

1992 ANNUAL REPORT
FEDERAL RESERVE BANK OF CHICAGO

... into a brave new world



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 banks and bank holding companies, and provides financial services to depository institutions and the U. S. government. Through its head office in Chicago, branch in Detroit, and regional offices in Des Moines, Indianapolis, and Milwaukee, 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.



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MESSAGE FROM MANAGEMENT

If at times during the past year many of us felt like we were cast on a voyage in a sea of change, there were a number of reasons. Despite the statistics that confirmed that the U. S. economy had emerged from recession, other realities told us that this recovery, so unlike any other, was still a myth for those without jobs. Industries and firms that had for decades symbolized the success of the American economy were undergoing wrenching changes that spotlighted their failure to adjust to new competitive pressures. Within the financial industry, while balance sheets, financial conditions, and bank earnings all improved, a deluge of new legislative mandates were being issued that did as much to create uncertainty as to clarify the outlook.

The new global environment, the competitive forces that have been unleashed, the changing rules of the game, the transformation of once reliable economic relationships—all suggest that we are operating in a *brave new world*, a world that is sometimes tumultuous, just a little bit frightening, in many ways promising, and in every way exciting, challenging, and hopeful. The articles that follow take a look at this brave new world from three different perspectives: the banking industry as it confronts a sweeping array of new legislative mandates; the regional economy as it traverses a simultaneous course of industrial restructuring and cyclical recovery; and the Federal Reserve Bank of Chicago as it carries out its ongoing responsibilities in a continuously evolving economic and financial environment.

As we strive to navigate these tides of change, we become increasingly mindful of our dependence on certain constants—our need for anchors if we are to avoid being cast adrift on our journey into the brave new world. A number of constants provide continuing direction for the Federal Reserve System and underlie the 1992 achievements of this Bank, which are highlighted later in this report. The first set of constants relates to the overriding goals that guide our operations, namely economic growth based upon a foundation of price stability; a sound financial system that inspires public confidence and serves public needs; and an efficient and effective payments system that supports a smoothly functioning economy.

A second set of constants relates to the fundamental strengths provided by the Federal Reserve's unique structure. The System's regional composition and its blending of public and private elements provide it with a broad-based perspective and an independence from partisan influences that for the past eight decades have served it well in the pursuit of these important public goals.

The third set of constants has to do with the caliber and commitment of the individuals associated with the Federal Reserve and responsible for its achievements. The Federal Reserve Bank of Chicago is especially fortunate to be served by an outstanding group of directors who so unselfishly give their time and expertise to the Bank. We particularly want to express our gratitude to two directors who completed their terms at the end of 1992, B.F. Backlund and Paul Schierl, each of whom provided insightful perspectives and leadership that helped guide our activities for the past six years.

While our board provides the overall governance for the organization, our officers and staff are the constants who are directly responsible for our achievements. The past year, in one sense, represented

an important transition in that Bill Conrad was named First Vice President, succeeding Dan Doyle, who retired following 36 years of distinguished service to the Bank and the System. While we cannot help but miss an individual of Dan's caliber, we are assured by our knowledge that Bill brings to the post extraordinary skills and the same sense of commitment that Dan did for so many years.

And it is this shared commitment that is the last constant we wish to mention. During 1992, Bank management and staff took some time to step back from day-to-day operations and explicitly articulate the values that always have implicitly defined us as an organization. There was fundamental agreement across the Bank on our four defining values: *integrity*, in how we conduct our affairs; *respect*, in how we treat each other; *responsibility*, in how we approach our jobs; and *excellence*, in how we seek to carry out our duties. So long as we stay firmly focused on our values, we can be fully confident of our continued success no matter what the world may have in store.

RICHARD CLINE, CHAIRMAN
SILAS KEEHN, PRESIDENT



*From left:
Deputy Chairman
Robert Healey,
First Vice President
William Conrad,
President Silas Keehn,
and Chairman
Richard Cline.*

FDICIA:

USHERING IN A BRAVE NEW WORLD

The Federal Deposit Insurance Corporation Improvement Act has been called the most important banking legislation to be enacted since the 1930s. In the following essay, Silas Keehn, President of the Federal Reserve Bank of Chicago, discusses some of the implications of the Act for Seventh District depository institutions.

If several decades ago banks and other depository institutions operated in a safe harbor, they are now in the midst of a tempestuous voyage. The most recent episode of turbulence on this sometimes difficult passage was the enactment of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).

The most obvious aspect of FDICIA is the sheer bulk of the legislation—its many rules that already are affecting depository institutions. But while the length and breadth of the Act are notable, there also is a more subtle and significant

change being brought about by FDICIA: a more important role for market forces in determining the viability of depository institutions.

To be sure, some of the Act's provisions are intended to replicate market forces, which have been diminished because of the distorting effect of the federal safety net. And, like most imitations, even the best-intentioned effort by regulators to simulate the market never quite matches the original. In the final

analysis, however, the passage of FDICIA means that market forces have moved to the forefront in determining success or failure.

FDICIA, of course, is only one of a number of events and trends that together have fundamentally changed the banking industry. Nevertheless, it is an important milestone in the transition to an uncertain, yet exciting, environment—a brave new world, if you will. While sometimes turbulent, this transition is a necessary process that should result in a healthier, more vigorous financial industry.

*FDICIA is a milestone
in the necessary transition
to an uncertain,
yet exciting, environment—
a brave new world.*



WITH THE PASSAGE OF FDICIA, BANKS AND OTHER DEPOSITORY
INSTITUTIONS ARE VOYAGING INTO A BRAVE NEW WORLD IN WHICH
MARKET FORCES PLAY A MORE IMPORTANT ROLE
IN DETERMINING SUCCESS OR FAILURE.

As depository institutions are more fully exposed to the discipline of the marketplace, they should also be allowed to benefit further from the potential rewards.

The Goals of FDICIA

The primary goal of FDICIA was to develop a framework for reducing the costs of deposit insurance. To this end, FDICIA restricts banking practices and activities that might produce risk to the financial system, limits the power of the Federal Deposit Insurance Corporation (FDIC) to protect uninsured depositors, and circumscribes the ability of undercapitalized banks to borrow at the Federal Reserve's discount window. The Act also explicitly states the regulator's duty to take prompt corrective action against a depository institution with a deteriorating capital position, a new procedure that forces institutions to close before they reach technical insolvency.

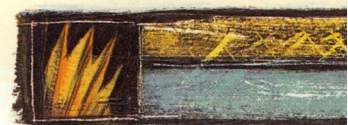
Unfortunately, however, FDICIA also contains a great many regulatory provisions that seem excessively intrusive. One can understand Congress' desire to prevent any problems that would result in taxpayer costs. Yet, many of FDICIA's provisions, improperly administered, could leave regulators in a position of micro-managing an institution. As a result, regulators have been—and must continue to be—as even-handed as possible in implementing and administering the more burdensome requirements of the Act.

Additionally, FDICIA's failure to achieve the twin goals of broadening activities and reducing regulation for well-capitalized institutions was very disappointing. As depository institutions are more fully exposed to the discipline of the marketplace, they should also be allowed to benefit further from the potential rewards.

FDICIA's New Realities

On a more positive note, one of the most important provisions in FDICIA is the system of prompt corrective action, which clarifies the appropriate response to a deterioration of an institution's capital position. In the past there has been some inconsistency as well as some uncertainty as to how the process should proceed. Appropriately, regulators still can use their judgement; yet in a fundamental sense, the road map is much clearer. Both sides benefit from knowing what is expected as certain events take place. Importantly, the market plays a key role because the principal factor determining whether a problem institution fails is its ability to raise new capital.

Another important provision of FDICIA is the restriction on discount window loans to undercapitalized institutions. In the past, the Federal Reserve has been able to "work" institutions through liquidity problems through the explicit or, perhaps even more importantly, the implicit use of the discount window. This no longer is the case.



An environment in which market forces, not regulatory pressures or legislative walls, determine the viability of depository institutions is an exciting destination.

Thus, depository institutions need to rethink their strategies for dealing with liquidity issues. A solvent institution's ability to survive a liquidity problem depends less on the regulators' view of the institution and more on the market's judgement. With greater restrictions on the discount window, undercapitalized institutions need to rely more on other commercial institutions to be their lender of last resort. The Federal Reserve's role in coordinating the organization of a private-sector support package is much more limited.

Under this new system, market forces and Congressional mandates usually will cause institutions to be sold, closed, or re-capitalized before there is extreme deterioration. However, should an institution slip through the various checks, there likely will be losses to uninsured depositors. Such losses may come as a disappointing surprise, especially to those depositors who have come to rely on a large institution being "too big to fail." The first surprise of this type could cause other uninsured depositors to re-evaluate the soundness of their banking institution. This is the appropriate response, but it could result in uncomfortable pressures for some institutions.

A Rewarding Destination

Undeniably, the financial industry and its regulators are operating in a new environment. It is very important that we understand the significance of the changes mandated by FDICIA; those who ignore them do so at their own peril. Fortunately depository institutions in the Seventh Federal Reserve District, with strong capital positions and relatively healthy earnings, are well positioned to prosper.

Despite the uncertainty that inevitably occurs, I believe such change is absolutely necessary. In fact, we should seriously consider additional change such as reducing regulation and allowing broader activities for well-capitalized institutions. While more can and should be done, I believe FDICIA has been successful in elevating the role of the market. We now are operating in an environment in which market forces, not regulatory pressures or legislative walls that impede competition, determine the viability of depository institutions. While not a safe harbor, I believe this is an important step toward an exciting—and ultimately rewarding—destination.

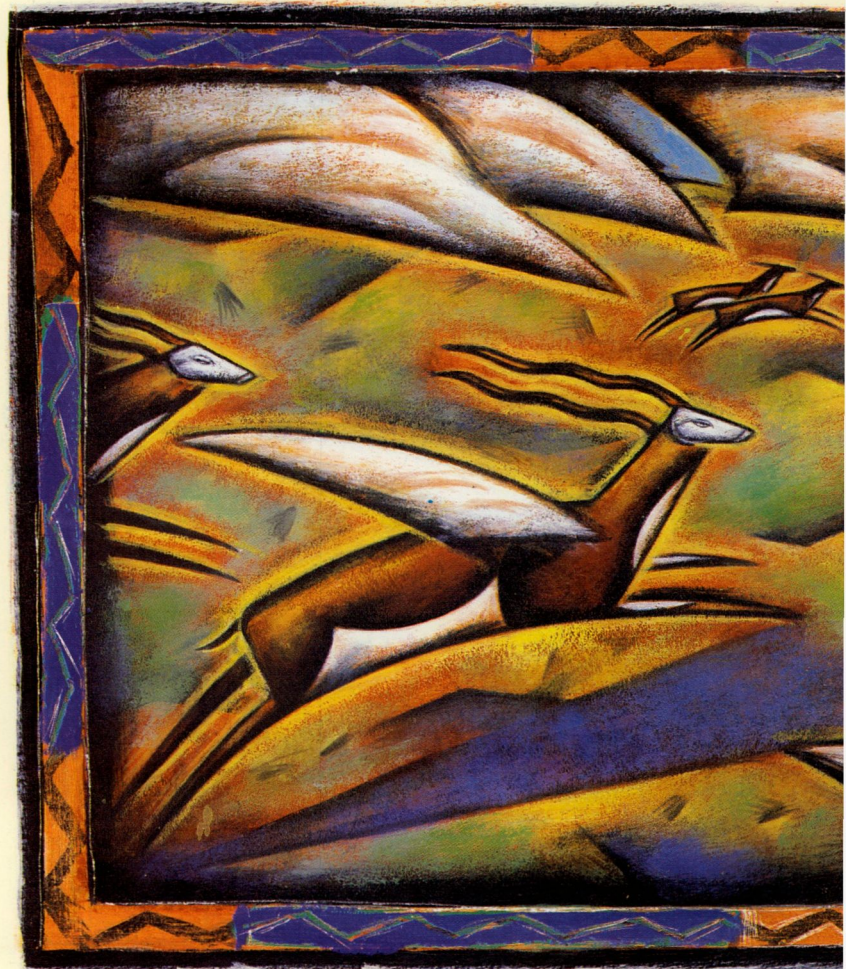
SILAS KEEHN, PRESIDENT

The Midwest for many years has travelled an arduous path in a difficult economic environment. From a historical perspective, the region appeared to be slowly losing ground, caught in the grasp of inexorable long-term trends that moved with the strength and speed of a glacier. But beneath the surface, a dynamic change has been taking place.

More than ever, Midwest firms are faced with a world of changing markets and ever-increasing competitive pressures. But now, after massive investment and significant restructuring, the region's image as the nation's "rustbelt" has been superceded by an emerging image as the center of lean and agile manufacturers. Today, the

The Regional Economy.

**MOVING
FORWARD
IN A
BRAVE
NEW
WORLD**



more vibrant and resilient Midwest economy is better able to compete with other regions, both in the United States and abroad.

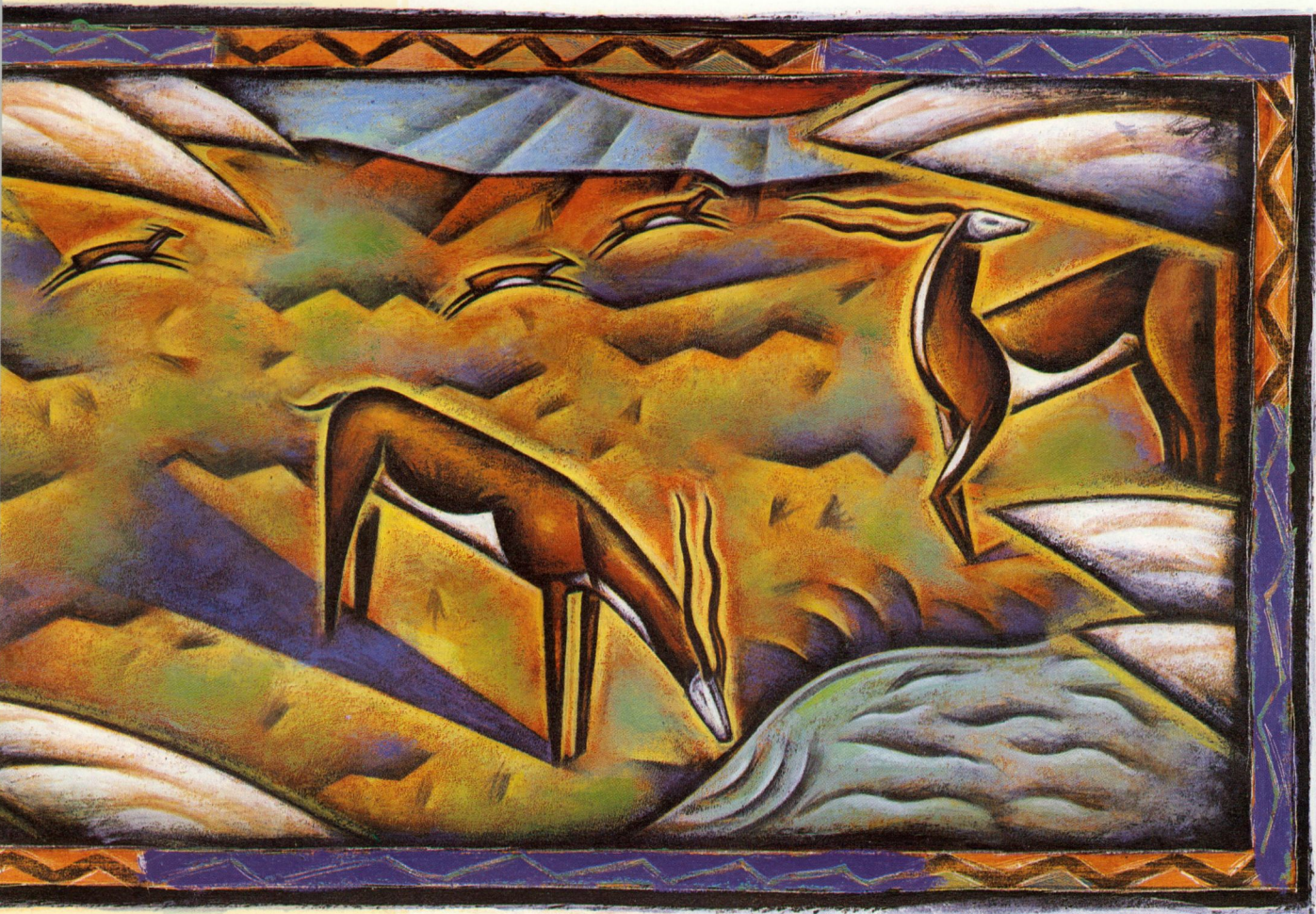
A Crucial Hurdle

The Midwest recently overcame a crucial hurdle on its journey in this brave new world of continually increasing competitive pressures—the 1990-91 recession. Recessions traditionally had been an especially difficult experience for the Midwest because of its heavy concentration of industries that are sensitive to economic cycles. (The Midwest is defined here as the states of the Seventh Federal Reserve District: Illinois, Indiana, Iowa, Michigan, and Wisconsin.) Compounding the problem, the Midwest's relatively mature industries had found it difficult to compete with newer rivals in other regions and countries. The region's difficulties were

due to a number of factors such as relatively high labor costs, older and less efficient facilities, and expensive energy requirements.

The region's economic evolution is evident in the apparent reversal of some of its negative long-term trends. Between 1963 and 1985, for example, total employment grew by 76 percent nationally while rising just 46 percent in the Midwest. This lackluster performance was attributable largely to sluggish job growth in manufacturing, the cornerstone of the Midwest economy. More recently, however, the region's performance has improved relative to the United States. This improved performance is reflected in preliminary employment data, which indicates that the District has fared relatively well during the 1990-91 recession and recovery.

BASED ON ITS PERFORMANCE DURING THE 1990-91 RECESSION
AND RECOVERY, THE MIDWEST APPEARS TO HAVE
MADE SIGNIFICANT PROGRESS ON ITS JOURNEY
IN A BRAVE NEW WORLD.



Hitting Bottom

A look at the earlier 1981-82 recession provides a perspective for judging the recent performance of the economy. The region hit bottom during the early 1980s; more than 1.5 million people lost their jobs, most of them in the manufacturing sector. The Midwest struggled through much of the rest of the decade, even as other regions—such as those on the East and West coasts—prospered.

But the 1981-82 recession was also a turning point for the Midwest. In succeeding years, weak firms either failed or relocated to lower-cost regions, and inefficient plants were closed or downsized. At the same time, massive capital spending took place. After 1984, regional manufacturers invested an average of 5 to 10 percent more in equipment per production worker annually than the rest of the nation. In concert with these efforts, Midwest producers also began to adopt “lean” manufacturing techniques to improve efficiency.

The combination of closing inefficient facilities and investing in new or existing plants began to show dramatic results. Manufacturing productivity in the Midwest improved significantly, outpacing the

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nation during the expansion. Estimates of the relative improvement in the Midwest's manufacturing sector suggest that efficiency in the region improved about 20 percent more than the rest of the nation during the last half of the 1980s.

As a result, manufacturing jobs decreased even as output increased. Fewer employees were required to produce more goods—a positive trend from a competitive standpoint, but one that resulted in fewer jobs and painful dislocations for many. While difficult, the process began to produce results. By 1987, the Midwest showed signs of renewed vigor as its

manufacturing sector outpaced the nation for the first time in several years, aided by a falling dollar that boosted exports.

A Curve in the Road

As the regional economy picked up speed, it hit a treacherous curve: the 1990-91 recession. How did the Midwest fare? The recession was relatively mild for the region, compared with the national average or to past experience. For example, while the nation lost some 2 million jobs during each of the last two recessions, the region's job loss was about 300 thousand in 1990-91 compared with 1.5 million in the early 1980s.

The region's improved performance owes much to a manufacturing sector that was significantly more competitive after years of investment and downsizing. Unlike its poor performance relative to the nation during the 1981-82 recession, the region's manufacturing sector performed at about the same level as the rest of the U.S. during 1990-91. The improvement was broad-based. During the 1981-82 recession, growth in Midwest manufacturing production lagged the national average in 16 of 17 industries. The story was different in 1990-91—the Midwest outperformed the nation in 12 of 17 industrial categories.

The Midwest's service sector, which is linked to the vitality of manufacturing, also performed respectably during the 1990-91 recession. With its emphasis on the financial and business needs of the manufacturing sector, the region's service sector historically has lagged the nation and has been less resilient during recessions. During the 1981-82 recession, for example, the Midwest's service sector grew at a substantially slower rate than the nation's. In contrast, the region matched national growth in the service sector during 1990-91. The service sector may have been helped by the steadier performance of the manufacturing sector, which provided a boost for business services. With growth in other categories as well, the service sector proved to be less susceptible to the vagaries of the national economy.

There's Good News and Bad News

The news is not all good. The U.S. recovery from the 1990-91 recession has been anemic compared to historical standards, especially in terms of employment. While the Midwest has recovered at a slightly faster pace following the recession, employment growth in the District, as in the nation, has been less than robust.

The national recovery has been marked by restructuring activities that have hampered a brisk rebound, but may help to set the stage for sustained future growth. Hobbled by factors such as efforts to strengthen balance sheets and intensive business restructuring, the economy has followed an erratic course, moving in fits and starts. Typically the United States experiences a strong rebound after a recession.

**THE MIDWEST'S RELATIVELY
STRONG PERFORMANCE DURING
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INDICATES THAT IT IS BETTER ABLE
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But in the seven quarters following the 1990-91 recession, the nation averaged a relatively anemic real GDP growth of 2.3 percent, although a strong showing at year-end 1992 was a promising sign for the future. In contrast, quarterly growth ranged from 4 to 11 percent following the 1981-82 recession.

While the economy picked up speed over the course of 1992, national employment increased slowly, moving up in the first half but gradually declining in the second. Like the nation, the Midwest has performed somewhat lethargically in terms of job creation. According to preliminary data, the region has increased employment by about 130,000, or an increase of 0.8 percent from the trough of the recession, only slightly better than the national increase of 0.5 percent representing some 500,000 jobs. (Revised employment data for the District states indicate an even higher increase of 1.3 percent, but comparable data for the nation will not be released until mid-1993.) Still this performance, while not as strong as might be hoped, is a vast improvement compared to the region's more typical pattern of deep recession and partial recovery.

The relatively weak employment growth in the nation and the region may reflect gains in productivity, which, by definition, mean doing more with less. Over time, productivity gains will boost real wages and living standards. In the short run, however, improved productivity involves difficult adjustments.

These adjustments were evident in the national economy during 1992: employment grew slowly, but productivity improved significantly, registering the largest annual increase in 20 years. This development may be due to a number of factors such as aggressive cost cutting, increased use of overtime and temporary workers, and the availability of new computing and communication technologies.

In the Midwest, the subdued recovery also may be attributable in part to the more diversified regional economy. With less dependence on cyclically sensitive industries, recessions are not as devastating but recoveries are not as buoyant. Thus, the more diversified and competitive regional economy has been a stabilizing force in the national economy in recent years, a new role that is infinitely preferable to the wild gyrations of the early 1980s.

Journey's End?

While the outlook is more promising, the Midwest faces formidable challenges. Manufacturing will remain the core of the Midwest economy. While more diversified, the region will continue to have a high percentage of cyclical industries that are subject to the swings of the national economy.

A major factor will be the domestic auto industry, which still is in the painful process of improving its competitiveness. Although it appears that production will pick up in early 1993, the restructuring effort in the auto industry likely will continue during the first half of the 1990s, slowing the growth of manufacturing jobs. Additionally, exports—a source of strength in recent years—are expected to rise slowly in the short term due to slowing economies abroad.

Nonetheless, the region fared somewhat better than the rest of the nation during the recession and recovery, a significant improvement compared with the 1981-82 recession. The Midwest's improved performance indicates that its basic industries are working their way back to world-wide competitiveness, a promising development that should have a strong ripple effect on the regional economy. While not at journey's end, the Midwest has made great strides in surviving, and even thriving, in a brave new world.

THE FEDERAL RESERVE BANK OF CHICAGO WORKED IN 1992
TO HELP GUIDE AND SHAPE EVENTS IN A BRAVE NEW WORLD, CARRYING OUT
ITS RESPONSIBILITIES IN A CONTINUALLY
CHANGING ENVIRONMENT.



THE BANK IN 1992:

*Providing Leadership in
a Brave New World*

The rapidly changing economic and financial landscape poses an array of exciting challenges for the Federal Reserve Bank of Chicago. As the following selection from the Bank's 1992 efforts and initiatives illustrates, the Bank strives, in turn, to lead the way as it travels across that interesting terrain.

SUPERVISORY FOCUS ON REDUCING FINANCIAL SYSTEM RISK

Increasing competition and innovation within the financial services industry clearly produce benefits but also raise the specter of greater risk. In order to help foster financial stability within this increasingly turbulent environment, the Bank's supervision and regulation staff

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placed increased emphasis on risk avoidance by enhancing its analytical activities and techniques. Staff members continued to hone their special expertise on the derivative markets and asset securitization, serving as a System resource on these topics. The effort to "stay ahead of the curve" of industry developments was also reflected in a program of ongoing monitoring of key financial services firms and markets as well as increased emphasis on staff development programs.

Complementing risk avoidance activities, risk identification remained a major thrust. In addition to meeting the demands of the Bank's substantial workload of examinations, inspections and regulatory applications—among the heaviest in the System—department staff maintained close communications with individual institutions supervised and stayed abreast of emerging trends and issues. This effort was enhanced by the continued use of an "examiner responsible" approach, in which an examiner or team of examiners has ongoing responsibility for an institution.

NEW REGULATORY DEMANDS MET

Recent legislative initiatives have posed challenges for the regulated and regulator alike. The numerous provisions of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) covered a broad range of issues—Truth-in-Savings, discount window administration, bank capital requirements, prompt corrective action, real estate lending standards, and foreign bank supervision, to name but a few. Each provision translated into a number of tasks at the Reserve Bank level, including staffing and training, interpretation and communication of new rules to depository institutions, and implementation of new responsibilities. In the area of foreign bank supervision alone, the Bank's examination activity doubled in 1992.

At the same time, the Bank continued to assist institutions in meeting other regulatory requirements. Educational efforts related to community reinvestment opportunities and the development of training materials on new daylight overdraft rules for System-wide use were two examples of such initiatives.

RESEARCH EFFORTS DESIGNED TO PROVIDE POLICY LEADERSHIP

Analyzing the underlying relationships that drive our very dynamic economy has never been an easy task. In the current environment, with the accelerating pace of change transforming our nation's basic economic and financial structures and an economic recovery unlike any previous experience, this challenge has intensified. Against this uncertain backdrop, the Bank's 1992 research efforts focused on issues that would aid the increasingly complicated task of developing appropriate System monetary and regulatory policies.

Regional research meant to shed light on the District's economic restructuring included projects through REAL, the Regional Economics Applications Laboratory established jointly by the Bank and the University of Illinois to use input/output models to predict regional economic activity. Other studies analyzed the effects of regulation and state and local government policies on economic activity, while a number of efforts, such as research on NAFTA, actually looked far beyond the District's borders. Also paralleling the District economy's increasingly global linkages, the Bank worked with a variety of bi-national groups, taking an active role in the establishment and work of the Council of Great Lakes Industries and cosponsoring a conference, *Shaping the Great Lakes Economy*, with the Great Lakes Commission.

The restructuring of the economic and financial systems also shaped the monetary policy research agenda, and again the prime objective was to provide a sounder basis for policy formulation. Studies focused on three themes: explaining the links between credit markets, monetary policy, and economic growth; improving the identification of monetary policy's impact; and determining how changes taking place within various sectors of the economy alter policy's effectiveness.

Financial research similarly sought to focus on issues that would contribute significantly to designing effective regulatory policy in an increasingly complex environment. To keep pace with the ongoing evolution of the U.S. financial system and improve the assessment and control of financial system risk, studies looked at the impact of risk-based capital requirements on bank growth, the role of moral hazard in

the thrift industry, and the effect of margins on volatility in the futures markets. The Bank's 28th annual Conference on Bank Structure and Competition, entitled *Credit Markets in Transition*, provided a forum for leading analysts from academia, government, and the industry to discuss these and other issues transforming our financial system.

EXPERTISE EXTENDED TO NEW DEMOCRACIES

The shrinking world and the rapid shift toward market-based economic systems placed a number of new and very exciting demands on the Chicago Reserve Bank in 1992. In each of the Bank's primary activities—economic research,

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bank supervision, and payments services—staff members were called upon to contribute their expertise toward the development of new economic and financial systems and structures in a variety of locations around the world. Working temporarily with the Treasury Department and other agencies, staff members assisted in a variety of efforts. Bank examiners

travelled to Hungary to assist that nation's central bank outline a bank regulatory framework, to the Republic of Georgia to participate in a review of central bank activities, to Tanzania to help develop an

examination process, and to Bulgaria to advise on-site bank examiners about credit review techniques. Similarly, assistance was provided to the Republic of Kyrgyzstan in applying economic modelling to help it in its transition from a planned to a market economy and to Hungarian officials attempting to develop a private payments system. The year also brought a surge of visitors from Eastern Europe and developing African and Asian nations into the Bank to gain insight into central bank and financial industry activities.

PROGRAMS EDUCATE TOMORROW'S LEADERS

While staff members provided their expertise at a variety of locations around the world, the Bank's economic education programs sought to share information with future economic and financial leaders at home. Efforts aimed at teachers and classrooms included more than 30 workshops and seminars conducted by Bank staff to help educators present economic concepts and issues to their students. The Bank's second annual District-wide economic education conference, entitled *Growth and Change in the Midwest Economy*, was held and conference materials were published in a format that provided teachers across the District with classroom-ready materials. A variety of other teaching aids were produced including a school calendar featuring award-winning children's drawings depicting economic concepts. Bank staff also continued its active participation on a System team developing a new video-based classroom teaching package to broaden understanding about money, banking, and the Federal Reserve.



ELECTRONICS USED TO STREAMLINE BANK REPORTING

The pace of change transforming the economic and financial environment intensifies the Bank's and System's need for timely and accurate data from District financial institutions. At the same time, the Bank has sought, where possible and within its power, to minimize and even reduce the regulatory burdens confronting institutions today. Against this background, the Bank implemented the Fedline facility enabling District depository institutions to electronically submit the weekly report of deposits. From the point of initial testing with depository institutions early in 1992, the Bank was able to convert 311 institutions to electronic transmission of their weekly deposit reports, which are used as the basis for the Federal Reserve's measures of the nation's money supply as well as calculation of reserve requirements. By year-end three bank holding company reports also were made available for electronic submission.

PROGRESS TOWARD ELECTRONIC PAYMENTS FOSTERED

Harnessing technology's potential has been a key strategy of the Chicago Reserve Bank for meeting its broader goal of enhancing the efficiency of the payments system. In each area of financial services provided to District depository institutions, the Bank has placed an emphasis on electronic, information-based products.

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The most visible effort has been related to the Federal Reserve's all-electronic ACH (automated clearing-house) initiative. To meet the mid-1993 target date, 575 District institutions were connected electronically to the

Chicago Reserve Bank in 1992—the largest total in the System for the second year in a row, bringing total connections to 1,372. With only a handful of institutions remaining to be converted, the Bank fully expects to meet its deadline, and now has more customers accessing services electronically than any other Reserve Bank. With this progress in electronic access, the Bank was able to reduce the off-line or manual volume of funds transfer traffic by more than one-third during 1992. In addition, the Bank now has more institutions submitting savings bond orders electronically than any other district, a major goal in the Regional Delivery System project.

Electronic products were also emphasized in providing paper-based check services. Efforts were directed at expanding usage of the Bank's innovative electronic cash letter service and MICR transmissions, and at offering increasingly flexible payor bank services. In addition to payments transactions, customers also benefitted by receiving and sending more timely information through the use of products such as electronically transmitted accounting and billing statements, Treasury Tax & Loan notification, and large-dollar check notification.

SECURE, RELIABLE PAYMENTS SYSTEM STRENGTHENED

The huge volume of transactions, their enormous dollar value, the terrific speed at which they move, and their global reach, all heighten the potential risk and ramifications of any, even minor, glitch in the payments network. Therefore, the Bank continued to emphasize controls, contingency planning, data security, and reliability, an effort that included an increased focus on these issues in communications to staff both within the Bank and at depository institutions District-wide. An indication of the success of this effort is the fact that the Bank met or exceeded every target set for the availability of its electronic payments systems during 1992, achieving the highest level of availability in the Federal Reserve System.

COMPETITION SPURS HIGHER QUALITY, LOWER COST SERVICES

Against the backdrop of financial industry consolidation, the Federal Reserve, like many business organizations, confronts weakened demand for its services and greater competition. In turn, the Fed finds it increasingly difficult to meet the legislative mandate that service revenues match costs, a test designed to assure that Federal Reserve services contribute to improved payments system efficiency.

To meet this challenge, the Bank has focused on enhancing services while simultaneously reducing costs. Specifically during 1992, the Bank offered new RCPC group sort check services, expanded its innovative service of intermingling check returns with forward collection items, installed voice response lines in the ACH and Treasury Tax & Loan customer service areas, and simplified procedures and forms in the check adjustment function, an area which also was a System leader in introducing



optical disk storage to enhance efficiency. Indicating that the efficiency and service enhancement efforts were successful, the Des Moines Office for the fourth consecutive year led the System in check productivity, and the Bank again fully recovered the costs of providing financial services.

GROUNDWORK LAID FOR TOMORROW'S COMMUNICATIONS NETWORK

For the past few years, the Federal Reserve has been working toward the development of a new communications network that will serve its needs well into the next century, replacing the current system developed and managed by the Chicago Reserve Bank. By taking

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advantage of the latest available technology, FEDNET will enhance network efficiency, speed, and capacity, enabling the Federal Reserve System to move ever increasing flows of transactions and other information, and to provide better and lower cost services to depository institutions and the Treasury.

During 1992, the Chicago Reserve Bank's Network Management

Control Center was appointed to develop and manage the new network—the same role it has played with the System network now in place—and staff embarked on the critical process of recruiting, selecting, and contracting the various vendors who will best meet the increasingly demanding communications needs of the entire Federal Reserve System for years to come.

SYSTEM LEADERSHIP ROLE ADVANCED

Managing the System's network operations is only one example of Bank activities meant to keep it in the forefront of System affairs and thereby the changing financial world. Bank management places heavy emphasis on assuring broad staff involvement in leading System committees, task forces, and other groups that provide important direction and coordination for Systemwide activities.

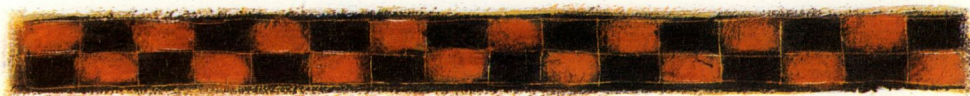
Indicative of the Bank's emphasis on playing a leadership role within the System is its operation of the Federal Reserve System Securities Product Office, which is guiding Fed securities activities through an important period of innovation and change in line with the changing needs and operations of the marketplace. Similarly, Bank staff members play an integral part in virtually every System group that has been established to deal with the vast array of issues the Federal Reserve confronts in carrying out its multi-faceted activities.



**WORK FORCE INITIATIVES TO MEET
TOMORROW'S CHALLENGES**

A variety of Bank efforts in 1992 were directed at assuring that the changing Bank work force will continue to meet the challenges of the evolving environment. New formal training programs and informal briefing sessions were implemented to keep employees current on emerging issues and expand their skill and knowledge base. Other programs were introduced to help bridge work/family issues, including the Bank's first Kid's Day event for employees' children. Most significant, perhaps, was the corporate philosophy project,

initiated by a team participating in the Bank's management development program, and, therefore, representing the Bank's future leadership. By helping to articulate the Bank's core values—*integrity, respect, responsibility, excellence*—in a simple and precise statement of philosophy, the group provided the entire Bank family with a meaningful set of guideposts that will help the organization steer a steady course as it continues its journey through the brave new world.



OPERATIONS VOLUMES

	<i>dollar amount</i>		<i>number of items</i>	
	1992	1991	1992	1991
CHECK & ELECTRONIC PAYMENTS				
Checks, NOWs, & share drafts processed	1.2 trillion	1.0 trillion	1.9 billion	1.9 billion
Fine sort & packaged checks handled	261.6 billion	321.3 billion	620.7 million	598.9 million
U.S. government checks processed	50.8 billion	51.8 billion	52.8 million	54.4 million
Automated Clearinghouse (ACH) items processed	2.3 trillion	1.8 trillion	513.6 million	396.4 million
Transfers of funds	32.8 trillion	32.3 trillion	13.0 million	12.4 million
CASH OPERATIONS				
Currency received & counted	27.9 billion	25.5 billion	2.2 billion	1.9 billion
Unfit currency destroyed	7.5 billion	6.0 billion	733.9 million	542.4 million
Coin received & counted	691.9 million	722.1 million	5.9 billion	5.6 billion
SECURITIES SERVICES FOR DEPOSITORY INSTITUTIONS				
<i>Safekeeping balance December 31:</i>				
Definitive securities	6.3 billion	6.8 billion	145.4 thous.	232.2 thous.
Book-entry securities	360.0 billion	313.8 billion	—	—
Purchase & sale	3.1 billion	2.9 billion	11.8 thous.	14.9 thous.
Collection of securities & other noncash items	0.7 billion	1.0 billion	119.8 thous.	171.5 thous.
LOANS TO DEPOSITORY INSTITUTIONS				
Total loans made during year	1.7 billion	2.2 billion	870	967
SERVICES TO U.S. TREASURY AND GOVERNMENT AGENCIES				
<i>Issues, redemptions & exchanges:</i>				
U.S. savings bonds	3.8 billion	1.5 billion	8.5 million	4.2 million
Definitive government securities	0.4 billion	0.4 billion	9.2 thous.	11.5 thous.
Book-entry government securities	4.4 trillion	4.5 trillion	1.1 million	1.4 million
Government coupons paid	91.0 million	150.0 million	59.3 thous.	65.9 thous.
Federal tax deposits processed	142.7 billion	120.8 billion	884.4 thous.	785.5 thous.
Food stamps redeemed	2.4 billion	2.1 billion	473.0 million	416.1 million

STATEMENT OF CONDITION

Year-to-year changes in Reserve Bank assets and liabilities largely reflect general economic developments and System monetary policy actions. By purchasing securities in the open market and making loans to depository institutions, the Federal Reserve increases reserves, providing a base for monetary expansion in accord with the national economy's growth needs. In 1992, deposits of District institutions including clearing balances rose although reserve requirements were lowered. The overall decline in the Bank's total assets and currency outstanding reflected day-to-day interdistrict fluctuations.

	12/31/92	12/31/91
ASSETS		
Gold certificate account	\$ 1,270,000,000	\$ 1,370,000,000
Interdistrict settlement account	(3,443,626,096)	236,606,858
Special drawing rights certificate account	1,036,000,000	1,336,000,000
Coin	29,757,418	52,728,683
<i>Loans and securities:</i>		
Loans	1,950,000	13,355,000
Federal agency securities	670,355,724	759,533,872
U.S. government securities	36,537,178,964	33,485,862,167
<i>Total loans and securities</i>	<u>37,209,484,688</u>	<u>34,258,751,039</u>
Items in process of collection	922,908,474	798,721,907
Bank premises	112,034,234	111,506,497
Other assets	3,380,201,671	4,018,997,160
Total assets	\$ 40,516,760,389	\$ 42,183,312,144
LIABILITIES		
Federal Reserve notes	\$ 35,484,730,443	\$ 37,207,220,663
<i>Deposits:</i>		
Depository institutions	3,422,357,347	3,101,621,157
U.S. Treasury—general account	0	0
Foreign, official accounts	16,819,000	18,570,000
Other	49,357,129	211,361,989
<i>Total deposits</i>	<u>3,488,533,476</u>	<u>3,331,553,146</u>
Deferred credit items	620,709,248	702,095,487
Other liabilities	230,600,822	300,713,748
<i>Total liabilities</i>	<u>\$ 39,824,573,989</u>	<u>\$ 41,541,583,044</u>
CAPITAL ACCOUNTS		
Capital paid in	\$ 346,093,200	\$ 320,864,550
Surplus	346,093,200	320,864,550
<i>Total capital</i>	<u>\$ 692,186,400</u>	<u>\$ 641,729,100</u>
Total liabilities and capital	\$ 40,516,760,389	\$ 42,183,312,144



STATEMENT OF INCOME

A Reserve Bank's income is largely a by-product of monetary policy rather than the pursuit of profit. Most of the Bank's income is interest on its share of the System's Open Market Account portfolio of securities, and, appropriately, the vast majority of this income is turned over to the U.S. Treasury each year. Compared to 1991, current income declined as a result of lower market interest rates as well as a net loss on System foreign exchange transactions conducted for currency stabilization purposes. Operating expenses rose modestly, largely reflecting increased supervisory responsibilities mandated by legislation.

	1992	1991
CURRENT INCOME		
Interest on loans	\$ 403,053	\$ 945,379
Interest on government securities	2,145,434,724	2,383,565,534
Interest on investments of foreign currencies	257,123,513	309,683,301
Service fees	99,463,226	95,097,878
All other	952,994	2,198,281
<i>Total current income</i>	<u>\$ 2,503,377,510</u>	<u>\$ 2,791,490,373</u>
CURRENT EXPENSES		
Operating expenses	\$ 176,999,479	\$ 170,414,496
Other current expenses	28,964,791	29,503,710
<i>Total current expenses</i>	<u>205,964,270</u>	<u>199,918,206</u>
Less reimbursement for certain fiscal agency and other expenses	19,557,478	15,949,065
<i>Current net expenses</i>	<u>\$ 186,406,792</u>	<u>\$ 183,969,141</u>
<i>Current net income</i>	<u>\$ 2,316,970,718</u>	<u>\$ 2,607,521,232</u>
ADDITIONS TO (OR DEDUCTIONS FROM) CURRENT NET INCOME		
Net profit (or loss) on sales of securities	\$ 15,087,036	\$ 16,210,524
Net profit (or loss) on foreign exchange transactions	(130,523,858)	46,416,592
Assessment for Board of Governors expenditures	(15,443,600)	(13,527,400)
Cost of Federal Reserve currency	(33,248,750)	(35,192,869)
All other—net	(3,272,441)	(9,554,577)
<i>Net additions (or deductions)</i>	<u>\$ (167,401,613)</u>	<u>\$ 4,352,270</u>
Net income available for distribution	\$ 2,149,569,105	\$ 2,611,873,502
DISTRIBUTION OF NET INCOME		
Dividends paid	\$ 19,888,623	\$ 18,583,288
Payments to U.S. Treasury (as interest on Federal Reserve notes)	2,104,451,832	2,572,456,564
Transferred to surplus	25,228,650	20,833,650
Total income distributed	\$ 2,149,569,105	\$ 2,611,873,502

DIRECTORS AND ADVISORY COUNCILS

Reserve Bank directors have a general governance responsibility for the management of operations, approving budgets, expenditures, and official appointments. In addition, directors provide advice and counsel to the Reserve Bank president on the state of the economy and financial system. Reserve Bank directors also determine, subject to review by the Board of Governors, the Bank's discount rate. To carry out these diverse duties, the Chicago Reserve Bank and Detroit Branch directors are selected to represent various activities within the District and provide a broad range of expertise and experience.

The Federal Advisory Council, consisting of one representative from each District, meets quarterly with the Board of Governors to discuss economic conditions. The Chicago Reserve Bank's advisory councils on small business and agriculture provide a vital communication link between the Bank and these important economic sectors.

BOARD OF DIRECTORS FEDERAL RESERVE BANK OF CHICAGO

CHAIRMAN

Richard G. Cline
Chairman, President,
and Chief Executive Officer
NICOR Inc.
Naperville, Illinois

DEPUTY CHAIRMAN

Robert M. Healey
President
Chicago Federation of Labor
and Industrial Union Council
AFL-CIO
Chicago, Illinois

Stefan S. Anderson
Chairman, President,
and Chief Executive Officer
First Merchants Corporation
Muncie, Indiana

B.F. Backlund
Chairman and
Chief Executive Officer
Bartonville Bank
Bartonville, Illinois

Duane L. Burnham
Chairman and
Chief Executive Officer
Abbott Laboratories
Abbott Park, Illinois

Thomas C. Dorr
President and
Chief Executive Officer
Dorr's Pine Grove
Farm Company
Marcus, Iowa

David W. Fox
Chairman, President,
and Chief Executive Officer
Northern Trust Corporation
Chicago, Illinois

Paul J. Schierl
Financial Consultant
Green Bay, Wisconsin

A. Charlene Sullivan
Associate Professor
of Management
Krannert Graduate School
of Management
Purdue University
West Lafayette, Indiana



1992 Board of Directors, Federal Reserve Bank of Chicago, from left to right: Stefan Anderson, Thomas Dorr, Duane Burnham, David Fox, Paul Schierl, A. Charlene Sullivan, B.F. Backlund, Richard Cline, and Robert Healey.

**BOARD OF DIRECTORS
DETROIT BRANCH**

CHAIRMAN

J. Michael Moore
Chairman and
Chief Executive Officer
Invetech Company
Detroit, Michigan

Charles E. Allen
President and
Chief Executive Officer
Graimark Realty Advisors, Inc.
Detroit, Michigan

Beverly Beltaire
President
P.R. Associates, Inc.
Detroit, Michigan

John D. Forsyth
Executive Director
University of Michigan
Hospitals
Ann Arbor, Michigan

William E. Odom
Chairman
Ford Motor Credit Company
Dearborn, Michigan

Norman F. Rodgers
President and
Chief Executive Officer
Hillsdale County
National Bank
Hillsdale, Michigan

Daniel R. Smith
Chairman and
Chief Executive Officer
First of America Bank
Corporation
Kalamazoo, Michigan

**FEDERAL ADVISORY
COUNCIL REPRESENTATIVE**

Eugene A. Miller
President and
Chief Operating Officer
Comerica Incorporated
Detroit, Michigan

**ADVISORY COUNCIL
ON AGRICULTURE**

Glen Balbach
Warren, Illinois
Wisconsin Milk Marketing
Board

Leland E. Behnken
Altona, Illinois
Illinois Corn Growers
Association

Marion L. Butler
Blandinsville, Illinois
Illinois Beef Association

Jon D. Caspers
Swaledale, Iowa
Iowa Pork Producers
Association

Richard E. Leach
Saginaw, Michigan
Michigan Farm Bureau

Barry A. Mumby
Fulton, Michigan
Michigan Soybean
Association

Merlin D. Plagge
West Des Moines, Iowa
Iowa Farm Bureau

Kenneth G. Stremlau
Mendota, Illinois
National Farmers
Organization

Scott E. VanderVeen
Clinton, Wisconsin
Wisconsin Pork Producers

Jerry L. Vandever
Frankenmuth, Michigan
Michigan Agri-Business
Association

Donald B. Villwock
Indianapolis, Indiana
Member-at-Large

Peter J. Wenstrand
Essex, Iowa
Iowa Corn Growers
Association

**ADVISORY COUNCIL
ON SMALL BUSINESS**

Phyllis L. Apelbaum
Chicago, Illinois
National Association of
Women Business Owners-
Chicago Chapter

Fernando Chavarria
Rolling Meadows, Illinois
U.S. Hispanic Chamber
of Commerce

Noelle A. Clark
Lansing, Michigan
National Federation of
Independent Business-
Michigan

Susan E. Funk
Detroit, Michigan
National Association of
Women Business Owners-
Michigan Chapter

J. Paul Jordan
Milwaukee, Wisconsin
Milwaukee Minority
Chamber of Commerce

Susan M. Larson
Chicago, Illinois
National Association of
Women Business Owners-
Illinois Chapter

Eleanore A. Levy
West Des Moines, Iowa
National Association of
Women Business Owners-
Iowa Chapter

D. Larry Sherman
Birmingham, Michigan
Michigan Retailers Association

Toby B. Shine
Spencer, Iowa
Iowa Association of Business
and Industry

Robert J. Stevens
Columbus, Indiana
Member-at-Large

Jude M. Werra
Brookfield, Wisconsin
Wisconsin Manufacturers
and Commerce



1992 Board of Directors, Detroit Branch, from left to right: Norman Rodgers, Daniel Smith, William Odom, John Forsyth, Beverly Beltaire, Charles Allen, and J. Michael Moore.

OFFICERS

Appointments to and promotions within the Federal Reserve Bank's official staff are made by the Bank's board of directors. The board appoints the Bank's president (chief executive officer) and first vice president (chief operating officer) to five-year terms, subject to approval by the Board of Governors.

The primary activities of the Chicago Reserve Bank are divided into eight functional areas, overseen by senior vice presidents who report to the Bank's president and first vice president. An additional function, the Auditing Department, reports directly to the board of directors' Audit Committee. The Bank's senior officers together form the Management Committee and determine the Chicago Reserve Bank's strategic direction.

Silas Keehn
President

William C. Conrad
First Vice President

**CENTRAL BANK
ACTIVITIES**
ECONOMIC RESEARCH
AND INFORMATION SERVICES

Karl A. Scheld
Senior Vice President
and Director of Research

ECONOMIC RESEARCH
David R. Allardice
Vice President and Assistant
Director of Research

Gary L. Benjamin
Economic Adviser
and Vice President

Larry R. Mote
Economic Adviser
and Vice President

Steven H. Strongin
Economic Adviser
and Vice President

Herbert L. Baer, Jr.
Senior Economist and
Assistant Vice President

Anne Marie L. Goczny
Senior Economist and
Assistant Vice President

Robert H. Schnorbus
Senior Business Economist
and Research Officer

William A. Testa
Senior Regional Economist
and Research Officer

INFORMATION SERVICES
Nancy M. Goodman
Vice President

STATISTICS
Jean L. Valerius
Vice President

SUPERVISION AND
REGULATION AND LOANS
Franklin D. Dreyer
Senior Vice President

SUPERVISION
AND REGULATION
Barbara D. Benson
Vice President

James A. Bluemle
Vice President

David S. Epstein
Vice President

Roderick L. Housenga
Vice President

Geoffrey C. Rosean
Vice President

A. Raymond Bacon
Assistant Vice President

William A. Barouski
Assistant Vice President



Federal Reserve Bank of Chicago Management Committee, from left to right: Silas Keehn, Richard Anstee, William Conrad, Karl Scheld, William Gram, George Coe, Charles Furbee, Jerome John, Roby Sloan, Franklin Dreyer, Carl Vander Willt.

SERVICES TO DEPOSITORY INSTITUTIONS

OPERATIONS AND CHECK SERVICES

Charles W. Furbee
Senior Vice President

CASH AND FISCAL AGENCY
William A. Bonifield
Vice President

Jerome D. Nicolas
Assistant Vice President

Lawrence J. Powaga
Assistant Vice President

Guadalupe Garcia
Operations Officer

CHECK SERVICES

David R. Starin
Vice President

Diane S. Noble
Assistant Vice President

OPERATIONS ADMINISTRATION
Angelina S. Chin
Assistant Vice President

Erich R. Mueller
Operations Officer

ELECTRONIC SERVICES

Wayne R. Baxter
Vice President

Stephen M. Pill
Vice President and
Data Security Officer

James M. Rudny
Assistant Vice President

Charles L. Schultz
Assistant Vice President

Kathleen H. Williams
Assistant Vice President

SUPPORT FUNCTIONS

AUTOMATION AND COMMUNICATIONS SERVICES

George E. Coe
Senior Vice President

AUTOMATION SUPPORT
R. Steve Crain
Assistant Vice President

Brenda D. Ladipo
Assistant Vice President

Frank S. McKenna
Assistant Vice President

Karen L. Rosenberg
Assistant Vice President

NETWORK MANAGEMENT CONTROL CENTER

Thomas M. Matsumoto
Assistant Vice President

David E. Ritter
Assistant Vice President

Robert J. Sandusky
Systems Officer

FINANCIAL AND MANAGEMENT SERVICES

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

ACCOUNTING SERVICES

Richard P. Bush
Vice President

Maria Semedalas
Accounting Officer

BANKING SERVICES

Glen Brooks
Vice President

Theodore E. Downing, Jr.
Assistant Vice President

MANAGEMENT SERVICES

Glenn C. Hansen
Vice President

Margaret A. Koenigs
Assistant Vice President

Jeffrey B. Marcus
Assistant Vice President

OFFICE OF THE GENERAL AUDITOR

Jerome F. John
General Auditor

Robert M. Casey
Assistant General Auditor

OFFICE OF THE GENERAL COUNSEL

William H. Gram
Senior Vice President, General
Counsel, and Secretary

LEGAL SERVICES

Elizabeth A. Knospe
Assistant Vice President and
Assistant General Counsel

Yurii Skorin
Assistant Vice President and
Assistant General Counsel

Anna M. Voytovich
Assistant Counsel

OFFICE OF THE BANK SECRETARIAT

Joan M. De Rycke
Assistant Vice President and
Assistant Secretary

SUPPORT SERVICES

Richard P. Anstee
Senior Vice President

ADMINISTRATIVE AND GENERAL SERVICES

Robert D. Lauson
Vice President

Kenneth R. Berg
Assistant Vice President

Kristi L. Zimmermann
Assistant Vice President

Tyler K. Smith
Operations Officer

CHECK ADJUSTMENT

Richard F. Opalinski
Assistant Vice President

HUMAN RESOURCE SERVICES

Thomas G. Ciesielski
Vice President

Sheryn E. Bormann
Assistant Vice President

Angela D. Robinson
Personnel Officer

FEDERAL RESERVE SYSTEM SECURITIES PRODUCT OFFICE

Dara L. Hunt
Assistant Vice President and
Securities Product Manager

DISTRICT OFFICES

DETROIT BRANCH

Roby L. Sloan
Senior Vice President and
Branch Manager

Frederick S. Dominick
Vice President and Assistant
Branch Manager

Patrick A. Garrean
Assistant Vice President

Yvonne H. Montgomery
Assistant Vice President

Joseph R. O'Connor
Assistant Vice President

Richard L. Simms, Jr.
Assistant Vice President

F. Alan Wells
Assistant Vice President

REGIONAL OFFICES

DES MOINES

L. Edward Ketchmark
Assistant Vice President

INDIANAPOLIS

Donna M. Yates
Assistant Vice President

MILWAUKEE

Anthony J. Tempelman
Assistant Vice President

Robert A. Bechaz
Assistant Vice President

John L. Bergstrom
Assistant Vice President

George M. Gregorash
Assistant Vice President

Douglas J. Kasl
Assistant Vice President

William H. Lossie, Jr.
Assistant Vice President

Patrick J. Tracy
Assistant Vice President

Barbara A. Van Den Bossche
Assistant Vice President

Gay Whiting
Assistant Vice President

Alicia Williams
Assistant Vice President

Kathleen E. Benson
Examining Officer

Betty P. Chow
Staff Development Officer

Maureen A. Cummings
Information Processing Officer

Michael R. Jarrell
Examining Officer

Barbara T. Kavanagh
Financial Markets Officer

John M. Montgomery
Examining Officer

James A. Nelson
Applications Officer

John A. Valenti
Information Support Officer

Daniel L. Westrope
Examining Officer

LOANS AND RESERVES

Gerard J. Nick
Vice President

William J. O'Connor
Assistant Vice President



EXECUTIVE CHANGES

DIRECTORS

Members of the Federal Reserve Bank of Chicago's board of directors are selected to represent a cross section of the Seventh District economy including consumers, industry, agriculture, services, labor, and varying sizes of commercial banks. The nine-member board includes three bankers and three nonbankers elected by member banks. Three additional nonbankers are appointed by the Board of Governors in Washington, D.C. The board's chairman and deputy chairman are designated by the Board of Governors from among its three appointees.

Similarly, the Board of Governors selects three nonbankers to serve on the seven-member board of the Bank's Detroit Branch. Four additional directors are selected by the Chicago Reserve Bank board. The Branch board selects its own chairman each year. 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 1992 were:

- ~ Richard G. Cline designated Chairman.
- ~ Robert M. Healey designated Deputy Chairman.
- ~ Stefan S. Anderson and Thomas C. Dorr elected directors.
- ~ Duane L. Burnham appointed director.
- ~ J. Michael Moore designated Branch Chairman.
- ~ John D. Forsyth and Daniel R. Smith appointed Branch directors.

At year-end 1992, the following appointments and elections to terms beginning in 1993 were announced:

- ~ Richard G. Cline redesignated Chairman and appointed to a second three-year term as a director.
- ~ Robert M. Healey redesignated Deputy Chairman.
- ~ Arnold C. Schultz (Chairman and President, GNB Bancorporation, Grundy Center, Iowa) and Donald J. Schneider (President, Schneider National, Inc., Green Bay, Wisconsin) elected directors, replacing B. F. Backlund and Paul J. Schierl, who each completed six years of service on the board.
- ~ J. Michael Moore redesignated Branch Chairman and appointed to a second three-year term as a Branch director.
- ~ Norman F. Rodgers appointed to a second three-year term as a Branch director.

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 member from each of the 12 Federal Reserve Districts. Each year the Chicago Reserve Bank's board of directors selects a representative to this group. Eugene A. Miller served as the Seventh District's representative in 1992 and was reappointed by the Chicago board for 1993.

Members of the Bank's two advisory councils, who are selected from nominations by Seventh District small business and agricultural organizations, served the second year of their terms in 1992. The councils provide a vital communication link between the Bank and these important sectors.

OFFICERS

In 1992, the Bank's First Vice President, Daniel M. Doyle, retired after providing 36 years of distinguished service to the Bank, including 17 years as First Vice President.

Appointed to the First Vice President post was William C. Conrad, who has been with the Bank for 33 years and, prior to assuming his current responsibilities, was Senior Vice President in charge of Electronic and Automation Services. Mr. Conrad also served previously as Senior Vice President and Manager of the Bank's Detroit Branch.

The Bank's board of directors also acted on the following promotions within the official staff during 1992:

- ~ George E. Coe to Senior Vice President in charge of Automation and Communications Services.
- ~ A. Raymond Bacon to Assistant Vice President, Supervision and Regulation.
- ~ William A. Barouski to Assistant Vice President, Supervision and Regulation.
- ~ Robert A. Bechaz to Assistant Vice President, Supervision and Regulation.
- ~ Dara L. Hunt to Assistant Vice President, Federal Reserve System Securities Product Office.
- ~ Elizabeth A. Knospe to Assistant Vice President and Assistant General Counsel, Legal Services.
- ~ Jeffrey B. Marcus to Assistant Vice President, Management Services.
- ~ Barbara A. Van Den Bossche to Assistant Vice President, Supervision and Regulation.
- ~ Gay Whiting to Assistant Vice President, Supervision and Regulation.
- ~ Kathleen H. Williams to Assistant Vice President, Electronic Services.

New officers appointed by the board in 1992 were:

- ~ Robert M. Casey to Assistant General Auditor, Auditing.
- ~ Michael R. Jarrell to Examining Officer, Supervision and Regulation.
- ~ Barbara T. Kavanagh to Financial Markets Officer, Supervision and Regulation.
- ~ James A. Nelson to Applications Officer, Supervision and Regulation.
- ~ Angela D. Robinson to Personnel Officer, Human Resource Services.
- ~ Robert J. Sandusky to Systems Officer, Automation Services.
- ~ Maria Semedallas to Accounting Officer, Accounting Services.
- ~ Daniel L. Westrope to Examining Officer, Supervision and Regulation.

HEAD OFFICE

230 South La Salle Street
P.O. Box 834
Chicago, Illinois 60690-0834

DETROIT BRANCH

160 West Fort Street
P.O. Box 1059
Detroit, Michigan 48231-1059

DES MOINES OFFICE

616 Tenth Street
P.O. Box 1903
Des Moines, Iowa 50306-1903

INDIANAPOLIS OFFICE

8311 North Perimeter Road
P.O. Box 2020 B
Indianapolis, Indiana 46206-2020

MILWAUKEE OFFICE

304 East State Street
P.O. Box 361
Milwaukee, Wisconsin 53201-0361

FEDERAL RESERVE BANK
OF CHICAGO

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at 312-322-5111.*