

TEN

Winter 2018

FEDERAL RESERVE BANK OF KANSAS CITY

Inside:

Denver Branch: A Century of Service

Fed's Historic Path to the Mountain West

Hands-on Visit to Altus, Okla.

Muddled Signals on China's Economy

AFTERMATH OF DISASTER
STORMS, FIRES TEST PLANNING, PATIENCE

PHOTO BY BOB GREENSPAN



On The Cover:

TEN

Winter 2018

AFTERMATH OF DISASTER

Rebounding from storms, fires can test planning, patience 24

How well and how quickly individuals and businesses recover from severe events can depend on how financially prepared they were before calamity hit.

On the cover: Tornado survivors Deb and Ken Wood at their Chapman, Kan., farmstead. Photo by Bob Greenspan.

FEATURES



THE PATH TO THE MOUNTAIN WEST

A history of the Federal Reserve and the Denver Branch 6

Like the communities they serve, the nation's central bank and its Denver office have adapted to changing times and advanced significantly since their inception.



A CENTURY OF SERVICE

Fed's Denver office remains pillar of mountain region 12

The Denver Branch opened its doors Jan. 14, 1918, and it remains the hub of growth for the Mountain States.



MUDDLED SIGNALS ON CHINA'S ECONOMY

GDP performance and other data raise questions about sustainability 18

Kansas City Fed economist Jun Nie and Yandong Jia of the People's Bank of China examine whether China's recent upturn is more than a temporary rebound.



VISITING ALTUS

Tenth District leaders get a hands-on look at the southwestern Oklahoma economy, community 20

Tours ranging from a cotton farm to a military base took place when Kansas City Fed President Esther George and staff met with the Oklahoma City Branch's board of directors.

IN EVERY ISSUE

- 1 **PRESIDENT'S MESSAGE**
- 31 **MAKING A CONNECTION**
- 38 **NOTES**

The Importance of Banking Diversity

Along with monetary policy, there are many other factors that determine the nation's economic growth, including a healthy and productive labor market, innovation and access to capital. The banking system in the United States has long been an essential source of capital for the nation's economy, and here in the Tenth Federal Reserve District, many businesses and consumers rely on community banks to access credit.

Having adapted over the years to significant economic and regulatory changes, as well as technology disruption, the community bank business model has retained its unique focus on relationship banking. These banks, their owners and the people who work for them are generally members of the communities they serve. The relationships are long term, and the incentives of the bank and the borrower are well aligned.

Whether the community is a small rural town or an urban neighborhood—this business model features local bankers who are immersed in their communities, understand the economic drivers of their communities and often serve as leaders in their communities. Those of you who are bankers recognize this critically important role, and your financial institutions have recognized that this requires diverse staff reflecting the communities they serve.

However, diverse talent in banks is just one aspect of serving a community from a base of understanding and personal engagement. Diverse ownership of banks is also important. Yet, there are very few minority-owned banks in the United States today and their numbers are declining. Over the 10-year span since

2006 to the end of 2016, the total number of FDIC-insured minority depository institutions has declined from 194 to 157.¹ Within this category, the number of institutions classified as Native American or Alaska Native American has held relatively steady, falling from 20 to 18, while the number of Hispanic American banks has dropped from 48 to 39. The sharpest decline has been in the number of African American banks, which has fallen by almost half to 24 institutions, according to FDIC data.

Throughout the history of our financial system, the inability to access credit often spurred the establishment of a local bank. These banks often proved to be innovative lenders that considered the unique characteristics of local communities. Minority-owned banks emerged for the same fundamental reason, and their history tells an important story about access to the financial system.

In the Tenth Federal Reserve District, Centinel Bank of Taos, N.M., is a great example. Centinel is generally believed to be



¹Data Source: FDIC-Insured Minority Depository Institutions data, year-end totals. Accessible via: www.fdic.gov/regulations/resources/minority/mdi.html. Minority status is defined either by the concentration of ownership status among a certain minority group or the concentration of board membership by a minority group of an institution that serves primarily that minority group.

the first mainland U.S.-based Hispanic bank, and has been led by its chair and CEO, Rebeca Romero Rainey. In 1959, Rebeca's grandfather, who had served in the military and then earned a law degree, was denied a \$50 loan to purchase office furniture. At that point, he vowed to create a bank that would provide equal access to credit for everyone. After gathering support from about 300 investors, the bank opened for business in 1969.

More recently, the first bank owned or controlled by a Native American tribe was created in 1987 when the Blackfeet Tribe of northwestern Montana took over a failed bank in Browning, Mont. Blackfeet National Bank later became Native America Bank, NA.

With some of the earliest African American banks, loans were primarily to mutual aid societies and entrepreneurs.² The number of African American-owned banks increased substantially after 1900 and, between 1900 and 1914, the number of African American business enterprises doubled, with more substantial increases in some business segments, particularly retail merchants.³ This was a notable expansion of opportunity compared to the late 1800s when the primary occupations held by African Americans were blacksmith, tailor, barber and similar jobs.⁴

The first banks with African American ownership opened during the Reconstruction period in our country. The first to receive a charter was The Savings Bank of the Grand Fountain of the United Order of True Reformers. In 1890, the bank's founder,

"Banks are the life blood of trade and progress, whenever they may be established."

- Contemporary of William Browne

William Washington Browne, explained his goal: "The True Reformers sounds like reformers of character, but we are hunting for people who are already reformed. The church of God has the other kind of reformation in hand; mine is financial reform. I want to go forward reforming our people financially. We are throwing away money enough to buy this country."

Browne's bank, and the others that soon followed his model, sought to provide services to customers who had suffered in many ways, including being exploited financially. Prior to that bank's creation, the government had established the Freedman's Bank in 1865 specifically to serve the nation's African American population. Although the intentions were honorable and branches were opened in several states in an attempt to connect to local populations, the bank's leadership was not aligned with the needs of its communities. Instead, corruption and high-risk investments made with bank deposits resulted in its failure (despite the best efforts of Frederick Douglass, who had fought to save the institution after the damage had been done). In this era before deposit insurance, the collapse took with it the life savings of 61,000 savers who were struggling to become established in the United States.

²Ammons, Lia. "The Evolution of Black-Owned Banks in the United States Between the 1880s and the 1990s." *Journal of Black Studies*, Vol. 26, No. 4 (Mar. 1996).

³Meier, August. "Negro Class Structure and Ideology in the Age of Booker T. Washington." *Phylon*. Clark Atlanta University. Vol. 23, No. 3. (Q3, 1962).

⁴Ibid.

Browne's life story is itself very much about the ability to overcome challenges and is as inspirational as any in American history. At the age of 13, he escaped slavery and eventually joined the Union Army. After gaining an education in Wisconsin, he returned to the South as a teacher and served as a minister. Influenced by his experiences, Browne established the Grand Fountain of the United Order of True Reformers, a fraternal organization with the stated goals of taking care of the sick, burying the dead and providing other assistance.

Browne had not necessarily sought to establish a bank to achieve personal goals. Instead the bank was created in response to the needs of his organization, which reflected the needs of the community. A Virginia chapter had been unable to organize because of difficulties safely storing its treasury of about \$100. Denied access to a traditional banking institution, the group had to instead rely on the safe of a local storekeeper, which had proven problematic. The chapter was ready to give up, but Browne encouraged them forward. Creating a bank provided a degree of security for the organization by meeting a very fundamental financial services need—in this case, the bank was literally a response to the need for a safe place to store funds—but Browne knew, as we know today, that banks also foster opportunities. It was to be an economic win/win—a place to pool the resources of savers to meet the needs of borrowers.

In the words of one of Browne's associates: "We mean to encourage ... people to get homes and means upon which they may independently subsist."

Browne kept his word. Throughout the panic of 1893, which saw nearly 600 banks nationwide either fail or suspend operations, it is recorded that Browne's bank was the only bank in

the entire state of Virginia that continued paying out all checks. During the crisis, at least one local public school was able to obtain the funds necessary for paying salaries from Browne's bank after being denied by other financial institutions. Similarly, the bank loaned money to the City of Richmond in the early 1900s when the city was also unable to obtain funds from other sources.

This is also the story of community banks today. An institution that is local enough to understand and meet the credit needs of a community determines whether that community thrives or withers.

This history is a reminder of the importance of access to credit and the role it plays in the prosperity of households and the vitality of businesses. In the words of one of Browne's contemporaries, "Banks are the life blood of trade and progress, whenever they may be established."⁵ It is as true today as it was in 1890. And the health and diversity of our banking system remains key to the promise of delivering broad-based economic gains for thousands of communities.



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

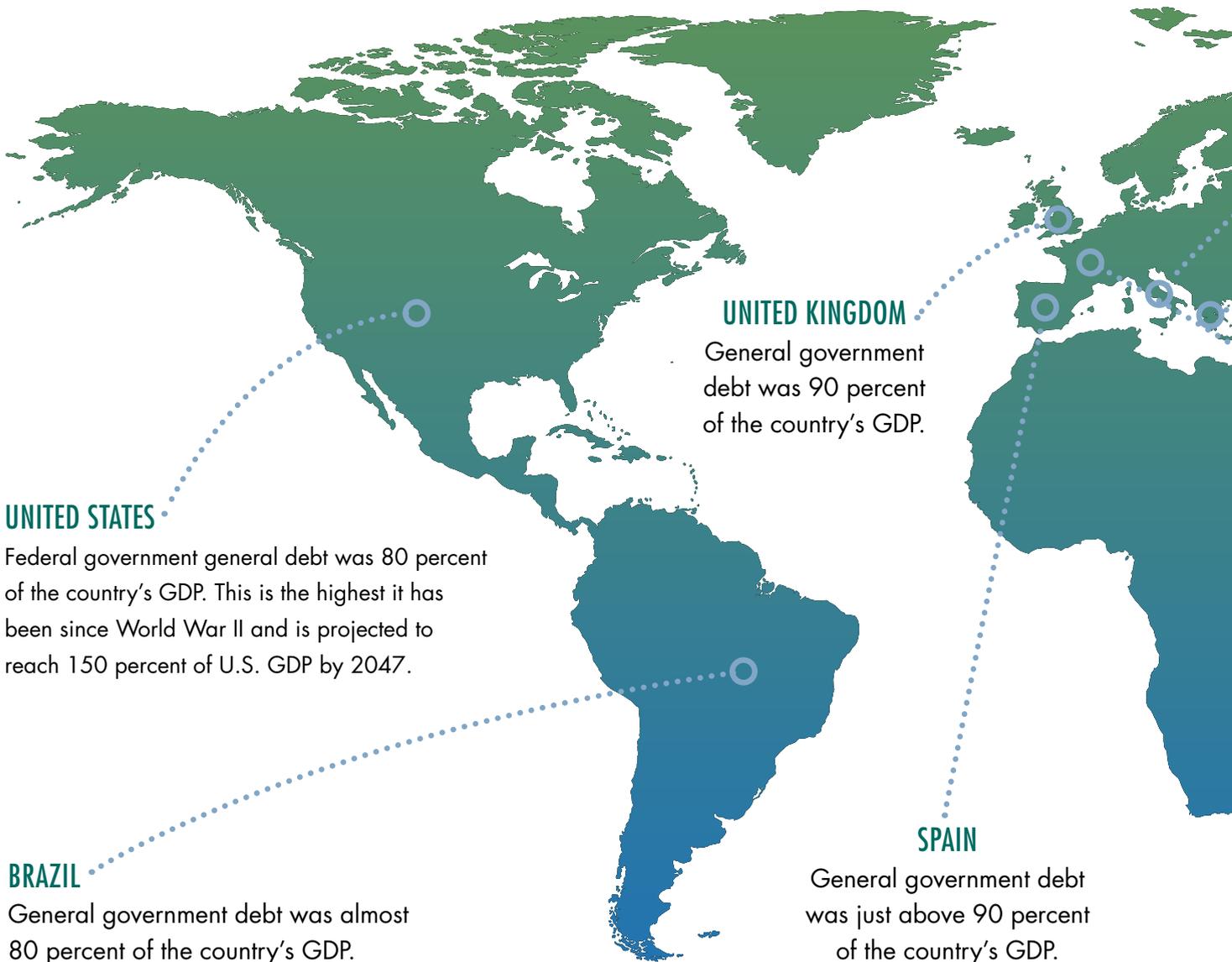
This text is adapted from the keynote address President George delivered Sept. 28, 2017, at the Kansas City Fed's "Banking and the Economy: A Forum for Minority Bankers." For more about the forum, see p. 44.

⁵Burrell, William Patrick, and D.E. Johnson, Sr., "Twenty-Five Years History of the Grand Fountain of the United Order of True Reformers 1881-1905." Grand Fountain, United Order of True Reformers. Richmond, Va., 1909.

FISCAL

Evaluating a country's debt level is a cautionary tale because each country faces different fiscal limits and has different capacities for serving debt. For example, Japan's general government debt reached 240 percent of its gross domestic product at the end of 2016, but its sovereign debt still has an A+ rating, according to Standard and Poor's. Italy, however, lost its A+ rating in 2011 although its general government debt was below 120 percent

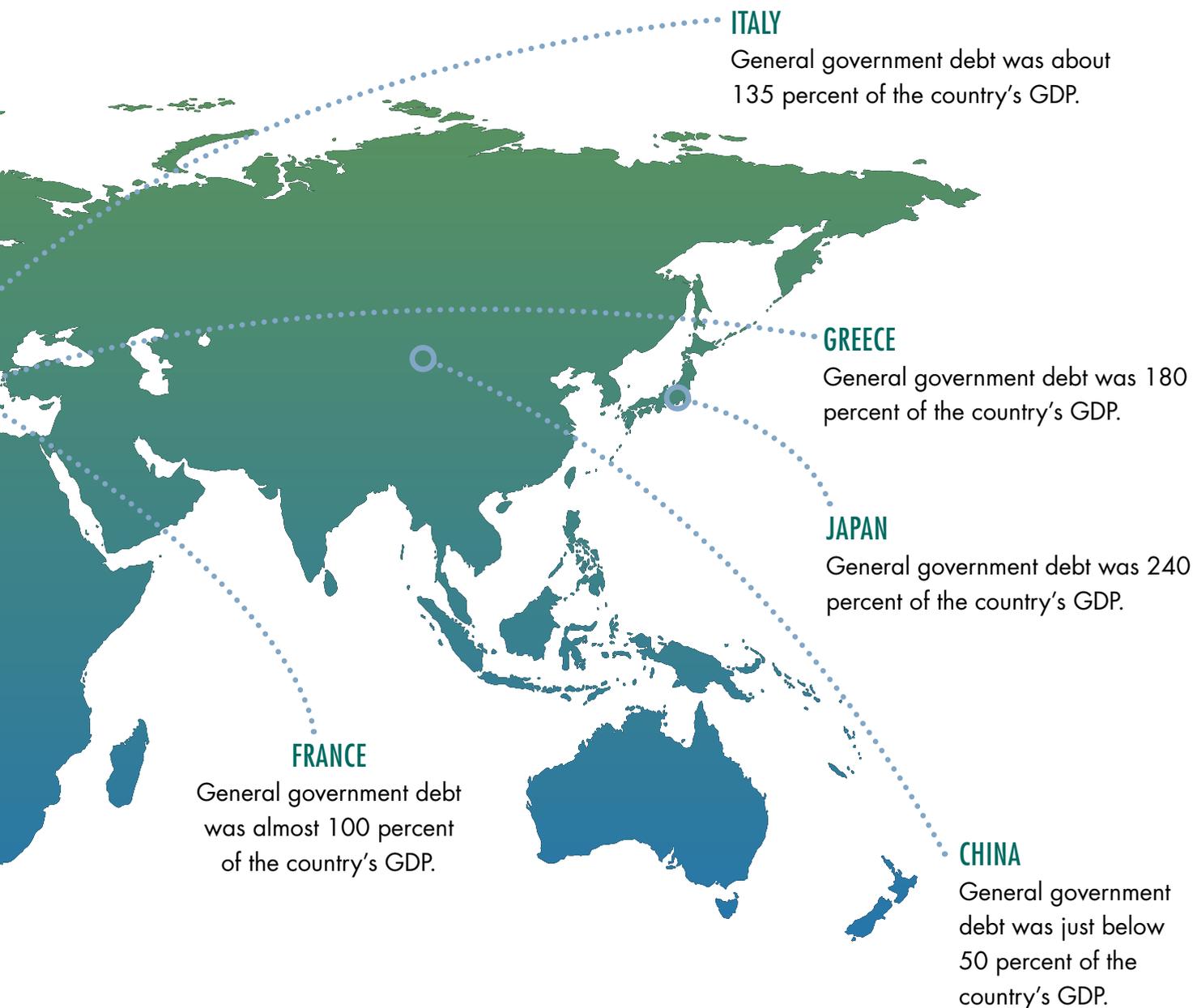
of GDP. The downgrade was due to Italy's weakening economic growth prospects. Huixin Bi, a senior economist at the Federal Reserve Bank of Kansas City, says economic downturns can increase sovereign default risks because economic conditions reduce the maximum fiscal surplus a government can collect in the near future, which lowers its capacity to repay debt. This can induce governments to borrow more. When you combine more debt with



SUSTAINABILITY

A COUNTRY'S ABILITY TO MAINTAIN DEBT

growing revenue limits, it increases a government's risk of default, so debt levels in good times can quickly become unsustainable during an economic downturn. To read further about Bi's latest research, "Fiscal Sustainability: A Cross-Country Analysis," go to KansasCityFed.org/publications/research/er.





The Path to the Mountain West

A HISTORY OF THE FEDERAL RESERVE BANK AND THE DENVER BRANCH



Since its opening in 1918, the Denver Branch of the Federal Reserve Bank of Kansas City has provided a direct link between the nation's central bank and Colorado, Wyoming and northern New Mexico. Over that period, the Branch has participated in each of the Fed's mission areas—financial services; the regulation and supervision of financial institutions; and monetary policy.

Like the communities they serve, the Denver Branch and the Federal Reserve have changed over the years, reflecting innovation and development in the financial sector to meet the demands of businesses and consumers who rely on the system every day.

Origins of the Federal Reserve

The roots of today's Federal Reserve can be traced to the nation's beginnings. Alexander Hamilton, the country's first Treasury secretary, saw the need for a central bank, and with his backing, the First Bank of the United States opened in 1791. It closed 20 years later when its charter expired.

After the War of 1812, the idea of a new central bank was revived. Despite fierce opposition from some, Congress approved the Second Bank of United States, which opened in 1816. This second attempt at a central bank also had a limited charter, and when a bill to renew it arrived at President Andrew Jackson's desk, he promptly vetoed it, ending the Second Bank's service as a de facto central bank.

The end of the Second Bank had substantial consequences for the national economy. A speculative bubble in land and commodities burst with the Panic of 1837, the first in a cycle of panics that culminated in the Panic of 1907. Congress embarked on a series of steps that led to the eventual creation of the Federal Reserve.

Congressional leaders designed a structure that would be a network of regional banks, each operating under the leadership of local boards of directors, with oversight by a government agency, the Board of Governors of the Federal Reserve System, in Washington, D.C. It would

Like the communities they serve, the Denver Branch and the Federal Reserve have changed over the years, reflecting innovation and development in the financial sector to meet the demands of businesses and consumers who rely on the system every day.

be a unique combination—a “decentralized” central bank blending public and private control in a reflection of the nation's checks-and-balances system.

President Woodrow Wilson signed the Federal Reserve Act on Dec. 23, 1913.

Welcome to Colorado

In 1913, Colorado was home to 512 banks—about half the number of banks that could be found in Nebraska at that time. Banking resources were even more limited in Colorado's neighboring Mountain States.^{1, 2}

The lack of local banking resources was a significant challenge for Coloradoans who hoped Denver would be selected as home for one of the nation's new regional Federal Reserve Banks. A committee consisting of the

¹Stenographer's Minutes. The Reserve Bank Organization Committee at Denver, Colorado. Jan. 26, 1914.

²Location of Reserve Districts in the United States, letter from the Reserve Bank Organization Committee, April 29, 1914

- ◀ Construction of the current Denver Branch in a 1967 picture from the Kansas City Fed's archives.
- ◀ Drawing by Kansas City Fed Vice President Mark Horan.

heads of the federal Treasury and Agriculture departments was assigned to tour the country to determine the best locations for up to 12 Reserve Banks.

What Denver lacked in the number of banks, it made up for in supporting the Fed's decentralized system. Bankers in the Rocky Mountains had a reputation for voicing their concerns that too much financial power was concentrated in New York.

Gordon Jones, the president of Denver's United States National Bank who also was engaged in other small Colorado banks at that time, had several concerns about Wall Street having virtually unfettered leverage over the rest of the financial system—a fear that was supported by the fact that stock trading and financial institutions in New York had been at the heart of the 1907 crisis.

"It appears to me that there should be some manner whereby the banks of the West should be protected," Jones said.

The Tenth District is created

After completing its tours and reviews, the Reserve Bank Organizing Committee placed Colorado, Wyoming and northern New Mexico within the Tenth Federal Reserve



Prominent Colorado banker Gordon Jones was an early advocate for Denver and later served on the Kansas City Fed's first board of directors.

District, with the headquarters Bank in Kansas City. As required under the Act, Congress had directed the Committee to create Districts with "due regard to convenience and customary course of business."³

In a report detailing its decision, the Committee said there were "problems of difficulty" in drawing the Tenth Federal Reserve District. In many instances, bankers simply preferred to have the Reserve Bank located within their own state. Kansas City, however, had more broad-based support, including being selected as the first choice by bankers in Missouri, Kansas, Oklahoma and New Mexico, while it was a second choice by many bankers in other areas, including numerous Colorado bankers.

When the Bank opened in Kansas City, however, Denver was well represented, with Jones and another Denver resident, attorney R.H. Malone, serving on the Bank's Board of Directors.

The Fed comes to Denver

Nationally, speculation about which cities might be home to Branch offices for the nation's new regional Federal Reserve Banks started as soon as the Reserve Bank Organizing Committee announced the boundaries of the 12 Federal Reserve Districts on April 2, 1914.

The first Branch of a Federal Reserve Bank opened on Sept. 10, 1915, in New Orleans—a city that many were surprised was not selected for a regional headquarters.

To the West, it was almost immediately apparent that Denver's central location in the West would serve as a critical connection point for the nation's new central bank. In remarks made in Denver only a few months after the Fed had begun operations, Kansas City Fed Gov. Jo Zach Miller Jr. told a group of about 250 Colorado bankers that Denver would be in line for a Branch.^{4, 5}

³Federal Reserve Act

⁴Miller's position as Bank governor was the same position later renamed "Bank president."

⁵*Denver News*, March 6, 1915.

“We hope the robbery will hasten the building of our bank and vaults so that money shipped to us may be delivered to us directly rather than to the United States Mint first and then to us.”

- Charles A. Burkhardt

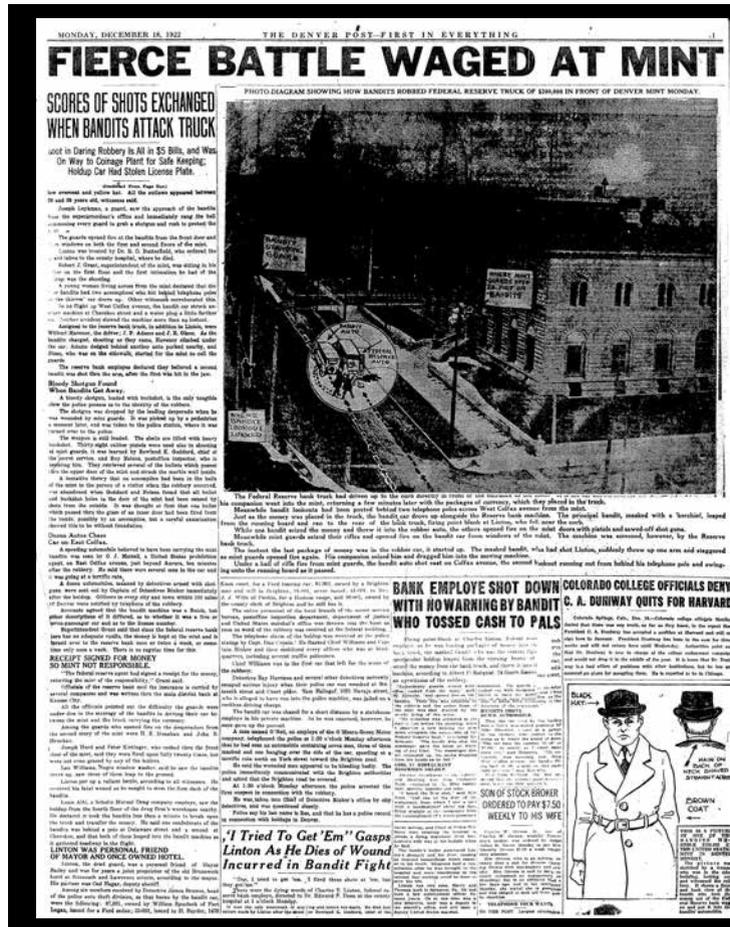
The Dec. 18, 1922, front page of *The Denver Post* detailed the deadly robbery of a Federal Reserve truck at the U.S. Mint. Denver Branch security officer Charles T. Linton was fatally wounded.

The Denver Clearing House Association officially submitted a request for a Branch in July 1917, and the Denver Branch of the Federal Reserve Bank of Kansas City opened on Jan. 14, 1918, in the Interstate Trust Building at the corner of 16th and Lawrence streets.

The Denver Branch was one of 10 Federal Reserve Bank Branches opening in 1918, giving the System a total of 16 Branches by the end of the year.

Tragedy

Conditions in the Interstate Trust Building were difficult. Former Bank Director Willis Bailey, who became the Bank's governor in 1922, once noted that when he visited the Denver Branch on a day when the mercury fell



to -14 degrees, "... the employees had to wear wraps, as it was impossible to heat the building."

The building also was too small, forcing the Branch to store some of its currency at member banks and at the nearby U.S. Mint, utilizing an armored truck for transit back and forth. The shortfalls of the arrangement became tragically clear at 10:30 a.m. Dec. 18, 1922, when four men, including two firing sawed-off shotguns, robbed a Federal Reserve truck parked outside the Mint. It remains one of the most infamous crimes in U.S. history.

Although newspaper accounts say as many as 50 Mint security guards returned fire, the bandits got away with \$200,000 in \$5 bills. Killed in the attack by a shotgun blast was Denver Branch security officer Charles T.



An early 1900s view of the Continental Building at 16th and Lawrence streets, which became the Interstate Trust Building and later was the Denver Branch's first home.

Linton, an employee since the 1918 opening.⁶ Linton, who returned three shots before being fatally wounded, was proclaimed a hero in a drawing on the front page of the Dec. 19, 1922 *Denver Post*.

In the aftermath of the attack, Denver businesses and banks refused to accept \$5 bills. The robbery vehicle, a Buick, was found four weeks later with the frozen and gunshot-riddled body of convicted criminal Nick Trainor inside. A year later, \$80,000 of the missing bills were recovered in St. Paul, Minn., but no one was ever arrested or charged.

"We hope the robbery will hasten the building of our bank and vaults so that money shipped to us may be delivered to us directly rather than to the United States Mint first and then to us," Denver Branch Manager Charles

A. Burkhardt told reporters after the attack. "We are doing everything we can to have the bank built as soon as possible, for we certainly need it."

Moving forward

Three years later, the Branch resolved the space problem and moved into its own building at 1111 17th St. The Branch operated at that location through the early 1960s, when the Branch sought to move into a more modern facility. In 1968, the Bank completed construction on the Branch's current facility at 16th and Curtis streets. It was a prominent location in city history, but one that had fallen on decidedly hard times in the years before the Bank's purchase of the property.

The site had been owned by silver king Horace A.W. Tabor, and much of the block was home of his opulent Tabor Grand Opera House, which opened in 1881. By the early 1960s, when the theater closed its doors for the final time, the neighborhood was known as "skid row," and nearby businesses included pawn shops, bars and cheap motels.⁷ Developers acquired the block, which was also home to the Denver Post Office and Customs House building, and cleared the site for redevelopment in 1964.⁸ The Federal Reserve acquired the land in 1967.

At around the same time that Branch employees were preparing to move into the new facility, voters approved by a 2-to-1 margin a massive demolition project for the entire neighborhood. Under what was known as the Skyline Urban Renewal Project, aging and sometimes historic buildings across nearly 30 blocks of downtown Denver were leveled in

⁶*Denver Rocky Mountain News*, Dec. 12, 1922.

⁷When Downtown Denver was Demolished: The Skyline Urban Renewal Project. Colorado Public Radio. May 1, 2017. www.cpr.org/news/story/when-downtown-denver-was-demolished-a-look-back-at-the-skyline-urban-renewal-project

⁸Barnhouse, Mark. *Lost Denver*. Arcadia Publishing. Charleston, S.C. 2015.



The modern-day Denver branch building at left, with the landmark Daniels and Fisher clock tower at right.

a plan city officials hoped would spur private development in the area.⁹ The landmark Daniels and Fisher clock tower, located north of the Branch at 16th and Arapahoe streets, is one of the few buildings that was spared.¹⁰

Today

Today, the Denver Branch is located in one of the city's most popular areas along the 16th Street Mall. Visitors are welcomed to tour the Branch's Money Museum, where they can learn more about the Federal Reserve and its role in the nation's economy and financial sector. Plans are underway to add exhibits to the museum by mid-2018.

⁹When Downtown Denver was Demolished: The Skyline Urban Renewal Project. Colorado Public Radio. May 1, 2017. www.cpr.org/news/story/when-downtown-denver-was-demolished-a-look-back-at-the-skyline-urban-renewal-project

¹⁰The tower, which opened in 1911 as the city's tallest structure, was originally built in conjunction with the Daniels and Fisher department store which was leveled.

Although the Federal Reserve has changed to reflect innovations over the past century, the Branch remains a critical tie linking the Denver community and the Mountain West with the nation's central bank.



TIM TODD, CONTRIBUTING WRITER

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FURTHER RESOURCES

For a full account of the history of the Denver Branch, visit www.KansasCityFed.org/publications/ten

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



A CENTURY OF SERVICE

IN 100TH YEAR, DENVER OFFICE REMAINS PILLAR OF MOUNTAIN REGION

Denver's history is a glamorous tale of the West, from the 1858 Pike's Peak Gold Rush with covered wagons and cowboys to today's light rails and modern skyscrapers.

Known as the Mile High City, Denver has been the hub of growth for the region since its inception, and the Federal Reserve Bank of Kansas City's Denver Branch has been part of the story since 1918, serving the three states of Colorado, Wyoming and northern New Mexico.

Early representation

The Denver Branch opened Jan. 14, 1918, in the Interstate Trust Building at the corner of 16th and Lawrence streets. As the largest Branch in the Tenth District with about 150 employees, the Denver Branch has seen several changes over the years, but one thing remains:

“The 1913 structure of the Federal Reserve was designed to represent the entire country's banking and business community—from the booming East and Midwest to the developing

Mountain States and West Coast,” said Esther George, president of the Kansas City Fed. “It has been—and will continue to be—our job to take the pulse of the local economy and give a voice to those in all the seven states of the Tenth District. This regional representation helps to maintain a strong economy.”

From the beginning, the Denver Branch embraced its mission to serve the Mountain States and began developing strong relationships with community banks and businesses in the downtown area and outlying communities. A local board was established and the first organizational meeting was held Nov. 27, 1917.

Bank operations then and now

The Denver Branch’s current and historical role has focused on operations and activities that have supported the financial system. This includes processing paper checks, distributing cash and ensuring a safe banking system.

The Denver Branch was a hub of activity during its processing-checks era, operating 24 hours for six days a week. As the nation moved toward electronic forms of payment, the Federal Reserve responded to the changes in the payments system by consolidating its check processing operations to one national location. Denver was the last location in the Tenth District to process checks, ceasing its operation on June 27, 2009.

Cash operations in Denver, however, are as busy as ever. The department provides currency and coin for financial intuitions in Colorado, Wyoming, New Mexico and surrounding states. More than \$57.1 million is paid and received in Denver each day, and on a daily average, the Denver Branch takes \$4.3 million out of circulation.

“The Denver Branch plays an important role in the local economy. It is one of the



Denver Branch employees support community initiatives like Habitat for Humanity. Trina Parsley, assistant vice president in Consumer Affairs, helped to build a house over the summer.

Federal Reserve’s main functions to provide banks with currency and coin when they request it,” said Victoria Field, assistant vice president of Cash Services. “Each day we fulfill those orders to ensure consumers have coin and currency at their fingertips.”

An additional area that is growing at the Denver Branch is the Supervision and Risk Management Division. The Division’s mission is to ensure a safe and secure banking system with examination of state member banks’ business activities and processes. The Division makes up more than half the workforce at the Denver Branch.



The Denver Branch features a Money Museum that is open to the public with historical currency exhibits, interactive displays and activities.

In 1971, as the financial system and economy began to evolve and change, the Kansas City Fed transferred responsibility and supervision of Wyoming banks from its Omaha Branch to the Denver Branch. The Denver Branch has been supervising banks in northern New Mexico since opening its doors in 1918.

Connecting with the community

The late 1990s and early 2000s brought a renewed focus on outreach for the Denver Branch. The goal of increasing outreach to the community took shape through research, information, community development and education. This was achieved by restructuring the Denver Branch's form of leadership. Instead of an operations manager, an executive who is a regional economist would lead the Branch.

Today, Alison Felix serves as the Denver branch executive and regional economist. Her focus is to identify economic trends, understand the region's economy and work with the Branch's board of directors. She publishes quarterly articles on the Mountain States region and produces monthly databooks focused on each state in the Tenth District.

"One of my favorite aspects of the job is meeting business leaders and community members to get insights into the local economy," Felix said. "Those interactions help me understand potential issues on the horizon, which directs my research. It is important to have the pulse of the real world, not just data points, so I can share the most current information with President Esther George as she prepares to participate in the discussion at the Federal

“We work hard to promote fair and impartial access to financial products for not only small businesses, community organizations and nonprofit groups, but also all consumers who live in the Tenth District.”
- Ariel Cisneros



Denver Branch Board Chairman Richard Lewis meets with members of the Denver Student Board of Directors.

Open Market Committee meetings.”

It isn't just speeches and meetings that help Felix see trends in the economy in the Mountain States; the Denver Branch's Board of Directors provides real-time information. The seven-member board meets eight times per year to share what is happening in their industries. Representation on the board is designed to embody the three states in the Denver Branch region and key industries that are economic drivers in those areas. From technology and nonprofits to manufacturing, tourism construction and banking, board members provide antidotal information to the Kansas City Fed on key economic segments.

“When you have board members who represent different industries and geographic areas of the economy in Colorado, Wyoming

and New Mexico, you get real-time economic information from mom-and-pop businesses and huge corporations,” Felix said. “The more exposure and interactions that I have, the better I can provide a broad and diverse perspective of what is going on in our economy”

That level of regional involvement is important, said Richard Lewis, president and chief executive officer of Colorado-based RTL Networks Inc. and chairman of the Denver Branch Board of Directors.

“Colorado has a robust and progressive business environment,” said Lewis, who has been a board member since 2012. “The Federal Reserve Bank's Denver Branch is deeply engaged in that environment as it gathers information and perspectives about the region and helps shape monetary policy.”



Esther George meets students in a high school economics class in Pinedale, Wyo. George frequently is in the Denver Branch's area, meeting with community and business leaders to share insight and better understand the regional economy.

Making a difference locally

As needs of the community and economy have grown over the past 100 years, so has the role of the Denver Branch in the community.

The Kansas City Fed's Community Development Department, created in the 1980s mainly to help banks understand their responsibilities under the Community Reinvestment Act, has become more active in local issues. The department's main area of focus include community investments, financial stability for the underserved, workforce development initiatives, neighborhood stabilization, and small business development.

"I feel a truly strong economy is one that fosters growth and opportunity for individuals at all levels," said Ariel Cisneros, senior advisor in Community Development. "We work hard to promote fair and impartial access to financial products for not only small businesses, community organizations and nonprofit groups, but also all consumers who live in the Tenth District.

"We have forged new relationships and

developed opportunities for collaboration to assist low and moderate-income populations through educational programs, workshops and seminars," he added.

The Federal Reserve continually works to bring together partners to share ideas and find innovative approaches to issues. For example, the Denver community had a need to help match potential funders with organizations that had community and economic development proposals. In 2011, Cisneros piloted Investment Connection, a daylong event where nonprofit organizations showcase their community development proposals to funders. It has been so popular that Investment Connection added an online option in 2014. Since the inception, Investment Connection has connected nonprofits with about \$30 million in funding.

The Denver Branch also focuses on community education, consisting of economic and personal finance topics for all age levels.

"We believe individuals—regardless of age—who understand how the economy



Alison Felix, vice president and Denver Branch executive, center, along with Ariel Cisneros, senior advisor for community development, presented regional economic data and resources available to the community at a minority business leaders event at the Denver Branch.

functions will make better financial decisions,” said Erin Davis, senior Public Affairs specialist. “That is why the Kansas City Fed offers free resources for educators, bankers and consumers. These are great building blocks to help everyone make informed decisions.”

The Denver Branch also participates in several nonprofit coalitions and public awareness events across Colorado, Wyoming and New Mexico to support economic and personal finance education efforts. Those efforts involve hosting a “Career Day at the Fed” for local middle school students or visiting a high school classroom to do mock job interviews.

“I love my job as I get to interact with students, teachers and the public to help share skills and information that can better a person’s future,” Davis said.

To further help the Denver community and Mountain States understand the Federal Reserve and its mission, the Denver Branch opened the Money Museum to the public in 2012. More than 60,000 people a year visit the Money Museum to learn about the

Federal Reserve System, monetary policy, bank supervision and financial services.

“Without the Denver Branch and its work in the community, it would be much more difficult for the Fed to be engaged in Colorado, Wyoming and New Mexico,” George said. “We look forward to the next 100 years in serving and representing the Tenth District.”



STACEE MARTIN, CONTRIBUTING WRITER

FURTHER RESOURCES

Visit www.KansasCityFed.org/Denver for additional information about the Denver Branch and its programs.

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

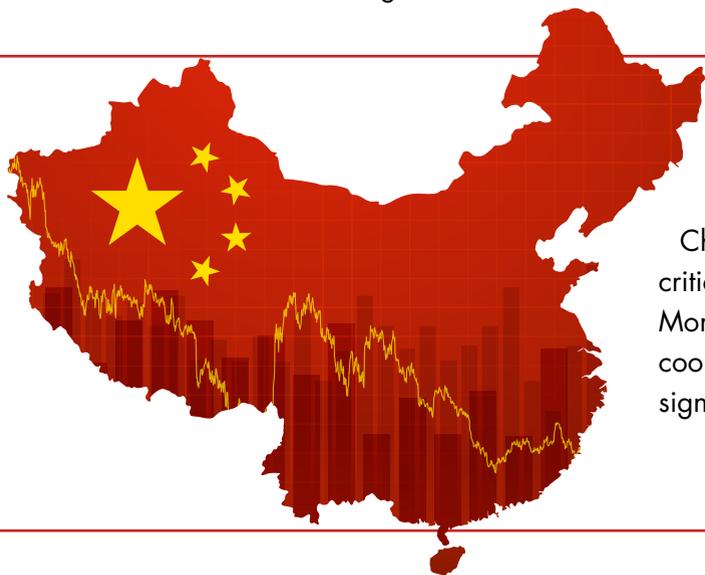
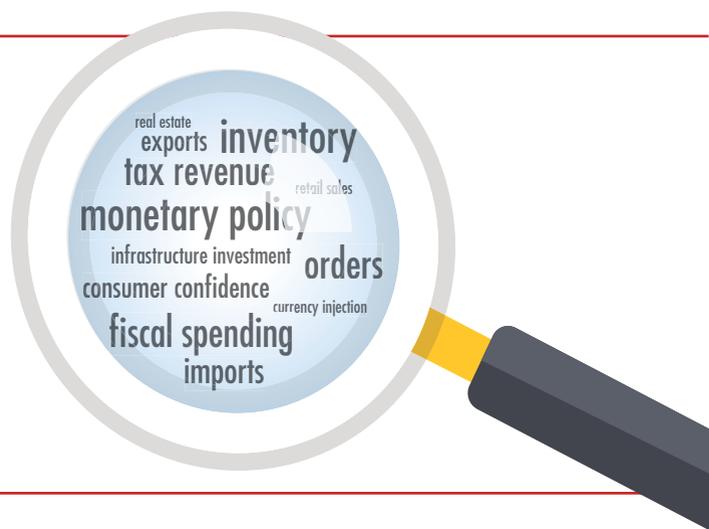


HAS CHINA'S ECONOMY REACHED A TURNING POINT?

The Chinese economy is undergoing a transition in which economic growth is rising in some sectors but declining in others. After trending down for a few years, data show growth in Chinese real gross domestic product has stabilized in recent quarters. But is this a sign that the Chinese economy is experiencing a more sustainable upturn in growth or a temporary rebound?

ASSESSING CHINA'S GROWTH

To better assess whether the recent uptick in growth is sustainable, Jun Nie, a senior economist at the Federal Reserve Bank of Kansas City, and Yandong Jia, a researcher at the Research Bureau of the People's Bank of China, analyzed the monthly measures of Chinese economic and policy activity, based on data through June 2017, to uncover the underlying momentum and determinants of Chinese growth.

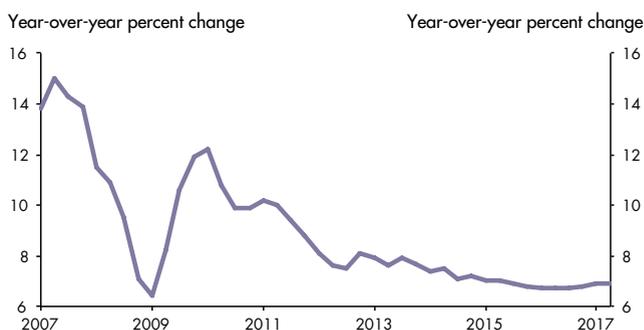


MUDDLED SIGNALS

China's official quarterly GDP figures, have been criticized for being overly smooth and less informative. Moreover, Chinese government policies have stimulated or cooled the economy at different times, further muddling the signal from economic data.

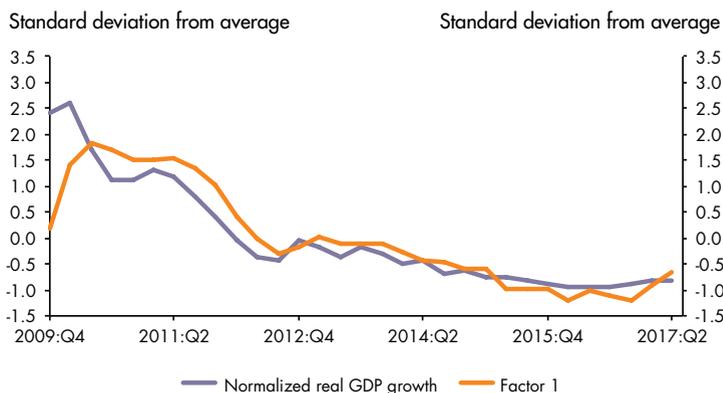
CHINESE GDP GROWTH

Positive data in the first half of 2017 regarding manufacturing activity, retail sales and exports surprised forecasters, causing several large institutions such as the International Monetary Fund and the Organisation for Economic Co-operation and Development to upgrade their forecasts for Chinese growth.



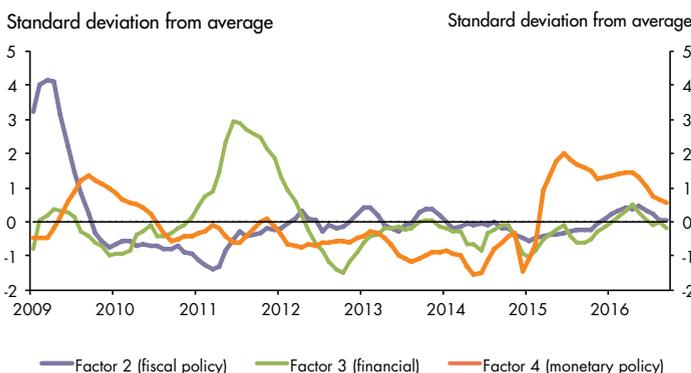
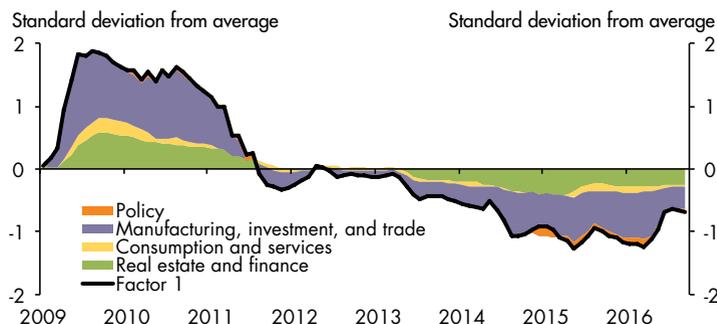
ACTIVITY EFFECTS ON GDP

Nie and Jia's analysis found that there is no single common factor explaining the variation in Chinese economic activity; however, the varying activity among the sectors confirms that China's economy is in transition and that GDP is gaining momentum.



POLICIES INFLUENCE GROWTH

They also found that government policies have played an important role in China's economic performance, especially in the key economic areas of manufacturing activity and infrastructure investments. The government's effect on the country's economy also is evident in the financial sector, with its ongoing tightening in response to rising financial risks.



TEMPORARY IMPROVEMENT AND DOWNWARD PRESSURE

Nie and Jia concluded that the upswing in economic growth will slow in the near term. They found that the pickup in GDP came from improvements in manufacturing, investment and trade. As China transitions from an investment- and export-driven economy to a more consumption-driven economy, the recent improvement in the manufacturing, investment and trade group is likely to be temporary. Furthermore, policy-related factors have continued to fall from their elevated levels, generating additional downward pressure on recent momentum in Chinese economic activity.

CONCLUSION

Given the various movements within China's transitioning economy, which are consistent with the Chinese government's recent efforts to fight rapidly rising credit growth to promote more sustainable long-run growth, Nie and Jia's analysis suggests these efforts are likely to pose downside risks to near-term growth.

FURTHER RESOURCES

"Has China's Growth Reached a Turning Point?" by Jun Nie and Yandong Jia www.KansasCityFed.org/publications/research/mb

President George & Oklahoma City Branch Directors — VISIT ALTUS, OKLAHOMA, *October 2017* —



PHOTOS BY JESSIE BLACKWELL

Oklahoma City Branch Board member Susan Chapman Plumb (center) and associate economist Megan Williams (right) get a closer look at cotton bolls shown by Kim Abernathy during the visit to Abernathy Farms.

The Oklahoma City Branch Board of Directors met with President Esther George and Kansas City Fed staff in Altus, Okla., on Oct. 18-19 for a board meeting and tours to learn about the economy and community in southwestern Oklahoma.

“Our goal in visiting Altus is to help the public better understand the Federal Reserve and its actions and for us to learn the local perspective on the economy and answer any questions about the Fed,” said Chad Wilkerson, vice president, economist and Oklahoma City Branch executive.

The visit to Altus, about 140 miles southwest of Oklahoma City, began with a tour of the Altus Air Force Base. During the tour, officers and airmen gave an overview

of operations at the base and talked about the economic and community growth opportunities the base provides in Altus.

To learn more about cotton farming and agriculture industry, director Clint Abernathy hosted the group at his 13,000-acre cotton, wheat and cattle operation. Abernathy provided an overview of Abernathy Farms and led a discussion about technological advancements in cotton harvesting and agriculture. Then, George and other board members had the opportunity to experience the harvest firsthand by driving the high-tech cotton harvest equipment before touring the local cotton gin.

“It was an honor and pleasure for me, and my family, to host President George, the Oklahoma Branch Board and Federal Reserve

staff in Altus,” he said. “The Altus Air Force Base is an important employer in our local economy. Cotton farming is a large industry in southwestern Oklahoma, as Oklahoma is now the fourth-largest cotton producing state in the U.S.”

During a dinner at the Museum of the Western Prairie, the board learned about the history and peoples of southwest Oklahoma, including the ancient formation of the Wichita Mountains, the culture of the Plains Indians and cattle drives of the 1800s, and the municipal and agricultural development of the 20th century.

The following morning, business and

community leaders were invited to attend an economic forum at Southwest Technology Center. George spoke about her views on the national economy and answered questions from attendees about Fed structure, the balance sheet and monetary policy.

“I’ve visited Oklahoma seven times this year, and all of the visits have been great experiences, but my visit to Altus was special,” she said. “Clint introduced us to his community and business so we could learn about southwestern Oklahoma, Altus Air Force Base and the cotton industry. His hospitality made the visit exceptional.”



President Esther George, Oklahoma City Branch directors and Oklahoma City staff boarded a training aircraft while touring the 97th Air Mobility Wing at Altus Air Force Base.

ALTUS, OKLAHOMA

“Our goal in visiting Altus is to help the public better understand the Federal Reserve and its actions and for us to learn the local perspective on the economy and answer any questions about the Fed.”
- Chad Wilkerson



Chad Wilkerson, vice president and Oklahoma City Branch executive, welcomes community and business leaders from southwestern Oklahoma to the economic forum at Southwest Technology Center.



Board members were able to experience the latest technology in agricultural equipment by driving harvesters during their visit.



President George and Chad Wilkerson learn about new harvesting technology used at Abernathy Farms.



Senior Vice President Diane Raley asks about skills and educational background of students and career growth opportunities on base. Students at Altus Air Force Base have the opportunity to transition from the training environment to the operational field.



President George experiences the harvest first-hand in a brush-roll cotton stripper harvester.



JESSIE BLACKWELL, CONTRIBUTING WRITER
PAM CAMPBELL, CONTRIBUTING WRITER

FURTHER RESOURCES

For further information about the Bank's Board of Directors and leadership, visit www.KansasCityFed.org/aboutus

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

AFTERMATH OF DISASTER



PHOTO BY BOB GREENSPAN

In their rebuilt home near Chapman, Kan., Ken and Deb Wood keep a frame of photos from before, during and after a 2016 tornado ripped apart the family farmstead.

STORMS, FIRES TEST PLANNING, PATIENCE

While the tornado of May 25, 2016, churned up the central Kansas countryside around Chapman, Deb Wood was huddled underneath a desk with pillows packed around her in the basement of her home.

A horrible roar, the tinkling of glass and thudding noises were the sounds Wood heard as an EF4 tornado smashed the family farmstead.

When she emerged, Wood found the house reduced to rubble, her new car mangled, machinery ground up into little pieces, and concrete slabs where 10 outbuildings once stood.

She and her husband, Ken Wood, own a

2,400-acre farm that has been in the family since the 1940s.

“We had to decide whether to rebuild or walk away,” she said. “We chose to continue farming.”

Natural disasters not only destroy property, they disrupt lives. How well and how quickly individuals and businesses can recover from such devastation often depends on how financially prepared they were before a disaster.

“Savings, credit history, credit availability—all are important to your personal outcome after the financial shock of

a natural disaster,” said Kelly D. Edmiston, a senior economist with the Federal Reserve Bank of Kansas City.

Edmiston studied the financial vulnerability and personal outcomes of individuals affected by hurricanes along the Atlantic coast from New Jersey to Texas from 2000 to 2014.

Although Edmiston studied hurricanes, tornadoes can cause the same—or even a greater degree of—destruction and disruption, he said, because they are more frequent in the region of the United States known as “tornado alley” and individuals often have less time to prepare for them.

Tornadoes cut swaths across Kansas almost every spring, and the tornado that struck the Chapman area in 2016 was a category EF4. Only an EF5—defined as winds at or greater than 200 mph—is worse in terms of wind speed, intensity and capacity for destruction. According to the National Oceanic and Atmospheric Administration (NOAA), the system that contained the Chapman tornado spawned severe thunderstorms and tornadoes over six days, causing damage adjusted for inflation estimated at \$1.2 billion in Colorado, Kansas, Missouri, Montana and Texas.

Insurance covered nearly \$1.8 million of the losses experienced by the Woods—not enough to replace everything. Yet, by also using their savings, they figured they could get by with less. For example, they replaced only two of their four tractors and two of their four pick-up trucks.

The Woods chose not to borrow or use credit cards to replace what they lost. They were both 58 at the time and realized they would, however, need to delay their retirement.

Edmiston found that overall, hurricanes tend to lower credit scores because individuals are not financially ready to repair, rebuild, relocate or have no income if their workplace closes or they are injured and unable to work.

Credit scores plummet because people may not have set aside money for emergencies

**“Savings, credit history,
credit availability—
all are important to
your personal outcome
after the financial shock
of a natural disaster.”
- Kelly D. Edmiston**



Insurance covered nearly \$1.8 million of the Woods' losses. The Woods replaced two of Ken's four tractors.



Deb Wood surveys the damage after an EF4 tornado destroyed her home May 25, 2016. She had sought shelter in the basement. With her was a “grab-and-go” box of financial records.

and they may be late paying bills. They may not have room on their credit cards for more debt and they may not qualify for a loan.

Generally, the average person has enough savings to cover 21 days of living expenses, Edmiston said. Even those considered to be the most prepared have less than 60 days’ savings.

Ken and Deb Wood were better prepared than many.

With Deb in the basement was the Wood’s financial “grab and go” box, a waterproof, fireproof box containing their passports, copies of their wills and trust, extra cash, list of financial advisers and other documents and information.

Wood, a certified financial planner, knows the importance of such a box because she teaches financial preparation as a family

resource management agent for K-State Research and Extension. She works in the central Kansas district in Salina.

She now draws on her personal experience when teaching farm families and small business owners how to protect their businesses if disaster strikes.

“I want them to think about what they would do if they woke up tomorrow without anything but the clothes on their back,” she said.

Her goal is to encourage farm families and business owners to plan ahead to make recovery easier if a natural disaster occurs.

Although the Woods regularly reviewed and updated their insurance coverage, they found they didn’t have nearly enough insurance on the contents of their workshop:

40 years of equipment and tools were underinsured. Ken Wood estimates that items valued at about \$100,000 were not insured.

They also re-evaluated where to keep some of their important documents.

“My husband lost all of his farm records that were stored in a big, heavy safe,” Wood said. “A fireproof safe was no match against an EF4 tornado.”

Edmiston says how communities prepare and respond can ease residents’ recovery.

“A lot of planning at the community level can make a difference in the financial outcome for individuals,” Edmiston said.

Wildfires on the march

On March 6, 2017, wildfires broke out in Kansas, Oklahoma and Colorado. The fire started in Oklahoma and spread to the ranches of southwest Kansas.

“The fire was traced to electrical lines whipping together and sparking,” said Elly Sneath, extension agriculture and natural resources agent in Meade County, Kan. “It was extremely windy, humidity was low, and

the grass was dry.”

By the time the fires were extinguished a few days later, tens of thousands of livestock lay dead in fields, and thousands of miles of fence were burned up.

“It was scary and eerie in this part of the world,” Sneath recalled.

Pastures were lost as well and with them, food for the surviving cattle.

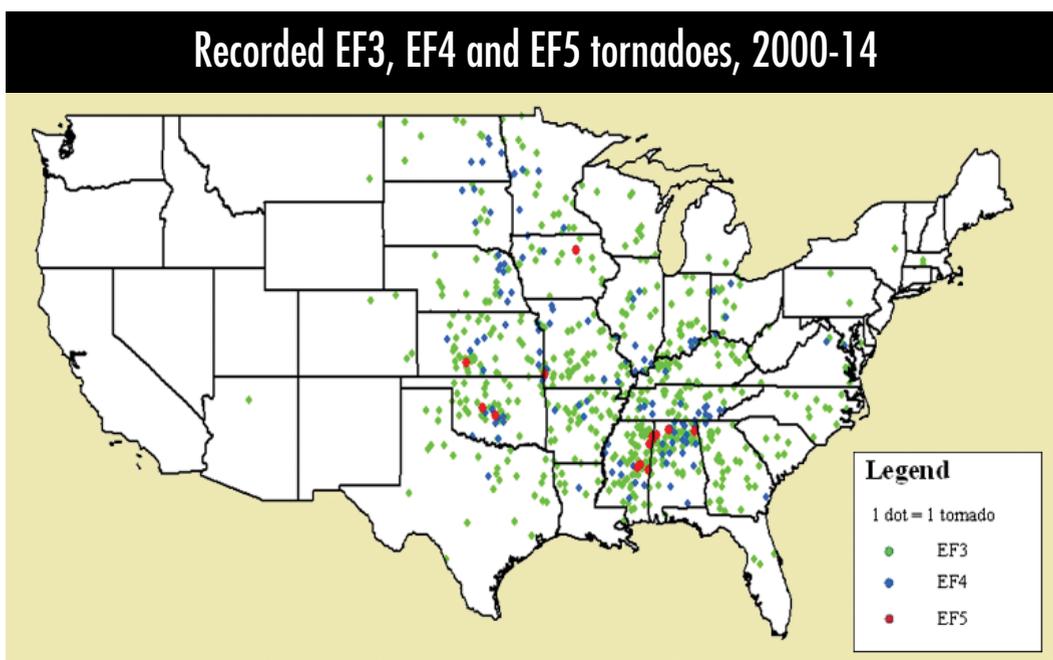
“We had to find hay and feed,” said Loren Sizelove, an extension educator in Beaver County in the Oklahoma panhandle.

Word quickly spread by social media and within days, donations of hay were being trucked in from all over the country.

To coordinate the convoys of hay and fencing supplies, Sneath said she left her office March 10 and didn’t return for a full day until April 28.

Much of her time was spent on the phone giving directions to drop-off points and helping truckers locate remote areas of the county: “ ‘Just give me an address’ doesn’t work out here,” Sneath said.

In Beaver County, Sizelove credits



Source: Federal Emergency Management Agency.

members of 4-H clubs—some from as far away as Michigan—with saving calves orphaned by the fires: “Several loads of powdered milk were donated, and 4-H kids helped bottle-feed the calves.”

Insurance, for the most part, did not cover fences. Livestock fencing costs between \$8,500 and \$10,000 a mile.

“It’s a separate policy that many people will have now,” he said.

The cost of fence insurance needn’t be prohibitive, Sizelove said. Some policies allow a rancher to insure a certain number of miles of fence, rather than a designated area.

Like Deb Wood, Sizelove teaches residents in his county how to prepare for and minimize the damage from natural disasters.

“We do programs now about wildfire,” he said. “Landscaping around a house, for example,

can reduce the risk of fire. If a tree is too close to a house, maybe it should be removed.”

“My husband lost all of his farm records that were stored in a big, heavy safe. A fireproof safe was no match against an EF4 tornado.”

- Deb Wood



Deb Wood’s new Toyota Highlander was barely recognizable after an EF4 tornado hit.



PHOTO BY GARY BARBER

Cleaning up her own home following a 2003 tornado led Carol Taylor to start her own business, A Clean Slate, a Kansas City-based commercial and construction cleaning company.

By all accounts, losses were reduced by the relief efforts of neighbors, local officials and assistance from hay producers nearby and throughout the country.

Getting back to normal

Edmiston's research found that the impulse of those who experience a natural disaster is to try to get back to "normal," to the way life was before the tornado, fire, flood or hurricane.

"There's a geographic attachment," he said. "They want to rebuild where they live."

The Woods, for example, rebuilt their house on their property but in a different location.

Carol Taylor's family also chose to rebuild and remain where they were when a tornado

in May 2003 destroyed much of their home in Gladstone, Mo., a suburb of Kansas City. In that storm event, about 400 tornadoes were reported over a week in the Midwest, the Mississippi, Ohio and Tennessee valleys, and parts of the Southeast. Inflation-adjusted damages were \$5.6 billion, according to the NOAA.

Taylor still lives in that house, but nearly everything else about her pre-tornado life has changed.

"If the tornado hadn't struck, there is absolutely no way I would be where I am today," Taylor said. "I never wanted to be a business owner."

Taylor owns A Clean Slate, a Kansas City-based commercial and construction cleaning company that employs 30 people.

It began when a builder offered to pay Taylor to clean her own house before the family moved back in after repairs were made. Until she gave the builder an invoice, Taylor said she never thought about going into business for herself.

Knowing that other tornado-damaged homes soon would need cleaning, Taylor drove around the neighborhood, leaving homemade business cards with contractors. She used her savings to start a residential cleaning service.

In 2006, her business changed direction when she was awarded a contract to clean a million square feet of space.

Construction companies, parking garages and wastewater treatment plants are now among her clients. Taylor said she recently hired a human resources manager and opened an office in Denver.

“None of this would have happened if the tornado hadn’t struck our house,” Taylor said.

Disasters can be viewed as an opportunity to make some changes, said Elizabeth Kiss, associate professor of family studies and human services at Kansas State University in Manhattan.

“Getting back to the way it was” may not be the best option.

Plan, Prepare, Prevail

Kiss oversees the “Prepare Kansas” online challenge during National Preparedness Month in September. The state campaign was started in 2013 to encourage Kansans to be financially prepared for disasters and emergencies.

“We want people to be informed ahead of time rather than reacting to a disaster,” Kiss explained.

Taking a household inventory, reviewing insurance coverage, having an emergency fund to cover deductibles are some of the recommendations. Financial preparation ahead of time and a willingness to consider

other options after a disaster may mean the difference between feeling victimized and feeling empowered.

“Natural hazards of whatever type generally do not need to be as disastrous as they are,” Edmiston said.



**PLAN.
PREPARE.
PREVAIL.**

A Disaster Financial Readiness & Recovery Blueprint

Don't wait: Take steps now

To find out more about how individuals and businesses can prepare for disaster, the Federal Reserve Bank of Kansas City has developed “Plan. Prepare. Prevail. A Disaster Financial Readiness & Recovery Blueprint.” Checklists, financial forms and resources can be found at www.kansascityfed.org/community/disasterrecovery.

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SU BACON, CONTRIBUTING WRITER

FURTHER RESOURCES

“Financial Vulnerability and Personal Finance Outcomes of Natural Disasters” by Kelly D. Edmiston, visit <https://doi.org/10.18651/RWP2017-09>

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

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 president and its programs and activities throughout the Tenth District, nation and welcoming countries. Here is a glimpse at the recent activities of President Esther L. George and the staff of the Kansas City Fed.



Before a speech in October to the Central Exchange in Kansas City, Mo., President George met with the leadership of the group, which is focused on supporting women through leadership development. Pictured from left: Debby Ballard, board chair, Central Exchange; President George; Courtney Thomas, president and CEO of Central Exchange; and Tammy Edwards, vice president of community development at the Kansas City Fed.

President George and Chantell Garrett, senior advisor in the Kansas City Fed's Community Affairs department, toured the International Union of Operating Engineers' health clinic in Kansas City, Mo. The facility, which opened in 2016, is open for the Kansas City labor union's 4,500 members and dependents, as well as about 450 retirees. It is the first health care center for a building trades union in the Kansas City area.





On Sept. 21, President George and staff toured an energy rig near Kingfisher, Okla. The tour occurred before the Bank's Energy Conference in Oklahoma City.



President George discussed the regional and agricultural economy with members of the Agriculture Business Council of Kansas City on Sept. 28. The group is focused on promoting growth and awareness of the region's food, fiber, agri-science, energy and related industries.



President George and Kansas City Fed staff toured the Ironworkers Apprentice Training Facility in Kansas City on Sept. 1. Pictured from left: Pat "Duke" Dujakovich, president, Greater Kansas City AFL-CIO; Chantell Garrett, senior community affairs advisor, Kansas City Fed; Diane Raley, senior vice president and chief of staff, Kansas City Fed; Brian Garrett, president, Iron Workers Local 10; President George; and Dave Coleman, financial secretary, treasurer and business manager, Ironworkers Local 10.



President George, center, is pictured with Ann Moore, executive director of the Center for Cowboy Ethics and Leadership, and Mark Zaback, president and CEO of the Jonah Bank of Wyoming in Casper, Wyo., at the Kansas City Fed's Audit Symposium on Sept. 6. Zaback has been a director on the Kansas City Fed's board since 2016, representing community banks.



Kansas City Fed President Esther George, left, and Omaha Branch Executive Nathan Kauffman, right, toured Think Whole Person Healthcare in Omaha and spoke with Joe Miller, chief medical officer, and Rick Pane, chief executive officer.



President George was the keynote speaker at the Kansas City Fed's minority bankers forum, Sept. 27-28. She is pictured with two other featured event speakers, from left: Federal Reserve Gov. Lael Brainard and Herb Hardwick, founder and principal of the Hardwick Law Firm LLC. Hardwick is a member of the Kansas City Fed's Community Depository Institutions Advisory Council.

Building relationships ...



The Denver Branch held economic forums in Denver, Greeley, Pueblo and Durango, Colo., sharing the latest trends in the regional economy and the national outlook. Economists also held small roundtables with business and community leaders along with visits to area universities and colleges to speak to students.



More than 65 George Washington High School students participated in Career Day at the Denver Branch. The program shared information about education paths; potential careers; dressing for success; and working in an office setting. Barb Szalwinski and Brandon Sobotka, both bank examiners in the Supervision and Risk Management department, answered students' questions.



At their December meeting, members of the Albuquerque Student Board of Directors formed groups for a team-building exercise. The challenge was to build the tallest freestanding structure using only a bag, string, tape, spaghetti and a marshmallow.



The Federal Reserve Bank of Kansas City, in partnership with the Colorado Bankers Association and the Independent Bankers of Colorado, held an event called "Banking and the Economy: A Forum for Women in Banking." The forum is designed to provide senior level and high-potential middle management women bank leaders from Colorado, New Mexico and Wyoming with industry, leadership and professional development knowledge that will enhance their careers and networks.



Public and Regional Affairs staff hosted an economic forum and business roundtable in October in Ponca City, Okla. Chad Wilkerson, Branch executive, vice president and economist at the Federal Reserve Bank of Kansas City, Oklahoma City Branch, spoke at the forum, which was attended by 80 business leaders from northern Oklahoma and southern Kansas.



Community Affairs partnered with the Oklahoma Homebuyer Education Association for the organization's annual training conference. Jeremy Hegle, senior community development advisor, led a session to educate attendees on how homebuyer educators can meet the financial education needs of their clients.



Community Affairs hosted a breakfast in September called Work Ethic: The Critical Skills for the 21st Century Workforce at the Oklahoma City Branch to explore strategies for building the work ethic within schools, businesses and communities. Josh Davies, chief executive officer of The Center for Work Ethic Development, addressed employability and soft skill development in the workforce. Attendees left with a better understanding of the core behaviors that define work ethic and research-based methods for integrating work ethic development into training and work settings.



In October, Kansas City Fed President Esther George was the keynote speaker at the University of Oklahoma's Price College of Business dinner in Norman, Okla. Pictured are Chad Wilkerson, Oklahoma City Branch executive; Daniel Pullin, dean of the Price College of Business; Esther George; Christopher Turner, chief financial officer and president of The First State Bank; Pete Delaney, Chairman of the Oklahoma City Branch Board; and J.D. Baker, OU Student Government Association president and former Oklahoma City Branch intern.



Omaha Branch Executive Nathan Kauffman shared an update on key trends in Omaha's economy as part of the Greater Omaha Chamber's Economic Outlook Luncheon. Nearly 800 business leaders gathered to learn about the economy and the city's Greater Omaha 2040 initiative. (photo credit: C41 Photograph)



In October, the Omaha Branch welcomed students from four Omaha high schools as members of the 2017-18 Student Board of Directors.



The Omaha Branch joined with the University of Nebraska at Omaha's College of Business Administration on Nov. 2 to host 53 students from Omaha Bryan High School for the Federal Reserve Financial Education Day.



During the Holiday Reception Nov. 30 at the Omaha Branch, President George visited with Mike Pate, president and CEO of United Republic Bank, and Omaha Branch Board member, John Bourne, retired international representative, International Brotherhood of Electrical Workers.

Ask an Economist...

How can balance sheet adjustments affect monetary policy?



A. Lee Smith

During and after the recent global financial crisis, asset purchase programs substantially increased the size and share of longer-term assets on the Federal Reserve's balance sheet. These large-scale asset purchases (LSAPs)—also known as quantitative easing or QE—were used to provide additional monetary accommodation when the federal funds rate was constrained by the zero lower bound. Economic and

financial conditions improved considerably. Therefore, the Federal Open Market Committee (FOMC) started on a path of gradual interest rate increases in December 2015 and in October 2017 began the process of shrinking the Fed's balance sheet. Economist A. Lee Smith has examined how the Fed's balance sheet holdings can affect a broad range of financial conditions, including interest rates.

What is the size of the Fed's balance sheet and what does it include?

The Federal Reserve's balance sheet has grown from about \$900 billion to almost \$4.5 trillion over the past decade. The balance sheet is audited annually by an independent audit firm and is available to the public on the website of the Federal Reserve System's Board of Governors: www.federalreserve.gov. The Fed's assets mainly include a securities portfolio of System Open Market Account (SOMA) holdings. Prior to the use of LSAPs these assets consisted primarily of shorter-dated Treasury securities. Now the SOMA portfolio mainly comprises longer-dated Treasury securities and agency mortgage-backed securities. The Fed's liabilities mainly consist of Federal Reserve notes in circulation (currency) and depository institution deposits (reserve balances).

What will happen to interest rates now that the Federal Reserve has started to shrink its balance sheet?

The use of LSAPs lowered long-term interest rates by increasing the price of the assets the Fed purchased. For most assets, buying and selling by one investor is unlikely to affect the price. But given the sheer size of purchases made by the Federal Reserve, research suggests the FOMC was successful in increasing the price of the government and agency debt that it purchased. Since bond prices and yields move in opposite directions, the higher price equated to lower interest rates. Shrinking the balance sheet in a predictable manner over the coming years is expected to gradually reverse these price increases. In other words, interest rates are expected to modestly rise as the Fed shrinks its portfolio of bonds.

What is the outlook for the Fed's balance sheet?

The Federal Reserve's plan for reducing its balance sheet is to gradually allow maturing securities to roll off each month. In other words, the FOMC doesn't plan to sell the securities on its balance sheet. To achieve a gradual and predictable reduction in its balance sheet, the FOMC has put pre-set caps on the amount of securities that are allowed to roll off each month. Guidance from the FOMC indicates that the balance sheet will be smaller than it is now but larger than it was before the crisis.

More information about this subject is available at www.kansascityfed.org/publications/ten: Read "Forecasting the Stance of Monetary Policy" by A. Lee Smith; see Smith's video presentation; and read a 2017 speech about the balance sheet by Kansas City Fed President Esther L. George.

From campus to corporate: College students compete in the 2017 KC Fed Code-A-Thon



From left, Ryan Evans and Tyler Hein are members of the Mules 2 team from the University of Central Missouri. Their team took second place in the competition.

Evaluating the work of 56 college students can be challenging—especially when the work they’ve all done is exceptional.

That’s what the judges of the 2017 KC Fed Code-A-Thon faced when assessing the software solutions of 13 teams from eight universities in the Tenth District.

“It was extremely challenging for our judges to narrow it down to three teams,” said Margery Sendze, who is the technology manager of the Kansas City Fed’s TechEdge program and oversees the Code-A-Thon.

The goal of the Code-A-Thon is to encourage and inspire computer science and engineering students to participate in developing application solutions by challenging participants to choose a real-life problem,

reimagine it and create a meaningful solution.

This year’s Code-A-Thon began Oct. 13 with Brian Faros, vice president and CIO, Application Delivery Services, revealing this year’s challenge, “From Campus to Corporate,” to the participating teams via YouTube Live. Once the challenge was revealed, the students had 48 hours to create a software solution that would help college graduates transition into today’s workforce.

Adam Bairos, a member of one of the competing teams, said the entire project, not just one single aspect, was challenging for him and his teammates.

“The goal was to keep it simple and not stop working,” he said.

At the end of the 48 hours, Bairos’ team was one of two from the University of Central Missouri chosen as a top three finalist; a team from Kansas State University rounded out the top three.

The teams then had about a week to prepare a presentation about their software solutions. They gave the presentations Oct. 26 at the Kansas City Fed’s headquarters in front of a panel of judges and a room full of spectators, including Code-A-Thon committee members, representatives from each school and Kansas City Fed employees.

“The most important quality to any group’s success is their ability to come together to form a cohesive, collaborative and diverse team,” Faros said. “All of our student participants proved, through their commitment to teamwork, impressive outcomes can be achieved in a short period of time when everyone is laser focused on the same outcome, each works to complete their personal tasks, and communication is open and often.”

The University of Central Missouri “Mules 1” team won the challenge for its Social Media Sanitizer program that cleans up a college graduate’s social media profile. The team members—Allen Anthes, Marc Funston, Kyle Gorgas, Samantha Stanley and Demetrius Huff—developed the program based on a statistic Funston read about how employers eliminated 44 percent of job candidates by evaluating jobseekers’ social media content.

The runner-up team, Mules 2, consisting of Bairos, Ryan Evans, Justin Durham, Tyler Hein and Michael Minzey, created an application called Grapevine that helps graduates, who are either seeking a job or who have recently accepted a job, find mentors within their field.

The Kansas State team, Wildcats 2, comprised of Alex Todd, Kyle Eisenbarger, Tyler Aden and Tristan Mansfield, took third with its program that provides employers a web-based central platform to communicate company events and other information to employees, similar to a corporate intranet platform.

“I really enjoyed participating in it,” Aden said.

He added that the challenge gave him a great opportunity to work with students he had not worked with before on a collaborative project and to learn about different applications and processes.

For its team support, and for its participation in the overall event, the University of Central Missouri received the 2017 University Code-A-Thon Champion. Last year’s winner was the University of Kansas.

Two students who participated in last year’s Code-A-Thon now work at the Kansas City Fed.

“The Code-A-Thon helped me develop professional skills such as teamwork, communication, project organization

and software development languages and processes,” said Eli Gaitley, who was an intern in Application Delivery Services. “It’s a great break from school and allowed me to unleash my creativity in one weekend.”

Omar Alzubbi, currently in the TechEdge program, said: “The KC Fed Code-A-Thon is a great opportunity to take on a unique and rewarding challenge. It allowed each of us to identify our individual strengths while finding a good balance for collaborative work.”

Sendze says the Kansas City Fed has made a concerted effort to invest in growing and developing a technology savvy workforce.

“It is a commitment we take seriously,” she said. “The KC Fed Code-A-Thon is an extension of this commitment. It allows us to inspire and encourage students to come together, co-create, learn and grow.”



PHOTO BY GARY BARBER

The University of Central Missouri “Mules 1” team won the challenge for its program that cleans up college graduate’s social media profiles. Team members include, from left, Marc Funston, Allen Anthes, Kyle Gorgas, Samantha Stanley and Demetrius Huff.

Federal Reserve Consumer Help turns 10

If consumers had a problem with a bank or other financial institution 10 years ago, they might not have known where to get help quickly. And when a request was filed, each Federal Reserve District and the Board of Governors handled consumer complaints and inquiries independently, with no publicity, consistency, conformity or centralization.

But that changed in 2007 with the launch of Federal Reserve Consumer Help (FRCH), a centralized operation of the Federal Reserve System—housed in both the Kansas City and Minneapolis districts—that assists consumers in filing complaints involving financial institutions and with their inquiries related to the federal consumer protection laws and regulations.

In October, FRCH celebrated its 10-year anniversary. The anniversary marks a decade

of responding to consumer complaints and inquiries related to federal consumer protection laws, such as the Equal Credit Opportunity Act, Fair Credit Reporting Act and the Truth in Lending Act.

“That’s what FRCH has brought to the System: the consistent consumer experience,” said Senior Examiner Alinda Murphy, who was responsible for receiving complaints for the Tenth District prior to the creation of FRCH. “Now individuals get the same friendly customer service each time, with all the amenities FRCH can provide, such as transferring to other agencies and a wealth of knowledge.”

The Federal Reserve Bank of Kansas City and Federal Reserve Bank of Minneapolis Customer Contact Centers (CCCs) and Divisions of Consumer Affairs partnered in the centralization initiative in 2007 to improve responsiveness to consumers, increase public visibility and access, and foster internal efficiency.

Since the CCCs had already been established in the two districts, the proposal for FRCH leveraged the call center services infrastructure. This was combined with the Consumer Affairs Divisions’ knowledge of the federal consumer protection laws and regulations and processes for handling complaints and inquiries.

“We are well-versed in dealing with call center operations and a large volume of people coming to us with outward-facing issues,” FRCH Manager Timothy Morris said. “We are unique that way, as we have wide-ranging consumer protection knowledge, solid customer-facing skills and a strong infrastructure.”

Visit FederalReserveConsumerHelp.org for more information.



The Federal Reserve Consumer Help team, from left, Sherri Landreneau, Sonia Gonzales, Horacio Rodriguez, Pamela Shamblin, Ka Vang, Marla Wilson, Cindy Lucier, Alfred Mukamuri, Judy Chronister, Robert Pederson, Timothy Morris and Angel Cox. Not pictured: LaAndrea Thomas.

Federal Reserve Gov. Brainard visits Kansas City to gain insight on community development programs

The Federal Reserve System operates under a dual mandate: price stability and maximum sustainable employment. While decisions of the Fed System are affected greatly by researchers, statistics and data, they also are informed through community interaction. (See photo, p. 33)

Lael Brainard, as a member of the Federal Reserve Board of Governors, has oversight of the System's community development initiatives. In the last year, she has integrated community tours into her schedule to gain a better understanding of what and how issues are affecting communities, and how the 12 regional Federal Reserve Banks engage the communities they serve.

Brainard visited Kansas City in September to speak on labor market issues at the Kansas City Fed's conference, "Banking and the Economy: A Forum for Minority Bankers." After her speech, Brainard, who is interested in innovative workforce development initiatives, toured the Full Employment Council (FEC) in Kansas City's historic 18th and Vine district.

Clyde McQueen, FEC president/CEO and a former member of the Kansas City Fed's Community Development Advisory Council, explained how the FEC is partnering with community colleges, traditional universities and employers to create industry-informed job training programs in the information technology field.

During the tour, Brainard met with participants in the FEC's current Java boot camp. The eight-week program creates a fast, just-in-time training track for individuals who have the aptitude (based on skills assessment) and interest in coding.

Brainard then had a roundtable conversation with recent graduates of the FEC's Reboot U



PHOTO BY ANGELA ANDERSON

Lael Brainard, center, a member of the Federal Reserve Board of Governors, toured the Full Employment Council's offices in Kansas City's historic 18th and Vine district.

program, an accelerated technology training program for the chronically unemployed.

"While our economy continues to recover from the Great Recession, we face an employee shortage in well-paying, high-growth sectors, such as information technology and health care," McQueen said. "At the same time, we have a sizeable population in need of jobs, but which lacks the necessary skills and training. Through innovative partnerships with employers and higher education, we can help individuals retool their skillsets for successful career paths."

To learn more about the Federal Reserve's community development practices, visit www.KansasCityFed.org/community.

Energy Conference 2017: prospects for a greater balance



Jill Cremer, senior director, Point of View Development, Flint Hills Resources, speaks on the global demand outlook for energy during the 2017 Energy Conference in Oklahoma City.

The Federal Reserve Banks of Kansas City and Dallas had their second joint energy conference in September, focusing on global oil supply dynamics, the global oil demand outlook, and the oil and gas regulatory environment.

As energy continues to grow, but at a much slower pace, it's important to evaluate all aspects of the industry. This includes supply and demand, regulation, employment, employee hours, wages and benefits, access to credit, revenues and profits. About 250 attendees participated in the conference, which was preceded by an energy rig tour. (See photo, p. 32).

The conference, "Global Oil Supply and Demand: Prospects for Greater Balance," included keynote speakers and panelists such as:

Esther George, president Federal Reserve Bank of Kansas City

Scott Nyquist, senior partner, McKinsey & Co.

Mark Finley, general manager of Global Energy Markets, BP

Jill Cremer, senior director, Point of View Development, Flint Hills Resources

Robert Kleinberg, fellow, Schlumberger

Kevin Muehring, senior managing director, SGH Macro Advisors

Mark Finley, general manager of Global Energy Markets, BP

Robert Kaplan, president of the Federal Reserve Bank of Dallas

Christi Craddick, chairman, Railroad Commission of Texas

Dana Murphy, chairman, Oklahoma Corporation Commission

John Shackelford, senior examiner, Federal Reserve Bank of Cleveland

Harold Hamm, chairman and chief executive officer, Continental Resources

Doug Lawler, president and chief executive officer, Chesapeake Energy

Bobby Tudor, chairman, Tudor, Pickering, Holt & Co.

Tim Dove, president and chief executive officer, Pioneer Natural Resources

Learn more about the Kansas City Fed's Oklahoma City Branch at www.KansasCityFed.org/OklahomaCity.

CRA reaches 40-year milestone

The Community Reinvestment Act (CRA), enacted in 1977, turned 40 in October.

“The CRA basically encourages bank lending, investment and service activities in low- and moderate-income (LMI) neighborhoods,” said Community Development Advisor Ariel Cisneros, who works on identifying and meeting the CRA informational needs of bankers, community organization representatives and government officials in the Tenth District.

Along with providing resources to emerging CRA partnerships and opportunities, the Federal Reserve System also plays an important role in implementing the CRA by conducting examinations to regularly assess Banks’ records in terms of meeting local credit needs and requires those records to be taken into account when institutions apply for branches, mergers, acquisitions and other applications that require regulatory approval.

“We work closely with our colleagues in Consumer Affairs that examine banks for their CRA and other consumer compliance,” Cisneros said.

Over the past 40 years, the financial landscape has changed significantly, and these changes have affected the coverage, process and structure of the CRA, and financial institutions’ effectiveness in meeting the goals of the Act. CRA coverage now includes consumer and business lending, community investments, and low-cost services that would benefit LMI areas and entities.

Since the CRA’s enactment, public–private partnerships have blossomed, allowing banks to work with local governments to address some of the more difficult community and economic development problems in their communities.

“These partnerships have successfully leveraged bank capital by offering credit enhancements that help make private investment possible,” Cisneros said.

As a way of commemorating the CRA’s anniversary, the Kansas City Fed is highlighting CRA OneSource, a one-stop resource for CRA tools, templates, videos and guides.

CRA OneSource is designed to assist bankers and community leaders with CRA tools and resources. The site is a valuable resource for those new or familiar with CRA. All materials on CRA OneSource are developed by the Federal Reserve Banks, Federal Deposit Insurance Corp., Office of the Comptroller of the Currency and the Federal Financial Institutions Examination Council.



For more information about CRA OneSource and related resources, visit www.KansasCityFed.org/community/cdi/craonesource.

Minority Banking Conference provides opportunities for development

The Federal Reserve Bank of Kansas City, in partnership with the Federal Reserve Board of Governors and the Federal Reserve Banks of Atlanta, Minneapolis, Philadelphia, Richmond and St. Louis, hosted the second annual Banking and the Economy: A Forum for Minority Bankers Sept. 27-28 in Kansas City. (See photo, p. 33)

The Forum is designed to provide senior level or high potential middle management minority bank leaders with industry, leadership and professional development knowledge that will enhance their careers and networks.

Forum topics included:

- Cultural Intelligence
- Cybersecurity
- Leadership Development and Effectiveness
- Overview of Banking and the Economy
- Panel discussion with top bank leaders
- U.S. Economy and Monetary Policy

Attendees also received resources and had the opportunity to network with other professionals.

For conference presentations and other event information, please visit www.KansasCityFed.org/events, and look under the 2017 September events heading.



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.

Colorado B&TC of La Junta	La Junta	Colo.	94
Lusk State Bank	Lusk	Wyo.	84
St. Mary's State Bank	St. Mary's	Kan.	82
Community B&TC	Neosho	Mo.	76
Oklahoma Capital Bank	Tulsa	Okla.	26
Community State Bank	Poteau	Neb.	23
Adams B&TC	Ogallala	Okla.	23
Union State Bank	Arkansas City	Kan.	22
Exchange Bank of Missouri	Fayette	Mo.	22
Missouri Bank II	Sedalia	Mo.	22
Bank of Star Valley	Afton	Wyo.	22
Emerald Bank	Burden	Kan.	20
First State Bank	Commerce	Okla.	20
Exchange B&TC	Perry	Okla.	20
Bank of Wyandotte	Wyandotte	Okla.	20
InterBank	Oklahoma City	Okla.	10
Platte Valley Bank	Torrington	Wyo.	10



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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, a government agency in Washington, D.C.

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 Dec. 23, 1913, and the 12 regional Federal Reserve Banks opened Nov. 16, 1914.

The Federal Reserve Bank of Kansas City



The Federal Reserve Bank of Kansas City and its Branches in Denver, Oklahoma City and Omaha serve the Tenth Federal Reserve District, which encompasses Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming. As a part of the Federal Reserve System, the Bank participates in setting national monetary

policy, supervising and regulating numerous commercial banks and bank holding companies, and providing other services to depository institutions.

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