

TEEN

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FEDERAL RESERVE BANK OF KANSAS CITY

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Remembering former President Guffey

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PHOTO BY JOSHUA LAWTON



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'The Balance of Power' rhymes

There is a quote about history that is sometimes attributed to Oklahoma's Will Rogers and more frequently to Missouri's Mark Twain. Although the wording may vary depending on the source, the quote in general is that "history may not repeat itself, but it sure does rhyme a lot."

Although the current financial crisis has its own unique aspects, Rogers or Twain would note that there are certainly elements that rhyme with what occurred in the past. After an economic expansion without precedent in United States history, the nation has found itself in a period of financial turmoil caused by a confluence of factors. Among them: rampant speculation and the apparent manipulation of finance by some. Because the nation's largest financial institutions are so tightly intertwined,

The events of 1907 had an important and lasting impact on the United States. After the panic, lawmakers recognized that the United States needed a central bank, and they began the process that led to the passage of the Federal Reserve Act in 1913 and the opening of the Federal Reserve a year later. Similarly, important changes came after the Great Depression. Within the Federal Reserve, lawmakers created the Federal Open Market Committee and established the structure of today's FOMC.



“ ..Since our nation's founding, the same key issues have been at the center of any debate about a central bank: its structure and governance. ”

our entire system has become extremely vulnerable. Moreover, as the financial crisis worsened, a loss of confidence turned the financial crisis into an economic recession.

Although the events I've described certainly sound familiar to us today, I am specifically talking about the Panic of 1907, one of 13 panics that the nation endured over a 100-year span concluding in 1914. Understandably, during the 1907 crisis, much public anger was directed at Wall Street, where many believed high-risk behavior had placed the entire nation's financial fortunes at risk, and at Washington, where strong regulations might have curbed this behavior.

Another direct result was the creation of the Federal Deposit Insurance Corporation to insure bank deposit accounts.

Recently, the Federal Reserve Bank of Kansas City staff compiled a report summarizing the Fed's political history for our board of directors that provides an important perspective on the reasoning behind the Fed's structure. I am very pleased to tell you that the report, "The Balance of Power: The Political Fight for an Independent Central Bank, 1790-Present," is now available on the Kansas City Fed's website. I believe it will be of interest to anyone concerned about the evolution of financial power in our country as well as

those interested in the Federal Reserve, central banking and the financial crisis.

Among the more notable findings in this report is that since our nation's founding, the same key issues have been at the center of any debate about a central bank: its structure and governance. Not surprisingly, both played an important role in creating the makeup the Federal Reserve has today.

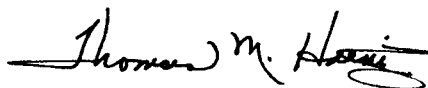
Congress gave the Federal Reserve a blended structure reflecting checks and balances to distribute responsibility broadly through the United States in the form of regional Federal Reserve Banks. As I noted, these Banks are under the direction of local boards of directors that provide an important balance to the Fed's Board of Governors, all seven of whom are political appointees. In the report, you can learn about various attempts to make the structure less independent and, in effect, more political.

For example, in the 1930s, Sen. Carter Glass, an author of the Federal Reserve Act in 1913, had to step in when then-Fed Chairman Marriner Eccles attempted to remove the Reserve Bank presidents' votes on the FOMC, thus placing all of the Fed's key responsibilities under the sole control of the Board. On a different front, former Fed Chairman Paul Volcker, a former Reserve Bank president as well, spent much of his tenure resisting some politicians, both in the administration and in the capitol, who wanted total authority over the Federal Reserve in order to force the Fed to lower interest rates. Mr. Volcker and the FOMC, meanwhile, knew that in order to reduce rampant inflation, interest rates would have to remain higher than anyone would want.

Now, in the months ahead, much may be debated about the Federal Reserve including its structure. I hope that careful consideration is given to any proposal before it is implemented.

The Fed's structure is one that carefully balances interests and keeps power in check. As I told the Congressional Joint Economic Committee in testimony earlier this year, it would be a sad irony if the outcome of a crisis initiated on Wall Street was to result in Wall Street gaining power at the expense of other parts of the country.

Although I'm not as poetic as Rogers or Twain, as proud citizens of our nation's heartland, I think they both might agree.



THOMAS M. HOENIG, PRESIDENT
FEDERAL RESERVE BANK OF KANSAS CITY

The book "**The Balance of Power: The Political Fight for an Independent Central Bank, 1790-Present**," by Kansas City Fed historian and *TEN* editor Tim Todd, summarizes the Federal Reserve's political history.

Directors often question the nature of the role and relationships between the political elements of the Federal Reserve and its independence. This volume was created to help Federal Reserve Bank directors, who are responsible for the governance of their Districts and the guardianship of the Federal Reserve System.

Read "The Balance of Power" online at KansasCityFed.org.



the fed ON THE Web



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PHOTO BY GARY BARBER

Racking Up rewards:

Do consumers really benefit?

When retiree Bill Lee uses his American Express card to make a purchase, his family reaps the rewards. If it can be paid for with plastic, Lee, of Raymore, Mo., will swipe his card to complete the transaction.

With every purchase, Lee receives airline miles, which he collects and eventually exchanges for plane tickets.

“I use my card basically every day,” Lee says. “Anything I have to buy, I charge it and just pay it off at the end of the month so I can get the miles.”

Lee has sent his children and grandchildren

on trips to San Francisco, Florida, Texas and Michigan, all on miles he receives by using his card. He also enjoys other perks as a cardholder, such as rental car insurance and access to airlines’ airport clubs.

“It is a nice benefit,” Lee says. “I’ll use the miles for a trip myself every once in a while.”

As credit card issuers increasingly use rewards programs to persuade consumers to pay with plastic, the number and types of rewards available to cardholders have continued to grow. From cash-back bonuses to free gas to points that can be used for vacations, hotel nights or merchandise, consumers are offered

plenty of incentives to use a card at the register rather than cash or a check.

But those rewards can come with a cost, and it's not clear whether consumers actually benefit from rewards programs in the end, says Fumiko Hayashi, a senior economist with the Federal Reserve Bank of Kansas City.

Merchants who accept cards as payment are assessed interchange and other fees by card issuers and other parties. In return, merchants might pass on those costs—and the cost of the rewards—to consumers in the form of higher prices, says Hayashi, who has researched the fee structure extensively.

However, card networks say merchants benefit from rewards programs because customers who use a rewards card tend to make higher-value purchases. In addition, the card industry argues, rewards can reduce overall costs for merchants and consumers because cardholders are using an efficient, quick and secure payment method.

“Whether rewards programs benefit consumers—or society at large—depends on several factors,” Hayashi says. “The key questions are: Who ultimately pays for rewards, and how do rewards programs affect consumer behavior?”

While it's difficult to determine absolute answers to those questions, there's little doubt that card rewards enjoy tremendous popularity among consumers, much to the disappointment of some retailers.

History of rewards

Card rewards date to at least 1984, when Diners Club began offering airline miles to cardholders. Other card companies jumped in, including Discover, which offered what was soon an industry standard: a cash-back

bonus to cardholders based on the volume of purchases made with the card. Today, it is not uncommon to find cards offering cash-back bonuses of 3 to 5 percent on purchases made at certain retailers.

Soon, rewards programs grew to include other benefits, such as discounts on products offered by affiliates of card issuers and donations to charities.

Debit card rewards are still relatively new and tend to be less generous than credit card programs, Hayashi says. For a debit card transaction, consumers can get about 0.25 percent of the purchase's value back in rewards, while a credit card transaction results in rewards averaging about 1 percent of the purchase value. The difference in rewards levels likely is due to lower interchange fees for debit cards.

While the rewards offered by issuers have grown during the last several years, estimates of how many cardholders have a rewards card varies from less than half to about 70 percent. Today, websites such as creditcardratings.com allow consumers to shop for the best rates and rewards programs. Many card issuers also allow consumers to choose from a menu of available rewards.

Debate brews

Though many consumers enjoy using their rewards cards for the benefits they provide, the feeling sometimes isn't mutual on the other side of the transaction. For Scott Zaremba, president and owner of Zarco 66 Inc., credit card transactions—especially those tied to rewards—leave little room to make a profit, he says.

The fees charged by card issuers and banks take a significant cut out of the gasoline sales of Zaremba's eight convenience stores in eastern Kansas, he says. Depending on the type of card and the rewards tied to each card, Zaremba might pay 3 percent or more of each sale to cover card fees, the majority of which is due to interchange fees.

“The direct impact over the years has been



huge,” Zaremba says of the fees. “It’s extremely hard on a small business. There can be huge differences in the fees from each card. It’s all over the board.”

As is the case with other retailers who accept card payments, Zaremba’s agreements with the card networks don’t allow him to price his products differently depending on the card a customer uses. He must accept all cards regardless of the fees associated with each.

Zaremba started offering his own incentive—a discount of 3 cents per gallon for customers who pay with cash. He recently installed automated cash acceptors at the pumps at one of his stations in Lawrence, Kan., in order to make cash transactions as convenient as possible. He hopes the experiment will result in more customers paying with cash.

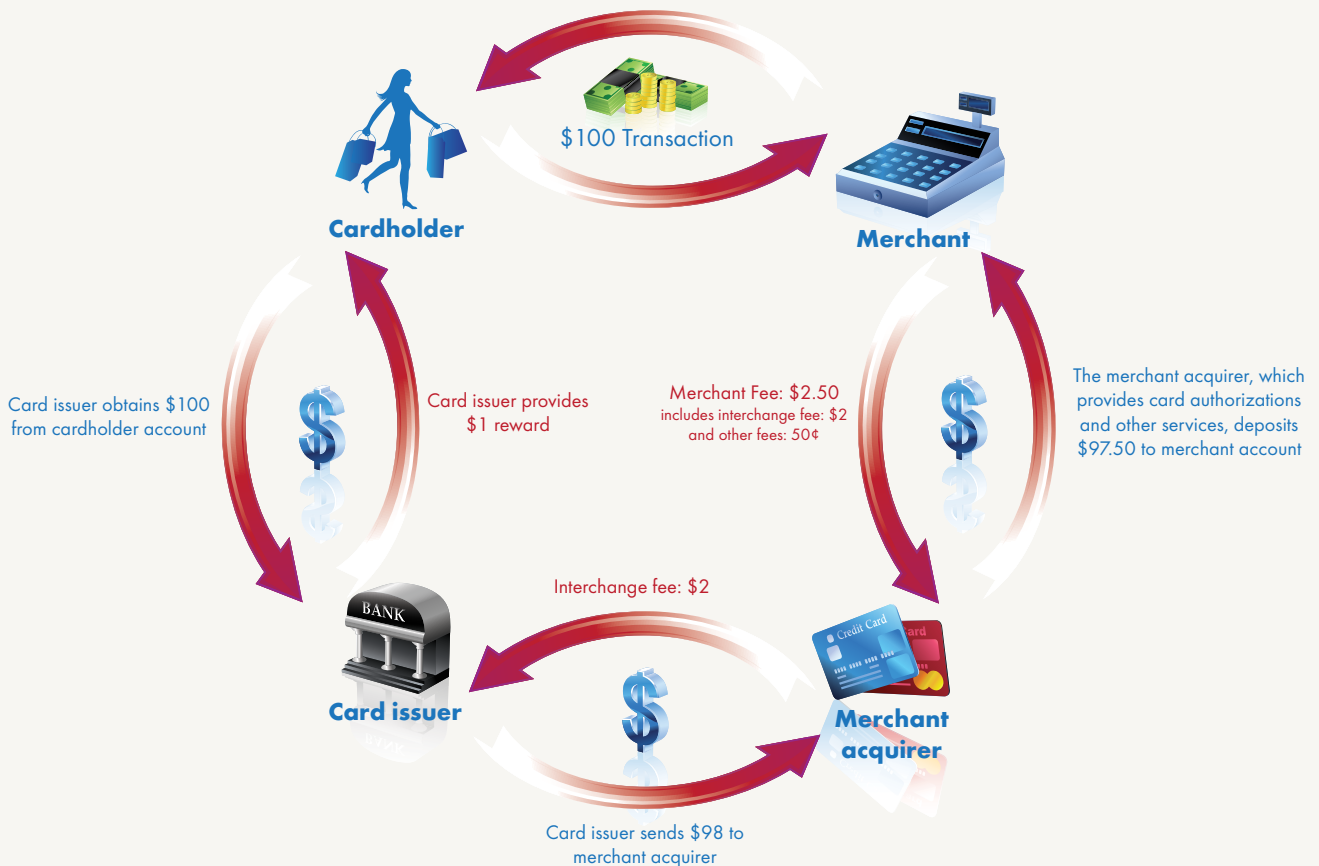
“The credit card companies are not giving the consumer more for their money through rewards,” Zaremba says. “Consumers need to realize that ‘Hey, I’m better off saving my own money to go on vacation rather than have someone set this all up for me through a credit card.’”

Zaremba’s views are typical throughout the gas station and convenience store industry. Tom Palace, executive director of the Kansas Petroleum Marketers and Convenience Store Association of Kansas, says convenience stores, along with retailers in other industries, are becoming more vocal about the issue.

“The credit card companies make more on a gallon of gas than we do,” Palace says. “It really drives down to the consumer when almost 3 percent of the cost of the product is

Card Rewards

When consumers pay with plastic, the transaction involves more than just a buyer and seller. Several other parties are involved, and each is responsible for assessing certain fees. Here is one example of how a card purchase flows through the payments system.



tied to credit card fees.”

But those in the credit card industry say consumers benefit by being able to use a convenient payment method and merchants receive significant benefits in return for paying interchange and other fees.

According to the Electronic Payments Coalition, a group representing the payment card industry, about two-thirds of American families use electronic payments routinely, and that number is expected to grow during the next several years.

“One of the big benefits to merchants—in addition to the obvious one, increased sales—is that the card issuers bear all of the credit risk,” says Sharon Gamsin, vice president of communications at MasterCard Worldwide.

According to MasterCard, the average U.S. interchange fee was 1.8 percent in 2008, while average credit losses were 2.4 percent of credit card sales volume. Those losses are absorbed by the card issuer.

“So if merchants attempted to increase sales on their own by reverting back to extending credit themselves, the credit losses alone would far exceed any cost merchants pay to accept payment cards today,” Gamsin says.

In addition, the idea that consumers pay more for goods as a result of interchange fees makes sense “only if you believe that consumers pay more for goods because merchants pay fees for rent, labor, insurance (or) maintaining the parking lot,” Gamsin says. “Like any valuable service, electronic payment systems have costs associated with them, and merchants should pay their fair share.”

Consumer impact

While merchants and the payment card industry continue to debate the issue of interchange fees and card rewards, there is little argument that the level and cost of rewards programs have increased.

However, Hayashi says it’s not clear whether the growing cost of rewards drives

interchange fees higher or vice versa. Card issuers can fund rewards through other sources, such as assessing fees to cardholders or through the interest payments collected on outstanding balances.

Still, in some cases, there is evidence that a close relationship between the more generous rewards and higher interchange fees might exist, Hayashi says. In 2005, MasterCard and Visa introduced new card categories that charged higher fees to merchants while providing more generous rewards to cardholders. Hayashi’s analysis of the fees associated with these new cards showed that merchants consistently pay higher fees for the cards that have more generous rewards.

Though more research is needed, Hayashi says the current level of card rewards might be too generous. As a result, consumers could be paying more for goods and services.

“Higher levels of rewards,” Hayashi says, “may imply higher retail prices.”



BY BILL MEDLEY, SENIOR WRITER

FURTHER RESOURCES

“DO U.S. CONSUMERS REALLY BENEFIT FROM PAYMENT CARD REWARDS?”

By Fumiko Hayashi
KansasCityFed.org/TEN

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

Achieving the
American dream





The affordability of homeownership for middle-income Americans



First there was 123rd Terrace. Then South Hawthorne Avenue, followed by West 5th Street. And now Spalding Drive.

This summer, as Ray Anderson moves into what probably will be the last house he ever lives in, he leaves behind a home for each stage of his life. Now, semi-retired and a grandfather, 59-year-old Anderson and his wife, Beth, recently purchased a home in Bella Vista, Ark. It's a one-story, newer house with upgrades, like granite countertops and a whirlpool tub, near a golf course. It's much different than any of the other homes he's purchased, especially the first one.

In 1981, when Anderson was 31 with two young daughters, he and his first wife saw many of their friends buying houses. They, too, were tired of renting. At 12 percent, interest rates were more than double today's rate, and it took the young family a couple years to "scrape together" a down payment of 5 percent. But they were able to purchase a two-story,

three-bedroom townhouse for \$45,000 in Olathe, Kan.

"That was about the maximum we could afford," says Anderson, remembering how proud the family was to be a part of the American dream. "It was nice to actually own a house."

These sentiments are echoed by homeowners everywhere. But during the past several decades, buying a house has been perceived as more and more difficult, says Jordan Rappaport, senior economist at the Federal Reserve Bank of Kansas City. He recently researched home affordability, comparing the cost of homeownership with household income from 1971 to 2007—prior to the fallout from the current housing crisis.

"As housing prices climbed, many people complained that housing has become unaffordable to middle-income Americans," Rappaport says. "As early as 1998, homeownership was commonly perceived to be a heavy and growing financial burden. When

the rise in home sales prices peaked in 2006, homeownership was increasingly thought of as the unattainable American dream.”

Despite these concerns, homeownership actually increased from the mid-'90s, hitting its highest level ever in 2004, though the recent surge in foreclosures suggests many households bought homes they couldn't afford.

“Still, this doesn't necessarily mean that the same type of housing that middle-income earners purchased back in the '70s is unaffordable for today's middle-income,” he says.

Why the perception that homeownership has become unaffordable? Rappaport says there are several reasons.

- Increased home prices: The national sales price of a constant size and quality house nearly doubled from '71 through mid-'07 (controlling for inflation).

- Larger, higher quality homes: Households increasingly have chosen to buy bigger houses with more amenities, increasing their financial burden.

- Slow income growth: Although household income grew from '71 to '07, it grew much slower than during the 1950s and '60s.

- Increase in associated payments: Required payments grew more quickly than after-tax household income from '71 to '07. This means the estimated housing share of expenditures increased, implying a decrease in affordability.

“However,” Rappaport says, “what people might not be considering is their residual income, which is the amount leftover after the mortgage and housing related-expenses, such as taxes and insurance, are paid. This has gone up, albeit slowly.”

His research shows the rise in after-tax income from '71 to '07 offset the rise in required payments. A median household's real, after-tax income increased \$13,600 between '71 and '07, compared to an average increase of \$7,800 in required payments per year for a comparable house. This shows improved affordability.

The increase in residual income from '71 to '07 can be explained, in part, by a

RAY AND BETH ANDERSON pack their belongings as they prepare to move from Concordia, Kan., to Bella Vista, Ark., this summer. The couple has purchased several homes in their lifetime, but think their newest one also will be their last.



sharp increase in women in the workforce. This also may be a reason why house size and quality, and therefore the financial burden, have increased in recent decades. With two incomes, a household is more likely to be able to afford surround-sound systems or a three-car garage. Furthermore, the perception of housing unaffordability, at least until recently, isn't quashing the American dream, Rappaport says.

Components of affordability

Often consumers want more house than they can really afford, says Paul Roth, a real estate agent in Omaha.

During this past decade "there were very few people downsizing," Roth says. "People were really stepping up—bigger homes and nicer neighborhoods."

Homebuyers wanted finished basements, big yards and sprawling "McMansions." Now, as the global recession continues, many want small, one-story homes. They are willing to cut back on size, but still want high-end amenities in their homes, he says.

Kelly Edmiston, a senior economist at the Kansas City Fed who specializes in community development, says the reasons people want ever-higher quality homes may include rising household incomes, often due to both spouses working, as well as the expectation of significant home price appreciation. Another important element was, until recently, the easier availability of credit such as lower down payments.

In Omaha, home purchases have been steady overall. Roth hasn't seen a dramatic decline in buying during this economic downturn, and throughout his 14-year career in real estate, Roth says he's generally seen "incredible increases in homeownership."

When people aren't buying homes, Roth says it's not because house prices are too high relative to their income, but rather they can't get financing for reasons unrelated to income and price, such as a poor credit history.

"There are homes in all price ranges," Roth says.



PHOTO BY ISTOCK

ALTHOUGH HOMEOWNERSHIP HAS INCREASED through the years and hit its highest level ever in 2004, middle-income Americans commonly perceived homeownership to be less attainable in recent years. Research shows this is not necessarily true.

In his research, Rappaport represents "middle income" as the median income in households headed by a married couple with two children. Such a household, like all households, divide their income among purchasing housing, non-housing expenses and saving.

Being "middle income" has fluctuated widely since the early 1970s, Rappaport says. From '71 to '07, median after-tax real income of middle-income households grew by just less than 1 percent annually. It fell from a peak of \$44,000 in 1978 to \$37,000 during the 1982 recession and then slowly rose to \$55,000 by 2007.

House sales prices are the most visible determinant of required house payments. Others include mortgage interest rates, taxes, insurance and maintenance. From '71 to '07, U.S. house prices grew by an annual average rate of 1.7 percent. (In 2007 dollars, the price of a representative 2006 house increased from \$107,000 to \$199,000 from '71 to '07.)

"The total required payments associated with homeownership stood near a historic

high in 2007,” Rappaport say. “But this doesn’t necessarily imply that housing had become less affordable. There are several factors that have improved affordability.”

Houses are almost always purchased with borrowed money, which implies owners need to save for a down payment. Numerous anecdotes show down payments have declined nationwide in the last two decades or so from 20 percent to 10 percent.

Additionally, the mortgage component of required payments is highly sensitive to interest rates, Rappaport says. Interest rates on a fixed 30-year mortgage have varied since the early ’70s, hitting extreme highs in the early and mid-’80s but falling since then, which has helped lower mortgage payments.

that homeowners were becoming worse off,” Rappaport says.

Determining affordability requires comparing required payments with household resources. Between ’71 and ’07, the share of income required for a representative house rose significantly, which is often interpreted as a decline in affordability. But this ratio of payments to income doesn’t reflect how well off households are; a better measure is the difference between resources and payments.

Rappaport’s research shows the income left over after paying for housing was higher in 2007 than in 1971. So even though homeownership became more expensive, it did not become less affordable.

“The ‘share of the pie’ going to housing has

“ The increase in homeownership has more to do with access to financing than to the sale price of homes. ”

Blake Heid, president and CEO of First Option Bank, has seen through the years how a lower percentage down payment and lower mortgage interest rates are advantageous to homebuyers. First Option, which has five locations in eastern Kansas, does a significant amount of home financing.

“Homeownership really exploded,” Heid says. “We’ve also watched the cost of homes continue to rise. ... The supply grew because people could afford to buy a house.”

Edmiston, the Kansas City Fed’s community development economist, agrees these components have affected home buying.

“The increase in homeownership has more to do with access to financing than to the sale price of homes,” he says.

Determining affordability

“Complaints that homeownership was impoverishing households may have arisen from the mistaken belief that an increasing ratio of house payments to income meant

increased,” he says, “but more ‘pie’ was left over after meeting housing expenses. Households were actually better off in 2007.”

However, Rappaport says, households’ sense of well-being may depend in part on their comparison between actual and expected circumstances. When income grew considerably slower than expected between ’71 and ’07, there was disappointment. Even though households were able to increase their consumption of both housing and non-housing goods, they had expected to do so by even more.

There are many factors that affect affordability, such as housing location, size and amenities. These attributes, and others, determine quality, and higher quality implies higher payments and lower affordability.

Quality may in fact be contributing to the perception of unaffordability, Edmiston says. Homes are more expensive, but are of higher quality than in the past.

“There’s a demand for it. People think

bigger is better. People think more is better,” Edmiston says. “They have to pay for that, but regardless, people see prices. And they’ve seen home prices going up.”

Average house quality has greatly improved over time. For example, the median square footage of a newly constructed single-family house rose 60 percent from '71 to '07. Measuring housing quality (including its location) is difficult because many attributes are not easily quantifiable. However, quality and selling price are closely linked, Rappaport says.

Longtime homeowner Ray Anderson knows this to be true. In his lifetime, he’s purchased four homes (plus another as a rental), and each purchase was a little easier than the one prior.

Twenty-eight years after first becoming a homeowner, Anderson is finalizing the home buying process again as he and Beth box up their belongings, maybe for the last time.

“We don’t foresee moving again.”

T
BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

“THE AFFORDABILITY OF HOMEOWNERSHIP TO MIDDLE-INCOME AMERICANS”

By Jordan Rappaport
KansasCityFed.org/TEN

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



PHOTO BY ISTOCK

Update:

U.S. housing sector Homes in rural America faring better

While the U.S. housing sector overall remains weak—initial construction of U.S. homes and building permits both sank to record lows in the spring—there may be a silver lining.

Research shows rural housing markets haven’t taken quite the hit that metro home values have, says Chad Wilkerson, an economist and Branch executive of the Kansas City Fed’s Oklahoma City office, who recently researched the housing market in rural America.

“Home prices in rural areas have outperformed home prices in metro areas in all regions of the country,” Wilkerson says.

There are several reasons for this:

- The lower gains in housing values were more in line with rural income growth than metro areas.
- Recent new home construction has slowed more sharply than in metros, helping to lower the number of unsold homes.
- Rural economies have been boosted by strong activity in the energy and agriculture sectors.
- Rural employment has grown while the country’s overall job growth has slowed.
- Rural home price gains largely stayed in line with recent historical averages (because of greater land availability and stricter lending standards), resulting in less of a boom and bust.

“Rural America was largely bypassed by the national home price boom of the first half of this decade and seems likely to avoid much of the correction in home prices that’s now underway,” Wilkerson says. “Those home values are not risk-free, though. The slowdown in rural economic growth could threaten home values.”

Looking ahead, Wilkerson says future home price declines in rural areas likely will be much less severe than in metro areas, but at the same time, probably won’t rise much either. The fall in commodity prices at the end of last year means slower economic growth and, in turn, less demand for housing.

“IS RURAL AMERICA FACING A HOME PRICE BUST?”

By Chad R. Wilkerson
KansasCityFed.org/TEN

Weathering the storm?

How community banks are managing tough times





Ed Sauer has an answer to a multimillion-dollar question that, lately, he's been asked more than once.

One man in particular called the Bank at Broadmoor in Colorado Springs to speak to the bank president—he wanted to ask Sauer about community banking. Shortly after that conversation, the man transferred his deposits to Broadmoor. He was one of three accounts of more than \$1 million to recently do so.

“We’re not a transaction-oriented bank; we’re a relationship-oriented bank,” explains Sauer, who is also the chairman of the Colorado Bankers Association.

That’s the mantra of community banks, which are small institutions (typically defined as having less than \$1 billion in assets) and often located in smaller cities or rural areas. In these times of financial institution failures, bank bailouts and overall economic uncertainty, community banking is appealing to bank customers, like those at Broadmoor. It’s their banking principles, community bankers say,

that are helping them weather the storm.

“Community banks are experiencing problems along with the rest of industry, but so far they seem to be suffering less today than during the crisis of the ’80s,” says Esther George, executive vice president of the Federal Reserve Bank of Kansas City.

George, who oversees the Supervision and Risk Management Division, is optimistic about the financial sector’s recovery, but based on historical precedents, acknowledges it will take time and perhaps the worst is still to come.

For the Kansas City Fed, which is one of 12 regional Federal Reserve Banks, its supervisory role includes examining state-chartered banks that have chosen to be members of the Federal Reserve, as well as all bank holding companies in the Tenth Federal Reserve District. This District includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico.

In general, banks are impacted negatively

Community banks in the region



Community banks are small in size (typically defined as having less than **\$1 billion** in assets) and do most of their business where they are located.

The median bank size in the Tenth District is **\$84 million**.

The median bank size in the nation is **\$133 million**.

There are **1,089** community banks in the Tenth District, which is **97** percent of all banks in the District.

There are **6,527** community banks nationwide, which is **93** percent of all banks in the country.

17 percent of the country's community banks are located in the Tenth District.

Community banks are an important part of the Kansas City Fed's District because a high percentage of this region's population lives in rural or small urban areas. Additionally, community banks play a major role in financing small business and farm lending.

Their importance in the economy supports the Federal Reserve's interest in and oversight of community banks. Through its supervision and regulatory

activities, the Federal Reserve helps ensure that community banks operate in a safe and sound manner.

The Kansas City Fed's relationship with the Bank at Broadmoor in Colorado Springs is "critical," says Ed Sauer, Broadmoor president. The bank relies on the Kansas City Fed for more than bank exams—it's also a resource.

"We're in the shape we're in today because of the regulators—

someone is paying attention, someone is there," Sauer says of his bank, which is faring well in these tough times.

Metcalfe Bank President Tom Fitzsimmons says the concept of the Federal Reserve regulating state member banks by region strengthens his bank's relationship with the Fed. He is confident his examiner understands the eastern Kansas, western Missouri market that Metcalfe Bank serves.

by declining economic conditions, especially when they rely on too much leverage to grow assets or concentrate their assets in certain sectors. Banks that had a heavy concentration in housing and commercial development loans are now dealing with declining values and sluggish markets which may compromise the repayment of these loans. Community banks have been affected by these realities, which is reflected in deteriorating asset quality and depressed earnings.

Many community bankers describe their strategy during bad times as conservative, disciplined and based on relationships with customers—the same strategy for good times. That’s the way it’s done at Collegiate Peaks, a community bank in Colorado.

“The basic principles,” says Charlie Forster, president of Collegiate’s mountain region, “work pretty well.”

‘Sticking with fundamentals’

In an average year, less than 10 percent of banks nationwide have losses. However, in 2008, 22 percent of banks nationwide experienced losses.

Made up primarily of community banks, the Tenth District mirrors national banking

ESTHER GEORGE, EXECUTIVE VICE PRESIDENT at the Kansas City Fed, oversees the Supervision and Risk Management Division. She often speaks publically about the current economic crisis and the role of the banking industry.



PHOTO BY GARY BARBER

trends. Though community banks’ problems generally haven’t been as severe, those in this District have seen:

- A drop in earnings from 1.16 percent of assets in 2007 to 0.89 percent in 2008. Eleven percent of community banks in the District are losing money.

- An increase in noncurrent (past due or non-accruing) assets from less than 1 percent of loans in 2006 to nearly 2.6 percent by March 2009. This is driven in large part by asset quality deterioration in commercial real estate.

- A decline in net interest income from an average of 4.5 percent of assets in the ’90s to about 4 percent by March 2009. This is the largest source of income for community banks.

However, many community banks are profitable and growing. At the Bank at Broadmoor, president Sauer says there has been a decline in income, primarily from lower interest rates and increased expenses, but the bank is still profitable.

“Overall, we’re in pretty good shape,” he says. “I attribute it to the conservative way we’ve managed our bank in the last few years. ... I think people today want four things: safety; soundness; security; and, above all, they want knowledge.”

Agricultural banks specifically have performed better than other commercial banks and appear to have funds available for agricultural loans, says Jason Henderson, vice president and Branch executive at the Kansas City Fed’s Omaha office. However, the recession has dimmed economic prospects for the agricultural economy and trimmed profits at many agricultural banks, says Henderson, who recently researched agricultural bank conditions.

Fidelity Bank & Trust Company is a family-owned agricultural bank in Dodge City, Kan. There hasn’t been much change at the bank since Ben Zimmerman started as a management trainee 34 years ago. Now chairman of the board and president, Zimmerman thinks that’s a good thing.

“I think it’s a matter of sticking with

fundamentals,” Zimmerman says. “We’ve kind of stuck close to home.”

Others also attribute staying the course—and staying local—with their bank’s ability to manage tough times today.

“Most community banks stuck with their core business,” says Tom Fitzsimmons, president, chairman and CEO of Metcalf Bank. “And that did not include exotic mortgages.”

Metcalf Bank serves counties on both sides of the Kansas-Missouri state line. In April, Metcalf Bank bought a failed thrift. When banks serve a localized area, they have a better sense of conditions and can react quicker in times of trouble, Fitzsimmons says.

Many community banks are strong enough to continue making loans. This means community banks could provide credit to local businesses and consumers who have been unable to secure a loan elsewhere, thus playing a role in the nation’s economic recovery, says Federal Reserve Chairman Ben Bernanke. In a speech last spring, Bernanke told community bankers to avoid letting fear factor into their decisions to make sound loans.

“If community banks are prudent but opportunistic in extending credit to strong borrowers, they will help the economy recover while benefiting from that recovery themselves,” Bernanke said in March.

However, community banks’ relatively small share of assets compared to the country’s largest financial institutions may be a limiting factor to the boost community banks could give to the economy. Community banks have \$1.2 trillion of the \$12 trillion total banking assets nationwide.

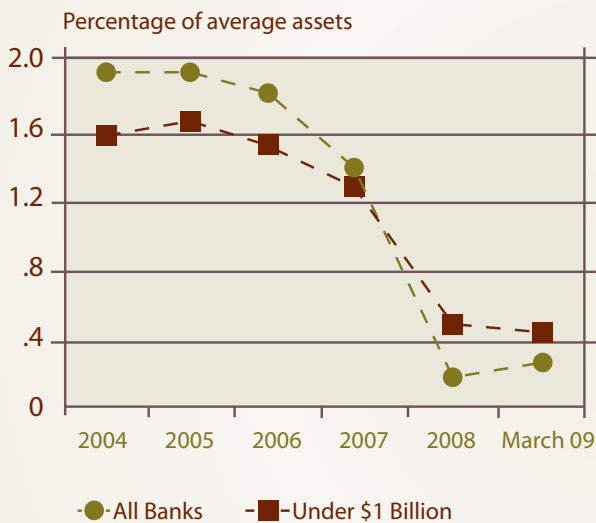
“Community banks make up just 10 percent of all banking assets, but are 93 percent of all banks nationwide,” George says. “They are a lot of small institutions in a lot of small towns that are vital to our nation’s financial system.”

Learning from the past

Although the current economic crisis is more global and has a greater level of complexity, some comparisons to the past can be made.

During the 1980s, there were more bank

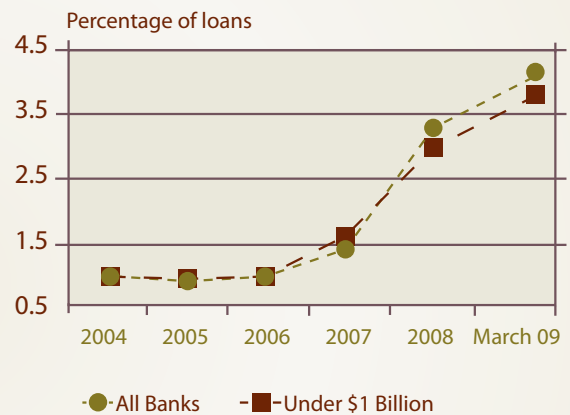
Earnings remain weak



All U.S. Commercial Banks - Net Operating Income Before Taxes, as a percentage of average assets.

Source: Reports of Condition and Income

Problem assets are high



All U.S. Commercial Banks - Noncurrent Assets-to-Total Loans.

Source: Reports of Condition and Income

and thrift failures than any single decade since the Great Depression. From 1982-92, more than 2,800 institutions failed, peaking in 1989 with 534 failures. In comparison, there were 25 failures in 2008 and 37 failures by early June.

“Failures in the ’80s make the number today seem small even though failures this year are climbing,” George says.

There are similarities today to the crisis in the 1980s.

Bubbles: In the ’80s, there were bubbles in commodity prices, land values and energy prices, much like today’s real estate bubble.

Overbuilding: In the ’80s, there was a rapid increase in commercial real estate lending, even when vacancy rates were rising, which resulted in significant overbuilding and even higher vacancy rates, much like today’s residential real estate market.

These factors, and others, have led to today’s declining bank earnings and continued problems that likely will lead to further weakness. Nationwide, non-current loans (past due or non-accruing) are approaching levels seen in the late ’80s. The charge-off of these troubled loans has increased only recently, which is why more loan losses are probable. At the same time, the reserves set aside to cover these losses are not keeping pace with the rising non-current loans. Reserves likely will decline further as additional losses are realized, and maintaining adequate reserves will bite into future earnings.

George says lessons from the ’80s remind us:

- **Fundamentals matter:** Banks should keep their focus on fundamentals. Those that have during the past few years likely are in a relatively good position today.
- **Board and management oversight must be emphasized:** Strong risk management practices are critical.
- **Quick action is vital:** Problems need to be recognized and addressed in a timely manner to avoid deeper losses.

What’s ahead?

“Looking forward, we’ll undoubtedly see more tough times,” George says, “but maintaining the fundamentals will help community banks navigate through the turmoil that remains.”

Banks will continue to be challenged by weak credits, and downward pressure on earnings, but can prepare themselves by minimizing outside risks and maintaining good management and strong capital, she says.

“We need to remember this recovery will take time,” George says. “I have confidence that the economy and banking industry will come out of this strong and vibrant.”

As for community banks specifically, this financial crisis ultimately could strengthen their value as uneasy customers seek out relationship banking.

Back in Colorado at Collegiate Peaks Bank, knowing the customers and understanding portfolios allows the bank to grow during these shaky times. Collegiate opened two new branches earlier this year.

“I believe community banks will fare very well,” Forster says. “Customers rely on community banks.”



BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

“THE 2008 SURVEY OF COMMUNITY BANKS IN THE TENTH FEDERAL RESERVE DISTRICT”

By Eric Robbins and Forest Myers

“AGRICULTURAL CREDIT STANDARDS TIGHTEN”

By Jason Henderson

“TENTH DISTRICT BANKING CONDITIONS”

KansasCityFed.org/TEN

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

About...

Leaving a Legacy Roger Guffey



Sept. 11, 1929 - April 15, 2009

In April, the Federal Reserve Bank of Kansas City's seventh president J. Roger Guffey died after an illness at age 79 in Scottsdale, Ariz.

Guffey was named president of the Kansas City Fed in 1976 and led the Tenth Federal Reserve District until 1991. During his 15-year tenure, Guffey was responsible for many great accomplishments.

"We are saddened by Roger's passing," says President Tom Hoenig. "It was my privilege to know him and succeed him at the helm of the Federal Reserve Bank of Kansas City. He was an honorable man who served this District—and this country—well.

"Roger Guffey leaves behind a legacy."

The early years

Guffey was happily pursuing a career as a partner in a law firm when the Federal Reserve Bank of Kansas City came calling in the late 1960s and put him on a path that would later lead to the Kansas City Fed's presidency.

Guffey was born Sept. 11, 1929, in Kingston, Mo., a small town about a half-hour northeast of Kansas City. His father was a farmer and rural mail carrier, and his mother was a housewife.

"Those were not easy times," he later said. "As a result of the Depression, people had to essentially fend for themselves, and I think my family probably fell in that category. My upbringing in a farm community during the Depression has had an impact on my thinking about what my contribution to the workforce should be."

In 1952, he received a degree in business administration from the University of Missouri—Columbia. After three years in the Army working with intelligence forces in Germany, he returned to MU, where he earned a law degree in 1958 and met his wife, Sara.

He was a partner in the Kansas City law firm Fallon, Guffey and Jenkins, a firm he had spent a decade building, when the Kansas City Fed's Vice President of Supervision Jerry Swords tried to convince him to come to work for the Kansas City Fed as general counsel.

"I didn't have any interest because I thought I'd be practicing law for the rest of my life," Guffey said in 1991. "I was happily doing what I had set out to do."

That all started to change late one morning at his law office when Guffey's phone rang and the caller asked Guffey if he had any lunch plans. When Guffey

said he did not, the caller identified himself as George Clay, president of the Federal Reserve Bank of Kansas City, and invited him to the Bank for lunch.

"I felt kind of trapped, so I did go to lunch," Guffey said. "George was a pretty good salesman. About three months later, I had sold the law practice to my partners."

Clay, he said, convinced him that a couple of years at the Federal Reserve would be helpful to his law practice by giving him a better understanding of banking.

"My concern was that I'd walk through those big doors and I hear them slam behind me one morning and realize that I only had one client and if I didn't like that client, what was I going to do?" Guffey later said.

He started at the Kansas City Fed as general counsel in 1968. He became senior vice president of the Administrative Services Division in 1973 and on March 1, 1976, became president of the Federal Reserve Bank of Kansas City.

The 1970s and '80s

It is perhaps a bit ironic that Guffey, a child of the Great Depression, was at the helm of the Federal Reserve Bank of Kansas City and a member of the Federal Reserve's monetary



policy-setting Federal Open Market Committee during the Great Inflation. He also participated in a meeting that is seen as a key moment in Federal Reserve history and the turning point in the FOMC's battle against inflation.

With double-digit inflation and public expectation that inflation would continue to escalate, the FOMC, under the leadership of Chairman Paul Volcker, needed to take dramatic action. At a rare Saturday meeting, on Oct. 6, 1979, the FOMC decided to shift the conduct of its open market operations to a focus on controlling the money supply by reducing bank reserves instead of its traditional targeting of the federal funds rate. It was a move designed to kill inflation, and while it was successful, it was not painless. The resulting jump in interest rates, with the prime rate hitting a record-setting 21.5 percent in December 1980 and remaining above 17 percent for much of 1981, touched off a recession in the months that followed.

Authors Daniel Yergin and Joseph Stanislaw describe the period in their 1998 book "The Commanding Heights, The Battle for the World Economy."

"Farmers surrounded the Federal Reserve building to protest the high interest rates. Auto dealers sent in coffins with car keys to symbolize vehicles that went unsold because of high interest rates.

"Volcker himself would read heartbreaking letters that people wrote to him—about how they had saved for years to buy a house for their parents, but now, because of high rates, could not. He was deeply upset by these letters, but he still saw no choice. If inflation were not stamped out, there would be a much greater collapse."



PHOTO BY SCOTT INDERMAUR

KANSAS CITY FED President Tom Hoenig, left, and former President Roger Guffey talk with former Board Chairman Harold Andersen at the Kansas City Fed's grand opening events in June 2008. Guffey was a special guest at the milestone events. The Money Museum's theater in the lobby, where the public can watch a short historical documentary, is named in honor of Guffey.

Guffey recalled the 1979 meeting during a later interview.

"I think back on that event as a tough decision," Guffey said in 1991. "There were divergent views as to whether the draconian steps that we would eventually take were necessary and whether the price that thereafter was paid by the nation was worth the effort. I happened to think it was, and I look back upon that with some warmth and the sense that it was a tough decision and it turned out to be the right one. I think it really demonstrates the positive impact the Federal Reserve can have on the nation."

The decision, he said, also showed the importance of an independent central bank.

"There is no way that you could have approved what we did on Oct. 6, 1979, through our Congress," Guffey said. "It's very difficult for elected officials to make those kind of hard decisions. That's the reason I think our form

of a central bank is very important and worth preserving. It's worked and it will continue to work."

Jackson Hole and a move upstairs

During Guffey's tenure, the Kansas City Fed started hosting an event that would go on to become an institution.

In 1978, the Kansas City Fed hosted its first economic policy symposium, "World Agricultural Trade: The Potential for Growth," in Kansas City. After three years with an agricultural focus, the first monetary policy symposium was held in 1982 in Jackson Hole, Wyo. "Monetary Policy Issues in the 1980s" was the first step toward what would become the symposium's standard structure: It was the first attended by a Federal Reserve chairman, and the first to include international central bankers.

In the years that followed, the conference grew to become one of the world's most well-known economic conferences, drawing an international audience of central bankers, economists and academics for a discussion on issues facing policymakers around the world. Although the event started under Guffey's tenure, he readily acknowledged the efforts of Director of Research Tom Davis and Public Information Officer Barry Robinson for assisting in its creation and success.

Other major changes during Guffey's presidency included the relocation of executive offices from the building's lobby to the 19th floor.

The lobby, which was sometimes called "the Marble Orchard," was isolating, Guffey said, while moving to the 19th floor increased his opportunities to interact with employees, largely because they were all on the elevators together. The lobby was remodeled into a visitors center with educational exhibits and a gallery area that was later named the Roger Guffey Gallery. Today, the theater in the Bank's

headquarters at 1 Memorial Drive is named in his honor.

A final note

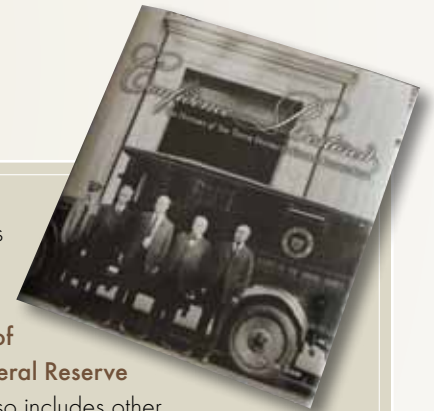
He retired in September 1991.

In his last interview with the Kansas City Fed's employee newsletter, Guffey said he was most pleased by the experience of working with the Kansas City Fed's employees.

"We have a very good and dedicated workforce," Guffey said. "Hopefully, part of that is the result of some enlightened personnel policies and a work environment that encourages people to remain at the Bank, do their jobs in a quality fashion and enjoy what they're doing. I happen to believe this Bank is blessed with that environment, and it seems to me that is not always the case in a lot of companies."

T

BY TIM TODD, EDITOR



Former Kansas City Fed president Roger Guffey's biography is included in the book "**Confidence Restored: The History of the Tenth District's Federal Reserve Bank.**" This chronicle also includes other leaders and milestone events of the Kansas City Fed.

The book is available for purchase at The Vault gift shop in the Money Museum at One Memorial Drive, Kansas City, Mo., or can be read online at KansasCityFed.org/TEN.

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



Tough times are an opportunity to teach children financial concepts

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

During this economic downturn, one of the more difficult tasks for parents is explaining their financial situation to children. Adults shouldn't assume children don't know or don't care about what is happening in the economy—years in a classroom have taught me kids are more aware than you'd think. Children hear the media blasts about job losses and bank failures. They hear teachers talk about economic issues as a part of current events. They may even hear friends repeat comments about financial problems made by other parents. So how should we approach the topic and how much information should we give kids?

These trying financial times can be a segue to help children become more financially literate. Because the media is focused on money issues, why not use the news as a

springboard to discuss money topics, such as financial decision-making, learning to budget and economizing to spend less money?

Begin the discussion by assuring children that even if the situation looks bleak for your family and finances may be tighter this year, things are going to be OK. Tell children some cut-backs in spending may be necessary, and give concrete examples: no new video games for a while; fewer trips to the mall; a summer vacation locally rather than Disney World. Ask them if they have any questions about these financial changes. Most responses likely will be about the impact on their own lives, such as, "Will I still have my birthday party?" Or, "What about summer camp?" Teens may ask more pointed questions, such as, "Do we still have money in the bank?" Or, "Will we have to move?" Answer these questions truthfully to quell anxiety.

Explain to kids that your family will be making financial decisions more carefully and invite them to help in the process. For example, you could use the decision-making grid shown on Page 26 to choose an affordable vacation spot this summer. List possible locations as alternatives and write them in the far left column of the grid. Decide on criteria, or ways to judge each alternative and list them across the top row of the grid. Useful criteria might include: Is this location agreeable to all family members? Is it within the budget? Once the grid is ready, go across the first alternative row, asking each criterion aloud for a family vote. If a majority agrees, put a "+" in the box; if not, put a "-" in the box. Count the number of pluses in each row. The winning vacation spot will have the highest score.

Now involve children in preparing for the chosen vacation. Introduce them to the word "budget" as a plan that shows how to earn, spend and save money. Use the budgeting chart shown on Page 26 to help them visualize



PHOTO BY GETTY IMAGES

the plan. From my classroom experience, I've learned money burns a hole in kids' pockets, so emphasize the importance of planning three to six months ahead to set aside an adequate amount for vacation. Ask them to write down their weekly earned income from any allowance, chores, gifts or jobs. Next have them list their weekly expenses, including food, entertainment or any other purchases. Ask them to subtract their total expenses from their total income to find their balance. This amount will be the beginning of their vacation fund. Point out the less they spend weekly, the more they will have in their fund. (This may be a time to suggest putting the balance in a savings account to add the concept of earning interest to the mix.) Keep a running total of budget savings and continue the process for as long as needed before vacation time.

Teens can help in the actual planning and budgeting process for the trip. Ask them to use approved Internet sources to find the cost of lodging, meals, entertainment and transportation for the family destination. Have them record the amounts needed for a grand total of vacation costs. Then ask them

to project how much the family should save weekly to afford the trip. Once weekly totals are set, try to put aside the required amount and check in with your teen about the family's progress toward their savings goal.

Don't forget to encourage good financial decision-making once the vacation has started. (This might serve as a reminder for adults, too.) Ask children to keep a spending diary, where they record items bought and amount spent. This accounting of purchases should help them focus on their spending habits and become more aware of "where my money went." Discuss their diary with them and ask if they made any poor spending decisions, so they can learn from the experience.

If a family vacation isn't possible, try this approach on a smaller scale, such as a family night out, or even a trip to the grocery store. The important thing is to apply these budgeting principles to real-life situations to make the concepts meaningful for children. Be positive in your approach and kids will develop perspective and insight financially, which will benefit them now and in the future.



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.

"The Money Circle"

A personal finance curriculum that includes a "Money Logic" lesson, teaching financial decision-making and budgeting strategies for high school students.

"The Piggy Bank Primer: Saving and Budgeting"

A workbook that looks at making choices, tracking spending and developing a savings plan for ages 6 -10.

"So Few of Me" by Peter Reynolds

A children's literature lesson accompanies this book and emphasizes the importance of decision making for ages 7 - 9.

For teacher tips and materials,

including information on in-service training, and to order publications for all ages, visit KansasCityFed.org/TEN.

Family Budgeting Guide



Sample Decision-Making Grid:

Criteria

Alternatives	Is this location agreeable to all family members?	Will this vacation be a memorable trip?	Is this vacation within the family budget?	Total
Vacation #1				
Vacation #2				
Vacation #3				
Vacation #4				

Put a "+" in each box when the majority of family members agree on the criterion for each vacation. Put a "-" in the box if the majority of family members disagree on the criterion.

Total the number of pluses in each vacation row to find the family winner.

Sample Budgeting Chart:

Week	Earned Income	Income Amounts	Expense Items	Expense Amounts	Balance Saved
Week 1	Allowance Babysitting Total:	\$10.00 +12.00 \$22.00	Snacks Art supplies Total:	\$4.00 +5.00 \$9.00	\$22.00 -9.00 \$13.00
Week 2					
Week 3					
Monthly Totals	Earned Income Total:		Expense Item Total:		Monthly Balance Saved:

Ask an Economist...

What do changes in the retail payments system mean for the Federal Reserve and its longtime role?

As consumers increasingly shift from writing checks in favor of swiping debit cards, it is clear the U.S. retail payments system is transforming. New participants, tools and payments channels are rapidly emerging.

Stuart Weiner, an economist and vice president at the Federal Reserve Bank of Kansas City, who recently researched the Fed's role in the payments system, answers questions about this exciting evolution.

What part does the Fed play in the retail payments system?

Weiner: The Fed acts a regulator, an operator and a facilitator. As a regulator, it helps oversee various payments activities. As an operator, it supplies currency and coin; collects and processes checks; and more recently, facilitates electronic check processing called Check 21, which uses electronic imaging to clear checks rather than transporting paper from site to site. The Fed also is a prominent participant in ACH, which is an electronic alternative to checks for bank-to-bank payments. And, as a facilitator, the Fed takes part in discussions, sponsors forums and conducts research on payments system issues.

Why is the Fed involved in the payments system?

Weiner: In addition to its involvement in setting the nation's monetary policy and serving as a bank regulator, the Fed's third arm fosters a payments system that is safe and efficient. This has been part of the Fed's mission since its inception in 1913. The role has evolved through the years, and changes in the current environment suggest the time might be right for another look at what the Fed does in the payments system and how it goes about doing it.

What is the current landscape for the payments system?

Weiner: We're seeing unprecedented changes. Payments methods are shifting dramatically from paper to electronic; payments processing is undergoing technological advancements; and nonbanks are becoming more prominent.

What's prompting these changes?

Weiner: Primarily the large shift toward electronic payments. According to the most recent Federal Reserve study, electronic payments (debit and credit cards and ACH) make up two-thirds of all noncash payments. This is a huge jump from 14 percent in the early '80s.

Have other central banks faced similar issues?

Weiner: Yes. Central banks around the world—the European Central Bank, the Bank of England and the Reserve Bank of Australia, for example—have reviewed their policies with respect to retail payments. Their reviews are beneficial to ours.

Will the Fed continue its role in the payments system in the future?

Weiner: The Federal Reserve will likely continue to play an important role in retail payments, but given the evolution of payments, that role may change. The payments industry is evolving rapidly, and the Fed will need to track and assess the changes on an ongoing basis.

BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

"THE FEDERAL RESERVE'S ROLE IN RETAIL PAYMENTS: ADAPTING TO A NEW ENVIRONMENT"

By Stuart E. Weiner
KansasCityFed.org/TEN

'Money Smart' events, essay contest promote financial literacy

The Federal Reserve Bank of Kansas City and partnering organizations hosted the annual Money Smart Week of Greater Kansas City in April, providing more than 2,500 people with financial knowledge through 163 free events.

Money Smart Week of Greater Kansas City is an annual program that brings together area organizations to offer resources to consumers of all ages and backgrounds. It is also an opportunity for financial education providers to showcase their work or services.

"The idea behind Money Smart is to build financial knowledge so consumers can manage their money more effectively and confidently," says Gigi Wolf, economic and financial education specialist at the Kansas City Fed. "It also raises awareness among area employers, government entities, social service organizations and others."



PHOTO BY GARY BARBER

WINNERS OF THE STUDENT ESSAY CONTEST, which was a part of Money Smart Week activities, each received a \$1,000 scholarship.

Partnering organizations included the FDIC, the United Way of Greater Kansas City, Consumer Credit Counseling Service, Central Bank of Kansas City and the Mexican Consulate.

Speakers included Kansas City Fed President Tom Hoenig and Congressmen Emanuel Cleaver II, of Missouri, and Dennis Moore, of Kansas.

One event, Money Smart Day at the Fed, saw about 160 attendees. Another event was the 2009 Money Smart Kid scholarship essay contest, sponsored by CommunityAmerica Credit Union. Nearly 60 students in the 6th-8th grades wrote essays on current economic challenges the country faces and how families can meet these challenges. Three students were named winners and each was awarded a \$1,000 scholarship.

The Branch offices in Denver, Omaha and Oklahoma City also host similar financial education events during the year.



PHOTO BY GARY BARBER

KANSAS CITY FED PRESIDENT TOM HOENIG, center foreground, talks with Bill Dana, president and CEO of Central Bank of Kansas City, and Dennis Moore, Kansas Congressman. Missouri Congressman Emanuel Cleaver II, background, visits with Tammy Edwards, the Kansas City Fed's Community Affairs officer.

2009 Regulatory Update Seminars

In March and April, the Supervision and Risk Management Division of the Federal Reserve Bank of Kansas City hosted its annual Regulatory Update Seminars.

More than 400 attendees participated, including presidents, chief executive officers,

Kansas City Fed wins Business Council award

The Federal Reserve Bank of Kansas City was honored by the MidAmerica Minority Business Development Council for its partnership with a local minority-owned business in 2008.

Fed staff was presented an award at a ceremony in May in recognition of its contract commitment valued at more than \$75,000 with Plaza Ford Ideal Cleaners.

The MidAmerica Minority Business Development Council is a nonprofit organization. One of its goals is to increase business development opportunities between majority and minority businesses in hopes of strengthening and diversifying communities.



KANSAS CITY FED PRESIDENT TOM HOENIG and other Fed staff spoke at this year's Regulatory Update Seminars around the region. The seminars promote two-way communication between the Federal Reserve and financial institutions.

directors, and senior staff of state member banks and bank holding companies.

The goal of these seminars is to share current regulatory and supervisory issues, and for the Federal Reserve to hear from bankers about the challenges they are facing. Topics covered the economy and current banking conditions, executive highlights of important regulatory topics, credit conditions, and consumer compliance.

Presenters included Kansas City Fed staff, such as President Tom Hoenig, Executive Vice President Esther George and economists, including Branch Executives Jason Henderson, of Omaha; Chad Wilkerson, of Oklahoma City; and Mark Snead, of Denver.

This year's seminars were held throughout the Tenth Federal Reserve District in Kearney and Omaha, Neb.; Kansas City, Mo.; Albuquerque, N.M.; Tulsa and Oklahoma City, Okla.; Wichita, Kan.; Montrose and Denver, Colo.; and Casper, Wyo.





PHOTO BY GARY BARBER

FORMER KANSAS CITY FED BOARD MEMBER COLLEEN HERNANDEZ speaks at an interagency conference at the Kansas City Fed that brought together regulatory agencies. About 140 attendees listened to speakers and discussed current challenges.

Interagency conference joins regulators

“Mission Possible” was the theme for a three-day conference in April at the Federal Reserve Bank of Kansas City that brought together regulatory agencies to talk about managing consumer concerns during challenging economic times.

“The goal of the conference was to enhance attendees’ understanding of each agency as well as help them learn more about handling timely consumer inquiries and complaints,” says Mike Steckline, an assistant vice president in the Kansas City Fed’s Consumer Affairs Department, who helped coordinate the conference.

There were about 140 attendees. Regulatory agencies represented were: Office of the Comptroller of the Currency, FDIC, Office of Thrift Supervision, National Credit Union

Administration, Federal Trade Commission, Conference of State Bank Supervisors and 16 state banking agencies. Each agency provided an overview of issues their agency is facing.

Speakers included Kansas City Fed President Tom Hoenig, Executive Vice President Esther George and Vice President Linda Schroeder as well as Colleen Hernandez, a former Kansas City Board member who is now the president and executive director of the Homeownership Preservation Foundation.

Topics ranged from what consumers should know about deposit insurance and bank failures to Fair Lending Act enforcement issues to reverse mortgages.

This is the third time the agencies have gathered for a joint conference.

Educators' workshops, resources available

The Federal Reserve Bank of Kansas City and its Branches in Denver, Oklahoma City and Omaha offer economic workshops for elementary and secondary educators as well as those at area universities.

"The purpose of these workshops is to provide educators with a better understanding of economics and the Federal Reserve System, as well as to contribute to the economic and personal finance lessons they teach in the classroom," says Trudie Hall, special programs coordinator at the Kansas City Fed.

The sessions often include one or more speakers on the Fed or economic and personal finance topics; an overview of the Federal Reserve's resources that are available to educators; and a tour of the Fed, where available.

To schedule a workshop at the office nearest you, visit the Education Resources section of KansasCityFed.org.



PHOTO BY GARY BARBER

PART OF THE KANSAS CITY FED'S ECONOMIC EDUCATION PROGRAMS includes free classroom materials and resources for educators of all grade levels.



Free publications for all audiences

The Federal Reserve offers hundreds of titles free on a variety of economic-related topics, including financial markets, financial education, money, banking, payments system and the Federal Reserve System.

Publications include comic books, such as "Once Upon A Dime" and "The Story of Inflation," that explain financial and economic subjects in an easy-to-understand manner for students. Many, such as "Know Before You Go ... Get a Mortgage" and "How to Establish, Use and Protect Your Credit," are beneficial for consumers and encourage them to make informed financial decisions. Other publications explain the ins and outs of the financial system, such as the development of credit markets, and the Fed's role in the economy, including the Fed's history and its functions and operations.

To view, order, or subscribe to Federal Reserve publications, visit KansasCityFed.org/TEN.

Rasdall retires

Richard K. Rasdall, Jr., first vice president and chief operating officer of the Federal Reserve Bank of Kansas City, is retiring on July 31 after 37 years.

Rasdall joined the Bank in 1972 as an analyst in the Personnel Department. He held several supervisory and managerial positions within the Administrative Services and Operations Divisions. He became an officer in 1978 and was appointed to his current position in 1994.

“Throughout his career, Rich has been well respected within the Federal Reserve System and well known by the bankers of the Tenth Federal Reserve District,” said Kansas City Fed President Tom Hoenig. “His extensive service and experience have made him an especially valuable part of the leadership team.”

Within the Federal Reserve System, Rasdall served on a number of subcommittees and provided leadership to several projects related to the delivery of financial services, fiscal agency operations, information technology initiatives, and numerous ad hoc task forces and work groups. During 2000-01, Rasdall chaired the System’s Conference of First Vice Presidents and served as a member of the Financial Services Policy Committee.

He has been a member of the Management Advisory Board of the College of Business and Public Administration, Department of Management at the University of Missouri-Columbia, and the Business Advisory Council

at Kansas State University. He serves as president of the Board of Directors of the Endowment Association at Kansas City Kansas Community College and has served as vice president of the Board of Directors of INROADS/Kansas City.

A native of Kansas City, Kan., Rasdall is a graduate of Kansas State University and the Graduate School of Banking at the University of Wisconsin-Madison.



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

Uinta Bank	Mountain View	Wyo.	89
Wahoo State Bank	Wahoo	Neb.	77
Gunnison B&TC	Gunnison,	Colo.	69
Farmers State Bank	Stansberry	Mo.	68
Union State Bank	Clay Center	Kan.	67
Bank of Holyrood	Holyrood	Kan.	66
Farmers Bank of Lincoln	Lincoln	Mo.	64
Security State Bank	Basin	Wyo.	61
Premier Bank	Lenexa	Kan.	30
Bank of Cushing & TC	Cushing	Okla.	29
MontroseBank	Montrose	Colo.	25
Bank of Bennington	Bennington	Neb.	10
Farmers State Bank	Quinton	Okla.	10
Payne County Bank	Perkins	Okla.	10
Union Bank	Chandler	Okla.	10
All Nations Bank	Calumet	Okla.	5
Bank 7	Oklahoma City	Okla.	5
American State B&T C	Great Bend	Kan.	1



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The Federal Reserve System

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

With the Federal Reserve Act, Congress sought to create a central bank the public would be more likely to support by making it "decentralized" with more local control. 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 western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico. As a part of the Federal Reserve System, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing check processing and other services to depository institutions.



SENIOR VICE PRESIDENT &
PUBLIC INFORMATION OFFICER:
Diane Raley

ASSISTANT VICE PRESIDENT &
PRODUCTION ADVISOR: Lowell Jones

EDITOR: Timothy Todd

SENIOR WRITERS: Brye Butler Steeves,
Bill Medley

ART DIRECTOR: Angela Anderson Miles

MAGAZINE DESIGNER: Gary Barber

COPY EDITORS: Sara Brunsvold, Sarah Kemp

CONTRIBUTORS: Jim Harvey, Fumiko Hayashi,
Jason Henderson, Jordan Rappaport, Stu
Weiner, Chad Wilkerson

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

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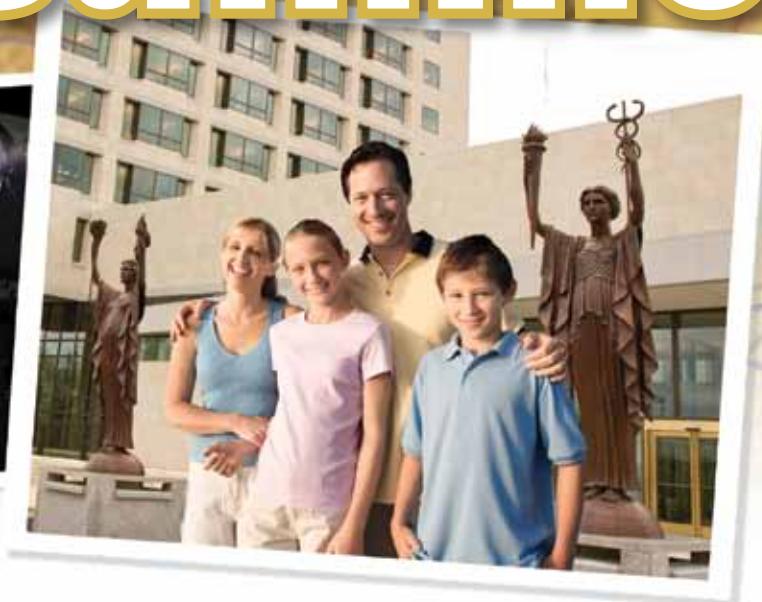


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