FEDERAL RESERVE BANK OF KANSAS CITY / FALL 2023

TEN

MEET JEFF SCHMID

Tenth President in Kansas City Fed History Has Roots as Nebraska Community Banker

JACKSON HOLE: GLOBAL SHIFTS | BANKS’ UNREALIZED LOSSES | CHANGES FOR TRADITIONAL OFFICE SPACES

FEDERAL RESERVE BANK OF KANSAS CITY / SUMMER 2023

TEN

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Learn more about the Federal Reserve Bank of Kansas City and the history, leadership and governance of the Federal Reserve System at *KansasCityFed.org/aboutus.*

FEATURES

ON THE COVER » Jeff Schmid, photographed at the Bank. *Photo by Gary Barber, Design by Alison Reichert*

ASSESSING IMPORTANT SHIFTS IN THE WORLDWIDE ECONOMY

JACKSON HOLE ECONOMIC POLICY SYMPOSIUM

AUGUST 24-26, 2023

At the 46th Jackson Hole Economic Policy Symposium, participants from 37 countries explored how inflation has reemerged as a top global economic concern.

The event, hosted annually by the Federal Reserve Bank of Kansas City, took place Aug. 24-26 near Jackson, Wyoming, with Fed officials, international central bankers, economists and academics in attendance. The symposium convenes presenters and discussants to examine significant issues, implications and policy options facing the United States and world economies.

The theme for this year's symposium, "Structural Shifts in the Global Economy," provided the backdrop for discussions about significant and potentially long-lasting disruptions that have affected the global economy in recent years.

The Kansas City Fed's Economic Research Department selected the topic, asserting that while the immediate disruption of the pandemic is fading, there likely will be long-lasting aftereffects for how economies are structured—domestically and globally—as trade networks shift and global financial flows react. Similarly, rising geopolitical tensions also are likely to promote shifts in the structure of the global economy, as existing supply chains, production networks, and financial flows come under pressure.

Federal Reserve Chairman Jerome Powell walked the grounds of the symposium site with Kazuo Ueda, governor of the Bank of Japan, and Christine Lagarde, president of the European Central Bank.

Papers prepared for the symposium showed how these developments are likely to affect the context for growth and monetary policy in the coming decade.

Attendees from the Federal Reserve included Chair Jerome Powell, Board of Governors members, current and former Reserve Bank presidents, and senior

Kansas City Fed President and CEO Jeff Schmid chatted with members of the news media covering the symposium.

research officers. International attendees included Kazuo Ueda, governor of the Bank of Japan, and Christine Lagarde, president of the European Central Bank, and numerous other foreign central bank leaders. Kansas City Fed attendees included President Jeff Schmid, who joined the Bank earlier in August, and Executive Vice President and Research Director Joe Gruber.

"Our team is honored to host the symposium," Schmid said. "And while I have much to learn on how to be a good Reserve Bank president, I know how significant this event has been to the central banking community. I will seek to preserve the best of the event by upholding the symposium's reputation for identifying timely topics that are addressed with intellectual rigor in papers that inspire candid debate."

Powell: 'We will keep at it'

Similar to the atmosphere around the 2022 symposium, keen interest centered on Powell's remarks about the Fed's strategy of raising interest rates to stem inflation. A key difference heading into this year's event was headline inflation data, fueled by declines in food and energy prices, signaling that the Fed was nearing its goal.

> "IT IS THE FED'S JOB TO BRING INFLATION DOWN TO OUR 2 PERCENT GOAL, AND WE WILL DO SO."
>
> — Jerome Powell, Federal Reserve Chair

"It is the Fed's job to bring inflation down to our 2 percent goal, and we will do so," Powell said in an Aug. 25 speech from the symposium. "We have tightened policy significantly over the past year. Although inflation has moved down from its peak—a welcome development—it remains too high. We are prepared to raise rates further, if appropriate, and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our objective…We will keep at it until the job is done."

The full text of Powell's speech is available at *FederalReserve.org*, and video of his Jackson Hole remarks can be viewed in the Kansas City Fed's YouTube channel.

"As is often the case, we are navigating by the stars under cloudy skies," Powell said. "In such circumstances, risk-management considerations are critical. At upcoming meetings, we will assess our progress based on the totality of the data and the evolving outlook and risks. Based on this assessment, we will proceed carefully as we decide whether to tighten further or, instead, to hold the policy rate constant and await further data. Restoring price stability is essential to achieving both sides of our dual mandate. We will need price stability to achieve a sustained period of strong labor market conditions that benefit all."

As part of a tradition established by former Kansas City Fed President Esther George, women attending the Jackson Hole symposium participated in networking activities.

Symposium participants included (from left) Anna Breman, first deputy governor of Sweden's central bank, and Federal Reserve Governor Lisa Cook.

About the symposium

The Economic Policy Symposium is one of the longest-standing central banking conferences in the world. Since 1978, the Kansas City Fed has sponsored the event, with each year's gathering focusing on an important economic issue facing the U.S. and world economies.

Beginning in 1982, the symposium has been hosted at the Jackson Lake Lodge at Grand Teton National Park in Wyoming—one of the seven states served by the Tenth Federal Reserve District. In 2022 the symposium returned to an entirely in-person format after two years of largely virtual events because of the pandemic.

FURTHER RESOURCES

See research papers, presentations and related material from the 2023 Economic Policy Symposium at *KansasCityFed.org/research.* Access the free book, "In Late August," a history of the symposium, at *KansasCityFed.org/about-us/historical-publications.*

Making a CONNECTION

In founding the Federal Reserve more than a century ago, Congress recognized the importance of connecting the nation's central bank to the Main Streets of America. The Federal Reserve Bank of Kansas City carries out this role through its programs and activities throughout the Tenth District and beyond. Here is a glimpse at the recent activities of Kansas City Fed leaders and staff.

KANSAS, MISSOURI and BEYOND »

Representing three eras of Kansas City Fed leadership
At the Jackson Hole Economic Policy Symposium in August, President and CEO Jeff Schmid was joined by Esther L. George, who led the Kansas City Fed from 2011 to 2023, and Thomas M. Hoenig, who served as Bank president from 1991 to 2011. Learn more about Kansas City Fed presidents through the years in From the Vault on page 33.

Kansas City Fed hosts annual State Bank Commissioners Roundtable
State bank commissioners and their deputies from across the Tenth District gathered in Kansas City in September to meet with Reserve Bank leaders and discuss District economic and banking conditions. Pictured with Bank President Jeff Schmid were New Mexico Financial Institutions Division Director Mark Sadowski and Rebecca Moore, the Division's deputy director.

Getting acquainted with Kansas City Fed employees

On Aug.16, shortly after he was selected to lead the Bank, Jeff Schmid interacted with employees at a town hall event hosted at the Kansas City Fed's head office and broadcast across the Tenth District.

Networking luncheon connects Bank directors, senior leaders, employees

In July, Jandel Allen-Davis, a member of the Bank's Kansas City Board of Directors, was among the Tenth District directors joining Bank employees and members of the Bank's Management Committee for a lunchtime networking event. Allen-Davis is president and CEO of Craig Hospital in Englewood, Colorado.

Meeting with community leaders in Wyoming

On Aug. 23, a day before the Jackson Hole Economic Policy Sympoisum began, Kansas City Fed President and CEO Jeff Schmid (second from left) met with Wyoming community leaders during a luncheon. Pictured with Schmid: (from left) Jerry Blann, Peter French, Scott Meier and Bill Newton.

Helping states map paths toward digital inclusion
Kansas City Fed Assistant Vice President and Community Affairs Officer Jeremy Hegle (left) and Otho Kerr, the New York Fed's director of Strategic Partnerships and Community Impact Investing, attended the State Digital Equity Plan Leaders' Workshop held in June at the Bank.

Showcasing Federal Reserve resources for educators
In July, Gigi Wolf, the Bank's lead Economic Education specialist, presented and exhibited at the annual Missouri Association of Career and Technical Education conference in Springfield, Missouri.

The next generation of Missouri banking leaders
On July 21, the Bank hosted members of the Missouri Bankers Association's NextGen program. The group learned about current banking conditions, explored the history of the Fed and toured the Money Museum.

COLORADO,
NEW MEXICO,
WYOMING »

Tenth District Honor Guard at the Rockies game
On June 8, dressed in their formal uniforms, the Tenth District Honor Guard presenting the colors the at the Colorado Rockies game in Denver. Pictured: Law Enforcement Officers Brian Hill (Denver), Robert Fairchild (Omaha), Doug Jordan (Kansas City) and Joye Devlin (Denver).

Speaking to real estate professionals
In August, Denver Branch Executive, Vice President and Economist Nick Sly (center) shared trends and data on the national and regional economies at an event hosted by the Denver Chapter of the National Association of Hispanic Real Estate Professionals. Pictured with Sly (from left): Mike Ferrufino, president and CEO of the Hispanic Chamber of Commerce, and Natalia Rois, Community and Diversity Production Partner for Universal Lending Corporation.

Oklahoma City employees volunteer with the Urban League of Greater Oklahoma City

Oklahoma City Branch employees volunteered at the Urban League of Greater Oklahoma City's third annual Expungement Expo. The Expungement Expo's goal is to educate clients on how to seal past criminal records, removing a significant barrier to employment.

Fireside Chat with Devon Energy COO

Executive Vice President and Research Director Joe Gruber (left) and Senior Vice President and Oklahoma City Branch Executive Chad Wilkerson participated in an economics fireside chat with Devon Energy Chief Operating Officer Clay Gaspar (center).

Federal Reserve educational resources featured at Back to School Bash

Jody Webb, public affairs intern; Angel Allen, public affairs specialist; and Sarah Dickson, public affairs director, with the Oklahoma City Branch, attended the annual Back to School Bash for educators at the National Cowboy & Western Heritage Museum. Educators from across Oklahoma attended the event to connect with educational resources like those provided by the Federal Reserve.

OKC Branch hosts Weatherford Economic Forum

The Oklahoma City Branch hosted the Weatherford Economic Forum on Aug. 17 at the Stafford Air & Space Museum in Weatherford, Okla. Max Ary, museum director of the Stafford Air & Space Museum, provided a tour to Chad Wilkerson, senior vice president and Oklahoma City Branch executive; Richard Ratcliffe, former Kansas City and Oklahoma City Branch Board director; and Clint Abernathy, former Oklahoma City Branch Board director. Wilkerson also provided an Economic Outlook to more than 65 community members.

Updating legislators on the state of the agricultural economy

As the Kansas City Fed's principal expert on the agricultural economy, Senior Vice President and Omaha Branch Executive Nate Kauffman provided an update on financial conditions in the ag sector for members of Nebraska's congressional delegation in June. The panel discussion on the state of the farm economy was hosted at Farm Credit Services of America in Omaha.

Hispanic Chamber networking breakfast

At the Nebraska Hispanic Chamber of Commerce's July networking breakfast, Nate Kauffman shared an overview of the Federal Reserve and described the role of the Omaha Branch as a local connection to the nation's central bank.

Summer Ag Forum in Hastings, Nebraska

Nate Kauffman spoke in June at the Hastings Area Chamber of Commerce's Summer Ag Forum.

Exploring economic conditions in the healthcare sector

In August, Nate Kauffman met with several Omaha area healthcare leaders for a roundtable discussion at the University of Nebraska Medical Center.

Notes from around the Tenth District

Kansas City Fed, partners release broadband 'data walk' report

As part of its ongoing digital equity initiative, the Kansas City Fed has released the results of candid conversations inside a Kansas City neighborhood where residents were largely unsubscribed to broadband services. The report, "Crossing the divide: What we learned from a disconnected neighborhood," is available at *KansasCityFed.org/community.*

In many neighborhoods, people who could subscribe to broadband don't. In addition to exploring the underlying reasons, the report aims to help inform policymakers and support states' broadband and digital equity offices as they craft plans to reach disconnected communities.

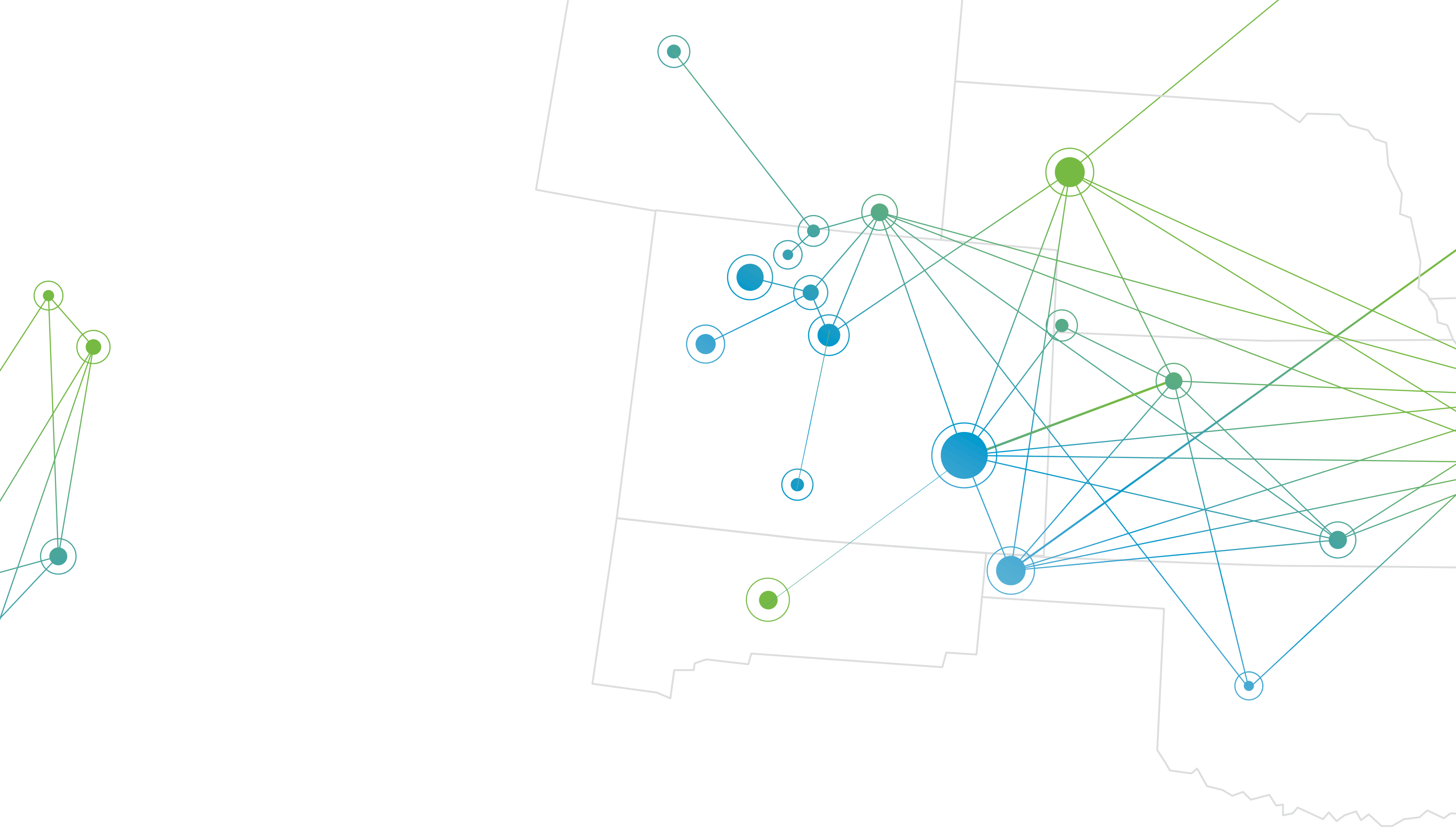
"Community research is often conducted 'at' community members," said Assistant Vice President and Community Affairs Officer Jeremy Hegle, whose work has focused on digital equity. "We didn't want that to happen with this project, so we formed a partnership with the community. Together, we agreed on the right questions to ask, on how to ensure participants truly felt welcomed and empowered, and ways to leave residents more informed and better off as a result of participating in the research."

The project team included leaders of the Wendell Phillips Downtown East Neighborhood Association, aSTEAM Village and the Kansas City Public Library. The team conducted a process called a data walk, in which the team shared data with neighborhood residents and documented their feedback. The data walk was a pilot project, one of four that the Federal Reserve System initiated in 2022 to increase the use of community-engaged research methods, conducted with communities as partners. The Urban Institute provided technical support.

This research project identified three main themes:

- Historically redlined and disinvested neighborhood comes with ongoing challenges.
- Few residents trust internet service providers to serve residents' best interests.
- Residents want to better understand technology.

It is a pivotal time for digital equity in the United States. Over the next several years, states and territories will receive tens of billions of dollars to expand broadband access. This infusion provides an opportunity to connect millions of household to high-speed, affordable broadband.



Kansas City Fed's longest-tenured employee retires after 53 years at the Bank

In September, leaders and staff at the Kansas City Fed said congratulations and farewell to Trudie Hall, who retired after 53 years of service to the Bank.

Hall, a Community and Public Affairs specialist, began her career as a clerk typist in the Accounting Department after returning from college and responding to a newspaper ad. She retired as the longest tenured employee in the Reserve Bank's history. In 2020, when she reached the 50-year service milestone, Hall received a certificate of recognition from Federal Reserve Chairman Jerome Powell.

For many years, Hall led leadership development programs, including the Kansas City Student Board of Directors and Summer at the Fed, which focused on high school and college students, respectively. She was a founding member of the Bank's Fed Masters public speaking club and served as a mentor for colleagues seeking to improve their presentation skills. She also represented the Money Museum and served in numerous other roles over the years.

Hall's accomplishments were recognized at a retirement reception at the bank in early September, attended by many former students, colleagues and bank leaders. Among those present was former bank president Esther George, who retired earlier in 2023. Hall's service spanned all or parts of the tenures of five Kansas City Fed presidents, starting with George Clay in 1970 and ending with Jeff Schmid, who began in August 2023.

Former Kansas City Fed President Esther George (left) joined Trudie Hall at Hall's retirement ceremony in September.

Branch directors, Bank leaders visit northeast Oklahoma City

The Oklahoma City Branch Board of Directors in September gathered for an offsite board meeting to tour reinvestment and development activities in northeast Oklahoma City.

Chad Wilkerson, senior vice president and Oklahoma City Branch executive, said each year one branch board meeting is held in an offsite location in Oklahoma, typically hosted by one of the directors, to better understand the work they do and the economy of the community in which they work. Members of the Bank's senior management also participated in the tour.

"We learned a lot by spending half a day in northeast Oklahoma City, a primarily low-income part of the city," Wilkerson said. "It was encouraging to see the work being done by a variety of businesses and entrepreneurs to bring more economic vitality to the area, and the way in which the community is working together to bring it about."

Katrina Washington, Oklahoma City Branch board chair, served as the hosting director for the offsite meeting. To kick off the event, Washington shared a presentation detailing the history of northeast Oklahoma City as well as the area's transformation over the last 25 years. Washington has been actively involved in redevelopment efforts through her work in the real estate sector and as executive director of Neighborhood Housing Services Oklahoma.

Board directors then toured commercial and residential developments, including The Douglass at Page Woodson, a renovated former high school that offers residential and commercial space, and EastPoint, a mixed-use development featuring a grocery store, retail and offices.

During a tour of northeast Oklahoma City, Branch directors, Kansas City Fed leaders and staff gathered for a photo at a mural in the EastPoint mixed-use development.

Omaha Branch directors get firsthand look at changing office environments

During a tour of the Waterford Building in Elkhorn, Nerbaska, the Omaha Branch Board of Directors saw examples of how hybrid-work preferences since the pandemic have led to changes in the traditional office setting.

"Since the pandemic, we've seen more amenities," said Mike Homa, president of R & R Realty Group Nebraska and a presenter during the Board's tour in July. "It's about bringing those amenities back to the office."

"With unemployment in Omaha still very low, businesses have made some adjustments to their working environment in attempts to attract prospective employees to their organizations," said Nate Kauffman, senior vice president and Omaha Branch executive.

"This includes a variety of amenities and office upgrades that may have been less common ten years ago."

Omaha Branch Director Dwayne Sieck spoke to attendees during the Board's visit to the Waterford Building in Elkhorn, Nebraska.

Homa kicked off a presentation for the Omaha Branch directors and Kansas City Fed leadership at the Waterford Building, which comprises nearly 200,000 square feet in the Fountain Ridge Office Park. Features include waterfalls, rooftop and patio spaces for entertaining, a workout room and a commons area.

"Today's workforce wants more, more benefits, more amenities, a better work/life balance," said Corey Watton, chief financial officer of Fusion Medical Staff, a company that decided to relocate to the Waterford Building to meet its changing needs. The majority of Fusion's staff has a hybrid-work schedule.

Board members toured the building and got an up-close look at Fusion's workspace as it was being constructed. Features include moveable desks and workspaces, natural light, updated conference rooms and "fun" themes in each area.

The tour also included the offices of TEKsystems, a technology and business solutions company based in Maryland. TEKsystems moved into the Waterford Building a year ago, and executives said that space fits hybrid-work schedules of its employees.

Kauffman said while the Kansas City Fed relies heavily on data to understand the region, the Bank also learns a lot by observing the region first-hand, seeing the outcome of certain investments, asking questions about how decisions are made, and filling in gaps of an economic narrative that data might not fully address.

FURTHER RESOURCES

See page 28 for a summary of a *Nebraska Economist* study examining changes in the traditional office environment.

Bank Anniversaries

The following banks in the Tenth Federal Reserve District are celebrating one, five, 10, 20 or more years as Federal Reserve members in October, November and December.

Bank of Versailles	Versailles	Mo.	104
Grant City Bank	Medford	Okla.	83
Stock Exchange Bank	Caldwell	Kan.	83
Fidelity State Bank & Trust Company	Dodge City	Kan.	80
Farmers State Bank	Pine Bluffs	Wyo.	57
Bankers Bank of the West	Denver	Colo.	43
Citizens State Bank & Trust Company	Ellsworth	Kan.	43
Citizens State Bank & Trust Company of Ardmore	Ardmore	Okla.	32
Ameristate Bank	Atoka	Okla.	27
Bank of Western Oklahoma	Elk City	Okla.	25
Farmers State Bank	Phillipsburg	Kan.	25
Bank of Elgin	Elgin	Neb.	24
Local Bank	Hulbert	Okla.	24
First American State Bank	Greenwood Village	Okla.	24
Farmers Bank	Ault	Colo.	22
Enterprise Bank	Omaha	Neb.	10
First Bank of Nebraska	Wahoo	Neb.	10
Jones Bank	Seward	Neb.	5

Supporting women's careers in banking

In August, the Kansas City Fed hosted the annual Women in Banking Forum, bringing together more than 140 registrants from 10 states for discussions and information supporting the advancement of women in the financial sector.

The 2023 event was hosted by the Bank's Denver Branch staff, in partnership with the Colorado Bankers Association, Independent Community Bankers of Colorado, Wyoming Bankers Association and the Independent Community Banker Association of New Mexico. The majority of attendees were mid- to senior-level women leaders in the financial services industry and included banking, economic, leadership and professional development content designed to help enhance careers and networks.

Programming included sessions led by Kansas City Fed officials, including Vice President Amber Conley, Senior Policy Advisor Alison Felix and Teesha Miller, vice president and director of the Office of Minority and Women Inclusion.

FURTHER RESOURCES
Learn more about the annual event at *KansasCityFed.org/events/women-in-banking-forum.*

Beige Book shows stable economic activity

After falling from high rates of growth during the first half of the year, manufacturing production and sales at service businesses stabilized in recent months, according to the Federal Reserve's Beige Book report on Tenth District economic conditions.

The Beige Book reports—made available to the public eight times a year—offer summaries on the economy in each of the Federal Reserve's 12 regional bank districts. See the most recent Tenth District economic summaries and sign up to receive alerts at *KansasCityFed.org/surveys/beige-book*.

Contacts indicated that the recent pickup in growth was not because of increases in demand, but more so because of greater ability to meet existing orders as delays along supply chains were resolved. Accordingly, job growth was flat across the District. Despite several months of subdued employment growth, wages continued to grow at a robust pace through August, exceeding historical norms and most businesses' expectations. Consumer spending continued to expand at a moderate pace.

Several contacts suggested that consumers have exhausted their savings and are relying more on borrowing to support spending. Bankers noted pockets of deterioration in some borrowers. Prices increased at a moderate pace.

kcFED SOCIAL SEEN

Social media highlights of our engagement across the region

1 **EMMA LAMMEY** (Student at University of South Dakota Beacom School of Business) Had a great weekend in Kansas City! Couldn't pass up the chance to swing by the Federal Reserve Bank of Kansas City. The banking industry holds a special place in my heart as the industry where I started my professional career and have worked throughout college. #FederalReserve #Banking #YoungProfessionals

2 **@KANSASCITYFED** #DidYouKnow? The bronze statues in front of our building represent the Spirits of Commerce & Industry. They are near three fountains representing our mission areas: monetary policy, supervision and regulation, and financial services. Learn more about us and our work: *https://bit.ly/3GB6bXo*

3 **KANSASCITYFED** It's #NationalInternDay! To celebrate, we're spotlighting our amazing interns who have joined us for the summer…They have helped us in our mission to foster a healthy economy. #FederalReserve #Internship #Leadership

4 **ACTIVATEWORK** Helen Young Hayes was honored to participate on the Women in Banking Forum panel with Teesha Miller, Loren Furman and Susana Salamun. Hosted by the Federal Reserve Bank of Kansas City, they had an insightful discussion of the challenges, successes and lessons learned from their careers. #Finance #Leadership #WomeninBusiness

5 **@NEBRASKADEPTBF** (Nebraska Department of Banking & Finance) Looking for engaging summer activities for your children? Introduce them to the world of financial literacy! The Federal Reserve Bank of Kansas City offers classroom resources. *KansascityFed.org/education*

GET SOCIAL» *Find us on Instagram, LinkedIn, Twitter (X) and YouTube to follow Kansas City Fed activities, share your photos and post feedback.*

Ask an ECONOMIST

Blake Marsh and Brendan Laliberte

Studying the implications of unrealized losses for banks

Since the Federal Open Market Committee (FOMC) began tightening monetary policy in March 2022, interest rates have risen across the yield curve, increasing borrowing costs for firms and households alike. Commercial banks too have been affected because rising interest rates erode the market value of their assets. Currently, declines in the value of banks' securities portfolios, known as "unrealized losses" because they do not affect reported income, exceed $550 billion, or about 30 percent of regulatory capital.

For an April 2023 *Economic Review* article, Senior Economist Blake Marsh and Research Associate Brendan Laliberte investigated how recent interest rate changes and banks' associated unrealized losses can affect banks' decision-making. The authors' article is available at *KansasCityFed.org/research*.

How have banks' liquidity and capital been affected?

During the pandemic, bank loan demand fell sharply due to declining economic activity and government support programs that sent cash to firms and households. Those high cash balances, combined with an expansion of the Federal Reserve's balance sheet to support market functioning and economic activity, increased bank deposit levels. Facing limited investment options, banks purchased longer maturity, government-backed debt which are free of default risk and pay higher returns than shorter-maturity debt instruments. However, bond prices tend to be more sensitive to interest rate changes as maturity lengthens. Therefore, the decision to purchase longer maturity securities exposed banks to greater interest rate risk.

Once rates began to rise, the market value of banks' securities portfolios declined and book equity fell, pushing many banks closer to technical insolvency. Lower securities prices also reduce the amount of cash banks expect to receive when they sell securities outright or offer them as collateral on the loan market. That puts banks at risk of a cash shortfall should they face a sudden liquidity need. In turn, banks could be forced to tap capital market financing such as issuing longer-term debt or equity. However, investors are likely to demand higher returns due to falling valuations in order to meet banks' liquidity needs. In short, as asset prices fall, bank risk increases, and a bank's funding costs are likely to rise.

(left) *Photo by Gary Barber* (above) *Photo by Getty Images*

How do accounting practices play an important role?

Accounting practices may have allowed banks to minimize interest rate risk concerns rather than taking remediating actions sooner. Under current accounting practices, banks typically classify securities as either "held-to-maturity," meaning they intend to hold the security, or "available-for-sale," meaning they may sell the security at any time. Unrealized losses on each portfolio are publicly reported by banks each quarter, but only valuation changes on available-for-sale securities affect equity levels. Furthermore, only the largest banks' regulatory capital ratios—a key measure of bank health—are affected by valuation changes at all. Large banks, however, were able to minimize the most concerning balance sheet effects of rising rates by classifying sizable portions of securities purchased during the pandemic as held-to-maturity.

These accounting practices allowed banks to largely ignore the extent of interest rate risk they had incurred. For example, banks did not have to worry about regulatory capital falling below required minimums because valuation losses mostly did not affect regulatory capital levels. Perhaps, more desirably, banks may have limited their interest rate risk exposure if they anticipated having to raise additional capital should interest rates rise.

What are the considerations going forward?

We've already seen a major change in the banking landscape due to valuation pressures. While the exact causes are still being debated, a likely trigger of the Silicon Valley Bank (SVB) run was their publicly announced intention to raise additional capital due to securities losses. The SVB event, in particular, seems to have awoken investors to the reality that banks are holding substantial unrealized losses. In response, both the U.S. Treasury and the Federal Reserve have taken steps to shore up confidence in the banking system.

Nonetheless, investors will likely consider banks riskier going forward because their asset values have declined. Consequently, debt and equity investors will likely demand larger risk premia, increasing bank funding costs. Banks, in turn, will likely pass those costs on to businesses and consumers through higher loan rates. Higher borrowing costs can curtail investment demand and spending resulting in reduced economic activity. However, a unique aspect of the situation is that should economic activity slow, interest rates may decline, boosting securities valuations. That scenario could provide a potential off-ramp for banks to reduce interest rate risk, so long as non-bank investor demand to hold government debt is high.

FURTHER RESOURCES
Download the full *Economic Review* article at *KansasCityFed.org/research* or scan the QR code.

RESEARCH SNAPSHOTS

Inflation outlook, workforce dynamics, housing affordability

Here are summaries of recent economic research published by the Federal Reserve Bank of Kansas City. Go to ***KansasCityFed.org/research*** to read the full publications and follow the latest analysis in ***Charting the Economy***, a stream of timely economic data curated by the Bank's research staff.

To reach inflation target, interest rates might have to remain restrictive

To combat high inflation, the Federal Reserve has raised the federal funds rate by 500 basis points over the last 14 months. Although demand has since slowed substantially in sectors sensitive to interest rates, inflation has declined more modestly. With mixed signals from labor markets and recent stress in the financial sector, economists have turned to assessing the "stance," or effective tightness, of monetary policy to determine whether these recent rate hikes are sufficient to return inflation to target. Accounting for the federal funds rate, inflation expectations and the natural rate of interest, the Kansas City Fed finds that monetary policy has only been restrictive since the first quarter of 2023. The conclusion: Although monetary policy has recently become restrictive, inflation tends to be sticky, and monetary policy might need to remain restrictive for some time to bring inflation back to the 2 percent target.

— Johannes Matschke and Sai A. Sattiraju, June 2023 Economic Bulletin

Photo by Getty Images

Do immigration restrictions affect job vacancies?

The U.S. workforce relies heavily on immigration. However, a series of policy changes and the COVID-19 pandemic led to a rare decline in immigrant arrivals from 2016 to 2021. This period of reduced immigration exacerbated already severe shortages in the U.S. labor market, leading employers and firms to look for new sources of labor. At the same time, online job postings became more prevalent as a method of searching for labor. These postings provide rich data that could help reveal how different dimensions of labor demand change in response to declining immigration. The Kansas City Fed examined how declining immigration flows influence online job vacancies in labor markets with different levels of reliance on immigrant labor. Reserve Bank economists found that the growth rate of online job postings increased modestly in labor markets that historically relied more heavily on immigrant labor.
— Elior Cohen and Samantha Shampine, August 2023
Economic Review

Newly unemployed workers are facing more difficulty finding jobs

The probability of re-employment for workers unemployed less than five weeks has declined over the past few months, an early signal of the tight labor market loosening. Abundant job openings and strong labor demand in early 2022 made re-employment much easier for job seekers. However, since late 2022, workers who lost their jobs are facing more difficulty finding new employment opportunities in the Tenth Federal Reserve District and across the United States.
— Nicholas Sly and Bethany Greene, July 2023
Charting the Economy

Photos (top left and above) by Getty Images

Affordability worsens, but Oklahomans still pay much less for housing

Demand for housing in Oklahoma and the nation surged following the COVID-19 pandemic. This further reduced historically low supply and pushed home values up significantly. More recently, prices have begun to normalize, but affordability has been squeezed by higher mortgage rates. Purchasing a new home in Oklahoma now costs considerably more than it did a few years ago. A Kansas City Fed examination of recent housing price trends finds that despite these sizable increases in costs—including in rural Oklahoma—housing in the state remains much more affordable than national, even when income differences are taken into account. As mortgage rates have risen over the last year and a half, demand declined and price growth has eased, which could provide some degree of relief for homebuyers, especially if the market continues to soften.
— Chad Wilkerson and Chase Farha, June 2023
Oklahoma Economist

Improvements in supply chains might lead to further declines in core goods inflation

Supply chain disruptions, as measured by the Global Supply Chain Pressure Index (GSCPI), increased dramatically during the pandemic, reaching unprecedented levels. These supply shortages led to significant pressure on prices for goods, with core goods prices rising more than 7.5 percent from February 2021 to February 2022. However, since the start of 2022, supply chains have been improving steadily, helping cool core goods inflation. Because core goods inflation has been following the GSCPI with a lag of several months, the most recent declines in the GSCPI suggest potential further declines in goods inflation in coming months.

— *Nida Çakır Melek and Emily Pollard, July 2023 Charting the Economy*

How mergers in the Farm Credit System have affected ag banks

Commercial banks and the Farm Credit System (FCS) have been the most important sources of agricultural loans in the United States in recent decades. Since the 1990s, however, mergers and acquisitions have increasingly concentrated both the FCS and commercial banks, raising concerns about potential effects on the agricultural credit market. Starting in the 2000s, the FCS gained a substantial market share of total agricultural debt, lending credibility to these concerns. The Kansas City Fed explored the effects of FCS mergers on agricultural banks (ag banks) and found that FCS mergers have had mostly muted long-term aggregate effects on ag banks' interest income, efficiency, and agricultural real estate loans as a share of their total loans.

— *Francisco Scott, July 2023 Economic Review*

Inflation hit higher peaks in the Rocky Mountain Region but is following the national descent

The Rocky Mountain region experienced higher inflation compared with households in most other parts of the country. Unfortunately, this regional gap in price growth was at its largest when the inflation rate was at its highest last year. Since then, regional inflation has followed the decline of overall price growth, but household essentials like shelter, food and energy have kept regional price growth elevated. As tightening monetary policy continues to take hold, the pace of inflation within the Rocky Mountain West is poised to follow the slowing rate of national price growth.

— *Maggie Clark, Bethany Greene, David Rodziewicz and Nicholas Sly, June 2023 Rocky Mountain Economist*

Which types of unbanked households are more (or less) likely to open a bank account?

Using multi-year survey data, the Kansas City Fed conducted a regression model analysis to examine which types of unbanked households are more likely to open a bank account and which types are less likely. Unbanked households who previously had a bank account and are interested in having a bank account are more likely to open an account. These households tend to be more educated, to be native-born, to use alternative financial services, and to have access to digital technology. In contrast, households who never had a bank account and are uninterested in a bank account are less likely to open an account.

—*Fumiko Hayashi, Aditi Routh and Ying Lei Toh, June 2023 Research Working Paper*

Photos (left and above) by Getty Images

Drought and cattle: Implications for ranchers

Drought has occurred with greater intensity and frequency in many areas of the United States in recent years. Despite the growing concern surrounding the impacts of drought on the agricultural sector, few studies have quantified the impact of drought on the cattle industry. A Kansas City Fed study estimates the impacts of drought on cattle herd management, hay production, hay prices, and farm income in the United States from 2000 to 2022. The results indicate that drought negatively impacts hay production and results in higher hay prices. Drought also contributes to herd liquidation and is correlated with lower farm incomes. As herd size declines, revenue temporarily increases, which could be the result of selling larger quantities of market and breeding stock. Overall, drought has a temporary positive effect on rancher revenue but a negative effect on earnings.

—David Rodziewicz, Jacob Dice and Cortney Cowley, June 2023 Research Working Paper

Understanding state and local government spending over the business cycle

State and local (S&L) government spending is essential for providing public services and infrastructure and accounts for more than 10 percent of GDP. How this sector responds during a recession can play an important role in shaping the overall economic recovery. The Kansas City Fed documented how S&L government expenditures have evolved over the business cycle since the 1950s. The Bank's study found that from 1950 to the mid-1980s, S&L spending followed no uniform pattern after recessions: Spending was sometimes procyclical (declining during recessions) and sometimes countercyclical (rising during recessions). However, since the mid-1980s, S&L spending has followed a consistently procyclical pattern, beginning to recover three years, on average, after the start of a recession. This shift seems consistent with changes in the cyclicality of income tax revenue.

— Huixin Bi, Chaitri Gulati and Nora Traum, June 2023 Economic Review

A COMMUNITY BUILDER AT HEART

Leadership path as banking regulator, owner, university executive grew from roots in Nebraska

by TIMOTHY TODD

When the caller asked Jeff Schmid about the open president's position at the Kansas City Fed, Schmid thought they wanted him to suggest candidates.

Did they want to talk about someone he'd known or possibly worked with during his nearly 30 years of banking in Nebraska? Maybe they had some questions about a recent graduate of the Southwest Graduate School of Banking (SWGSB) at Southern Methodist University's Cox School of Business that he was leading?

No, they told Schmid. "We want to talk about you."

The inquiry was unexpected for a couple of reasons:

The Kansas City Fed has had nine presidents in its history. Of those, only two started the job without a previous connection to the Bank: Charles Sawyer, who only briefly held the job when the Bank opened for business in 1914; and George Hamilton, a Wichita banker who was appointed president in 1932.

And Esther George, whom he has known, retired from the president's position in January under mandatory retirement rules, is the same age as Schmid. Based on her retirement, Schmid thought the same requirement would apply to him.

On the second point, Schmid learned that the Fed's mandatory retirement rules allow presidents appointed after age 55 to serve up to 10 years as president.

And on the first point, the Kansas City Fed's Board of Directors was focused on finding someone who was a match for the Tenth District—a seven-state region that is home to nearly one-quarter of all community banks in the United States and a Federal Reserve District with more state-member and nationally-chartered banks than any of the Fed's 11 other Districts.

"Jeff has extensive experience in the banking industry, and he's not a stranger to the Tenth District," said Patrick Dujakovich, chairman of the Kansas City Fed's Board of Directors and president of the Greater Kansas City AFL-CIO. "We really wanted to find the perfect candidate—somebody to represent our District."

In August, Dujakovich introduced Schmid as the tenth president of the Federal Reserve Bank of Kansas City.

Unlike most of Schmid's counterparts around the policy-setting Federal Open Market Committee meeting table, he is not an economist, but a lifetime of banking has made him well-positioned to bring an important practical banking perspective to the deliberations.

"As far as my own experiences, you cannot run a bank without knowing how the economy works," Schmid said. "If you fail to do that, your bank will either be low performing or it will fail. You have to understand cycles. You have to understand the monetary policy process… There's a lot of really smart people around monetary policy that do that as a science. I am not a scientist. We certainly have a staff of strong economists at the Kansas City Fed, and our District is going to be a beneficiary of their work.

"But there are other parts of the Fed's areas of responsibility that are also really important, including the payments system and the safety and soundness of banks. Those are all things that I've lived."

The Nebraska native

Schmid grew up in Papillion, Nebraska, when the Omaha suburb was one of those ideal small towns just close enough to the city for convenience but far enough away that it did not intrude on the rural charm.

While Schmid would end up being a second generation Nebraska banker, the first generation—his father, Albert—originally had other visions for the family.

> "WE CERTAINLY HAVE A STAFF OF STRONG ECONOMISTS AT THE KANSAS CITY FED, AND OUR DISTRICT IS GOING TO BE A BENEFICIARY OF THEIR WORK…BUT THERE ARE OTHER PARTS OF THE FED'S AREAS OF RESPONSIBILITY THAT ARE ALSO REALLY IMPORTANT, INCLUDING THE PAYMENTS SYSTEM AND THE SAFETY AND SOUNDNESS OF BANKS. THOSE ARE ALL THINGS THAT I'VE LIVED."
>
> – Jeff Schmid, Kansas City Fed president and CEO

"My dad so desperately wanted to be a farmer," Jeff Schmid said. "He just had this farmer blood in him."

But after Albert finished a stint in the Air Force, he returned to find the farm economy in a drought-induced tailspin. Rather than heading to the field, Albert went to work at a bank mailroom, taking what turned out to be the first steps in a career ladder that would eventually see him rise to become a bank president.

"He basically educated himself about banking," Jeff Schmid said.

Jeff, meanwhile, graduated from the University of Nebraska and soon was offered two positions: One as a commodities trader in Chicago and another with the Federal Deposit Insurance Corporation. It was a fairly easy choice.

In Chicago "it was chaos and high stress. I was talking to guys in their 20s who had ulcers," he said. "And meanwhile I was intrigued by the banking business." So he turned down the Chicago offer and accepted the FDIC position.

This was between the November 1980 presidential

During tours of Bank offices with Facilities Management Assistant Vice President Matt Ruemker (right center), Jeff Schmid stopped in the Economic Research Division to talk with Assistant Vice President Bob Hampton (left) and Vice President Jennifer O'Bryan.

election and newly-elected President Ronald Reagan taking office in January 1981. Reagan's first act as president was to implement his promised freeze on all government hiring. However, he made the freeze retroactive to election day. At the time, the government estimated the freeze affected 6,000 would-be government workers while labor unions argued that the number was far higher. Regardless, Schmid was one of those individuals who saw his job offer rescinded.

"I went from two jobs to zero jobs," Schmid says. "My folks were pretty worried."

Eventually, the hiring environment changed and Schmid joined the FDIC in Kansas City. If he hoped to avoid some of the chaos and stress he saw on the Chicago trading floor, however, he was mistaken. Soon he was a bank examiner in the midst of a major banking crisis. In the 1980s around 1,500 banks failed and more received assistance. The Tenth Federal Reserve District was particularly hard hit with 350 banks either failing or receiving assistance.

In the midst of the crisis, the already difficult job got a little bit more uncomfortable, or at least awkward. In 1986, the FDIC offered him a development opportunity, and so Schmid opted to attend the SWGSB with some interesting classmates given the ongoing banking sector turmoil.

"You had bank examiners and regulators in the room with a couple hundred bankers," Schmid said. "It was pretty hard, but it was an interesting dynamic to have the regulators and the bankers in that same room trying to learn how to run a great bank. And it was a great time to learn."

Soon after graduation, Schmid decided it was time for a career move. With the crisis concluding, he realized that his workload was going to be changing dramatically.

Instead of dealing with a crisis, much of his time would now be focused on paperwork related to an expected cycle of post-crisis banking industry mergers.

Schmid wanted new opportunities and maybe now, with the crisis passed, it was time to make a job switch.

"I thought it would be a good time to go back to where I was from and give banking a shot," he said.

Jeff Schmid's first week on the job included an onboarding session with (from left) Senior Vice President and Chief Human Resources Officer Amy Cole, Vice President Christina Robertson, Executive Administrative Assistant Amy LaFave and People, Culture and Strategy Advisor A'Yanna Webster.

Relationship banking

American National Bank of Sarpy County opened in Papillion in the summer of 1989. In 1995, Schmid was promoted to president and director of the American National Bank parent bank, where he oversaw the merger of four bank charters into the single American National Bank brand.

"I would not say that we were a commercial bank, we were a relationship bank," Schmid said. "The most important thing about a bank is the relationships you have with a business or a person.

"Money's a tool, right? You have to be educated about it and how it can be useful and in the ways it can be dangerous. And then you put a plan together for the borrower and that is when the magic starts."

At American National, a lot of that magic involved lending to small businesses, for example, to help them become established or grow.

"There are some people in the world that just want to pay their bills and have a good credit score," Schmid said. "Others want to build businesses. Others want to use credit and leverage. And helping all of those people is why I love being in the banking business. When it's done right, it can change lives."

By the mid-2000s, Schmid was considering a change and exploring starting a new bank, likely based in Omaha, Kansas City or Dallas. Conversations with insurance provider Mutual of Omaha about providing some of the capital led to a change in Schmid's business model, with Mutual of Omaha establishing the bank and Schmid serving as chairman and CEO.

"So, instead of starting a bank with $50 million in capital we had $500 million in capital and we had a big brand," Schmid said.

The bank was launched in 2007, just as the nation was headed into a banking crisis. Since Mutual of Omaha was highly liquid, it was well-positioned to acquire a number of banks over the next few years, growing from a handful of Nebraska locations to a bank with branch offices in Arizona, California and Nevada. It was a $9 billion bank when Mutual of Omaha decided to exit the banking business in 2020.

Broadening perspectives

For Schmid, the Mutual of Omaha experience also expanded his relationship with officials at the Federal Reserve Bank of Kansas City. In the 1980s, they had worked as partners while he was at the FDIC. Now, Schmid was coming to the Kansas City Fed as a banker in a unique situation: often bank holding

Jeff Schmid has served on the Board of Directors of Operation Hope, which promotes financial literacy and economic equity. Pictured (from left) at a June 2023 banquet hosted by Southwestern Graduate School of Banking in Dallas: Chaitra Bryant and her husband, Operation Hope founder and CEO John Hope Bryant, Jeff Schmid and his wife, Amy Schmid. *Photo courtesy of Southwestern Graduate School of Banking at the SMU Cox School of Business*

companies are relatively small entities that own larger banks. With Mutual of Omaha, it was a massive and well-established insurance company that was owning a smaller banking business. The process, he said, included the beginning of what he calls a very collaborative relationship with his Kansas City Fed predecessor Esther George that continues to this day.

After the sale, Schmid worked for a Dallas-based bank that transitioned from a small community bank to a larger privately-owned bank, steering the institution through the pandemic where much of the work ended up focusing on Paycheck Protection Program loans. The Bank's chairman and majority owner then assumed the CEO role and took the bank private.

And then the SWGSB presented an opportunity.

"I've always been a lifelong learner and try to take opportunities as they come and to try to grow with them," Schmid said.

There are some similarities between Schmid's new job and his time at SWGSB.

Since its founding in 1957, the graduate school for bankers had operated under the leadership of an academic. In 2021, however, the school turned to Schmid — a longtime community banker. SMU has plenty of academics with PhDs—a program focused on developing banking industry leaders should be led by someone with real world experience.

"They wanted someone who was a practitioner instead of a professor," Schmid said.

Now, he is looking forward to getting out in the communities of the Tenth District, meeting with business and community leaders from throughout its seven states. Making connections and building the relationships that were at the heart of his banking career, but the focus will now be on gaining perspective to the economic environment and the emerging challenges and opportunities for Tenth District communities.

He will be the District's representative in monetary policy deliberations and an important voice on banking supervision and regulation as well as the Fed's work in the payment system. It's all part of the job of being a central banker, even one who is still a community banker at heart.

"A bank charter creates a kind of special entity," Schmid said. "It's not a place to take big risks or use a lot of leverage. A bank's job is to help a community build something, and the bank has to be safe and sound. It has to be done right."

THE CHANGING LANDSCAPE OF THE TRADITIONAL OFFICE ENVIRONMENT

by ANDREA GALLAGHER

Photo by Getty Images

The look of the traditional office is changing as many businesses are either downsizing their space or reconfiguring it to fit a new generation of workers.

"Gen Z has very different expectations than baby boomers, Gen Xers and even millennials," said Alysia Radicia, a partner at RDG Planning & Design in Omaha. "They want more from their workplace than what's historically been given, and because of how they experience the world, they are not shy about expressing those desires. This younger generation is far more focused on wellness spaces, fitness spaces and social spaces."

One of the reasons for placing a greater emphasis on social spaces, Radicia said, is to reflect the amenities that are available to people when they work from home. In order to compete with that, companies are providing in-office extras such as coffee bars, golf simulators and selfie walls to promote office culture. Radicia has seen firsthand how the office culture is changing, as an interior designer for the Omaha area.

"We've also seen a greater emphasis on social spaces," Radicia added. "Not just designing to bring employees into the workplace, but also while they're there, creating ways for them to maximize time connecting and building relationships with co-workers."

The Kansas City Fed's June 2023 *Nebraska Economist* installment explains how the demand for residential and industrial space continues to climb, while the demand for office space has weakened with more people working from home than in the past. The research, conducted by Senior Vice President and Branch Executive Nate Kauffman and Assistant Economist John McCoy, shows that although vacancy rates have gone up in Nebraska, rates have increased more in bigger metropolitan areas across the country. Regional differences in work-from-home policies could be among the reasons.

"Even more than three years after the start of the pandemic, a consensus on remote/hybrid work policies has yet to emerge economy-wide," McCoy said. "Ultimately, wherever remote/hybrid policies settle will have a major impact on trends in office real estate."

In the region

"Nebraska is lucky not to have the highs and lows experienced on the coasts," said J.P. Raynor, broker for Investors Realty Inc. "Midwest developers are conservative, so they don't flood the market with speculative buildings. Instead, developers wait for the demand to come to them and start construction on a building when the building is a minimum of 50% leased."

Raynor has worked in commercial real estate in the Omaha area for nearly 20 years. He said the availability rate is higher than the vacancy rate in the Omaha area. Though similar, they measure different things. The vacancy rate is the percentage of all vacant commercial real estate space available for lease, while the availability rate is the percentage of all vacant commercial real estate space for lease or sale.

"Historically, Omaha had an availability rate of 6.7% with less than 0.2% of the rate being attributed to available sublease space (about 106,936 square feet)," Raynor said. "Since COVID-19, the availability rate has increased and remained above the pre-COVID rate until last quarter's high of 9.8%, with 1.9% of the rate attributed to available sublease space (about 919,033 square feet)."

Remote and hybrid work

Matt Hoover heads business operations and analytics at Breeze, an online disability insurance company based in Omaha. Breeze had a growth period during the pandemic and added more employees who work from remote locations. He said that the company discovered remote and/or hybrid work environments had a lot more positives than negatives. All Breeze employees work from home during part of the work week.

"Many companies learned during the pandemic that they could function as normal in a fully remote or hybrid environment," he said. "Office space became a luxury versus a necessity. In our opinion, companies that can move to hybrid should move to hybrid. It's better for families, for the commute and for accommodating diverse backgrounds."

So, how will the future of the office space continue to evolve?

Raynor said that he has noticed that post-COVID, more employers want their employees back in the office, but that also depends on the job.

"For example, businesses where collaboration is celebrated and a part of everyday life will likely be back in the office at least 3 days per week, while back-office jobs where workflow is easily tracked may never return to the office," he said.

Radicia of RDG Planning & Design said that offices will continue to have an emphasis on health and wellness, as well on modern, digital workspaces. Beyond that, she said, it's anyone's guess.

"In the end, it's all about retaining talent," she said. "More employees working from home often means less relationship-building, and in the absence of this deeper, person-to-person connection to the work, employers must work even harder to build and maintain loyalty."

FURTHER RESOURCES
To read and download *Nebraska Economist* articles scan the QR code or go to *KansasCityFed.org /omaha/nebraska-economist.*

UNDERSTANDING THE BANK CAPITAL ANALYSIS

PUBLICLY ACCESSIBLE TOOL HELPS CONSUMERS TRACK TRENDS AND EVALUATE STRENGTH, STABILITY OF FINANCIAL INSTITUTIONS

Each year, the Federal Reserve Bank of Kansas City releases results of its semiannual Bank Capital Analysis (BCA), which reviews capital strength across the banking industry.

The BCA presents a comparative view of capital levels across banking organizations of various size and risk profiles. For example, in April 2023 the Bank released the Dec. 31, 2022, BCA results. Those results, available in detail at *KansasCityFed.org/research/bank-capital-analysis*, show that smaller banks continued to hold comparatively more capital than America's largest banks. The report also showed that bank balance sheets remained inflated, having collectively grown 31 percent from year-end 2019 to year-end 2022.

Why capital is important

Capital is the fundamental difference between a bank's assets and its liabilities. It is a key indicator of a bank's safety and can provide a buffer against financial loss. Undercapitalized banks are less able to provide loans to creditworthy borrowers and can pose risks to overall financial stability.

Adequate capital also protects the taxpayer-backed federal safety net for banks, such as federal deposit insurance and the ability to borrow from the Federal Reserve Discount Window.

With the goal of promoting safety and soundness, the BCA was developed as a data-based tool that the public can use to track trends and evaluate capital strength across the banking sector.

Inside the terminology

"Bank capital regulation has become increasingly complex and is continuously changing, making many reported bank capital ratios difficult to understand," said Kansas City Fed Advanced Risk Specialist Sabrina Pellerin, who authors the BCA. "The BCA, in contrast, focuses on the leverage ratio, which is a simple and transparent view of judging the capital strength across banks of varying size and risk profiles."

To make the data more accessible to individuals who might not have knowledge of banking structures, regulation and supervision, Pellerin compiled a glossary of frequently used BCA terms and acronyms. The full glossary is available on the Bank's website. Here are some examples.

CAPITAL

Another way to think about bank capital is to view it as the cushion that absorbs losses while a bank is an operating business.

A bank's balance sheet is composed of assets (such as loans and securities), liabilities (deposits) and capital (or equity). Capital is what is left when total liabilities are subtracted from total assets. A bank is exposed to potential losses on assets and has obligations to pay its liability holders (depositors and creditors).

TYPES OF CAPITAL:

- Tier 1—This is the strongest form of capital. It includes stockholders' equity and retained earnings.
- Tier 2—This includes the allowance for loan losses and may include weaker forms of capital, such as cumulative preferred stock and subordinated debt.

Regulators calculate the total capital for all banks by adding their tier 1 and tier 2 capital.

Global Systemically Important Banks

The "G-SIBs" are banking organizations that could trigger a financial crisis if they failed. There are eight U.S. and 22 non-U.S. banking organizations designated as G-SIBs by the Financial Stability Board, an international body that monitors and makes recommendations about the global financial system. G-SIBs collectively had $14.3 trillion in assets at year-end 2022.

Leverage Ratio and Supplementary Leverage Ratio

In the United States, the Supplementary Leverage Ratio (SLR) is a regulatory measurement that calculates the amount of tier 1 capital that large banks must hold relative to their total leverage exposure, which includes total assets and certain off-balance sheet items, like derivatives and loan commitments. Category I, II and III banks (see the categories below) are subject to reporting their SLRs. In other countries this ratio is called the Basel III leverage ratio and non-U.S. G-SIBs must report it. Because of this, the SLR is a useful tool to compare capital among the largest banks globally. The tier 1 leverage ratio, on the other hand, does not include off-balance sheet items, which are negligible for all but the largest banking organizations. As such, the SLR also can be compared with the tier 1 leverage ratio for smaller banking organizations.

REGULATORY CATEGORIES

In the United States, banking regulations have these categories for the rules framework known as tailored prudential standards:

- Category I—These banks are G-SIBs and are subject to the most stringent regulatory standards.
- Category II—These firms are of global scale and hold $700 billion or more in assets.
- Category III—These banks have $250 billion or more in total assets.
- Category IV—These banks have between $100 billion and $250 billion in total assets.

Federal banking agencies have the following categories for supervision:

- Large Banking Organizations (LBOs) Category II, III and IV firms are considered LBOs. Category II and III banks are required to report and maintain a minimum supplementary leverage ratio (SLR), which is a regulatory measurement calculating the amount of tier 1 capital that large banks must hold relative to their total leverage exposure. As of Dec. 31, 2022, the LBO group included 16 bank holding companies and two depository institutions with no holding company.

- Regional Banking Organizations (RBOs) With an asset range of $10 to $100 billion, regional banks are bigger than community banks but smaller than large banks. RBOs and community banks must report their tier 1 capital levels. The RBO group included 99 bank holding companies and five depository institutions with no holding company, as of Dec. 31, 2022.

- Community Banking Organization (CBO) Community banking organizations hold less than $10 billion in total assets. The CBO group included 3,894 depository institutions at the end of 2022.

FURTHER RESOURCES

Go to *KansasCityFed.org/banking* to learn more about the Bank Capital Analysis and other resources showing how the Reserve Bank works to ensure the safety and soundness of financial institutions, stability in the financial markets and fair and equitable treatment of consumers.

Tenth District *by the numbers*

ECONOMIC INDICATORS, FACTS AND TRENDS FROM THE SEVEN STATES

42%

The portion of New Mexico's in-state electricity generated from renewable sources in 2022. Wind energy accounted for more than three-fourths of that amount.

Source: U.S. Energy Information Administration

347,000

The annual number of job openings that Missouri is projected to have through 2030, with most jobs paying between $39,000 and $79,000 per year.

Source: Missouri Economic Research and Information Center

289,200

The number of nonfarm payroll jobs in Wyoming in March 2023, 5,800 more than in March 2022.

Source: Wyoming Department of Administration and Information

$2.3 billion

The value of aviation and aerospace products that Kansas exports annually, amounting to nearly 20% of the state's total exports.

Source: Kansas Department of Commerce

MORE ECONOMIC DATA

The Bank regularly publishes data about regional and national economic conditions at *KansasCityFed.org/research/indicatorsdata.*

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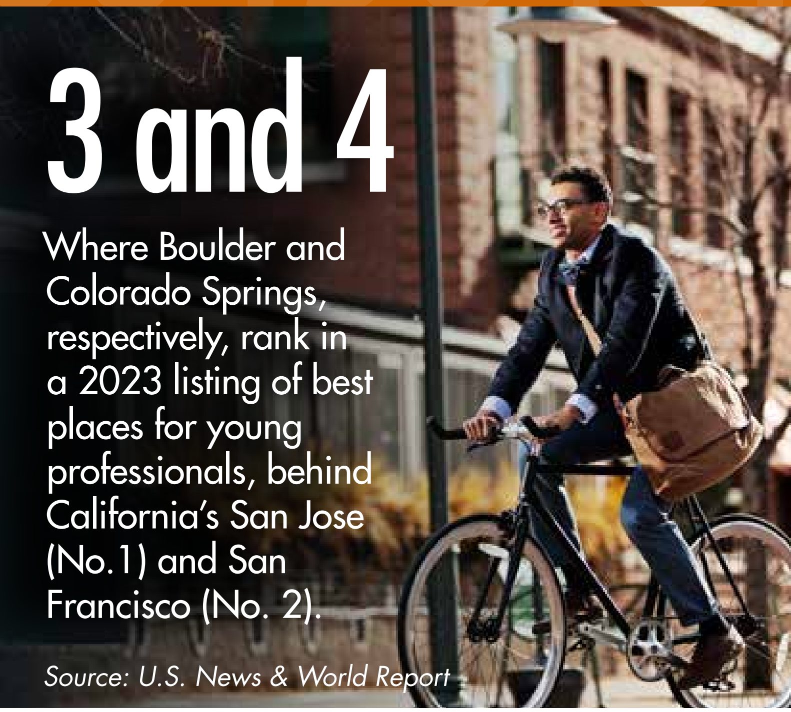

3 and 4

Where Boulder and Colorado Springs, respectively, rank in a 2023 listing of best places for young professionals, behind California's San Jose (No.1) and San Francisco (No. 2).

Source: U.S. News & World Report

$3,835

The average price for an acre of Nebraska agricultural land in February 2023, up from $3,360 in 2022.

Source: University of Nebraska-Lincoln's Institute of Agriculture and Natural Resources

$9 billion

Oklahoma's General Revenue Fund collections during the 2023 fiscal year, 21% higher than estimates and almost 6% higher than in the previous fiscal year.

Source: Oklahoma Office of Management and Enterprise Services

FROM THE VAULT

Kansas City Fed History

Incoming President Thomas M. Hoenig, J. Roger Guffey and George H. Clay at Guffey's retirement dinner in 1991.

From the pages of presidential history

In August, Jeff Schmid became the 10th president in the 109-year history of the Federal Reserve Bank of Kansas City and the first native Nebraskan to lead the Bank. (Learn more about Schmid's life and career on page 22.) TEN reflected on facts about some of his predecessors:

Esther L. George (Ninth) is the only woman to serve as president. One of her ancestors made saddles for the Pony Express.

Thomas M. Hoenig (Eighth) started as an economist in supervision and was the first to rise through the ranks of the Bank.

J. Roger Guffey (Seventh) served three years with U.S. Army intelligence in the 1950s.

George H. Clay (Sixth), previously worked at Trans World Airlines, where he was largely responsible for developing John F. Kennedy Airport and expanding the original footprint of Kansas City International Airport. He also sang professionally early in his law career.

Gavin Leedy (Fifth) graduated from the Kansas City School of Law and later taught night classes there. One of his students was future U.S. president (and future Kansas City Fed tenant) Harry S. Truman.

Jo Zach Miller, widely considered to have been the first "president" after switching from chairman to governor in 1916, called automobiles an "absolute unnecessary extravagance" and refused to own one.

FEDERAL RESERVE BANK OF KANSAS CITY
1 Memorial Drive
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