TEN

FEDERAL RESERVE BANK OF KANSAS CITY

Summer 2012

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The Benefits of Dual Banking

With banking supervisors in each of the 50 states, along with federal regulators such as the Federal Reserve, the Federal Deposit Insurance Corp., the Office of the Comptroller of the Currency and the new Consumer Financial Protection Bureau, there is a diverse range of agencies committed to ensuring the safety and soundness of the U.S. banking system.

Some have questioned whether this diversity of regulators and views can be effective in today's global financial market and whether the current regulatory structure is outdated and inefficient. Over the years, various reforms have been proposed to improve efficiency and effectiveness by removing this diversity. Even so, the dual banking system in the United States has remained firmly anchored in the modern world of banking and finance. And over the past 150 years, financial markets in the United States have developed into world-class centers of capital and have led financial innovation.

Can this diverse regulatory model serve us well in the next century and allow the United States to maintain a strong, efficient and innovative banking system? Does an increasingly concentrated banking industry demand fewer regulators? Let me explain why I think this structure has not only survived for 150 years but proven to be so durable and responsive to our dynamic economy.

Banking growth

The United States' economy has benefitted tremendously from a diverse banking system that provided the means for efficiently allocating capital from savers to borrowers. Thousands of state-chartered and federal-chartered financial institutions, most of which are small community banks, allow credit to flow to individuals and businesses, even in remote areas of our country.

The dual banking system owes its beginnings to the introduction of federally chartered banks with the passage of the National Bank Act of 1864. The act was introduced during a time when states had instituted free banking laws, which allowed anyone to open a bank as long as they could meet the standards specified in a state's banking laws. Prior to the establishment of these laws, commercial banks were initially organized under charters granted by state legislatures—a process that became highly politicized.

While the primary motivation for this act appears to have been to help finance the Civil War, the act's basic provisions mirrored key aspects of the free banking laws that states had adopted—specifically free entry and flexibility to adapt to a changing economy. Thus began the competition between state and national bank charters and the emergence of a dual banking system.

A report on the dual banking system prepared by the Federal Reserve in 1930 makes it clear that this system was not intentional. Rather, as the report claims, it was expected that the introduction of a federal charter and a subsequent tax on state bank notes would incent bankers to convert to federal charters. The Fed's 1930 report raised a number of questions about the need for such a structure and noted various issues with advantages of one charter over the other. Concerns were expressed about the quality of state bank supervision. However, I firmly believe that we have a stronger supervisory system—both at the state and federal levels—as a result of dual banking.

Innovation and improvement

The dual banking system has provided and continues to offer significant benefits to our financial system and the economy. One of the primary benefits of dual banking is that the multiple options for state and federal charters have led to considerable innovation and improvement in banking services. We have seen these benefits from the beginning.

For example: It has allowed local bankers, state supervisors and state governments to construct a banking system closely attuned to the economic needs of each state and supervised by personnel with a strong knowledge of the structure and condition of the local economy. State legislatures and supervisors have a long history of adopting their own set of prudential laws and regulations, consumer protection statutes, and bank chartering and expansion laws—all of which generally reflect the needs of each state.

A second example occurred soon after the national banking system was established. While the National Bank Act created greater competition for state chartering authorities and state banks, the playing field became steeply tilted against state banks in 1865 when the act was amended to tax the issuance of state bank notes. As you would expect, this competitive disadvantage led to a sharp decline in state banks from about 1,500 in 1864 to about 250 in 1868, whereas the number of national banks rose to about 1,650.

Certainly these reforms must have portended the end of state-chartered banking. But state banks were able to overcome this uneven playing field and demonstrate their resilience by taking advantage of the growing importance of demand deposits and the significant benefits they offered compared to bank notes. Within 10 years after the note tax, state banks had more deposits than national banks, and within 25 years, there were more state banks (about 3,500) than national banks (about 3,100).

Since then, a number of innovations resulted from changes in state banking laws. Most notably, we've seen the development of NOW (Negotiable Order of Withdrawl) accounts, adjustable rate mortgages, home equity loans, and interstate banking through the use of regional compacts and nationwide entry laws prior to the eventual passage of national interstate banking.

Choice of regulators

Another benefit of the dual banking system is that the option to choose a regulator has made bank supervision and regulation much stronger and more efficient. When the National Bank Act was passed, the choice was between a state banking regulator and the OCC. Since then, the choice has expanded further with the addition of the Federal Reserve and FDIC as federal regulatory options for state banks. In fact, the choice is even greater today because interstate banking allows state banks to choose among state banking authorities.

Critics of the dual banking system and the regulatory structure often claim that providing banks a choice of regulator reduces bank safety and soundness and the stability of the financial system by creating a "race to the bottom." Regulatory choice, they say, leads to regulatory laxity as regulators compete among themselves for larger portfolios of supervised institutions.

This is an argument without merit, in my view. I have never seen this among the bank regulators in my 30 years at the Federal Reserve. In fact, I find it to be a strange argument, especially when made by economists, because competition is the process that makes market economies efficient. Choice among regulators provides

an important incentive to improve examination processes and ensures examiners have timely training.

Indeed, I would argue that providing banks regulatory choice serves as a check and balance on supervisory authorities so that they are not so restrictive that banks are unable to provide the credit necessary for economic growth. Importantly, I've seen no evidence that other regulatory structures, including single-regulator models, fared better in the most recent crisis.

Preserving dual banking

Yet if the dual banking system is to serve us well going forward, we must be willing to make adjustments that adapt to a changing financial sector. One challenge is in providing states with enough leeway to continue to implement laws and supervise banks in a manner most conducive to local interests and the state economy.

Federal laws have continued to expand in an effort to create a more consistent framework across all banks—both state and national. While much of this is necessary in a nationwide banking system, we must be careful to strike the right balance in limiting the preemption of state laws and in respecting the authority of state supervisors and legislators. If we fail to achieve this balance, we risk losing many important benefits of the dual banking system.

In my view, another critical challenge is making sure that supervision and regulation are consistent across regulatory agencies and over time, as well as appropriately calibrated to a bank's business model, activities and complexity.

There are many examples of coordination and cooperation. The Federal Financial Institutions Examination Council is clearly an important forum for coordination and cooperation among the state and federal agencies. State and federal agencies also accept each other's exam reports and share exam report software. Also, the Conference of State Bank Supervisors, state banking agencies, the FDIC and the Federal Reserve cooperated closely in setting up the protocol for the seamless supervision of state banks operating on an interstate basis.

We've been successful, although it has not always been easy, in working across agencies to discuss, debate and develop joint notices of proposed rulemakings and to finalize rules. If we are to achieve our common goal of well-managed, well-capitalized and well-supervised banks, we will need to redouble our efforts to work together in this way.

It is clear to me that the dual banking system has benefited the U.S. banking system and the overall economy since its establishment nearly 150 years ago. The diversity provided by this system allowed our economy to grow and to be the most vibrant, innovative and strongest in the world. This system has served the country well for many years, and I believe with the commitment of those here today it is a system that can continue to serve the public interest and responsibly promote economic growth for years to come.

Esther L. George

ESTHER L. GEORGE, PRESIDENT
FEDERAL RESERVE BANK OF KANSAS CITY

Esther George addressed the Conference of State Bank Supervisors in Savannah, Ga., earlier this year. To read the full speech and others, visit **www.KansasCityFed.org.**

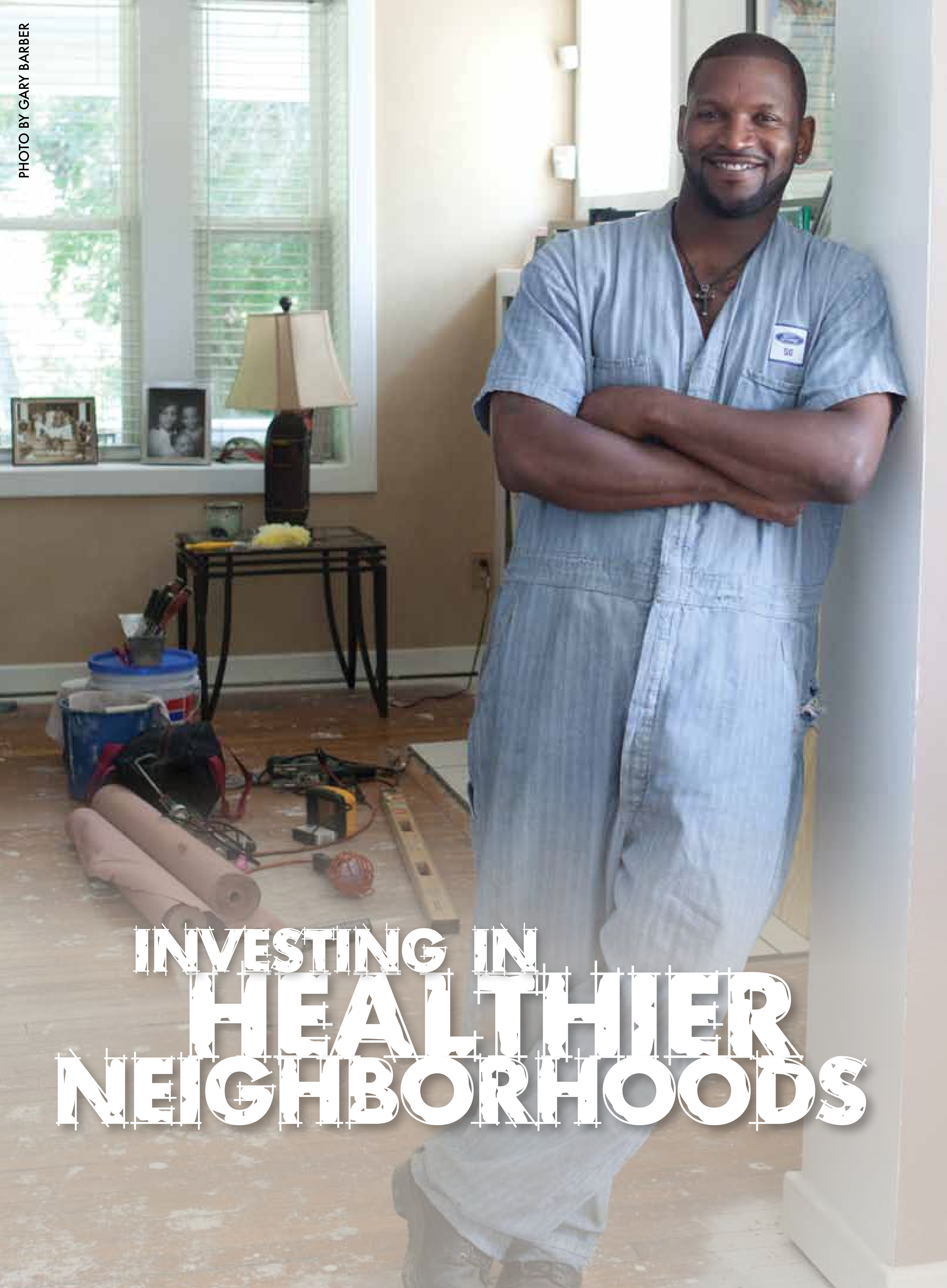


PHOTO BY GARY BARBER

INVESTING IN HEALTHIER NEIGHBORHOODS

Twelve years ago Dymond Albritton and his wife Yatounda moved into their "dream home," a roomy stone house on a formerly tattered block in Kansas City's urban core.

The home was rehabbed by a housing organization as part of a neighborhood revitalization program.

But Albritton, who works at the Ford Motor Company plant in Claycomo, Mo., didn't stop there.

He added new wood floors, finished the basement and landscaped the yard. "It's a constant thing for me because I'm picky," he said.

Investing in his home has had a ripple effect. Additional people have bought and rehabbed homes in his Blue Hills Neighborhood, in the southeast section of the city, improving curb appeal and overall value of the homes on the block.

"With more homeowners, there is more care," he said. "If you see a piece of trash, better believe it's going to be picked up. We all try to do our part to keep up the value of our homes."

New research by the Kansas City Fed confirms that investing in houses has a measurable spillover effect in helping to reverse neighborhood blight. Senior Economist Kelly Edmiston found that new construction or rehabilitation of existing housing, often by community development corporations (CDCs), significantly increases the appreciation of nearby homes. Housing investments also may help stabilize declining neighborhoods, an important motivation for CDCs to invest in housing in low- and moderate-income (LMI) neighborhoods.

"This is one of the first studies I've seen that shows tangible value for the work done by CDCs in our cities," said Julie Porter, executive director of the Kansas City office of the Local Initiatives Support Corporation (LISC), a national organization that supports CDCs. "This is compelling research for funders and investors in urban housing."

Barriers do persist. Abandoned and foreclosed homes continue to threaten urban neighborhoods, spreading blight and increasing the costs of neighborhood revitalization at a time when CDCs face serious funding cuts. Even so, the Kansas City Fed research suggests that strategically targeted investment offers a tool for stabilizing urban neighborhoods.

Making an impact

Edmiston's research focused on urban neighborhoods in Kansas City, Mo., at the block level.

"We had seen positive effects in regard to resale values of rehabbed houses," Edmiston

DYMOND ALBRITTON plants a shrub outside the Kansas City home he and his wife Yatounda have restored the past 12 years.

PHOTO BY GARY BARBER

said. "We wanted to see whether the increase in value extended to nearby houses on the block."

Using data on home sales in LMI areas of Kansas City from 2004 to 2011, Edmiston's analysis compared the price appreciation of homes within 500 feet of CDC housing investments with the price appreciation of similar homes that were outside of these 500-foot boundaries.

Edmiston says that on average, homes within 500 feet of the CDC projects appreciated 11.8 percent more (or depreciated 11.8 percent less) between the first and second sales of the homes, when compared to homes farther away from the projects. For the average home covered in the analysis, this difference amounted to 4.6 percent greater annual appreciation. Benefits dissipated beyond 500 feet, which is comparable to a city block.

Edmiston cites several reasons for this positive spillover effect. New or rehabilitated homes replace homes that are in disrepair, vacant or built near unsightly empty lots, which attract crime, public nuisances and illegal dumping. The improved physical appearance of the homes adds to the attractiveness of the neighborhood and demonstrates a return on investment that spurs more investment.

"People are willing to pay more to live there," Edmiston said. "That's what makes the value go up."

Ripple effect

Donny Smith, executive director of Community Housing of Wyandotte County (CHWC), points out visual support for Edmiston's findings as he drives a visitor through the Cathedral Pointe Development area across the state line in Kansas City, Kan. The neighborhood boasts growing schools, art programs and a park salvaged from vacant, weed-infested land.

"Generally, existing homeowners began investing in their homes as we constructed or renovated a home nearby," he said.

From the start, he says, "We saw incremental increases in appraised values

JOANNE BUSSINGER, EXECUTIVE DIRECTOR OF BLUE HILLS COMMUNITY SERVICES, says it takes more than rehabilitating older homes to rebuild a neighborhood. It takes neighbors working together to build a community, block by block.

through our own private appraisals and with the Wyandotte County appraiser's office as well."

Smith believes investing in a neighborhood instills pride and hope among residents.

"For years, homeowners in older and declining neighborhoods knew that there was no return on their investment." But, he says, when a community organization begins investing in a neighborhood, "it provides emotional and financial incentives for existing homeowners to invest in their own homes."

Joanne Bussinger, executive director of Blue Hills Community Services, the CDC that works in the Blue Hills Neighborhood of Kansas City, Mo., agrees that working block-by-block, with the help of residents, builds a critical momentum in redeveloping neighborhoods.

"There is a vision that we are trying to communicate: You are buying into more than a house. You are buying into a community," she said.

And that community vision is growing.

PHOTO BY GARY BARBER

FRED BURNS, A SEMI-RETIRED CONTRACTOR, moved from the suburbs to the urban Blue Hills Neighborhood, where he refurbished a house and now helps other homeowners in the neighborhood rehab their homes.

Besides building and renovating homes, Blue Hills Community Services has provided no-cost home repairs totaling more than $2 million to homeowners since 2006. The CDC has improved parks, revived commercial corners and is developing a neighborhood contractor business incubator and community meeting space.

Now, said Cliff Pouppirt, director of planning and development for Blue Hills, “We see people who left and are moving back, people who never left and are moving up, and people moving here from another place and want to be nearer to the downtown.”

Fred Burns counts himself as a transplant. The semi-retired contractor moved to the Blue Hills Neighborhood from the suburbs and has helped rehab homes on his street and built a reputation for baking cookies for neighborhood get-togethers. Burns, who lives two blocks from Albritton, likes the diversity of the near-downtown neighborhood.

“If you live in a place where everyone is just like you, you are not going to grow. We respect and look out for each other. I don’t know how many times someone has said, ‘Fred, can you help me?’ And that’s what you do.”

But Burns and his neighbors are wary of get-rich-quick investors who swoop in and buy up bundles of cheap houses, slap on a coat of paint and try to flip them quickly. “You have to attract people who are more interested in their neighbors and their neighborhood than in making a dollar,” he said.

Competing with fly-by-night investors is a challenge for CDCs because they make it hard for the CDCs to buy nearby homes on blocks they are targeting. Some out-of-state landlords, with few community ties, fail to maintain the homes, so they become derelict again, fall vacant, attract crime and reverse the good the CDCs are trying to make.

"This is difficult work for CDCs," Porter said. "You have to look at what is happening with streets, infrastructure, crime, street lights and whether it's safe for kids."

Investing in a neighborhood is more than brick and mortar, she said. "The perception of the neighborhood is critical because that is what attracts residents."

Building neighborhood capacity

It's Saturday and the meeting of the Blue Hills Neighborhood Association, comprising a diverse mix of residents, is in full swing. Aromas of casseroles and baked cookies waft through the large restored Victorian home where they meet.

An official from the University Of Missouri-Kansas City School of Nursing promotes a neighborhood health initiative. The neighborhood's community police officer runs down the latest crime figures. Residents discuss the need for the city to address vacant houses and more programs for youths.

"We want what everyone else wants, a safe, clean and beautiful neighborhood," says Phyllis Ray, the president of the association. "And we're trying to do that block-by-block."

The challenge is attracting funding. CDC funding has been cut. Less money is coming from the city. Good investors seem scarce. In the late 1990s, investors pumped money into the neighborhood. But they were edged out by slick nontraditional brokers who lured many borrowers into easy-term loans with exploding interest rates.

But Ray is undeterred. She plans to seek grant funding to help the neighborhood association build its capacity and improve the housing stock in the neighborhood. One idea is to create a property maintenance program to take charge of the housing needs of the neighborhood.

Block captains would work with residents to fix up and maintain their homes. Once a code violation is identified, the neighborhood association would work with a homeowner to make the necessary repairs, after which the association would put the property on an extended maintenance plan to help the homeowner keep the property in good condition.

Then, she says, the association would market their successes to investors, lenders and banks, saying, "Look what we've done with these blocks—we have money in hand and we have people who will bank at your bank. There's so much we can do."

Edmiston says one thing he found in his research is that "the greater the investment in a particular block, the greater the impact on values of the surrounding homes."

That finding suggests that building on success—and making it known—has the potential to lead to more success.

"That's what makes this research valuable," said Smith of CHWC. "Not only does it justify our work, but it provides credibility to the outside world, including potential funders."

When Albritton first moved into his neighborhood, yards were strewn with junked appliances, dumped tires and high weeds. Now he sees trimmed lawns and formerly derelict homes undergoing rehab by new neighbors, including a colleague from the Ford plant.

"As more people move in, they are just as concerned about their investment," he said. "I see a community that's coming together now."

BY PAUL WENSKE, TEN CONTRIBUTING WRITER

FURTHER RESOURCES

"NONPROFIT HOUSING INVESTMENT AND LOCAL AREA HOME VALUES"
By Kelly Edmiston
KansasCityFed.org/publications

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.

LABOR ON THE MEND:

A DECLINE IN LABOR FORCE PARTICIPATION

The labor force participation rate measures the share of the population, 16 and older, working or looking for work. The participation rate fluctuates with the economy—increases with economic growth, declines with recessions. But the participation rate took a bigger drop during the last recession than in any other four-year period in the last 60 years, said Kansas City Fed Senior Economist Willem Van Zandweghe.

In his new research, Van Zandweghe says the sharp decline in the labor force participation rate since the onset of the recent recession is due to long-term demographic trends and to the cyclical downturn in the labor market.

In 2007, there were 146.1 million people working in the United States. By 2011, 139.9 million people were employed. The overall labor force participation rate enjoyed a steady increase from 59 percent in 1948 to 67 percent in 2000, but it has steadily declined since the 2001 recession.

+ 7.75 MILLION

BETWEEN 2007 AND 2011 the civilian U.S. population 16 years and older increased by 7.75 million—from 231.87 million to 239.62 million.

– 1.9

But the labor force increased by only 493,000 in this period, because the participation rate dropped from 66.0 percent to 64.1 percent.

66%

If the participation rate had remained at 66 percent in 2011, the increase in population would have raised the labor force by 5.12 million between 2007 and 2011. So there were 4.63 million fewer people in the labor force by 2011 than there would have been if participation had stayed at 66 percent.

BY: KEVIN WRIGHT, EDITOR
DESIGN BY: GARY BARBER, DESIGNER

–1.2

From 2007 to 2011, the participation rate dropped 1.2 percentage points for women. This decrease can be attributed to the recession.

Overall, the labor force participation rate for women had increased in the past 60 years—from 33 percent in 1948 to 60 percent 1999.

–2.8

Historically, the labor force participation rate for men and women has followed different patterns.

The partcipation rate fell 2.8 percentage points for men from 2007 to 2011. Only two-fifths of this decline can be attributed to the recession. The remainder is part of an ongoing 60-year trend. Eighty-seven percent of eligible men participated in the labor force in 1948. Since then, the participation rate for men declined steadily to about 70 percent in 2011.

THE RECESSION

The recession made it difficult to find jobs, raising the unemployment rate and causing many job seekers to leave the labor force. The unemployment rate rose from 4.6 percent in 2007 to 9.6 percent in 2011.

AN AGING POPULATION

The percentage of population older than 54 years of age rose from 29.7 percent in 2007 to 32 percent in 2011. As older workers have lower labor participation rates than prime-age workers, 24-54 years, population aging is pulling down the economy's labor force participation rate.

-%

RESULT

The cyclical downturn caused by the recession and the labor force trends, such as population aging, each account for about half of the 1.9 percentage points drop in the labor force participation rate. Each factor caused workers to move in and out of the labor force or drop out completely.

CONCLUSION:

How much of the decline in the labor force participation rate will be reversed when the pace of the economy quickens and people venture back into the labor force is what Van Zandweghe tries to answer.

The influence of long-term trends, however, imply that potential labor supply and output could be adversely affected by the recent decline in labor force participation even as the economy recovers. Cyclical factors, such as a stronger economy means more available jobs and people returning to the labor force, imply that the unemployment rate will decrease gradually to its long-term rate. Whether that rate reaches prerecession numbers depends on the strength of the recovery—will the recovery produce enough viable jobs to entice workers who left the labor force to return?

"Workers who suffer long periods of unemployment may remain in the labor force but become chronically unemployed, raising the structural unemployment rate," Van Zandweghe said. "However, others may become permanently less attached to the labor force or even permanently exit the labor force."

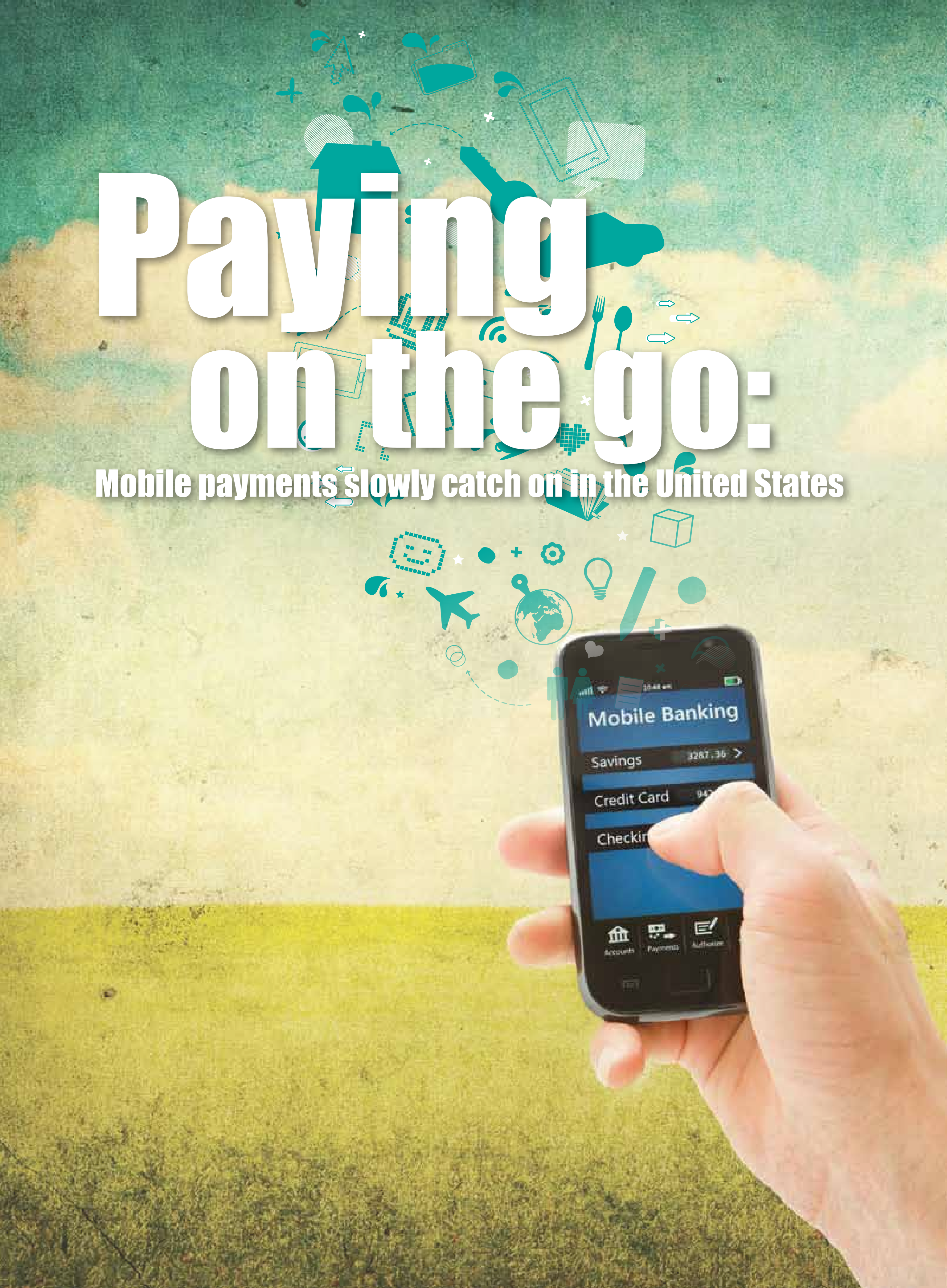
This permanent exit could come in the form of workers receiving long-term disability benefits or aging workers—15 percent of unemployed workers in 2011 were 55 and older—could decide to retire.

"Still others may find it difficult after a long period of unemployment to find stable employment and may spend more time out of the labor force during the remainder of their careers," Van Zandweghe said.

Based on Willem Van Zandweghe's research: "Interpreting the Recent Decline in Labor Force Participation."

Paying on the go:

Mobile payments slowly catch on in the United States



Japan adopted a mobile payment system for mass transit as a way to move millions of commuters through congested stations. Some African nations adopted mobile payments because people lacked access to other noncash payments, such as credit cards and checks.

Much of the technology the world market uses for mobile payments was developed by American-based companies, but few Americans use the payment method.

The Bank of Japan reported that $22 billion in contactless payments were made in 2010. Consumers in the United States, with a larger population, made $1.5 billion contactless payments a year before.

"It will take some time before people use this payment method here," said Fumiko Hayashi, a senior economist at the Kansas City Fed.

The barriers to widespread use in the United States include uncertainty about the benefits of mobile payments to consumers.

Benefits and concerns

Consumers' definitions of convenience differ, especially in the payments market. Market research, however, found a few commonalities among those definitions, including portability, flexibility, speed, ease of use, and ease of setting up and learning to use each payment method.

"Mobile payments will likely be more convenient than traditional payment methods in terms of portability," said Hayashi, who has published new research on the subject.

Mobile payments eliminate carrying multiple plastic cards by linking the mobile device to the cards' accounts, including credit, debit or merchant-specific. This also produces flexibility for the consumer, allowing other payment methods, such as PayPal, direct access to bank and other financial accounts on a mobile device.

Consumers can use mobile payments for:

• Person-to-person transfers, such as a person buying an item from another person or a homeowner paying for the services of a plumber or gardener.

• Purchasing goods or services over the Internet with a mobile device.

• Point-of-sale payments: paying for goods and services at the merchant location, such as buying groceries at a supermarket or paying for dinner at a restaurant.

With the available technology, mobile

The Bank of Japan reported that $22 billion in contactless payments were made in 2010. Consumers in the United States, which has a much larger population, made $1.5 billion contactless payments the previous year.

transactions can transpire faster than traditional methods—no more card scanning, entering personal identification numbers, signing receipts or exchanging coin or cash. Some research estimates show mobile payments 15 to 30 seconds faster per transaction.

Some customers, however, may find the aspect of mobile payment software and devices daunting.

"Compared with traditional payment methods, such as checks or debit and credit cards, setting up mobile payments will require more steps," Hayashi said.

But a 2008 payments survey by the Boston Fed reported that consumers thought "ease of setup" of a payment method less important than ease of use or security.

Mobile payments have advantages in managing finances and controlling spending. Consumers can check their account balance prior to making a purchase, which prevents them from spending beyond their means. Among various payment instruments stored in the mobile device, consumers can choose the payment instrument with the most favorable financial impacts, such as lower fees and higher rewards.

Mobile payments could come at little to no additional cost to the consumers or to financial providers. Consumers already pay fees for the cards and bank accounts the mobile devices will use to make the payments and pay mobile carriers for mobile data plans, Hayashi said, so it is unlikely providers would charge additional fees for mobile payments.

But consumers will need a smartphone or a smart device to take full advantage of the available payment options, finance management and convenience available in today's market. Not all Americans, however, use smartphones, and that's where most of the costs to consumers will occur.

A recent survey by The Nielsen Company showed 40 percent of Americans used smartphones by mid-2011. And not all smartphones are capable of using certain methods of mobile payment. Consumers would need to upgrade phones and service plans.

Security and fraud concerns also could dissuade consumers from using mobile payments. In many cases, the accounts consumers would use for mobile payments already have fraud protection, such as credit cards and bank accounts. Other financial accounts, like prepaid direct-merchant, do not.

By clarifying consumer protections, regulators could reduce, if not eliminate, uncertainty about fraud losses, Hayashi said.

Mobile payments have the potential to be more secure than traditional payment methods, Hayashi said. The chip technology can perform dynamic authentication. Unlike traditional payment methods that use a static PIN or password, dynamic authentication changes with each transaction. There's also multilayer password protection and facial recognition technology.

Hayashi says that if the industry can address issues such as costs and security, consumers most likely would adopt mobile payments because of convenience and the ability to better control spending and manage finances.

Implementing technology standards

To reduce the uncertainty about the benefits of mobile payments to consumers, providers need to agree on technology standards. The benefits, such as convenience, speed, and security, depend on which technology is used.

Companies have developed several technologies to handle various payments, with the industry using four main technologies in the United States.

Near field communication chip technology enables wireless communication between devices over a short distance.

Bank conference explores consumer payments innovation

Wireless networks combined with mobile devices create a new realm of economic possibilities.

Various banking leaders, experts, regulators, industry analysts, merchants and government officials explored these possibilities in March at the Kansas City Fed's Consumer Payment Innovation in the Connected Age conference.

"We live in an increasingly connected world," Kansas City Fed President Esther George said at the conference. "Smartphones and social networks are allowing us to exchange information with each other more freely, more quickly and from a wider variety of locations. This increased connectedness has important implications for our society and our economy."

The fourth biennial conference in Kansas City, organized by the Payments System Research group, concentrated on this "connectedness" and how it affects the way consumers and businesses make payments.

Sessions highlighted such issues as payment innovation, which involved representatives from Google and PayPal, and how new technology, security engineering and regulation can address mobile payment issues of privacy, consumer protection and payment continuity.

Attendees also discussed the abilities of payments innovations to give more people access to financial services. Currently, some consumers have no access or limited access to banking or financial services. Another session focused on payments system issues involving speed of clearing and settling transactions. As the world market becomes more mobile, the U.S. payments system must evolve to keep up with consumer demand.

The more than 150 attendees ended the conference with a panel discussion on the payments system, involving international and domestic policymakers from Australia, Mexico, the Netherlands and the U.S. Department of Justice.

The conference gave the Kansas City Fed's Payments System Research group and management, as well as conference attendees, ideas for further research and a greater understanding of the effects innovation will have on the payments system.

- Information provided by Sarah Kemp, TEN contributing writer

Japan and South Korea use a form of this technology for contactless transit cards. A chip is embedded in the card that links to either a customer's bank account or prepaid account. A device scans the card, sometimes without the customer taking it out of his or her wallet, at the point of sale.

Google uses this type of technology for its mobile application, Google Wallet. Isis, a joint venture of AT&T, Verizon Wireless and T-Mobile, joined forces in the development of a near field application as well.

Another technology is radio frequency identification, which has a longer transmission range than near field communication.

Oklahoma and Kansas use a similar radio frequency technology for toll pass collection. It's also used for tracking livestock and pets.

Starbucks and Target adopted mobile 2D barcode technology, which allows customers to display product barcodes on their mobile devices. A clerk scans the barcode and the payment transfers from a prepaid account.

Wireless application protocol, or WAP technology, allows a consumer to log in to a payment provider's website through a mobile Web browser and download a mobile app for payment transactions. The payment service company PayPal uses WAP for its mobile point-of-sale application.

If providers adopt incompatible technologies for major point-of-sale transactions, it may delay consumer adoption and merchant acceptance of mobile payments.

Merchants may not want to invest on different devices in order to accept all different mobile payment technologies, and consumers may not adopt mobile payments that have limited usability.

Regulators may play a role here. They can

In 2011, there was about one contactless-payments terminal per 600 people in the United States. A small number compared to Japan, which had one per 130 people and South Korea had one per 100.

coordinate with industry to set technology standards.

Merchant acceptance

In a survey by Javelin about contactless payments, the marketing company found that merchant acceptance matters to consumers. Several survey respondents were reluctant to try a new payment method if merchants' acceptance of that method was low.

Researchers lack empirical data on how many consumers use mobile payment apps in the United States, but one way they track consumer use and merchant acceptance is by the number of point-of-sale terminals.

In 2009, there was one terminal per 600 people in the United States. A small number compared to Japan, which has one per 130 people and South Korea has one per 100.

"Compared to Japan and South Korea, mobile point-of-sale payments in the United States are in their infancy," Hayashi said.

Companies like Visa and MasterCard are promoting chip-based payment cards, which should encourage more merchants to accept mobile payments that use the same technology. The companies, however, are slow to implement the change, giving merchants until 2015 before requiring acceptance.

And the costs associated with certain technologies, such as near field, are a perceived barrier to many small businesses. Providers can overcome that barrier with incentives and by educating merchants about the benefits of the mobile payment method.

"Mobile payments could allow merchants to acquire more information about their actual and potential customers than is possible with traditional payment methods, increasing the scale and sophistication of their target marketing," Hayashi said.

Merchants would have direct access, sending targeted promotions and marketing material to the consumer's mobile device. Depending on the arrangement with the mobile payments provider, merchants can customize inventory, marketing strategies and other promotions according to their customers' purchasing histories. In some instances, merchants could have that individual information the minute a customer walks in by scanning the customer's mobile device.

The future

Transit authorities in Chicago and Utah plan to implement mobile fare payment systems in the next two years, and the online magazine, Digital Trends, reported that Starbucks, which uses the 2D barcode system, processed 26 million transactions since the company launched its app in January 2011.

But a majority of American consumers don't use contactless transit cards, and almost everyone has access to some form of noncash payment, whether check, debit card or credit card.

In a survey of major credit card customers, Lightspeed Research found that most customers thought the ability to make payments from a smartphone as unimportant.

And there is a generation-gap barrier. Market research also shows that older consumers are satisfied with traditional payment methods, while younger consumers, who grow up with technology, accept mobile payments as a viable method.

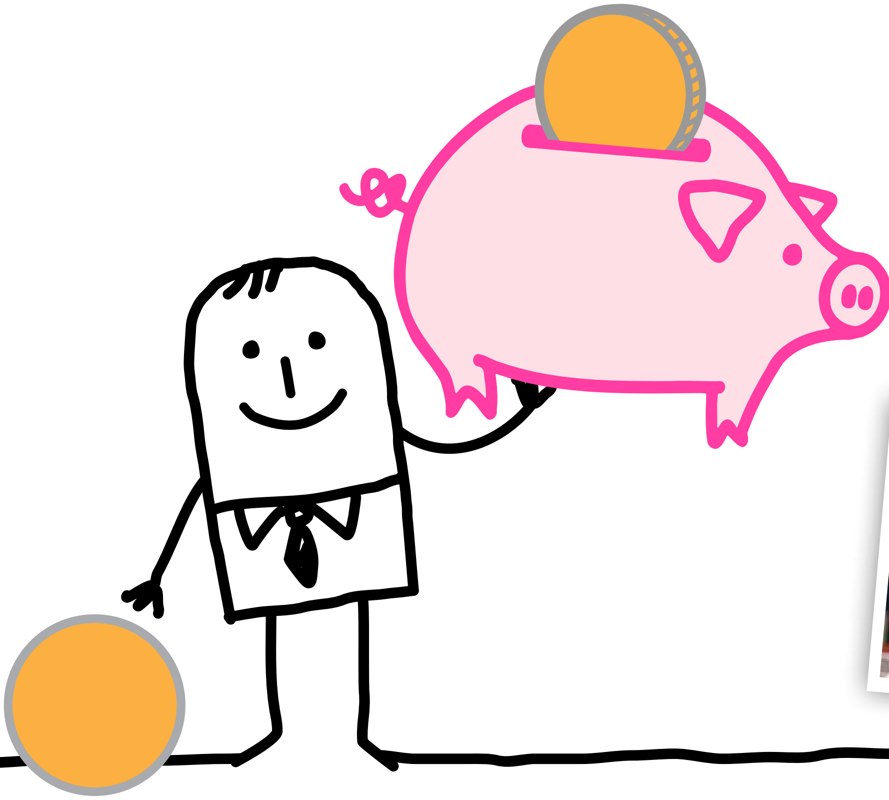
"On both the demand side and the supply side, a better understanding of the potential benefits to consumers of replacing traditional payments with mobile payments may help overcome barriers to adoption," Hayashi said.

T

BY KEVIN WRIGHT, EDITOR

FURTHER RESOURCES

"MOBILE PAYMENTS: WHAT'S IN IT FOR CONSUMERS?"
By Fumiko Hayashi
KansasCityFed.org/research



Teach Children to Save Day

On April 18 and 19, 137 volunteers from the Kansas City Fed, UMB Bank, Mazuma Credit Union, Capital City Bank and Commerce Bank visited more than 290 kindergarten through third-grade classrooms in the Kansas City and Topeka, Kan., area as part of the Teach Children to Save 2012 program. This record-setting group reached 6,250-plus children throughout the community, teaching students the value of money and financial responsibility.

In many school districts nationwide, bankers offer Teach Children To Save Day activities throughout April. Federal and commercial bank employees visit schools to talk about saving, they read and discuss stories, and they conduct activities related to personal finance.

Year-round, the Kansas City Fed offers personal finance lessons that encourage children to develop a "savings habit," which will lead them to becoming financially responsible adults.

For teacher tips and materials, including information on in-service training and to order personal-finance publications for all ages, visit KansasCityFed.org/education.

PHOTOS BY GARY BARBER

Broad representation, regional roots

Kansas City Fed relies on directors for insight

As designed by Congress in 1913, the Federal Reserve is an innovative blending of public and private institutions. While the Board of Governors in Washington, D.C., is a government agency with broad oversight responsibilities, there are 12 regional Federal Reserve Banks located throughout the United States that are under the direction of local Boards of Directors. In addition to oversight responsibilities for their respective Reserve Banks, the regional Fed directors serve as a critical conduit between their local communities and the nation's central bank, offering critical insight and counsel on the economy drawn from their own expertise and contacts.

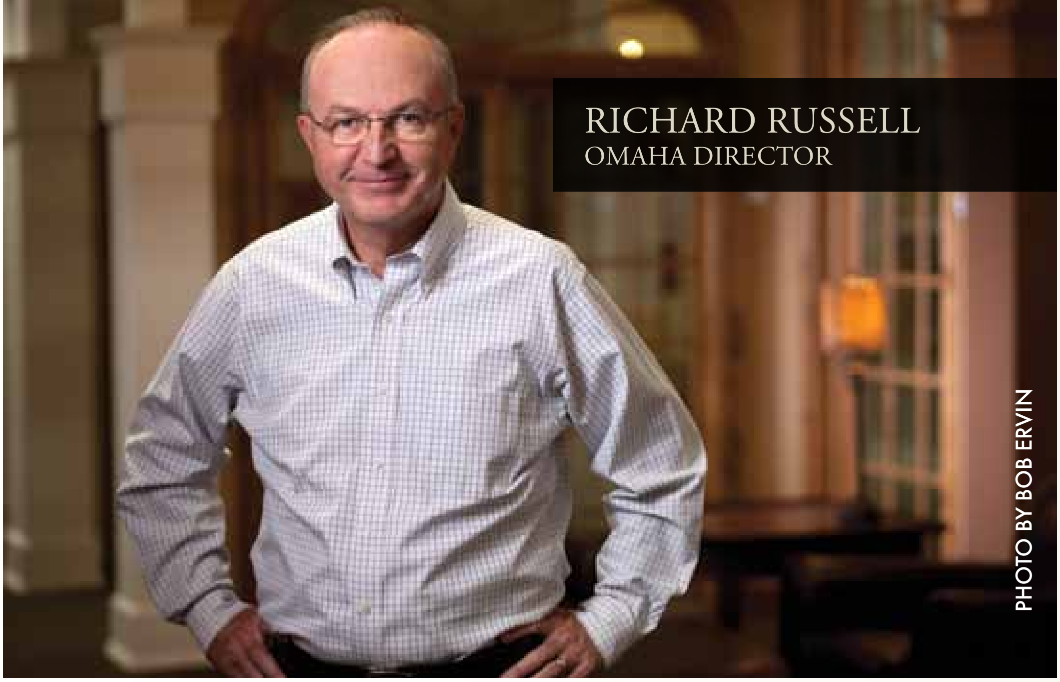
This system of the independent regional Reserve Banks, which also have affiliated Branch offices, are in direct recognition of the value Americans place on limiting influence and ensuring broad representation. Prior to the Federal Reserve, the United States had made two attempts at a central bank, but large areas of the country, especially along the frontier and in the South, felt the institutions were too closely aligned with the power centers of the Northeast, and the institutions were abandoned.

The Tenth Federal Reserve District includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico. The Kansas City Fed has three Branch offices, Denver, Oklahoma City and Omaha, in addition to its headquarters.

Here's a closer look at four Tenth District directors:

BARBARA MOWRY
KANSAS CITY DIRECTOR

PHOTO BY MATT STAVER



BARBARA MOWRY

The Fed has lots of data about the economy. The difficult part is predicting what's going to happen in the economy.

"This is where board members can help," said Barbara Mowry, deputy chair of the Kansas City Fed Board of Directors.

As founder and CEO at GoreCreek Advisors in Denver, Colo., Mowry interacts with a variety of clients, projects and events. Her company's goal is to make sure clients achieve the best added value and success in running their businesses.

Developing success in businesses is something Mowry understands. As an entrepreneur she founded Silver Creek Systems, a product data quality solution company, which the Oracle Corporation purchased in 2010. Through the acquisition, she was named senior vice president of Oracle's Data Integration Division, but she soon left to start GoreCreek.

Before Oracle, Mowry served as chairman and chief executive officer at Requisite Technology, senior vice president of customer satisfaction at Comcast, founder and chief executive officer of the Mowry Company and as an officer at United Airlines.

As an intrapreneur she has developed new products, business lines and innovative solutions. She knows that continued quality, value and innovation are key components to any business's success.

Her interest in innovation and what's driving the economy helps in her role on the Kansas City Fed Board. Mowry was appointed to the Kansas City Board on Jan. 1, after serving four years on the Denver Branch Board of Directors.

With her experience, Mowry said she can add value and provide insight for the Fed at the ground level—what's happening in communities and the business world.

She thinks America's strongest asset is innovation, and if fostered correctly, this entrepreneurial spirit can help the country's economy recover.

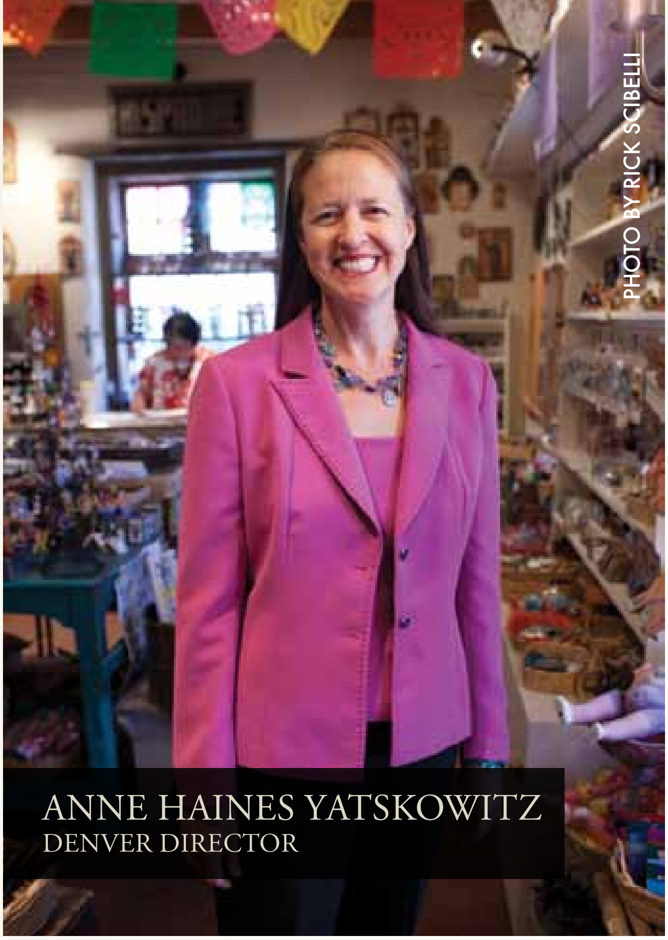
The difficulty, she said, is to make sure the Fed also grows and changes in the recovery without challenging the integrity of the institution.

"I think the Fed has showed the ability to change and be innovative, but you don't want it to be a detriment to the institution."

RICHARD RUSSELL

Whether it's providing building materials for a commercial build or the installation of a product for a home remodeling project, as CEO of Millard Lumber Inc., Richard Russell says his employees must have the proper knowledge, skills and training to accommodate customers' needs.

He also must recruit, retain and encourage "talented people to serve our mission of constantly seeking to provide more value to our customers." And everyone, from management



ANNE HAINES YATSKOWITZ
DENVER DIRECTOR

to sales to delivery, must work as a team to ensure the aforementioned is done with dignity and beyond the expectations of customers.

Although the mission and business model is different, Russell said, the Kansas City Fed works on the same principles—providing the best customer service to its members and providing important information to help shape monetary policy and bolster the economy.

Russell sees his role as a director for the Kansas City Fed Omaha Branch as "providing two-way communication—providing information to the (Kansas City Fed) that cannot be strictly gleaned from mountains of economic statistics and providing information to the public constituencies as to how the Fed operates and what makes it important for our country to have an independent central bank."

And a diversity of directors provides a wider range of perspective, in geography, basic beliefs, and economic sectors and industries.

This information, anecdotal and factual, Russell said, can help the Kansas City Fed determine how the public perceives its polices and what impact those policies have on the expectations of business leaders and the country's economic outlook.

Russell says his time on the board has given him an opportunity to serve and learn more during an extremely critical, historic and volatile time in the economy.

"Many of the decisions that are being made today will be judged far into the future and the decisions must be thoughtful, courageous and prudent, and considered in the context of preserving and enhancing the greatest modern economic system," he said. "A tall charge and challenge!"

ANNE HAINES YATSKOWITZ

Anne Haines Yatskowitz is at the grass roots of the economy. She is president and CEO of Accion New Mexico-Arizona-Colorado, a nonprofit organization that provides entrepreneurs access to credit, small loans, training and other tools they need to start and support a small business (See related story, Page 32).

Although much of the national focus is on big corporations, especially during the recession and now in the recovery, much of the U.S. economy relies on small business.

As a director of the Kansas City Fed Denver Branch Board of Directors, Haines Yatskowitz tries to provide the Fed information on the "human impact" of economic conditions and policy decisions on low- to moderate-income families and entrepreneurs.

"(It's the issues that) keep people up at night and people think about on a day-to-day basis in the community," she said.

She takes her role on the board "very seriously."

"From small business owners to ranchers, technology leaders to community bankers, board members bring diverse perspectives to the Federal Reserve System," she said. "Board members share a passion for giving back and contributing thoughtful insight to conversations that give our local communities a voice," she said.

It's also given her a better idea of the role the Federal Reserve plays in stabilizing the economy and given her insight to the economic conditions that could impact the communities she serves.

"To have access to such input from various sectors and different backgrounds, and in the context of such a larger scope, helps me better understand the economy," she said.

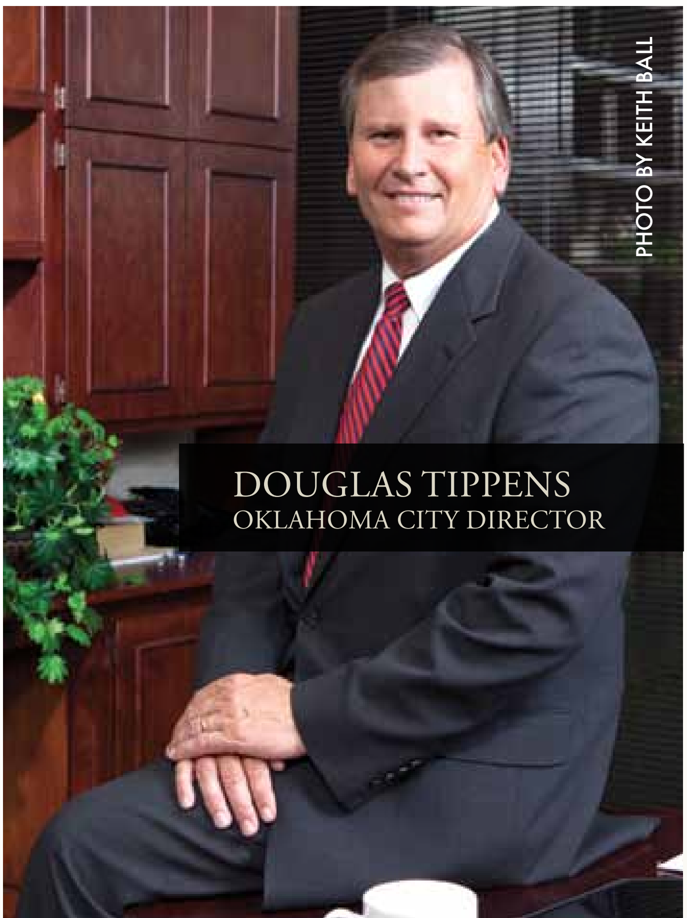
In 2011, 90 percent of the loans Accion issued went to low-income, minority and women entrepreneurs. The organization's clients come from many walks of life, and they are all working to build businesses that will provide for greater employment and economic vitality.

"Our strength as a nation is intertwined with the health of our economy," she said. "I am impassioned by the belief that when small enterprises thrive, they enhance the vitality of our communities and of our nation."

DOUGLAS TIPPENS

Douglas Tippens rises before dawn each morning, never using an alarm clock, and arrives before the lights come on at Bank of Commerce in Yukon, Okla. He uses the time before employees and customers arrive to form his thoughts, to catch up on state news and to plan his day.

"It gives me quiet time to prepare for what I call combat banking," he said.



DOUGLAS TIPPENS
OKLAHOMA CITY DIRECTOR

A "farm boy by trade," Tippens applies his homegrown work ethic to his daily duties as president and CEO. He makes a list of 10 things to accomplish each work day. Some days he completes all 10; other days it's difficult to accomplish one.

"The biggest problem of being CEO is staying on task," he said.

Customer concerns, financial situations and other matters sometimes take precedence over his list. He's not at odds with customers and employees; most times he just struggles to get everything he wants accomplished that day.

"That's combat banking."

All community bankers face these hurdles, he said. Meeting customers' needs is a top priority; knowing what customers want is an ongoing task. And community bankers manage all of this while keeping shareholders in mind.

"The greatest learning I do is outside the bank," Tippens said.

Being in the community gives him the opportunity to listen and to assess the financial needs and strengths of the area. He also uses this information in his role on the Board of Directors of the Kansas City Fed's Oklahoma City Branch.

"We try to get rubber-meets-the-road info for the Fed," he said. "It's real-time information that can help them know what's going on in Oklahoma."

Tippens has always had an interest in finance. After earning a degree in agricultural economics from Oklahoma State University, Tippens has spent 30-plus years in the Oklahoma banking industry. He's served on the Oklahoma City Branch Board since 2008.

"The Fed is one of the most respected organizations enacted by Congress," he said. "The Kansas City Fed, especially, goes above and beyond to make sure that we do the right thing."

FOR MORE INFORMATION on the Kansas City Fed's directors, including bios, visit KansasCityFed.org/aboutus/leadership.

Beyond the Lemonade Stand

Michele Wulff is a former public school educator of 30 years and a 2007 recipient of the peer award "Excellence in Teaching Economics." As an economic education coordinator with the Kansas City Fed, she works to heighten financial literacy throughout the seven states of the Tenth District.

As summer boredom looms and kids seek activities to add excitement, they often launch a business to earn dollars toward vacation or other savings goals. This gives us a perfect opportunity to guide young entrepreneurs by discussing what it takes to make their venture successful. Developing a business plan with your assistance will give them confidence and enhance their success.

In my teaching days, I had a student with a true entrepreneurial spirit, who took ideas from my economics class to create her own summer business. Because dogs were her passion, she planned a dog-washing venture in her garage, complete with blow drying and final grooming. She even offered an optional nail-polishing service. We discussed marketing her business to the dog owners in her neighborhood. She set her prices after factoring in the cost of shampoo, dog brushes and "doggy" polish. Because of her detailed planning, her business was a great success and her profit helped her purchase a new laptop.

So how do you explain entrepreneurship in a kid-friendly way? Simply say that an entrepreneur is someone who takes a risk in producing a product or starting a new business. Explain that the risk involved is investing time and money into the business, without knowing whether the business will be successful. Offer some examples of famous entrepreneurs that your child may be familiar with. Begin with Walt Disney, who started with cartoon characters and developed a movie and amusement park empire. How about Oprah Winfrey, who became the first woman to produce her own talk show? Or Bill Gates, who had a vision for a new computer operating system that changed how Americans do their work?

Now for some entrepreneurial brainstorming on the type of business they may want. Remind them that their talents and skills are a good foundation for their business choice. Are they crafty? How about making jewelry, home décor or birdhouses to sell? Love to cook? Make flavored popcorn or homemade smoothies. Artistic? Give drawing lessons or bedroom redesign tips. Love to be in the limelight? Perform a play, concert or stand-up comedy act and charge admission.

Time to get to the nitty-gritty of developing their business plans. (See Page 26 for "What's Your Business Game Plan?") Ask them to follow these steps to put their business on the map:

- Create a clever name for the business to attract customers. Instead of "Gene's Tutoring Service," how about "Gene's Geniuses?"
- Decide if the business will be run by you alone or with a friend. Remember, partnerships help with the workload but cut the dollars earned per kid.
- Research the price of your product materials or ingredients. Will you need financing from mom or dad for up-front costs?
- Set the product or service price. Keep in mind that any money earned after costs are paid will become your profit, so pricing should be reasonable but allow room for earning dollars.

• Choose a sales location and time that will be conducive to pedestrian traffic. Connect with a garage sale or sporting event if possible.

• Design flyers or signs to market your product. Advertise its extra value compared to similar products. For example, “Jasmine’s Jazzy Jewelry uses unique, one-of-a-kind beads and original designs.

• Be prepared for possible problems, such as running out of product or adverse weather conditions.

Once the plan is set and your entrepreneur is ready to launch, discuss the importance of providing great customer service. Help them make a list of guidelines (See Page 27 for “Entrepreneur Etiquette”) for better customer satisfaction and sales. These could include always smiling and introducing themselves; speaking in a clear and pleasant voice; explaining why their product or service is a good buy; and remembering to say “Thank you,” even if no sale was made. Practice these techniques through the buyer/seller role-plays on Page 27 to make the child comfortable and confident. With your support, her entrepreneurial skills will blossom along with her sales!

Financial Education Resources

The Kansas City Fed is committed to promoting economic and financial literacy and greater knowledge of the Federal Reserve’s role by providing resources for teachers, students and the public. Visit our website at **KansasCityFed.org** for more information.

Federal Reserve Resources

“Do I Have What It Takes to be an Entrepreneur—and is My Community Ready?” (KansasCityFed.org)
This lesson explores entrepreneurship in rural economies as a key link to economic growth and development. For ages 14-18.

“Entrepreneurs and the Economy” (DallasFed.org)
This booklet examines the role of the entrepreneur in promoting economic growth and living standards.
For ages 14-adult.

Fiction Books

“Uncle Jed’s Barbershop” by Margaree King Mitchell
Uncle Jed sets and achieves his goal of opening a barbershop despite many setbacks along the way. (Related teacher lesson plan on StLouisFed.org) For ages 8-11.

“Tyler and His Solve-a-Matic Machine” by Jennifer Bourani
Tyler dreams of becoming an entrepreneur by inventing a machine that can complete his homework.
For ages 9-12.

Non-Fiction Books

“One Hen: How One Small Loan Made a Big Difference”
by Katie Smith Milway
This book shows how loans and entrepreneurship can positively impact an African community. (Related teacher lesson plan on StLouisFed.org)
For ages 8-11.

“Kidpreneurs: Young Entrepreneurs with Big Ideas”
by Adam and Matthew Toren
This book introduces the skills of starting, managing and growing a successful business and the rewards of entrepreneurship. For ages 9-12.

What's Your Business Game Plan?

DEVELOP YOUR BUSINESS GAME PLAN BY COMPLETING THE CHECKLIST AS YOU PREPARE FOR YOUR NEW VENTURE. ADD TO THE GAME PLAN IF NEEDED.

NAME YOUR NEW PRODUCT, SERVICE AND/OR BUSINESS: ______________________

DECIDE ON AN INDIVIDUAL OR PARTNERSHIP BUSINESS: ______________________

RESEARCH BUSINESS MATERIAL COSTS: ______________________

WILL YOU NEED A LOAN TO BEGIN? YES NO

SET YOUR PRODUCT PRICE, WITH PROFIT IN MIND: ______________________

CHOOSE A SALES LOCATION AND TIME: ______________________

DESIGN FLYERS OR SIGNS TO PROMOTE THE EXTRA VALUE OF YOUR PRODUCT.

THINK OF ANY POSSIBLE PROBLEMS AHEAD: ______________________

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WRITE YOUR ENTREPRENEUR ETIQUETTE TIPS AND PRACTICE YOUR SELLING SKILLS!

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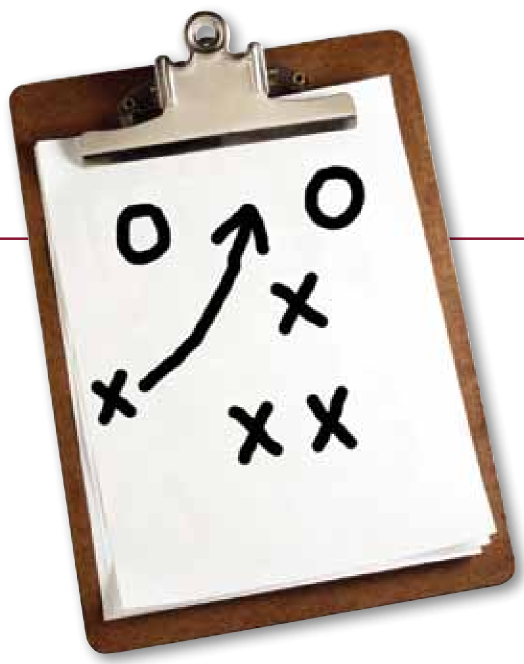

Taking Care of Business

ETIQUETTE IS A SET OF GOOD MANNERS THAT GUIDES YOUR BEHAVIOR. LIST THE CUSTOMER SERVICE ETIQUETTE YOU WILL USE IN YOUR BUSINESS BELOW. REMEMBER, GOOD SERVICE MEANS GOOD SALES!

I WILL ALWAYS ______________________________

I WILL TRY TO ______________________________

I WILL NEVER ______________________________

I WILL IMPRESS CUSTOMERS BY ______________________________

NOW PRACTICE USING YOUR ETIQUETTE THROUGH ROLE-PLAYING THE FOLLOWING SELLING SCENARIOS:

- YOU ARE SELLING KOOL-AID TO A THIRSTY CUSTOMER.
- YOU ARE SELLING ADMISSION TICKETS TO A PLAY YOU'VE WRITTEN.
- A CUSTOMER IS INTERESTED IN BUYING YOUR ARTWORK FOR HER HOME.
- YOU ARE TRYING TO CONVINCE A CUSTOMER TO HIRE YOU AS A PET-SITTER.
- YOU HAVE ONE MORE BIRDHOUSE TO SELL.
- SOMEONE WHO NEEDS YOUR TUTORING SERVICES IS NOT SURE HE WANTS YOUR HELP.

New research director draws on private-sector experience

Troy Davig spent two years as a senior economist at Barclays Capital (now Barclays) in New York City. The experience showed him firsthand how the markets respond to the Fed's signals, whether real or perceived, as well as its actions.

He made the move to Wall Street after he worked from 2005 to 2010 in the Economic Research Department at the Kansas City Fed. Davig now will draw on his unique experience as an economist in both the private and public sectors as he leads the Kansas City Fed's Economic Research Department.

Davig will also draw on his experiences in advising President Esther George.

"My goal is to provide world-class support for Esther" he said. "We have an excellent staff and resources to track the economy and brief Esther on the issues central to her role on the FOMC (Federal Open Market Committee). I am looking forward to Esther's and the Bank's role in the monetary policy discussion in the years ahead."

Davig served as an assistant professor from 2002 to 2005 at the College of William & Mary in Williamsburg, Va. He also served as a visiting scholar at the Reserve Bank of New Zealand and at Indiana University's Center for Applied Economics and Policy Research. He has a B.A. in economics from the University of Colorado, Boulder, and a Ph.D. in economics from Indiana University.

Read Davig's research at www.KansasCityFed.org/research.

Kansas City Fed offers educational support to small businesses

Starting a small business can turn into an overwhelming endeavor. That's why the Kansas City Fed developed Small Biz Day to help ease the burden for promising entrepreneurs.

"The purpose of Small Biz Day is to connect potential and existing small business owners with local resources and organizations that can help them," said Dell Gines of the Kansas City Fed's Omaha Branch, which created the free community program.

The event features a series of sessions, which are offered in three tracks: a start-up track, an existing business track and a Spanish language track. Participants pick the track and sessions that meet their needs. Service providers also are available to answer questions and provide resources throughout the event.

Through this event, owners learn how to plan for, finance and market a small business.

Piloted in Omaha last December, Small Biz Day events will take place throughout the District this year. The first one was April 21 in Kansas City.

Watch the event listing or subscribe to the events RSS feed at www.KansasCityFed.org/events for the next Small Biz Day.

Felix named Denver Branch executive

The Kansas City Fed named Alison Felix assistant vice president and Denver Branch executive.

In this role, Felix will represent the Kansas City Fed throughout the Denver region, manage the Kansas City Fed's relationship with its Branch Board of Directors, maintain an active research agenda in regional economics, and serve as the local coordinating leader for internal Branch activities.

"I am looking forward to establishing connections with banking and business leaders in Colorado, New Mexico and Wyoming," she said. "Their insights help us get real-time information about what's going on in the economy."

Felix joined the Kansas City Fed in 2007 as an economist in the Regional Affairs Department in Kansas City. She was promoted to senior economist in 2010. During her career, Felix has published various research articles in Fed publications, participated in pre-Federal Open Market Committee briefings, and provided economic presentations throughout the region. She has a strong research background in public finance issues.

Felix has a B.A. in Economics and Mathematics from Kansas State University, and M.A. and Ph.D. from the University of Michigan.

Read her research at www.KansasCityFed.org/research/regionaleconomy.

Student Board program wraps up

The 24 members of the Kansas City Fed's inaugural Student Board of Directors program celebrated their accomplishments April 11 with a pinning ceremony and a special event.

The yearlong program gives high school students from Kansas City, Mo., and Kansas City, Kan., the opportunity to learn about the Federal Reserve, personal finance and potential career opportunities, and gives them a behind-the-scenes look at how the Kansas City Fed and local economy function.

The ceremony included a special video commemorating the members' experience. Kansas City Fed President Esther George, Kansas City Fed Board of Directors Chairman Paul DeBruce and U.S. Rep. Emanuel Cleaver of Missouri all spoke.

"You are all at the top of your class and you're involved in this program," Cleaver said. "You are ahead. Now you have to stay ahead."

The students mingled with the Kansas City Fed's Board of Directors, senior management and employees during a reception before the ceremony.

Devin McClenton, a student at the Southwest Early College Campus, said the program helped him shape his future plans more than he expected.

"I thought the group broadened my view about the Fed," he said.

Learn more about the Student Board program at www.KansasCityFed.org/education. Watch the commemoration video on the Kansas City Fed's YouTube channel.

Kansas City Fed works to spread Money Smart message

The Tenth Federal Reserve District Money Smart initiative—called Jump$tart Your Money in Oklahoma—offers hundreds of programs, classes and activities to consumers of all ages and income levels.

During a week in April, financial institutions, nonprofit groups, government agencies, schools and libraries carry out the educational events in conjunction with national Financial Literacy Awareness Month. The week showcases these organizations' educational resources, strengthens private-public partnerships, engages the media and connects people with those who can help them learn.

The estimated total reach of Money Smart in the Kansas City area included 441 events and 9,258 participants. There were roughly 153 financial education seminars and 3,050 financial education programs offered. Teach Children to Save Day, which sends volunteers into classrooms to share a financial education lesson, reached 288 classrooms and an estimated 6,208 students. When compared with 2011 events, the reach of Money Smart increased by 29 percent and the number of participants by 48 percent.

Learn more about financial education programs offered by the Kansas City Fed at http://www.kansascityfed.org/education.

Seminars help banks navigate dynamic regulatory environment

Each year for the past 20 years, the Kansas City Fed has joined its experts with management, directors and staff members of banks, bank holding companies, and savings and loan holding companies to share perspective and offer a chance for dialogue on the regulatory environment.

The 2012 Regulatory Update Seminar, "Navigating Current Banking Conditions," took place in April with 10 seminar sessions in Kearney and Omaha, Neb.; Kansas City, Mo.; Tulsa and Oklahoma City, Okla.; Wichita, Kan.; Montrose and Denver, Colo.; Casper, Wyo.; and Albuquerque, N.M.

The seminars provide a forum for the Kansas City Fed to provide information on current economic and banking conditions in the Tenth Federal Reserve District and enhance banker understanding of the examination process. The discussion also addresses emerging risks and informs bankers of the various forms of outreach that the Federal Reserve provides.

For current briefs on the Kansas City Fed, follow us on Twitter @KansasCityFed.

WHAT IS THIS?

In the spring issue of TEN, we asked readers to submit guesses about an object in a photo. While a majority of the guesses were correct about the object's ad hoc secondary function at the Fed (when it was in use) only one reader knew the exact answer.

Here are few of the answers we received:

Steve Humphrey of Savannah, Mo., wrote: "Lightning rod."

Ron Saylor of Hastings, Neb., wrote: "The item is a fancy lightning rod placed on top of the building."

Beth Seers of Greeley, Colo., said: "It looks like the top of a lightning rod or something that sits on the peak of a skyscraper."

Those answers were close, but Bill Grant of Tonganoxie, Kan., was on the mark:

"I believe the picture on Page 28 of the Spring 2012 Ten magazine is a ball finial from the top of a flag pole atop the former KC Fed."

The flagpole topper, which now resides in the archives, was the highest point of the former Kansas City Fed building at 925 Grand Blvd.

It was struck by lightning several times, but it is officially recognized as the flagpole topper.

Grant says he is familiar with the flagpole topper because he has one in his office from the historic First National Bank in Topeka that was imploded in 1995.

Thank you to those readers who took the time to send us answers.

The following banks in the Tenth Federal Reserve District are celebrating one, five, 10, 20 or more years as Federal Reserve members in July, August or September.

Uinta Bank	Mountain View	Wyo.	92
Wahoo State Bank	Wahoo	Neb.	80
Gunnison Bank and Trust Company	Gunnison	Colo.	72
Farmers State Bank	Stanberry	Mo.	71
Union State Bank	Clay Center	Kan.	70
Security State Bank	Basin	Wyo.	64
Bank of Cushing	Cushing	Okla.	32
Montrose Bank	Montrose	Colo.	28
Anadarko Bank and Trust Company	Anadarko	Okla.	20
My Bank	Belen	N.M.	20

Making a connection

Regional Federal Reserve directors serve as a conduit between their communities and the nation's central Bank. They provide more than just data for monetary and fiscal policy decisions; they connect the Fed to people who make local economies work. An example of this is the recent visit Kansas City Fed President Esther George made to northern New Mexico, where Denver Branch Director Anne Haines Yatskowitz (See related story, Page 22) introduced George to local leaders and business owners through her organization Accion New Mexico-Arizona-Colorado. The nonprofit organization provides entrepreneurs access to credit, small loans, training and other tools they need to start and support a small business.

GEORGE, RIGHT, spoke to the owners of the Carniceria La Especial, a meat market and corner store of Mexican specialty goods in the South Valley of Albuquerque, N.M.

KANSAS CITY FED PRESIDENT ESTHER GEORGE spoke to community and business leaders at an event sponsored by Accion New Mexico-Arizona-Colorado during a recent trip to northern New Mexico.

IN THE PHOTO, LEFT, GEORGE, CENTER RIGHT, AND DENVER BRANCH DIRECTOR ANNE HAINES YATSKOWITZ, right, who is president and CEO of Accion, spoke with the owner and employees of Golden Crown Panaderia, a New Mexico neighborhood bakery in Albuquerque.

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TEN magazine is a quarterly publication of the Federal Reserve Bank of Kansas City focused on the connection between the Bank's research and the Tenth Federal Reserve District. **TEN** also features articles on the Federal Reserve's history, structure and operations.

The Federal Reserve System

Congress created the Federal Reserve in 1913 to bring financial stability after a number of banking panics. It is the nation's third central bank. The first, established in 1791, and the second, created in 1816, were each operational for 20 years. In both cases, its charter failed to be renewed and the banks closed.

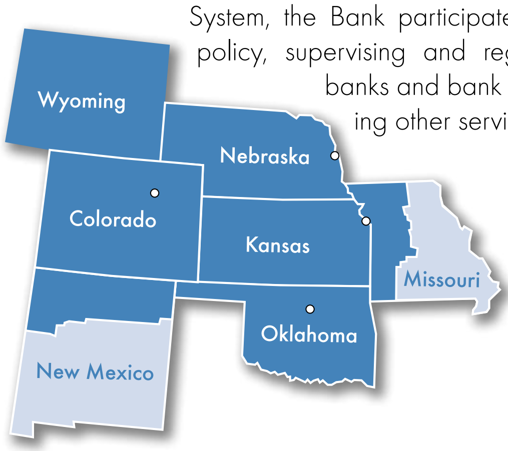
With the Federal Reserve Act, Congress sought to create a central bank the public would be more likely to support by making it "decentralized" with more local control. This new structure was designed to overcome one of the primary weaknesses of the previous central banks: public distrust of an institution that many felt could potentially be under the control of either government or special interests. The new central bank is a network of 12 regional Federal Reserve Banks, located throughout the country and under the leadership of local boards of directors, with oversight from the Board of Governors in Washington, D.C., a government agency.

The Federal Reserve is considered to be independent within government and broadly insulated from political pressures. While members of the Board of Governors are nominated by the president of the United States and confirmed by the Senate, the Federal Reserve's regional structure, including local boards of directors and advisory councils, ensures that views from a broad spectrum of the public nationwide contribute to the central bank's deliberations.

President Woodrow Wilson signed the Federal Reserve Act on Dec. 23, 1913, and the 12 regional Federal Reserve Banks opened on Nov. 16, 1914.

The Federal Reserve Bank of Kansas City

The Federal Reserve Bank of Kansas City and its Branches in Denver, Oklahoma City and Omaha serve the Tenth Federal Reserve District, which encompasses Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming. As a part of the Federal Reserve System, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing other services to depository institutions.



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