

TEN

FEDERAL RESERVE BANK OF KANSAS CITY

Winter 2012

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Caught in the lending grind

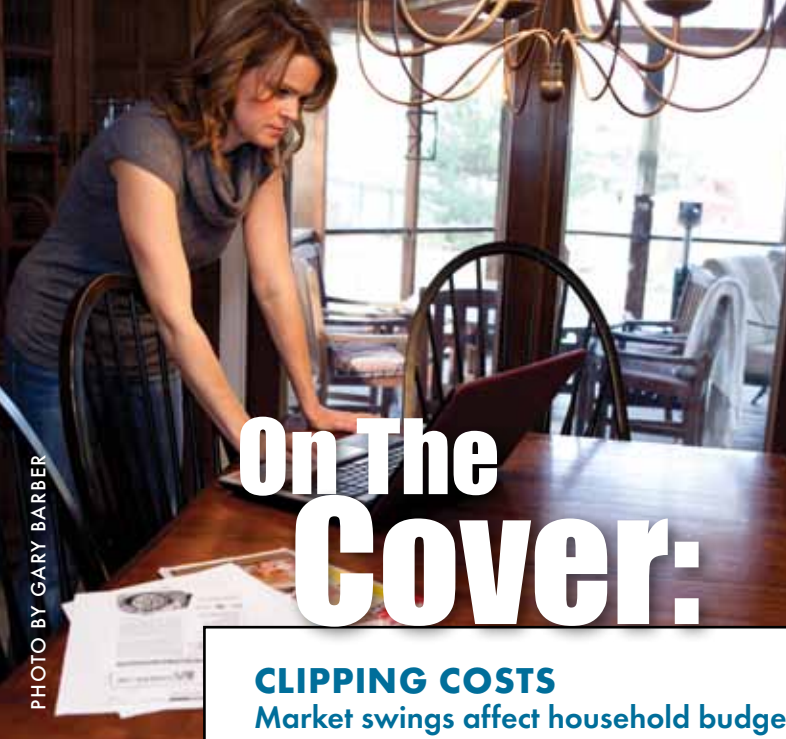
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Surveying community banks

Clipping costs

Market swings affect household budgets





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A public connection

It is an honor to have been selected as president and chief executive officer of the Federal Reserve Bank of Kansas City, a position that both oversees Federal Reserve activities in this part of the country and represents our region on matters of national policy in Washington. As a native of the Tenth District, I feel a special sense of duty and responsibility to this area.

This is, of course, my first column as president of the Kansas City Fed, and it is a privilege for me to continue the tradition set by my predecessor, Tom Hoenig, who used this space to communicate openly and directly about the Federal Reserve's three mission areas: setting monetary policy, supervising and regulating financial institutions, and providing financial services. Tom's leadership during the last 20 years provides a clear example of how to fulfill each of these responsibilities through dedicated service, experience and courage.

In the coming months, I will have ample opportunities to share my views and insights on the economy and to discuss the central bank's role in assuring the stability of the financial system. These views have been shaped by my nearly 30 years in banking supervision and in other roles in the Federal Reserve. Since joining the Kansas City Fed in 1982, I have spent countless hours traveling the major cities as well as the back roads and highways of our seven-state District, first as a bank examiner, and more recently, as first vice president. During that time, I developed many relationships that add to the perspective I bring to my new role.

I can't think of a time when circumstances have been more challenging for monetary policy. The federal funds rate has been at zero since the beginning of the financial crisis. Now, the economy is experiencing modest growth but is still dealing with stubborn high levels of unemployment. In addition, implementation of the Dodd-Frank Act, the existence of a highly

concentrated banking industry, rapid changes in payments, and the growth of nonbank financial service providers present numerous new issues that we must be prepared to address.

The structure of the Federal Reserve, and its balance of public and private interests, is uniquely designed to allow diverse viewpoints from across the country to be used to inform the central bank's work. Our boards of directors in Kansas City and each Branch office, along with our advisory councils, play an important role by providing grass-roots information on how the economy is working on a local level. The founders of the Federal Reserve designed the central bank this way in order to keep it connected to the public it serves, and this structure has served the United States well for the last century.

As I visit the communities of the Tenth District again—this time as president—I look forward to continuing the partnerships we have formed over the years to ensure that our region's voice is heard in national discussions.

I, along with the 1,300 Bank employees working from offices in Kansas City, Denver, Oklahoma and Omaha, am excited to continue to serve the Tenth District as we face the challenges of the future.



A handwritten signature in black ink that reads "Esther L. George". The signature is fluid and cursive, written in a professional style.

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



Caught in the Grind

What can spark small business lending?



After graduating from the University of Nebraska in 2008, Adam Rief chose to return home to Bancroft, Neb., and, with the help of his dad, grow his fledgling business designing and manufacturing custom farm equipment.

In two years, Rief's business, Rief Design & Manufacturing, grew to the point that he needed a larger building. But when he applied for a \$90,000 loan from one bank where he'd done business before, he was turned down.

"I was sort of shocked," said Rief, 25. "I guess they felt uncomfortable lending that much money to someone my age with little credit history."

Rief didn't give up. The next day he went to First National Northeast Bank in Oakland, Neb., where a senior loan officer decided to take a chance on the ambitious young entrepreneur. She referred Rief to the Nebraska Enterprise Fund (NEF), based in Oakland, Neb., a micro/small business lender that helped refine his business plan and agreed to guarantee part of the loan. In the year since then, Rief has hired part-time help and sold equipment as far away as Montana.

"There is no way you can grow a company without collateral, and there is no way to get collateral without a loan," Rief said. "Numbers only say so much—having drive should count for something too."

Since the recession, anecdotal accounts of entrepreneurs like Rief struggling to acquire new loans have increased, despite well-publicized government efforts to jump-start the economy with policies designed to boost lending to small businesses.

Jim Wilkinson, an assistant vice president and economist at the Federal Reserve Bank of Kansas City, says data that he and former Bank research associate Jon Christensson examined confirm the ongoing challenges. Their research suggests that two key strategies policymakers implemented to expand the supply of new loans—raising bank capital and reducing problem loans—are largely ineffective and result in only a relatively small fraction of new loans.

"These (government) policies that try to encourage bank lending don't seem to be very effective," he said. "At least our results don't show they are effective in increasing the supply of small business loans."

Still, while Wilkinson says the results are not encouraging, understanding the factors that affect the supply of loans may help policymakers to design programs that more directly support small business lending and, therefore, job growth.

Community development groups say the study reinforces their belief that alternative financing mechanisms, including partnerships

between banks and micro-lenders, like the one that helped Rief, can assist small businesses get a leg up, at least through the recovery.

“I get excited with research like this because I see an opportunity to frame a national dialogue on how we can do things better,” said Leslie Hoffman, vice president of lending for ACCION New Mexico-Arizona-Colorado, a community development finance institution that works with banks to make loans to small businesses.

Good intentions

Wilkinson and Christensson were at first surprised by their findings, which focused on community banks in the Tenth Federal Reserve District, a region that includes Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming. It seemed logical that if capital and problem loans played a role in the decline in bank lending, then increasing capital would induce banks to make new loans, which would generate interest income, leading to more capital, and more loans.

Coming out of the recession, policymakers looked to new businesses to generate jobs. The U.S. economy had lost 9 million jobs, and the Bureau of Labor Statistics estimates that employment fell from a peak of 138 million in January 2008 to a low of 129 million by February 2010. But small businesses were hurting. Lending to all U.S. businesses declined 22 percent from September 2008 to June 2010.

As capital declined and problem loans rose, community banks grew more cautious. Business lending by community banks declined 15.6 percent during the recession and financial crisis. At the same time, bankers reported a weakened demand for loans from qualified small business borrowers. Businesses experiencing sagging sales were more likely to cut back, rather than expand their businesses, Wilkinson said.

Hoping to encourage banks to lend and small businesses to expand, policymakers

implemented several policies, including the Troubled Asset Relief Program (TARP), the FDIC's Legacy Loan Program and the Small Business Lending Fund, to raise the supply of available small business loans.

Bank capital provides a source of funding for new loans and acts as a cushion to absorb unexpected losses, Wilkinson said. Theoretically, increasing capital should correlate well with a greater capacity to make loans; however, the theory didn't pan out when the researchers closely analyzed the data.

“Programs that try to increase capital or reduce problem loans don't seem to translate well into greater lending,” Wilkinson said.

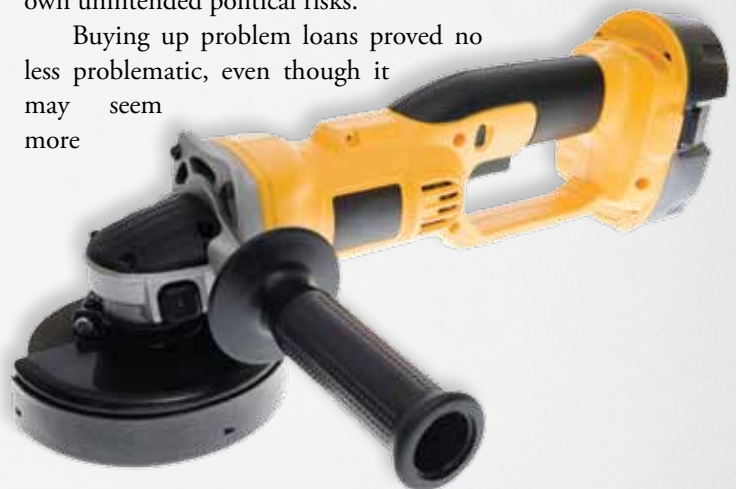
Unintended consequences

Wilkinson and Christensson's research suggests that strategies designed to increase bank capital require large infusions of funding to effect even small changes in lending, making the approach “an inefficient option for increasing small business lending.”

For example, the researchers calculated that, based on conditions in Tenth District community banks at the end of 2010, a one-time capital infusion of \$502 million would raise small business lending over four quarters by only \$59 million. Part of the reason for this wide disparity is that business lending, to begin with, accounts for only 14 percent of community bank lending.

Wilkinson says, in some respects, it might be more effective “to give money directly to small businesses in the form of grants or loans.” Such policies, however, are fraught with their own unintended political risks.

Buying up problem loans proved no less problematic, even though it may seem more



effective because it removes bad assets that weigh down a bank's portfolio. Wilkinson says the strategy is actually more difficult to implement, citing the FDIC's experience as an example.

Although the FDIC was able to find investor groups willing to buy problem assets as part of its Legacy Loan Program, banks were reluctant to put problem assets up for bid. The banks were worried that the bids they received "might be a lot lower than they believed the assets were worth," Wilkinson said.

In addition, selling a problem asset at a loss had the potential to lower the value of many other assets in a bank's portfolio.

"Not only would they have to take losses

Katherine Hunter, a senior vice president at UMB Bank in Kansas City, sees bankers returning to more conservative, traditional underwriting standards that may appear as if they are tightening.

"There are businesses that got loans five years ago that would not have today, under more traditional lending practices," she says.

Now, she says, with regulators looking more closely at small-loan portfolios, "the industry, as a whole, is circling back and scrutinizing some of the lending practices they adopted when the economy was so strong.

"I'm not saying they made bad choices," Hunter said. "But they (lenders) took more modern approaches to lending, and now they

“ There are businesses that got loans five years ago that would not have today, under more traditional lending practices. ”

on the assets they sold, but they might have to mark down other parts of their balance sheet," which might cause examiners to raise their eyebrows, Wilkinson said.

As a result, many banks simply opted out of participating in the government programs.

For example, so few banks have taken advantage of the Small Business Lending Fund that \$26 billion of the original \$30 billion remains. A recent *Wall Street Journal* article states that some of the banks that received funding used it to pay back their TARP loans.

Return to traditional underwriting

Are lenders remaining tight-fisted, as some small businesses claim?

Wilkinson sees a combination of factors. Banks may still be gun-shy, and therefore want to hold on to capital to absorb future losses. And some businesses with shaky cash flow are hanging back, afraid to take on more debt.

"These things feed on each other in a sort of negative reinforcing way," Wilkinson said.

are taking more traditional approaches, and because of that, they are finding it harder to approve loans."

David Long, executive director of Heartland Business Capital, in Overland Park, Kan., describes the change in small business lending another way.

"The lending pie" is simply smaller than it was in 2007, he said. Banks are still competing to attract highly capitalized businesses that have strong projects going, and there is little appetite left for small businesses and startups. "There are no startup loans being made right now," said Long, whose company offers Small Business Administration 504 loans, which provide gap financing to small businesses that might not otherwise qualify for bank loans.

Creating lending relationships

Collateral is a stumbling block for many entrepreneurs. They often rely on their own assets as collateral, including their homes, which may have lost value in the recession. As a result, their credit takes a hit. The businesses

may also have made several late payments on previous loans, contributing to the sense that they are poor credit risks.

Maria Meyers, director of the University of Missouri-Kansas City Innovation Center, believes perception is partly to blame. She says the general perception in the market is that banks aren't lending, so small businesses don't ask.

"We need to bring the two groups together to make the connection," she said.

Small Business Development Centers (SBDCs), located at both four-year and community colleges, increasingly act as liaisons between fledgling businesses needing technical support and lenders looking for high-quality applicants. They can help small businesses hone loan applications, address credit issues and then link businesses with receptive lenders and providers of gap financing, such as the SBA.

Other organizations that assist small businesses navigate the passage from startup to successful loan applicant include SCORE and U.S. SourceLink, a national association of

small business development coalitions.

"To get a bank loan right now, you have to be prepared," Meyers said. "And you need a trusted referral. It's all about referrals."

Hoffman, of ACCION, said bankers also are becoming more aware of the option to refer a potential client to a business development organization for help before deciding to deny a loan application.

"We work with a lot of bankers who are working hard to support their customers," Hoffman said. "They provide us with critical support through operating grants and lending capital. But just as importantly, they serve as a voice for us in the community by providing referrals to our organization."

One measure of success for those relationships, Hoffman said, is "half of our lending volume this year has been to startups."

The uncertain road forward

Adam Rief is an example of the trend Hoffman describes—he never would have

ADAM RIEF FOUND DIFFICULTY IN PROCURING A BANK LOAN for his growing small business, Rief Design & Manufacturing, in Bancroft, Neb. Major banks have little appetite today for small business and startup loans; however, Rief found support through an enterprise fund that helps small business owners find financial assistance.



gotten a loan if First National Northeast Bank Vice President Marlene Anderson hadn't made the extra effort to refer him to the Nebraska Enterprise Fund.

"She's the reason we got the loan—100 percent," he said. "I had no idea there was anything out there like this." Though Rief had enough collateral for part of the loan, he didn't have enough for all of it. Nebraska Enterprise Fund was able to guarantee a smaller portion of the loan using a CD it held on deposit at First National and pledged as security for Rief's loan. Northeast Economic Development, Inc. from Norfolk, Neb., an NEF program partner and borrower, participated in the loan package also.

Rief Design & Manufacturing now has clients in Iowa, Kansas, Montana, Nebraska, North Dakota, South Dakota, Wisconsin and Wyoming. Rief has custom-designed and produced more than two dozen farm implements, which he says result from sketches he makes on paper and then refines on his computer.

Anderson said both the bank and Rief benefitted.

"It gave the bank additional collateral and allowed Adam to expand his business." She said the bank saw Rief as a young go-getter who could contribute to the community's economic lifeblood. "So we went the extra mile to see if we could help him."

Glennis McClure, program manager for the Nebraska Enterprise Fund, says the fund has experienced growing demand for its services from small businesses. But many are short on credit and collateral, which is why banks are pulling back.

"We are reaching out to banks a lot more with our CD Guarantee," she said. The loan-enhancement program is catching on with banks: "Anymore it seems very natural that a bank seeks a guarantee."

Alternative lending partnerships, micro-lending enterprises and gap financing have surely provided new options since the recession.

Still, for now, bank lending remains the most significant resource for new small business loans. And the positive news is that bankers such as Hunter are optimistic that the tide is turning.

"While some financial institutions are still working their way through, I'm a believer that banks are jumping back in," she said. "The spigot is being opened back up."

With signs that banks are beginning to look for new and expanded opportunities to lend to small businesses, Wilkinson thinks there is a pressing need for ongoing research on ways to design sustainable programs and policies to support an increase in small business lending and job growth, but no single approach or policy has yet been shown to work the best.

"We wanted to put our research into what is hopefully an expanding base of knowledge about small business lending," he said.

"It's one piece of the puzzle. The better we understand it, the better the programs and policies we are able to design."



BY PAUL WENSKE, TEN CONTRIBUTING WRITER

FURTHER RESOURCES

"CAN THE SUPPLY OF SMALL BUSINESS LOANS BE INCREASED?"

By Jim Wilkinson and Jon Christensson
KansascityFed.org/publications/research/er

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

Survey of Community Institutions

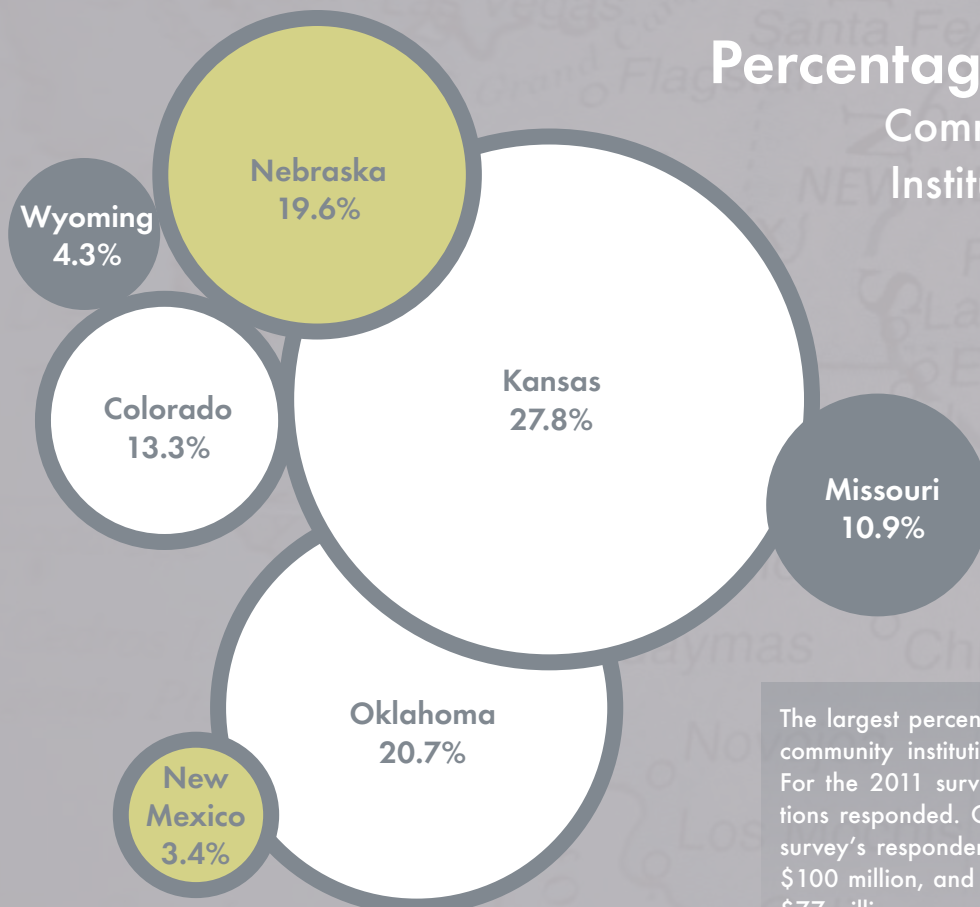
Community institutions—those with assets of less than \$1 billion—play an important role across the Tenth Federal Reserve District. These institutions maintain a close relationship with their local economies, which are often rural or small urban areas. Although bank consolidation over the past 20 years has led to larger institutions holding more assets, community banks still hold the majority of deposits and have branches in more than half the counties in the United States.

In 2011, the Kansas City Fed conducted a survey of the District's community institutions to get a better idea of the challenges they face. The survey has been conducted about once every three years and asks institutions about their most significant con-

cerns, competition, expected changes in revenue and earnings, and business prospects. This was the first time the survey included thrifts and credit unions, along with banks.

"The survey provides us with a nice snapshot of the current state of community institutions," said Assistant Vice President and Economist Jim Wilkinson, who helped lead the survey effort. "Understanding these institutions helps us be a more responsive and effective regulator for the community banks we supervise."

Full survey results are available at www.KansasCityFed.org/banking/community

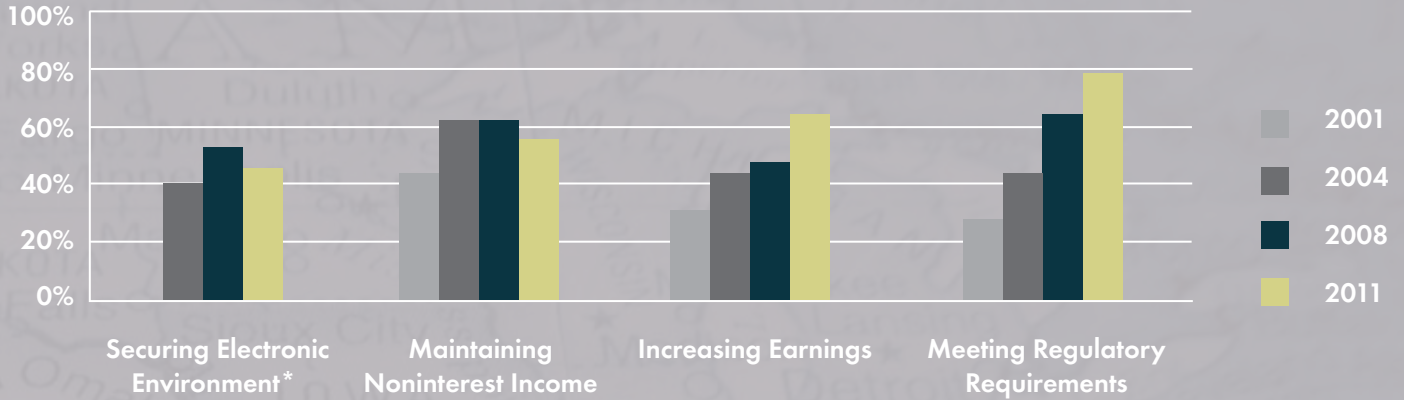


Percentage of Tenth District Community Depository Institutions by Location

The largest percentage of the Tenth District's community institutions is located in Kansas. For the 2011 survey, 322 community institutions responded. Close to 60 percent of the survey's respondents had assets of less than \$100 million, and the median asset size was \$77 million.

Community Banking Challenges

% of respondents citing issue as a "significant" challenge

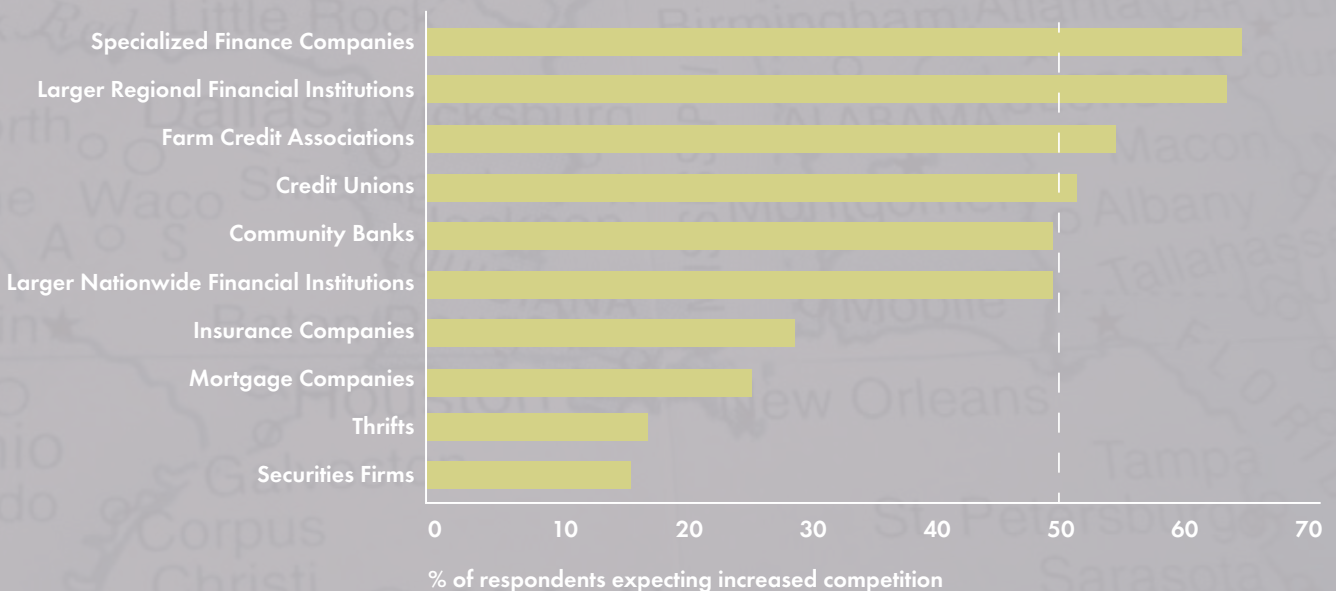


In 2011, more banks identified "meeting regulatory requirements" as a significant challenge than any other concern. This challenge has grown steadily since 2001, when only about a quarter of banks cited this as a significant challenge.

* data not available for 2001

Competition

Expected Loan Competition Over the Next Three Years



More than half of all respondents expect loan competition to increase from finance companies specializing in machinery and cars, larger regional institutions, farm credit associations, and credit unions.



CLIPPING COSTS

Market swings affect household budgets

Like many others, the housing crisis forced Kelly Snyder's family to take a hard look at the household budget.

As a stay-at-home mother of two young children, Snyder and her husband relied on his job as a remodeling contractor for their income.

Unfortunately, the slowdown that hit the entire economy—and housing in particular—also resulted in a significant decline in the number of customers willing to consider home improvement projects. A year after the official start of the last recession, Snyder's family was feeling the pinch.

"During the last three months of 2008, we had no income," said Snyder, who lives in a

suburb of Kansas City. "We have always tried to live below our means, but during that time, we were forced to pull from our savings because no one wanted to spend money on housing."

The potential for little or no future income led the Snyders to search for ways to cut back. One place in particular, the monthly grocery bill, seemed to be a logical place to start.

Snyder began researching ways to save money at the supermarket, and soon, she caught on to what has since become a burgeoning trend—scouring newspaper inserts and websites for the latest coupons and discounts from manufacturers, retailers and others.

Within a few months, Snyder became an expert in penny-pinching techniques, and by using coupons and carefully planning her

shopping trips, she has cut her family's grocery bill from about \$800 a month to less than \$300. Now, through her own website and by offering seminars at offices and churches across the Kansas City metro area, Snyder passes on her knowledge to others on the best coupon-clipping strategies and other budget-cutting tricks

"Even though we are spending much less on groceries, we are eating better and are even able to increase the amount of organic food we buy," Snyder said. "If you can take off just \$100 a month from your grocery bill, it will add up."

Snyder doesn't count herself among the "extreme couponers" featured on reality television shows who stockpile large amounts of goods just to save money. But, her more modest approach highlights some of the steps households across the country took when the economy turned for the worse.

Over the last several decades, the stock market and the housing market have experienced numerous booms and big busts. Households' overall wealth is largely dependent on these two markets, so changes in the value of stocks and homes have a direct impact on how much people spend.

"Changes in household wealth, primarily in the housing and stock markets, can have a measurable impact on overall consumption," said Oklahoma City Branch Executive and Economist Chad Wilkerson, who, along with Associate Economist Megan D. Williams, recently studied the effects of household wealth swings, which can be difficult to measure and vary from state to state.

Accumulating wealth allows households to save for retirement, grow assets to provide for heirs, build up emergency funds and determine current consumption. The stock market plays a role in determining household wealth and, ultimately, consumption, but the housing market's impact is likely stronger, the economists say.

"Consumption can be more sensitive to changes in the housing market," Williams said.

"As home prices continue to fall across the country, the question is, 'How will that affect household wealth?'"

Measuring household wealth

In their analysis, Wilkerson and Williams constructed estimates of housing and stock market wealth for each state, with a focus on the Tenth Federal Reserve District, which includes all or parts of Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and New Mexico.

The economists' state estimates of household wealth relied on data on stock dividend income from the Bureau of Economic Analysis and the Fed's Flow of Funds report, as well as housing data from the Federal Housing Finance Agency and the U.S. Census Bureau, among other sources.

For the Tenth District, the economists discovered that estimated per capita housing and stock market wealth was nearly as high as the nation as a whole. However, Wilkerson and Williams found wide variations among individual states:

- Wyoming and Colorado were the wealthiest Tenth District states. Stock market wealth in Wyoming is more than twice that of the nation or any other Tenth District state. The researchers attributed this to the fact that Wyoming has no personal or corporate income tax, making it an attractive place to hold financial assets. In both states, housing wealth is nearly 20 percent higher than the nation, reflecting relatively higher home prices.

- Nebraska and Kansas have household wealth levels that are similar to the nation. Housing wealth in the states is well below the national average due to lower home prices, but the states' stock market wealth is larger than the rest of the nation, which may be due to higher-than-average incomes.

- Missouri, New Mexico and Oklahoma have household wealth that is slightly lower than the nation. New Mexico's lower stock market wealth could be due to the fact it has

the lowest per capita income in the District. Household wealth in Missouri and Oklahoma is hampered by home prices that are some of the lowest in the nation.

In addition, the pattern of growth in wealth has varied somewhat from national trends. “Over the last two decades, stock market wealth in the District has generally tracked the national pattern,” Wilkerson said. “There is a larger gap between the nation and the District when it comes to housing wealth.”

Wilkerson and Williams’ analysis puts the Tenth District’s current household wealth at 98 percent of the national average, but during the housing boom in 2005, it was about 90 percent of the national average. After the farm, energy and real estate busts in the 1980s, it was even lower, totaling about 85 percent of the national average.

Notably, Kansas, Nebraska, Oklahoma and Wyoming have seen especially strong wealth gains over the past 20 years, buoyed in part by stable home prices.

“These states were hit exceptionally hard by the energy and ag crises in the 1980s,” Wilkerson said. “They had more room to rebound in the 1990s, and the momentum

carried through the 2000s as they’ve seen steady home prices compared to the rest of the nation since 2005.”


During the housing boom, Wilkerson adds, housing wealth on the national level rose quickly as home prices across the country skyrocketed. Home prices were steadier in the Tenth District, which limited housing wealth in the region but resulted in relatively fewer problems during the national crash.

While home prices didn’t rise quickly in the District, these relatively stable home price increases meant prices didn’t have as far to fall when the crash came, and in fact, the national home price collapse has been three times greater than in the Tenth District, Williams said.

Economic effects

As households accumulate wealth, the results are sometimes not seen until several years or decades later when, for example, retirees begin to tap the assets they’ve built up during their working years or when wealth is transferred to heirs.

However, data on consumption and income suggest that changes in wealth during the 2000s did have an impact on short-term



KELLY SYNDER found several ways to cut household costs and offset the current economy’s effects on the household income, including the use of coupons and bargain shopping for items her family needs.

household consumption. The clearest example can be found in that decade's housing boom.

"In the first part of the decade, spending on consumption rose faster than disposable income," Wilkerson said. "The difference was probably a result of families drawing on their wealth."

Housing wealth was the likely source, Wilkerson adds. Much of the wealth households have in the stock market is tied up in restricted retirement or pension accounts, making the funds less accessible than housing wealth, which could easily be tapped through home equity loans during the boom. This wealth can translate into more spending.

Studies cited by Wilkerson and Williams suggest that for every \$1 increase in housing wealth, consumption by households can rise by 6 to 10 cents, compared to just a 2-cent increase in consumption for every \$1 increase in financial wealth.

This effect also works in the opposite way. A 2010 study by economist Jeremy Leonard found that households might have reduced their consumption during the housing collapse even more than they expanded it during the boom. Leonard suggests households expected home prices would continue to fall, so they reduced their consumption in anticipation of future declines in household wealth.

For Snyder, the coupon-clipper whose household income also depends on the housing sector, uncertainty in the housing market played a significant role in her spending decisions and strategies to save money.

"The recession has definitely increased the way people think about what they're buying, and how much they're paying for it," Snyder said. "People aren't getting raises, yet costs have increased. You've got to find a way to cut somewhere."

The outlook

The forecast for the housing market continues to look cloudy, Williams and Wilkerson say. If current trends hold, home prices in the United States could continue

falling. Though home prices in the District have held up better than the nation in recent years, some states could experience a downturn in housing wealth, given current imbalances in their housing sectors.

However, long-term housing price prospects appear "somewhat better" in the Tenth District than the nation, Wilkerson says. As long as ratios of home prices to incomes remain within their current ranges, the region's housing market could fare relatively well.

Of course, there will be variations among states.

"If home prices continue to decline on a national level, consumption could be hit in a sizable way," Wilkerson said. "This impact could be felt in some Tenth District states."

That worry is one reason why Snyder plans to continue her penny-pinching strategies.

She might not be alone among other Tenth District households.

"It does take work to find ways to save, but I'll keep doing it because I have been successful at it," she said. "It goes beyond the grocery store. We're negotiating prices for other things, like insurance, and we'll absolutely continue to look for more places to save."



BY BILL MEDLEY, TEN CONTRIBUTING WRITER

FURTHER RESOURCES

"BOOMS AND BUSTS IN HOUSEHOLD WEALTH: IMPLICATIONS FOR TENTH DISTRICT STATES"

by Chad Wilkerson and Megan D. Williams
KansasCityFed.org/publications

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

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 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, thought 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:



PHOTO BY MATTHEW STAVER

LU M. CÓRDOVA
KANSAS CITY DIRECTOR

LU M. CÓRDOVA

Initially, Lu Córdova was not sure she wanted to be a director. She had spent three years on the Kansas City Fed's Economic Advisory Council before being appointed by the Board of Governors to the head office board in 2005. Her hesitation stemmed from having to be away from her daughter more, explains Córdova, who is the CEO of Corlund Industries, LLC, and president and general manager of Almacen Storage Group in Boulder, Colo. The council meets twice a year in Kansas City; the board meets monthly. But after encouragement from her then-10-year-old, Córdova accepted the offer.

"It has been the highlight of my career," says Córdova, who has served as deputy chair and chair. She sees directors as ambassadors to and from their communities, the voice of their regions and overseers of operations at the Kansas City Fed.

"Our duty is to the American people," she says, and that applies to both how they govern the Kansas City Fed and their representation of the people in their communities. As she has come to learn, it also applies to an under-realized part of the directors' job, that of guardianship of the Fed.

Despite the recession difficulties, Córdova and other directors rallied in support of the Fed during the financial crisis, especially as Congress scrutinized the financial industry.

She did it for the same reason she joined the board: her daughter. She wanted her daughter to always have the Fed as it stands today.

"I have such a deep appreciation for what goes on here," she said.

"The Fed has single-handedly turned my opinion around about integrity in government."

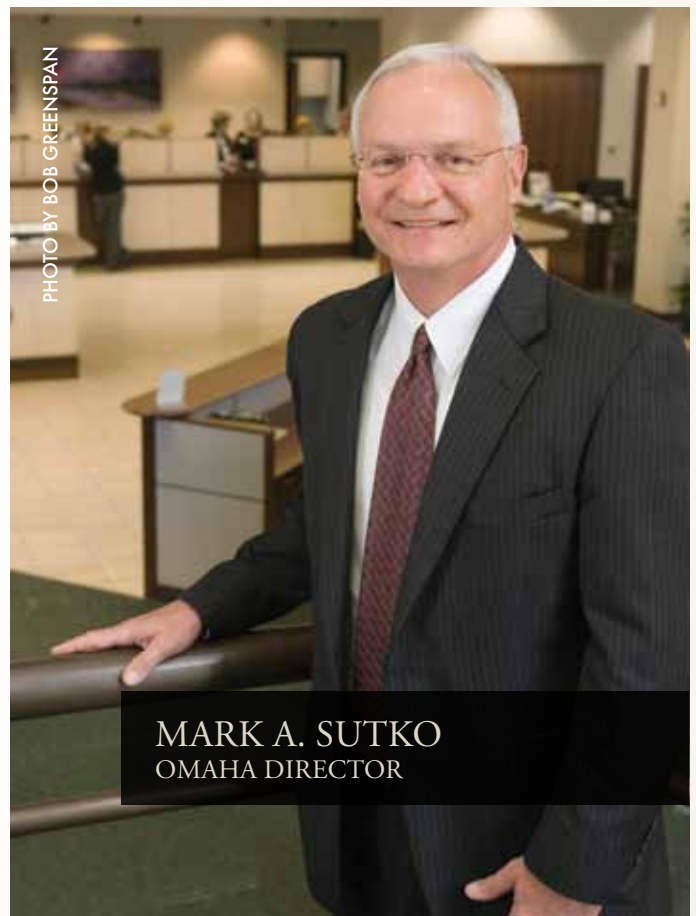
MARK A. SUTKO

"I'm blessed to be a community banker," says Mark Sutko, president and chief executive officer of Platte Valley State Bank and Trust in Kearney, Neb. Specifically, it is the community part of community banking that appeals to him so much.

"Every day, we're working with our communities, boards, Chambers of Commerce, educational institutions, government agencies and businesses of all sizes," he says. As he states in his message to customers on Platte Valley's website, it is the people he values.

He has spent his professional career in Nebraska banks, and his professional affiliations include numerous community organizations. His years of experience combined with his strong community connections led him in 2006 to join the Omaha Branch Board of Directors.

As a director, Sutko strives to bring the community perspective to the Kansas City Fed to use for national monetary policy discussions. He provides grassroots economic information that has implications for both businesses and the personal financial lives of everyday people. Those implications could be negative or positive.



MARK A. SUTKO
OMAHA DIRECTOR

He believes those insights play a critical role in what board members can bring to their service, especially in today's economic climate.

"Gathering information from people in the community at all levels and feeding that Main Street data to the Fed is a role that is so needed and important to the policymakers," he said. "It brings the economic heartbeat of the marketplace to every board meeting."

K. VASUDEVAN

K. Vasudevan takes service seriously. He is the chairman and founder of Service & Technology Corporation, a consulting engineering firm in Bartlesville, Okla., and Service & Manufacturing Corporation, a subsidiary founded in 1993. He founded his

companies on the creed, "We are in the service business—service to our clients, service to our employees."

A similar conviction guides him as a member of the Kansas City Fed's Oklahoma City Branch Board of Directors.

"The directors are ambassadors in their respective communities and business circles," he explained. "We serve as a readily accessible representative between the Federal Reserve and the community. Directors serve to bring the Federal Reserve to the people."

The directors are the link between various community businesses and the Federal Reserve, he said.

"We are an effective connection between the people on the production floor, on the street and on the farms," he explained. Considering what many see as a growing disconnect between policymakers and the public, the information directors provide is extremely important, he adds.

Since joining the Branch board in 2009, he's been active in providing real-time feedback on his geographic area, which is extreme northeast Oklahoma and some southeast Kansas towns. Born in India, Vasudevan said he also tries to bring a global perspective to the board.

"I provide input based on a broader global view of industries and economics through the eyes of an immigrant and strongly committed citizen," he said. More than once his international professional experience has added valuable insight.

Ultimately, it was his service-oriented loyalty to his country that drove Vasudevan to be a director.

"It is an opportunity to serve the nation," he said, "and to pay back at least a small fraction of what my family and I have received from this greatest nation on earth."

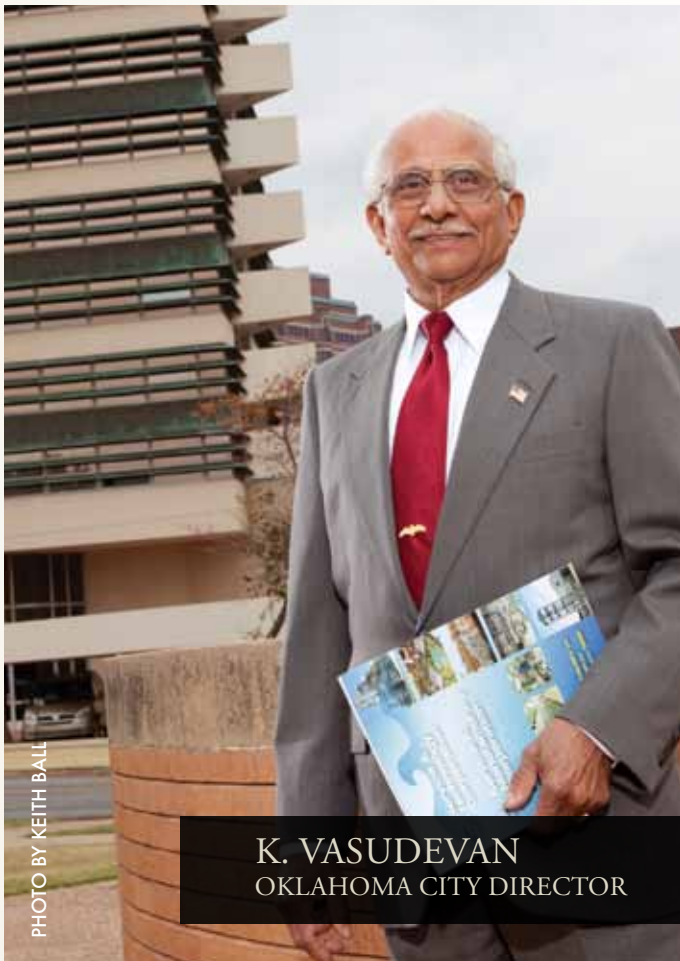
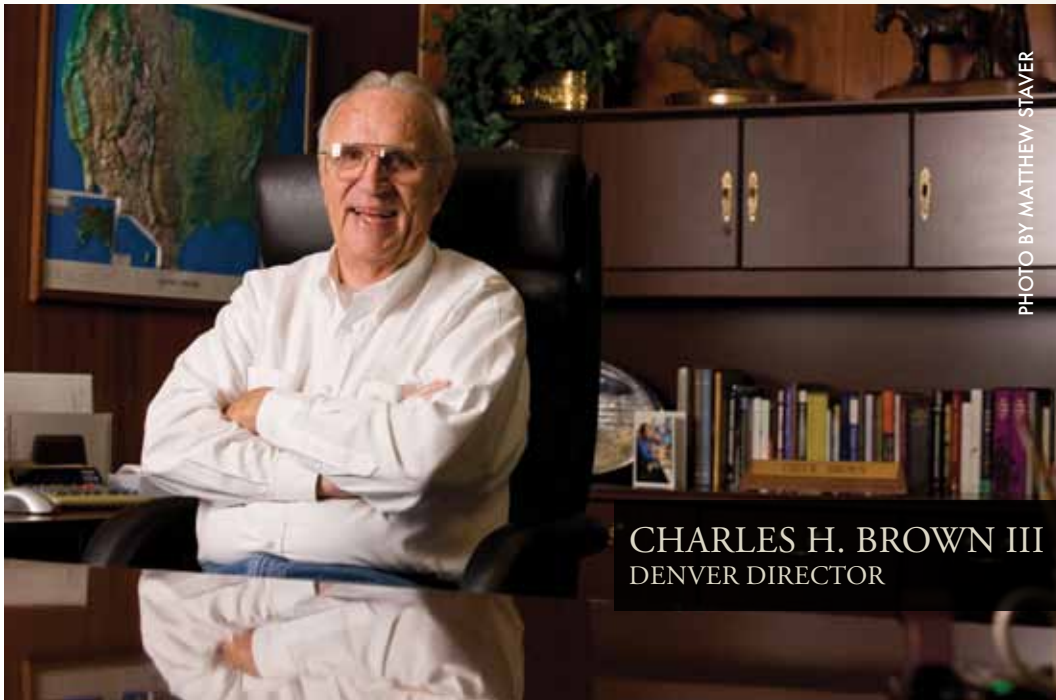


PHOTO BY KEITH BALL

K. VASUDEVAN
OKLAHOMA CITY DIRECTOR



CHARLES H. BROWN III
DENVER DIRECTOR

CHARLES H. BROWN III

In the foothills of Wyoming's Laramie Range sits the small town of Wheatland. For nearly four decades, the town has been home to C.H. Brown Co., an equipment financing company owned by Chuck Brown's family. As president, Chuck oversees the company's lease and conventional financing of mobile and stationary equipment for the agricultural, industrial, transportation and construction industries nationwide.

"I simply see myself as an old buy-and-sell guy," he said. He takes pride in his company's solid reputation of fairness, honesty and personal service.

Brown brings a community-minded perspective to his role on the Denver Branch Board of Directors, on which he has served since 2008.

"I serve as a director because I believe that I have a public service gene in my DNA," he said. He also hopes he can make a small contribution to the country by providing information to the Bank that will help in monetary policy decisions.

"There is no substitute for information from the ground level—from Main Street

or the wheat farmer," he said. "That is why the Kansas City Fed is interested in business owners in the community, so it can provide first-hand information to the Federal Open Market Committee that is fresh and relevant."

Though he has served on other boards, he says the Kansas City Fed board setup stands out because of the way in which it encourages relationships, both between him and the Fed and among directors.

"The Fed visited with me personally to get to better know me and my business," he said. "I enjoyed that experience and meeting folks from all walks of the business community. It has been a treat for me to visit different locations around the Tenth District and be introduced to other business climates."

T

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

Pressure points:

The Fed, politics and the 1990-91 recession

As Congress worked last year on finalizing the Dodd-Frank Wall Street Reform and Consumer Protection Act, numerous ideas on changing the structure of the Federal Reserve were introduced and debated, including a change to the role of regional Reserve Bank presidents on the Federal Open Market Committee (FOMC).

This wasn't the first time political pressure has been exerted on the nation's central bank. "Under Pressure: Politics and the Federal Reserve During the 1990-1991 Recession," released in Fall 2011 by the Kansas City Fed, examines the role politics played in Fed policy during the 1990-91 recession.

An examination of political influence on the Fed's structure "can offer numerous benefits, not only by lending the heft of fact to arguments that may be largely hypothetical, but also by illustrating what control the nation's political structure is currently able to exert over the central bank, in ways both direct and subtle," former Kansas City Fed President Tom Hoenig writes in the book's introduction.

Highlights

The book begins in 1988, as then-Fed Chairman Alan Greenspan, appointed by President Ronald Reagan, single-handedly cut the federal funds rate by a quarter-point. Other policymakers, including then-Kansas City Fed President Roger Guffey, questioned

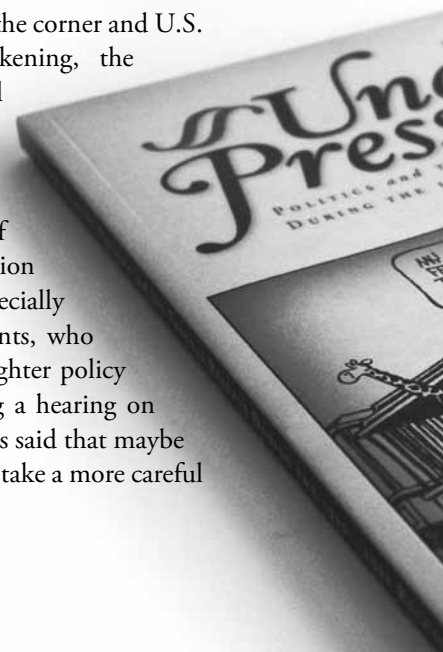
whether the cut was necessary and the way it was executed.

The incident highlighted some of the divisions that would soon emerge between the politically appointed members of the Board of Governors and the regional Reserve Bank presidents, who are appointed by independent boards of directors.

As Greenspan continued to make cuts with little or no say from the FOMC, committee members questioned whether such actions required a vote. Greenspan disagreed, saying that taking a vote would "suggest that we think there's more there than in fact we're doing." The cuts led to new questions about the Fed's independence from political pressure, particularly after a February 1991 cut that came three days after President George H.W. Bush publically asked for it.

With elections around the corner and U.S. economic conditions weakening, the Fed would continue to feel political pressure from the administration as well as from Congress.

Later in 1991, a group of congressmen began to question the Fed and its structure, especially the role of the Fed presidents, who were known for favoring tighter policy than the governors. During a hearing on the issue, Rep. Paul Sarbanes said that maybe it was time for Congress "to take a more careful



look at this whole little world that exists there (at the Fed).” Two months later, he introduced legislation to strip FOMC voting powers from the presidents. The issue failed to gain much traction.

The incident mirrors one today. In early May 2011, Rep. Barney Frank introduced legislation that would prevent regional Fed presidents from voting on the FOMC. Action is still pending.

“Under Pressure” notes several other instances when the Fed’s independence from political influence was challenged in the early 1990s. Bush’s failure to win re-election in 1992 was largely seen as a result of the recession and serves as a lesson to today’s politicians about the importance of focusing on economic issues.

Bush made no secret of the fact that he wanted the Fed to keep rates lower during the summer of 1992, and “Under Pressure” suggests he might have done more to exert control over the Fed if he could.

The events of that time also serve as an example of why an independent central bank is important, Hoenig writes in the introduction.

“These events show how tempting it can be for elected leaders to risk long-term damage for short-term political gains, and the importance of the Federal Reserve’s decentralized structure.”

This book is available through KansasCityFed.org/Publications/AboutTheFed.

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BY BILL MEDLEY, TEN CONTRIBUTING WRITER



Related books from the Kansas City Fed

“Under Pressure” is the latest addition to the Kansas City Fed’s “Centennial Series” line. Other titles are:

“The Balance of Power: The Political Fight for an Independent Central Bank, 1790-Present”

The Federal Reserve Act designed a central bank comprising a system of regional Reserve Banks to decentralize power. Although the structure widely distributes the Fed’s responsibility, the central bank has remained a popular target for politicians.

“Integrity, Fairness and Resolve: Lessons from Bill Taylor and the Last Financial Crisis”

Bill Taylor played a critical role in the response to the financial crisis facing the United States in the 1980s. As the long-time head of supervision for the Federal Reserve and later as chairman of the Federal Deposit Insurance Corporation, Taylor was confronted by a seemingly unending series of events involving problems at many institutions.

“In Late August: The Federal Reserve Bank of Kansas City’s Jackson Hole Economic Policy Symposium”

Written to commemorate the 35th symposium, the book highlights particularly significant topics and sheds some light on the founding and planning of the event. It notes the event’s continuing success is due to the contributions of participants and audience members whose varying perspectives range from praise to sharp criticism of the ideas presented.

Read all titles online:

KansasCityFed.org/Publications/AboutTheFed.

Order hard copies by calling (816) 881-2683.



KANSAS CITY FED'S *support for the* U.S. TREASURY

Although the Fed is quasi-governmental, and an independent agency within the government, the Federal Reserve Act includes a provision that allows Reserve Banks to serve as the fiscal agent of the U.S. Department of the Treasury in carrying out certain responsibilities. Reserve Banks have long served the Treasury in providing payment services.

In 2005, the Federal Reserve Bank of Kansas City began partnering with the Treasury with its Payment Application Modernization (PAM) project, an effort to standardize 30-plus, mainframe-based software applications used to distribute approximately 1 billion federal payments annually. Before the PAM project, the payments system consisted of multiple software applications for generating check, wire transfer and ACH payments for federal program agencies, such as the Social Security Administration, the Internal Revenue Service and the Veterans' Administration.

The first production release of the PAM software was in 2007, and the Treasury in 2009 asked the Kansas City Fed to assume ongoing development and long-term support responsibilities.

The Kansas City Fed's successful partnership with the Treasury continues to grow. Because the Treasury relied on the Kansas City Fed's expertise in software development, among other competencies, to develop the PAM application, it knew where to turn for help for two other recently identified application development initiatives, both payments related.

New projects

In May 2011, The Treasury requested that the Bank begin partnering with them on two new initiatives, GOVerify and the Payment Information Repository (PIR).

The projects, much like PAM, rely largely on the Federal Reserve Bank of Kansas City's

software development and delivery capabilities.

GOVerify is the Treasury's program designed to give paying agencies access to the critical information needed to identify, reduce and prevent improper payments. This program was initiated as part of a June 18, 2010, presidential memorandum directing agencies to review current prepayment and pre-award procedures and to ensure that a thorough review of available databases, with relevant information on eligibility, occurs before federal funds are disbursed. GOVerify provides two services to assist agencies in achieving this goal: the GOVerify Portal and GOVerify Data Analytics Services.

The Treasury's Bureau of Public Debt (BPD) leads the GOVerify program. The GOVerify team also partners with staff from

New division

The Kansas City Fed created a new division, Treasury Services, to house the Treasury-support responsibilities and Dawn Morhaus was named to lead it.

"In the spirit of eliminating waste, fraud and abuse of taxpayers' funds and increasing transparency, the Kansas City Fed has put full support behind the GOVerify and PIR initiatives," said Morhaus. "We are extremely excited about the new opportunities and our continued partnership with the Treasury."

Morhaus is proud that the Kansas City Fed can provide the Treasury outstanding application and software development services.

"The work that has already been performed by these teams has been outstanding," she said. "Although we have been given some



We are extremely excited about the new opportunities and our continued partnership with the Treasury.



the St. Louis Fed. Kansas City is charged with developing the technology solutions, including the development of the GOVerify Portal and Data Analytics Services, while St. Louis is responsible for agency outreach, onboarding and customer support.

The complementary PIR project will create a repository for all federal payment-related information, which will in turn be used to identify trends and more closely analyze payment data. Additionally, the PIR will provide payment information to the *USASpending.gov* website. *USASpending.gov*, a requirement of the Federal Funding Accountability and Transparency Act, provides the public with information about how their tax dollars are being spent.

tall challenges, particularly with respect to implementation time frames for these new projects, the teams have stepped right up to those challenges."

The GOVerify application and Data Analytics Services were successfully launched in November and agency enrollment activities are under way.



BY SARAH KEMP, TEN CONTRIBUTING WRITER



The Art of Negotiation

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.

Whenever I hear a child making a plea to mom or dad, I can’t help but think of the words to the Rolling Stones classic “You Can’t Always Get What You Want.” More often than not, the pleas do not work. As a teacher, I often thought if children learned a better technique, their success rate could be much higher. The technique would involve the valuable skill of negotiation.

Negotiation is a communication strategy used to reach the goal of getting something you want. It is an active dialogue that uses compromise as a means to meet that goal. A child can begin using basic negotiation as a preschooler attempting to get pancakes instead

of cereal for breakfast. Continually refining those skills into young adulthood can help a child be better prepared for milestones such as buying a car for the first time.

Economic importance

Parents can start the learning process by talking about bartering (see suggested resources on Page 24). Bartering is exchanging goods and services to get what you want without using money.

Back in the day, navigating the barter system involved plenty of negotiation. Farmers traded produce to teachers for educating their children. Doctors traded medical services for meat.

Successful bartering involved, first, finding items mutually agreed upon for the trade and, second, making sure both sides felt like they got a good deal. Bartering became increasingly difficult as people became more self-sufficient. As time went on and money was introduced as an efficient medium of exchange, bartering died a slow death.

Though bartering is long gone in most parts of the world, the fundamental negotiation skills are very much still in demand. If children master this strategy, they will gain privileges, decrease their costs, and possibly earn a higher wage. In addition, the communication and compromise skills involved in negotiation will help them become better team players and problem solvers as they mature.



Strategic Steps

Parents can help children develop negotiation abilities by modeling techniques in market situations. Show kids how to get better prices at garage and bake sales, and possibly with retailers, by following these steps:

1. Get personal. Introduce yourself and establish a relationship with the seller. It's easier to get the price you want from someone who likes you.
2. Steer the conversation to the item you want. Discuss the product somewhat indifferently, rather than showing too much excitement over wanting to buy it.
3. Let the seller make you an offer first. It might be lower than what you are willing to pay.
4. Be patient. If you wait and think about the offer, it shows consideration for the seller. Make a counter offer if you are not satisfied after thinking it through, and explain why you feel your offer is fair.
5. Be prepared to walk away. Know your price limitations and stop negotiating once they are reached. (Talk to kids about delaying gratification at this point, so they learn to resist the temptation of buying at any cost.)
6. Make the seller want to sell. Walking away could prompt them to lower their price, as they don't want to lose the sale. Another approach is to ask for their help in coming to a compromise in price. The seller then feels in better control of the situation.



Practice a different type of negotiation with older children to develop skills in asking for starting salaries or wage increases. Kids will feel more comfortable stating what their going rate is for babysitting, shoveling snow or pet care by using these techniques:

- Begin by having them research the average pay rate for their job by asking friends or looking online. They can use this information to justify their salary request.
- Tell kids to be prepared to share their qualifications, such as previous training, experience or references from others.
- Now rehearse, rehearse, rehearse! Kids can use the role play activities on Pages 25 and 26 to polish their negotiating ability. They can practice with a friend or family member until they feel relaxed and ready.

The confidence kids develop through learning the art of negotiation should help them as they make their way through life's give-and-take situations. And as the Rolling Stones' song says, "And if you try, sometimes you find, you get what you need."



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.

KansasCityFed.org:

"Escape from Barter Island"

In this online game, students use bartering skills to travel to several islands and obtain the items they need for the trip home. For ages 10-12.

Fiction Books

"Sheep in a Shop"

by Nancy Shaw
The sheep go shopping for a gift, but don't have enough money and must barter to obtain what they want. For ages 5-7.

"Saturday Sancocho"

by Leyla Torres
A family barter to get ingredients for chicken sancocho, a kind of stew. For ages 7-9.

"How to Get What You Want by Peony Pinker"

by Jenny Alexander
Peony, along with her mom, dad and sister, all want different things to happen. A neighbor shares the secret of how to get what you really want. For ages 8-12.

Non-Fiction Books

"The Art of Barter: How to Trade for Almost Anything"

by Karen Hoffman and Shera Dalin
This book helps you determine your "tradable" skills, initiate a trade, figure a fair exchange and close the deal. For teens and adults.

"You Can Negotiate Anything!"

by Herb Cohen
This book looks at negotiation as a practical skill you can learn and improve upon throughout your life. For teens and adults.

For more free activities, videos, curriculum and other resources, go to FederalReserveEducation.org and KansasCityFed.org.





Role-play Activity #1

Superhero Sale

Object:

Teaching children to hone marketplace negotiation skills. Have your budding negotiator play one of the characters.

Characters:

Billy Buyer, a superhero lover;
Sally Seller, comic book store owner



Billy: Wow, look at all these cool comic books! This store has a great selection, especially with superhero themes.

Sally: Hello there! Can I help you find a special comic?

Billy: Hi, my name is Billy, and I love to read about superheroes. My favorite is Muscle Man because he has incredible powers, like super strength and stretch-ability.

Sally: Yes, Muscle Man is very popular with kids. Here's the superhero section, and we have several Muscle Man adventures.

Billy: Thanks for your help. [He looks through the comics and spots one he wants for his collection.] This comic looks interesting: "Muscle Man at the Olympic Trials." What is the sale price?

Sally: That's a limited-edition comic—not many of them around. I'll sell it for \$5.

Billy: [Considers the cost carefully.] That's more than I can afford. Would you agree to \$4? The original price on the comic is \$3, so you'll still be making some extra money.

Sally: I don't think I can sell it for that price. It's my last copy.

Billy: I'm sorry to hear that. If you change your mind, I'd be happy to buy it. And I will come back to shop here again, and bring my friend.

Sally: Okay, you drive a hard bargain. Four dollars it is!

Taking Care of Business

Role-play Activity #2

Object:

Helping children practice wage negotiation skills. Have your budding negotiator play one of the characters.

Characters:

Wendy Worker, pet-sitter;
Dan Dogowner, pet owner



Dan: Hello, Wendy. Thanks for stopping by. I wanted to talk to you about taking care of my dog, Spike, while I go on vacation.

Wendy: Sure, I've seen Spike at the dog park. He seems friendly and pretty smart.

Dan: Yes, Spike's a great dog. That's why I want to make sure he's properly taken care of while I'm gone.

Wendy: I understand, Mr. Dogowner. You want a pet-sitter who meets your dog's needs. If you hire me, I'll walk Spike three times a day and make sure he has food and water available. I can also take him to the dog park at times so he can play with other dogs. The research I've read says that interaction with other dogs helps them learn appropriate behaviors.

Dan: Glad you have some background on dogs, Wendy. How much experience do you have as a pet-sitter?

Wendy: Well, I started working with pets about four years ago. I took an animal care class at the Humane Society first. Then I began watching dogs and cats for neighbors when they went out of town. I can give you the names of some of them as references, if you'd like.

Dan: Sure, that would be great. Would you like to meet Spike?

Wendy: Absolutely! I want to get to know him before I'm hired. It's important for him to recognize me as a care-giver. [Dan brings Spike into the room and Wendy greets and pets the dog.]

Dan: Now, what about your fees to take care of Spike?

Wendy: I usually charge \$8 a day when I pet-sit. I know the boarding services at kennels are at least \$12 a day.

Dan: Would you be willing to watch Spike for around \$6 a day? He's an easy dog to take care of.

Wendy: The reason my fee is \$8 a day is that I come to your house, Mr. Dogowner, so Spike can stay in the comfort of his own home. Kennels can't offer that.

Dan: You make a good point. And I like the fact that you have experience with animals. You're hired!

Ask an Economist...

What is influencing the rise in food costs?

In early 2011, global food prices reached record highs as commodity prices soared. U.S. citizens saw a slower but noticeable rise in food costs.

How populations consume food shapes food price trends, says Jason Henderson, an economist and Omaha Branch executive at the Kansas City Fed, who recently studied trends in food prices. As prices continue to rise both globally and domestically, one distinct group will feel the increase the most, he says.

Why is there a difference between U.S. and global food price trends?

In global areas where consumers buy raw commodities and prepare their own food, soaring commodity prices quickly translated into record prices for cereals, sugars and meats. U.S. consumers, meanwhile, spend more money on the convenience of processed foods at home and prepared foods at restaurants. Today, farm commodities account for only about 15 percent of U.S. retail food costs, down from 33 percent in the 1970s.

What primarily influences U.S. food prices?

Labor accounts for roughly half of the retail cost of U.S. food and plays an even bigger role in the cost of food consumed in restaurants. So, wage growth, whether sluggish or robust, influences U.S. food price inflation. Last year, wages at U.S. food manufacturing plants and restaurants rose less than half the rate of wage growth prior to the recession, which, in turn, kept U.S. food price inflation from tracing global trends.

What could this mean for future global and U.S. food prices?

Commodity prices will continue to drive global food prices, while wages and economic growth may have more of an effect on U.S. food prices. Echoing commodity prices, global food prices may have peaked but remain elevated. Modest wage gains could lead U.S. food prices to creep higher. Food prices at restaurants may rise slower due to sluggish wage growth. Meanwhile, prices at the grocery stores may see larger increases, especially for foods still influenced by commodity prices (e.g., meat, dairy). Yet, even if commodity prices fluctuate at elevated levels, modest wage growth will likely temper any shifts in U.S. food prices.

Who bears the biggest burden of higher food prices?

Low-income populations do. In poorer nations, the average household spends up to half of their income on food. Low-income U.S. populations spend roughly a third of their income on food. When food prices rise, low-income populations struggle to cut their food expenses as they already spend more on food consumed at home and have fewer opportunities to trim restaurant spending.



BY ERIN REDEMSKE, TEN CONTRIBUTING WRITER

FURTHER RESOURCES

"WILL U.S. FOOD PRICES FOLLOW GLOBAL TRENDS?"

By Jason Henderson

KansasCityFed.org/research/regionaleconomy



Educators participate in Fed's economic conference

In November, the Federal Reserve Bank of Kansas City and the Oklahoma City Branch hosted kindergarten through college-level educators for the Evening at the Fed program, which is a free professional development opportunity focused on the economy. The program examined the current economy and why this recovery is slower than others, and featured a presentation from a Federal Reserve economist.

Attendees received classroom-ready materials to help apply economics and personal finance into their existing curriculum. Part of the Kansas City Fed's focus is to support and further financial literacy in the classroom.

The Bank's Denver and Omaha branches will host Evening at the Fed programs in early 2012.

To learn more about free economic and personal finance resource materials from the Kansas City Fed, visit KansasCityFed.org/Education.

New banners draw crowds to Denver Money Museum

Since the doors opened in January for the Federal Reserve Bank of Kansas City's Denver Branch's Money Museum and Conference Center, more than 13,000 guests have attended a meeting or visited the educational exhibits.

Several high-profile Federal Reserve conferences and events have taken place in the new space, including the April directors meeting for the Denver and Kansas City boards.

"The word-of-mouth advertising has been great for the Money Museum," said Amanda Zizza, who coordinates visitors to the museum. "There have been several articles that have appeared in the local papers, magazines and websites, plus we have gotten great support from our friends at the nearby U.S. Mint and the Denver Visitor Center."

But the "biggest" way the Money Museum has been announced to the Denver public are the 20-by-50-foot banners facing the popular 16th Street Pedestrian Mall. Since the banners were hung in early September, the walk-in visitor numbers have increased. The most popular exhibits in the museum are the wall displaying \$30 million, the historical currency display, the detecting-counterfeits display, and the rubbing station where visitors can create versions of their own currency.

Learn more about Denver's Money Museum at KansasCityFed.org/MoneyMuseum.



Kansas City Fed promotes financial education for youth in Washington, D.C.

On Sept. 12, staff from the Kansas City, Boston and Dallas Federal Reserve Banks led a one-hour financial education session at the Congressional Hispanic Caucus for 200 Hispanic high school students from the Washington, D.C., area.

On Sept. 23, the Kansas City Fed, in partnership with the Boston, Dallas, Cleveland and Philadelphia Feds, hosted a daylong seminar framed around Operation HOPE's "Banking on our Future" financial education program for 90 students.

The students received words of encouragement to continue their education and to take on leadership roles in their schools and communities. Students heard motivational talks on leadership and entrepreneurship from John Hope Bryant, founder and CEO of Operation HOPE; Sirena Moore-Thomas, CEO of Elohim Cleaning Contractors; and U.S. Rep. Emanuel Cleaver, chairman of the Congressional Black Caucus. Cleaver's staff provided an overview of congressional voting procedures and a tour of the House gallery.

Kansas City Fed Assistant Vice President and Community Affairs Officer Tammy Edwards led a session on the value of savings and checking accounts. She told the students to share the information and materials they

received with friends and family.

"Based on our research, 26 percent of adults are either unbanked or underbanked, and to a large extent that is due to a lack of education," Edwards said. "So, the more we can provide sound financial education, the more these students will be able to make sound financial decisions."

The Kansas City Fed anticipates future partnerships with both the Hispanic and Black Caucuses. The programs also support the Bank's commitment to the tenets of the Federal Reserve System's Office of Minority and Women Inclusion.

To see more photos from the events, visit KansasCityFed.org/Community.



TWO HUNDRED HISPANIC HIGH SCHOOL STUDENTS participated in a one-hour financial session at the Congressional Hispanic Caucus in Washington, D.C. The event was led by staff from the Kansas City, Boston and Dallas Feds.

Kansas City Fed receives Missouri Quality Award

The Federal Reserve Bank of Kansas City is a recipient of the 2011 Missouri Quality Award (MQA) from the Excellence in Missouri Foundation. The MQA is the official state recognition for excellence in quality leadership. Modeled after the prestigious Baldrige Performance Excellence Program, the MQA is recognized as one of the strongest state quality award programs in the country.

This is the first time that the Kansas City Fed has received this award.

MQA examiners conducted a site visit of the Kansas City Fed Sept. 19-21, which was a result of the Fed's application for the award. The MQA examiners met with the Kansas City Fed's management team and employees around the organization.

The Kansas City Fed formally received the award at a Nov. 17 reception in Columbia, Mo. Learn more about the award at KansasCityFed.org.

Students participate in Shred Challenge competition

As part of its mission to promote economic education, the Federal Reserve Bank of Kansas City had its third annual Shred Challenge art competition in mid-November. This contest invites students from Kansas City-area schools to participate in a personal finance lesson and use the concepts they learn to create artwork made of shredded currency.

Representatives from the Kansas City Fed shared the lesson with more than 170 students throughout the Kansas City metro area. Thirty-five of those students submitted artwork made of currency shreds and included a personal statement regarding what they learned about making wise financial decisions and their plans for the future.

On Nov. 18, the participants and their art teachers visited the Kansas City Fed. Students brought their artwork to be judged by a panel of selected employees. Participants were given the opportunity to meet and interact with Fed officials, who stressed the importance of creativity as a valuable attribute in the workplace. The visit also included a tour of the Kansas City Fed's Money Museum.

The winners are listed below. Learn more about the Shred Challenge at KansasCityFed.org/Education.



- First place** (\$100 savings bond):
Xochitl Galves, J.C. Harmon High School
- Second place** (\$75 savings bond): Brenna McLeod, Raymore-Peculiar High School
- Third place** (\$50 savings bond): Julio Sanchez, J.C. Harmon High School
- Fourth place** (\$50 savings bond): Selena Cano, J.C. Harmon High School
- Fifth place** (\$50 savings bond): Rabriel Etier, Washington High School

Federal Reserve Bank shares insight with new Student Board of Directors

To promote and further financial education and understanding of the Federal Reserve, the Federal Reserve Bank of Kansas City introduced its Student Board of Directors program in 2011. The Student Board is a group of 24 area high school students who meet monthly during the academic year to learn about the Kansas City Fed.



All of the students' experiences with the program are designed to propel them forward in their professional development, while giving them a deeper understanding of the Federal Reserve and its many functions. Employees will share their insight with the students and help bring light to the Kansas City Fed's mission, vision and values.

Students represent seven schools in the Kansas City, Kan., and Kansas City, Mo., school districts. During their time as members, the students will participate in personal financial education seminars, sessions aimed at learning about various career paths, and tours of the Bank's facilities and area businesses as they relate to the local economy.

"We want to use this program to provide these students with insight and understanding of the Federal Reserve Bank of Kansas City and its role in the local, regional and national economies," said Vice President Krissy Young, who is leading this effort. "The experiences they share as Student Board of Directors members will give them perspective to help them as they plan for their futures and prepare for college." Learn more about the Student Board of Directors and how the Kansas City Fed supports economic education at KansasCityFed.org/Education.



THE STUDENT BOARD OF DIRECTORS MEMBERS gather for a group photo in the lobby of the Federal Reserve Bank of Kansas City during a tour on Nov. 16.

Economic Forums provide updates on the economy

The Kansas City, Denver and Oklahoma City offices of the Federal Reserve Bank of Kansas City recently had the annual Economic Forums in the Tenth District. The forums are a 60-plus-year tradition that gives the Kansas City Fed the chance to provide a regional and national economic update to business leaders and hear directly from the leaders about their communities.

The Kansas City Fed has forums in District states on a rotating basis. This year, the Forums were in 10 locations in three of the District's seven states:

- Topeka, Kan.
- Ft. Collins, Colo.
- Grand Junction, Colo.
- Durango, Colo.
- Pueblo, Colo.
- Denver, Colo.
- Enid, Okla.
- Lewton, Okla.
- Oklahoma City, Okla.
- Tulsa, Okla.

More than 2,000 people attended the various forums. The Tenth District includes Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming.

Ongoing updates on the regional and national economy are available at KansasCityFed.org.



The following banks in the Tenth Federal Reserve District are celebrating one, five, 10, 20 or more years as Federal Reserve members in January, February or March.

Colorado B&TC of La Junta	La Junta	Colo.	88
Lusk State Bank	Lusk	Wyo.	78
St. Marys State Bank	St. Marys	Kan.	76
First Community Bank	Taos	N.M.	74
Community B&TC	Neosho	Mo.	70
Bank at Broadmoor	Colorado Springs	Colo.	32
First State Bank	Wheatland	Wyo.	31
Freedom Bank of Oklahoma	Tulsa	Okla.	20
Alterra Bank	Overland Park	Kan.	10
Bank 2	Oklahoma City	Okla.	10
First B&TC	Minden	Neb.	5
Verus Bank of Commerce	Fort Collins	Colo.	1



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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.

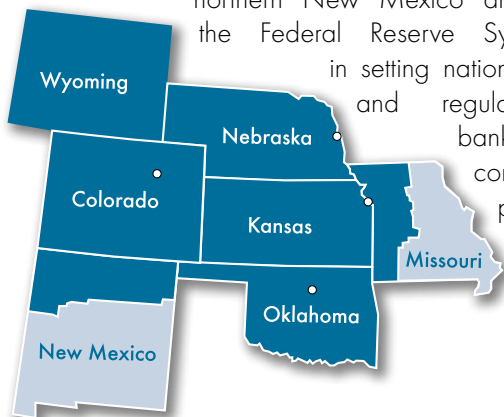
With the Federal Reserve Act, Congress sought to create a central bank the public would be more likely to support by making it "decentralized" with more local control. The new structure was designed to overcome public distrust of an institution many thought could come under the control of either government or special interests. This distrust led to the previous banks' closures. 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, Oklahoma, northern New Mexico 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 check processing and other services to depository institutions.



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 views and opinions expressed in **TEN** are not necessarily those of the Federal Reserve Bank of Kansas City, the Federal Reserve System, its governors, officers or representatives.

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- Quarterly updates on debt levels, bankruptcies and more in each of the seven states of the Tenth District
- County-by-county maps of mortgage delinquency rates



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