sterling Bank & Trust Southfield, Michigan	Jennifer Childs American One FCU Jackson, Michigan	Susan Banker St. Francis Bank Milwaukee, Wisconsin	Denis Conerton Blackhawk State Bank Beloit, Wisconsin
Dale C. Froehlich Community State Bank Ankeny, Iowa	Bill Kirsten First National Bank of Gaylord Gaylord, Michigan	Joan Heffelbower Hastings City Bank Hastings, Michigan	Paul Fuller Republic Bank Ann Arbor, Michigan	Linda Clark Kellogg FCU Battle Creek, Michigan	Lynda Connell First Resource FCU St. Joseph, Michigan	Robert W. Fouch Wisconsin Corporate Credit Union Muskego, Wisconsin
Nelson Klavitter Dubuque Bank & Trust Dubuque, Iowa	Sandra Koenig First Federal Savings of Alpena Alpena, Michigan	D. Scott Hines The First National Bank Three Rivers, Michigan	Joseph Hallman Citizens State Bank New Baltimore, Michigan	Vicki Hawkins Dort FCU Flint, Michigan	Denis Conerton Blackhawk State Bank Beloit, Wisconsin	Robert W. Fouch Wisconsin Corporate Credit Union Muskego, Wisconsin
Bill Logan State Central Bank Keokuk, Iowa	Sharla Leach Alden State Bank Alden, Michigan	Jaylen T. Johnson Southern Michigan Bank & Trust Coldwater, Michigan	Sue Harmon Onsted State Bank Onsted, Michigan	Linda Hess Security FCU Flint, Michigan	Denis Conerton Blackhawk State Bank Beloit, Wisconsin	Robert W. Fouch Wisconsin Corporate Credit Union Muskego, Wisconsin
Steve Ollenberg Principal Bank Des Moines, Iowa	Sue Meredith Honor State Bank Honor, Michigan		Laird Kellie Lapeer County Bank & Trust Co. Lapeer, Michigan	Judith Hillock Research FCU Warren, Michigan	Gail Groleau Anchor Bank FSB Madison, Wisconsin	

EXECUTIVE CHANGES

DIRECTORS

Members of the Federal Reserve Bank of Chicago's boards of directors are selected to represent a cross section of the Seventh District economy, including consumers, industry, agriculture, the service sector, labor, and commercial banks of various sizes.

The Chicago board consists of nine members. Member banks elect three bankers and three non-bankers. The Board of Governors appoints three additional nonbankers and designates the Reserve Bank chair and deputy chair from among its three appointees.

The Detroit Branch has a seven-member board of directors. The Board of Governors appoints three nonbankers and the Chicago Reserve Bank board appoints four additional directors. The Branch board selects its own chair each year, with the approval of the Chicago board. All Reserve Bank and Branch directors serve three-year terms, with a two-term maximum.

Director appointments and elections at the Chicago Reserve Bank and its Detroit Branch effective in 2000 were:

- Arthur C. Martinez designated Chairman.
- Robert J. Darnall reappointed to a second three-year term and designated Deputy Chairman.
- Verne G. Istock re-elected to a second three-year term.
- Connie E. Evans elected to a three-year term.
- Timothy D. Leuliette designated Branch Chair.
- Irma B. Elder reappointed to a second three-year term as Branch director.
- Edsel B. Ford II appointed to a three-year term as Branch director.
- Mark T. Gaffney appointed to complete a three-year term as Branch director.

At year-end 2000 the following appointments and elections to terms beginning in 2001 were announced:

- Arthur C. Martinez re-designated Chairman and Robert J. Darnall re-designated Deputy Chairman.
- W. James Farrell appointed to a three-year term.
- William A. Osborn elected to complete a three-year term.
- Jack B. Evans re-elected to a second three-year term.
- Robert R. Yohanan re-elected to a second three-year term.
- Timothy D. Leuliette re-appointed to a second three-year term and re-designated Branch Chairman.

ADVISORY COUNCILS

The Federal Advisory Council, which meets quarterly to discuss business and financial conditions with the Board of Governors in Washington, D.C., is comprised of one banker from each of the 12 Federal Reserve Districts. Each year the Chicago Reserve Bank's board of directors selects a representative to this group. Norman R. Bobins served a third consecutive year as the District's representative in 2000. Alan G. McNally, chairman and chief executive officer, Harris Bankcorp, Inc., was appointed to serve a one-year term beginning January 1, 2001.

Members of the Community Bank Council served the third year of their terms in 2000. Members of the Advisory Council on Agriculture, Labor and Small Business, who are selected from nominations by Seventh District organizations, served the first year of their terms in 2000. The councils provide a vital communication link between the Bank and these important sectors.

OFFICERS

The Bank's board of directors acted on the following promotions during 2000:

- Jeffery S. Anderson to vice president, Business Development Office
- Elizabeth A. Knospe to vice president and associate general counsel, Legal
- Mary H. Sherburne to vice president, Check Services
- Kristi L. Zimmermann to vice president, Corporate and Support Services
- Michael J. Hoppe to assistant vice president, Milwaukee Office
- Linda S. McDonald to assistant vice president, Detroit Branch
- Ira R. Zilist to assistant vice president, Information Technology Services

New officers appointed by the board in 2000 were:

- Gordon Werkema to first vice president
- Edward J. Green to senior policy advisor, Economic Research
- Karen Kane to senior vice president, Community and Corporate Affairs
- Michael Carano to assistant vice president, Corporate Services
- Annette L. Jelley to assistant vice president, Check Services
- Donna M. Dziak to operations officer, Detroit Branch
- Leatrice S. Mack to marketing officer, Milwaukee Office
- Jeffrey R. Van Treese to operations officer, Indianapolis Office

Wayne R. Baxter, vice president of Facilities Management and Protection, retired after 37 years of service.

OPERATIONS VOLUMES

	DOLLAR AMOUNT		NUMBER OF ITEMS	
	2000	1999	2000	1999
CHECK & ELECTRONIC PAYMENTS				
Checks, NOWs, & Share Drafts Processed	1.7 Trillion	1.6 Trillion	2.3 Billion	2.2 Billion
Fine Sort & Packaged Checks Handled	21.1 Billion	26.6 Billion	40.0 Million	49.1 Million
U.S. Government Checks Processed	37.5 Billion	39.5 Billion	35.9 Million	36.1 Million
Automated Clearing House (ACH) Items Processed	2.5 Trillion	2.5 Trillion	869.8 Million	824.8 Million
Transfer of Funds	57.0 Trillion	53.8 Trillion	20.7 Million	20.4 Million
CASH OPERATIONS				
Currency Received and Counted	51.0 Billion	41.9 Billion	3.1 Billion	3.0 Billion
Unfit Currency Destroyed	9.5 Billion	5.4 Billion	731.3 Million	587.8 Million
Coin Bags Received and Processed	1.3 Billion	1.0 Billion	3.5 Million	3.6 Million
SECURITIES SERVICES FOR DEPOSITORY INSTITUTIONS				
<i>Safekeeping Balance December 31:</i>				
Definitive Securities	124.5 Billion	143.8 Billion	6.4 Thousand	8.5 Thousand
Book Entry Securities	277.9 Billion	278.9 Billion	—	—
Purchase & Sale	1.6 Billion	1.7 Billion	5.2 Thousand	6.5 Thousand
Book Entry Government Securities	3.8 Trillion	4.8 Trillion	709.0 Thousand	760.8 Thousand
LOANS TO DEPOSITORY INSTITUTIONS				
Total Loans Made During Year	7.9 Billion	4.6 Billion	2.1 Thousand	1.2 Thousand
SERVICES TO U.S. TREASURY AND GOVERNMENT AGENCIES				
Federal Tax Deposits Processed	16.1 Billion	12.3 Billion	437.6 Thousand	612.7 Thousand
Food Stamps Redeemed	640.2 Million	743.1 Million	127.4 Million	146.3 Million
Sell Direct Transactions Processed	655.8 Million	581.2 Million	16.4 Thousand	15.7 Thousand

FEDERAL RESERVE BANK
OF CHICAGO

MANAGEMENT ASSERTION

February 21, 2001

To the Board of Directors of the Federal Reserve Bank of Chicago

The management of the Federal Reserve Bank of Chicago (FRBC) is responsible for the preparation and fair presentation of the Statement of Financial Condition, Statement of Income, and Statement of Changes in Capital as of December 31, 2000 (the "Financial Statements").

The Financial Statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System and as set forth in the Financial Accounting Manual for the Federal Reserve Banks, and as such, include amounts, some of which are based on judgments and estimates of management.

The management of the FRBC is responsible for maintaining an effective process of internal controls over financial reporting including the safeguarding of assets as they relate to the Financial Statements. Such internal controls are designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of reliable Financial Statements. This process of internal controls contains self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in the process of internal controls are reported to management, and appropriate corrective measures are implemented.

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CHICAGO, ILLINOIS 60604-1413
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Even an effective process of internal controls, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements.

The management of the FRBC assessed its process of internal controls over financial reporting including the safeguarding of assets reflected in the Financial Statements, based upon the criteria established in the "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the management of the FRBC believes that the FRBC maintained an effective process of internal controls over financial reporting including the safeguarding of assets as they relate to the Financial Statements.

Federal Reserve Bank of Chicago



*Michael Moskow
President and Chief Executive Officer*

Federal Reserve Bank of Chicago



*William Conrad
First Vice President and Chief Operating Officer*



PricewaterhouseCoopers LLP
 203 North LaSalle Street
 Chicago, IL 60601-1210
 Telephone (312) 701 5500
 Facsimile (312) 701 6533

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of The Federal Reserve Bank of Chicago

We have examined management's assertion that the Federal Reserve Bank of Chicago ("FRB-Chicago") maintained effective internal control over financial reporting and the safeguarding of assets as they relate to the Financial Statements as of December 31, 2000, included in the accompanying Management's Assertion.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants, and accordingly, included obtaining an understanding of the internal control over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the FRB-Chicago maintained effective internal control over financial reporting and over the safeguarding of assets as they relate to the Financial Statements as of December 31, 2000, is fairly stated, in all material respects, based upon criteria described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

March 02, 2001
 Chicago, Illinois



PricewaterhouseCoopers LLP
 203 North LaSalle Street
 Chicago, IL 60601-1210
 Telephone (312) 701 5500
 Facsimile (312) 701 6533

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Governors of the Federal Reserve System and the Board of Directors of the Federal Reserve Bank of Chicago

We have audited the accompanying statements of condition of The Federal Reserve Bank of Chicago (the "Bank") as of December 31, 2000 and 1999, and the related statements of income and changes in capital for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3, the financial statements were prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System. These principles, policies, and practices, which were designed to meet the specialized accounting and reporting needs of The Federal Reserve System, are set forth in the "Financial Accounting Manual for Federal Reserve Banks" and constitute a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2000 and 1999, and results of its operations for the years then ended, on the basis of accounting described in Note 3.

March 02, 2001

2000 FINANCIAL STATEMENTS

STATEMENTS OF CONDITION (IN MILLIONS) AS OF DECEMBER 31,

	2000	1999
ASSETS		
Gold Certificates	\$ 1,064	\$ 993
Special Drawing Rights Certificates	212	549
Coin	114	32
Items in Process of Collection	1,119	753
Loans to Depository Institutions	25	34
U.S. Government and Federal Agency Securities, Net	62,020	45,448
Investments Denominated in Foreign Currencies	1,409	1,581
Accrued Interest Receivable	722	457
Interdistrict Settlement Account	—	23,292
Bank Premises and Equipment, Net	135	141
Other Assets	37	33
Total Assets	\$ 66,857	\$ 73,313
LIABILITIES AND CAPITAL		
<i>Liabilities:</i>		
Federal Reserve Notes Outstanding, Net	\$ 61,206	\$ 68,385
Deposits		
Depository Institutions	2,796	2,970
Other Deposits	4	4
Deferred Credit Items	575	637
Interest on Federal Reserve Notes Due U.S. Treasury	132	54
Interdistrict Settlement Account	770	—
Accrued Benefit Cost	85	83
Other Liabilities	25	24
Total Liabilities	\$ 65,593	\$ 72,157
<i>Capital:</i>		
Capital Paid-In	632	578
Surplus	632	578
Total Capital	\$ 1,264	\$ 1,156
Total Liabilities and Capital	\$ 66,857	\$ 73,313

The accompanying notes are an integral part of these financial statements.

2000 FINANCIAL STATEMENTS

STATEMENTS OF INCOME (IN MILLIONS) FOR THE YEARS ENDED DECEMBER 31,

	2000	1999
INTEREST INCOME		
Interest on U.S. Government and Federal Agency Securities	\$ 3,545	\$ 2,587
Interest on Investments Denominated in Foreign Currencies	24	22
Interest on Loans to Depository Institutions	6	2
Total Interest Income	\$ 3,575	\$ 2,611
OTHER OPERATING INCOME (LOSS)		
Income from Services	98	97
Reimbursable Services to Government Agencies	20	22
Foreign Currency (Losses), Net	(127)	(49)
U.S. Government Securities (Losses), Net	(9)	(2)
Other Income	9	7
Total Other Operating Income (Loss)	\$ (9)	\$ 75
OPERATING EXPENSES		
Salaries and Other Benefits	\$ 141	\$ 139
Occupancy Expense	19	19
Equipment Expense	19	19
Cost of Unreimbursed Treasury Services	1	1
Assessments by Board of Governors	66	65
Other Expenses	101	96
Total Operating Expenses	\$ 347	\$ 339
Net Income Prior to Distribution	\$ 3,219	\$ 2,347
DISTRIBUTION OF NET INCOME		
Dividends Paid to Member Banks	\$ 36	\$ 36
Transferred to (from) Surplus	391	(5)
Payments to U.S. Treasury as Interest on Federal Reserve Notes	2,792	2,316
Total Distribution	\$ 3,219	\$ 2,347

The accompanying notes are an integral part of these financial statements.

2000 FINANCIAL STATEMENTS

STATEMENTS OF CHANGES IN CAPITAL (IN MILLIONS) FOR THE YEARS ENDED DECEMBER 31, 2000 AND DECEMBER 31, 1999

	CAPITAL PAID-IN	SURPLUS	TOTAL CAPITAL
Balance at January 1, 1999 (11.7 Million Shares)	\$ 583	\$ 583	\$ 1,166
Net Income Transferred from Surplus	—	(5)	(5)
Net Change in Capital Stock Redeemed (0.1 Million Shares)	(5)	—	(5)
Balance at December 31, 1999 (11.6 Million Shares)	\$ 578	\$ 578	\$ 1,156
Net Income Transferred to Surplus	—	391	391
Surplus Transfer to the U.S. Treasury	—	(337)	(337)
Net Change in Capital Stock Issued (1.0 Million Shares)	54	—	54
Balance at December 31, 2000 (12.6 Million Shares)	\$ 632	\$ 632	\$ 1,264

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

The Federal Reserve Bank of Chicago ("Bank") is part of the Federal Reserve System ("System") created by Congress under the Federal Reserve Act of 1913 ("Federal Reserve Act") which established the central bank of the United States. The System consists of the Board of Governors of the Federal Reserve System ("Board of Governors") and twelve Federal Reserve Banks ("Reserve Banks"). The Reserve Banks are chartered by the federal government and possess a unique set of governmental, corporate, and central bank characteristics. Other major elements of the System are the Federal Open Market Committee ("FOMC") and the Federal Advisory Council. The FOMC is composed of members of the Board of Governors, the president of the Federal Reserve Bank of New York ("FRBNY") and, on a rotating basis, four other Reserve Bank presidents.

Structure

The Bank and its branch in Detroit, Michigan, serve the Seventh Federal Reserve District, which includes Iowa and portions of Michigan, Illinois, Wisconsin and Indiana. In accordance with the Federal Reserve Act, supervision and control of the Bank is exercised by a Board of Directors. Banks that are members of the System include all national banks and any state chartered bank that applies and is approved for membership in the System.

Board of Directors

The Federal Reserve Act specifies the composition of the board of directors for each of the Reserve Banks. Each board is composed of nine members serving three-year terms: three directors, including those designated as Chairman and Deputy Chairman, are appointed by the Board of Governors, and six directors are elected by member banks. Of the six

elected by member banks, three represent the public and three represent member banks. Member banks are divided into three classes according to size. Member banks in each class elect one director representing member banks and one representing the public. In any election of directors, each member bank receives one vote, regardless of the number of shares of Reserve Bank stock it holds.

2. OPERATIONS AND SERVICES

The System performs a variety of services and operations. Functions include: formulating and conducting monetary policy; participating actively in the payments mechanism, including large-dollar transfers of funds, automated clearinghouse operations and check processing; distribution of coin and currency; fiscal agency functions for the U.S. Treasury and certain federal agencies; serving as the federal government's bank; providing short-term loans to depository institutions; serving the consumer and the community by providing educational materials and information regarding consumer laws; supervising bank holding companies, and state member banks; and administering other regulations of the Board of Governors. The Board of Governors' operating costs are funded through assessments on the Reserve Banks.

The FOMC establishes policy regarding open market operations, oversees these operations, and issues authorizations and directives to the FRBNY for its execution of transactions. Authorized transaction types include direct purchase and sale of securities, matched sale-purchase transactions, the purchase of securities under agreements to resell, and the lending of U.S. government securities. The FRBNY is also authorized by the FOMC to hold balances of and to execute spot and forward foreign exchange and securities contracts in nine

foreign currencies, maintain reciprocal currency arrangements ("F/X swaps") with various central banks, and "warehouse" foreign currencies for the U.S. Treasury and Exchange Stabilization Fund ("ESF") through the Reserve Banks.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting principles for entities with the unique powers and responsibilities of the nation's central bank have not been formulated by the Financial Accounting Standards Board. The Board of Governors has developed specialized accounting principles and practices that it believes are appropriate for the significantly different nature and function of a central bank as compared to the private sector. These accounting principles and practices are documented in the "Financial Accounting Manual for Federal Reserve Banks" ("Financial Accounting Manual"), which is issued by the Board of Governors. All Reserve Banks are required to adopt and apply accounting policies and practices that are consistent with the Financial Accounting Manual.

The financial statements have been prepared in accordance with the Financial Accounting Manual. Differences exist between the accounting principles and practices of the System and generally accepted accounting principles in the United States ("GAAP"). The primary differences are the presentation of all security holdings at amortized cost, rather than at the fair value presentation requirements of GAAP, and the accounting for matched sale-purchase transactions as separate sales and purchases, rather than secured borrowings with pledged collateral, as is required by GAAP. In addition, the Bank has elected not to present a Statement of Cash Flows. The Statement of Cash Flows has not been included as the liquidity and cash position of the Bank are not of primary concern to the users of these

financial statements. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income, and Changes in Capital. Therefore, a Statement of Cash Flows would not provide any additional useful information. There are no other significant differences between the policies outlined in the Financial Accounting Manual and GAAP.

The preparation of the financial statements in conformity with the Financial Accounting Manual requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Unique accounts and significant accounting policies are explained below.

a. Gold Certificates

The Secretary of the Treasury is authorized to issue gold certificates to the Reserve Banks to monetize gold held by the U.S. Treasury. Payment for the gold certificates by the Reserve Banks is made by crediting equivalent amounts in dollars into the account established for the U.S. Treasury. These gold certificates held by the Reserve Banks are required to be backed by the gold of the U.S. Treasury. The U.S. Treasury may reacquire the gold certificates at any time and the Reserve Banks must deliver them to the U.S. Treasury. At such time, the U.S. Treasury's account is charged and the Reserve Banks' gold certificate accounts are lowered. The value of gold for purposes of backing the gold certificates is set by law at \$42²/₉ a fine troy ounce. The Board of Governors allocates the gold certificates among Reserve Banks once a year based

upon Federal Reserve notes outstanding in each District at the end of the preceding year.

b. Special Drawing Rights Certificates

Special drawing rights ("SDRs") are issued by the International Monetary Fund ("Fund") to its members in proportion to each member's quota in the Fund at the time of issuance. SDRs serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for United States participation in the SDR system, the Secretary of the U.S. Treasury is authorized to issue SDR certificates, somewhat like gold certificates, to the Reserve Banks. At such time, equivalent amounts in dollars are credited to the account established for the U.S. Treasury, and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDRs, at the direction of the U.S. Treasury, for the purpose of financing SDR certificate acquisitions or for financing exchange stabilization operations. The Board of Governors allocates each SDR transaction among Reserve Banks based upon Federal Reserve notes outstanding in each District at the end of the preceding year.

c. Loans to Depository Institutions

The Depository Institutions Deregulation and Monetary Control Act of 1980 provides that all depository institutions that maintain reservable transaction accounts or nonpersonal time deposits, as defined in Regulation D issued by the Board of Governors, have borrowing privileges at the discretion of the Reserve Banks. Borrowers execute certain lending agreements and deposit sufficient collateral before credit is extended. Loans are evaluated for collectibility, and currently all are considered collectible

and fully collateralized. If any loans were deemed to be uncollectible, an appropriate reserve would be established. Interest is recorded on the accrual basis and is charged at the applicable discount rate established at least every fourteen days by the Board of Directors of the Reserve Banks, subject to review by the Board of Governors. However, Reserve Banks retain the option to impose a surcharge above the basic rate in certain circumstances.

d. U.S. Government and Federal Agency Securities and Investments Denominated in Foreign Currencies

The FOMC has designated the FRBNY to execute open market transactions on its behalf and to hold the resulting securities in the portfolio known as the System Open Market Account ("SOMA"). In addition to authorizing and directing operations in the domestic securities market, the FOMC authorizes and directs the FRBNY to execute operations in foreign markets for major currencies in order to counter disorderly conditions in exchange markets or other needs specified by the FOMC in carrying out the System's central bank responsibilities.

Purchases of securities under agreements to resell and matched sale-purchase transactions are accounted for as separate sale and purchase transactions. Purchases under agreements to resell are transactions in which the FRBNY purchases a security and sells it back at the rate specified at the commencement of the transaction. Matched sale-purchase transactions are transactions in which the FRBNY sells a security and buys it back at the rate specified at the commencement of the transaction.

Effective April 26, 1999 FRBNY was given the sole authorization by the FOMC to lend U.S. government securities held in the SOMA to U.S. government securities dealers and to banks participating

in U.S. government securities clearing arrangements, in order to facilitate the effective functioning of the domestic securities market. These securities-lending transactions are fully collateralized by other U.S. government securities. FOMC policy requires the lending Reserve Bank to take possession of collateral in amounts in excess of the market values of the securities loaned. The market values of the collateral and the securities loaned are monitored by FRBNY on a daily basis, with additional collateral obtained as necessary. The securities loaned continue to be accounted for in SOMA. Prior to April 26, 1999 all Reserve Banks were authorized to engage in such lending activity.

Foreign exchange contracts are contractual agreements between two parties to exchange specified currencies, at a specified price, on a specified date. Spot foreign contracts normally settle two days after the trade date, whereas the settlement date on forward contracts is negotiated between the contracting parties, but will extend beyond two days from the trade date. The FRBNY generally enters into spot contracts, with any forward contracts generally limited to the second leg of a swap/warehousing transaction.

The FRBNY, on behalf of the Reserve Banks, maintains renewable, short-term F/X swap arrangements with authorized foreign central banks. The parties agree to exchange their currencies up to a pre-arranged maximum amount and for an agreed upon period of time (up to twelve months), at an agreed upon interest rate. These arrangements give the FOMC temporary access to foreign currencies that it may need for intervention operations to support the dollar and give the partner foreign central bank temporary access to dollars it may need to support its own currency. Drawings under the F/X swap arrangements can be initiated by

either the FRBNY or the partner foreign central bank, and must be agreed to by the drawee. The F/X swaps are structured so that the party initiating the transaction (the drawer) bears the exchange rate risk upon maturity. The FRBNY will generally invest the foreign currency received under an F/X swap in interest-bearing instruments.

Warehousing is an arrangement under which the FOMC agrees to exchange, at the request of the Treasury, U.S. dollars for foreign currencies held by the Treasury or ESF over a limited period of time. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the Treasury and ESF for financing purchases of foreign currencies and related international operations.

In connection with its foreign currency activities, the FRBNY, on behalf of the Reserve Banks, may enter into contracts which contain varying degrees of off-balance sheet market risk, because they represent contractual commitments involving future settlement, and counter-party credit risk. The FRBNY controls credit risk by obtaining credit approvals, establishing transaction limits, and performing daily monitoring procedures.

While the application of current market prices to the securities currently held in the SOMA portfolio and investments denominated in foreign currencies may result in values substantially above or below their carrying values, these unrealized changes in value would have no direct effect on the quantity of reserves available to the banking system or on the prospects for future Reserve Bank earnings or capital. Both the domestic and foreign components of the SOMA portfolio from time to time involve transactions that can result in gains or losses when holdings are sold prior to maturity. However, decisions regarding the securities and foreign currencies transactions, including their purchase and

sale, are motivated by monetary policy objectives rather than profit. Accordingly, earnings and any gains or losses resulting from the sale of such currencies and securities are incidental to the open market operations and do not motivate its activities or policy decisions.

U.S. government and federal agency securities and investments denominated in foreign currencies comprising the SOMA are recorded at cost, on a settlement-date basis, and adjusted for amortization of premiums or accretion of discounts on a straight-line basis. Interest income is accrued on a straight-line basis and is reported as "Interest on U.S. Government Securities" or "Interest on Foreign Currencies," as appropriate. Income earned on securities lending transactions is reported as a component of "Other Income." Gains and losses resulting from sales of securities are determined by specific issues based on average cost. Gains and losses on the sales of U.S. government and federal agency securities are reported as "U.S. Government Securities (Losses), net." Foreign currency denominated assets are revalued monthly at current market exchange rates in order to report these assets in U.S. dollars. Realized and unrealized gains and losses on investments denominated in foreign currencies are reported as "Foreign Currency (Losses), Net." Foreign currencies held through F/X swaps, when initiated by the counter party, and warehousing arrangements are revalued monthly, with the unrealized gain or loss reported by the FRBNY as a component of "Other Assets" or "Other Liabilities," as appropriate.

Balances of U.S. government and federal agencies securities bought outright, investments denominated in foreign currency, interest income, amortization of premiums and discounts on securities bought outright, gains and losses on sales of

NOTES TO FINANCIAL STATEMENTS

securities, and realized and unrealized gains and losses on investments denominated in foreign currencies, excluding those held under an F/X swap arrangement, are allocated to each Reserve Bank. Effective April 26, 1999 income from securities lending transactions undertaken by FRBNY was also allocated to each Reserve Bank. Securities purchased under agreements to resell and unrealized gains and losses on the revaluation of foreign currency holdings under F/X swaps and warehousing arrangements are allocated to the FRBNY and not to other Reserve Banks.

e. Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over estimated useful lives of assets ranging from 2 to 50 years. New assets, major alterations, renovations and improvements are capitalized at cost as additions to the asset accounts. Maintenance, repairs and minor replacements are charged to operations in the year incurred. Internally developed software is capitalized based on the cost of direct materials and services and those indirect costs associated with developing, implementing, or testing software.

f. Interdistrict Settlement Account

At the close of business each day, all Reserve Banks and branches assemble the payments due to or from other Reserve Banks and branches as a result of transactions involving accounts residing in other Districts that occurred during the day's operations. Such transactions may include funds settlement, check clearing and automated clearing house ("ACH") operations, and allocations of shared expenses. The cumulative net amount due to or from

other Reserve Banks is reported as the "Interdistrict Settlement Account."

g. Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes are issued through the various Federal Reserve agents to the Reserve Banks upon deposit with such Agents of certain classes of collateral security, typically U.S. government securities. These notes are identified as issued to a specific Reserve Bank. The Federal Reserve Act provides that the collateral security tendered by the Reserve Bank to the Federal Reserve Agent must be equal to the sum of the notes applied for by such Reserve Bank. In accordance with the Federal Reserve Act, gold certificates, special drawing rights certificates, U.S. government and agency securities, tri-party agreements, loans to depository institutions, and investments denominated in foreign currencies are pledged as collateral for net Federal Reserve notes outstanding. The collateral value is equal to the book value of the collateral tendered, with the exception of securities, whose collateral value is equal to the par value of the securities tendered. The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize the Federal Reserve notes. The Reserve Banks have entered into an agreement which provides for certain assets of the Reserve Banks to be jointly pledged as collateral for the Federal Reserve notes of all Reserve Banks in order to satisfy their obligation of providing sufficient collateral for outstanding Federal Reserve notes. In the event that this collateral is insufficient, the Federal Reserve Act provides that Federal Reserve notes become a first and paramount lien on all the assets of the Reserve Banks. Finally, as

obligations of the United States, Federal Reserve notes are backed by the full faith and credit of the United States government.

The "Federal Reserve Notes Outstanding, Net" account represents Federal Reserve notes reduced by cash held in the vaults of the Bank of \$9,479 million, and \$10,920 million at December 31, 2000 and 1999, respectively.

h. Capital Paid-In

The Federal Reserve Act requires that each member bank subscribe to the capital stock of the Reserve Bank in an amount equal to 6% of the capital and surplus of the member bank. As a member bank's capital and surplus changes, its holdings of the Reserve Bank's stock must be adjusted. Member banks are those state-chartered banks that apply and are approved for membership in the System and all national banks. Currently, only one-half of the subscription is paid-in and the remainder is subject to call. These shares are nonvoting with a par value of \$100. They may not be transferred or hypothecated. By law, each member bank is entitled to receive an annual dividend of 6% on the paid-in capital stock. This cumulative dividend is paid semiannually. A member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it.

i. Surplus

The Board of Governors requires Reserve Banks to maintain a surplus equal to the amount of capital paid-in as of December 31. This amount is intended to provide additional capital and reduce the possibility that the Reserve Banks would be required to call on member banks for additional capital. Reserve Banks are required by the Board of Governors to

NOTES TO FINANCIAL STATEMENTS

transfer to the U.S. Treasury excess earnings, after providing for the costs of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid-in.

The Consolidated Appropriations Act of 2000 (Public Law 106-113, Section 302) directed the Reserve Banks to transfer to the U.S. Treasury additional surplus funds of \$3,752 million during the Federal Government's 2000 fiscal year. The Federal Reserve Bank of Chicago transferred \$337 million to the U.S. Treasury during the year ended December 31, 2000. Reserve Banks were not permitted to replenish the surplus for these amounts during fiscal year 2000, which ended September 30, 2000; however, the surplus was replenished by December 31, 2000.

In the event of losses or a substantial increase in capital, payments to the U.S. Treasury are suspended until such losses or increases in capital are recovered through subsequent earnings. Weekly payments to the U.S. Treasury may vary significantly.

j. Income and Costs Related to Treasury Services

The Bank is required by the Federal Reserve Act to serve as fiscal agent and depository of the United States. By statute, the Department of the Treasury is permitted, but not required, to pay for these services. The costs of providing fiscal agency and depository services to the Treasury Department that have been billed but will not be paid are reported as the "Cost of Unreimbursed Treasury Services."

k. Taxes

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property, which are reported as a component of "Occupancy Expense."

4. U.S. GOVERNMENT AND FEDERAL AGENCY SECURITIES

Securities bought outright are held in the SOMA at the FRBNY. An undivided interest in SOMA activity, with the exception of securities held under agreements to resell and the related premiums, discounts and income, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of interdistrict clearings. The settlement, performed in April of each year, equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding. The Bank's allocated share of SOMA balances was approximately 11.961% and 9.392% at December 31, 2000 and 1999, respectively.

The Bank's allocated share of securities held in the SOMA at December 31, that were bought outright, were as follows (in millions):

	2000	1999
PAR VALUE		
<i>Federal Agency</i>	\$ 16	\$ 17
<i>U.S. Government:</i>		
Bills	21,380	16,579
Notes	28,729	20,518
Bonds	11,098	7,793
Total Par Value	\$61,223	\$44,907
Unamortized Premiums	1,164	855
Unaccreted Discounts	(367)	(314)
Total Allocated to Bank	\$62,020	\$45,448

Total SOMA securities bought outright were \$518,501 million and \$483,902 million at December 31, 2000 and 1999, respectively.

The maturities of U.S. government and federal agency securities bought outright, which were allocated to the Bank at December 31, 2000, were as follows (in millions):

<i>Maturities of Securities Held</i>	PAR VALUE		<i>Total</i>
	<i>U.S. Govt. Securities</i>	<i>Federal Agency Obligations</i>	
Within 15 Days	\$ 2,159	-	\$ 2,159
16 Days to 90 Days	13,033	-	13,033
91 Days to 1 Year	15,016	-	15,016
Over 1 Year to 5 Years	15,884	\$ 16	15,900
Over 5 Years to 10 Years	6,634	-	6,634
Over 10 Years	8,481	-	8,481
Total	\$61,207	\$ 16	\$ 61,223

At December 31, 2000, and 1999, matched sale-purchase transactions involving U.S. government securities with par values of \$21,112 million and \$39,182 million, respectively, were outstanding, of which \$2,525 million and \$3,680 million were allocated to the Bank. Matched sale-purchase transactions are generally overnight arrangements.

5. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES

The FRBNY, on behalf of the Reserve Banks, holds foreign currency deposits with foreign central banks and the Bank for International Settlements and invests in foreign government debt instruments. Foreign government debt instruments held include both securities bought outright and securities held under agreements to resell. These investments are guaranteed as to principal and interest by the foreign governments.

NOTES TO FINANCIAL STATEMENTS

Each Reserve Bank is allocated a share of foreign-currency-denominated assets, the related interest income, and realized and unrealized foreign currency gains and losses, with the exception of unrealized gains and losses on F/X swaps and warehousing transactions. This allocation is based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31. The Bank's allocated share of investments denominated in foreign currencies was approximately 8.994% and 9.795% at December 31, 2000 and 1999, respectively.

The Bank's allocated share of investments denominated in foreign currencies, valued at current exchange rates at December 31, were as follows (in millions):

	2000	1999
<i>European Union Euro:</i>		
Foreign Currency Deposits	\$ 417	\$ 424
Government Debt Instruments Including Agreements to Resell	247	249
<i>Japanese Yen:</i>		
Foreign Currency Deposits	247	32
Government Debt Instruments Including Agreements to Resell	494	872
Accrued Interest	4	4
Total	\$ 1,409	\$ 1,581

Total investments denominated in foreign currencies were \$15,670 million and \$16,140 million at December 31, 2000 and 1999, respectively.

The maturity distribution of investments denominated in foreign currencies which were allocated to the Bank at December 31, 2000, were as follows (in millions):

Maturities of Investments Denominated in Foreign Currencies

Within 1 Year	\$ 1,323
Over 1 Year to 5 Years	37
Over 5 Years to 10 Years	39
Over 10 Years	10
Total	\$ 1,409

At December 31, 2000 and 1999, there were no open foreign exchange contracts or outstanding F/X swaps.

At December 31, 2000 and 1999, the warehousing facility was \$5,000 million, with nothing outstanding.

6. BANK PREMISES AND EQUIPMENT

A summary of bank premises and equipment at December 31 is as follows (in millions):

	2000	1999
<i>Bank Premises and Equipment:</i>		
Land	\$ 5.8	\$ 5.8
Buildings	128.7	129.1
Building Machinery and Equipment	16.5	18.6
Construction in Progress	1.1	0.3
Furniture and Equipment	101.0	98.8
	253.1	252.6
<i>Accumulated Depreciation</i>	(118.6)	(111.6)
Bank Premises and Equipment, Net	\$ 134.5	\$ 141.0

Depreciation expense was \$14.7 million for the years ended December 31, 2000 and 1999.

The Bank leases unused space to outside tenants. Those leases have terms ranging from 1 to 11 years. Rental income from such leases was \$3 million for each of the years ended December 31, 2000 and 1999. Future minimum lease payments under non-cancelable agreements in existence at December 31, 2000, were (in millions):

2001	2
2002	2
2003	2
2004	2
2005	2
Thereafter	6
Total	\$ 16

7. COMMITMENTS AND CONTINGENCIES

At December 31, 2000, the Bank was obligated under noncancelable leases for premises and equipment with terms ranging from 1 to approximately 7 years. These leases provide for increased rentals based upon increases in real estate taxes, operating costs or selected price indices.

Rental expense under operating leases for certain operating facilities, warehouses, and data processing and office equipment (including taxes, insurance and maintenance when included in rent), net of sublease rentals, was \$2 million for each of the years ended December 31, 2000 and 1999. Certain of the Bank's leases have options to renew.

NOTES TO FINANCIAL STATEMENTS

Future minimum rental payments under non-cancelable operating leases, net of sublease rentals, with terms of one year or more, at December 31, 2000, were (in millions):

2001	1
2002	1
2003	1
2004	1
2005	1
Thereafter	1
Total	\$ 6

Subsequent to year-end, management signed a lease for a new check processing center, located near Midway airport. The term of the lease is for 10 years with a total lease cost of \$3 million. Management anticipates spending \$4 million on improvements prior to occupying the building in the 3rd quarter of 2001.

Under the Insurance Agreement of the Federal Reserve Banks dated as of March 2, 1999, each of the Reserve Banks has agreed to bear, on a per incident basis, a pro rata share of losses in excess of 1% of the capital paid-in of the claiming Reserve Bank, up to 50% of the total capital paid-in of all Reserve Banks. Losses are borne in the ratio that a Reserve Bank's capital paid-in bears to the total capital paid-in of all Reserve Banks at the beginning of the calendar year in which the loss is shared. No claims were outstanding under such agreement at December 31, 2000 or 1999.

As of December 31, 2000, the Bank had a commitment to sell its Westgate facility for a total of \$3 million.

The Bank is involved in certain legal actions and claims arising in the ordinary course of business. Although it is difficult to predict the ultimate outcome of these actions, in management's opinion, based on discussions with counsel, the aforementioned litigation and claims will be resolved without material adverse effect on the financial position or results of operations of the Bank.

8. RETIREMENT AND THRIFT PLANS

Retirement Plans

The Bank currently offers two defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the Bank's employees participate in the Retirement Plan for Employees of the Federal Reserve System ("System Plan") and the Benefit Equalization Retirement Plan ("BEP"). The System Plan is a multi-employer plan with contributions fully funded by participating employers. No separate accounting is maintained of assets contributed by the participating employers. The Bank's projected benefit obligation and net pension costs for the BEP at December 31, 2000 and 1999, and for the years then ended, are not material.

Thrift Plans

Employees of the Bank may also participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System ("Thrift Plan"). The Bank's Thrift Plan contributions totaled \$4.4 million and \$4.3 million for the years ended December 31, 2000 and 1999, respectively, and are reported as a component of "Salaries and Other Benefits."

9. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND POSTEMPLOYMENT BENEFITS

Postretirement Benefits Other than Pensions

In addition to the Bank's retirement plans, employees who have met certain age and length of service requirements are eligible for both medical benefits and life insurance coverage during retirement.

The Bank funds benefits payable under the medical and life insurance plans as due and, accordingly, has no plan assets. Net postretirement benefit cost is actuarially determined using a January 1 measurement date.

Following is a reconciliation of beginning and ending balances of the benefit obligation (in millions):

	2000	1999
Accumulated Postretirement Benefit Obligation at January 1	\$ 67.3	\$ 74.6
Service Cost-Benefits Earned During the Period	1.4	1.6
Interest Cost of Accumulated Benefit Obligation	4.7	4.6
Actuarial (Gain)	(0.1)	(3.1)
Contributions by Plan Participants	0.2	0.2
Benefits Paid	(3.4)	(3.5)
Plan Amendments, Acquisitions, Foreign Currency Exchange Rate Changes, Business Combinations, Divestitures, Curtailments, Settlements, Special Termination Benefits	-	(7.1)
Accumulated Postretirement Benefit Obligation at December 31	\$ 70.1	\$ 67.3

NOTES TO FINANCIAL STATEMENTS

Following is a reconciliation of the beginning and ending balance of the plan assets, the unfunded postretirement benefit obligation, and the accrued postretirement benefit cost (in millions):

	2000	1999
Fair Value of Plan Assets at January 1	\$ -	\$ -
Actual Return on Plan Assets	-	-
Contributions by the Employer	3.2	3.3
Contributions by Plan Participants	0.2	0.2
Benefits Paid	(3.4)	(3.5)
Fair Value of Plan Assets at December 31	\$ -	\$ -
Unfunded Postretirement Benefit Obligation	\$ 70.1	\$ 67.3
Unrecognized Prior Service Cost	13.9	15.2
Unrecognized Net Actuarial Gain	(9.3)	(9.4)
Accrued Postretirement Benefit Cost	\$ 74.7	\$ 73.1

Accrued postretirement benefit cost is reported as a component of "Accrued Benefit Cost."

At December 31, 2000 and 1999, the weighted-average assumption used in developing the postretirement benefit obligation was 7.5 percent.

For measurement purposes, an 8.75 percent annual rate of increase in the cost of covered health care benefits was assumed for 2001. Ultimately, the health care cost trend rate is expected to decrease gradually to 5.50 percent by 2008, and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects for the year ended December 31, 2000 (in millions):

	<i>One Percentage Point Increase</i>	<i>One Percentage Point Decrease</i>
Effect on Aggregate of Service and Interest Cost Components of Net Periodic Postretirement Benefit Cost	\$ 1.2	\$ (1.0)
Effect on Accumulated Postretirement Benefit Obligation	10.5	(8.8)

The following is a summary of the components of net periodic postretirement benefit cost for the years ended December 31 (in millions):

	2000	1999
Service Cost-Benefits Earned During the Period	\$ 1.4	\$ 1.6
Interest Cost of Accumulated Benefit Obligation	4.7	4.6
Amortization of Prior Service Cost	(1.3)	(0.9)
Recognized Net Actuarial Loss	-	0.3
Net Periodic Postretirement Benefit Cost	\$ 4.8	\$ 5.6

Net periodic postretirement benefit cost is reported as a component of "Salaries and Other Benefits."

Postemployment Benefits

The Bank offers benefits to former or inactive employees. Postemployment benefit costs are actuarially determined and include the cost of medical and dental insurance, survivor income, and disability benefits. Costs were projected using the same discount rate and health care trend rates as were used for projecting postretirement costs. The accrued postemployment benefit cost recognized by the Bank was \$10 million and \$9 million for the years ended December 31, 2000 and 1999, respectively. This cost is included as a component of "Accrued Benefit Cost." Net periodic postemployment benefit costs included in 2000 and 1999 operating expenses were \$2 million for each year.

RESOURCES

To access the materials referenced in this report, use the following:

- The Federal Reserve Bank of Chicago web site is chicagofed.org.
- To find information on the Bank's community development initiatives, refer to chicagofed.org/communitydevelopment.
- To find information on Project Money\$mart, refer to chicagofed.org/consumerinformation/projectmoneysmart.
- For information on the cooperative effort with the U.S. Treasury focusing on individuals without bank accounts, refer to chicagofed.org/unbanked.
- For information on the Bank's speakers bureau, refer to chicagofed.org/newsandevents/speakersbureau.
- To access CEDRIC, the Consumer and Economic Development Research and Information Center, refer to chicagofed.org/cedric.



For additional copies of this annual report contact the Public Information Center, Federal Reserve Bank of Chicago, at (312) 322-5111 or access the Bank's web site at chicagofed.org.

OUR MISSION

The Federal Reserve Bank of Chicago is one of 12 regional Reserve Banks across the United States that, together with the Board of Governors in Washington, D.C., serve as the nation's central bank. The role of the Federal Reserve System, since its establishment by an act of Congress passed in 1913, has been to foster a strong economy, supported by a stable financial system.

To this end, the Federal Reserve Bank of Chicago participates in the formulation and implementation of national monetary policy, supervises and regulates state-member banks, bank holding companies and foreign bank branches, and provides financial services to depository institutions and the U.S. government. Through its head office in Chicago, branch in Detroit, regional offices in Des Moines, Indianapolis and Milwaukee, and facility in Peoria, the Federal Reserve Bank of Chicago serves the Seventh Federal Reserve District, which includes major portions of Illinois, Indiana, Michigan and Wisconsin, plus all of Iowa.

OUR VISION

- Further the public interest by fostering a sound economy and stable financial system
- Provide products and services of unmatched value to those we serve
- Set the standard for excellence in the Federal Reserve System
- Work together, value diversity, communicate openly, be creative and fair
- Live by our core values of integrity, respect, responsibility and excellence

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