



## President's Letter

The economy entered 2020 on a solid footing, with growth near potential, low unemployment, and low but firming inflation trends. The Covid-19 pandemic and the efforts taken to contain its spread quickly upended this favorable setting, taking a heavy toll on the lives and livelihoods of many of our neighbors, friends and coworkers.

Public health mandated shutdowns and individuals' voluntary changes in behavior resulted in a sharp drop in employment and economic activity last spring. The unemployment rate quickly soared to 14.8 percent in April from 3.5 percent earlier in the year and gross domestic product (GDP) plunged almost 32 percent (at an annual rate) in the second quarter. Large price decreases in some categories most directly affected by social distancing contributed to a steep decline in consumer inflation in March and April.

With the support of fiscal and monetary policy, the economy rebounded strongly in the summer as the most stringent restrictions were lifted, followed by more moderate growth in the fall as the snapback effect faded. The economy ended 2020 far from the robust levels we had prior to the pandemic. The U.S. economy shrank 2.5 percent over the year, and in December the unemployment rate stood at 6.7 percent. At only 1.5 percent for the 12 months ending in December, core inflation was far below our 2 percent objective, as it had been for quite some time.

## Monetary Policy

The Fed responded quickly to these major disruptions in the economy. In March, at the beginning of the crisis, the Federal Open Market Committee (FOMC) reduced the target range for the federal funds rate, our main policy rate, to 0 to 1/4 percent, which is effectively as low as it can be set. In addition, in order to address distress in crucial financial markets, the Fed conducted repurchase agreements and purchased large quantities of U.S. Treasury and agency mortgage-backed securities. We also activated special lending facilities to support the flow of credit to businesses, households, nonprofits, and state and local governments. Although some of the lending facilities have lapsed recently, we have kept the federal funds rate in the 0 to 1/4 percent range, and since last spring we have maintained a steady pace of U.S. Treasury and agency mortgage-backed asset purchases.

Another important development occurred in August when, following a lengthy review, the FOMC announced major revisions to its policy framework in its "2020 Statement on Longer-Run Goals and Monetary Policy Strategy." With respect to maximum employment, the new statement emphasized the broad-based and inclusive nature of this goal. With respect to price stability, we kept our previous inflation target of 2 percent, but we clarified its meaning and adjusted our strategy for achieving it. On this point, we stated that "to anchor longer-term inflation expectations at this level, the Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time."

Looking ahead, the path of the economy will depend significantly on the course of the virus, including progress on vaccinations. I am optimistic that as the virus comes under control, we can return to the more prosperous economic times we were experiencing before the pandemic. However, much remains uncertain as there are a number of risks and opportunities that could lead to somewhat better or worse economic performance. On balance, I expect continued support from monetary policy will be necessary for quite some time in order to achieve our dual mandate objectives.

**At the Federal Reserve Bank of Chicago (FRBC)**

Across the Bank at every level, work accelerated and shifted focus as the Fed calibrated the ways it supports the U.S. economy during this historic time. Despite the extraordinary conditions, Bank staff continued their day-to-day work in addition to conducting research and creating new initiatives to understand the stresses on our communities, support economic recovery efforts, and to maintain our financial services operations across the Fed’s Seventh District.

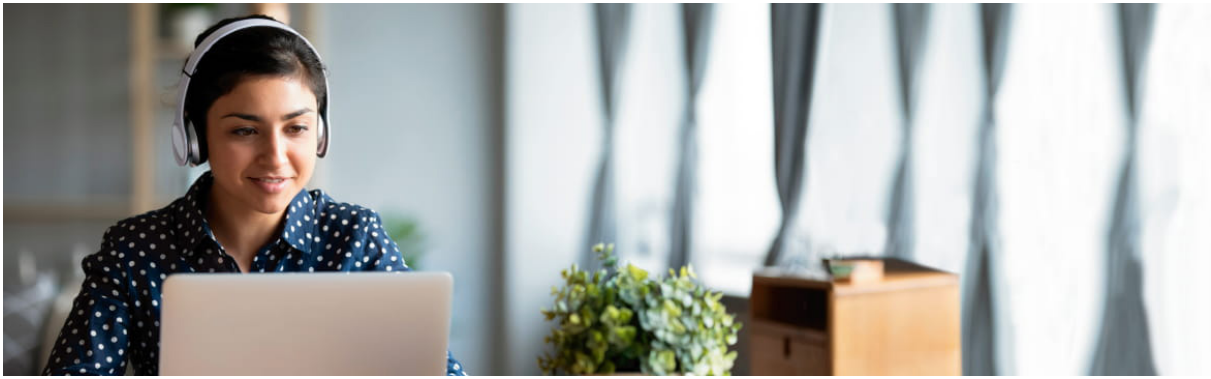
I invite you to learn more about the Bank’s response to the pandemic in the following sections.

Charles L. Evans  
President and Chief Executive Officer



**Administrative Services: Ensuring Safety and Security**

As Covid-19 swept our region, Administrative Services teams made major operational changes to support the critical mission of the Federal Reserve. Facilities Management implemented extensive safety measures to protect the health of on-site essential employees. Hospitality Services pivoted to support complex, virtual-only events, including successfully shifting the 20th Annual Chicago Payments Symposium into a new online format for 350 attendees across five continents. The Law Enforcement Unit kept the Bank and on-site staff safe and secure while carefully observing Covid-19 precautions.



## Information Technology: Providing Connectivity

Information Technology (IT) provided essential connectivity for the Bank's on-site services and remote workforce. IT staff supported Bank employees' increased use of collaboration tools, reconfigured networks to increase bandwidth for higher network traffic, and debuted Ship2Me, providing remote employees with the tools and technology they need to work from any location. Ship2Me fulfilled nearly 7,700 requests for equipment or supplies in 2020.

IT also supported ongoing talent recruitment efforts by the Bank's People & Culture Department with the establishment of Enhanced Employee On-boarding to virtually welcome new employees to the organization and support their engagement and productivity. IT co-sponsored the Future Leaders Conference, a virtual event that aims to grow the information technology talent pipeline and increase awareness of employment and internship opportunities available at the Bank.



## District Cash Services and Central Bank Services: Meeting Liquidity Demands

Cash Services essential workers responded to a significant surge in currency orders from Seventh District banks bracing for the economic impacts of Covid-19 and seeking to meet liquidity demands. Working together to take in deposits, process currency, and recirculate fit currency into the economy, Cash Services met three to four times our typical order demand while observing social distancing and other safety measures.

In response to the economic challenges of the Covid-19 crisis, the Board of Governors created the Paycheck Protection Program Liquidity Facility (PPPLF) to facilitate lending by eligible borrowers to small businesses under the Paycheck Protection Program of the CARES Act. The facility increased the effectiveness of the Small Business Administration's Paycheck Protection Program, which provided loans as direct incentives for small businesses to keep workers on their payrolls. FRBC Central Bank Services organized a cross-functional team of Bank staff that included Internal Audit, Finance, Research, Policy and Public Engagement (RPPE), and Supervision and Regulation (S&R) to ensure that Seventh District financial institutions would have the funds on hand needed to extend loans to small businesses.



## **Supervision and Regulation: Identifying Risks**

The Supervision and Regulation department (S&R) focused on critical operations and reprioritized efforts to ensure the safety and soundness of supervised institutions and related consumer financial protection. S&R provided resources, input, and leadership to pandemic-related Federal Reserve programs and functions both in the Bank and across the Federal Reserve System, including the Main Street Lending Program.

S&R also conducted elevated monitoring to understand the pandemic's impact and associated market volatility on small, regional, and large institutions' financial condition. S&R led System efforts to determine how to conduct bank supervision during the crisis and to plan for an eventual return to normal. Additionally, S&R conducted multiple rounds of enhanced supervisory stress testing that included a heightened focus on model performance testing and ongoing monitoring given rising credit stresses in the economic environment.



## **Customer Relations and Support Office – Payments Systems: Supporting Services**

As Federal Reserve financial services customers moved into their pandemic contingency arrangements, the Customer Relations and Support Office (CRSO) pivoted its customer engagement model to support emerging needs. CRSO staff provided contingency processes and reports to help customers manage their payments businesses and communicated critical information about economic impact payments and coin circulation disruptions.

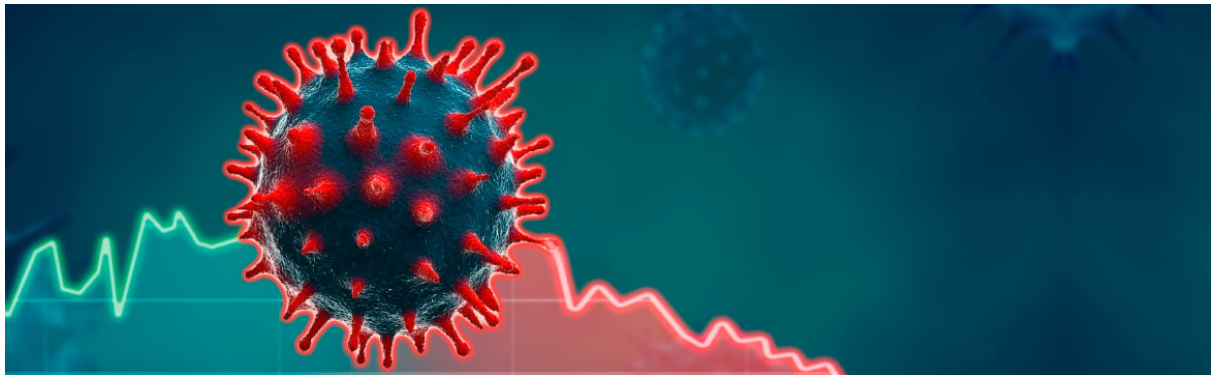
The CRSO helped the industry and customers prepare for the next generation of payment services: the future launch of the FedNow<sup>SM</sup> Service, a new instant payment service providing immediate settlement and funds availability. CRSO staff implemented market readiness plans and designed processes and tools to enable a seamless customer onboarding process. Additionally, the CRSO made significant progress toward evolving its FedLine<sup>®</sup> network to provide more resilient, secure, highly available, and timely access to Federal Reserve services, present and future.



## Research, Policy and Public Engagement: Engaging Communities

FRBC launched Project Hometown, a major research and community engagement initiative bringing together civic leaders, expert researchers, concerned residents, and Bank employees to examine how communities in the Seventh District can recover from the pandemic, overcome longstanding inequities, grow stronger, and provide all people with the opportunity to thrive.

Project Hometown convened 12 virtual public forums in Chicago, Detroit, Indianapolis, Milwaukee, Wisconsin Rapids and the state of Iowa that featured researchers and nonprofit, civic and business leaders. Panelists offered wide-ranging perspectives on the immediate effects of the pandemic and how long-standing inequality and racism were exacerbating these effects on our communities.



## Economic Research: Responding to Challenges

The Chicago Fed’s Economic Research group contributed to Federal Reserve System initiatives responding to the economic and financial stresses caused by the pandemic. Researchers supported the design and implementation of the Municipal Lending Facility and led a work group to stand up the Main Street Lending Facility for nonprofits. They also worked with colleagues in Supervision and Regulation to conduct focus groups with stakeholders regarding the Main Street Lending Program and contributed to the Federal Reserve Board’s Term Asset-Backed Securities Loan Facility (TALF). This key Federal Reserve credit program restored normal function to asset-backed securities markets disrupted by the pandemic.

FRBC economists and researchers generated blog posts, articles, webinars, and speeches for external audiences, with a focus on the economic and financial impacts of the pandemic on various sectors of the economy. They debuted the Chicago Fed’s first podcast, “LaSalle Street: Financial Markets Insights,” to engage with thought leaders on topics such as what risk managers have learned from the Covid-19 crisis. The series quickly grew an audience of thousands.



## Diversity and Inclusion: Continuing Commitment

In 2020 the Chicago Fed’s partnership efforts focused on responding to critical talent gaps for women and minorities. Key partners included the Hispanic Alliance for Career Enhancement (HACE), the National Historic Black Colleges and Universities (HBCU) Business Deans’ Roundtable, the Sadie Collective, Chicago Scholars, Chicago United, and the workforce development program Year Up, among others.

The Bank continued its support of the Financial Services Pipeline (FSP) to advance African American and Latinx talent in our local financial services industry. The Bank joined the Chicago United 5 Forward Program, an initiative that seeks to focus business diversity efforts on creating jobs in communities of color and growing Minority Business Enterprises.

The Bank’s Money Museum also launched free virtual programming for high school students, reaching out to low- and moderate-income school districts to provide “Q&A with a Fed Ambassador” sessions and teacher access to an online syllabus through its Fed in Your High School Classroom initiative.

## Awards



**Working Mother 100 Best Companies Award**



**Working Mother 100 Best Companies For Dads Award**



**Mark Hands**  
**Supplier Diversity Program Manager**  
**Small Business Administration MI District Director Award**



**Human Rights Campaign Corporate Equality Index 100% + Designated as a Best Place to Work for LGBTQ Equality**

## Promotions



**Mike Keppler**  
 Michael Keppler was promoted to Senior Vice President of Cash and Central Bank Services

## 2020 Chicago Board of Directors



**Susan M. Collins**  
Class B Director



**Helene D. Gayle**  
Class C Director



**David C. Habiger**  
Class B Director



**Linda Jojo**  
Class B Director



**Wright L. Lassiter III**  
Class C Director



**Christopher J. Murphy III**  
Class A Director



**Michael O'Grady**  
Class A Director



**E. Scott Santi**  
Class C Director



**Susan Whitson**  
Class A Director

## 2020 Detroit Board of Directors



**Joseph B. Anderson Jr.**  
Chair



**Sandy K. Baruah**  
Director



**Ronald E. Hall**  
Director



**Linda Hubbard**  
Director



**James M. Nicholson**  
Director



**Sandra E. Pierce**  
Director



**Rip Rapson**  
Director

# Financial Statements

## Auditor Independence

The Federal Reserve Board engaged KPMG to audit the 2020 combined and individual financial statements of the Reserve Banks and the financial statements of the five limited liability companies (LLCs) that are associated with the Board of Governors' actions to address the coronavirus pandemic, of which four LLCs are consolidated in the statements of the Federal Reserve Bank of New York and one LLC is consolidated in the statements of the Federal Reserve Bank of Boston.<sup>1</sup>

In 2020, KPMG also conducted audits of internal controls over financial reporting for each of the Reserve Banks. Fees for KPMG services totaled \$10.3 million, of which approximately \$3.0 million were for the audits of the LLCs.<sup>2</sup> To ensure auditor independence, the Board of Governors requires that KPMG be independent in all matters relating to the audits. Specifically, KPMG may not perform services for the Reserve Banks or affiliated entities that would place it in a position of auditing its own work, making management decisions on behalf of the Reserve Banks, or in any other way impairing its audit independence. In 2020, the Bank did not engage KPMG for any non-audit services.

Financial Statements: Federal Reserve Bank of Chicago--As of and for the Years Ended December 31, 2020 and 2019 and Independent Auditors' Report

---

<sup>1</sup> In addition, KPMG audited the Office of Employee Benefits of the Federal Reserve System (OEB), the Retirement Plan for Employees of the Federal Reserve System (System Plan), and the Thrift Plan for Employees of the Federal Reserve System (Thrift Plan). The System Plan and the Thrift Plan provide retirement benefits to employees of the Board, the Federal Reserve Banks, the OEB, and the Consumer Financial Protection Bureau.

<sup>2</sup> Each LLC will reimburse the Board of Governors for the fees related to the audit of its financial statements from the entity's available assets.