

# OVERALL PERSPECTIVE

**A** key element in the Federal Reserve's mission is to maintain the stability of the financial system and contain any systemic risk that may arise in financial markets. In times of economic crisis, the strength of the financial system depends upon the effective response of the Federal Reserve System. In the following, First Vice President Bill Stone discusses the Bank's crisis management efforts.

## PREPARING FOR THE UNEXPECTED

"Federal Reserve Banks respond to a crisis situation exactly the way our original founders had envisioned. We come to the aid of the country at crucial times and work hard to keep the payments system functioning. Preparedness for the unexpected is integral to our role in the economy.

"The Fed is a 24-hour-a-day operation. Times of crisis are no exception. As a critical component of the structure of the U.S. economy, the Fed stands prepared to supply liquidity and assist banking institutions when the financial

system has been disrupted. The Fed achieves this ambitious goal through a concerted effort among its Reserve Banks and the Board of Governors. The Districts comprise a nationwide network of both centralized and decentralized operations, through which sophisticated linkages ensure the safety and soundness of the entire system.

"We invest a tremendous amount of resources into our

contingency planning efforts. These plans are frequently reassessed to ensure they are current, functional, and effective. They are then tested and retested to guarantee the continuity of our business.

"Our experienced Philadelphia Fed staff has seen the Bank through financial crises and natural disasters and is always prepared to take the necessary measures to uphold our infrastructure and sustain our operations. The near meltdown at Three Mile Island and Hurricane Agnes taught us the importance of being prepared to preserve the integrity of the banking system. Though September 11 was something quite different, the procedures for contingency planning still applied. Our extensive preparation for Y2K also benefited our efforts following the attacks. It was one reason the Federal Reserve was able to act quickly on September 11 – supplying needed funds for liquidity and assisting banking institutions whose ability, or customers' ability, to send and receive payments had been disrupted.

"On the morning of September 11, we had to take immediate action. We knew we had to coordinate efforts across all areas of responsibility. Later in this report, you will learn specifically how each of our major functional areas responded to the crisis.

"Our first order of business on September 11 was to keep the payments system operating as close to normal as possible. Cash and currency deliveries continued throughout the day, and special requests from any depository with



**WILLIAM H. STONE JR.**  
FIRST VICE PRESIDENT

an unexpected need were handled expeditiously. We accommodated banks by crediting them according to normal schedules despite the fact that the airport shutdown kept us from moving checks by air and adhering to normal clearing schedules. Fedwire – our service that allows for electronic funds transfer – stayed open late into the night. In addition, we stood ready to hold open the Automated Clearing House, an electronic system used to process transfers for financial institutions nationwide.

“Another important component was ensuring banks could meet the credit needs of their customers without undue concern about liquidity or capital positions. We increased bank reserve positions through both open market operations, which are the primary means of affecting the overall supply of reserves, and the discount window, the Fed’s lending function. Moreover, we were able to maintain an open dialogue with customers throughout the crisis. While we were working to mitigate concerns by contacting select District financial institutions, many of our customers were simultaneously calling our customer service area seeking assistance. Our close proximity to New York also put us in a supporting role to provide logistical support to the New York Fed. In fact, some New York Fed employees worked out of temporary offices in our facility.”

### **CONTROLLING THE CRISIS**

“While the Federal Reserve Bank of Philadelphia did its part to maintain stability in the region’s banking system, plans were also unfolding on a national, System-wide level. The Board of Governors held daily conference calls with all 12 Federal Reserve Banks to aid in the coordination

of System efforts. We also received frequent bulletins and intelligence briefings from the FBI to allow us to procure information in the timeliest manner possible.

“During the crisis, our priority was reassuring the public of the soundness of the banking system and providing liquidity where necessary. On September 11, the Board of Governors issued a press release to reassure the financial services industry and the public that the Federal Reserve was open and operating and that the discount window was available to meet liquidity needs. In situations arising from the attacks, we encouraged financial institutions, where appropriate, to provide their customers reasonable relief, such

## **DURING THE CRISIS, OUR PRIORITY WAS REASSURING THE PUBLIC OF THE SOUNDNESS OF THE BANKING SYSTEM AND PROVIDING LIQUIDITY WHERE NECESSARY.**

as waiving late payment fees, extending loan terms, restructuring debt obligations, and easing credit terms. In conjunction with other federal banking agencies, we also indicated our willingness to accommodate banks if increased extension of customer credit caused a temporary decline in capital ratios.

“In anticipation of the potential economic implications of the attacks, the Federal Open Market Committee took prompt action to ease monetary policy. In the three months following September 11, short-term interest rates were cut four times for a total of 175 basis points.

“While the Fed’s monetary policy actions were its most publicized responses to the situation, our early actions to keep payments moving and the banking system liquid were equally important for maintaining public confidence. To those who have read economic history, the real story of the aftermath of September 11 was the ability of the financial system to remain functional and liquid without concerns of crisis, panic, or lack of liquidity.”