

# TEN

FEDERAL RESERVE BANK OF KANSAS CITY

Winter 2017

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**In the wake of Brexit**

**Assessing farmland values**

**Housing's new horizon**

**A drag on productivity growth**

# ROCK THE FED

Teaching students personal finance

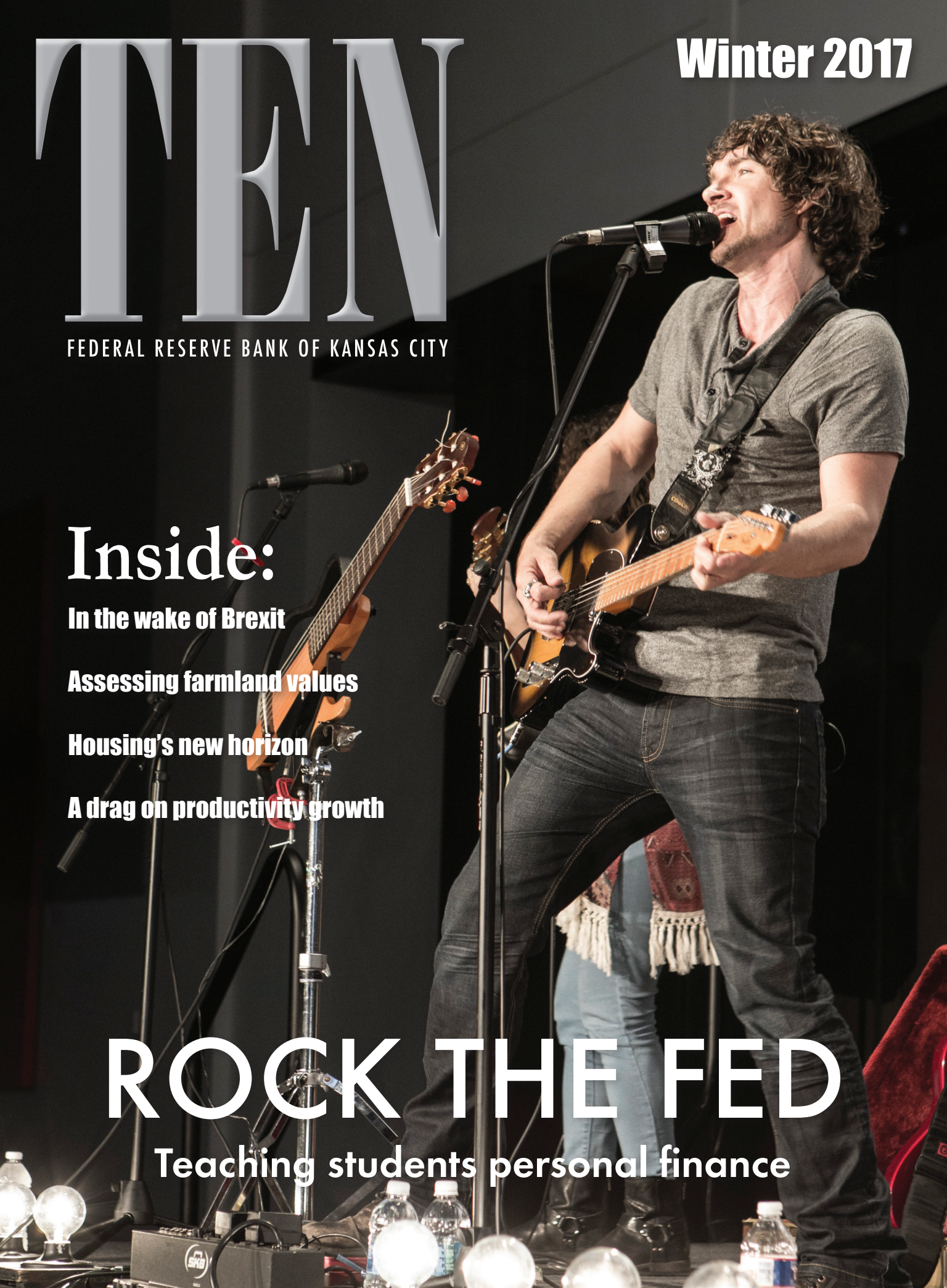




PHOTO BY GARY BARBER

# On The Cover:

# TEN

Winter 2017

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 Through a partnership with Funding the Future, a nonprofit that promotes financial education for young people, the Kansas City Fed organized Rock the Fed, an event that featured the band Gooding, whose members discussed personal finance concepts with area high school students. *On the cover: Gooding*

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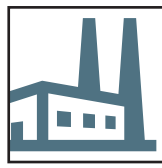
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### Challenging issues for banking in the United States

**N**early a decade after the Great Recession, supervisors and regulators continue to work on repairs to the financial system. The implementation and ongoing refinement of reforms occupies the attention of both bankers and supervisors in order to assure the public that the system is safer. Considerable emphasis has been placed on developing better macroprudential frameworks, and in the United States, this remains a work in progress. This means supervisors must continue to carefully assess individual bank risks in today's challenging landscape influenced by monetary policy and other economic drivers as well as innovation.

With this as the backdrop, I see three key issues that confront the U.S. banking system today: a low interest rate environment; technological disruption; and ongoing implementation of regulatory changes and supervisory expectations. These views are mine and not necessarily those of others in the Federal Reserve System.

#### Banking structure in the United States

The U.S. economy is characterized by businesses in a wide range of sizes that are spread across a large geography and require a variety of banking services. For most of the United States' history, our banking system mirrored this structure and, as a result, was a key source of strength for innovation and growth that helped create the world's largest and most dynamic economy. Historically, the vast majority of banks in the United States have been relatively small. These community banks provide the specialized services that small businesses need

to prosper and grow, and serve households that need to save and invest. Large banks, meanwhile, provide the services that large businesses need to maintain a competitive advantage for operating nationally and internationally.


Over the past 30 years, however, the structural characteristics of the U.S. banking system have changed dramatically due to a variety of market and regulatory developments. While the number of U.S. banks is still quite large at more than 5,000 institutions, it is about one-third the number of banks that existed in the mid-1980s. The decline is due entirely to a drop in the number of banks with less than \$1 billion in assets, while the number of large banks increased over this period. This consolidation continues today.

Much of the consolidation before the most recent financial crisis was the result of two factors:

- A large number of bank failures due to problems in agriculture, energy and commercial real estate in the early 1980s through the early 1990s; and
- The relaxation of geographic restrictions on branch banking and ownership within and across state lines in the mid-1990s that led to an increase in mergers.

One of the most significant developments of this period of consolidation has been the extraordinary rise in the dominance of the largest banks. In the 1980s and early 1990s, the shares across bank sizes were about the





same, roughly in the range of 25 to 30 percent. Overall, this generally even distribution of bank sizes supported small rural businesses, to midsized commercial interests, to the country's largest domestic and global firms. By the mid-1990s, however, asset growth of banks larger than \$50 billion in assets accelerated, leading to a three-fold increase in their market share to nearly 75 percent. Since 2008, the largest of these banks have had to refocus their efforts. They have pulled back their mergers and acquisition efforts, mortgage expansion programs and commercial real estate activities. Instead, they have had to focus on reducing excessive leverage, managing their operational and legal risks, and complying with the increased consumer protection, safety and soundness and financial stability regulations. As a result, their market share has stabilized as asset growth slowed to the same rate as smaller banks.<sup>1</sup>

Merger activity slowed through the financial crisis, but soon after resumed a healthy pace. Since 2010, the number of U.S. banks has fallen by 20 percent. Some of the decline initially resulted from failures, but since 2011, mergers have driven industry consolidation. There also has been a lack of new entry. Only three new banks have been chartered since 2010.

In any given industry, the lack of new entrants can signal trouble. Market saturation and economies of scale can create barriers to entry and discourage diversity and competition. In the case of the U.S. banking sector, a variety of reasons have been suggested for the lack of entry in recent years. I will focus

on three challenges that may explain in part the lack of new entrants, but more generally are viewed as headwinds to the banking industry: a low-interest-rate environment, technological change and regulatory compliance.

## **The challenge of low interest rates**

Notwithstanding the objectives of monetary policy to support economic growth, the persistence of historically low interest rates since 2008 has negatively affected bank profitability. While the return on assets for U.S. banks has largely recovered from the crisis, it remains some 30 basis points lower in the current economic environment than what we saw prior to the crisis.<sup>2</sup> With relatively weak demand for loans and other services, Federal Reserve research finds the “low-for-long” interest rate environment hurts bank net interest margins and could well deter the formation of new banks.<sup>3</sup>


Net interest margins have fallen for both large and small banks. For large banks, margins are 40 basis points lower than the recession trough. For smaller banks, net interest margins remain near 30-year lows with a larger impact on earnings because smaller banks traditionally tend to be commercial lenders and depend almost exclusively on interest incomes as a source of revenue. In addition, these smaller banks face increased interest rate risk from this revenue source as they extend durations on their assets to improve yield. The current level of margins is supported by research at the Federal Reserve Bank of Kansas City, showing a

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<sup>1</sup> From 1993 through 2008, the annual asset growth for the large banks was less than 10 percent in only two years. Their share of industry assets rose from 24 percent to 74 percent. Since 2009, the large-bank growth rate has slowed to 6.5 percent.

<sup>2</sup> Return on assets for large and small banks averaged about 1.3 percent pre-crisis and have been about 1.0 percent since 2012.

<sup>3</sup> “Low-for-long’ Interest Rates and Net Interest Margins of Banks in Advanced Foreign Economies,” Stijn Claessens, Nicholas S. Coleman and Michael Donnelly, Board of Governors of the Federal Reserve System, *IFDP Notes*, April 11, 2016.



stable relationship between short-term interest rates and margins over business cycles to the mid-1970s.<sup>4</sup>

I also have been particularly concerned that keeping rates too low can misallocate capital and create incentives to reach for yield, exposing lenders to higher risks when short-term rates do rise. More generally, as we have witnessed, interest-sensitive sectors can take on too much debt in response to low rates and grow quickly, then unwind in ways that are disruptive. We saw this during both the housing crisis and the current adjustments in the energy sector in the United States.

## **The challenge of technological change**

A second challenge facing the banking industry is a rapidly changing landscape for lending and payments mechanisms. Often referred to as disruptive technology, this change moves in the direction of improving productivity and efficiency across all sectors of the economy even as it alters existing business models. In the the banking industry, technological change is challenging existing bank business models for lending and for how individuals and businesses make payments. New sources of competition have emerged from financial technology—or so-called fintech—firms. This competition can force banks to become more efficient within their own operations, and in some cases, banks are partnering with fintech firms to effectively respond to this changing marketplace.

The demand for online and mobile banking products, while an efficient and easy

way for customers to access banking services, is costly for banks to implement, especially small banks or new entrants. Banks must have the personnel and infrastructure to provide these services while maintaining protections against unauthorized access of systems and confidential customer information.

In January 2015, the Federal Reserve released *Strategies for Improving the U.S. Payment System*. This is a multiyear plan focused on improving the speed, efficiency and safety of the U.S. payment system from end-to-end to meet the growing demands of American consumers and businesses as they continue to shift toward e-commerce and internet-enabled technologies in their daily transactions.

Central banks around the world have used government mandates to provide the control and direction needed to complete large-scale national initiatives such as payments system improvement. In the United States, the absence of a government mandate and recognition that significant investments in legacy systems were in place led the Federal Reserve to take a different approach.

Two task forces were created with some 500 members—one focused on faster payments and the other on the security of payments. Membership across these groups is broad-based and includes technology providers; small, medium and large financial institutions; payments networks; trade associations; business end-users and consumers; and a small number of government officials. In 2017, the Faster Payments Task Force will issue a public report assessing potential solutions.

Progress on bringing faster payments

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<sup>4</sup> “What Explains Low Net Interest Income at Community Banks?” Charles S. Morris and Kristen Regehr, Federal Reserve Bank of Kansas City, *Economic Review*, Second Quarter, 2014.

to the United States must keep in focus the fundamental responsibility to ensure the overall safety and integrity of the payment system. Today's dynamic, persistent and escalating security threats are challenging public confidence in the U.S. payments system. The growing scale, sophistication and global nature of cyberthreats along with the proliferation in points of vulnerability has made security a key priority for the banking industry and for central banks and regulators around the world. Real-time payments present some familiar and some new risks. Experiences around the world and here in our own systems prove that these risks can be effectively managed and real-time payments can be safely and securely provided.

These efforts all promise to produce valuable information, tools and insight for the industry. Driving widespread adoption of security improvements, however, remains a considerable challenge. Although U.S. payment system security is strong, keeping pace with the rapidly evolving and expanding risks that threaten the payments ecosystem is a

key challenge. The Federal Reserve's priority in this important initiative has been to advance and support improvements that are in the public interest and will contribute to long-term financial stability and economic growth.

## Regulatory compliance challenges

The regulatory compliance challenges that banks face today are, of course, a reflection of the evolving nature of the industry. In the United States, changes over the past three decades produced a highly concentrated banking system with a small number of systemically important banks and thousands of smaller institutions. The stress of the financial crisis revealed the associated systemic risk to the broader economy and its taxpayers.

The international and U.S. response to the financial crisis was a host of new rules and regulations for capital, liquidity and resolution planning, to name a few. Now, with the associated increases in regulatory costs

Kansas City Fed President Esther George spoke Oct. 19 at the Bank for International Settlements Eleventh High Level Meeting in Mexico City.



and lower profits, there are calls for halting or rolling back regulations. Thousands of small banks argue that regulatory burden threatens their long-term viability and ongoing business model as traditional lenders providing access to credit in small and rural communities. For bank regulators, questions remain as to the effectiveness of the new regulations to solve the too-big-to-fail problem and whether the cost of capital will constrain credit growth. Several legislative proposals have been brought forward to address these issues, but they often are based on ideological views of pulling back or expanding regulation as opposed to solving the problem at hand.

In the long run, my own view is that capital is the best regulator of risk because it is well-positioned to absorb losses by putting shareholders' money at risk. Putting owners' equity at risk also creates important incentives for allocating capital to its most productive use and for pricing risk appropriately. Indeed, enhanced capital regulations have significantly raised tangible common equity leverage ratios from the historically low pre-crisis levels for large banks. Yet, these ratios remain a full percentage point lower than for smaller banks.

Regulations work best when they appropriately align incentives and risk-taking. The current bank regulatory environment reflects the complexities of the banking system itself. Whether these regulations have been effectively calibrated to achieve their aim will be debated. Certainly, the largest banks should internalize both the private operating costs and social costs of the risk they pose to the financial system and economy.

## Looking ahead

U.S. banks, both large and small, face a challenging environment today in terms of low interest rates and a rapidly evolving technology delivery system for lending and making payments that is raising competitive pressures and posing new security risks. The industry also faces a challenging regulatory environment, one that is complicated by decades of major structural shifts. These changes have resulted in a handful of banks that pose systemic risk to the economy and the financial system, with thousands of smaller banks serving the credit needs of smaller communities and rural parts of the country.

Ultimately, our goal must be to provide an incentive-compatible policy framework that supports strong economic growth and financial stability. We are on the right path for providing a safe and efficient payment system to support economic growth. However, we have much more work to do in ensuring banks are not too big to fail, that we do not drive smaller banks that provide important public value out of the market, and that our interest rate policies do not create disruptive structural imbalances for which there are no tenable policy options.



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

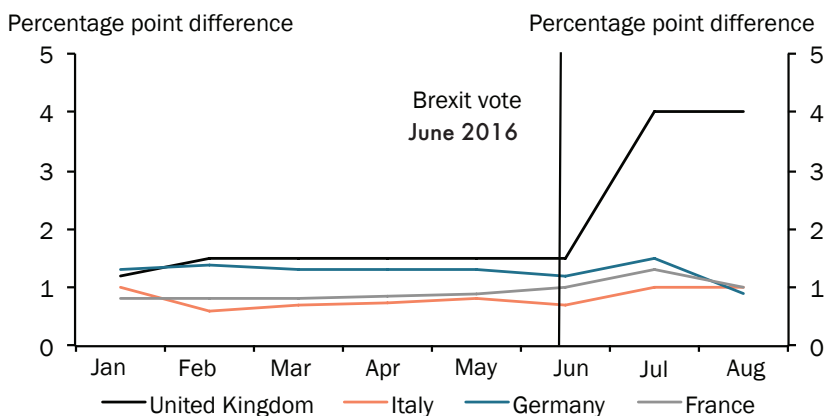
The text is from a speech George gave Oct. 19 at the Bank for International Settlements Eleventh High Level Meeting on Global Banking Standards and Supervisory Priorities in the Americas in Mexico City.

# In the wake of BREXIT

## A look at global economic uncertainty



The United Kingdom's decision to leave the European Union, popularly known as Brexit, has raised uncertainty about the near-term and long-term economic growth of the U.K. and the eurozone, and the commercial and financial relationships between the United Kingdom and European countries. These uncertainties also influence the U.S. economic outlook, says Craig S. Hakkio, a senior vice president and special advisor on economic policy, and Nicholas Sly, a senior economist, at the Federal Reserve Bank of Kansas City.



### UNCERTAINTY ABOUT NEAR-TERM GROWTH

Uncertainty about U.K. near-term economic growth increased dramatically following the Brexit vote. The difference between high and low 2017 forecasts for U.K. growth rose to 4 percentage points while the difference in other European nations' forecasts increased by less than a percentage point. Moreover, growth uncertainty for large European economies dissipated almost entirely two months after Brexit, while risk remained elevated.

### UNCERTAINTY AMONG U.S. TRADE PARTNERS

Global uncertainty about near-term economic growth experienced little change even as financial volatility increased after the Brexit vote. Hakkio and Sly constructed an uncertainty index using various economic measures, including high and low growth forecasts for 17 of the United States' largest trading partners. The level of uncertainty index remained near its lowest value observed over the last decade. In contrast, following the Brexit vote, foreign financial volatility spiked, which was among the largest one-month increase observed over the last decade.



Note: Gray bar indicates recession.





## U.S. ECONOMIC OUTLOOK

Heightened uncertainty about near-term foreign growth and greater financial volatility among U.S. trading partners each act as an independent drag on the demand for U.S. exports. Near-term export activity may face some headwinds, but the potential drag on economic growth through these channels is limited. In particular, U.S. exports account for approximately 12 percent of GDP. Only a quarter of those exports are to the European Union, and less than 1 percent is to the U.K.

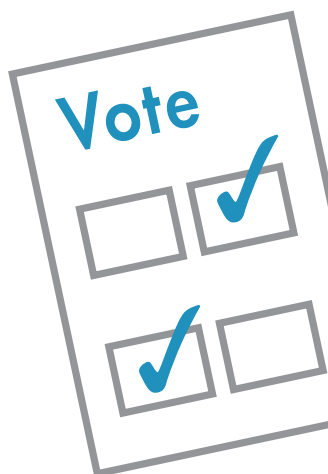
## THE EFFECTS OF MEDIUM-TERM TRADING POLICIES

The European Union and United Kingdom will likely negotiate future commercial financial policies for several years, creating uncertainty about trading policy. Over the medium term, if reductions in trading activity due to policy uncertainty within Europe reduce overall growth, the resulting reduction in demand for U.S. goods could act as an additional headwind to growth that may not be resolved for a couple of years.



## U.K. AND EUROPEAN UNION LONG-TERM GROWTH

Once negotiations conclude, Brexit will result in structural economic shifts that have implications for the United Kingdom and euro area's long-term growth. It will likely place limits on worker flows, which will affect labor market outcomes. The median forecast in February, before the Brexit vote, for U.K. growth between 2024 and 2028 was 2.2 percent. After the vote, the forecast declined to 2 percent in August. The eurozone growth forecast for the same period actually rose from 1 percent to 1.4 percent.



## THE OUTCOME

Overall, the U.K. vote to leave the European Union put several sources of uncertainty for the global economy front and center. Short-term and longer-term uncertainty are likely to lead to some reduction in U.K. GDP and potentially longer-run growth, but the transmission to the United States is likely to be small.

## FURTHER RESOURCES

**"Global Uncertainties in the Wake of Brexit"**  
by Craig S. Hakkio and Nicholas Sly  
[www.KansasCityFed.org/research](http://www.KansasCityFed.org/research)

**"Global Uncertainty and U.S. Exports"**  
by Nicholas Sly  
[www.KansasCityFed.org/research](http://www.KansasCityFed.org/research)

**COMMENTS/QUESTIONS** are welcome and should be sent to [teneditors@kc.frb.org](mailto:teneditors@kc.frb.org).

# AGRICULTURAL WEALTH

Assessing the dispersion of farmland values in the Tenth District





Not all farmland is equal—especially in value.

Understanding what makes one piece of farmland more valuable than another presents challenges and helps underscore the correlation between these values and farm wealth. In today's agricultural climate, where land values have declined for the first time since the 2007-09 recession, this correlation and its effect on agriculture's future have become more significant.

In the Federal Reserve Bank of Kansas City's Tenth District, the price of irrigated farmland in the second quarter of 2016 slid 5 percent from a year ago. At the same time, nonirrigated land fell 3 percent and ranchland declined 3 percent, according to Kansas City Fed data released in August.

"Right now, farmland is the only thing of value in farming, but from the looks of it, that may not last much longer," said Burnard Cristy, who owns ranchland in Neosho, Mo., which is in what locals call the four-state region, comprised of Missouri, Kansas, Oklahoma and Arkansas.

Cristy raises a few cattle and grows hay and some feed. He says the much richer farmland, suitable for high-value crops, is to the north of his land.

"Land is the basis of everything," he said, assessing the last decade of increased farm wealth.

Cristy is a third-generation farmer—his grandparents started a farm in 1887 in Amarillo, Texas, where they purchased two 640-acre tracts in an area that remains under the original homestead title.

"My cousin still farms that land, growing wheat and other grains," Cristy said.

The farm has grown to four times the original homestead acreage.

"Fifteen years ago, that land sold for about \$500 an acre; now it sells anywhere from \$3,000 to \$4,500 an acre."

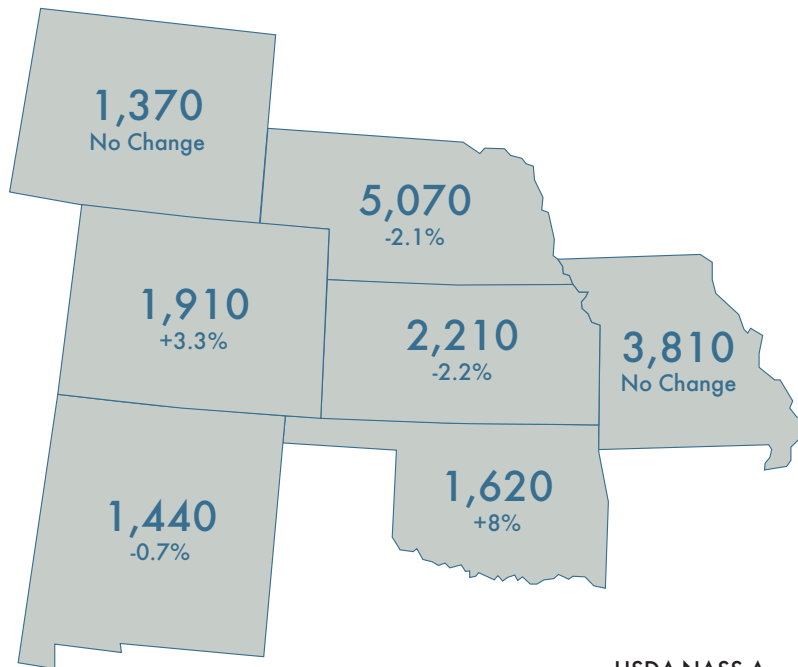
One reason for the increased value is water—the land has two large wells and pivot irrigation, he said. The area also is ideal for wind energy, with many farmers leasing portions of their land for wind turbines.

"The value didn't go up because of crop prices," he said. "My cousin is making per bushel what we made years ago."

Cristy's son, Merlin, has 320 acres of ranchland in Neosho adjacent to his father's property and another 100 acres where he keeps some of the family's livestock. He recently purchased 40 acres to the south of his property for about \$2,900 per acre. His neighbor just to

# CROPLAND VALUES BY STATE - 2015

Dollars per Acre and Percent Change from 2014



USDA-NASS August 5, 2015

the east sold their ranch in the fall for about \$3,500 an acre. Merlin says it's sometimes difficult to determine what makes one piece of land more valuable than another, especially when they're adjacent to each other.

Cristy says that's the conundrum in agriculture.

"The price of land doesn't necessarily reflect what's being raised on the land," he said.

## Distribution of farmland values in the Tenth District

Of the 12 Federal Reserve regions, the Tenth District is the most concentrated in agriculture, including average farm income as a share of personal income, farm-dependent counties and agricultural banks.

Although the average value of farmland has declined modestly in recent years, the value of farmland in some parts of the Tenth

District—comprised of Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming—has fallen sharply while farmland values in other areas have risen, and the distribution of that value has widened over time, says Cortney Cowley, an economist with the Kansas City Fed, in her recent research.

Historically, farmland values in the Tenth District have correlated with farm income. For example, following the recession, growth in both China's demand for commodity crops and the ethanol industry supported historically high crop prices and farm income. In response, farmland values increased as much as 30 percent from 2011 to 2012.

When crop prices and farm income started falling in mid-2013, experts expected a corresponding drop in farmland values, Cowley said. On average, however, farmland values increased until the first quarter of 2016,

when the values of nonirrigated cropland, irrigated cropland and rangeland declined 2 percent.

During this time, values varied widely. In 2007, farmland values varied from \$200 an acre to \$4,000 an acre, 58 percent higher than the maximum value in 2001. In 2015, farmland values were more varied, ranging from \$300 an acre to nearly \$10,000 an acre, an increase of 150 percent from the maximum value in 2007.

Values also varied among Tenth District states, and sometimes varied within an individual state. Cowley said that in 2015, farmland values were the lowest and least variable in Oklahoma and the Mountain States—Colorado, New Mexico and Wyoming—and highest and most variable in Nebraska. When farmland values started to decline, differences among states became more apparent, Cowley said. Historically, farmland values have maintained larger annual gains in states with more corn and soybean production, such as Kansas, Missouri and Nebraska. Growth in the value of nonirrigated cropland in these states consistently outpaced gains in farmland value in Oklahoma and the Mountain States, which are more commonly associated with cattle, wheat and energy production.

The pattern, however, changed in 2014 when values of nonirrigated cropland started to decline in crop-producing states and continued to increase in Oklahoma and the Mountain States. Most notably, in the fourth quarter of 2014, nonirrigated cropland values declined 2 percent from the previous year in Kansas, Missouri and Nebraska but increased 19 percent in Oklahoma.

## Reasons for the value distribution

Cowley's recent analysis of farmland values, using data from the Kansas City Fed's Ag Credit Survey, U.S. Department of Agriculture and other sources, finds that farmland values are affected by soil quality, natural amenities, climate, agricultural production and other location-specific characteristics, such as proximity to urban areas.



## URBAN EFFECTS ON FARMLAND VALUES

The closer farmland is to an urban area the possibility of gaining value increases. At least that's what the research shows.

Several researchers have looked at this proximity relationship and found that in addition to the value agricultural production provides, farmland near urban areas could gain value from nonfarm uses such as residential, commercial or industrial development. Farmland closer to urban areas also could benefit from closer points of sale of crops or livestock and from amenities such as restaurants, retail and entertainment for farm families.

To better understand this relationship for the Tenth Federal Reserve District, Kansas City Fed economist Cortney Cowley, using U.S. Census Bureau data, calculated distances from the center of each county to the center of the nearest urban area with a population of 70,000 or more.

Most counties in western Kansas and Nebraska are more than 120 miles from the nearest urban area. More precisely, Nebraska counties' average distance is 100 miles. In Oklahoma, the average distance is only 37 miles.

She then used data from the Kansas City Fed's Ag Credit Survey and the United States Department of Agriculture to create an analysis of the distances' affect on farmland values. The analysis shows that farmland values decline the farther away they are from urban areas.

"Proximity to urban areas affects farmland values through both farm-related and nonfarm-related factors," she said.

These elements may vary by state and their influence on farmland values may have different outcomes within specific areas. For example, 40 percent of bankers surveyed in 2015 in the Mountain States ranked revenue from mineral rights or access to water as the most important factor contributing to the value of farmland in their areas compared with only 3 percent of bankers in Nebraska, Cowley said.

Although bankers in both areas agreed on the importance of farm income and wealth to farmland values, natural resources were clearly more important contributors to farmland values in the Mountain States, Cowley said.

One common aspect Cowley's analysis found is that the value of all types of farmland in the Tenth District increases as land quality and precipitation increase. Conversely, the value of all types of farmland declines as temperature increases, and the magnitude of these effects is largest for ranchland.

Cowley says the variance could correlate to the 2012 drought that devastated crops and cattle herds in the Tenth District. Drought aftereffects could place a higher premium on irrigated cropland, especially in areas with

higher temperatures. Also, ranchers may have migrated cattle to areas with more rainfall and less prone to drought, increasing land values in those areas.

"As a result, ranchland in areas with lower temperatures and more reliable precipitation may fetch a higher premium since the 2012 drought," she said.

Just like other real estate, location affects farmland values. For example, farms closer to urban areas return a higher price. The number of farms per county also affects value—a county with a high number of farms can encourage competition, driving up values.

One element that seems to drive farmland value more than location is commodity sales.

The production and sale of crops and livestock vary throughout the district and likely contribute to the wide distribution of farmland values. At the same time, crop revenues seem to have more annual variability than livestock, implying that states with higher-value crop production, specifically, corn and soybeans, could be more susceptible to changes in crop prices.

Outside of agriculture, oil and gas

BURNARD CRISTY, LEFT, AND HIS SON, MERLIN, operate a ranch in Neosho, Mo.



Photos by Gary Barber

production could have both positive and negative effects on farmland values, especially in the Tenth District. Lease and royalty payments from oil and gas companies, for example, could boost farm household income and generate spillover effects to farmland values. Oil and gas production also can have a negative impact on farmland value if it damages air and water quality, acoustics, scenic views, or infrastructure. Proximity to production sites also may affect value.

“Since farmland values are significantly associated with shares of commodity sales, if the distribution of farm receipts continues to widen, due to factors such as consolidation, for example, then the distribution of farmland values may also widen,” Cowley said.

## A valuable future?

Cristy has seen many changes in agriculture during his lifetime—from improvements in equipment to production practices. He was a child during the Dust Bowl of the late 1930s and early 1940s.

“I still remember people wearing masks to keep from breathing in the dust,” he said. “Some farms weren’t worth their dust and many people left.”

Through changes in farming methods—and the end of a long drought—farms recovered, but the period of severe dust storms displaced many in the agricultural community and changed the economics of farming in those areas.

The same elements that affect farmland values in the past affect farmland values today, such as soil conditions, commodity prices, the weather, climate conditions, access to water and production practices.

“But today so many things can affect prices, and since the 1980s, everything has changed more drastically,” Cristy said.

Today’s agricultural environment consists of high land values and low commodity prices, and in essence, the increase in farmland values has increased farm equity in the form of unrealized capital gains.

For example, Cristy sold 60 head of cattle

in November in Joplin, Mo., for 50 percent less than what he made at the same time last year. The value of his land, however, has remained relatively constant.

The temptation for some farmers, Cristy said, is to expand their acres harvested, cattle raised or acres owned in response to an increase in their land wealth. So, if a farmer borrows and expands, and land values drop with the current low crop prices, the farmer may not have the production profits to pay for the growth.

“We had that back in the late 1970s with the Federal Land Bank pushing farmers to buy up land and more equipment,” Cristy said.

Interest rates were low so many farmers borrowed money to expand their acreage and buy new, technologically advanced equipment. And for a while, the market supported the expansion. By 1980, however, the economy declined, interest rates increased, and both food demand and farmland values fell.

“Several farmers around here lost everything they had,” Cristy said.

In today’s market of falling commodity prices, land wealth can give farmers a false sense of economic security.

“Land is everything, but if you can’t support it, that makes farming difficult,” Cristy said.



KEVIN WRIGHT, EDITOR

## FURTHER RESOURCES

### “The Dispersion of Farmland Values in the Tenth District”

by Cortney Cowley

[www.KansasCityFed.org/publications/research/er](http://www.KansasCityFed.org/publications/research/er)

**COMMENTS/QUESTIONS** are welcome and should be sent to [teneditors@kc.frb.org](mailto:teneditors@kc.frb.org).

# ROCK THE FED

CONCERT FOCUSES ON TEACHING STUDENTS PERSONAL FINANCE CONCEPTS



Photos by Gary Barber

Gooding, is the lead singer and guitarist of the band Gooding.



**R**osanna Tovalin walked into the Liberty Room at the Federal Reserve Bank of Kansas City expecting a lecture on finance. Then she saw musical instruments, microphones and speakers lined across the stage in front of the room.

“I knew this was business related, but I don’t think of business and rock music going together,” said Tovalin, a student at Turner High School in Kansas City, Kan.

Nearly 200 high school students from the Kansas City metro learned on Oct. 28 that rock music and finances do go together.

Through a partnership with Funding the Future, a nonprofit based in Cheyenne, Wyo., that promotes financial education for students, the band Gooding performed a series of original songs before switching gears to discuss finances. The band’s lead singer, who goes by the name Gooding and who attended the University of Kansas, started with his central lesson: “The way you look at a dollar is the way you look at a million dollars.”

He gave examples of celebrities, athletes and lottery winners who couldn’t manage their finances and accumulated excessive amounts of debt.

“Some of you have only a dollar in your pocket today and I’m here to tell you that you are doing better than some famous people,” he said. “Those people have less than zero.”

Using examples from his personal life, Gooding talked about financial mistakes he and his friends have made. He also stressed the importance of saving money and asked students to evaluate their spending and saving habits.

Gooding also demonstrated how an 18-year-old could turn a regular saving habit into a sizable amount of money by the time he or she retires. He urged students to at least open a savings account

and more specifically to contribute to an individual retirement account (IRA), to help them accumulate savings over time.

“Time is on your side,” he said.

On the flip side, Gooding warned students about the pitfalls of credit cards and payday lenders. He also talked about other forms of bad credit and spending, and urged students to ask questions—to seek out banking and finance professionals for help in planning their futures, especially if they plan on attending college and taking out loans.

Kansas City Fed President Esther George said this is the first rock performance ever hosted by the Bank, but she explained to students the importance of this particular show.

“Here at the Bank, we care how you spend your money. The choices you make with money will affect you for the rest of your life.”

Levi Le, a student at Northeast High School in Kansas City, Mo., said the concert’s message got through to him.

“The lesson spoke to you,” Le said. “When you think of rock stars, you don’t think of aspects of them on a personal level. Especially when they have important stuff to say—we take it to heart.”

Le wasn’t alone. More than 20 students stood to ask band members questions following Gooding’s financial education lesson. Their questions concentrated on retirement accounts, building up assets, credit scores, bank accounts and rent to own.

Shania Copes, a student at Grandview High School in Grandview, Mo., who works part time, said she plans to change her spending habits.

“I’m going to start saving my money,” she said. “I have to change my spending habits because they are horrible.”





Photos by Gary Barber

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# HOUSING'S NEW HORIZON

Market shows signs of strengths and weaknesses

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The housing bubble was as much about an oversupply as it was about bad finance.

Developers built many homes on speculation, spurred by a financial market that was more than willing to finance buyers who couldn't afford the mortgages.

When the bubble popped, helping usher in the Great Recession, not only were there thousands of unsold new single-family homes, but from 2004 to 2014, more than 9.3 million people lost their home to foreclosure, surrendered their home to a lender or sold their home via distress sale, the Wall Street Journal reported.

Today, the glut of foreclosures and unsold new homes on the market is gone—the inventory of vacant properties normalizing in 2012. Now the market has been headed in the other direction, with more homes being sold than built.

Although residential investment was the fastest growing component of GDP from 2014 to 2016, those gains had turned to losses by mid-2016.

## **The current housing market**

Jordan Rappaport, a senior economist with the Federal Reserve Bank of Kansas City, says despite the decline in residential investment in 2016, demand for housing remained strong,

and by the third quarter of 2016, investment had improved.

Specifically, construction of single-family homes surged 20 percent in September and October, most likely spurred by higher sale prices, Rappaport said.

Real estate association sales data show sales of existing homes rose in October for the second straight month, peaking to the highest annualized pace in nearly a decade. In October, the average single-family home in the United States sold for \$232,200, up 6 percent from the same time last year. The median sale price for new houses in the United States was \$304,500 and the average sale price was \$354,900.

Mark Huggins, president, Payne and Brockway, PA, a civil engineering, land planning and land surveying firm in the Kansas City area, says he has seen positive signs in the single-family home construction market.

Huggins points to two new subdivisions in the southern Kansas City metro area, each with more than 150 homes, where most of the lots are already sold.

"There is a fairly strong demand for new homes, with people waiting in line," he said.

Huggins, however, says the market for new construction is much different and more challenging than the housing boom period of more than a decade ago. Builders and

developers face new regulations and controls on construction and tighter credit conditions.

At the same time, the number of qualified single-family residential developers has declined, with the crisis weeding people out of the industry and others deciding to retire or do something else.

“There are developers who are working—the ones who survived the downturn—but there aren’t as many of those guys around anymore,” Huggins said. “A lot of guys who secured financing for their developments but didn’t have the backing found themselves in a lot of trouble.”

Labor data show construction industry employment, including residential and nonresidential, fell 6,000 in April 2016,

16,000 in May and showed no growth in June. The labor losses highlight some of the overall cautiousness in the construction industry.

“Developers don’t want to get themselves overextended and neither do the banks,” Huggins said. “No one wants to repeat what happened.”

According to 2015 year-end banking data, consumer lending standards remained tight—particularly in mortgage lending, which was 67 percent of all consumer debt in 2015.

Banking analysts believed mortgage lending would remain tight and it would be a drag on economic growth in the United States throughout 2016.

Tightening can be seen in the average FICO score required among private lenders—

**PETE MARTINEZ, OWNER OF P&A REMODELERS OF KC, works on a house in Parkville, Mo. Martinez has seen a surge in home remodeling the last few years**



rising from 720 pre-crisis to 750 in 2015. The average FICO score for Federal Housing Administration loans increased from 682 in 2014 to 689 in 2015. Rappaport says, however, FICO scores can be misleading, especially when assessing mortgage lending. Credit has become more widely available, including mortgages with low down payments, to borrowers who have a documented steady income, even if they have some credit blemishes, he added.

The main problems for buyers are supply and affordability.

Pete Martinez says that's why many people have turned to the home improvement industry, which accounted for 32 percent of residential investment from 2013 to 2016.

## More than home improvement

Martinez's father started P&A Remodelers in 1973, and Pete branched out three years ago, forming P&A Remodelers of KC. Martinez's father learned from his father.

"It's a generational, family business with more than 40 years of experience," he said.

Martinez says he has seen a surge in the remodeling industry the last few years. Many of his customers can't find a new home that either is within their desired location or meets their needs for square footage and layout.

So, instead of building a new house to their specifications—which often they can't afford or land is unavailable in their desired location—they remodel their existing home. Others just want to downsize—they've reached retirement age, their children are grown and they don't need as much space.

"They're updating their house to get it ready to sell," Martinez said.

Most notably, he has seen a change in his clients' age—many are millennials in their 30s, who have started families, are established in their careers and want to form roots in a community.

"They're looking for a particular house within a particular area, whether it's a school



The percentage growth of residential investment in 2015.



Single-family construction accounted for 36 percent of residential investment in 2015.



Residential improvements account for 32 percent of residential investment in 2015.



Multifamily construction accounted for 8 percent of residential investment in 2015.



In October 2016, the average single-family home in the United States sold for \$232,200, up 6 percent from the same time last year.



Mortgages accounted for 67 percent of all consumer debt in 2015.



Construction industry employment, which includes residential and nonresidential, fell by 6,000 jobs in April 2016, 16,000 in May and showed no growth in June.

district, commuting to work or lifestyle—close to parks, shops and entertainment,” Martinez said. “Many times they can’t find it with new construction so they’re buying homes and making them into what they want.”

Most remodels involve kitchens and bathrooms, but more recently Martinez says clients want to take existing older homes with separate, small living spaces and open them up.

“The trend is open floor concept, where kitchen and living space merge to create one large space,” he said.

Remodeling an existing home can be expensive and time consuming, but it’s about meeting clients’ needs and wishes, and it’s still cheaper than buying a new home. Besides expensive kitchen remodels—which Martinez says can average between \$15,000 to \$30,000 depending on materials and size—clients want modern amenities, such as technology.

Older homes were built around the

telephone and sometimes cable television. Today, Martinez installs state-of-the-art devices, such as home control stations, surround sound, Wi-Fi, electrical sockets with USB charging ports and other tech-savvy devices.

“They want all the comforts of a 21st century home,” Martinez said.

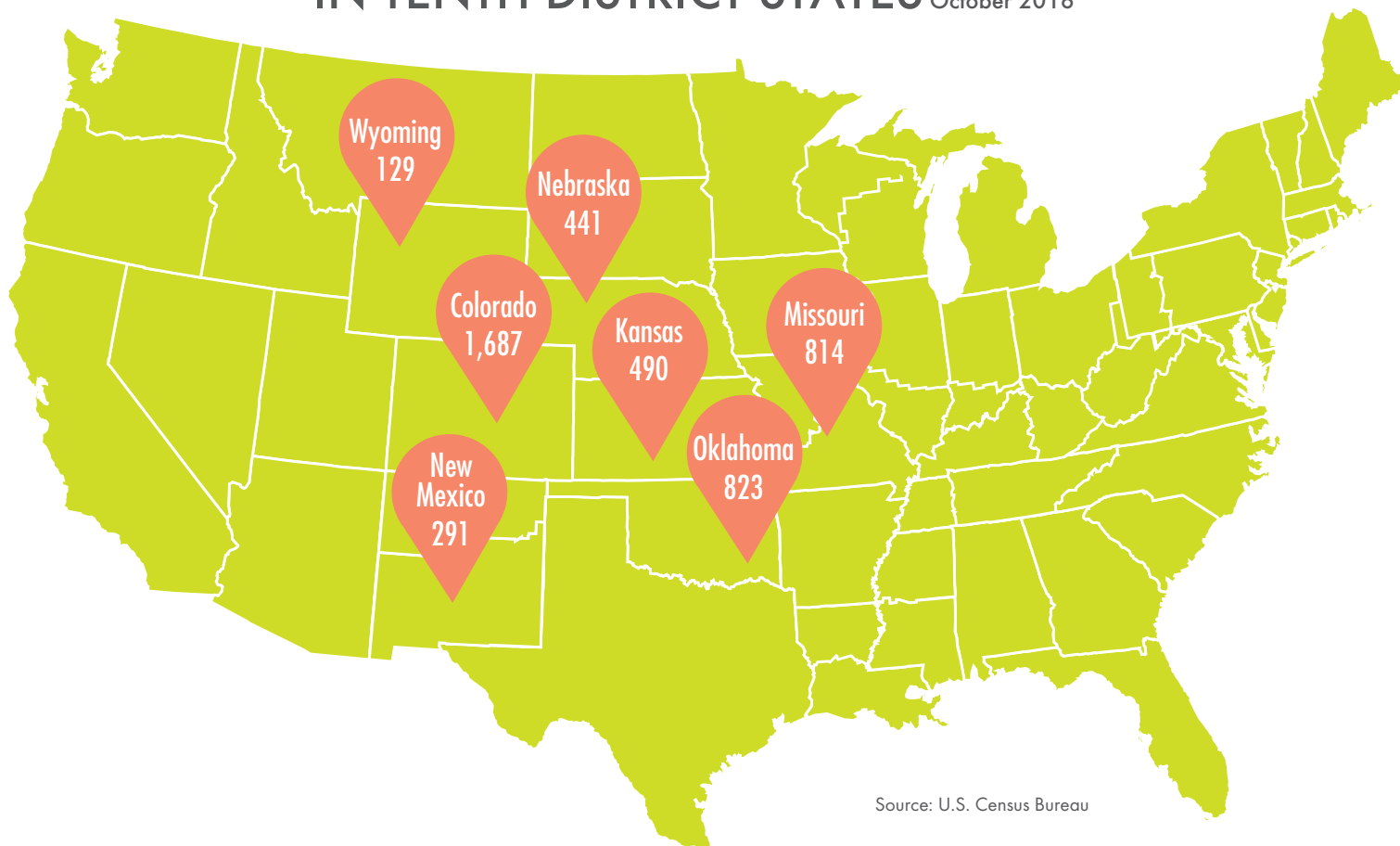
Some even want specialized flooring, such as tile that depicts a sandy beach or a lush forest.

Although data show the remodeling industry declined in 2016, Rappaport says both before and after the housing crisis, spending on residential improvements is a source of considerable underlying strength in the economy.

That’s why Martinez doesn’t see his business decreasing anytime soon.

“There’re not enough homes to fit everyone’s needs right now,” he said. “So we’re helping clients fit those needs into existing homes.”

## SINGLE-FAMILY PERMITS ISSUED IN TENTH DISTRICT STATES October 2016



Source: U.S. Census Bureau

## The long-term outlook

The spike in new single-family construction in the third and fourth quarters and other positive variables in 2106 may propel residential investment in 2017; however, the market faces several constraints.

“Numerous anecdotes suggest that the main constraint is a limited supply of undeveloped land in desirable locations,” Rappaport said. “In particular, suburbanization may have reached its geographic limit in many metro areas.”

**“In particular, suburbanization may have reached its geographic limit in many metro areas.”**

If this summation is correct, Rappaport says, homes will be built closer to metro centers rather than in suburbs. Residential construction in urban settings faces considerable challenges, including land-use restrictions, dispersed locations and the expense of tearing down existing homes.

A single-family home typically takes about six months to build, and depending on when the buyer closes on the property, this could put more downward pressure on investment.

Rappaport also points out that building permits for single-family homes—which he says are a more forward-looking and better-measured indicator of construction—had sharply lagged starts in the first half of 2016; however, they had increased modestly in the second half of the year.

Multifamily construction, which saw housing starts peak in mid-2015, has slowed down. Rappaport says multifamily is likely to flatten in 2017, which is a welcome development in the face of possible

overbuilding. Another constraint is brokers’ commissions, which accounted for 22 percent of residential investment in 2016. Commissions are the most volatile component of residential investment, making significant positive or negative contributions quarter by quarter, Rappaport said. In the second quarter of 2016, commissions made a moderate positive contribution, partly offsetting the weakness from contractions in single-family construction and home improvements.

Another volatile component is investors, who look for places to earn whatever return on capital they can muster. The low end of the housing market has almost ceased to exist as the investor class has bought homes with the plan to flip them, analysts say. This not only has cut into the supply, but also has taken a particular buying class out of the market.

Despite these varying components, which can contribute to a weak outlook, Rappaport says the construction boost in September and October and a slight increase in November, continued strong consumer demand, increasing sale prices, an increase in housing permits, and the strength of the home improvement sector could be signs that the gray sky is clearing in the housing industry.



KEVIN WRIGHT, EDITOR

### FURTHER RESOURCES

**“The Weak Outlook for Residential Investment”**

by Jordan Rappaport

[www.KansasCityFed.org/publications/research/mb](http://www.KansasCityFed.org/publications/research/mb)

**COMMENTS/QUESTIONS** are welcome and should be sent to [teneditors@kc.frb.org](mailto:teneditors@kc.frb.org).

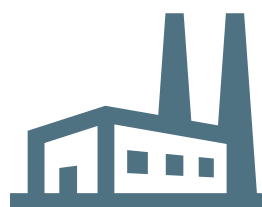
# WEAKENING PRODUCTIVITY

## The drag of energy and manufacturing on growth

A changing industry mix—from manufacturing and energy to services—has weakened labor productivity growth in the United States. Willem Van Zandweghe, assistant vice president and economist at the Federal Reserve Bank of Kansas City, recently examined industry changes and the effect the changes have had on the growth of U.S. productivity.



Manufacturing and mining have higher productivity levels and higher rates of productivity growth than private services. The numbers above give the ratio of the average level of real value added per hour in each industry to the average level of real value added per hour in the private sector from second quarter 2006 to third quarter 2015. **Sources: Bureau of Economic Analysis, Bureau of Labor Statistics and Haver Analytics.**



### THE DECLINE IN MANUFACTURING

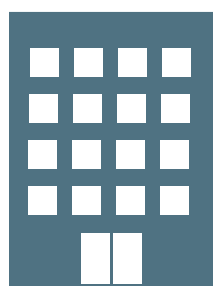
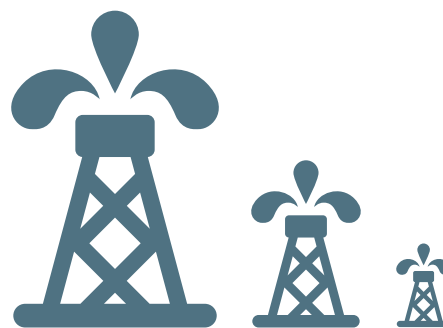
The share of hours worked in manufacturing has trended down in the last three decades leading to the Great Recession. After stabilizing in the recovery, manufacturing's share of hours declined 0.24 percentage point from third quarter 2014 to third quarter 2015.

**-0.24%**



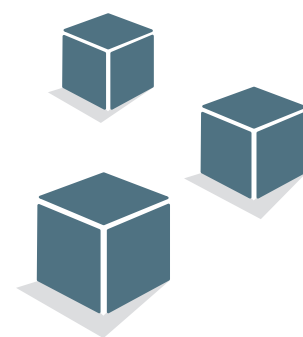
## A DRAMATIC FALL IN ENERGY

The mining industry, which largely consists of oil and gas production, has faced a drastic decline in hours worked due to the drop in oil prices. Mining employment dropped from its peak of 904,000 in September 2014 to 720,000 in March 2016. This lowered its share of hours worked by 0.14 percentage point from third quarter 2014 to third quarter 2015.



## PRODUCTIVITY INCREASE IN THE SERVICE SECTOR

The share of hours worked in services\* has stabilized since the recession, and from third quarter 2014 to third quarter 2015, it edged up 0.14 percentage point.



*\*The service sector consists of warehousing and truck transportation; information sector services; commodities, securities and other investment services; professional, technical and scientific services; waste management; health care and social assistance; and arts, entertainment and recreation.*

## A DRAG ON PRODUCTIVITY GROWTH

Van Zandweghe says a conservative estimate puts the negative effects of the recent declines in manufacturing and mining activity on overall productivity growth at about 0.25 percentage point and 0.5 percentage point, respectively. Historically, manufacturing and mining have had higher productivity levels and higher rates of productivity growth than services. Even if the industry mix stabilized, the rise in services and decline in manufacturing and mining are likely to have a long-term effect on future growth in productivity.



**Further Resources:** "The Drag of Energy and Manufacturing on Productivity Growth" by Willem Van Zandweghe  
[www.KansasCityFed.org/publications/research/mb](http://www.KansasCityFed.org/publications/research/mb)

# 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 and to the wider global public. The Federal Reserve Bank of Kansas City carries out this role through its president and its programs and activities throughout the Tenth District, and beyond. Here is a glimpse at the recent activities of President Esther L. George and the staff of the Kansas City Fed.

Thomas Jordan, chairman of the governing board of the Swiss National Bank, visited President Esther George, right, in October at the Federal Reserve Bank of Kansas City's headquarters in Kansas City, Mo.

George, below, was interviewed Sept. 29 by CNBC economics reporter Steve Liesman as part of the Minority Bankers Forum at the Kansas City Fed's headquarters.



George takes a few moments to speak with Donald Kohn, former vice chairman of the Board of Governors of the Federal Reserve System. Kohn visited the Kansas City Fed in September.

George took time during her Sept. 26 visit to Wabash College in Crawfordsville, Ind., to record a podcast with Wabash College President Greg Hess. George was a guest speaker for the college's Rogge Lecture.



During the Minority Bankers Conference, Sept. 28-29 at the Kansas City Fed, George posed with guest speakers, from left, Doug Harris, chief executive officer of The Kaleidoscope Group; Rebeca Romero Rainey, chair and CEO of Centinel Bank of Taos (New Mexico); Rose Washington, deputy chair of the Federal Reserve Bank of Kansas City's Board of Directors; and James Ballentine, executive vice president with the American Bankers Association.



George talks with John Ruff, director of the Missouri Department of Insurance. The department invited George to speak at its Director's Summit Oct. 13 in Kansas City, Mo.

# Building relationships ...

## CRA presentation at New Mexico Housing Summit

Ariel Cisneros, right, senior community affairs advisor, presented information Sept. 19 on “Understanding the CRA and the Benefits to Your Organization” at the New Mexico Housing Summit in Albuquerque. Picture with Cisneros, left, is Mary Williams with First National Bank of Santa Fe, and Pat Nie, center, with Wells Fargo Bank.



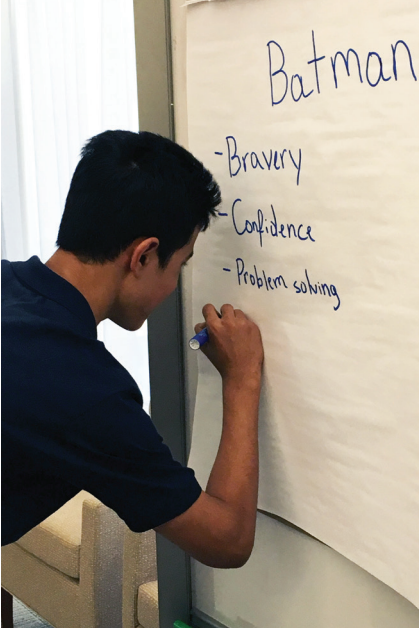
## Economic forums and roundtable in Wyoming

The Kansas City Fed’s Denver Branch hosted economic forums in October in Sheridan and Rock Springs, Wyo., to share with community leaders the latest information on the regional and national economies. During those events, Alison Felix, vice president and Denver Branch executive, conducted roundtables with business, banking and community leaders.



## Denver office welcomes new student board

The 2016-17 student board of directors program kicked off in October in both Denver and Albuquerque, N.M. The mentoring program helps students become knowledgeable citizens by increasing their understanding of economic, financial and occupational topics through collaboration with peers and business leaders.





## Kansas City Fed participates in Tahlequah economic forum, tour and business roundtable

The Kansas City Fed's Oklahoma City Branch public and regional affairs staff hosted an economic forum and business roundtable with local leaders in November in Tahlequah, Okla., to learn more about the regional economy. Chad Wilkerson, Oklahoma City Branch executive, vice president and economist, spoke at the forum, which was attended by 80 business leaders from north-eastern Oklahoma. During the visit, staff toured local businesses, including a wholesale nursery (left), hospital and the Cherokee Heritage Center, which housed a monument to Robert L. Owen. Owen was one of Oklahoma's first senators and the senate author of the Federal Reserve Act of 1913.



## Community Development Advisory Council meets in Oklahoma City

Members of the Federal Reserve Bank of Kansas City Community Development Advisory Council had their biannual meeting at the Oklahoma City Branch in October. This eight-member council is comprised of community leaders from the Tenth Federal Reserve District. While in Oklahoma City, the group toured a local innovation hub and met with industry leaders and Federal Reserve staff.



## Oklahoma City Office welcomes student board of directors

The Oklahoma City office kicked off this year's student board of directors program in October. The monthly sessions provide an in-depth look at the Federal Reserve, personal finance, regional economy and workforce readiness. The Oklahoma City student board of directors is comprised of 15 students from nine different high schools in Oklahoma.

# NEBRASKA



## Omaha kicks off student board of directors

The Kansas City Fed's Omaha Branch welcomed in September students from four Omaha high schools as members of the 2016-17 student board of directors program.



## Construction Workforce Roundtable

On Nov. 16, the Omaha Branch and the Greater Omaha Chamber of Commerce hosted a roundtable with workforce development professionals, contractors and re-entry specialists to discuss labor needs in the construction sector.



## Federal Reserve Financial Education Day

The Kansas City Fed's Omaha Branch joined with the University of Nebraska at Omaha's College of Business Administration to host 48 students from Omaha Bryan High School for Federal Reserve Financial Education Day.



## Nebraska Bankers Association Women in Banking Conference

Tammy Edwards, center, vice president of Community Affairs, moderated the "Women Leaders in Banking: Telling Their Stories" session during the Nebraska Bankers Association's Women in Banking Conference on Sept. 13. The participating panelists, from left to right, were Amanda Adams Hoover, CFO, Adams Bank & Trust, Ogallala; Angie Muhleisen, president, Union Bank & Trust, Lincoln; Kris Holoch, CEO, Cornerstone Bank, York; and Leslie Anderson, president and CEO, Bank of Bennington, Bennington.



# BRING ON THE JAVA

## Students develop new apps in Bank's first Code-A-Thon

The Federal Reserve Bank of Kansas City named its first Code-A-Thon winner, a team from the University of Kansas, during an awards luncheon Nov. 15. The team was chosen after the three top finalists presented their code to a judges' panel at the luncheon.

Code-a-thons are designed to produce code through collaboration. The Kansas City Fed's Code-A-Thon was organized by the Bank's TechEdge program, which recruits students with a knack for computer science. Code-A-Thon participants were given 48 hours to build an application around the theme: innovation for a cause.

The winning team from KU created a web application called Election IQ, which is designed to help users determine polling locations and information on candidates in their district. The winning team faced several challenges with the overall creation of their app, including basic code functions.

"We had to learn how Google does its searches," said Zachary Welk, a junior at KU. "At first we were getting Taco Bells and bridal shops and we had to figure out the code for DMVs and city courthouses."

Overall, the Code-A-Thon had five teams, comprised of 29 students, three teams from University of Kansas, which included the winner and an additional finalist, one team from Kansas State University, also a finalist, and one team from the University of Missouri Science and Technology.

The judges did not make their selection lightly. Months of research went into refining the judging process and determining how to set expectations.

"Our goal was to plan for every scenario we could think of, so we could provide the best possible experience for our contestants," said Bryan Danaher, software engineer.

The event kicked off with a conference call on Nov. 11, where the Code-A-Thon teams gathered to watch a video message from Brain Faros, vice president and the Bank's chief information officer.

"Technology is critical to what we do," Brian said. "We need to solve technology problems from a team perspective."

The next two days were spent frantically coding and developing a solution, which involved hundreds of email exchanges between participants and the Code-A-Thon support team, before final submission.

Several teams did not know their teammates until they signed up for the Code-A-Thon. The event, however, created many collaborative bonds that will continue after the Code-A-Thon ended.

"We plan on continuing to work on Election IQ and growing the friendship that started from this Code-A-Thon", said Alex Warrington, junior at KU and a member of the winning team. "It was a great experience, I loved it."



# BANKING AND THE ECONOMY

## A FORUM FOR MINORITY BANKERS

Minorities in the banking industry face several hurdles when forging a successful career, including the lack of role models, mentors and access to career development resources.

“It’s incumbent upon leaders to make it clear there is a path and to actively engage with groups of potential employees and be proactive in telling them about our great profession,” Kansas City-area banker Pam Berneking said.

Berneking was a panelist for “Banking and the Economy: A Forum for Minority Bankers,” Sept. 28-29 at the Federal Reserve Bank of Kansas City. The forum focused on empowering minority bankers through a collection of career and leadership strategies and economic insights.

“The foundation for success is courage followed by elevated thinking, the way you actually feel about your circumstances and how you positioned yourself,” Doug Harris, chief

executive officer of Kaleidoscope Group in Chicago, said about his golden and “unwritten” rules for career success.

Harris, the forum’s keynote speaker, also identified exposure, image and performance as key elements for long-term success.

But it’s difficult for anyone, especially minorities, to look at long-term success in banking when the industry has been consolidating for the more than a decade.

“While I consider the trend (the declining numbers of banks), it is disconcerting to think that today we only have in the U.S. 162 minority owned banks,” said Rebeca Romero Rainey, CEO of Centinel Bank of Taos in New Mexico. “If we don’t have the ownership and engagement at that (senior leadership) level, it’s hard to lead by example.”

That’s why the industry must make a concerted effort to help grow and maintain



TO VIEW THE PRESENTERS, PRESENTATIONS AND OTHER INFORMATION ABOUT THE FORUM, VISIT [WWW.KANSASCITYFED.ORG/COMMUNITY/EVENTS/MINORITY-BANKERS-FORUM](http://WWW.KANSASCITYFED.ORG/COMMUNITY/EVENTS/MINORITY-BANKERS-FORUM)



the number of minorities within the industry and create a corporate culture that is more accessible, providing employees the resources and pathways they need for advancement, Rainey said.

A key strategy is for banks to use hiring practices that actively seek women and minorities, creating a culture that rewards and builds upon such efforts. The next step is developing employees after they are hired.

“Mentorship is a key strategy for the retention of ethnic minority students and young professionals,” said Alden McDonald with Liberty Bank in New Orleans.

McDonald says mentoring programs can produce a return on investment of 1,000 percent or more. In this effort, organizations must provide role models that “show employees by example” that they can have a successful career in their organization.

And in that effort, employees must have

the resources to create success, whether through leadership programs or continuing education.

Federal Reserve Chair Janet Yellen, speaking at the event via videoconference, said diversity and inclusion is an important aspect of any organization. The Federal Reserve System is making a concerted effort, through forums such as this one and other means, to communicate and promote the need for diversity within the banking industry.

“The Kansas City Fed is an excellent place to discuss this issue because of the recognition it’s received for promoting diversity and inclusion, both among businesses and other organizations in the Tenth District and in its own ranks,” she said.

The conference also included breakout sessions focusing on changes in the retail payments landscape, an overview of Federal Reserve history and methods to create and cultivate meaningful networks.

“The CEO panel was so valuable. To hear from people at the highest level of their organizations, and their attitudes and thoughts about the potential to increase value and profit by focusing on minority business and workforce, was exciting,” said Patrick Mitchell, director of credit analysis for Crossroads Bank in Leawood, Kan.



(Page 30) CNBC economics reporter Steve Liesman (center) interviews Alden McDonald Jr., president and CEO of Liberty Bank in New Orleans, about the forum and its significance within the scope of banking. Doug Harris (above left), CEO of The Kaleidoscope Group, talks about steps to navigating a successful career. Rebeca Romero Rainey (above right), chair and chief executive officer of the Centinel Bank of Taos (New Mexico), speaks with Kansas City Fed President Esther George (far right) during the forum.

## Directors gather for Kansas City Fed's annual joint boards of directors meeting

In September, the Federal Reserve Bank of Kansas City's Tenth District boards of directors gathered for the annual joint boards of directors meeting in Kansas City, Mo. Though each Kansas City Fed Branch Board of Directors meets regularly within its respective Branch, together one time each year all four offices meet. The purpose of the meeting is for directors to take an in-depth look at the region they represent through community engagement opportunities.

Included in the busy two-day schedule was a tour of the Stowers Institute for Medical Research in Kansas City, Mo. During the tour, directors learned first-hand the significance of this center within the community and on

cancer research globally. Stowers President David Chao began his remarks to directors by sharing the story of the founding of the institute, which is primarily the result of the generosity of Jim and Virginia Stowers. Jim Stowers, who founded American Century Investments—also headquartered in Kansas City, Mo.—believed in giving away the bulk of his fortune.

Richard Brown, chairman of the Stowers board, also attended the tour and noted that Stowers' fortune would have never reached its magnitude without the existence of a strong community bank. Country Club Bank, then led by former Federal Advisory Council member Byron Thompson, loaned Stowers



Photos by Gary Barber

Bank President Esther George and Kansas City Directors Max Wake and Rose Washington look on as Stowers President David Chao, right, explains ongoing laboratory research.



District directors and members of the Bank’s Management Committee took a tour of the Negro Leagues Baseball Museum, had breakfast and listened to remarks by Executive Director Bob Kendrick, who discussed the economic impact of the Negro Leagues.

money to begin Twentieth Century Mutual Funds, now American Century Investments. Today, Thompson’s son, Paul, is the president of Country Club Bank and also is a Class A director on the Kansas City Board of Directors.

“This story, involving an entrepreneur and a relationship with a local lender, is a prime example of the value of the community bank model,” said Kansas City Fed Vice President and Board Secretary Krissy Young.

Kansas City Fed President Esther George gave a state-of-the-Bank address highlighting the Bank’s newest initiatives and also commenting on current events surrounding the Federal Reserve System.

“As our founders recognized, the foundation of the Fed’s ability to effectively serve the nation is the relationship between the Federal Reserve Banks and Branches with the citizens and communities of our Districts,” George said. “While much has changed over the intervening years, the need for this direct connection is as critical today as it was then—if not more so.”

Events concluded with a joint meeting where directors heard from Bank leaders about critical topics throughout the Tenth District. The 2017 Joint Boards of Directors meeting will be in April at the Denver Branch.

## Employees donate time to support urban garden

Employees at the Federal Reserve Bank of Kansas City take the issues of healthy food and healthy communities seriously. A group of employees supports an urban gardening project in Kansas City, Mo., by using their horticultural skills.

The employees tend 18Broadway garden, an 80-bed urban garden at 18th Street and Broadway Boulevard, near the Kauffman Center for the Performing Arts in downtown Kansas City, Mo. Volunteers from the Kansas City Fed tend eight beds. The land is owned by DST Systems Inc. of Kansas City, Mo., and the project is overseen by the University of Missouri Extension office. The garden's produce is donated to Harvesters-The Community Food Network to be distributed to those in need.

"We can help the community and those in need by doing something we like to do," said Larry Green, a Bank employee who leads the volunteer group.

The urban garden is self-sustaining and has special drainage ditches to capture and filter rainwater. A 40,000 gallon tank under the garden holds the water. Two sheds on the

site use solar power to run a generator and water pumps. DST provides maintenance when needed.

Bank employees Lindsey Smith and Sharon Quigley volunteer to work the gardens. This includes planting, watering, weeding and harvesting. Currently, the beds grow collards, Irish potatoes, sweet potatoes, green onion, yellow squash, garlic, carrots and kale.

"I was looking for volunteer work of this nature," Smith said. "Harvesting healthy food and giving it to people who need it appeals to me."

In 2015, 3,000 pounds of food were harvested from the garden. Green hopes the volunteer group at the Bank will continue to grow. He would like to take on additional beds in coming years. Quigley and Smith also hope the project will expand.

"It's really easy to fit into my regular schedule," Quigley said. "We go for maybe an hour after work and can often get home at dinner time."

Learn more about the garden at [www.18broadway.com/about.html](http://www.18broadway.com/about.html).



Photo by Larry Green

Kansas City Fed employees, from left, Rebekah Jones, Lindsey Smith and Sharon Quigley, harvest sweet potatoes at the 18Broadway garden.

## Kansas City Fed's National Community Affairs Conference makes an impact

The 2016 National Community Affairs Conference, “Exploring Financial Resiliency & Mobility,” at the Federal Reserve Bank of Kansas City in September, attracted more than 200 community development professionals from 11 states and the District of Columbia for two days of learning, networking with industry leaders, academics and community development specialists.

in Omaha, Neb. “The keynote on financial decision-making in LMI households really opened my eyes.”

Participants studied statistics, developments and implications on financial health, housing, jobs and other issues impacting financial resiliency and mobility of LMI household and individuals.

Kansas City Fed President Esther George delivered the closing remarks, highlighting the importance of understanding and taking into account the issues impacting LMI communities. She encouraged participants to reach out to the Federal Reserve Bank in their region to see how they might assist in their work to build financial strength and stability in local communities.



**SEE A VIDEO** overview of the conference: <https://CAC.kcfed.org>

The Kansas City Fed offers a national community development conference every other year, and this was the fourth since 2010. It is designed to provide the latest research on



President Esther George, right, visits with guests who attended the Kansas City Fed's Community Affairs Conference in September at the Bank's headquarters in Kansas City, Mo.

key community development issues, along with innovative programs and solutions to build resiliency and mobility in low- and moderate-income (LMI) communities.

“It’s hard to understand some of the financial decisions low-income individuals make,” said Tamicka Bradley with Financial Hope Collaborative at Creighton University



## 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 January, February or March.

Colorado B&TC of La Junta	La Junta	Colo.	93
Lusk State Bank	Lusk	Wyo.	82
St. Mary's State Bank	St. Mary's	Kan.	81
Community B&TC	Neosho	Mo.	75
Oklahoma Capital Bank	Tulsa	Okla.	25
Community State Bank	Poteau	Neb.	22
Adams B&TC	Ogallala	Neb.	22
Union State Bank	Arkansas City	Kan.	21
Exchange Bank of Missouri	Fayette	Mo.	21
Missouri Bank II	Sedalia	Mo.	21
Bank of Star Valley	Afton	Wyo.	21
First Bank and Trust Co.	Minden	Neb.	10
Verus Bank	Derby	Kan.	5

## Forum offers insight on employment, economic opportunities for frontline workers

Dozens of professionals and policymakers gathered at the Federal Reserve Bank of Kansas City and in nine different remote locations across the United States to take on labor market shifts and workforce strategies during the “Building Ladders and Raising the Floor: Improving Employment and Economic Opportunities for Frontline Workers” forum in late October.

Kansas City Fed Vice President and Economist Jon Willis moderated the panel discussion. Panelists included Lisa Falcone, director for the Working Bridges Project from United Way of Northwest Vermont; Walter Smith, human resources vice president at QuikTrip; and Adrienne Smith, CEO for the New Mexico Direct Caregivers Coalition.

The panelists discussed government policy changes at the federal, state and local level, including a minimum wage increase, expanding the scope of employees who are eligible for overtime pay and adoption of paid-leave policies. In addition, panelists looked at the roles other stakeholders, such as companies, nonprofits and educators, can play to support economic stability and quality of jobs.

Falcone and Adrienne Smith pointed out the importance of a collaborative effort among

these groups, and how “collective impact,” an innovative and structured approach to making collaboration work to tackle deeply entrenched and complex social problems, can be powerful in bringing results.

The panel discussion also tackled the issue of educational attainment for the labor market.

“The notion that all kids need to be pushed to college to succeed needs adjustment,” Willis said. “Forty percent of jobs require college degrees. Those other jobs don’t necessarily require a degree, but they require training, they require a certificate, they require apprenticeships. We need to change our communication to say: ‘These are jobs we need; we value them.’ We should be trying to improve skills as opposed to steering everybody to one segment.”

The forum was conducted in partnership with the Aspen Institute’s Economic Opportunities Program as part of its Working in America series on the changing nature of work. Find details of the forum here: <https://www.KansasCityFed.org/community/events/wia-forum/>.

Learn more about the Working in America series at <https://www.aspeninstitute.org/series/working-in-america/>.



From left: moderator Jon Willis and panelists Adrienne Smith, Walter Smith and Lisa Falcone.



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## The Federal Reserve System

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

With the Federal Reserve Act, Congress sought to create a central bank the public would be more likely to support by making it "decentralized" with more local control. This new structure was designed to overcome one of the primary weaknesses of the previous central banks: public distrust of an institution that many felt could potentially be under the control of either government or special interests. The new central bank is a network of 12 regional Federal Reserve Banks, located throughout the country and under the leadership of local boards of directors, with oversight from the Board of Governors in Washington, D.C., a government agency.

The Federal Reserve is considered to be independent within government and broadly insulated from political pressures. While members of the Board of Governors are nominated by the president of the United States and confirmed by the Senate, the Federal Reserve's regional structure, including local boards of directors and advisory councils, ensures that views from a broad spectrum of the public nationwide contribute to the central bank's deliberations.

President Woodrow Wilson signed the Federal Reserve Act 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.



**TEN** magazine is a quarterly publication of the Federal Reserve Bank of Kansas City focused on the connection between the Bank's research and the Tenth Federal Reserve District. **TEN** also features articles on the Federal Reserve's history, structure and operations.

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In July, the Federal Reserve Bank of Kansas City hosted a symposium titled **“Agriculture’s Water Economy”** to explore the dynamic link between agriculture and water, the role of markets and institutions and the path forward. The Kansas City Fed has prepared a special issue of its research publication, *Economic Review*, which contains the research papers presented at the symposium. To view the special issue and other symposium-related material, including the agenda, list of presenters, event summary and transcript, go to [www.KansasCityFed.org/publications/research/rscp/rscp-2016](http://www.KansasCityFed.org/publications/research/rscp/rscp-2016).

