*Federal Reserve Bank*

*of New York*

# SEVENTY-SIXTH
# ANNUAL REPORT

*For the Year*

*Ended*

*December 31, 1990*

*Second Federal Reserve District*

# FEDERAL RESERVE BANK OF NEW YORK

March 5, 1991

To the Depository Institutions in the
Second Federal Reserve District

I am pleased to send you the Seventy-sixth Annual Report of the Federal Reserve Bank of New York. The report contains a speech delivered at the Sixty-third Annual Midwinter Meeting of the New York State Bankers Association on January 31, 1991. The speech offers a perspective on the current recession and on problems in the banking and financial system.

I hope you will find these remarks interesting.

E. Gerald Corrigan

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President

# Contents:

Page

**IMMEDIATE CHALLENGES FOR PUBLIC POLICY** ........ 5

**Financial Statements** ........ 23

**Changes in Directors and Senior Officers** ........ 26

**List of Directors and Officers** ........ 28

# IMMEDIATE CHALLENGES FOR PUBLIC POLICY

E. Gerald Corrigan
*President*

Once again, it is my distinct pleasure to address the midwinter meeting of the New York State Bankers Association. In the past, I have tried to use these occasions to speak to you on matters of pressing importance. I hope you will find what I have to say today to be consistent with that tradition.

Clearly, these are very difficult days. Our nation is at war, the economy is in recession, the financial system is strained, and balance sheets of many corporations and households are heavily burdened by debt loads that were qualitatively suspect even in good times. In these circumstances, business and consumer confidence is at a low level. This reflects, I suspect, not simply concerns about the current economic situation but also a deep skepticism about our ability as a nation to assemble the blend of public policies and private actions that can put these problems behind us in an orderly way. As someone who is known to be a worrier, I will state at the outset—contrary to that well-deserved reputation—that I believe that such skepticism is fundamentally misplaced. This nation can and will overcome these problems, but to do so we will need vision and perspective.

**The months preceding the typical postwar recession have generally been characterized by rising core inflation, rising interest rates, and rising levels of inventories relative to sales. By and large, none of those conditions prevailed in any significant way in the months preceding the downturn in economic activity last year.**

Consistent with that need for perspective, it is important that we understand that the current recession in the United States is quite different in its origins and its nature from the usual postwar recession. Indeed, the months preceding the typical postwar recession have generally been characterized by rising core inflation, rising interest rates, and rising levels of inventories relative to sales. By and large, none of those conditions prevailed in any significant way in the months preceding the downturn in economic activity last year.

Rather, it seems that the roots of this recession can be traced more directly to a combination of events that precipitated a sharp decline in confidence and a corresponding pullback in spending by households and businesses alike. In a proximate sense, survey data suggest that the timing of that shock to confidence can be traced to the late summer Gulf crisis and the associated run-up in oil prices.

That narrow linkage, I believe, is an oversimplification. To be sure, the Gulf crisis may have been the proverbial straw that broke the camel's back, but there was much more to it than that. For example, even the most casual observer had to have suspected that the economy at large had taken on too much debt in recent years. Moreover, by last

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spring, as earlier excesses in the real estate sector became more apparent, it became clear that home prices and other real estate values could not continue to rise by 10 or 15 percent a year and that such prices could actually decline. Surely that rude—but inevitable—awakening also worked to undermine confidence.

In combination, high debt burdens and falling real estate values intensified pressures on financial institutions—institutions that were already struggling with deep-rooted structural problems, the origins of which are very much tied up with the badly outdated federal banking laws and regulations in this country. Then, the protracted agony of the

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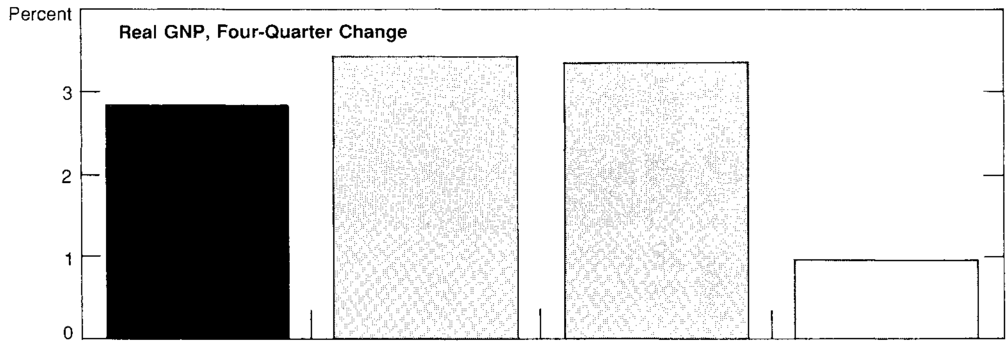
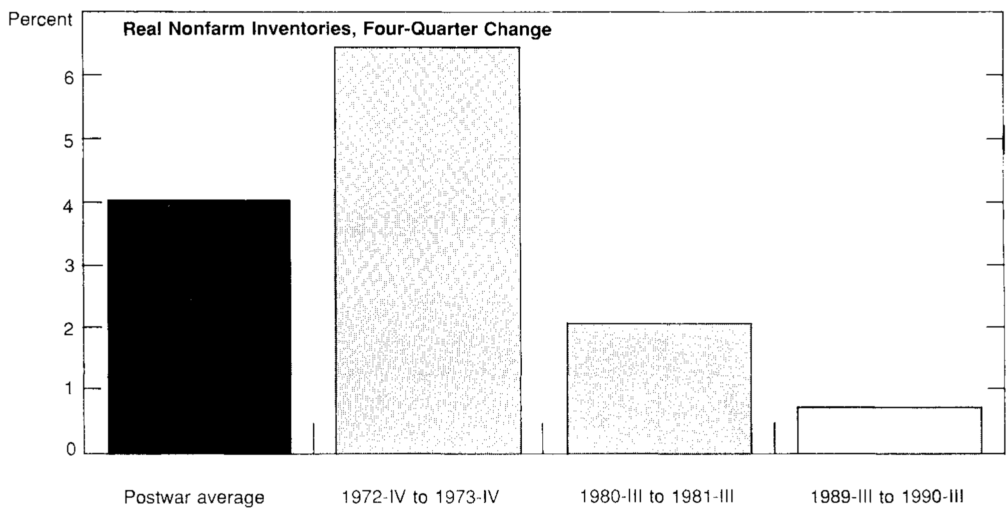
budget negotiations provided a forceful reminder of how serious our fiscal imbalances are and of how very difficult it is to muster the political support for needed reforms in our fiscal affairs. Add Saddam Hussein to this bleak picture and it is not at all surprising that attitudes and expectations have been badly shaken, especially in a setting in which

Chart 1. **INDICATORS OF ECONOMIC ACTIVITY PRIOR TO RECESSIONS**

**The current recession differs from earlier postwar recessions in that the period preceding the downturn in the final quarter of last year was characterized by appreciably slower economic activity . . .**




**with no significant increases in inventory levels.**



bad news about the economy, real estate, and the financial sector continues to dominate the financial news.

In these circumstances, there is cause for concern but not despair. For one thing, prospects are reasonably good that the recession we are now in will not be long lived, even if the initial stages of recovery are modest by historical standards. In that regard, it is vital that we recognize that the behavior of the banking and financial system in the weeks and months ahead will play a particularly important role in helping to determine the shape and dimensions of both the recession and the ensuing recovery. What I mean by that, of course, is that in the current setting, banking institutions must see to it that the credit needs of creditworthy borrowers are satisfied. Discipline and care in the credit decision-making process are one thing; outright retrenchment is another. The latter will

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make things worse not only for the economy as a whole but also for banks' balance sheets and income statements.

But prudent lending to creditworthy borrowers is only part of the story. What is also important is the effectiveness with which the banks carry out their necessary and historic role as workout specialists for troubled loans. Clearly, there are circumstances in which restructurings and stretch-outs are in the best interests of borrowers and lenders alike. This is especially true when such actions work in the direction of helping to add liquidity to asset markets, such as real estate, that are currently showing symptoms of transactional paralysis. In very important ways, therefore, the fate of banks and bankers

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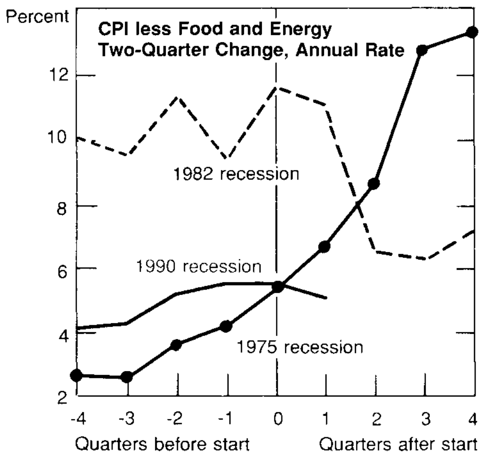
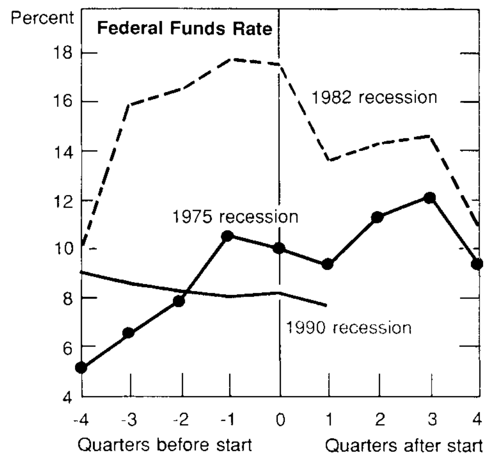
is very much in your own hands. The manner in which you practice your trade in the period ahead will go a long way in determining how soon, how well, and how fully both the banking industry and the economy will recover from their current difficulties.

In suggesting that your fate is importantly in your own hands, I am of course mindful

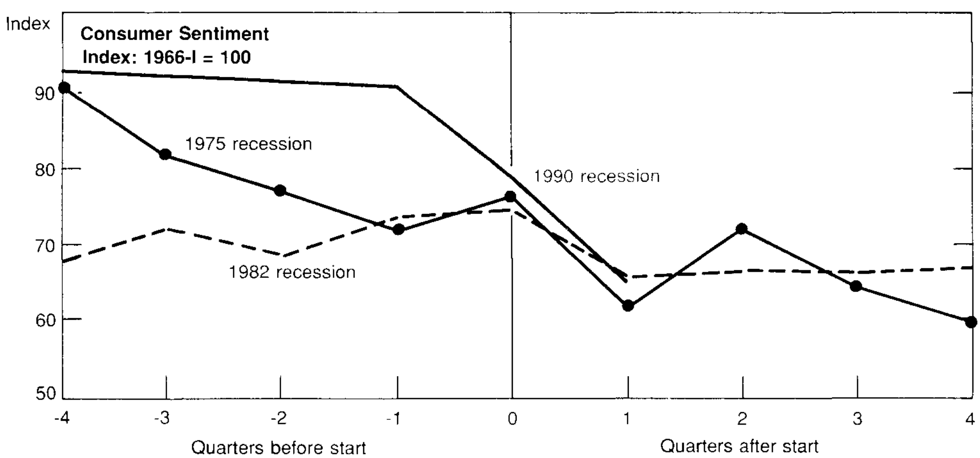
### Chart 2. INFLATION, INTEREST RATES, AND CONSUMER CONFIDENCE NEAR THE START OF RECESSIONS

**The economy did not experience rising core inflation or rising interest rates prior to the current recession, as it had before the 1975 and 1982 recessions.**




**But the start of this recession was associated with a sharp drop in consumer confidence.**




Source: University of Michigan.

that public policy must play an important role in helping to shape a constructive environment within which you must operate. Here, too, I believe one can point to a number of developments and prospective developments that may bode well for the future.

In the area of macroeconomic policy, for example, we have now had a significant cumulative move by the Federal Reserve in the direction of a much more accommodative monetary policy that should help stimulate a recovery in economic activity later this year. But it is important to stress that the shift in monetary policy has been

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engineered with care so as not to endanger the longer term goal of gradually reducing the rate of inflation. I also want to stress that this changed emphasis in policy should be compatible with some pickup in the growth rate of the money supply from its rather anemic growth pattern of recent months. In this regard, the smooth functioning of the credit origination process within the banking system will itself help bring about that result.

Monetary policy, of course, is important—very important. But as you know very well, it is only one arm of macroeconomic policy. The other arm—fiscal policy—has been essentially incapacitated for a decade or more and remains so. Indeed, the recession and the war will further swell the already large deficit. However, and this may surprise you, I believe that over time there will be more substance to the recently concluded deficit reduction package than has been widely recognized. So as not to leave the wrong impression, let me quickly qualify that comment and then elaborate. The qualifiers are obvious: the process itself was horrible; the near-term deficit, even cyclically adjusted, is much too large; the mix of spending and tax actions may—in the eyes of some—be distinctly suboptimal; subsequent actions could undermine what has been achieved; and the world, in geopolitical terms, is not nearly as benign—including possible fiscal implications—as many believed when the budget negotiations began last spring.

But all of those qualifications notwithstanding, the plain fact of the matter is that the package does contain elements that *could* bring about a major reduction in the budget deficit by 1995. Moreover, that result would hold even if more conservative (and in my view more appropriate) economic assumptions were used and even if the artificial effects of Resolution Trust Corporation financing activities were fully removed from the numbers. More important, there is another feature of the budget package that holds out some hope for the future, and that feature is its strengthened enforcement procedures. These new procedures, while not perfect, strike me as a distinct improvement upon what we have had in the past if—and this is a big if—they are not undercut by subsequent congressional actions.

Let me be clear. I am not suggesting that we as a nation have solved our fiscal problems. I am saying that there is now in place a framework capable of producing significant improvement over the next few years. If that occurs, and over the same time frame we see some recovery in the private savings rate, the economic fundamentals of the mid-nineties could be distinctly more positive than they have been in recent years.

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There is another vital chore of public policy that must command immediate attention. That chore, of course, is getting our banking and financial systems more firmly back on the track of stability and profitability.

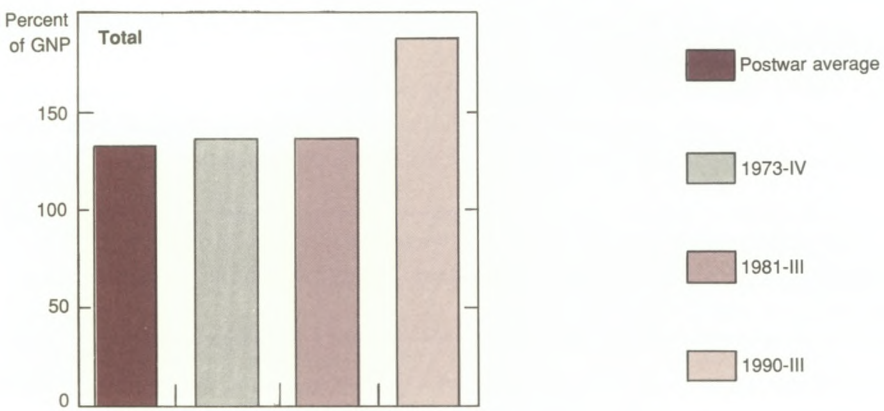
I spoke earlier of the need for perspective. Perhaps nowhere is the case for perspective more pressing than it is with regard to problems in the banking and financial system. To be sure, the problems are there and they are quite real; to be equally sure, those problems reflect a nasty blend of cyclical and structural forces; and one can be especially sure, these problems will not be cured overnight. But as we agonize over the problems, let us not lose sight of the fact that the banking system has shown, and continues to show, great resiliency in the face of all its difficulties. Let me cite two examples:

**Perhaps nowhere is the case for perspective more pressing than it is with regard to problems in the banking and financial system.... As we agonize over the problems, let us not lose sight of the fact that the banking system has shown, and continues to show, great resiliency in the face of all its difficulties.**

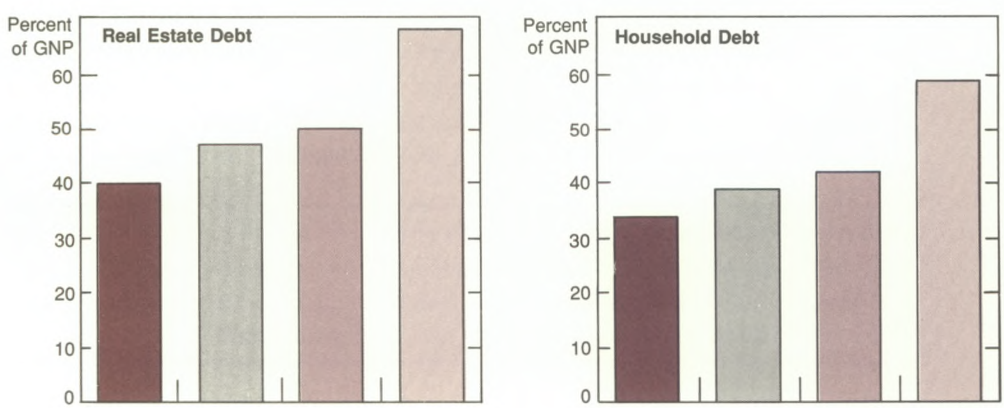
- As of year-end 1990, the total capital resources of the ten largest banking organizations in the United States were $87 billion, more than three times the

## Chart 3. NONFINANCIAL DEBT PRIOR TO RECESSIONS

**Underlying the recent weakness of the economy has been a large buildup of debt over the last decade; the ratio of debt to GNP prior to this recession was about 40 percent higher than before earlier recessions.**




**Real estate debt and household debt are now at postwar record levels.**




Note: Both real estate debt and household debt include home mortgages.

level a decade ago. Over the same time frame, all widely used capital ratios have about doubled.

- For these same institutions, loan loss reserves alone now aggregate just over $21 billion. These reserves, which reflect charges against current income or retained earnings, now represent about two-thirds of nonperforming assets. Put differently, these reserves alone now represent a sizable cushion against future charge-offs, quite apart from the $66 billion of equity and other capital resources currently available to these institutions. Having said that, I will quickly add that in the current circumstances I very much believe that still further enhancements in capital are needed. That is one reason why I applaud the recent steps taken by a number of institutions in further boosting loan loss reserves and in some cases cutting their dividends—painful as that may have been. Indeed, for those institutions, the dividend reductions represent a significant source of additional capital in the period ahead.

While we can take a measure of comfort from the large capital resources that are available, the fact remains that the banking and financial environment and its outlook are subject to considerable uncertainties. Indeed, current bank stock prices seem to be saying as much about investor perceptions of the longer term outlook for profitability as they are about the current difficulties with problem loans. As I said earlier, part of the answer to those problems must be found in the behavior of practitioners of banking. Now, more than ever, bankers must be bankers. Fad and fancy must be pushed aside in favor of fundamentals—fundamentals including rigorous discipline in the credit decision-making process and equally rigorous discipline in the management of operating

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expenses. But what is also needed is a more coherent and contemporary federal banking legislative environment that is compatible with the realities of the marketplace here in the United States and around the world.

My own views on the nature of the needed legislative reforms of the banking and financial systems are well known. What is also well known is that efforts aimed at progressive banking legislation have been stalled in the Congress for years. Now, and as the price tag for inaction grows, the question remains whether broad-based and progressive legislation can be enacted this year. The fact that the Administration—

including the President—has made banking reform a high national priority is a big plus. On the other hand, the political backlash to the savings and loan mess and waves of rhetoric about deposit insurance reform and the perils of "too big to fail" raise the prospect of no legislation or, even worse, bad legislation.

In the interest of time, I do not want to go into details about the specifics of any particular reform proposal. However, I do want to outline briefly certain broad principles that, in my personal judgment, should play a role in guiding the process. Those principles include the following:

- First, the object of the exercise should not be viewed simply as the protection of the deposit insurance fund, the safety net, or even the taxpayer. The object of the exercise is the creation of a legislative and regulatory framework that will better provide for the stability, safety, efficiency, competitiveness, and profitability of the U.S. banking and financial system.

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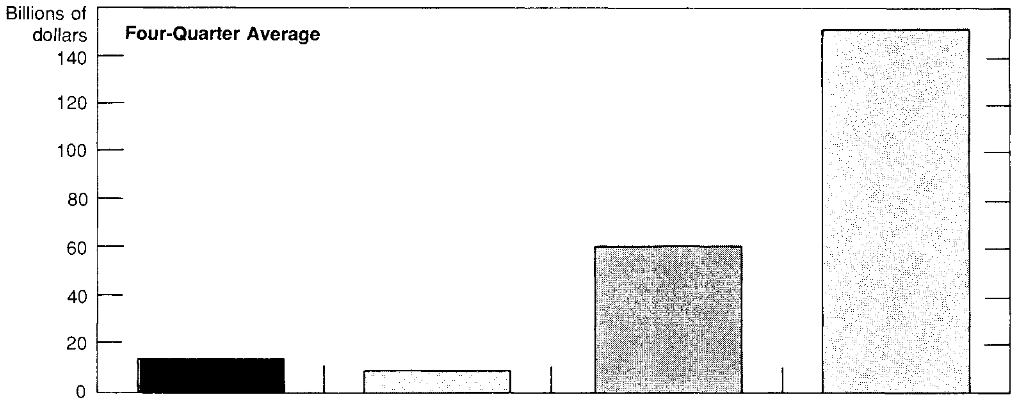
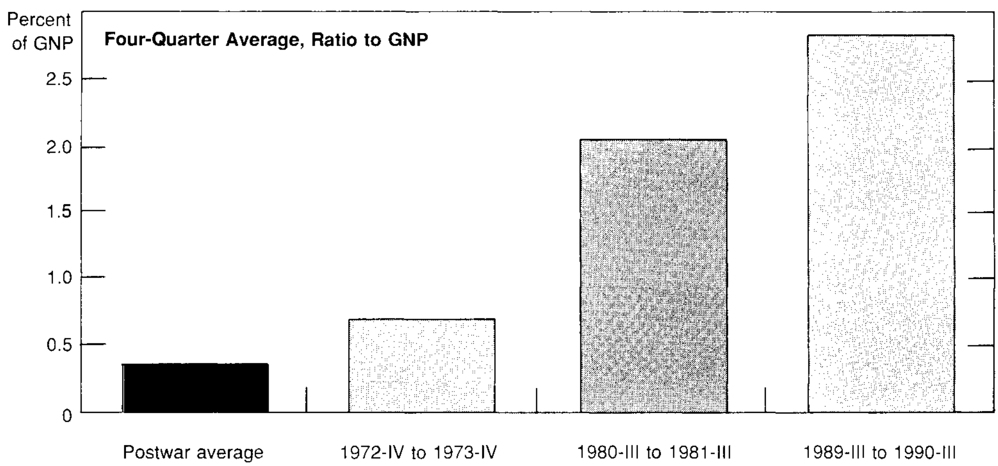
- Second, while the financial resources available to the deposit insurance fund must be strengthened, the manner in which that goal is achieved matters enormously to the competitive well-being of U.S. banking institutions and, perhaps even more importantly, to the stability of the financial system. The latter point is especially relevant in a context in which authorities in other countries seem to be more concerned than we are about the systemic implications of disorderly failures of financial institutions, even in the absence of officially supported deposit insurance programs.
- Third, there is no package of reforms of deposit insurance or banking regulation that will solve our current problems unless it is accompanied by broad-based progressive reform of the banking and financial system itself. These reforms must include the repeal of all federal restrictions on interstate banking and branch banking and most, if not all, federal restrictions pertaining to common ownership and control of banking, securities, investment banking, and perhaps even insurance entities, subject of course to suitable restrictions on intercompany transactions. Unless those basic structural flaws are dealt with in a progressive

## Chart 4. FEDERAL BUDGET DEFICIT PRIOR TO RECESSIONS

**Fiscal policy flexibility has been hampered by a federal budget deficit preceding the current recession that was at a record level both in dollar terms . . .**




**and relative to GNP.**




Note: Federal budget deficit is measured on a National Income and Product Accounts basis.

fashion, deposit insurance and regulatory reform—no matter how well crafted—will not work and will, in all likelihood, make things worse. Surely, without progressive reform, the international competitiveness and stature of U.S. banking and financial institutions will suffer further.

**These reforms must include the repeal of all federal restrictions on interstate banking and branch banking and most, if not all, federal restrictions pertaining to common ownership and control of banking, securities, investment banking, and perhaps even insurance entities, subject of course to suitable restrictions on intercompany transactions.**

- Fourth, the reforms in the regulatory process should include a system of progressive supervision and early intervention for weak and failing institutions. However, the specifics of such an approach—including the various capital thresholds that would trigger particular actions by the regulators—must provide the authorities with ample flexibility. Partly for that reason, those specifics, as well as the phasing-in of such an approach, should not be written into legislation but should be left to the discretion of supervisors who would make periodic reports to Congress. Similarly, the system of progressive supervision must emphasize the "carrots" as well as the "sticks." That is, the incentives and rewards for strong and well-capitalized institutions should be just as prominent as the penalties for weak or problem institutions.

**The reforms in the regulatory process should include a system of progressive supervision and early intervention for weak and failing institutions.**

- Fifth, the supervisory process must include an appropriate degree of official oversight of any bank or financial services holding company that controls entities having direct access to key elements of the safety net, including deposit insurance, the discount window, and the Fed's payment and settlement facilities. As I see it, this carries with it the absolute necessity of—among other things—some form of explicit capital standard for the holding company.

  This principle of consolidated oversight does not imply the need for the same degree of regulation and examination for the holding company as is needed for the banking subsidiaries of the holding company. The approach to consolidated supervision can perhaps be designed to take account of the concept of progressive supervision discussed above, but not at the expense of compromising the principle itself.

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In June and December of 1987 and again in May of last year, I testified before the Senate Banking Committee as to why I believe this principle of consolidated oversight is so important. I don't plan to repeat those arguments in any detail today, but I would note that, in every important case I can think of, the holding companies of which I speak are not only the financial and managerial nerve centers of the companies they control, but also the point of access to capital markets for the holding company itself and all of the entities it owns and controls. It should also be stressed that the principle of consolidated supervision of banking entities is universal throughout the industrial world.

**The suggestion that the Fed should not play a significant role in banking supervision seems to me to suggest that in fair weather or foul I—and my colleagues—should have unlisted phone numbers.**

- Sixth, as a matter of logic, the process of restructuring the bank and financial regulatory agencies should follow from, and not precede, the overall restructuring of the banking and financial system. In the ideal order, that would argue for postponing, at least for a while, the restructuring of the financial regulatory agencies. However, whether that task is undertaken now or later, I strongly believe that the end result must preserve a significant role for the Federal Reserve in the overall bank supervisory process. Some might suggest that my position in this regard is motivated by nothing more than bureaucratic turf. But it is not; it is my utter conviction, based in part on my view of the very essence of central banking and in part on experience and practice in the vast majority of countries throughout the world. Let me put the proposition to you in somewhat more graphic terms: the suggestion that the Fed should not play a significant role in banking supervision seems to me to suggest that in fair weather or foul I—and my colleagues—should have unlisted phone numbers. My family might like that; on the other hand the trout in the Madison River might not. But I leave it to you and to others to decide if such an arrangement is, in fact, in the best interests of financial markets, financial institutions, and the economy at large.

- Finally, and this should surprise no one, I remain strongly opposed to a breakdown in the separation of banking and commerce that would permit commercial firms to own and control—directly or indirectly—banking entities that have direct access to the safety net.

**I remain strongly opposed to a breakdown in the separation of banking and commerce that would permit commercial firms to own and control—directly or indirectly—banking entities that have direct access to the safety net.**

I have spoken and written on the banking-commerce issue at length on several occasions and I will not test your patience by going through the arguments again today. I would repeat, however, that I am not allergic to some degree of greater flexibility whereby banks could hold larger equity stakes in nonfinancial firms (and vice versa) so long as that did not raise questions of de facto control. I might also be willing to think

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about some form of a de minimus exemption in either or both directions. But on the larger and more essential question of commercial firms controlling banks, I remain steadfast in my opposition—even if I am feeling a bit lonely in that posture.

Let me also add that as someone who has been around the track a few times, I learned long ago that one must be careful never to say never. So, on this issue what I have said is not "never" but rather: show me a compelling public policy reason why our society should run the obvious risks of permitting such control of banking organizations, especially in a setting in which all other major countries are reluctant to run those risks. The only argument I have heard that strikes me as having even a remote chance of qualifying as a compelling public policy reason to permit combinations of banking and commerce is the suggestion that commercial firms can be the source of needed fresh capital in the banking industry. On careful examination, however, that suggestion does not—in my judgment—come close to qualifying as a compelling public policy reason to allow such arrangements.

Let me elaborate:

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**Control, by its very nature, necessarily implies an outright rejection of firewalls in both intellectual and practical terms. In other words, if control or influence is present, then all of my concerns about unfair competition, conflicts of interest, concentration, potential for outright abuse, and the de facto extension of the safety net are present. They cannot be swept under the rug, nor can they be rationalized by firewalls.**

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- First, in a market economy, capital is attracted by profits and returns. If an industry cannot compete—especially because of outdated laws and regulations—it will not, and should not, attract capital. On the other hand, if the unnecessary structural flaws that are impeding profitability are removed, capital should flow quite naturally. At the very least, this says to me that, before we as a nation take the essentially irreversible step of permitting commercial firms to own and control banking firms, we ought to put in place the kind of reforms I spoke of earlier and see what happens. I, for one, have little doubt that where capital is needed and can serve its purpose, it will be available from conventional sources.

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**Part of the problem in banking may be that we have too much capital chasing too few *good* loans in a context in which there is a finite quantity of *good* loans that the economy can support.**

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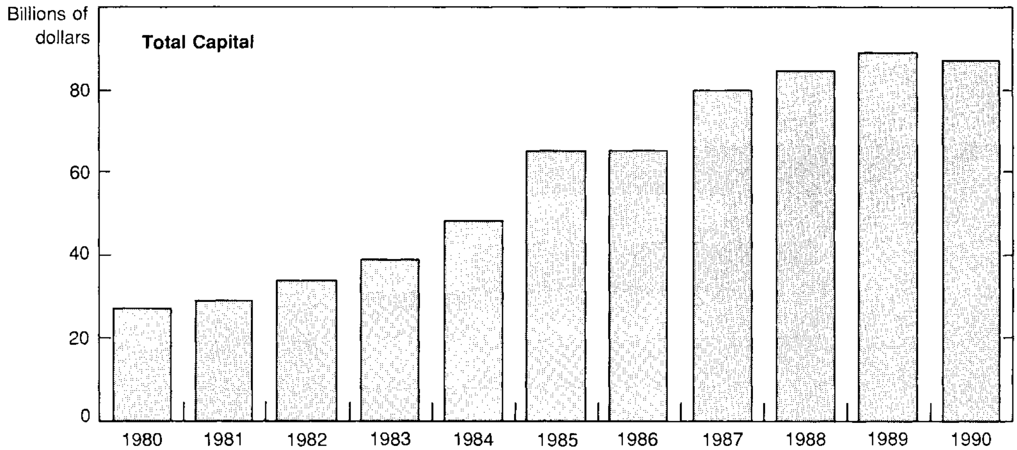
- Second, even under current rules there is ample room for commercial firms to make sizable, but noncontrolling, investments in banking institutions. Moreover, as I said, I could support some measure of added flexibility in those rules so long as the issue of de facto control does not arise.

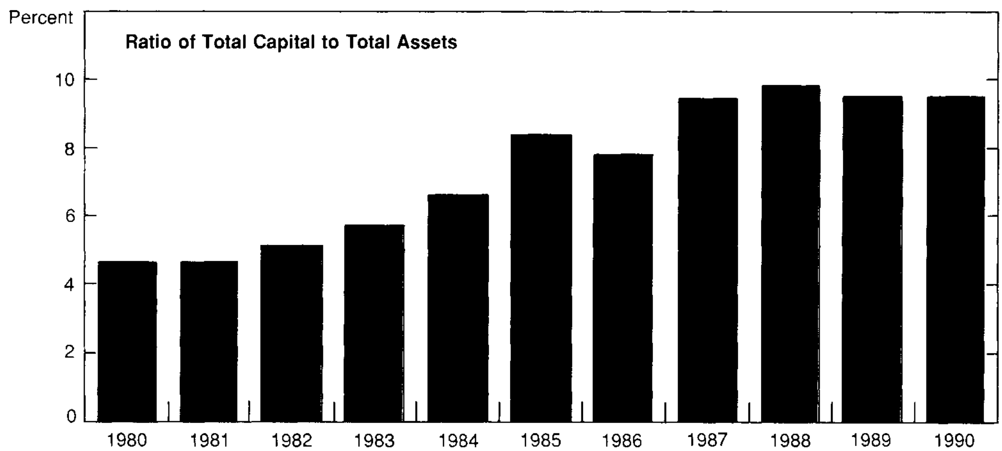
  The control issue is, of course, the key, and in this regard I simply do not see how we can have it both ways. That is, if the investment truly is passive, we do not need protective measures such as firewalls. But if it is not (and investor

Chart 5. TOTAL CAPITAL FOR THE TEN LARGEST U.S. BANK HOLDING COMPANIES

**The banking system has shown great resiliency in the face of major difficulties. Since 1980, total capital at the ten largest bank holding companies has more than tripled in dollar terms . . .**




**and has doubled as a share of total assets.**




Sources: FR Y-9c reports and company press releases.

Note: Total capital includes common equity and related surplus, retained earnings, perpetual preferred stock, minority interest in equity accounts of consolidated subsidiaries, allowance for loan and lease losses, limited life preferred stock, mandatory convertible securities, subordinated term debt, and perpetual debt.

control is intended or achieved), firewalls will not work. Control, by its very nature, necessarily implies an outright rejection of firewalls in both intellectual and practical terms. In other words, if control or influence is present, then all of my concerns about unfair competition, conflicts of interest, concentration, potential for outright abuse, and the de facto extension of the safety net are present. They cannot be swept under the rug, nor can they be rationalized by firewalls.

**With or without progressive legislation, we are going to see a significant degree of consolidation in banking and finance. Progressive legislation will, among other things, make that transition more orderly and will help to ensure that the outcome is in keeping with the public interest.**

- Third, it is by no means clear that the U.S. banking system is short of capital. In fact, the opposite may be true, even though some individual banks need more capital. In part, the suggestion that there is too much rather than too little capital grows out of the rather widespread impression that the United States is "overbanked."

**I am not suggesting that we will end up with a highly concentrated banking system such as we see in many other countries. To the contrary, I am absolutely confident that literally thousands of small- and medium-sized institutions will continue to flourish.**

It turns out that there is evidence to support the impression of "overbanking," particularly when it is recognized that for reasons of both policy and common sense, the economy can support only so much *good* debt. For example, using data for the third quarter of 1990—including rough allowances for off-balance sheet activities—and assuming, for purposes of illustration, a 6 percent tier 1 risk-based capital ratio for the banking system as a whole, about $160 billion in tier 1 capital would be needed to support the actual amount of bank credit outstanding at that time. In fact, the amount of tier 1 capital in the system at that time was more than $200 billion! Keeping in mind that this approximation fully ignores all tier 2 capital and all non-tier 2 loan loss reserves, this calculation does not suggest an industry that is fundamentally short of capital.

Moreover, if we were to project these relationships into the immediate future—and make the very conservative assumption of a sharp rise in the commercial banking system's share of overall credit flows—the margin of capital currently available above the 6 percent tier 1 illustration would still be in the area of $20 billion.

Admittedly, this framework is very rough and it does not address the major question of distribution of capital within the industry. But it does suggest that part of the problem in banking may be that we have too much capital chasing too few *good* loans in a context in which there is a finite quantity of *good* loans that the economy can support. If that is the case, I must confess that I am hard pressed to see how permitting commercial firms to own and control banking institutions is going to help matters, especially if that result is achieved at the cost of leveraging up still further the capital of the industrial sector.

One clear implication of this analysis is that some major changes in the configuration of the banking system are inevitable. With or without progressive legislation, we are going to see a significant degree of consolidation in banking and finance. Progressive legislation will, among other things, make that transition more orderly and will help to ensure that the outcome is in keeping with the public interest. But make no mistake about it, whether it is done the hard way or the easy way, the result is already baked in the cake.

When I speak of a significant degree of consolidation in banking and finance, I am not suggesting that we will end up with a highly concentrated banking system such as we see in many other countries. To the contrary, I am absolutely confident that literally thousands of small- and medium-sized institutions will continue to flourish. On the other hand, the cost savings and the business synergies that are there for the taking in the context of mergers—especially mergers of already large institutions—are simply too important to be ignored for long. Indeed, I will be very surprised—perhaps disappointed—if when we meet here next year, one or more mergers among the largest banks in the United States are not already a reality.

## Financial Statements

**STATEMENT OF EARNINGS AND EXPENSES FOR THE CALENDAR YEARS 1989 AND 1990**

(In Dollars)

| | **1990** | **1989** |
|---|---|---|
| Total current earnings | 8,196,655,958 | 7,493,515,660 |
| Net expenses | 196,357,085 | 204,827,641 |
| Current net earnings | 8,000,298,873 | 7,288,688,019 |
| Additions to current net earnings: | | |
| Profit on sales of United States government securities and federal agency obligations (net) | 23,246,076 | 4,735,164 |
| Profit on foreign exchange | 579,774,990 | 341,988,861 |
| All other | 25,801 | 25,922 |
| Total additions | 603,046,867 | 346,749,947 |
| Deductions from current net earnings | 16,102,575 | 6,163,601 |
| Net additions | 586,944,292 | 340,586,346 |
| Assessments by the Board of Governors: | | |
| Board expenditures | 28,184,700 | 24,011,500 |
| Federal Reserve currency costs | 65,406,596 | 59,997,193 |
| Total assessments | 93,591,296 | 84,008,693 |
| **Net earnings available for distribution** | **8,493,651,869** | **7,545,265,672** |
| Distribution of net earnings: | | |
| Dividends paid | 38,420,160 | 34,813,338 |
| Transferred to surplus | 59,374,800 | 41,891,000 |
| Payments to United States Treasury (interest on Federal Reserve notes) | 8,395,856,909 | 7,468,561,334 |
| **Net earnings distributed** | **8,493,651,869** | **7,545,265,672** |
| **Surplus account** | | |
| Surplus—beginning of year | 607,678,250 | 565,787,250 |
| Transferred from net earnings | 59,374,800 | 41,891,000 |
| **Surplus—end of year** | **667,053,050** | **607,678,250** |

## STATEMENT OF CONDITION

(In Dollars)

| Assets | Dec. 31, 1990 | Dec. 29, 1989 |
|---|---|---|
| Gold certificate account | 3,501,358,554 | 3,410,129,070 |
| Special drawing rights certificate account | 3,395,000,000 | 2,896,000,000 |
| Coin | 16,252,698 | 12,696,701 |
| Total | 6,912,611,252 | 6,318,825,771 |
| Advances | 22,850,000 | 27,050,000 |
| United States government securities: | | |
| Bought outright† | 86,783,322,275 | 79,933,787,512 |
| Held under repurchase agreements | 17,013,250,000 | 1,592,000,000 |
| Federal agency obligations: | | |
| Bought outright | 2,340,985,421 | 2,299,795,914 |
| Held under repurchase agreements | 1,340,750,000 | 525,000,000 |
| Total loans and securities | 107,501,157,696 | 84,377,633,426 |
| Other assets: | | |
| Cash items in process of collection | 569,605,138 | 1,069,632,891 |
| Bank premises | 76,092,357 | 46,821,784 |
| All other‡ | 11,217,985,098 | 10,529,084,442 |
| Total other assets | 11,863,682,593 | 11,645,539,117 |
| Interdistrict settlement account | (1,043,533,098) | (928,160,980) |
| **Total assets** | **125,233,918,443** | **101,413,837,334** |

| | | |
|---|---|---|
| †Includes securities loaned—fully secured | 1,625,675,000 | 722,900,000 |

‡Includes assets denominated in foreign currencies revalued monthly at market rates.

**STATEMENT OF CONDITION**

(In Dollars)

| **Liabilities** | **Dec. 31, 1990** | **Dec. 29, 1989** |
|---|---|---|
| Federal Reserve notes (net) | 102,696,522,537 | 81,921,144,179 |
| Reserve and other deposits: | | |
| Depository institutions | 9,933,722,931 | 8,129,648,144 |
| United States Treasury—general account | 8,960,212,141 | 6,216,516,022 |
| Foreign—official accounts | 259,448,612 | 479,687,058 |
| Other | 156,425,233 | 503,672,693 |
| Total deposits | 19,309,808,917 | 15,329,523,917 |
| Other liabilities: | | |
| Deferred availability cash items | 381,862,038 | 821,635,003 |
| All other† | 1,511,618,851 | 2,126,177,735 |
| Total other liabilities | 1,893,480,889 | 2,947,812,738 |
| **Total liabilities** | **123,899,812,343** | **100,198,480,834** |
| **Capital accounts** | | |
| Capital paid in | 667,053,050 | 607,678,250 |
| Surplus | 667,053,050 | 607,678,250 |
| Total capital accounts | 1,334,106,100 | 1,215,356,500 |
| **Total liabilities and capital accounts** | **125,233,918,443** | **101,413,837,334** |

†Includes outstanding foreign exchange commitments revalued at market rates.

## Changes in Directors and Senior Officers

**CHANGES IN DIRECTORS.** In September 1990, the Board of Governors of the Federal Reserve System redesignated Cyrus R. Vance Chairman of the board of directors and Federal Reserve Agent for the year 1991. Mr. Vance, presiding partner of the New York law firm of Simpson Thacher & Bartlett, has been serving as a Class C director and as Chairman and Federal Reserve Agent since January 1989.

Also in September, the Board of Governors reappointed Ellen V. Futter a Class C director for the three-year term beginning January 1, 1991, and also reappointed her Deputy Chairman for the year 1991. Ms. Futter, President of Barnard College, New York, N.Y., has been serving as a Class C director since January 1988 and as Deputy Chairman since September 1988.

Member banks in Group 3 elected Barbara Harding a Class A director in December 1990, for the three-year term beginning January 1, 1991. Ms. Harding, Chairman and Chief Executive Officer of The Phillipsburg National Bank and Trust Company, Phillipsburg, N.J., succeeded J. Kirby Fowler, President and Chief Executive Officer of The Flemington National Bank and Trust Company, Flemington, N.J., who had served as a Class A director since January 1988.

*Buffalo Branch.* In July 1990, the Board of Governors of the Federal Reserve System appointed Herbert L. Washington a director of the Buffalo Branch for the unexpired portion of a three-year term ending December 31, 1992. Mr. Washington, owner of the restaurant firm of HLW Fast Track, Inc., Rochester, N.Y., succeeded Matthew Augustine, President and Chief Executive Officer of Eltrex Industries, Inc., Rochester, N.Y., who had resigned as a director of the Branch. Mr. Augustine had served as a Branch director since January 1986.

In October 1990, the board of directors of this Bank appointed Susan A. McLaughlin a director of the Buffalo Branch for a three-year term beginning January 1, 1991. Ms. McLaughlin, President of Eastman Savings and Loan Association, Rochester, N.Y., succeeded Norman W. Sinclair, Chairman and Chief Executive Officer of Lockport Savings Bank, Lockport, N.Y., who had served as a Branch director since January 1988.

At the same time, the board of this Bank redesignated Mary Ann Lambertsen Chairman of the Board of the Buffalo Branch for the year 1991. Mrs. Lambertsen, Vice President–Human Resources and Information Systems of Fisher-Price, Division of The Quaker Oats Company, East Aurora, N.Y., has been a director of the Branch and Chairman of the Branch Board since January 1986.

Also in October, the Board of Governors appointed Joseph J. Castiglia a director of the Buffalo Branch for a three-year term beginning January 1, 1991. Mr. Castiglia, President and Chief Executive Officer of Pratt & Lambert, Inc., Buffalo, N.Y., succeeded Paul E. McSweeney, Executive Vice President of the United Food and Commercial Workers District Union (Local 1), AFL-CIO, Amherst, N.Y., who had served as a Branch director since January 1988.

**CHANGES IN SENIOR OFFICERS.** The following changes in the official staff at the level of vice president and above have occurred since the publication of the previous *Annual Report*:

Joseph P. Botta, Vice President, was assigned as the officer in charge of the Cash Function effective April 2, 1990.

Paul B. Bennett, formerly Vice President and Economic Adviser, was appointed Vice President and Assistant Director of Research effective April 2, 1990, with responsibility for financial policy studies.

Edward J. Frydl, formerly Vice President and Assistant Director of Research, was appointed Vice President and Economic Adviser effective April 2, 1990.

Frederick C. Schadrack, Executive Vice President, Bank Supervision Group, retired from the Bank effective April 1, 1991, after completing 30 years of distinguished service. Mr. Schadrack joined the Bank's staff in 1960 and became an officer in 1966.

Chester B. Feldberg, Executive Vice President, formerly in charge of the Credit and Capital Markets Group, was assigned as the officer in charge of the Bank Supervision Group effective January 1, 1991.

# Directors of the Federal Reserve Bank of New York

| DIRECTORS | *Term expires Dec. 31* | *Class* |
|---|---|---|
| John F. McGillicuddy<br>Chairman and Chief Executive Officer, Manufacturers Hanover Trust Company, New York, N.Y. | 1991 | A |
| Victor J. Riley, Jr.<br>Chairman, President, and Chief Executive Officer, KeyCorp, Albany, N.Y. | 1992 | A |
| Barbara Harding<br>Chairman and Chief Executive Officer, The Phillipsburg National Bank and Trust Company, Phillipsburg, N.J. | 1993 | A |
| Richard L. Gelb<br>Chairman and Chief Executive Officer, Bristol-Myers Squibb Company, New York, N.Y. | 1991 | B |
| John A. Georges<br>Chairman and Chief Executive Officer, International Paper, Purchase, N.Y. | 1992 | B |
| (Vacancy) | 1993 | B |
| Maurice R. Greenberg<br>Chairman and Chief Executive Officer, American International Group, Inc., New York, N.Y. | 1991 | C |
| Cyrus R. Vance, *Chairman and Federal Reserve Agent*<br>Presiding Partner, Simpson Thacher & Bartlett, New York, N.Y. | 1992 | C |
| Ellen V. Futter, *Deputy Chairman*<br>President, Barnard College, New York, N.Y. | 1993 | C |

## DIRECTORS—BUFFALO BRANCH

| | |
|---|---|
| Mary Ann Lambertsen, *Chairman*<br>Vice President–Human Resources and Information Systems, Fisher-Price, Division of The Quaker Oats Company, East Aurora, N.Y. | 1991 |
| Richard H. Popp<br>Operating Partner, Southview Farm, Castile, N.Y. | 1991 |
| Robert G. Wilmers<br>Chairman and Chief Executive Officer, Manufacturers and Traders Trust Company, Buffalo, N.Y. | 1991 |
| Wilbur F. Beh<br>Chief Executive Officer, First National Bank of Rochester, Rochester, N.Y. | 1992 |
| Herbert L. Washington<br>Owner, HLW Fast Track, Inc., Rochester, N.Y. | 1992 |
| Joseph J. Castiglia<br>President and Chief Executive Officer, Pratt & Lambert, Inc., Buffalo, N.Y. | 1993 |
| Susan A. McLaughlin<br>President, Eastman Savings and Loan Association, Rochester, N.Y. | 1993 |

# Advisory Groups

## FEDERAL ADVISORY COUNCIL

### SECOND DISTRICT MEMBER AND ALTERNATE MEMBER

CHARLES S. SANFORD, JR., *Member*
Chairman and Chief Executive Officer, Bankers Trust Company, New York, N.Y.

GEORGE J. VOJTA, *Alternate Member*
Executive Vice President, Bankers Trust Company, New York, N.Y.

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My-T Acres, Inc., Batavia, N.Y.

IRVING S. CAPLAN
President, National Army Stores Corp., Malone, N.Y.

JUDY COLUMBUS
President, Judy Columbus, Inc., Realtors, Rochester, N.Y.

PATRICIA A. DUNCANSON
President, L. Duncanson, Inc., White Plains, N.Y.

BENITO R. FERNANDEZ
President, Brooklyn Manor Group, Brooklyn, N.Y.

HENRY F. HENDERSON, JR.
President, H.F. Henderson Industries, West Caldwell, N.J.

JERRI SHERMAN HESSOL
President, Jerri Sherman Ltd., New York, N.Y.

CHARLES L. LAIN
President, Pine Island Turf Nursery, Inc., Sussex, N.J.

JAMES R. SHAW
President, Shaw Aero Devices, Inc., Wainscott, N.Y.

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President and Chief Executive Officer, Albany Savings Bank, Albany, N.Y.

SPENCER S. CROW
President, Maple City Savings and Loan Association, Hornell, N.Y.

BEATRICE R. D'AGOSTINO
President and Chief Executive Officer, New Jersey Savings Bank, Somerville, N.J.

HENRY DREWITZ
Chairman, Astoria Federal Savings and Loan Association, Jackson Heights, N.Y.

GERALD T. MURPHY
President, Garden State Corporate Central Credit Union, Hightstown, N.J.

ROBERT B. O'BRIEN, JR.
Chairman, Carteret Savings Bank, FA, Morristown, N.J.

WILLIAM F. OLSON
Chairman and President, Peoples Westchester Savings Bank, Hawthorne, N.Y.

# Officers of the Federal Reserve Bank of New York

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JAMES H. OLTMAN, *First Vice President*

SAM Y. CROSS, *Executive Vice President*
Foreign

SUZANNE CUTLER, *Executive Vice President*
Operations

CHESTER B. FELDBERG, *Executive Vice President*
Bank Supervision

ERNEST T. PATRIKIS, *Executive Vice President and General Counsel*
Legal

ISRAEL SENDROVIC, *Executive Vice President*
Automation and Telecommunications

PETER D. STERNLIGHT, *Executive Vice President*
Open Market

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LORETTA G. ANSBRO, *Audit Officer*
ELIZABETH S. IRWIN-MCCAUGHEY, *Manager, Auditing Department*
IRA LEVINSON, *Manager, Audit Analysis Department*

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GERALD HAYDEN, *Manager, General Computer Operations Department*
JOHN C. HEIDELBERGER, *Manager (Evening Officer)*
KENNETH C. MONTGOMERY, *Manager, Contingency Operations and Quality Assurance Department*
LENNOX A. MYRIE, *Manager, Fedwire and Communications Operations Department*

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MONIKA K. NOVIK, *Assistant Vice President*
CLAUDIA H. COUCH, *Manager, Funds Transfer Systems Department*
VIERA A. CROUT, *Manager, Advanced Technology Staff*
CHRISTOPHER M. KELL, *Systems Development Officer*
JOSEPH E. MCCOOL, *Manager, Funds Transfer Systems Department*
MARIE J. VEIT, *Manager, Funds Transfer Systems Department*
MIRIAM I. WIEBOLDT, *Manager, Administrative and Office Support Systems Department*

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THOMAS P. MCQUEENEY, *Assistant Chief Examiner, International Banking Department*
GERALD P. MINEHAN, *Assistant Chief Examiner, Multinational Banking Department*
ALBERT TOSS, *Assistant Chief Examiner, Domestic Banking Department*
WALTER W. ZUNIC, *Examining Officer, International Banking Department*

## Officers *(Continued)*

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ELAINE D. MAURIELLO, *Manager, Personnel Department*

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NATHAN BEDNARSH, *Manager, Management Information Department*

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THEODORE N. OPPENHEIMER, *Assistant Secretary*

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EDWARD J. OZOG, *Assistant Vice President*

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ANDREW T. HOOK, *Senior International Economist*
BONNIE E. LOOPESKO, *Senior International Economist*

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JOHN WENNINGER, *Assistant Vice President*

†On leave of absence.

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GEORGE R. JUNCKER, *Vice President*†
ANDREW T. HOOK, *Senior International Economist*
LAWRENCE M. SWEET, *Senior International Economist*

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DONALD R. MOORE, *Equal Employment Opportunity Officer*

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FRANCIS J. REISCHACH, *Manager, Foreign Relations Department*

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## Officers *(Continued)*

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ANN-MARIE MEULENDYKE, *Manager, Open Market Department*

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LILLIE S. WEBB, *Manager, Paying and Receiving Department*
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JEROME P. PERLONGO, *Manager (Night Officer)*
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STEVEN MALIN, *Manager, Public Information Department*

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CHARLES A. PIGOTT, *Senior Research Officer*
LAWRENCE J. RADECKI, *Senior Research Officer*

†On leave of absence.

## Officers *(Continued)*

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SUSAN A. HICKOK, *Research Officer and Senior Economist*
ROBERT N. MCCAULEY, *Research Officer and Senior Economist*
DOROTHY M. SOBOL, *Research Officer and Senior Economist*
CHARLES STEINDEL, *Research Officer and Senior Economist*

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NANCY BERCOVICI, *Assistant Vice President*
PAULA B. SCHWARTZBERG, *Manager, International Reports and Support Department*

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## Officers—Buffalo Branch

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**AUTOMATED SYSTEMS; GENERAL DIRECTION OF OPERATIONS; MANAGEMENT INFORMATION**

PETER D. LUCE, *Assistant Vice President*

**CASH; CENTRAL OPERATIONS; CREDIT, DISCOUNT, AND FISCAL AGENCY**

GARY S. WEINTRAUB, *Cashier*

**BANK SERVICES AND PUBLIC INFORMATION; PERSONNEL; PROTECTION**

ROBERT J. MCDONNELL, *Operations Officer*

**BUILDING OPERATING; CHECK; SERVICE**

DAVID P. SCHWARZMUELLER, *Operations Officer*

# THE SECOND FEDERAL RESERVE DISTRICT