LETTER FROM THE PRESIDENT

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I am pleased to present the Federal Reserve Bank of New York's *2014 Annual Report*. This report provides an overview of our accounting policies, detailed information on our balance sheet, and our audited financial statements. In this letter, I will share with you some of our 2014 financial highlights—including changes in the balance sheet, operational tests and preparations for a more normalized monetary policy environment, steps taken to ensure that we have the best financial control environment in place, and some key milestones in our crisis interventions. All of this work is in support of the Federal Reserve's mission to promote a healthy economy and a strong financial system.

Changes in Our Balance Sheet

In December 2008, as evidence of a dramatic slowdown in the U.S. economy mounted, the Federal Reserve reduced its target for the federal funds rate—the interest rate that depository institutions charge each other for borrowing funds overnight—to nearly zero, to provide stimulus to households and businesses and to support economic recovery. With the funds rate near its effective lower bound, leaving little scope for further reductions, the Federal Reserve made a series of large-scale asset purchases (LSAPs) between late 2008 and October 2014.

In recent years, the New York Fed's balance sheet has reflected the unconventional measures undertaken by the Federal Reserve to support economic recovery. In 2014, the New York Fed purchased, as part of the LSAP program, $250 billion par value of longer-term Treasury securities and $200 billion par value of agency mortgage-backed securities (MBS) for the System Open Market Account (SOMA). These purchases drove an overall $472.9 billion increase in domestic SOMA holdings to a total of $4.4 trillion as of year-end. The Bank's participated holdings of the domestic SOMA portfolio increased the Bank's balance sheet by $524.3 billion to a total of $2.7 trillion as of year-end.

Testing for Operational Readiness for Policy Normalization

In October 2014, the Federal Open Market Committee (FOMC) ended the monthly purchase of longer-term Treasury securities and agency MBS. To prepare for the time when monetary policy normalization becomes appropriate, the New York Fed, beginning in 2013 and continuing in 2014, implemented a series of preparations and tests to ensure operational readiness.

Specifically, in 2014 the New York Fed conducted daily overnight reverse repurchase agreement (RRP) operations and a series of term RRP operations. These exercises were intended to ensure operational readiness and to test the ability of the FOMC's tools to set a floor on rates.

Internal Control Framework—Improving Our Processes

As part of our financial management practices, we continue to look for ways to enhance our internal controls and governance. The New York Fed has voluntarily complied with Section 404 of the Sarbanes-Oxley Act since 2004 and, this year, adopted the 2013 Committee of Sponsoring Organizations (COSO) Internal Control Framework, a leading model for designing, implementing, and evaluating the effectiveness of internal controls. We were gratified to receive a favorable opinion from our external auditor on the effectiveness of these controls, and we will continue to explore new controls to ensure that we have a strong financial framework to carry out our mission.

Milestones for Crisis Interventions

In 2014, we also marked some milestones by winding down many of the interventions deployed to combat the financial crisis and restore financial stability. Intense strains in financial markets during the crisis severely disrupted the flow of credit to U.S. households and businesses and led to a deep downturn in economic activity and a sharp increase in unemployment. Consistent with its statutory mandate to foster maximum employment and stable prices, the Federal Reserve established lending programs during the crisis to address the strains in financial markets, support the flow of credit to households and firms, and foster economic recovery.

One program that was administered by the New York Fed was the Term Asset-Backed Securities Loan Facility (better known as TALF). TALF lending ended in June 2010, after the program had arranged more than $71 billion in loans to fund consumer and small business credit. This facility alone supported more than a million auto loans, several hundred thousand student loans, and tens of thousands of small business loans. The final TALF loan was paid down in full in October 2014, and TALF LLC, a special purpose vehicle related to TALF, made its final distribution to the New York Fed and the U.S. Treasury in November 2014. Subsequent to the final distribution, TALF LLC was legally terminated.

Another crisis intervention program that achieved a milestone in 2014 was the New York Fed's extension of credit to prevent the disorderly failure of American International Group, Inc. (AIG). In November, the remaining cash held in reserve by two special purpose vehicles, Maiden Lane II LLC and Maiden Lane III LLC, was paid to the New York Fed and AIG, after payment of final trailing expenses. While profit was not the impetus for these programs, we were able to return a profit to the taxpayers of more than $9.5 billion since the inception of these crisis interventions.

A Look Ahead

These are some of the financial highlights from 2014—all of which reflect our commitment to the Federal Reserve's mission of promoting a healthy economy and a sound financial system. I am proud of the New York Fed's work over the last year, and I am confident in this institution's readiness to tackle the challenges of the years ahead.

William C. Dudley
April 3, 2015