



fed LETTER

Colorado ★ Kansas ★ Missouri ★ Nebraska ★ New Mexico ★ Oklahoma ★ Wyoming

June 2010

FEDERAL RESERVE BANK of KANSAS CITY

STUDY UNCOVERS MOTIVES AND STRATEGIES OF THE REGION'S UNBANKED

Instead of using banks to meet their financial service needs, an estimated 2.3 million households in the Tenth Federal Reserve District rely on payday lenders, check cashing outlets, convenience stores and other businesses to conduct basic transactions.

A **new study** of this population by the Kansas City Fed provides insight into why some consumers choose to manage their finances outside the traditional banking system. Through a series of focus groups in Kansas City, Denver, Omaha and Oklahoma City, dozens of unbanked and underbanked consumers discussed their mistrust of banks, how that mistrust affects their decisions, and their personal strategies for meeting financial goals through alternative financial service providers.

In addition to the **full report**, special summaries for **financial educators** and **financial institutions** provide highlights of the study and ideas that institutions, community groups and policymakers can use to respond to the needs of this population.

BIOGRAPHY DETAILS "INTEGRITY, FAIRNESS AND RESOLVE"

During the financial crises of the 1980s, Bill Taylor, the Federal Reserve's long-time head of banking supervision, played a critical role. The Kansas City Fed has produced a brief biography of Taylor, "**Integrity, Fairness and Resolve: Lessons from Bill Taylor and the Last Crisis.**"

This biography illustrates not only the important leadership Taylor provided during an especially difficult period, but also the parallels between the factors that contributed to the financial turmoil of both his time and ours today.

ECONOMIC DEVELOPMENT
CONFERENCE SET
FOR SEPT. 9-10

The Kansas City Fed will host a national conference titled “Economic Development in Underserved Communities -- Where Research and Practice Meet” on Sept. 9-10, 2010, at the Federal Reserve Bank of Kansas City in Kansas City, Mo.

This [conference](#) will bring together the latest research and practice in economic development in underserved rural and low- and moderate-income urban communities. In an effort to foster thinking and action on relevant issues impacting these communities, this conference will highlight best practices in the application of economic development policy.

The Kansas City Fed is also seeking economic development practitioners to present at the conference. [Detailed information](#) about the conference is available, and those who are interested in presenting should read [these guidelines](#). Please send questions or requests for more information to kcecondev@kc.frb.org.

TEN MAGAZINE LOOKS
AT ENERGY’S IMPACT ON
STATES’ ECONOMIES

States like Oklahoma and Wyoming rely on the oil and gas industry to help buffer their economies. But lower prices can eventually lead to a downturn, as was the case during the most recent recession. The spring issue of [TEN magazine](#) looks at how the industry’s boom-bust cycle affects jobs, incomes, and the overall economic health of states largely tied to oil and gas.

TEN is made up of a variety of feature stories that highlight the Kansas City Fed’s research and practices through the experiences of everyday people from around the Tenth Federal Reserve District.

Also in the spring issue:

- How the Kansas City Fed staff helps communities during challenging times;
 - Why offering financial education on the job can benefit the bottom line;
 - How the Kansas City Fed gets its regional perspective through its directors;
 - Tips, activities and resources to help kids use credit cards responsibly; and
 - The 2009 Annual Report, including a look at directors, councils, officers and more.
-

HOENIG SPEAKS BEFORE
HOUSE PANEL

Kansas City Fed President Thomas Hoenig [testified](#) May 6 before the House Financial Services Oversight and Investigations Subcommittee on the growth of debt and leverage across the economy and the need for firm and easily understood leverage requirements for financial institutions.

In addition, Hoenig released [this statement](#) following the U.S. Senate’s passage of the Hutchison amendment to the financial regulatory reform bill.

AG SURVEY FINDS STRONG
FARMLAND DEMAND, RISING
LIVESTOCK INCOMES

Farmland values rose in the first quarter of 2010 with strong demand for farmland and improved livestock incomes, according to the Federal Reserve Bank of Kansas City's quarterly [Survey of Agricultural Credit Conditions](#). The survey of 261 bankers reported that farm incomes fell slightly as lower crop prices trimmed banker expectations for crop incomes. In contrast, declining feed costs and rising livestock prices spurred profits in the livestock sector.

The survey panel consists of agricultural banks selected according to geographic distribution and size. Agricultural banks are those with a greater percentage of agricultural loans in their loan portfolios than the national average of approximately 15 percent. Survey results summarize several indicators of farm financial conditions, including farmland values, interest rates on farm loans, credit supply and demand, and farm commodity prices.

DISTRICT MANUFACTURING
SLOWS IN MAY,
BUT OPTIMISM RISES

Tenth District manufacturing activity grew at a much slower rate in May than in previous months, but producers were more optimistic about future activity, according to the Kansas City Fed's latest [Survey of Tenth District Manufacturing](#). Price indexes were mixed, with some slowing in the rate of materials price increases and a flattening of finished goods prices. However, a number of firms continued plans to raise finished goods prices in coming months.

The monthly survey monitors manufacturing plants selected according to geographic distribution, industry mix and size. Survey results reveal changes in several indicators of manufacturing activity, including production and shipments, and identify changes in prices of raw materials and finished products.

COMMUNITY AFFAIRS
NEWSLETTER NOW AVAILABLE

The Kansas City Fed's new Community Affairs newsletter, "[Community Connections](#)," is now available from the Bank's website. The quarterly newsletter features articles on new research, events and emerging trends across the Tenth District, including a look at social entrepreneurship, foreclosure scams and why some consumers spurn banking relationships.

FINANCIAL STRESS RISES
SLIGHTLY IN APRIL

The [Kansas City Financial Stress Index](#) (KCFSI) rose slightly in April to -0.23 from March's level of -0.27. The April uptick followed substantial declines in February and March. As a result, the KCFSI remained below its long-run average and close to its level in July 2007, when the financial crisis was just beginning.

The KCFSI is a monthly measure of stress in the U.S. financial system based on 11 financial market variables. [More information](#) is available from the Kansas City Fed's website.

REGULATORY
DEVELOPMENTS
*FFIEC revised BSA/AML
Examination Manual released*

The Federal Financial Institutions Examination Council has issued a **revised Bank Secrecy Act/Anti-Money Laundering Examination Manual**, which has been updated to further clarify supervisory expectations and incorporate regulatory changes since the 2007 update.

The revised manual reflects the ongoing commitment of the federal banking agencies and the Financial Crimes Enforcement Network to provide current and consistent risk-based guidance for banking organizations to comply with the Bank Secrecy Act and safeguard operations from money laundering and terrorist financing.

*Schedule announced for
small-value auctions*

The Federal Reserve has scheduled three **small-value auctions** of term deposits through its Term Deposit Facility (TDF) over the next two months. All term deposit auctions will use a single-price format in which all winning bids will be awarded at the highest rate accepted at the auction. The auctions will be conducted on June 14, June 28 and July 12. Additional small-value TDF auctions may be scheduled later in the summer.

On May 10, the Federal Reserve Board authorized up to five **small-value offerings** of term deposits under the TDF. The Board announced on **April 30** its approval of amendments to Regulation D (Reserve Requirements of Depository Institutions) authorizing Reserve Banks to offer term deposits to institutions that are eligible to receive earnings on their balances at Reserve Banks.

FED LETTER • JUNE 2010

Fed Letter is published by the Federal Reserve Bank of Kansas City,
1 MEMORIAL DRIVE, Kansas City, Missouri, 64198-0001, (800) 333-1010.

Editor: BILL MEDLEY

Graphic Designer: BETH NORMAN