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FEDERAL RESERVE BANK OF KANSAS CITY

Spring 2014

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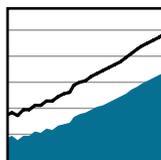
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Too low for too long

The economy in 2014 continues to grow steadily. Last year, the economy expanded by 2.5 percent—a meaningfully faster rate than in the prior two years. That growth rate was solid enough to ensure continued steady declines in unemployment and came despite tax increases and government spending cuts, suggesting the underlying fundamental drivers of growth have likely improved.

In assessing growth in 2013, the second half of the year benefited from strong inventory accumulation. Such a rapid inventory buildup is likely unsustainable, so I expect some drawdown in inventories to contribute to a moderation of activity in the first quarter of 2014.

More importantly, however, I expect consumer spending and business investment, which together account for 80 percent of U.S. gross domestic product, to improve and support a pickup in private-sector spending growth. Low interest rates, steady improvements in the labor market, rising household wealth—including some wage gains—and a positive trend in consumer confidence are also likely to support an uptick in consumption and investment.

I also hope we move past some of the more pronounced fiscal uncertainty we have observed in recent years. Issues remain, such as health care reform and regulation, but debilitating debt-ceiling debates and government shutdowns are hopefully something the economy won't have to contend with in 2014.

In terms of labor markets, weather-related distortions appear to be diminishing given the most recent releases. In February, total nonfarm payroll employment rose by 175,000, quite close to its average pace throughout 2013,

and in March, employers added 192,000 jobs. More broadly, we can see steady improvement in the labor market. For example, the unemployment rate, today at 6.7 percent, has fallen by almost a full percentage point over the past year—a rather rapid decline compared to historical averages.

Some of this drop in the unemployment rate is due to a decline in the labor force, though a broader measure of labor market underutilization—what economists call U-6—also has fallen rapidly. The U-6 measure, which includes part-time workers who would rather be working full time as well as discouraged workers and workers marginally attached to the labor force, declined the past year at its fastest pace on record.

As the labor market improves, firms are likely to have difficulty finding qualified workers. Good workers are always hard to find, and I often hear anecdotes from my private-sector contacts highlighting these challenges, especially in terms of matching skills to the job openings they have. This reflects in part a shift in the kind of jobs employers are seeking to fill—a shift we've seen over the past three decades. These employment trends have been the subject of research by economists at the Federal Reserve Bank of Kansas City that shows very interesting shifts in employment patterns between men and women. Women, in particular, have shifted into high-skilled



jobs during that time.

Looking at more comprehensive measures, such as the National Federation of Independent Businesses' small business survey, we see some confirmation of these labor market issues. For example, firms are close to being more concerned about the quality of available labor than poor sales—conditions that are often consistent with more rapidly rising wages.

I have been encouraged by some measures showing signs that wages are moving higher. About one year ago, average hourly earnings were rising close to 1.5 percent year over year, but have trended up and are now running at 2.5 percent. In addition, the University of Michigan Consumers' survey in March reported that consumers are more optimistic now than at any time since 2008 that their personal income will increase in the year ahead.

In terms of consumer price inflation, I expect it to firm this year and gradually move up to the Fed's longer-term goal of 2 percent over the next few years. Several important factors are pointing to a gradual firming of inflation. Measures of inflation expectations are holding steady, the labor market continues to gradually normalize, and import prices—which were down sharply over the past year—are now stabilizing.

So with that backdrop, I expect economic growth of about 2.5 percent this year and expect we could see 3 percent next year, bringing further declines in unemployment rate.

Monetary policy and financial conditions

In March, the Federal Open Market Committee (FOMC) affirmed it would keep short-term interest rates near zero and reduced

the pace at which its balance sheet is growing. Purchases of Treasury and mortgage securities continue to be substantial at \$55 billion per month, despite \$10 billion reductions at each of the last three FOMC meetings.

Although I dissented at seven meetings last year in my role as a voter on the FOMC, I did support the decision last December to begin reducing the amount of monthly bond purchases, which began in September 2012. And going forward, while I do not have an FOMC vote in 2014, I support further reductions in the pace of asset purchases as we take steps toward policy normalization.

Of course, regarding interest rates, the public is anxious to know, "When will rates go up?" and "When they do, how fast will they rise?"

To address the first question, the Committee modified its guidance about the future path of the target federal funds rate. With the unemployment rate nearing 6½ percent—the previous threshold for considering a rate increase—the Committee in March adopted more qualitative guidance. Instead of using thresholds or other quantitative measures, the Committee indicated that it likely will be appropriate to maintain near zero short-term interest rates for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, provided that longer-term inflation expectations remain well-anchored.

Regarding how quickly rates might rise, the Committee also provided guidance about how policy would be adjusted after the eventual lift-off of the federal funds rate from its current exceptionally low level. The Committee anticipates that, even after employment and

inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run. I would note that the central tendencies of the Committee's Summary of Economic Projections indicate that, by 2016, both inflation and the unemployment rate will be near their longer-run projections. Yet, the median projection for the federal funds rate at the end of 2016 is just 2¼ percent.

While I support the move to more qualitative guidance about the future stance of policy, and agree that removing accommodation will require a gradual approach, I continue to be concerned that interest rates could remain too low for too long. We have seen in the past that overly accommodative monetary policy can adversely affect the market's ability to price risk, leading to the misallocation of credit.

To be clear, the goal of zero interest rates and quantitative easing is to boost economic growth. But these policy settings also carry risks to long-term financial stability and stable growth.

Froth in various pockets of the financial sector deserves ongoing monitoring, particularly in high-yield bond issuance and leveraged lending. For example, the Federal Reserve's recent Senior Loan Officer Opinion Survey suggests that recent guidance on leveraged lending will likely do little to curtail or significantly alter affected firms, as they will likely be able to secure funding from other sources.

As another example, the spread of 10-year BBB corporate yields has trended lower and has recently fallen to a post-recession low. The current spread is still greater than before the crisis, but we certainly shouldn't take that

as a benchmark. I see this as another factor suggesting investors are taking more risk in a response to the low-rate environment.

Bankers are also telling me about fierce competition among lenders that often results in questionable terms and underwriting standards. As an example, I would note that consumer credit growth is beginning to accelerate, up nearly \$300 billion in the second half of 2013—not including student loans. Some of this goes hand-in-hand with an improving housing market, but if you look carefully at the data, it is the least-creditworthy households that are more actively increasing their debt burdens.

I recognize that identifying all these risks and quantifying their impact today remains difficult. But, we should not underestimate their effects or ability to surprise, as recent history has shown.



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

The preceding text was adapted from a March 28, 2014, speech delivered to the Central Exchange in Kansas City, Mo.



BLESSING OR CURSE?

The effects of natural resource production on local economies



TERRY ROSS, president of Community Bank in Alva, Okla.

Innovation in the extraction of natural gas, tight gas, tight oil and coal seam gas from shale and tight sandstone formations has created a boom in the U.S. energy sector. According to the Energy Information Administration, total U.S. recoverable natural gas resources were estimated to be 2,327 trillion cubic feet in 2013, up from 1,259 trillion cubic feet in 2000. The abundance of natural gas is so great that estimates show current U.S. reserves at a 70-year supply.

From 2011, U.S. crude oil reserves increased year-over-year by 4.5 billion barrels, 15.4 percent, because of a large volume of extensions to existing fields. Production is expected to increase another 25 percent by 2016, which would make the United States the world's largest oil producer.

Federal Reserve Bank of Kansas City Economist Jason Brown says some theories suggest resource abundance may increase local economic development through higher demand for labor in the energy sector and spillover spending in the local economy.

Other theories suggest industries not closely related to the resource extraction industry may be harmed as energy production

expands, experiencing the “natural resource curse.” Brown says the curse phenomenon is when labor demand by the extraction industry may be high enough to bid up local wages, which in turn could pull employees from other lower-paying jobs and make it difficult for other industries to survive.

Advent of hydraulic fracturing

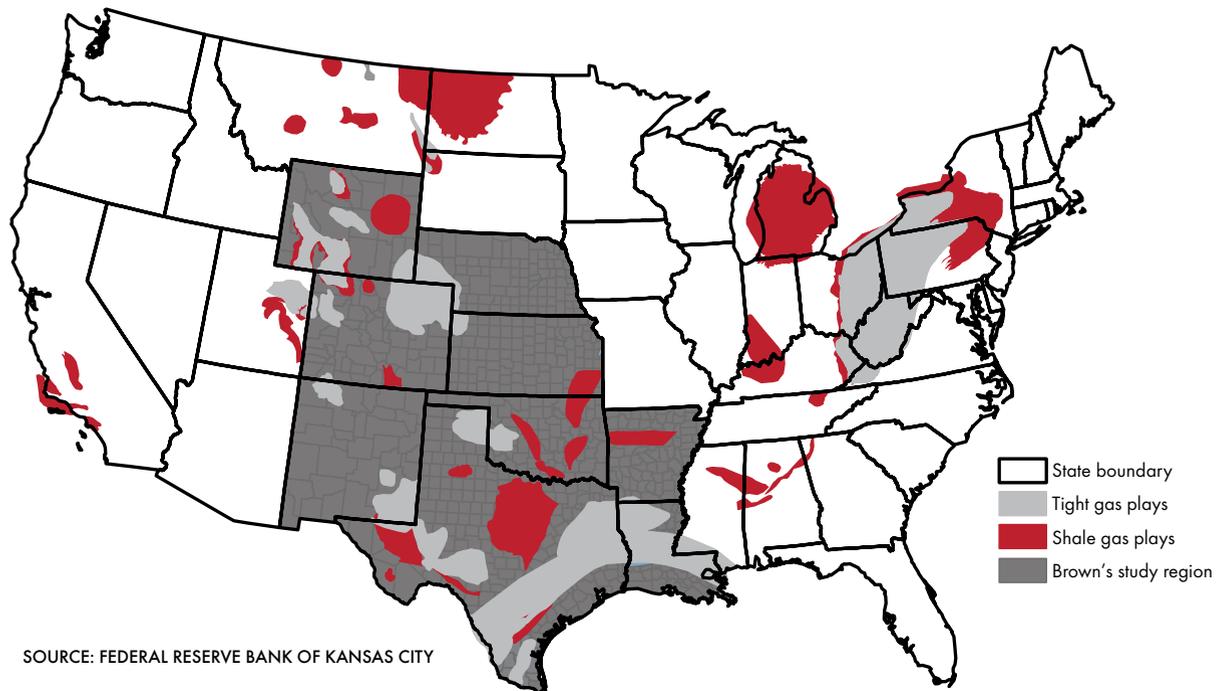
Before the boom, natural gas production in the United States leveled out in 2000. The industry roughly produced from 19 trillion to 20 trillion cubic feet of natural gas a year.

U.S. crude oil dropped steadily from 30 billion barrels in 1985 to nearly 21 billion barrels in 2008.

The technologies of hydraulic fracturing and horizontal drilling changed everything.

Mitchell Energy & Development Corporation experimented for 20 years to develop hydraulic fracturing, commonly known as fracking, after the company discovered that shale contained vast amounts of natural gas that normal drilling practices could not extract. Hydraulic fracturing consists of shooting a mixture of water, chemicals and sand into drilled wells to create fissures in rock formations to free the trapped gas.

SHALE AND TIGHT GAS FORMATIONS



SOURCE: FEDERAL RESERVE BANK OF KANSAS CITY

Devon Energy Corporation of Oklahoma City developed horizontal drilling techniques, which allows operators to drill a certain depth, then drill further at an angle or even sideways to expose more of the reservoir and extract greater amounts of the natural resource.

Devon acquired Mitchell Energy for \$3.5 billion in 2002, making it one of the largest oil and gas producers in the United States. The company combined the two technologies, allowing greater extraction of the once inaccessible resources.

By 2011, U.S. natural gas production grew 30 percent to 24.6 trillion cubic feet. Domestic oil production increased to 33 billion barrels in 2012.

Effects on local economies

Although increased natural gas production may have possible effects on local economies, a lack of data limits the scope of any analysis, Brown said.

Prior research on resource booms has had mixed results and most of the studies focused on

the national level.

In his research, *Production of Natural Gas From Shale in Local Economies: A Resource Blessing or Curse?*, Brown looked at 647 nonmetropolitan counties in a nine-state region comprised of Arkansas, Colorado, Louisiana, Kansas, Nebraska, New Mexico, Oklahoma, Texas and Wyoming, during the boom years of natural gas production, 2001-2011 (see map).

These states together accounted for 70 percent of U.S. natural gas production in 2011, and the region had a combined increase in production of 6,332 billion cubic feet, or nearly 50 percent. Arkansas and Louisiana had sharp increases in annual production, while Colorado, Oklahoma, Texas and Wyoming experienced more gradual growth.

Brown found a modest positive impact on local labor market outcomes and little evidence of a natural resource curse.

Analysis suggests that counties with increased production had faster growth in total employment and population compared to counties where production declined; however,

real personal income per capita and average wages per job varied among the counties.

Half the jobs created from increased natural gas production have been in the resource extraction sector, with some spillover to transportation, construction and service sectors. The gas and oil companies, in effect, filled many of the newly created jobs without depleting the local labor market.

“The ability to pull labor and people from outside of the county experiencing increased production was the primary reason,” Brown wrote.

The largest wealth effect in counties benefiting from this resource boom was an increase in average wages.

“These benefits, however, may fade once local production begins to decline or if perceived or potential environmental costs become a reality,” Brown wrote.

Changes in the community

Richard Ryerson says natural resource production is at an all-time high in his county.

He owns Starr Lumber in Alva, Okla., a town of 4,295 residents in the northwestern portion of the state. Alva is the county seat of Woods County and home to Northwestern Oklahoma State University, which has an enrollment of about 2,200 students.

Historically, the university, agriculture, the minimum-security prison and the local hospital were the main employers in the area.

Mineral-rich land changed the labor market.

“We have plenty of natural gas, but oil is the big thing now,” Ryerson said.

Alva and other communities in the area like Woodward and Medford have watched their local economies grow as the extraction industry has created more jobs, spurred new development and generated a lot of money.

“We’ve got people whose cars could barely start in the winter last year going down to the

car dealership and buying a new Cadillac,” he said.

“They’re paying in cash,” he added.

Ryerson’s lumber and supplies business is doing well; however, there aren’t enough qualified workers to keep up with the demand of the new economy.

“At the beginning, people came from all over the country to work in the fields,” Ryerson said. “But many of them couldn’t qualify for the jobs. They had poor driving records or criminal backgrounds, and many of them left because of it.”

Qualified workers had no problems finding a job, and many of them went from barely making a livable wage to earning \$20 to \$25 an hour, Ryerson said.

“I know a truck driver that makes about \$100,000 a year just hauling supplies,” he said.

Terry Ross says natural gas production started the boom, but oil has generated the largest profits.

“It’s a dirty business and not everyone wants to do it, but there’s good money in it,” he said.

Ross is president of Community Bank in Alva. In the past few years, the bank’s deposits have increased almost 50 percent due to oil and gas production royalties and other incomes related to natural resource production.

“I wish we had a healthier balance of loans to our deposits,” he said.

Several of the bank’s customers, who once had overdrawn accounts and were delinquent on loan repayments, are carrying six- to seven-figure balances.

“It’s hard to convince them to borrow money when they have money,” Ross said.

Besides oil and gas, land, regardless of whether it’s mineral rich, is the hottest commodity in the county, Ross said. Property that once sold for several hundred dollars an acre now sells for thousands.

Community Bank has done some lease financing and provided capital for development projects, such as funding the construction

of the Comfort Inn—one of two motels constructed in Alva to accommodate the influx of production workers. A third motel, an extended stay, is under construction and will open this year.

The motels have a 100 percent occupancy rate and charge an average of \$129 per room per night. The second motel has already changed owners, selling for a handsome profit, Ross said.

Hotel tax revenue is at record levels, so is the city's sales tax. Alva operates on a 2 percent sales tax, but with the increased demand for services, the city has looked for other ways, such as utility fees, to generate additional revenue.

Increased service demands and competition to keep qualified employees have affected wages in other sectors of the labor market, Ross said. Community Bank increased wages for part-time tellers in order to compete with other businesses.

"I think it's been beneficial, even though it's costing my bank money," Ross said of the natural resource boom. "I care about

our community and it's been economically beneficial to our community."

Sandridge Energy opened operational facilities near Alva and owns 1.85 million acres of leasehold in the Mississippian Oil Play of northern Oklahoma and southern Kansas.

Other energy companies, supply companies, construction companies, trucking businesses and equipment companies also have set up shop in the county. All of it is directly related to the natural resource boom.

"The biggest disappointment to me is that we weren't able to capture the full benefit of this economic growth," Ross said.

There are not enough rental properties in Alva to house all the newcomers, Ross said, and not enough single-family homes to entice workers to stay permanently.

"They don't want to move their families into hotels or old rental properties," he said. "We should have gotten ahead of this and developed affordable homes, with the right square-footage, to attract some of these young families."

RICHARD RYERSON is the owner of Starr Lumber Company in Alva, Okla.



Unforeseen costs

Proponents of hydraulic fracturing say natural gas could replace coal and oil as the major energy source in the United States and reduce CO2 emissions by more than 50 percent. This also could reduce the country's dependence on foreign oil and reduce energy costs.

Extraction of this resource, however, has potential environmental consequences and subsequent economic implications.

A few cities in high resource production states have passed bans on hydraulic fracturing within city limits due to drilling-related issues.

The problems have primarily involved deep-injection wastewater wells from fracking and other forms of drilling. There have been reported cases in Ohio, Pennsylvania and Colorado where poorly cemented wastewater wells have leaked and contaminated groundwater, and flow-back water not recaptured by drilling companies has contaminated surface water.

Although the injection processes involved with fracking operations are exempt from the federal Safe Drinking Water Act, the Environmental Protection Agency and states have authority under the Clean Water Act to regulate discharge of waters produced by hydraulic fracturing operations.

Production companies have made improvements to wells and disposal processes to address environmental concerns. Some companies have established new wastewater and mineral disposal operations to lessen the risk of water contamination.

Oklahoma, however, has experienced more than 1,000 earthquakes since 2009. The state normally had about 50 reported earthquakes a year. The U.S. Geological Survey and Oklahoma Geological Survey said in a statement released May 5 that fracking wastewater disposal by injection into deep geologic formations is a "contributing factor" to the increase in earthquakes. Since 2009, Oklahoma has experienced 20 magnitude 4.0 to 4.8 quakes, plus one of the two largest

recorded earthquakes in Oklahoma's history—a magnitude 5.6 earthquake near Prague in 2011. This compares with a long-term average from 1978 to 2008 of only two magnitude 3.0 or larger earthquakes per year.

In Kansas, Gov. Sam Brownback appointed a panel to investigate minor earthquakes occurring along the Kansas and Oklahoma border. Scientists studying the matter suspect the cause is not fracking itself, but the re-injection of wastewater into formations deemed safe to hold it.

Brown says research shows that diesel truck exhaust and emissions of volatile organic chemicals from natural gas processing plants can decrease air quality.

A Dallas jury recently awarded a Texas family \$2.95 million in a lawsuit centered on air quality in relation to hydraulic fracturing. The family contended that a natural gas company's drilling operations near their land had contaminated the air and harmed their health.

It is unclear, however, whether these environmental and health hazards from fracking are any different from the possible health hazards of traditional drilling operations.

"More research is needed to determine any long-term environmental and health effects across multiple regions where extraction is occurring in shale and tight gas formations," Brown said.



BY KEVIN WRIGHT, EDITOR

FURTHER RESOURCES

PRODUCTION OF NATURAL GAS FROM SHALE IN LOCAL ECONOMIES: A RESOURCE BLESSING OR CURSE?

By Jason P. Brown

<http://www.kansascityfed.org/publicat/econrev/pdf/14q1Brown.pdf>

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

Consumer debt on the rise

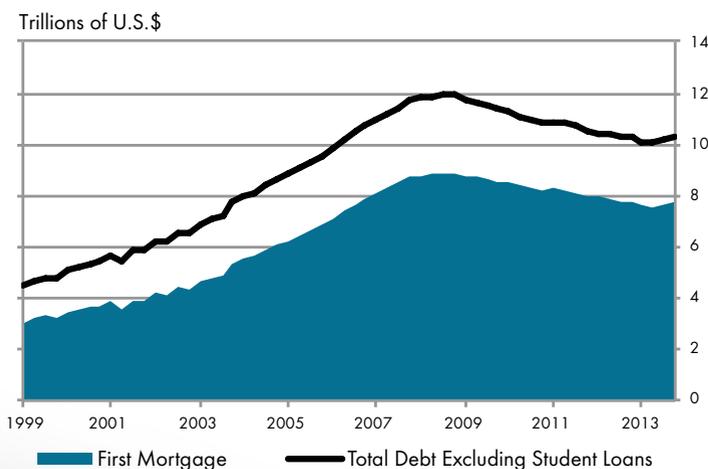
The dynamics behind the numbers

When economic conditions worsened in 2007, Americans' grip on their wallets tightened. In addition to cutting spending, consumers also paid down existing debt or simply lacked the means to take on additional debt. Some defaulted on existing credit obligations.

This shift, which began in mid-2008, resulted in a five-year downward trend in consumer debt. Now it looks like that trend has reversed as consumers are spending again and accumulating more debt.

According to Federal Reserve Bank of Kansas City Assistant Economist John Carter Braxton and Research Director Troy Davig, consumer debt increased for two consecutive quarters, rising by nearly \$300 billion in the second half of 2013.

CONSUMER DEBT



The increase indicates some individuals have repaired their finances—at least in the aggregate—since the crisis and feel like they can borrow again. And although financial advisers often warn of the dangers of debt, consumer spending is necessary for economic growth and accounts for 70 percent of the economy. But there is good debt and there is bad debt.

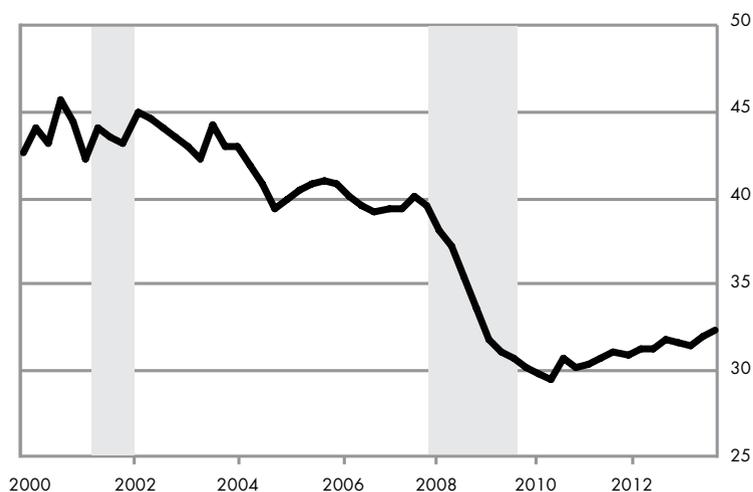
Borrowing by credit-worthy households to buy a long-lived asset, such as a house or an automobile, is often beneficial to borrowers, lenders and the broader economy, according to Braxton and Davig's recent research, *Consumer Debt Dynamics: An Update*.

There are instances though, when credit standards slide, allowing consumers to accumulate more debt than they can handle. Although consumer debt produces great economic growth, it usually ends in disruption when done by uncreditworthy borrowers. A worst case scenario is the Great Recession.

Determining when credit growth accelerates beyond what supports longer-run, sustainable economic growth is a challenge for policymakers. A valuable resource for tracking consumer credit trends is the Federal Reserve Bank of New York's Consumer Credit Panel. The panel is a nationally representative sample of individual credit records maintained by Equifax that follows the same consumers quarter by quarter.



PERCENTAGE OF CONSUMERS INCREASING DEBT RELATIVE TO YEAR EARLIER

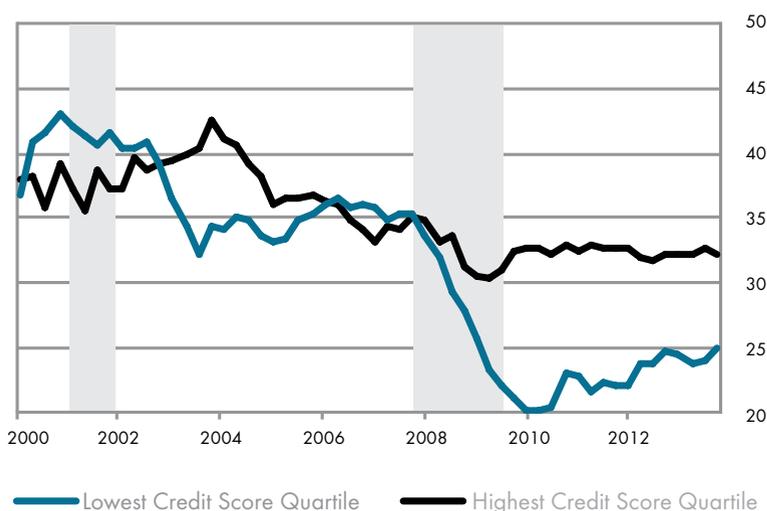


Gray bars denote NBER recession dates.

According to the data, the percentage of consumers that increased debt relative to a year earlier was between 40 percent and 45 percent before the crises. That number fell to about 30 percent in 2009. The percentage of consumers accumulating new debt at the end of 2013, however, was well below pre-crisis numbers.

The percentage of increasers is a useful tool for analyzing overall conditions, but it doesn't distinguish between consumers with high credit scores and low credit scores.

PERCENTAGE OF CONSUMERS INCREASING DEBT RELATIVE TO YEAR EARLIER, BY CREDIT QUARTILE



Gray bars denote NBER recession dates.

Braxton and Davig delved deeper into the data and found that a larger share of consumers with low credit scores recently increased outstanding debt while there was little change in the percentage of consumers with the highest credit scores who took on more debt.

This doesn't mean low-credit-score consumers are outspending consumers with high credit scores. On average, consumers with high credit scores, who increase their debt, do so by larger dollar amounts than consumers with low credit scores, Braxton said.

Consumers with low credit scores are largely increasing debt through automobile loans. The consumers borrowing for automobile loans increased from 7 percent in the third quarter of 2010 to nearly 12 percent in the fourth quarter of 2013.

Low-credit-score consumers also modestly increased credit card debt and consumer finance and retail borrowing during the same period. Mortgage debt, however, continued to decline for consumers with the lowest credit scores.

The bottom line, Braxton and Davig said, is that consumers with high credit scores remain cautious about taking on additional debt.

What the data does not precisely take into account is student loan debt. Unlike private loans, the federal government issues a majority of student loan debt—75 percent—and it does so without factoring in repayment risks or monetary values of students' degrees.

Delinquency rates on student loans, while slightly higher than home mortgage delinquency rates, are unequal in one important way: borrowers cannot seek bankruptcy protection from the debt under federal law. And chronic delinquencies can lead to wage garnishment, tax refund interception, the inability

to borrow and other financial consequences.

Although average student loan debt has increased, the increase in total outstanding debt, \$1 trillion in 2013, has come largely from an increased number of borrowers. Some economists consider student loan debt a human capital investment that will increase a person's net worth in the labor market and help the economy in the future.

But personal debt is different. Banks provide credit to consumers and businesses that can pay back loans. The federal student loan program directs funds based on need and desire.

If student loans make up a majority of rising personal debt burden, some economists think it could raise concerns for the U.S. economy in the long run.

Kevin Wright, Editor

FURTHER RESOURCES

"Consumer Debt Dynamics: An Update"

By John Carter Braxton and Troy Davig
http://www.kansascityfed.org/publicat/research/macrobulletins/mb14Braxton_Davig0218.pdf

SEARCH CALLING BEST BUS
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**ASSISTING THE
UNEMPLOYED**



CLYDE MCQUEEN, president and chief executive officer of Full Employment Council, Kansas City, Mo.

THE INFLUENCE OF EXTENDED BENEFITS ON THE RECOVERY

During the Great Recession, every worker category of the labor force was adversely affected regardless of age, education and gender. For every category, the unemployment rate doubled.

It has taken eight years for unemployment to almost reach pre-recession levels—6.7 percent in January—and Federal Reserve Bank of Kansas City economist Jun Nie says extended unemployment benefits may have contributed to higher joblessness by reducing the urgency some workers felt to take a job.

Nie and Federal Reserve Bank of Atlanta economist Lei Fang wrote in their working paper, “Human Capital Dynamics and the U.S. Labor Market,” that the extension of maximum benefits beyond 26 weeks made unemployed people “more relaxed and more patient in selecting jobs.” This resulted in the unemployment rate staying half a percentage point higher throughout the recovery.

Although the extension of unemployment benefits depressed economic output because

fewer people were working, Nie and Fang found that the extension actually increased labor productivity by allowing unemployed workers to be more patient and find employment that matched their skills.

Human capital in the workforce

The attributes of a person that are productive in some economic context are known as human capital. Researchers generally consider human capital to be closely related to educational attainment. Whether in knowledge or skills, education is an investment that provides monetary returns through increased labor compensation.

In viewing the recovery, some researchers say there is little evidence of a mismatch between jobs and workers. Instead, they say, the economy was too weak to create enough jobs.

Others say a labor market shift that was occurring before the Great Recession would have, over time, caused workers to improve their human capital by seeking more education or training to qualify for available jobs in

a changing economy. This shift especially affected people in middle-skill jobs such as manufacturing. At the same time, the recession accelerated a shift for which many workers were unprepared.

Nie and Fang concluded the loss of human capital in the recession made it more difficult for the unemployed to find jobs, pushed the unemployed to quickly take low-wage jobs and made employed workers less willing to leave their current employers.

The job of being unemployed

Clyde McQueen says extended benefits helped a lot of people find employment.

McQueen is president and chief executive officer of Full Employment Council, a government-contracted organization in Kansas City, Mo., that assists the unemployed and underemployed.

or skills for the jobs that are being created in this new economy are being left behind,” McQueen said.

McQueen said the extension of benefits enabled people to decide whether to return to the workforce and in what capacity. It also afforded many people the capability to search for work and gave them what they may have needed most—time.

“After the recession, people interviewed for multiple jobs and some application processes were taking up to seven months,” he said.

During a job search people needed to pay bills, put gasoline in their cars, keep clothes clean and stay current on the jobs market. Some of those workers, especially ones working in diminishing job sectors, needed time to gain relevant skills and knowledge.

“If you’re out of work, with no money, you can’t do those things,” McQueen said.

““ After the recession, people interviewed for multiple jobs and some application processes were taking up to seven months. ””

“A lot of people did search for jobs, but what they really needed was to retrain and rethink their positions in the workforce,” McQueen said.

The recession caused many companies to shrink their workforces through various means, including outsourcing jobs overseas, implementing technology to replace workers and eliminating jobs. And the unemployed were either underqualified or overqualified for the jobs companies were creating.

The most noticeable long-term trend in U.S. labor is a shift to a highly educated workforce. The workers in highest demand are those with the most education or skills, yet the population of highly educated workers increased at a faster rate than employment.

“People who don’t have the education

Adding to the pressure on job seekers was the changing business environment. For example, McQueen said his own company had to retool in order to remain relevant in the current economy.

“This change in environment was occurring before the recession, but at a much slower pace,” he said. “The recession accelerated this change in how we do business.”

Many unemployed workers, and even companies trying to stay afloat, were thrust from a labor market built for the 20th century into a 21st century labor market. Extended unemployment benefits allowed workers to meet the new century’s demands, which are driven by technology.

For example, how people apply for jobs has changed. More and more companies require

job seekers to fill out applications online, and in many instances, software programs vet potential candidates, replacing the need for humans to review initial applications.

“If they have time to maintain or either gain the necessary requirements needed, and if they can put it together properly, they can get into the workforce quicker and at a more productive level,” McQueen said. “That’s what unemployment benefits allowed many people to do.”

The dual role of benefits

Regardless of what caused the changes in unemployment after the recession, Nie said if there are fewer jobs in the economy, workers should be less willing to leave their current jobs. This is true, he added, even if retaining a job results in a cut in wages—human capital loss.

And human capital loss—a depreciation in earning potential due to losing full employment—should have prompted people to leave the unemployment pool quickly.

Evidence shows, however, that extended unemployment benefits played two opposite roles in the labor market, Nie said.

First, extended benefits worked as a disincentive to the unemployed to re-enter the workforce quickly. Generous benefits made the unemployed less willing to take a job at a lower wage. Second, the extension improved efficiency as the unemployed had time to search for better jobs.

For example, men more than women were adversely affected in the recession, especially in the job sectors related to construction, manufacturing and trade, transportation and utilities. Nearly 70 percent of the unemployed after the recession were men.

In the first 18 months of the labor market recovery, however, men accounted for 90 percent of the increase in employment. Women made up 31 percent of the unemployed in the recovery and only 10 percent of the jobs gained.

Researchers found the difference between

men and women finding jobs was not due to growth of male-dominated industries like construction and manufacturing. Some thought gender views of human capital played a role in this difference, although both men and women benefited from unemployment benefits.

Evidence suggests that in the face of high unemployment and falling wages, men have a higher attachment to the workforce and are more likely to accept less desirable employment opportunities than women. Women are willing to seek further education and hold out for jobs that meet their skill level and wage needs.

Although extended benefits affected all unemployed workers, regardless of gender, age or race, it had a greater effect on highly educated workers than on less-educated workers, Nie said.



BY KEVIN WRIGHT, EDITOR

FURTHER RESOURCES

“U.S. HUMAN CAPITAL DYNAMICS AND THE U.S. LABOR MARKET”

By Jun Nie and Lei Fang

<http://www.KansasCityFed.org/publicat/reswkpap/pdf/rwp14-02.pdf>

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



Moods and Money: How Emotions Affect Money Decisions

Michele Wulff is a former public school educator of 30 years and a recipient of the national 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.

How do you try to relieve the stress of a bad day on the job? How about that down-in-the-dumps feeling due to emotional issues in your life? Or even the melancholy you feel on a cloudy day? Many of us head to the mall for some retail therapy.

The study of behavioral economics, which includes how our emotional state affects our financial decisions, is a newer field that looks at the role that moods and emotions play in the decision-making process. In their book, *Why Smart People Make Big Money Mistakes and How to Correct Them: Lessons from the Life-Changing Science of Behavioral Economics*, authors Gary Belsky and Thomas Gilovich point out that consumer buying behavior often is based on reflexive financial thinking, rather than rational thought. Those of us using this reflexive thinking may spend money in impulsive bursts, and spend more for goods and services than we planned to. Our rational decision-making process regarding purchases has been impaired due to our emotional situations. Therefore, we make financial choices based on a need to uplift our moods, rather than on a logical need for the purchase itself.

If we as adults behave this way due to our rollercoaster of emotions, can you imagine how kids might feel and react in similar situations? Young children usually lack the emotional strength that adults have developed to help

them resist temptation and delay gratification. So when things don't go their way in life, kids can easily choose to go down the “buy it to feel better” path. A case in point might be that a child is tired of shopping in mom's favorite stores, and demands to buy something—anything—for himself. The item can be totally unnecessary, but the child's mood is lifted by the purchase and he is pacified. We've all been there, right?

Fortunately, there are ways to combat the behavioral tendency of buying to soothe our emotions. Once we learn these techniques and share our financial plan of action with kids, we can teach them a more logical way to react when their moods begin to take over. Here are some tips to make emotion-free financial decisions:

- Use a mental or written decision process to see if a purchase makes sense (Try our decision-making suggestions on page 18). Does the item satisfy a need? Is it important to buy it at this time? Is it affordable?
- Plan for temptation and know how to resist it. How will you handle yourself when you run onto the sale of the century? Make a plan to help you back away from an impulse purchase.
- Think of the opportunity cost of spending your dollars on a particular item. If you decide to buy it, what other good or service are you giving up? In kid terms—the toy you buy today will keep you from the video game you want tomorrow.
- Use a 24-hour rule before buying. Enforce a waiting period of at least one day so you can logically think about the potential purchase.
- Don't follow the herd. Just because an item is new, trendy or sought after, it doesn't

mean you have to make it yours today.

It's important to practice these behavioral techniques once you have shared them with your young shoppers. So take them to the mall as soon as they have some cash that's burning a hole in their pocket. Remind them of ways to keep on track if they suddenly develop the urge to splurge.

Behavioral economics can also be used to ingrain some important financial lessons you'd like kids to learn. Try using the concept of loss aversion, which says the pain of losing is twice as strong as the pleasure of winning. Instead of saying, "You should save your money in the bank," try, "You're losing money (interest on

funds) by not saving in the bank." This idea could spur them into depositing dollars on a regular basis.

One more behavioral economic concept to remember is default outcome, which is the tendency to be passive in changing any behavior. So push yourself into action to share these methods with kids to help conquer emotional spending.



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. The resources below are a few of many available on this subject.

FEDERAL RESERVE RESOURCES

Once Upon a Decision Online Course for Consumers

<https://bts.stlouisfed.org/decision-making-elem/?p=yes>

Ella learns to make better decisions in her life by using a decision-making grid. For ages 5-8.

On the Court with Michael Jordan by Matt Christopher

http://www.stlouisfed.org/education_resources/assets/lesson_plans/MichaelJordan.pdf

This book describes the many decisions Michael Jordan made throughout his basketball career. The accompanying lesson highlights human capital and how to make logical choices.

For ages 9-12.

FICTION BOOKS

The Berenstain Bears Get the Gimmies

by Stan and Jan Berenstain

The bear cubs want everything in sight when they go shopping. Mama and Papa Bear teach them about the family budget and the importance of appreciating what they have.

For ages 3-7.

NONFICTION BOOKS

Financial Peace Junior

by Dave Ramsey

This kit gives kids a hands-on way to handle money and make financial decisions. For ages 6-12.

Why Smart People Make Big Money Mistakes and How to Correct Them: Lessons from the Life-Changing Science of Behavioral Economics

by Gary Belsky and Thomas Gilovich

This book looks at ways we spend, save, borrow, invest and waste money. Case studies illustrate common patterns of thinking and show readers how to protect and grow their assets.

For Adults.

Activity: How do I decide

It's not easy to make good decisions on how to spend your money

Try the ideas below to help you make better spending choices.

Take the decision quiz before making a purchase, but be honest. If you can answer "true" to four out of five statements, BUY IT!

- | | | | |
|----|--|------|-------|
| 1) | I need this item for my daily life. | TRUE | FALSE |
| 2) | I can't substitute anything I already have for it. | TRUE | FALSE |
| 3) | It's necessary to buy it today. | TRUE | FALSE |
| 4) | I'm not buying it because my friends have it. | TRUE | FALSE |
| 5) | I can afford to pay for it. | TRUE | FALSE |

Use the following tips to help you resist the urge to splurge. Add a new tip of your own.

Say "I won't buy it today, maybe tomorrow." Repeat three or more times.

Turn away from the item and walk to a different part of the store.

_____ (Your tip here)

List three items that you would like to save your money for. These are your savings goals.

Think of one or more of your goals when you are tempted to spend instead of save.





2013 financial report

The Federal Reserve Bank of Kansas City's 2013 audited financial report is at KansasCityFed.org. Past financial reports, and officers, directors and advisory councils listings, also are online.

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

Here's a closer look at Tenth District directors who joined their boards in 2014.



PAUL J. THOMPSON
KANSAS CITY DIRECTOR

PHOTO BY BOB GREENSPAN



PAUL J. THOMPSON

Paul Thompson, president and CEO of Country Club Bank in Kansas City, Mo., says he never has a typical day at work. He can be nurturing customer relationships one minute and have a meeting about the bank's strategic vision the next.

"The favorite part of my job, however, is the opportunity to meet with customers and potential customers," he said.

Thompson appreciates the challenges that community bankers face daily, and he wants to provide that perspective as a member of the Federal Reserve Bank of Kansas City's Board of Directors.

"Through dialogue with customers, business leaders and bankers in the Tenth Federal Reserve District, I have had the privilege to witness firsthand the vital contribution community banks make each and every day to ensure the viability of the communities in which they serve," he said.

Thompson grew up in a banking family, and he has spent his career in the industry. He has witnessed several cycles in the U.S. economy and substantial changes to the supervisory and regulatory framework in the banking industry.

He hopes to share what he has learned with President Esther George as she continues to

influence monetary policy on the Federal Open Market Committee.

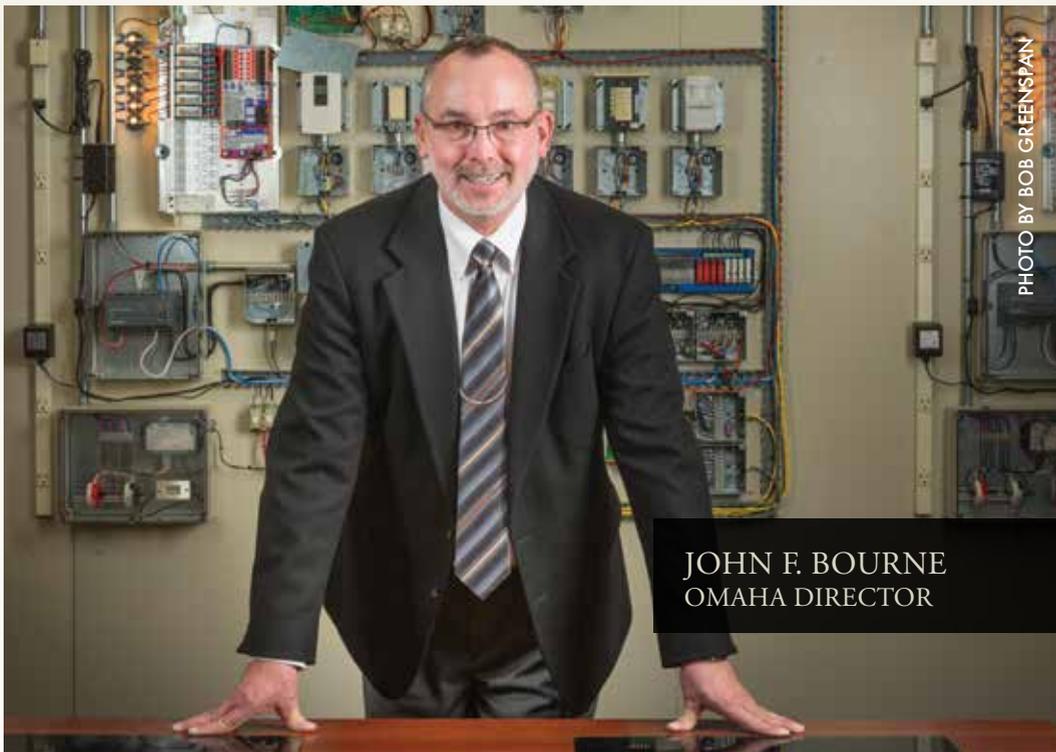
"I have a genuine interest in economics, a vested interest in the health of our economy, and I believe that our system of capitalism—properly regulated—has proven to be the best and most sustainable model for long-term economic growth," he said.

Serving as a director, however, is more than sharing his own views, he said. Thompson wants to learn about other industries that influence both the regional and national economies.

"My father always instructed us to never stop learning, and hearing the perspectives of the Fed staff and my fellow Board directors certainly affords me that opportunity," he said.

He also sees his time on the Board as an opportunity to give back to the banking industry, and, on a larger scale, to his community and country.

"The decentralized structure of the Federal Reserve System plays a vital role in arriving at a balanced and effective monetary policy because it allows for directors' perspectives and influence from across the country not just from Washington or New York," he said. "That I can be a voice in that chorus of voices is exciting and rewarding to me."



JOHN F. BOURNE
OMAHA DIRECTOR

JOHN F. BOURNE

John Bourne learned about giving back to the community from his parents.

“My family has been in public service forever,” he said. “My parents always said you’re supposed to be there to help.”

That’s one of the reasons he wanted to become a director for the Federal Reserve Bank of Kansas City’s Omaha Branch Board—he could give voice to the thousands of working people throughout the Tenth Federal Reserve District.

Bourne is an international representative for the International Brotherhood of Electrical Workers (IBEW), the largest electrical union in the world, with 750,000 members who work in utilities, manufacturing, construction, railways and other industries.

“We have one of the largest training and apprenticeship programs in the nation,” he said.

Several IBEW members faced tough times during the recession as manufacturing, construction and other sectors of industry declined.

“I’ve learned that what the Fed does, such as setting interest rates, effects business and labor,” he said.

He interacts with the companies and businesses that employ IBEW members

throughout a 10-state area that includes the Tenth District.

As a director he can provide the Fed feedback from both a business and labor perspective, which will help in making monetary policy decisions.

“Manufacturing is not as big as it used to be, and I don’t know if it will ever be what it was, but it is coming back,” he said.

He also can learn from the Federal Reserve and his fellow directors.

“I’m interested in how different businesses interact; it fascinates me how business and the financial world works,” he said.

The economy has changed and continues to change rapidly, he said.

Bourne hopes he can impart what he learns to IBEW members and the companies his union services, especially on matters of labor.

“In industry, we need people to make it work, but that labor pool, and the work itself, has changed in the past few decades,” he said.

IBEW apprentices used to be in the early 20s, now they are in the late 20s and some have college educations.

“The work also requires either more training or additional training, considering how much technology has changed things.”

CLINT D. ABERNATHY

Clint Abernathy has been in agriculture all his life.

“I want to share my views and concerns about my industry and also of the small towns and cities of western Oklahoma,” he said about his new role as a member of the Kansas City Fed’s Oklahoma City Branch Board of Directors.

“It is important that we retain the industries we have in rural Oklahoma and hopefully attract new ones,” he added.

As a director, he also wants to learn more about other industries and the challenges each faces.

“The Federal Reserve has many roles and functions that I was not aware of before I became a board member,” he said. “The experience should help me in making my business decisions.”

Abernathy owns Abernathy Farms, Inc., a 13,000-acre wheat, cotton and cattle operation near Altus in southwest Oklahoma. His two sons manage employees and day-to-day operations, but he makes decisions on seed variety selections, fertilizer and lime rates, and planting intentions. He also does a majority of the “book work” involved with farm operations.

The work varies with the seasons and each season has its specific tasks. Over the years, operating a profitable farm has changed with the environment, he said.

Abernathy Farms now uses GPS guidance to efficiently apply fertilizers and lime, and new technologies such as precision farming and drip irrigation. They also use no till practices on fields, which has reduced soil erosion and conserves soil moisture.

“This efficient use of resources saves us money and increases yields while being environmentally friendly at the same time,” he said.

The severe drought of the past three years, Abernathy said, is a vivid reminder of the importance of resource conservation.

Like farming practices, the nation’s economy has changed over the years, and Abernathy hopes to share what he learns as a Fed director with community leaders in his area.

“I feel that it will be very interesting to learn about the Federal Reserve and to better understand monetary policies as they affect the economy,” he said. “I believe it will be a very rewarding experience.”



CLINT D. ABERNATHY
OKLAHOMA CITY DIRECTOR

PHOTO BY KEITH BAIL



CHARLES HALL
OKLAHOMA CITY DIRECTOR

CHARLES HALL

One could say banking is in Charles Hall's blood.

"When you account for my grandfather's 60 years of service, my father's 55 years, my 25 years and my brother's 14 years of service, our family has been banking for 154 years collectively," he said.

Hall, a fourth generation settler of the Cherokee Strip Land Run in Noble County, is chairman and chief executive officer of Exchange Bank and Trust Company in Perry, Okla. He recently became a member of the Federal Reserve Bank of Kansas City's Oklahoma City Branch board of directors.

Hearing his families' first-hand stories about banking during the 1930s moratorium, the deregulation period and the 1980s oil bust shaped him into the banker he is today.

"I think I have a real sense and understanding for managing the marathon rather than a sprint," he said.

He also is a community banker "through and through," and he brings this perspective to the Branch board.

"Community banks are the lifeblood of our cities and towns, especially in rural America," he said. "We've seen the number of community banks in our country decrease dramatically in recent years. I remain concerned

as to the reasons why."

He wants to regularly seek the input of Oklahoma bankers on issues facing the banking industry, and he plans to provide this information to the Fed and policymakers every chance he gets.

The strategic planning process is one of Hall's most valuable tools.

"As CEO and chairman I see my responsibilities pretty clearly: to chart the course for our organization; put the right people, policies and procedures in lock step with a plan of action; clearly communicate our plan to the staff and shareholders; and evaluate, measure and track our successes and failures."

As a director, he hopes to provide the right information and guidance that helps the Oklahoma City Branch, the Kansas City Fed and the Federal Reserve System reach its strategic goals.

"Policymakers, no doubt, are charged with a difficult task," he said. "There are many ingredients that go into the makeup and decision processes of our system. The men and women who work for the Board of Governors and the Federal Reserve Banks in this country are charged with helping to achieve our monetary goals in part through a safe and flexible banking system."

JANE HASKIN

Jane Haskin enjoys the diversity community banking provides her.

“I never really know what my day will entail until I get to the bank,” she said. “The best part of every day is helping customers and employees.”

Haskin is president and chief executive officer at First Bethany Bank & Trust in Bethany, Okla., a suburb of Oklahoma City. Like all community banks, First Bethany focuses on customer friendly service and offering customers a variety of products that helps them reach their financial goals.

But it’s more than banking, Haskin said. First Bethany wants to be a good corporate citizen and give back to the community.

“Most of our senior officers are involved in community and civic organizations,” she said.

It’s this community banking model that Haskin wants to advocate as a member of the Federal Reserve Bank of Kansas City’s Oklahoma City Branch Board of Directors.

“I’m very concerned with the tremendous amount of new regulations that have been placed on banks,” she said. “I think it is important for the regulators who are charged with implementation of the laws passed by Congress to understand how those regulations

impact the banks and their customers.”

Haskin has seen new regulations cause unintended consequences for the community banking industry.

“I think it is important for bankers and regulators to communicate in these situations, because when it is all said and done, a safe and effective banking system is the goal of both groups,” she said.

Haskin has been through several recessions and recoveries during her banking tenure, and she knows how economic fluctuations can affect customers and the banking environment.

Community banks don’t serve a system, they serve communities, she said, which has become more challenging within the current banking environment.

“I am very interested in technology and its impact on the future of banking,” she said. “This is an area that is changing very rapidly, and I believe both bankers and regulators are going to have a challenge in keeping up with the rapid changes in banking technology.”

FOR MORE INFORMATION on the Federal Reserve Bank of Kansas City’s directors, visit KansasCityFed.org/aboutus/leadership.



Kansas City Fed spreads financial awareness through Money Smart

The Federal Reserve Bank of Kansas City continued its participation in national Financial Literacy Awareness month with activities aimed at promoting financial understanding to children and adults. The Money Smart campaign—or Jump\$tart Your Money as it's known in Oklahoma—took place throughout the month of April with more than 13,500 people participating in the programs that offer financially focused education courses for people of all ages and income levels.

Events were scheduled throughout the Tenth Federal Reserve District through the Kansas City Fed's partnership with financial institutions, government agencies, nonprofit community organizations, libraries and schools.

To see more on Money Smart go to www.moneysmartday.kcfed.org.



Investment Connection goes online

The Federal Reserve Bank of Kansas City's Community Affairs Department has created an additional way for funders to find community and economic development opportunities.

In March, the department launched its Investment Connection Online, which adds efficiency for funders seeking to connect with and assist community and economic development organizations for Community Reinvestment Act (CRA) consideration and also to simply serve community needs.

Online Investment Connection can connect funders with proposals from community and economic development organizations that address: asset building and financial education; community facilities; small business development and microlending; neighborhood stabilization and affordable housing; and workforce development.

The new online tool complements Investment Connection events the Kansas City Fed already presents throughout the Tenth District.

Started in 2011, Investment Connection has connected community organizations with more than \$24 million in funding within the Tenth District states of Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming.

For more information about Investment Connection and Investment Connection Online, go to the Kansas City Fed's Community Development Investments at www.kansascityfed.org/community/cdi/index.cfm.



PHOTO BY GARY BARBER

THE KANSAS CITY FED partnered with Sporting Kansas City and other area organizations for a family financial education day in Kansas City, Kan.

Student Board of Directors visit Startup Village

Members of the Federal Reserve Bank of Kansas City's Student Board of Directors program recently visited the Kansas City Startup Village, which is an entrepreneur-led, grassroots initiative helping to bolster the Kansas City entrepreneur and startup environment.

The Village centers on Google Fiber—Kansas City was chosen as the launch site of the fastest Internet provider in the nation—and home to more than a dozen tech industry startups.

“We wanted to expose the students to a new way of thinking, a different view of the world that they haven't had before,” said Trudie Hall, director of the program.

The Kansas City Fed started the Student Board of Directors program in 2012 as a way to offer high school students the chance to learn about the economy, the Federal Reserve and how to prepare for their futures. The program has expanded to the Bank's branches in Denver,

Oklahoma City and Omaha.

The students listened to a panel of representatives from startup companies and toured several businesses in the Village. The purpose was not to push students toward starting their own businesses, but to help them think differently, like an entrepreneur.

“Whether they work for themselves or for someone else, they need to learn how to build upon ideas,” Hall said.

Students learned from the panelists that they don't have to be “creative types” to develop a business idea. The process is about trial and error, learning to “pivot” or change directions if an idea doesn't fully develop or needs to change direction. And the hardest part isn't creating an idea; it's developing the idea—putting a plan in motion and sticking with it.

“The students were intrigued, inspired and really curious about the whole process,” Hall said. “It was a very good session.”



The Federal Reserve Bank of Kansas City's Student Board of Directors recently toured Google Fiber and the Kansas Startup Village.

Students show creativity in 2014 Shred Challenge

More than 200 high school students from Colorado, northern New Mexico and Wyoming participated in the Federal Reserve Bank of Kansas City Denver Branch's Shred Challenge.

Shred Challenge is a financial literacy program for students to learn about the currency process through classroom instruction, and artistic and written endeavors.

The way the challenge works is teachers first present the Show Me the Shreds lesson. Students then create an original work of art to depict the theme, "Financial Decision Making," using shredded currency and a mat board surface provided by the Branch. Artwork can be two- or three-dimensional as long as it stays within the perimeter of the mat board and consist of at least 60 percent shredded currency. Students also write an essay of 250 words or less, describing how their artwork reflects the theme.

Teachers submitted their students' work to the Denver Branch in March, and one overall first-place prize was awarded to the top student from all participating schools and one first-place prize was awarded to the top student from

each participating school.

Each participating student received a certificate of completion and the winning students received an award.

To learn more about Shred Challenge visit <http://kansascityfed.org/education/foreducators/shredchallenge-winningprojects.cfm>.

This year's winners include:

Overall Regional Winner

Jenna Lindsey, Castle View High School, Colorado

Participating school winners

Michael Mora, Grand Junction High School, Colorado

Becca Simms, Longview High School, Colorado

Briana Walker and William Whittlesey
(team project), I-Team Manor, Colorado

Tommy Covarrubias, Mesa Ridge High School, Colorado

Erick Sulzman, Natrona Expulsion Lab, Wyoming

Alexa Mejorada, Pinnacle High School, Colorado

Noe Garcia, Taos High School, New Mexico

Elizabeth Plieger, Valley High School, New Mexico



This year's overall winner is Jenna Lindsey, from Castle View High School in Castle Rock, Colo.

Tutorial helps users navigate Map Your Community

Users now have access to a video tutorial to help them navigate Map Your Community, the free online tool on the Federal Reserve Bank of Kansas City's website that creates custom maps from economic and demographic information.

Map Your Community can be used by community leaders, practitioners, small-business owners and local residents to:

- Identify specific market segments within a geographic area
- Target program interventions and outreach
- Assess the market for interventions, products or services
- Identify potential resources or resource gaps

The tutorial walks users through a process of selecting geographic and economic indicators to create a thematic and detailed map.

Users can map up to 31 key economic and demographic indicators, including educational attainment, demographic trends, employment, lending activity and homeownership rates.

The tutorial shows users how to manage the indicators using an example that addresses a typical workforce development question.

In addition to the tutorial, there is a user guide that provides additional information on the various features available using the mapping tool.

To view the tutorial and learn more about Map Your Community, go to www.kansascityfed.org/community/regional-profiles.cfm



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 Bank & Trust Company	Lu Junta, Colo.	90
Lusk State Bank	Lusk, Wyo.	80
Bank of Commerce	Chanute, Kan.	10
Bank of Eufaula	Eufaula, Okla.	10
Chetopa State Bank & Trust Company	Chetopa, Kan.	10
First Neodesha Bank	Neodesha, Kan.	10
Five Points Bank of Hastings	Hastings, Neb.	10
Union State Bank	Everest, Kan.	10
United Bank & Trust	Marysville, Kan.	10
Peoples Exchange Bank	Bellville, Kan.	5



KEVIN WRIGHT, EDITOR

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

2013 annual report

The Federal Reserve Bank of Kansas City and its Branches in Denver, Oklahoma City and Omaha have three broad focus areas: contributing to monetary policy that promotes stability and growth; providing supervisory and regulatory oversight to financial institutions; and promoting safe and efficient financial services.

This annual report includes information on the leadership and Divisions of the Kansas City Fed and its Branches.

The 2013 audited financial report for the Federal Reserve Bank of Kansas City is available online at KansasCityFed.org.





Esther L. George, center, president and chief executive officer of the Federal Reserve Bank of Kansas City, meets with Board Chair Barbara Mowry, left, and members of the Kansas City Board of Directors on a regular basis throughout the year.

work

federal reserve bank of kansas city



The Federal Reserve Bank of Kansas City highly values its employees who help the Bank and the Federal Reserve System fulfill its mission. (From left) Kenny Olumesi, Financial Services, Madison Richardson, Administrative Services, Ritesh Saraff, Technology Solutions Delivery, and Terri Bradford, Financial Services.

administrative services

This division performs a variety of services to maintain efficient and effective internal operations at the Kansas City Fed. Functions include maintaining the Reserve Bank's facilities; providing a safe and secure work environment; developing and implementing human resources strategies to meet the evolving needs of the Fed's workforce and operating environment; developing the Bank's budget and monitoring its expenses; and providing accurate financial accounting and reporting. Additionally, the division houses the Office of Minority and Women Inclusion (OMWI), which is responsible for overseeing the Bank's diversity initiatives as outlined in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Facilities Management, Law Enforcement, Human Resources, Human Resources Technology Center, Financial Management and National Billing Operations are included in the Administrative Services Division, which employs 301 people.



financial services

The Audit Division reports to the Audit Committee of the Kansas City Fed's Board of Directors. Audit provides an independent and objective assessment of the Tenth Federal Reserve District's internal controls, risk management and governance processes to the Board of Directors and senior management. It employs 20 people.

audit

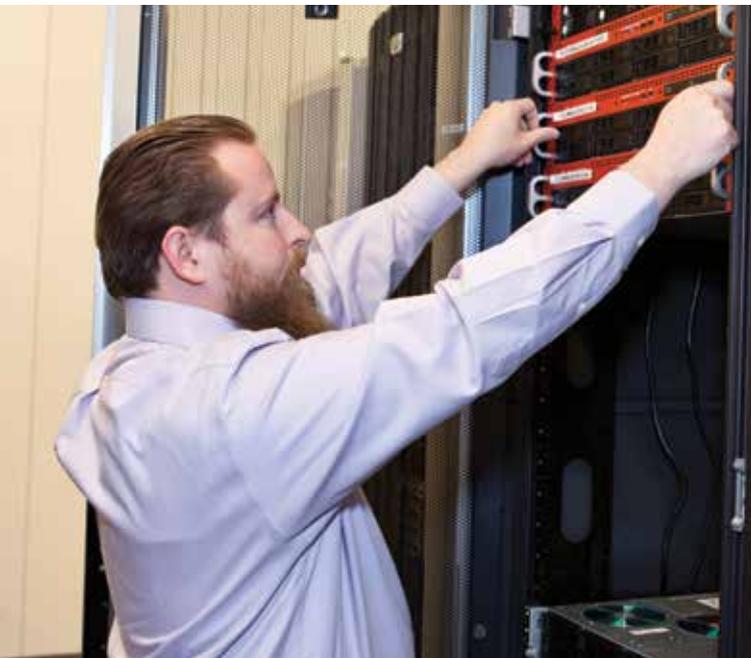
Financial Services provides financial institutions with services and support in accessing the payments system and meeting the public's demand for currency and coin. Through Cash Services, Wholesale Operations, Customer Relations and Support departments, and Federal Reserve Consumer Help, the division receives deposits and distributes currency and coin; provides secure and timely transfers of funds and securities between banks; provides customer support and access to payment networks; consults with and sells payments services to financial institutions and manages customer relationships; and provides service to consumers nationwide who have questions or complaints about their financial institution. The Payments System Research Department studies trends and developments in the payments system and shares insights with industry and policy makers. This division employs 190 people.



Steve McBride is a senior vice president and General Auditor of the Federal Reserve Bank of Kansas City. He is responsible for the Audit Division and provides the Board of Directors assurance that the Bank is functioning in an appropriate manner.

economic research

Economic Research studies and evaluates monetary policy, macroeconomics, and other issues of importance to the Kansas City Fed and the Federal Reserve System. Through publications and presentations, staff members communicate their research findings to the Bank's senior management and directors, policymakers, other researchers, and the public. Annually, the division, in collaboration with Public Affairs, develops and hosts the Jackson Hole Symposium in Wyoming, where central bankers, economists, policymakers and academics from around the world gather to discuss global economic topics. Research Automation provides high performance computing and data warehousing services to the Federal Reserve System. This division employs 51 people.



BJ Lougee helps Research Automation provide technical support for Kansas City Fed and Federal Reserve System economists in various areas of research.

retail payments technology services

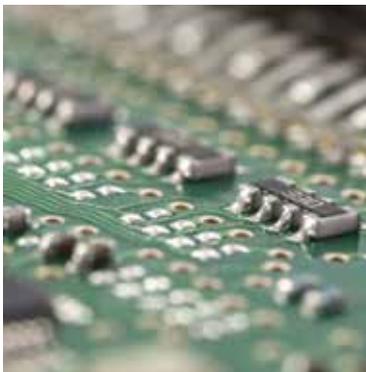
The Retail Payments Technology Services Division is responsible for providing a substantial portion of the technology services supporting the Federal Reserve System's Check Automation Services, Automated Clearing House and the FedACH Services system. The Division's mission is to foster the integrity, efficiency and accessibility of U.S. retail payment and settlement systems in support of financial stability and economic growth. The division employs 69 people.



Brosie Strada, right, assistant vice president of the Retail Payments Technology Services Division, meets with Melissa Norwood, left, and other team members who provide technological support for the Federal Reserve System's paper and electronic check payments systems and oversight of the FedACH Technology Transition Program.

information technology

The Information Technology Division works to support the efforts of business areas in the Federal Reserve Bank of Kansas City and the Federal Reserve System through innovative information technology solutions. This division includes the Federal Reserve System's National Service Desk operations, oversight of server management and internal network centralization, staff supporting National IT General Computing, Network, Telephony and Desktop Storage Operations and SharePoint administration, as well as local IT Client Services and Information Security. This division employs 173 people.



legal

The Legal Division serves as the Kansas City Fed's legal counsel. It provides advice to management and the Board of Directors; represents the Kansas City Fed in administrative and judicial proceedings; assists the Kansas City Fed in complying with applicable law; counsels employees concerning the Kansas City Fed's Code of Conduct; provides training to management; and helps educate employees on legal issues. This division employs six people.



regional, public and community affairs

The division's primary responsibilities are research, resource development and communications. The division's economists track developments in the District's economy and present their findings to senior management as part of the Bank's monetary policy deliberations. Through publications, money museums, media relations, electronic communication and educational programs, Public Affairs works to explain the Fed's purpose and functions. Community Affairs promotes economic development through fair and impartial access to credit throughout the District. The division employs 62 people.

Krissy Young is vice president of Public and Community Affairs, which provides internal and external communication services and promotes economic development in the Tenth District.





Kristle Lee is a member of the Bank's Legal Division, which advises and represents the Kansas City Fed in administrative and legal issues.

supervision and risk management

This division is responsible for supervising bank holding companies, savings and loan holding companies, and state-chartered member banks in the Tenth District. The responsibilities include conducting examinations of these institutions to ensure a safe and sound banking system. Staff also examines banks for compliance with consumer laws and regulations and for performance under the Community Reinvestment Act. The division's applications function reviews and analyzes applications received from banking organizations for transactions requiring approval such as acquisitions, mergers, establishing additional branches, and changes in ownership or control. The division's credit and risk management function extends credit to depository institutions and assists organizations in managing Federal Reserve account balances. The division also collects data from financial organizations, studies financial industry trends, conducts banking research, and hosts seminars and forums for banks throughout the region. This division employs 321 people.

The Technology Solutions Delivery Division was created in 2012 to recognize the increasing importance of and extensive growth in technology solutions delivery provided on behalf of the System and the U.S. Treasury.

The division includes the Application Delivery Services team, which is responsible for the architecture, integration/development, quality assurance testing, and project management oversight for a growing portfolio of solutions; and the Treasury Services area, which provides project management oversight and support for multiple application solutions developed to support the U.S. Treasury. The division employs 215 people.

technology solutions delivery



As the Federal Reserve Bank of Kansas City's senior leadership team, the Management Committee guides the organization's mission, vision, values and objectives.

directors
roundtables
advisory
councils
officers

federal reserve bank of kansas city

management committee



(From left) Ms. Connor, Ms. Morhaus, Ms. Ward, Ms. Sellers, Mr. Moore, Ms. George, Mr. Dubbert, Ms. Raley, Ms. Pennell, Ms. Pacheco and Mr. Davig.

Esther L. George, President and Chief Executive Officer

Kelly J. Dubbert, First Vice President and Chief Operating Officer

Denise I. Connor, Senior Vice President of Retail Payments Technology Services and Federal Reserve Retail Payments

Troy Davig, Senior Vice President of Economic Research and Director of Research

Kevin L. Moore, Senior Vice President of Supervision and Risk Management

Dawn B. Morhaus, Senior Vice President of Technology Solutions Delivery

Barbara S. Pacheco, Senior Vice President of Financial Services

Karen Pennell, Senior Vice President of Information Technology and National IT Senior Executive of End User Services

Diane M. Raley, Senior Vice President of Regional, Public and Community Affairs and Board Secretary

Veronica R. Sellers, Senior Vice President and General Counsel (Advisor to Management Committee)

Donna J. Ward, Senior Vice President of Administrative Services and Director of the Office of Minority and Women Inclusion

directors

federal reserve bank of kansas city

governance of the district; guardianship of the system

The Board of Directors of a Federal Reserve Bank is filled through a unique blend of appointed and elected positions. The nine-member board is divided evenly among three classifications. All directors serve staggered three-year terms.

Class A

The three Class A directors represent commercial banks that are members of the Federal Reserve System. These directors are bankers who are nominated and elected by member banks within the Tenth Federal Reserve District. The District includes Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming.

Under the Class A category, a director will be elected by a specific group of member banks classified as either 1, 2 or 3. This classification is based on the total amount of capital and surplus for each commercial bank, with Group 1 banks being the largest. Each group within the class elects one director. For example, Max T. Wake, president of the Jones National Bank & Trust Co. of Seward, Neb., is a Class A director, who was elected by, and represents, Group 3 member banks.

Class B

The three Class B directors represent the public, however, may not be an officer, director or employee of a financial affiliation company. These directors are also elected by member banks under the same categories as Class A directors. For example, Richard K. Ratcliffe, chairman of Ratcliffe's Inc. of Weatherford, Okla., is a Class B director elected by Group 2 member banks.

Class C

The three Class C directors also represent the public. These directors, however, are appointed by the Board of Governors of the Federal Reserve System.

Like a Class B director, a Class C director may not be an officer, director or employee of a financial affiliation company. These directors may not own stock in a bank or a bank holding company. For example, Steve Maestas, managing partner NAI Maestas and Ward, is a Class C director. From the Class C directors, the Board of Governors selects one person as chairman and another as deputy chairman.

Serving on the Head Office Board

Federal Reserve Bank of Kansas City

Reserve Bank directors meet monthly to oversee the Bank's operations and policies and to confer on economic and banking developments. The directors also provide information on economic conditions within the District as a part of the Bank president's preparation for Federal Open Market Committee meetings. Among directors' responsibilities is establishing the Kansas City Fed's discount rate, which is subject to review and determination by the Federal Reserve Board. The directors and their classifications are on page 42.

Serving on the Branch Boards

Denver, Oklahoma City and Omaha

Each Branch of the Federal Reserve Bank of Kansas City also has its own seven-member Board of Directors. Four of these directors are appointed by the Federal Reserve Bank of Kansas City while three are appointed by the Board of Governors. Branch directors serve three-year terms and provide their respective Branch executives with insight on regional economic conditions as well as offer advice and counsel. Branch directors are on pages 43-45.

board of directors, kansas city



(From left) Mr. Maestas, Mr. Stout, Mr. Wake, Mr. Ratcliffe, Mr. Rodman, Ms. Mowry, Ms. Washington, and Mr. Brownback.

Barbara Mowry, Board Chair, Chief Executive Officer, GoreCreek Advisors, Greenwood Village, Colorado (Class C)

Steve Maestas, Board Deputy Chair, Managing Partner, NAI Maestas and Ward, Albuquerque, New Mexico (Class C)

David W. Brownback, President and Chief Executive Officer, Citizens State Bank & Trust Company, Ellsworth, Kansas (Class A, Group 2)

Richard K. Ratcliffe, Chairman, Ratcliffe's Inc., Weatherford, Oklahoma (Class B, Group 2)

Len C. Rodman, Former Chairman, President and Chief Executive Officer, Black and Veatch, Overland Park, Kansas (Class B, Group 3)

John T. Stout, Jr., Chief Executive Officer, Plaza Belmont Management Group LLC, Shawnee Mission, Kansas (Class B, Group 1)

Max T. Wake, President, Jones National Bank & Trust Company, Seward, Nebraska (Class A, Group 3)

Rose M. Washington, Executive Director, Tulsa Economic Development Corporation, Tulsa, Oklahoma (Class C)

Class A, Group 1 director, open

*Directors oversee the Bank's operations and policies,
and confer on economic and banking developments.*

Branch directors provide insight on local economic conditions and advise and counsel the Branch executives. Directors must satisfy the same eligibility requirements that pertain to head office directors.

Larissa L. Herda, Board Chair (*not pictured*), Chair, Chief Executive Officer and President, tw telecom inc., Littleton, Colorado

Margaret M. Kelly, Chief Executive Officer, RE/MAX, LLC, Denver, Colorado

Richard L. Lewis, President and Chief Executive Officer, RTL Networks, Inc., Denver, Colorado

Lilly Marks, Vice President for Health Affairs, University of Colorado, Executive Vice Chancellor, Anschutz Medical Campus, Denver, Colorado

Brian R. Wilkinson, President, Steele Street Bank and Trust, Denver, Colorado

Anne Haines Yatskowitz, President and Chief Executive Officer, ACCION New Mexico-Arizona-Colorado, Albuquerque, New Mexico

Mark A. Zaback, President and Chief Executive Officer, Jonah Bank of Wyoming, Casper, Wyoming

board of directors, denver



(From left) Mr. Wilkinson, Mr. Zaback, Ms. Kelly, Ms. Marks, Mr. Lewis and Ms. Yatskowitz.

James D. Dunn, Board Chair, Chair, Mill Creek Lumber & Supply Co., Tulsa, Oklahoma

Paula Bryant-Ellis, Chief Operating Officer, BOK Financial Mortgage Group, Tulsa, Oklahoma

Linda Capps, Vice Chairman, Citizen Potawatomie Nation, Shawnee, Oklahoma

Michael C. Coffman, President and Chief Executive Officer, Panhandle Oil and Gas, Inc., Oklahoma City, Oklahoma

Peter B. Delaney, Chief Executive Officer and Chairman of the Board, OGE Energy Corporation, Oklahoma City, Oklahoma

Douglas E. Tippens, President and Chief Executive Officer, Bank of Commerce, Yukon, Oklahoma

K. Vasudevan, Chairman and Founder, Service & Technology Corporation, Bartlesville, Oklahoma

board of directors, oklahoma city



(From left) Mr. Coffman, Ms. Capps, Mr. Tippens, Mr. Dunn, Ms. Bryant-Ellis, Mr. Delaney and Mr. Vasudevan.

board of directors, omaha



(From left) Mr. Esch, Ms. Hindery, Mr. Krejci, Mr. Farrell, Mr. Russell, Ms. Martin and Mr. Thom.

James C. Farrell, Board Chair, President and Chief Executive Officer, Farmers National Company, Omaha, Nebraska

Brian D. Esch, President and Chief Executive Officer, McCook National Bank, McCook, Nebraska

Anne Hindery, Chief Executive Officer, Nonprofit Association of the Midlands, Omaha, Nebraska

Jeff W. Krejci, President, First State Bank, Hickman, Nebraska

JoAnn M. Martin, Chair, President and Chief Executive Officer, Ameritas Life Insurance Corp., Lincoln, Nebraska

G. Richard Russell, President and Chief Executive Officer, Millard Lumber Inc., Omaha, Nebraska

James L. Thom, Vice President, T-L Irrigation Co., Hastings, Nebraska

Participants from ranching, agriculture, biofuels, dairy, financing and other sectors meet annually with Kansas City Fed staff to give presentations on their industry and participate in open discussion.

economic roundtables

federal reserve bank of kansas city

food and agriculture roundtable



*(Front row, left to right) Mr. Kauffman, Mr. Wellman, Mr. Horan, Mr. Bbandari, Mr. Hammes, Mr. Barr, Mr. Timmerman, Mr. Thamodaran and Mr. R. Farrell.
(Back row, left to right) Mr. Brooks, Mr. Robb, Mr. Cooper, Mr. J. Farrell, Mr. Dixon, Mr. George, Mr. Gottschalk, Mr. Hill, Mr. Brugler, Mr. Lapp and Mr. Wyse.*

food and agriculture roundtable

Barrett Barr

Deere and Company, Bettendorf, Iowa

Ankush Bhandari

Gavilon, LLC, Omaha, Nebraska

Bill Brooks

INTL FCStone, Dearborn, Missouri

Alan Brugler

Brugler Marketing & Management LLC, Omaha, Nebraska

Ed Cooper

Wells Fargo Bank, Chicago, Illinois

Parry Dixon

A.D.M., Oakley, Illinois

Jim Farrell

Farmers National Company, Omaha, Nebraska

Ron Farrell

Farrell Growth Group, LLC, Kansas City, Missouri

Steve George

Fremont Farms of Iowa LLP, Malcom, Iowa

Andy Gottschalk

RJ O'Brien and Associates, Aurora, Colorado

Paul Hammes

Union Pacific Railroad, Omaha, Nebraska

Howard Hill

National Pork Producers Council, Urbandale, Iowa

Bill Horan

Horan BioProduction, LLC, Rockwell City, Iowa

Bill Lapp

Advanced Economic Solutions, Omaha, Nebraska

Jim Robb

Livestock Marketing Information Center, Denver, Colorado

Dhamu Thamodaran

Smithfield Foods, Inc., Smithfield, Virginia

Jim Timmerman

Timmerman Land & Cattle, Springfield, Nebraska

Steve Wellman

American Soybean Association, Syracuse, Nebraska

Ray Wyse

SW.A.T. LLC, Omaha, Nebraska

Hosts

Nathan Kauffman

Federal Reserve Bank of Kansas City-Omaha Branch,
Omaha, Nebraska

Maria Akers

Federal Reserve Bank of Kansas City-Omaha Branch,
Omaha, Nebraska

regional economic roundtable



(From left) Mr. Thompson, Mr. Robinson, Ms. Reynis, Mr. Hill, Mr. Rickman, Mr. Mitchell and Mr. Wobbekind.

Jeremy Hill, Director, Center for Economic Development and Business Research, Wichita State University, Wichita, Kansas

David Mitchell, Assistant Professor, Missouri State University, Springfield, Missouri

Lee Reynis, Director, Bureau of Business and Economic Research, University of New Mexico, Albuquerque, New Mexico

Dan Rickman, Regents Professor of Economics, Oklahoma Gas and Electric Services Chair in Regional Economic Analysis
Oklahoma State University, Stillwater, Oklahoma

Jim Robinson, Principal Economist, State of Wyoming, Economic Analysis Division, Laramie, Wyoming

Eric Thompson, Associate Professor of Economics, Director of the Bureau of Business Research Economics,
University of Nebraska, Lincoln, Nebraska

Richard L. Wobbekind, Senior Associate Dean for Academic Programs, Executive Director, Business Research Division
University of Colorado, Boulder, Colorado

Economists from each of the seven states in the Tenth District meet annually with Kansas City Fed staff to review the state's activities from the past year and offer future insight. Sectors discussed include housing, manufacturing, agriculture, construction, energy, banking, employment, retail and exports.

advisory councils

federal reserve bank of kansas city

economic advisory council



(From left front row) Mr. Aulick, Mr. Stussi, Mr. Neiman, Mr. Bourne, Ms. Gold, and Mr. Sunderland.

Vincent L. (Vinc) Aulick, President, Aulick Industries and Aulick Manufacturing, Scottsbluff, Nebraska

John F. Bourne, International Representative, International Brotherhood of Electrical Workers (IBEW), Omaha, Nebraska

Katherine Gold, President, Goldbug, Inc., Aurora, Colorado

Edmond Johnson (*not pictured*), President and Owner, Premier Manufacturing, Frederick, Colorado

Jim Neiman, President and Chief Executive Officer, Neiman Enterprises, Inc., Hulett, Wyoming

Douglas J. Stussi, Executive Vice President - CFO, Love's Travel Stops & Country Stores, Inc., Oklahoma City, Oklahoma

Charles T. Sunderland, Chairman and Chief Executive Officer, Ash Grove Cement Company, Overland Park, Kansas

Members, who represent business and labor from the Tenth District, meet twice a year with Kansas City Fed staff to offer insight on the regional economy.

Members, who come from financial institutions, nonprofits and businesses, meet twice a year with Kansas City Fed staff to offer insight on economic and community development issues in the region.

Shelly Marquez, Vice President and Community Development Manager, Wells Fargo Bank, Denver, Colorado

Clyde McQueen, President and Chief Executive Officer, Full Employment Council, Kansas City, Missouri

Daniel Padilla, Regional Branch Director, First National Bank, Omaha, Nebraska

Steve Radley, President and Chief Executive Officer, Network Kansas, Andover, Kansas

Alex O. Romero (*not pictured*), President and Chief Executive Officer, Albuquerque Hispano Chamber of Commerce, Albuquerque, New Mexico

John Santner, Midwest Regional Director, NeighborWorks America, Kansas City, Missouri

Natalie Shirley, President, Oklahoma State University-Oklahoma City, Oklahoma City, Oklahoma

Katrina Washington, Broker/Owner of Stratos Realty, Stratos Realty Group LLC, Oklahoma City, Oklahoma

Lesli Wright, Senior Vice President, Risk Management, Hilltop National Bank, Casper, Wyoming

community development advisory council



From left) Mr. Radley, Ms. Wright, Mr. McQueen, Ms. Washington, Mr. Santner, Ms. Marquez, Mr. Padilla and Ms. Shirley.

John Dicus, President and Chief Executive Officer, Capitol Federal Savings Bank, Topeka, Kansas
Douglas Ferraro, President and Chief Executive Officer, Bellco Credit Union, Greenwood Village, Colorado
Copper France, President, Bank of Commerce, Rawlins, Wyoming
Lisa Ginter (*not pictured*), Chief Operating Officer, CommunityAmerica Credit Union, Lenexa, Kansas
Jane Haskin, President and Chief Executive Officer, First Bethany Bank & Trust, Bethany, Oklahoma
James Landen, President, Security National Bank of Omaha, Omaha, Nebraska
Elaine Paxton, President and Chief Executive Officer, First National Bank of Clinton, Clinton, Missouri
Rebeca Romero Rainey (*not pictured*), Chairman and Chief Executive Officer, Centinel Bank, Taos, New Mexico
James Robinson, President and Chief Executive Officer, Nodaway Valley Bank, St. Joseph, Missouri
Ron Shettlesworth, President and Chief Executive Officer, Main Bank, Albuquerque, New Mexico
Lee R. Symcox, President and Chief Executive Officer, First Fidelity Bank, Oklahoma City, Oklahoma
David J. Warnemunde, Chairman, President and Chief Executive Officer, Madison County Bank, Madison, Nebraska

community depository institutions advisory council



(From left) Mr. Ferraro, Mr. Robinson, Mr. Shettlesworth, Mr. Warnemunde, Mr. France, Ms. Haskin, Mr. Dicus, Ms. Paxton, Mr. Symcox and Mr. Landen.

payments advisory group



(From left) Mr. Copeland, Mr. Reuter, Mr. Lindgren, Mr. Kloiber, Mr. Hipp, Ms. Haskin, Mr. Oatman, Ms. Padmanabhan, Mr. Fosler, Ms. Howe and Mr. Thurman.

Scott Copeland, Executive Vice President, BancFirst, Oklahoma City, Oklahoma

Alan Fosler, Senior Vice President and Cashier, Union Bank & Trust Company, Lincoln, Nebraska

Mark Frank (*not pictured*), Executive Vice President, CoBiz Bank, Denver, Colorado

Jane Haskin, President and Chief Executive Officer, First Bethany Bank & Trust, Bethany, Oklahoma

Steve Hipp, Strategic Business Consultant, INTRUST Bank, Wichita, Kansas

Janet Howe, Executive Vice President and Chief Operating Officer, ANB, Colorado Springs, Colorado

Mike Kloiber, President and Chief Executive Officer, Tinker Federal Credit Union, Tinker AFB, Oklahoma

Steve Lindgren, Executive Vice President and Chief Operating Officer, Cornhusker Bank, Lincoln, Nebraska

Russell Oatman, Senior Vice President, First National Bank of Omaha, Omaha, Nebraska

Suchitra Padmanabhan, President, CBW Bank, Weir, Kansas

Jim Reuter, President, FirstBank Data Corporation, Lakewood, Colorado

Bob Thurman, Chief Executive Officer, Credit Union of America, Wichita, Kansas

officers

federal reserve bank of kansas city

kansas city

Esther L. George

President and Chief Executive Officer

Kelly J. Dubbert

First Vice President and
Chief Operating Officer

Troy A. Davig

Senior Vice President and
Director of Research

Denise I. Connor

Senior Vice President

Kevin L. Moore

Senior Vice President

Dawn B. Morhaus

Senior Vice President

Barbara S. Pacheco

Senior Vice President

Karen A. Pennell

Senior Vice President

Diane M. Raley

Senior Vice President and Board Secretary

Veronica M. Sellers

Senior Vice President and
General Counsel

Donna J. Ward

Senior Vice President and Director of the
Office of Minority and Women Inclusion

Craig S. Hakkio

Senior Vice President and Special
Advisor on Economic Policy

Stephen E. McBride

Senior Vice President and
General Auditor

Josias A. Aleman

Vice President

Larry D. Bailey

Vice President

Kristi A. Coy

Vice President

Kevin J. Craig

Vice President

Tammy N. Edwards

Vice President and Community
Affairs Officer

Brian C. Faros

Vice President

Janel K. Frisch

Vice President and
Chief Financial Officer

Kristofer K. Hogan

Vice President

Mark C. Horan

Vice President

Megan L. Hruda

Vice President

James H. Hunter

Vice President

George A. Kahn

Vice President and Economist

W. Todd Mackey

Vice President

Renu A. Mehra

Vice President

Charles S. Morris

Vice President and Economist

Todd A. Offenbacher

Vice President

Annette K. Owens

Vice President

Kimberly N. Robbins

Vice President

Linda S. Schroeder

Vice President

Amy M. Seck

Vice President

Stephanie L. Stratemeier

Vice President

Mark A. Watson

Vice President

Pamela L. Weinstein

Vice President

Jonathan L. Willis

Vice President and Economist

Kristina J. Young

Vice President, Public Information Officer
and Assistant Board Secretary

Susan E. Zubradt

Vice President

Stanley R. Beatty

Assistant Vice President

Kara S. Bemboom

Assistant Vice President

Mark J. Boryla

Assistant Vice President

Dan A. Bower

Assistant Vice President

J. Stephen Bradberry

Assistant Vice President

Amy E. Cole

Assistant Vice President

Kelley D. Courtright

Assistant Vice President

Kelli J. Cox

Assistant Vice President

Ernie W. Craig Jr.

Assistant Vice President

Tanya L. Cvetan

Assistant Vice President

Dennis V. Denney

Assistant Vice President

Andrew J. Frank

Assistant Vice President

Lori D. Haley

Assistant Vice President

Robert L. Hampton

Assistant Vice President

Richard L. Henry

Assistant Vice President

Jill Hicks

Assistant Vice President

Ann L. Hoelting

Assistant Vice President

Dawn Howell

Assistant Vice President

Tara L. Humston

Assistant Vice President

Lowell C. Jones

Assistant Vice President

D. Rick Lay

Assistant Vice President

Christi A. May-Oder

Assistant Vice President

Randall L. Mueller

Assistant Vice President

Jacqueline M. Nugent

Assistant Vice President

Evan A. Polly

Assistant Vice President

Kenneth R. Spong

Assistant Vice President and Economist

Michael R. Steckline

Assistant Vice President

Brosie D. Strada

Assistant Vice President

James W. Stuart II

Assistant Vice President

Leesa G. Thompson

Assistant Vice President

Willem Van Zandweghe

Assistant Vice President and Economist

James Wilkinson

Assistant Vice President and Economist

Ginger K. Wise

Assistant Vice President

Catherine A. Zeigler

Wholesale Operations Officer

denver

Alison Felix

Assistant Vice President, Branch Executive
and Economist

Amy Hileman

Assistant Vice President

Trina L. Parsley

Assistant Vice President

Richard Thorne

Assistant Vice President

oklahoma city

Chad R. Wilkerson

Vice President, Branch Executive
and Economist

Robert W. Toler

Assistant Vice President

omaha

Nathan S. Kauffman

Assistant Vice President, Branch Executive
and Economist

Nicholas Hatz

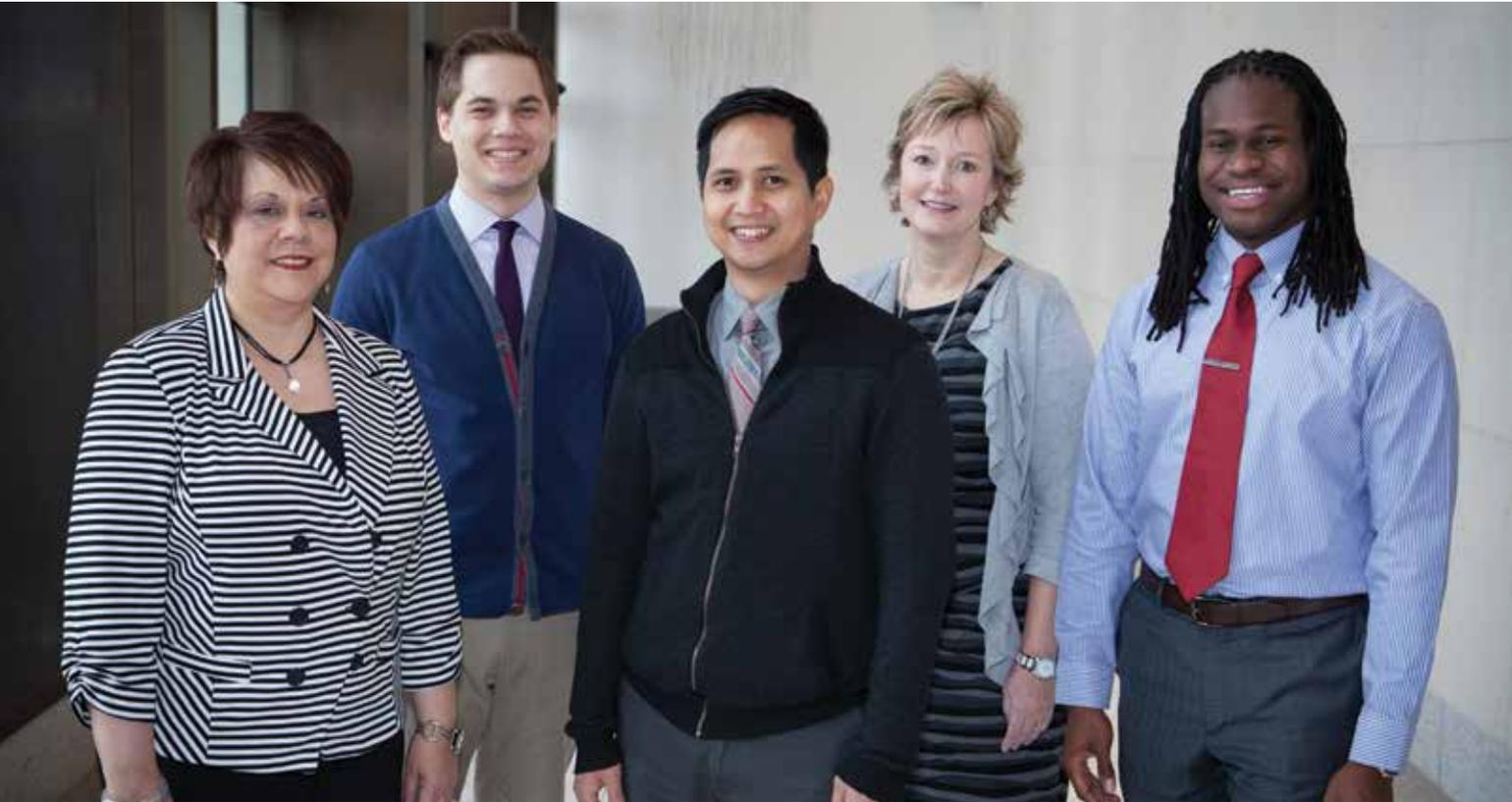
Assistant Vice President

2013 annual report



Commitment to

DIVERSITY



FEDERAL RESERVE BANK *of* KANSAS CITY

2013 REPORT TO CONGRESS *on the*

OFFICE *of* MINORITY *and* WOMEN INCLUSION

PEOPLE

PRACTICES

PARTNERSHIPS

Contents

59	Executive Summary
61	Overview
63	People: Minority and Women Employment
71	Practices: Minority- and Women-Owned Business Inclusion
77	Partnerships: Outreach and Financial Education
85	Appendix



ON THE COVER: From left, Bank employees Lisa Aquino, Grant Goodack, Anggi Gularso, Connie Shuler and Maurice Roper.



Esther L. George
President and Chief Executive Officer
Federal Reserve Bank of Kansas City

APRIL 1, 2014

For the past century, the Federal Reserve Bank of Kansas City has served the nation and our region through its role in setting monetary policy, supervising financial institutions and providing services to depository institutions. To effectively fulfill these public missions, it is important that we continue to ensure the diversity of our region is well represented through our recruitment and retention efforts, supplier practices and in the partnerships we build and develop with community organizations.

The Bank's 2013 Annual Report to Congress on the Office of Minority and Women Inclusion (OMWI) illustrates how we make diversity a priority throughout our organization. This report details our efforts in meeting the requirements of Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

The Bank's OMWI continues to provide leadership for our long-standing tradition of ensuring the Bank's people, practices and partnerships are inclusive and representative of the wide range of demographics, experiences and backgrounds that make up the Tenth Federal Reserve District. The following pages detail our successes and the challenges we faced in 2013.

To learn more about our initiatives and successes, I invite you to visit www.KansasCityFed.org/diversity, where you can find links to all of our OMWI annual reports, information on supplier and hiring opportunities, and summaries of key programs.

Sincerely,

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

Esther L. George
President and Chief Executive Officer
Federal Reserve Bank of Kansas City

Executive Summary



Minority members of management participate in a mentoring circle to share common opportunities, learn from each other's experiences, and focus on professional development.

FOR THE PAST THREE YEARS, THE FEDERAL RESERVE BANK OF KANSAS CITY'S OFFICE OF MINORITY AND WOMEN INCLUSION has led and strengthened the Bank's tradition of commitment to the principles outlined in Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

As it pursues its mission in a number of areas that have direct impact on the public, the Bank continues to work to ensure its people, practices and partnerships reflect the diversity of the seven-state region it serves.

Office of Minority and Women Inclusion

The Kansas City Fed's Office of Minority and Women Inclusion (OMWI) is led by Donna Ward, who was appointed as the office's director in 2010. Ward is senior vice president of the Bank's Administrative Services Division, which has responsibility for the Bank's human resources and procurement functions. She serves on the Bank's Management Committee, the senior policy-setting body for the organization.

Ward collaborates closely with the Bank's Regional, Public and Community Affairs Division, which coordinates OMWI-related public programs and financial education activities at urban and diverse school districts. Through this partnership, the Bank has implemented innovative programs and practices targeted to diverse audiences.

The Diversity Strategy Steering Committee, a nine-member panel composed of senior-level officers, advises the OMWI director and provides resources to implement the Bank's OMWI practices. This structure ensures broad, organization-wide support for diversity initiatives.

Standards and Procedures

Through its OMWI, the Bank has formal standards and procedures for the following:

- Equal Employment Opportunity (EEO) and racial, ethnic and gender diversity of the workforce and senior management.
- Participation of minority- and women-owned businesses in the Bank's programs and contracts.
- Technical assistance for minority- and women-owned businesses.

People, Practices and Partnerships

The Bank's focus on diversity and inclusion applies to all business areas. Throughout 2013, the Bank experienced a number of successes in its OMWI efforts in the following areas:

People

- In 2013, the Bank's hiring rate for minority full-time hires identified through campus recruiting efforts, including at majority-minority colleges and universities, was 18.5 percent. This reflects the highest hiring rate in three years.

- Participation in the Bank's formal mentorship program increased 39 percent from a year earlier. In addition, 88 percent of minority supervisors and managers participate in the mentorship program.

Practices

- The Bank spent 16.5 percent of total reportable spend with minority- and women-owned firms, an increase from 15.7 percent in 2012.
- Minority- and women-owned firms were awarded 27.8 percent of all 2013 contacts, an increase from 26.4 percent in 2012.

Partnerships

- More than 1,000 urban high school students participated in mentorship programs hosted by the Bank.
- The Bank's innovative financial education programs, including the Student Board of Directors, Financial Education Summit and Teach Children to Save, continued to establish a standard for success.



Donna Ward serves as OMWI director and senior vice president of the Bank's Administrative Services Division. In addition to leading the Bank's diversity strategy, she oversees the human resources and procurement functions.

Overview



President Esther George pictured with Luis Andrés Rivera Hurtado and Symone Carlton, two of the students recruited into full-time positions at the Bank through campus recruiting efforts.

FOUNDED IN 1914, THE FEDERAL RESERVE BANK OF KANSAS CITY is one of 12 Regional Banks, which along with the Board of Governors in Washington D.C., comprise the Federal Reserve System.

The Tenth District

As the central bank for the United States, the Federal Reserve System is responsible for three mission areas: setting the nation's monetary policy, providing financial services to depository institutions, and supervising and regulating financial institutions. The System's decentralized structure, which includes local boards of directors and advisory councils at each Reserve Bank, ensures that a broad spectrum of views from the public at the regional level is used in national policy deliberations.

The Kansas City Fed employs more than 1,400 people at its head office in Kansas City and Branch offices in Denver, Oklahoma City and Omaha. The Bank is responsible for the Tenth Federal Reserve District, an area that includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico and western Missouri.

The economy of the Tenth District represents a wide and diverse range of industries, including agriculture, banking, energy, manufacturing, aerospace, hospitality/tourism and military. About 33 percent of the District's residents live in rural areas, more than the national average of approximately 20 percent. Additionally, 27 percent of the District's population is minority compared to about 36 percent of the nation as a whole.



The Bank's 12-member senior leadership team, which is comprised of executives responsible for setting policy and strategic direction, includes eight women, representing 66.7 percent of senior leadership. This is much higher than the 25.7 percent average for equivalent positions at Kansas City-area companies. Minorities are 8.3 percent of the senior leaders, exceeding the 6.1 percent average for equivalent positions at Kansas City-area companies.

The Bank also focuses on diversity among the members of its boards of directors. In 2013, women held board leadership positions across the District, including as chair of the Kansas City head office and chair of the Denver Branch. Additionally, minorities and women represent more than 40 percent of the board of director positions across the District.

People

MINORITY AND WOMEN EMPLOYMENT

STRATEGIES

Diversity leads to creative approaches and innovative solutions that help the Federal Reserve Bank of Kansas City meet its current and future challenges. An emphasis on diversity, including race, gender, religion, national origin, age, sexual orientation and disability, strengthens the Bank's ability to attract and retain a talented workforce, which is needed to carry out its important public role.

The Bank actively seeks to attract, retain and develop a workforce that is representative of the labor pool of qualified candidates for its positions, at all levels, in the markets in which it operates. During 2013, the Bank continued to strengthen and develop its long-standing commitment to a representative workforce. The Bank continuously assesses its organizational practices and outreach efforts to support this strategy.



Members of the Employee Diversity Council promote an inclusive work environment by recognizing the diversity of its workforce and reinforcing employee awareness of diversity and inclusion and their importance to business outcomes.

RESULTS

Recruitment

In 2013, the Bank increased its presence and engagement on the campuses of a number of historically black colleges and universities, women's colleges and Hispanic-serving institutions by conducting classroom presentations, participating in career fairs and hosting on-campus interviews.

The Bank actively engaged with seven historically black colleges and universities, women's colleges and Hispanic-serving institutions throughout the year.

- Clark Atlanta University
- Colorado State University-Pueblo
- Lincoln University

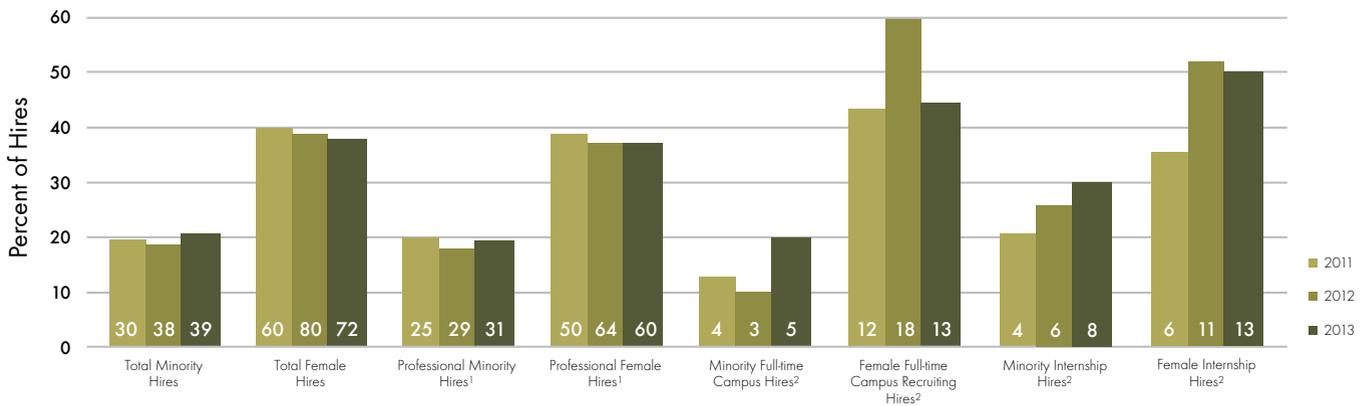
- Morehouse College
- Spelman College

- Stephens College
- University of New Mexico

28 The Bank participated in 28 diverse college and university recruiting events in 2013.



Minority and Female Recruiting



¹Percentage reflects official management and professional staff.
²Data reflects employees who started in the represented year.

The Bank's hiring rate for minority full-time and intern hires identified through campus recruiting efforts, including at majority-minority colleges and universities, was 18.5 percent and 30.8 percent, respectively.



The Bank's partnership with INROADS, Inc. helps develop a diverse pipeline of talent. The program prepares interns, such as Jazmin McDaniel, for future careers in a variety of industries, including financial services. Jazmin, who also participated in the Student Board of Directors and Summer @ the Fed, is one of many students in whom the Bank invests.

Jazmin McDaniel, right, works as an INROADS intern and has served on the Student Board of Directors.

53

The Bank advertised its career opportunities on 53 diversity-focused online job boards that target a variety of audiences and increased the number of ads placed in diverse electronic media by 20 percent.



Partnerships improve reach

The Bank partners with diverse community organizations such as the Kansas City chapters of the Urban Financial Services Coalition (UFSC), National Black MBA Association (NBMBA) and National Society of Hispanic MBAs (NSHMBA). For example, in 2013, Bank President Esther George provided an update of economic conditions for a UFSC national program, and the Bank's Research Director spoke at NSHMBA's annual networking event.

Nationally, the Bank worked with other Reserve Banks and the Federal Reserve Board of Governors to recruit minority and women candidates through partnerships, including the Association of Latino Professionals in Finance and Accounting, National Association of Black Accountants, NBMBA,

NSHMBA, Society of Hispanic Professional Engineers, and the Thurgood Marshall College Fund.



Senior Vice President Donna Ward accepts the 2013 Platinum Partner Award from Earnest Campbell (left) and Theodis Watson of the Kansas City chapter of the UFSC.

RESULTS

Employee Retention and Development

The Bank retains and develops a diverse workforce by fostering an inclusive work environment and offering workforce support and professional development through employee orientation, coaching and the transfer of institutional knowledge through mentorship, training and other initiatives. The goal of these programs is to facilitate successful transitions to Bank employment, high achievement at all levels, and to retain employees, including minority and female talent.

88%

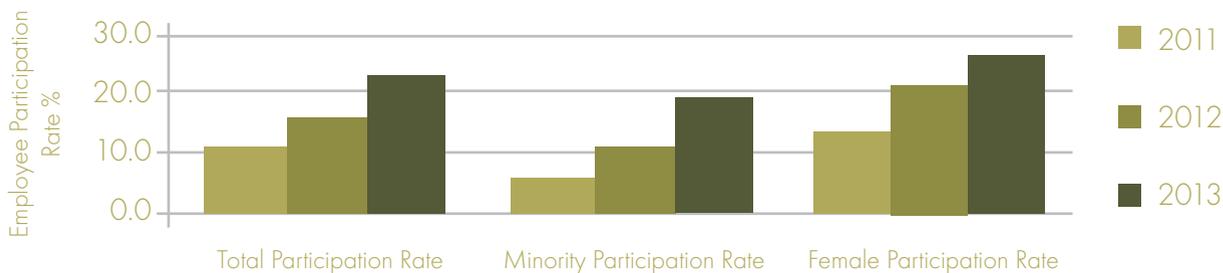
Mentorship Matters:

88% of minority supervisors and managers participate in the Bank's mentorship program.



Rhonda Patterson, Human Resources, participates in an employee mentoring program.

Mentorship Program Participation Increased 39%



In 2013, the Bank grew employee mentoring participation by 39 percent and increased minority participation by 8.2 percent from the previous year. Mentorship circles, designed to broaden the concept of mentoring to a group of individuals who share common opportunities to continue professional development and to learn from each other's experiences, also were enhanced. The Bank offers four mentorship circles, including analysts, new members of management, mid-career professionals and minority supervisors and managers.

Employee Education and Communication

Maintaining an inclusive work environment requires the commitment and support of all employees. Every employee is responsible for understanding the importance of diversity to the success of the Bank, and contributing to an inclusive work environment where excellence and continuous improvement thrive.

The Bank uses several forums to educate employees about its commitment to diversity and expectations of staff and management. Specifically, employee education efforts focus on underscoring the importance of diversity as a business opportunity and clarifying the link between diversity and organizational success. All employees are introduced to the Bank's EEO-related policies and practices during a New Employee Orientation program and provided with web-based harassment prevention training on a biennial basis. In addition, the Bank's Excellence in Management Training Curriculum for members of management includes an overview of the Bank's EEO policies and practices. The Bank's EEO-related policies and the duties/responsibilities of EEO personnel are readily available to all employees on the Bank's intranet site.

In 2013, the Bank continued to provide diversity training to employees at all levels of the organization, including *Valuing Differences*, *Being an Inclusive Leader*, *ADA and FMLA: A Closer Look*, *Creating an Inclusive Workplace*, *Peacock in the Land of Penguins*, and *Leading in a Multi-Generational Workforce*. These training sessions are designed to increase understanding of diversity as a business opportunity, the Bank's diversity strategy, and actions that management and employees can take to promote and support diversity and an inclusive environment.

Another tool the Bank uses to educate and communicate with employees about diversity is the Employee Diversity Council (EDC). The EDC promotes an inclusive work environment by recognizing the diversity of the Bank's workforce and reinforcing employee awareness of diversity and inclusion issues and their importance to business outcomes. Throughout the year, the EDC hosted a variety of educational activities that provided employees with unique and diverse opportunities to recognize their similarities, educate themselves on and appreciate their differences, and understand how they contribute to an inclusive work environment. All activities supported the Bank's Valuing Diversity and Teamwork Critical Success Factor and the Bank's Diversity Strategy.



Inez Nicholson, center, is presented an award by First Vice President Kelly Dubbert and Senior Vice President Barb Pacheco for increasing diversity awareness in the workplace.

Internal Reporting and Assessment

The Bank has established systematic processes to measure progress toward achieving its workforce diversity strategies. In 2013, the Bank focused on refining and strengthening the reporting, data analysis and benchmarks that support its diversity strategy and initiatives.

On a quarterly basis, senior leaders assess the Bank's performance by reviewing diversity recruitment results, including workforce representation compared to census data, minority and women hiring rates, minority-serving and women university activities, sponsorship and participation in urban career fairs, employment advertisements placed in diverse media, and partnerships with community organizations. Retention is also monitored through separation rates, minority and women mentorship program participation, and the results of employee engagement surveys. Diversity and EEO-related metrics also are shared regularly with the Bank's Management Committee and Diversity Strategy Steering Committee.



The Kansas City Fed's senior leadership team guides the Bank's mission, vision, values and objectives.

CHALLENGES

The Bank is committed to its workforce diversity strategies and addressing challenges in meeting its goals. Key challenges include:

- The composition of the Bank's workforce continues to evolve from a service- and operations-based workforce to an increasingly knowledge-based workforce. This has created a demand for highly specialized and technical positions such as information technology professionals and bank examiners. The Bank faces high competition for these positions, particularly for minority and female candidates. In response, the Bank continues to enhance its recruitment and outreach efforts to identify diverse applicants.
- Within the region that the Bank serves, there is a limited number of colleges and universities that are historically minority- and women-serving or have a majority of minority students. As a result, the Bank has expanded its recruiting efforts beyond its region's boundaries; however, prospective diverse job candidates often choose not to relocate to one of the Bank's office/Branch locations.

LOOKING AHEAD

The Bank recently undertook a comprehensive assessment of progress to date and identified opportunities to strengthen its long-standing commitment to diversity and inclusion. Accordingly, a revised strategy was developed to guide future efforts. **Key initiatives related to workforce diversity include:**

- Enhance minority and female representation, particularly within the Bank's professional positions and management succession pipeline.
- Strengthen professional and leadership development programs to prepare minority and women employees for managerial and technical career paths.
- Enhance partnerships with professional and diverse community organizations that provide opportunities to network with qualified minority and female professionals who may have an interest in positions at the Bank.
- Leverage social media and other online tools to ensure the Bank's employment opportunities are broadly communicated to minority and female candidates, particularly those with leadership potential and interest in a management career path.

400

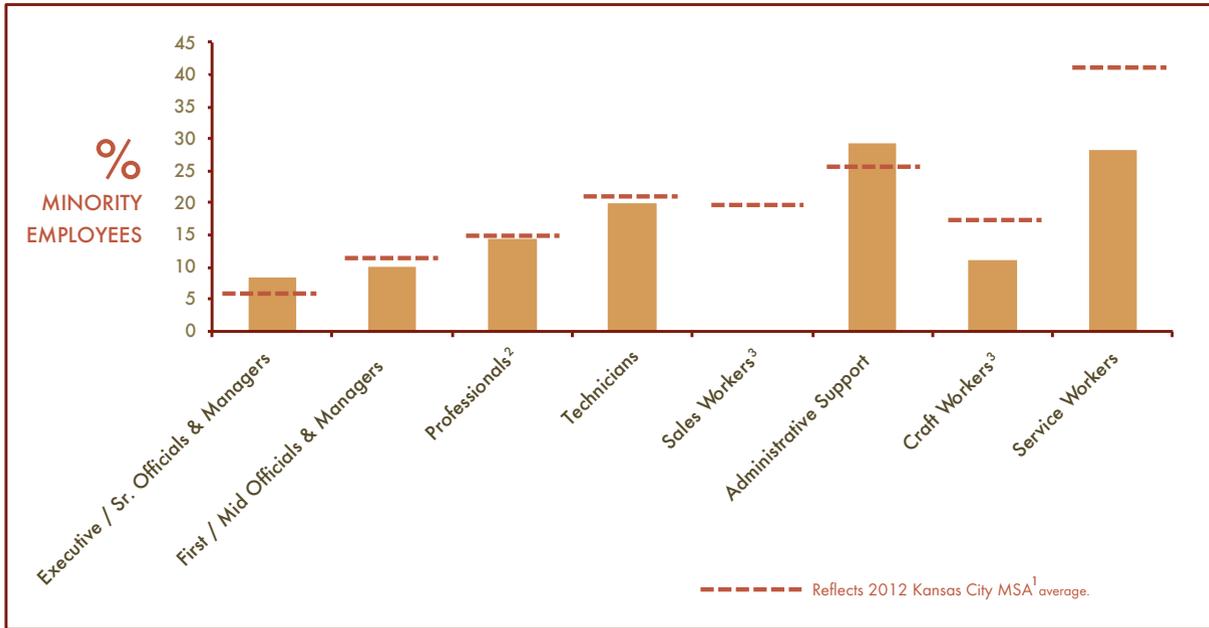
Diversity Awareness Week

The Bank's Employee Diversity Council hosted an inaugural Diversity Awareness Week in 2013. More than 400 employees participated in a variety of events, including the "Walk a Mile in My Shoes" enrichment activity and the "Diversity and Inclusion: A Historical Perspective" event. Throughout the week, employees learned facts and information that highlight the importance of diversity to a creative and innovative workplace. The Bank's first vice president and chief operating officer brought the week to a close by linking diversity and inclusion to the Bank and its performance.



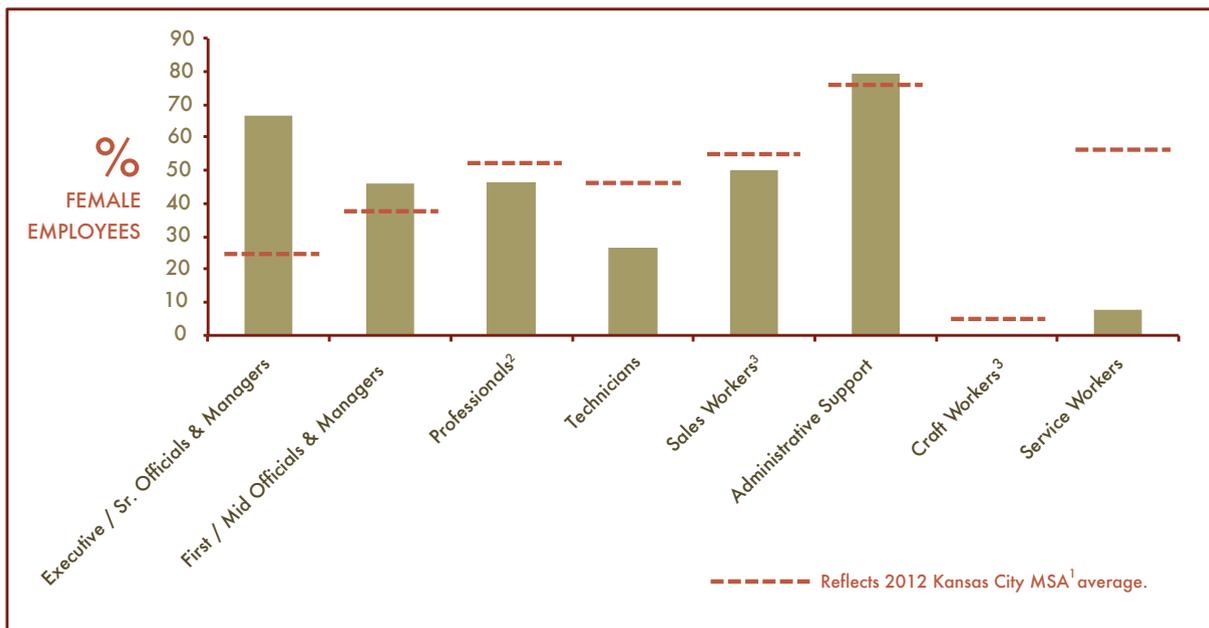
During Black History Month, Dell Gines, Senior Community Affairs Adviser, leads a lunch-and-learn session for employees to learn about the accomplishments of African-Americans throughout history.

2013 Minority Workforce Representation, Kansas City Office



Minorities make up 8.3 percent of the Bank's Senior Management team, exceeding the Kansas City MSA.

2013 Female Workforce Representation, Kansas City Office



Women make up 66.7 percent of the Bank's senior management team.

¹Kansas City Metropolitan Statistical Area (MSA) is based on 2012 federal statistics provided by the EEOC.

²Professionals include analysts, economists, examiners, and IT professionals.

³Sales workers and craft workers represent a small number of the total workforce.

STRATEGIES

In 2013, the Bank strengthened its supplier diversity efforts by increasing the participation of minority- and women-owned businesses in procurement opportunities and promoting business practices to diverse suppliers. Bank staff engaged with local, regional and national groups and organizations through outreach activities and events targeted to diverse suppliers.

Supplier diversity creates value by providing the Bank with access to a wider pool of qualified vendors. This practice also benefits the community by supporting small and diverse businesses. Therefore, the Bank ensures that at least one minority- and one woman-owned business are included in procurement opportunities, when available.

These strategies, along with evaluation and measurement processes, position the Bank to make progress toward increasing participation of diverse suppliers in business practices.

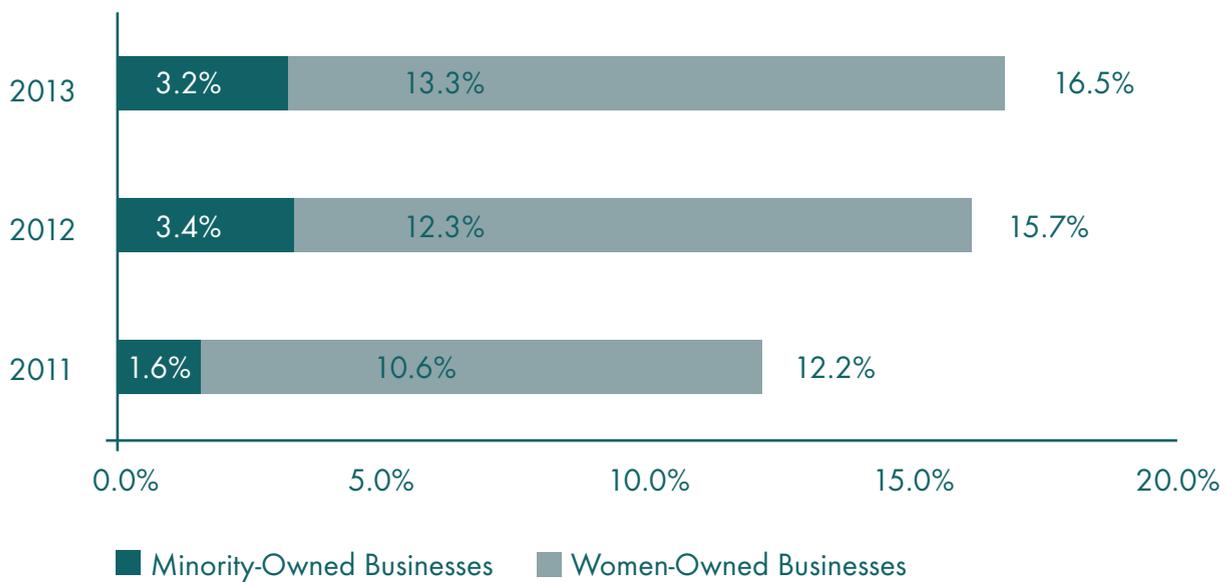


Luke Gildehaus and Diana Serrano host a supplier diversity event for vendors to learn about procurement opportunities.

16.5%

In 2013, the Bank spent 16.5 percent of its total reportable spend with minority- and women-owned businesses. This compares to 15.7 percent in 2012 and 12.2 percent in 2011. This growth highlights the Bank's commitment to diversity and supports the Bank's core value that supplier diversity strengthens its operations and benefits the community.

2011-2013 Percent of Total Reportable Spend with Diverse Suppliers

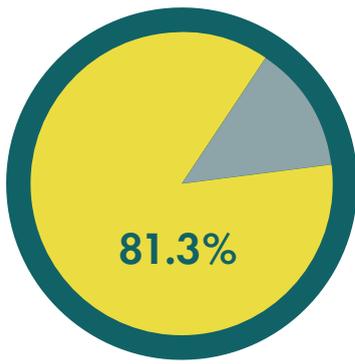


Spend with Contractors and Suppliers

	<u>2013</u>		<u>2012</u>		<u>2011</u>	
	Amount	%	Amount	%	Amount	%
Total Reportable Spend ¹	\$42.9 million	100	\$45.6 million	100	\$37.5 million	100
Total Diverse Spend	\$7.1 million	16.5	\$7.2 million	15.7	\$4.6 million	12.2
Women-Owned Business ² Spend	\$5.7 million	13.3	\$5.6 million	12.3	\$4.0 million	10.6
Minority-Owned Business ² Spend	\$1.4 million	3.2	\$1.6 million	3.4	\$618,000	1.6

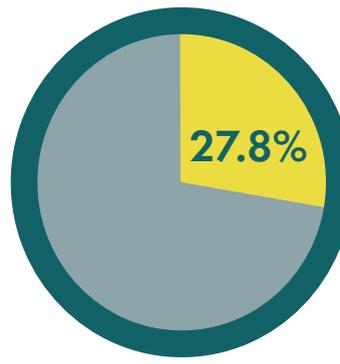
¹Reportable spend includes all vendor payments except those made for/to association memberships, dues and fees; international banks; inter-company/inter-Fed transfers; government payments; legal settlements; payment network fees; rent; and utilities.

²Minority women-owned business spend is captured in spend for minority-owned businesses and is not double-counted in the women-owned business spend category.



2013 Diverse Supplier Inclusion

The Bank identified and included diverse suppliers in 81.3 percent of all requests for proposals in 2013.



2013 Contracts Awarded to Diverse Suppliers

27.8 percent of all 2013 contracts were awarded to minority- and women-owned businesses, an increase from 26.4 percent in 2012.

A commitment to diverse suppliers

Eddy Whitley, CEO of Whitley Construction Co., turned a meeting with Bank staff into a business opportunity for his small firm. The contractor was one of several minority-owned suppliers the Bank worked with during the year.

Bank staff first met Whitley at an event in August 2013 aimed at connecting minority-owned small businesses with procurement opportunities across the Kansas City area. Two weeks later, Whitley Construction met with the Bank's Facilities Management staff and was included for consideration in upcoming construction projects.

Whitley then received a contract for a new project in September. "We had a great experience," Whitley said of his work with the Bank, which involved a space renovation project at the Bank's headquarters. "I think the Bank is very serious and committed to working with diverse suppliers."

One of Whitley's business goals for the year was to develop relationships with four new customers. "The Federal Reserve helped us meet and exceed our 2013 goals," he said.

"I think the Bank is very serious and committed to working with diverse suppliers."

-Eddy Whitley, CEO of Whitley Construction Co.

57.8%

The Bank received responses from 57.8 percent of all minority- and women-owned businesses that were invited to submit a request for proposal.



RESULTS INCREASING AWARENESS

The Bank partners with local, regional and national organizations that focus on minority- and women-owned business members. These partnerships help the Bank communicate business opportunities and build its network of diverse suppliers. Partner organizations include:

- Asian American Chamber of Commerce of Greater Kansas City
- Greater Kansas City Chamber of Commerce
- Hispanic Chamber of Commerce of Greater Kansas City
- Kansas Black Chamber of Commerce (new partnership in 2013)
- MidAmerica Minority Supplier Development Council (MAMSDC)
- Women's Business Development Center

Outreach and Community Engagement

In 2013, the Bank participated in 12 outreach events and activities that provided staff with opportunities to network and connect with diverse suppliers and learn about best practices. At these events, Bank staff met in person with diverse businesses and provided technical assistance to suppliers about how to do business with the Bank. These outreach events included the following:

- Asian American Chamber of Commerce Networking Lunch and Learn
- Hispanic Chamber of Commerce Annual Awards Recognition
- Kansas Black Chamber of Commerce Informational Meeting
- Kansas City Government Contracting and Procurement Forum Business Fair
- MAMSDC Business Opportunity Exchange
- MAMSDC, Hispanic Chamber of Commerce, and Young Latino Professionals Event
- MAMSDC One-on-One Meeting with Council President
- MAMSDC President's Quarterly Breakfast (Two Events)
- MAMSDC Spotlight Luncheon
- National Minority Supplier Development Council Annual Conference
- Women's Business Enterprise National Council Business Fair

The Bank actively collaborates with other Reserve Banks to develop and promote initiatives that strengthen supplier diversity. In 2013, the Bank participated in two national supplier diversity conferences hosted by the Women's Business Enterprise National Council and the National Minority Supplier Development Council.

INTERNAL REPORTING AND ASSESSMENT

The Bank has established systematic processes to measure progress towards achieving its supplier diversity strategies. In 2013, the Bank refined and strengthened the reporting and data analysis that supports its diversity strategy and initiatives. The Bank implemented automated reporting tools, including a supplier database with capabilities for searching for diverse suppliers and tracking participation of those suppliers in Bank contracts.

On a quarterly basis, senior management assesses the Bank's performance by reviewing supplier diversity results, including spend and contracts awarded to diverse suppliers; inclusion and response rates of diverse suppliers in contracting opportunities; cost savings associated with contracts awarded to diverse suppliers; and outreach events attended or hosted by the Bank.

CHALLENGES

While the Bank continues to see progress towards participation of diverse suppliers, several challenges remain. The Bank continues to face challenges in identifying qualified suppliers for certain goods and services, such as specialized or proprietary software.

Additionally, the Bank is challenged with increasing the responsiveness of diverse suppliers to requests for proposals (RFP) and other contracting opportunities. In an effort to enhance business practices, the Bank surveys quarterly those suppliers who did not respond to a RFP in the previous quarter. These surveys have found that suppliers that do not respond to a RFP say they are not able to provide the requested goods or services during the time schedule required or face other resource constraints, such as scale. In an effort to address supplier concerns about the Bank's processes and tools, purchasing staff provide one-on-one assistance to ensure that potential suppliers have the information necessary to compete.



Bank employee, Melinda Benavidez, meets with potential vendors at a business opportunity event.

Diverse businesses learn more about the Bank's procurement opportunities at Business Opportunity Fairs and other outreach events.



LOOKING AHEAD

The Bank has identified the following opportunities to continue to enhance its supplier diversity and inclusion efforts in 2014:

- Increase efforts to promote awareness about the role of supplier diversity in the Bank's performance and diversity strategy. This includes regularly educating management and staff about supplier diversity metrics through activities that engage employees.
- Provide more opportunities for business areas throughout the Bank to meet one-on-one with diverse suppliers. The Bank plans to host onsite events where suppliers can share information about the goods or services they provide, and in turn, learn about the Bank's needs.
- Continue to identify improvements to business practices that may improve the ability to source qualified diverse suppliers through new tools and processes.

Partnerships

OUTREACH and
FINANCIAL EDUCATION

STRATEGIES

The Federal Reserve Bank of Kansas City leads a number of innovative programs and initiatives aimed at expanding economic education throughout the region it serves.

In 2013, the Bank continued to expand its partnerships with urban school districts, youth organizations, community groups and others, reaching thousands of students and teachers in the process. The Bank recognizes that an investment in financial education leads to stronger communities, stable neighborhoods and better opportunities for young people.



The Bank's Summer @ the Fed program provides paid internships to high-achieving recent high school graduates. These interns lead financial education programs at summer camps in the Kansas City area.

107 PROGRAMS

Last year, the Bank hosted and participated in 107 financial education programs across the Tenth District, reaching 15,561 people in urban and underserved communities.

Students at Boys and Girls Club of the Midlands, Omaha, published a book of finance tips they learned through a Bank program.



36 Staff at the Bank's head office in Kansas City and its three Branches in Omaha, Oklahoma City and Denver, participated in 36 financial education events at urban high schools.

1,092

During the year, 1,092 students participated in at least one of the Bank's targeted mentorship programs.



Students at diverse school districts explored financial concepts through interactive Bank programs.



Tammy Edwards, vice president and community affairs officer, speaks with high school students about personal finances.

INNOVATIVE PROGRAMS



Evening at the Fed: District offices invite area educators, including those from urban school districts, to attend an evening of professional development to learn more about current economic issues and available educational resources from the Bank. Districtwide, the Bank hosted 410 educators for these events.

7,000

Teach Children to Save: In April, 154 Bank volunteers visited 323 classrooms throughout the Kansas City metro area to share financial education lessons to more than 7,000 elementary students.



Financial Education Summit: The Bank, along with the Federal Reserve Bank of Cleveland, hosted a Financial Education Summit in Washington, D.C., for more than 100 high school students from D.C. Public Schools. Staff from both Banks shared economic education lessons covering credit, banking, financing college and career development. The students also toured the U.S. Capitol building and met with U.S. Rep. Emanuel Cleaver II and Bank President Esther George.

Kansas City Mayor Sly James, Board Chairman Barb Mowry and Bank President Esther George spoke with the Student Board of Directors upon completion of their program.



Kansas City Fed's student board expands districtwide

During the 2012-13 school year, the Bank expanded its successful Student Board of Directors program to the Branch Offices in Denver, Oklahoma City and Omaha.

A total of 44 high school students from school districts in all four cities participated in the program, which provided the students with an in-depth look at business and financial concepts, as well as opportunities to receive college and career advice from Bank staff.

Throughout the school year, the students met with Bank leaders, such as Bank President Esther George and Board of Directors members, who helped the students better understand the Bank's role. Through tours of the Bank and local businesses, students learned about career paths, the local economy and ideas for planning their futures.

Members of the Denver Student Board of Directors learned about entrepreneurship during a tour of Amerigo, a local fast-casual deli-style restaurant. Amerigo's owner shared his experience as a young entrepreneur running a restaurant and the importance of understanding the economy.

Teens and their money

Personal finance lessons are a crucial part of the Student Board experience. They are presented in a hands-on format to make them more meaningful.

Omaha Student Board members reviewed budget profiles for different scenarios, including a young college graduate and a family of four. The students were asked to create budgets for the income and expenses of each. They were then challenged with how to handle an emergency or windfall.

Taking it with you

As the academic year came to a close, the student board members were recognized for their dedication and hard work at special ceremonies held at each office.



Jay Flies Through 10J: In a program launched in 2013, teachers can sign up for a "visit" from Jay the Flying Eagle. The program prompts students to write letters to Jay about their area, which helps reinforce themes related to the local, regional and national economy. During the year, 143 educators signed up for a visit from Jay, reaching more than 5,100 students.



Summer @ the Fed

During the summer of 2013, seven college-bound students from the Kansas City, Mo., school district who participated as members of the Student Board of Directors continued their involvement with the Kansas City Fed as paid interns with the Summer @ the Fed program.

Through the program, which marked its second year in 2013, the students shared their own financial knowledge and mentored more than 600 young people involved in summer programs at several community organizations in the Kansas City area, such as the Boys and Girls Club of Greater Kansas City, Operation Breakthrough and The Upper Room.

In addition to their mentorship role, the interns gained valuable experience working in a corporate environment at the Bank and participated in workshops led by Bank staff on college and career planning, business communication and other topics.

"By the end of the summer, I worked with hundreds of kids in the Kansas City metropolitan area," one of the student interns, Jared Freeman, said. "Working as an activities director at the Federal Reserve has not only given me the opportunity to teach kids and learn, but has also been thoroughly enjoyable and educational for me."



Community Partnerships

Along with its programs aimed at students at urban and diverse schools, the Kansas City Fed partners with a number of community organizations to provide financial information and resources for underserved communities. A number of these events are listed below.

Event	Date	Location	Attendance
Kansas City Commercial Real Estate Women Meeting	Jan. 22	Kansas City, Mo.	125
Omaha Public Schools Superintendent's Career Education Advisory Meeting	Feb. 6	Omaha	40
Oklahoma City Public Schools Districtwide Academy of Finance	Feb. 7	Oklahoma City	60
Evening at the Fed	Feb. 7	Denver	45
Omaha Empowerment Breakfast	Feb. 8	Omaha	100
20/20 Leadership High School Student Workshop	March 11	Kansas City, Mo.	80
Money Day at Colorado's Alternative High School	March 11	Denver	50
PAVE the Way High School Student Workshop	March 20	Kansas City, Mo.	40
New Mexico Financial Education Summit	April 1	Albuquerque, N.M.	337
Personal Finance and Economics Challenge	April 2	Oklahoma City	150
\$core Your Goals	April 6	Kansas City, Kan.	250
Outstanding Economics Student Awards	April 25	Oklahoma City	80
Adams Elementary Student Workshop	May 16	Wichita, Kan.	76
Moneywise Financial Education	June 1	Denver	250
Junior Achievement Business Week	June 11	Denver	267
Career Tech Summer Conference	Aug. 1	Oklahoma City	250
Business Development Opportunities	Aug. 22	Denver	275
Financial Education Youth Summit	Sept. 21	Washington, D.C.	115
Ready to Lead Youth Program	Sept. 30	Denver	250
Federal Reserve Financial Education Day Student Workshop	Oct. 23	Kansas City, Mo.	200
Youth Financial Education Conference	Nov. 5	Denver	124

CHALLENGES

The Bank continues to face challenges related to its financial education efforts, including the following:

- Budget challenges in school districts continue to limit the Bank's ability to reach students and teachers through traditional avenues. In addition, educators have reported time constraints that limit their ability to participate in professional development opportunities.
- Many classrooms have limited time available for economic or financial instruction. The Bank continues to seek ways to incorporate economic education concepts into existing curricular areas.
- Increasing focus on standards-based teaching requirements in many school districts limits teachers from exploring financial and economic concepts with their students in the classroom.

LOOKING AHEAD

The Bank plans to expand and improve its economic education efforts in a number of ways in 2014:

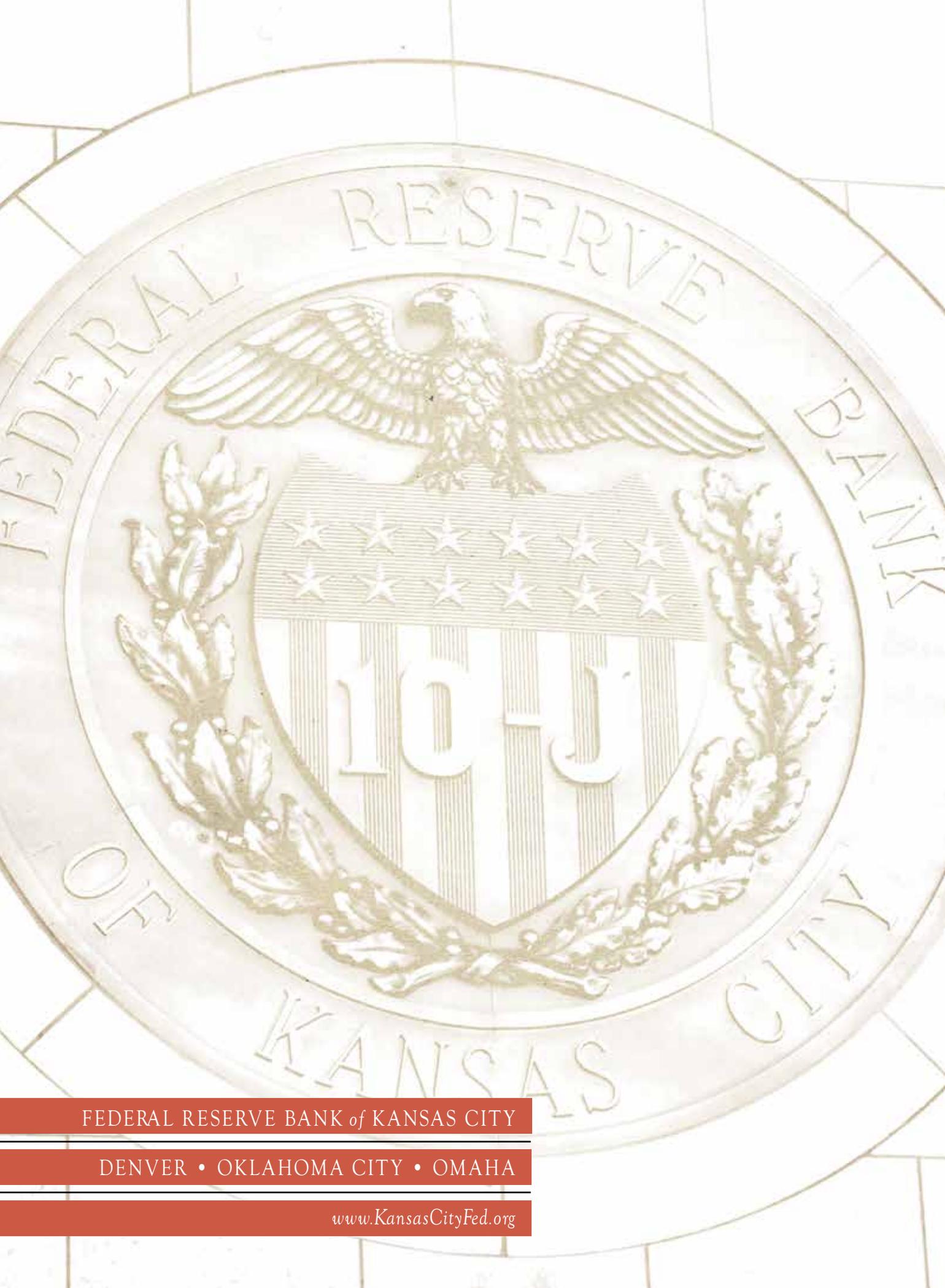
- Expand the Student Board program to allow Board members to attend the Congressional Black Caucus' Financial Education Youth Summit in Washington, D.C. The Student Board members will also be required to prepare a presentation or other work explaining how their involvement with the Board enriches their personal and professional development.
- Continue to include culturally relevant anecdotes and examples throughout the Bank's educational resources to ensure maximum effectiveness.
- Strengthen and grow partnerships with urban and diverse schools and community organizations that work with underserved populations.
- Develop additional interactive activities and new resources to make financial concepts relatable.



Native Hawaiian or Pacific Islander		Asian		American Indian or Alaskan Native		Two or More Races		Overall Totals	
Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
-	-	-	-	-	-	-	-	8	100.0
-	-	3	3.0	-	-	-	-	101	100.0
1	0.3	10	3.2	-	-	3	1.0	315	100.0
-	-	1	3.0	-	-	-	-	33	100.0
-	-	-	-	-	-	-	-	2	100.0
1	0.6	3	1.9	-	-	1	0.6	158	100.0
-	-	-	-	-	-	-	-	0	0.0
-	-	1	11.1	-	-	-	-	9	100.0
2	0.3%	18	2.9%	0	0.0%	4	0.6%	626	100.0%

Native Hawaiian or Pacific Islander		Asian		American Indian or Alaskan Native		Two or More Races		Overall Totals	
Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
-	-	-	-	-	-	-	-	4	100.0
-	-	-	-	1	0.8	1	0.8	129	100.0
-	-	19	4.9	3	0.8	5	1.3	391	100.0
-	-	1	1.1	-	-	-	-	87	100.0
-	-	-	-	-	-	-	-	2	100.0
-	-	4	10.3	-	-	-	-	39	100.0
-	-	1	2.9	-	-	-	-	34	100.0
1	1.1	4	4.4	-	-	-	-	91	100.0
1	0.1%	29	3.7%	4	0.5%	6	0.8%	777	100.0%
3	0.2%	47	3.3%	4	0.3%	10	0.7%	1,403	100.0%

Note: Numbers may not add due to rounding. Information reflects EEO-1 data as defined by the Equal Employment Opportunity Commission (EEOC). The data is as of August 31, 2013, in order to match our submitted annual EEO-1 report to the EEOC. The report is primarily based on employee self-identification. Per EEOC guidance, if race or ethnic information is not self-reported, observer identification may be used.



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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. 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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