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Spring 2013

FEDERAL RESERVE BANK OF KANSAS CITY

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Monetary Policy Risks and Challenges

During my first full year of serving as president of the Federal Reserve Bank of Kansas City, I have participated in meetings of the Federal Open Market Committee (FOMC) and traveled thousands of miles around the region and globe. In doing so, I have gained insights on the state of the economy in this region, in the nation and around the world, from sawmill operations in Hulett, Wyo., to international conversations in China.

I also would note that although I have worked for the Kansas City Fed for more than 30 years, I have developed, in this broader role, a renewed appreciation for the Federal Reserve's structure, which provides 12 independent regional views on the economy in addition to the seven members of the Board of Governors in Washington. As a policymaker and Reserve Bank president, I have benefited tremendously from the insights of business

leaders, financial market professionals and others in our seven-state region, who provide real-time perspectives on the economy and give me a forward-looking view of economic conditions. And those perspectives contribute importantly to my policy views at the Federal Reserve's monetary policy deliberations.

Although each of the 19 participants of the FOMC engages fully in the discussions regarding monetary policy, only five of the 12 regional Reserve Bank presidents vote at each meeting in a given year. I am a voting member this year.

Given the current state of the world, much may change between each committee meeting. Nevertheless, I would like to share with you my outlook for the U.S. economy and its ongoing recovery from a deep recession, and outline my perspective on the current stance of monetary policy and the challenges ahead.



Presidents of all 12 regional Federal Reserve Banks, along with the Federal Reserve governors, participate in each meeting of the Federal Open Market Committee. Although the media often makes a distinction between members who vote on policy and those who do not, all members take an active part in policy deliberations.

The pace of recovery

We are now in the fourth year of the economic recovery. It has been a slow and uneven recovery. The unemployment rate remains a relatively high 7.8 percent, and most estimates for gross domestic product (GDP) growth going forward suggest a modest 2 percent rate.

There are several reasons why this recovery has been slower than in the past. For example, consumers have been deleveraging, perhaps wisely so. Based on analysis by staff at the Kansas City Fed, the percentage of consumers taking on more debt fell sharply during the last recession and has only modestly recovered.

This reduction in debt has occurred across a wide variety of income groups and among individuals with varying access to credit. This reduced willingness to borrow, even at the current low interest rates, reflects recognition among households of the need to repair their balance sheets and restore their credit standing. Its effect also then is to slow consumer demand and to constrain GDP growth.

Consumers' balance sheet adjustments are not the only factor hampering the pace of the economic recovery. Corporations also have been strengthening balance sheets, hoarding cash and often times borrowing to buy back shares or build cash reserves rather than build productive capacity. And among these corporations are our nation's largest banks, which, during most of the past four years, have focused on repairing their own balance sheets while struggling with persistent double-digit delinquency rates on home loans and trying to manage the legal and regulatory uncertainties related to mortgage lending. These factors have impeded their willingness to lend for growth. Indeed, the four largest banking companies are 30 percent larger today than they were at the start of the financial crisis, but their business lending still has not returned to its 2008 peak.

And finally, it is hard to find any news report that does not highlight the global uncertainty affecting business and consumer choices and their willingness to hire and spend. Concerns about fiscal policy here in the United States, or the sovereign debt crisis in Europe all are playing a role in making this a difficult economic recovery.

Room for optimism

If you look a little closer, however, you also will see a recovery that is building momentum despite the barriers impeding progress—and the



President George addresses a financial stability and banking supervision forum on Sept. 28, 2012, in Beijing, China. At the forum, hosted by the Bank for International Settlements and the China Banking Regulatory Commission, George discussed the need to address policies that shift financial losses away from those responsible.

progress is notable given the debt burden our economy carries and the depths of the financial crisis and recession we have suffered.

Our economy's production of goods and services is back to its pre-recession level. Key sectors of the economy are showing marked improvement and are strengthening as we enter 2013. In particular, the housing sector has been showing convincing signs of healing after its fall during the crisis. House prices are now about 5 percent higher than a year ago and construction activity is steadily picking up. The auto sector is also benefiting from strengthening demand. Auto sales for 2012 came in 13 percent higher than in 2011 with 14.5 million vehicles sold—the highest level in about five years. Manufacturing activity has also held up reasonably well near the end of last year, despite concerns that the United States might go over the so-called fiscal cliff.

Part of the improvement in housing and auto sales reflects some improvement in the labor market. Employment growth averaged a bit more than 150,000 jobs per month in 2012—enough to keep up with population growth and slowly absorb some of those who are unemployed. To be sure, unemployment remains high and growth during this recovery has been only moderate despite more than four years of zero interest rates and aggressive large-scale asset purchases by the Federal Reserve.

Pulling all these factors together and sorting through the fog of uncertainty, I expect that the economy will continue to grow a bit more than 2 percent in 2013 and that the level of unemployment will continue to decline, perhaps by another half a percentage point. This of course will depend on what happens in the Congress and across the globe. The economy also will be affected both in the short run and long run by Federal Reserve policies. So, let me turn now to monetary policy.

Monetary policy challenges

The deep recession of 2007-2009 and the slow pace of the subsequent recovery prompted forceful action by the Federal Reserve and other central bankers around the world. As the severity of the recession and the financial crisis became clear, the FOMC lowered the federal funds interest rate on overnight loans, its traditional policy instrument, to within a target range of between zero and ¼ percent.

With short-term interest rates effectively at zero since late 2008, the Federal Reserve has turned to unconventional policy tools designed to reduce longer-term interest rates in order to provide additional support for the economic recovery. These unconventional tools have taken the form of large-scale asset purchases and announcements regarding the FOMC's intentions for fu-

ture policy actions. Taken together, the monetary policy actions of the past few years have provided the economy with an unprecedented level of accommodation and a commitment to maintain an extraordinary level of accommodation well into the future.

At its last meeting, the FOMC announced that, provided the inflation outlook does not move above 2½ percent, it expects to keep the federal funds rate close to zero until the unemployment rate reaches 6½ percent. In addition, the committee decided to continue purchasing \$85 billion in securities each month.

Large-scale asset purchases were first introduced as an emergency measure in response to the financial crisis in 2008. The policy was continued into the following years to speed up the recovery, most recently with the announcement of open-ended purchases of both Treasury and agency mortgage-backed securities.

These purchases, as intended, add reserves to the banking system and are designed to lower longer-term interest rates, affecting investments and borrowing. The policies have been supportive for the housing and auto sectors, as consumers are more likely to borrow and purchase a home or new car when interest rates are low. To a lesser extent, accommodative monetary policy also supports housing and equity prices so households can strengthen their balance sheets.

These purchases also have their own set of risks and are not without cost. At their current level and pace of growth, I believe they almost certainly increase the risk of complicating the FOMC's exit strategy. The Fed's large holdings of both Treasury and agency mortgage-backed securities will eventually need to be shed from the Fed's balance sheet. Although such actions are likely only well into the future, actively selling a large amount of agency Mortgage Backed Securities, as stated in the exit strategy principles,

could be potentially disruptive to markets and market functioning, or cause an unwelcome rise in mortgage rates. Moreover, these purchases reinforce the perceptions that monetary policy will remain highly accommodative for a prolonged period, regardless of circumstances, thus risking an announcement shock when the committee at last must reverse policy.

To be clear, I agree that the depth of the last recession warranted a highly accommodative monetary policy response. Further, a recovery marked by high unemployment and low inflation may well warrant low rates for a longer period than usual. But, while I agree with keeping rates low to support the economic recovery, I also know that keeping interest rates near zero has its own set of consequences. Specifically, a prolonged period of zero interest rates may substantially increase the risks of future financial imbalances and hamper attainment of the FOMC's 2 percent inflation goal in the future.

Risks to financial stability

A long period of unusually low interest rates is changing investors' behavior and is reshaping

the products and the asset mix of financial institutions. Investors of all profiles are driven to reach for yield, which can create financial distortions if risk is masked or imperfectly measured, and can encourage risks to concentrate in unexpected corners of the economy and financial system. Companies and financial institutions, such as insurance companies and pension funds, and individual savers who traditionally invest in long-term safe assets, are facing challenges earning reasonable returns, and so they may reach for yield by taking on more risk and reallocating resources to earn higher returns. The push toward increased risk-taking is the intention of such policy, but the longer-term consequences are not well understood.

Of course, identifying financial imbalances, asset bubbles or looming crises is inherently difficult, as policymakers were painfully reminded during the financial crisis in 2008. Public transcripts of the FOMC's discussions from as early as 2006 show participants were clearly focused on issues in the housing market and yet did not fully appreciate the risk to the economy from the financial sector's exposure to risky mortgages.

Accordingly, I approach policy decisions with a healthy dose of humility when considering the long-run effects of monetary policy. We must not ignore the possibility that the low interest-rate policy may be creating incentives that lead to future financial imbalances. Prices of assets such as bonds, agricultural land, and high-yield and leveraged loans are at historically high levels. A sharp correction in asset prices could be destabilizing and cause employment to swing away from its full-employment level and inflation to decline to uncomfortably low levels. Simply stated, financial stability is an essential component in achieving our longer-run goals for employment and stable growth in the economy and warrants our most serious attention.



James Neiman and Esther George look at operations at the Devils Tower Forest Products Inc. location in Hulett, Wyo.

Risks to the stability of inflation expectations

The exceptionally long period of extraordinary monetary policy accommodation could also become a threat to the stability of longer-term inflation expectations. Theoretical analyses of monetary policy suggest that committing to a prolonged period of low interest rates can reduce unemployment and raise inflation, possibly above the FOMC's 2 percent goal. The FOMC has put this idea into practice by expressing, with its adoption of thresholds for inflation and unemployment, its tolerance for having the inflation outlook exceed 2 percent.

There is, however, an important caveat to such analyses: They assume the FOMC's longer-run inflation goal is never in doubt. In reality, a willingness to let inflation increase above the 2 percent goal for a protracted period carries the risk that longer-term inflation expectations may slip above levels consistent with the committee's 2 percent goal and calls into question the committee's commitment to its inflation goal. Restoring such a dent in the Federal Reserve's credibility would no doubt be very costly for the economy.

In fact, history provides a valuable lesson here. With the benefit of hindsight, economists have concluded that in the early 1970s the growth in the economy's productive capacity slowed. By some accounts, the Federal Reserve's attempts to speed up the economic recovery in the face of lower growth potential ultimately contributed to a decade of high inflation. Discerning such slow-moving trends as they unfold in real time is extremely difficult, and failing to recognize them, or worse yet, ignoring them because they are so gradual, can be tremendously costly for the Federal Reserve and the economy.

Conclusion

In promoting its longer-run goals, the FOMC must weigh the benefits and the risks of maintaining an unusually accommodative monetary policy stance for a protracted period. Like others, I am concerned about the high rate of unemployment, but I recognize that monetary policy, by contributing to financial imbalances and instability, can just as easily aggravate unemployment as heal it. Economic models tend to highlight the benefits of such a policy, but cannot fully account for the future risks.

I have highlighted the risk of financial instability and the risk of higher inflation because, although some say they are unlikely, history shows that becoming too sanguine about either can lull us into thinking we can avoid them.



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

This text is adapted from a speech given at the Central Exchange in Kansas City, Mo., on Jan. 10, 2013. At her first meeting as a voting member of the FOMC on Jan. 29, President George dissented from the committee's statement because she was "concerned that the continued high level of monetary accommodation increased the risks of future economic and financial imbalances and, over time, could cause an increase in long-term inflation expectations." To read the full speech, and others, visit KansasCityFed.org.

Polarizing affect

Occupational shift changes America's workforce

PHOTO BY GARY BARBER





The Leeds district of Kansas City, Mo., once bustled with activity. General Motors' automobile assembly plant, the hub of the district, employed thousands, and businesses either related to the plant or that catered to its workers thrived in the area.

GM opened the plant in 1929 as two separate divisions, with GM controlled Fisher Body on one side and Chevrolet on the other.

"I started working there in 1964 for Fisher Body," said Jerry Malone, 70, of Grandview, Mo., who worked at the plant for almost 25 years.

Malone started on the assembly line and continued working at the plant after Fisher Body and Chevrolet merged to form General Motors Assembly Division. Although he once took a lead position, he never went into management. The United Autoworkers Union was strong at Leeds, and Malone remained in good standing with the union throughout his career.

"It was a very good job," he said. "By the time I retired, much of the job had changed though. Well, it had started changing in the early 1980s with automation."

At its height, Leeds employed more than 4,500 people and produced 60 vehicles an hour on two production shifts. In the 1980s, GM assembly operations were reconfigured into the Chevrolet-Pontiac-GM Canada division and the Buick-Olds-Cadillac division with Leeds being placed in the latter. Employment decreased at Leeds as robots and computers replaced assembly-line workers.

"What an actual person had done, such as painting and other work, was replaced by automation," Malone said.

Some of the workers who faced layoffs received training and stayed on to maintain and operate automation equipment, while others looked for work at auto plants or considered different occupations within manufacturing, Malone said.

GM closed the plant in 1988 after

Leeds lost its bid to produce the Chevrolet S-10 pickup truck. GM said the plant was landlocked and no longer could be expanded for future production models.

Malone was just short of making his full retirement when the plant closed. After taking time off, he finished his tenure for GM at a plant in Wichita Falls, Texas, and received his full pension.

“Not everyone was as fortunate as me,” he said.

A shift in occupations

Kansas City Fed economists Didem Tüzemen and Jonathan Willis say the labor force in the United States has shifted away from middle-skill occupations over the past three decades.

“Technological advancements and the

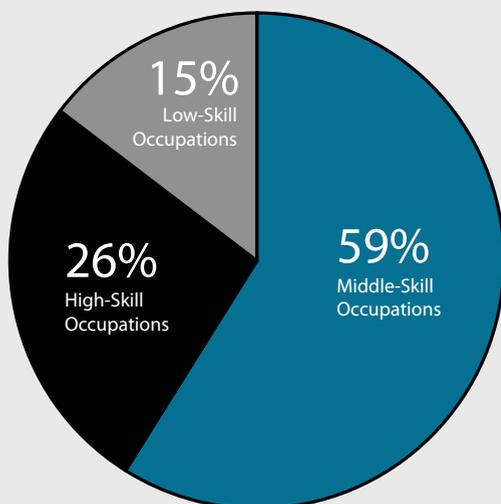
widespread use of computers led to a rise in the relative demand for workers to fill high-skill occupations,” Tüzemen and Willis wrote in their new research, “The Vanishing Middle: Job Polarization and Workers’ Response to the Decline in Middle-Skill Jobs.” In addition, there has also been a shift toward low-skill occupations associated with the increase in employment in the service sector.

Economists call this shift in the composition of jobs away from middle-skill occupations toward high- and low-skill occupations “job polarization.”

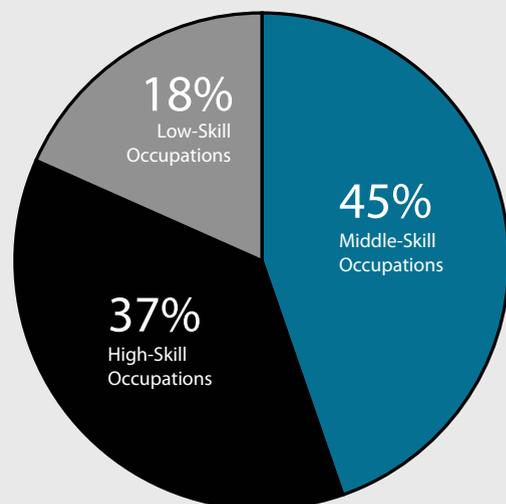
Tüzemen and Willis used data from the Current Population Survey, also known as the household survey, to study the labor force from 1983 to 2012. They chose this period because job classifications matched in all the years studied, whereas previous job classifications in the

Shift in the American workforce

The early 1980s marked the beginning of a shift in America’s workforce as technology and computers replaced people in middle-skill occupations and created more high-skill occupations that required workers to obtain education beyond high school. There also was a slight increase in industries that require low-skill occupations, such as the service industry.



1983



2012

Note: Data are restricted to workers between the ages of 16 and 64, who are not self-employed and are not employed in military and agricultural occupations.

1960s and 1970s do not match current ones.

They classify middle-skill jobs as occupations that require workers to perform routine tasks and can be replaced or enhanced by technology, occupations such as production, sales, office and administrative. High-skill jobs include occupations that involve nonroutine tasks and a high level of education, such as medicine, engineering, education, management, finance and legal. Low-skill jobs include occupations where technology cannot as easily replace humans, but the work doesn't require a high level of education. These include food preparation, cleaning, protective services and other physical labor.

The economists say, based on industry patterns, occupational shifts within each industry, not one industry affecting the occupational make-up of another, caused job polarization. Like at the Leeds plant, middle-skill jobs with in certain industries were replaced by technology. This occurred to middle-skill jobs in all industries, even to middle-skill jobs in industries with a large share of high-skill jobs.

Another reason for the occupational shift was the decline in labor unions and growth in the global marketplace. These led to increased trade flows and middle-skill jobs being sent overseas where labor costs are cheaper.

"The large shift in employment away from manufacturing reduced the overall employment share of workers in middle-skill occupations, but this was partially offset as workers moved to middle-skill occupations in expanding industries such as education and health," the economists wrote.

But even with job polarization, the U.S. labor market grew nearly 50 percent in the three decades they studied.

Discovering a niche

Annette Bonacker-Hess of Paola, Kan., began her career as a data entry clerk in the early 1980s. She spent eight hours a day entering information into large computers.

"That job probably doesn't even exist anymore with all the changes in technology," she said.

Bonacker-Hess has an outgoing personality and likes working with people. The isolation and repetitive work of the data entry job made her want more for her career. An acquaintance asked her one day to consider selling real estate.

"They thought with my personality and intellect that I could succeed in sales," she said.

She quit her data entry job and worked as a commission-only real estate agent, which involved long hours and weekends. She eventually tried other sales ventures like selling weight-loss programs, which was an emerging industry in the late 1980s and early 1990s. By then, she had married, divorced and was raising her son as a single-mother.

Bonacker-Hess found her sales niche in the 1990s when she answered an ad for a newspaper advertising representative. At first, the advertising manager was skeptical, because Bonacker-Hess had never worked in advertising or publishing. Bonacker-Hess, however, made one of her best sales pitches that day and got the job.

"I loved it. I loved doing it," she said. "It really fit with everything I wanted to do with my career."

Bonacker-Hess worked more than 15 years in newspaper and magazine advertising.

"Anyone with intelligence and a good selling personality could work hard and be successful in sales," she said. "Some of the most successful sales people I know never went to college."

But as the new millennium approached, the industry began to shift.

"Here I was with a two-year college degree and a successful career in sales, but the new, young sales people being hired in the industry had four-year degrees," she said.

When the publishing industry, especially newspapers, declined rapidly during the recession and into the current recovery,

Bonacker-Hess found herself without a job and unable to meet employers' basic job requirements.

"Some employers wouldn't even interview me because I didn't have a four-year degree in marketing or business," she said. "With other employers, I'd get to the second or third interview, and they would hire someone with a four-year degree."

Reacting to the shift

Research shows Bonacker-Hess and others like her are on the wrong side of the trend. Today's workers are more educated than in previous years, and there is an increased demand for older workers with higher levels of education. This demand, heightened by the recession and current recovery, has caused many baby boomers to stay longer in the workforce. It's also prompted many younger workers to seek low-skill jobs and to seek more

education before entering the workforce on a permanent basis.

Although most of the jobs in the last three decades went toward high-skill occupations—increasing from 26 to 37 percent—the jobs market for low-skill occupations also grew, increasing by 3 percentage points. This increase surprised Tüzemen and Willis given the labor market shift to high-skill occupations.

Part of the explanation for this increase, the economists say, is a growth in the industries that employ low-skill occupations, such as the service industry. Another explanation is how male and female workers reacted to the decline of middle-skill jobs.

"Women tended to seek more education and go toward high-skill level jobs, where men split between low-skill level and high-level jobs," Tüzemen said during a presentation of their research in March.

Although the economists did not explore

The labor force in the United States has shifted from middle-skill occupations to high-skill occupations over the past three decades. Much of that shift has occurred in manufacturing, where computerized machines now perform the work of several laborers, similar to this computerized cutting and die machine at SOR, Inc., in Lenexa, Kan.



PHOTO BY GARY BARBER

all the reasons behind the gender difference in their current research, Willis' earlier research explored how men and women view the jobs market and how the difference was heightened in the recent recession and recovery.

Willis concluded that men, on average, appear to have a stronger attachment to the workplace. He continued by pointing out that when faced with unemployment and falling wages, men tend to be willing to accept less desirable employment opportunities. Women, however, tend to seek more education, hold out for equal or better job opportunities, or leave the workforce.

Finding success among change

Bonacker-Hess' mother had a long career in clerical work for the state of Illinois, and her father was a "blue-collar" worker who drove delivery trucks. Their work ethic affected how she views the jobs market. She knew her job in sales, where hard work and experience plays a key role in being successful, was something technology couldn't replace.

"My parents were successful, but it was a different time then," she said. "I didn't have money to go to college after I graduated high school. I went to college later and got my associates degree, but today that isn't good enough, and that's with me having 20-plus years in sales. I found myself fighting to find a job."

Going back to school wasn't an option. Besides, to Bonacker-Hess, her experience was the equivalent of having a Ph.D. in sales. So, she kept searching for opportunities and selling her best asset: her experience. And after a year and half of searching, she landed a job as a regional sales rep for a cleaning and maintenance company in Kansas.

"During this time, I began to see employers change how they viewed the sales industry," she said. "They saw that people with experience still had a lot to offer."

Although Bonacker-Hess found her way back into the workforce, Malone plans on staying retired.

He still looks fondly upon his profession. Many families built entire careers in the auto industry or similar manufacturing occupations. None of Malone's three sons has followed in his footsteps and that's fine with him.

"Although it was a very good job, I let them choose for themselves," he said. "And given how that industry and the entire economy has changed, I'm glad they sought their own paths."

Two of his sons had successful careers in the Air Force and went into various business ventures after leaving the military. His youngest son graduated college with a double major and works for a pharmaceutical company.

"What opportunities there were for me coming out of the Air Force, and with my level of education, in the early '60s are no longer there for a majority of people," he said. "I was very fortunate to have a long career in one industry."



BY KEVIN WRIGHT, EDITOR

FURTHER RESOURCES

"THE VANISHING MIDDLE: JOB POLARIZATION AND WORKERS' RESPONSE TO THE DECLINE IN MIDDLE-SKILL JOBS"

By Didem Tüzemen and Jonathan Willis
KansasCityFed.org/publications

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

Assessing the impact

U.S. student loan debt reaches \$1 trillion

PHOTO BY GARY BARBER





Most students don't think about the money they borrow for college until they get the bill. And the bills are piling up. Estimates show that outstanding student loan debt in the United States has reached \$1 trillion.

This increase in debt has been accompanied by an increase in default rates, which presents a number of challenges for individual student loan borrowers. This outstanding debt, however, does not necessarily pose a substantial burden on society.

Kelly Edmiston, a senior economist at the Kansas City Fed, said media reports on the student loan "crisis" focus on the enormous growth in outstanding student loan debt in recent years—from \$364 billion in 2005 to an estimated \$1 trillion in 2013—but fail to explore all the facts.

"While there has been a modest increase in average debt, the increase in total outstanding debt has come largely from an increase in enrollments," he said.

A quarter of those borrowers have more than \$30,000 in outstanding debt, and about 3 percent have debt of more than \$100,000. A quarter of borrowers, however, have debt of less than \$6,000.

The increase in overall debt reflects an occupational shift in America's labor force. Workers are performing tasks that require education beyond high school. These high-skill-level occupations have increased by 14 percent in the last three decades. So, the more education a student achieves the better employment potential they have in today's workplace after graduation.

"It's what I call an investment in human capital," Edmiston said. "It's not like credit card debt, which is acquired largely from consumption. With college loans, you're investing in something that can make an enormous difference in lifetime earnings."

Edmiston says, however, given the state of the national economy, students face many uncertainties in today's jobs market while carrying a large amount of student loan debt.

Seeing the potential

Kelly Alvarez, a graduate student at the University of Missouri-Kansas City, says it's hard to see her earnings potential in the current economy.

"Your options when you graduate aren't as great as they used to be," she said. "You're supposed to be excited about graduating college,

but a lot of students I know aren't excited."

Alvarez attends school full time and works 40 hours a week at a local restaurant to pay the rent on a "shoebox" apartment, gasoline and other expenses. She had been saving money to make a sizeable down payment on a house after she graduated, but that was before her loans were recently sold to Sallie Mae. She said the sale concerns her because the federally sponsored student loan giant's business practices underwent congressional scrutiny and several borrowers have filed lawsuits against the company.

"After I graduate, I wanted to have a good job and start a family, but with my student loans being sold, and the current economy, I want to pay off my loans."

She plans to use her down-payment money toward her student loan debt. She's also going to apply to a federal debt forgiveness pro-

gram, where she can receive credit toward loan forgiveness by teaching fine arts in an urban school district that has a teacher shortage.

"If I teach for 10 years, they'll forgive what I owe on my student loans," she said.

When Alvarez started college at Northwest Missouri State, she didn't even know how to apply for a student loan. She had a scholarship as a freshman, but when she changed her focus from journalism to art and education, she had to take out student loans.

"I learned to be smart about student loans, only taking out what I needed to pay tuition and giving back what was left over," she said.

Even for some students who receive scholarships, it's hard not to take out a loan.

"Then finding a job after graduation that not only pays the bills, but also your student loans isn't easy," she said. "I'm concerned about how this debt will affect my future plans."

THE INCREASE IN OVERALL STUDENT LOAN DEBT reflects an occupational shift in America's labor force. Workers are performing tasks that require education beyond high school. These high-skill-level occupations have increased by 14 percent in the last three decades.

PHOTO BY BOB GREENSPAN



Growing delinquencies

Delinquency rates on student loans, while equal with home mortgage delinquency rates, are unequal in one important way.

“You can’t bankrupt this debt,” Edmiston said.

In 1976, Congress changed the bankruptcy code so that student loans made by the government or a nonprofit college or university were exempt from being discharged during the first five years of repayment. If a borrower made repayment for five years, or if the borrower experienced undue hardship, courts could discharge the debt in bankruptcy proceedings. But in 1984, the Bankruptcy Amendments and Federal Judgeship Act made private student loans exempt. Congress then passed the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 that made all student loans exempt from discharge unless the borrower can prove repaying the loan would cause “undue hardship.”

“Loan debt stays with a student until either he pays it off or until death,” Edmiston says.

And chronic delinquencies can lead to wage garnishment, tax refund interception, the inability to borrow, and other financial consequences.

Edmiston says the federal student loan program has added features in the last decade that help delinquent borrowers. Some of the programs include loan deferment, loan forbearance, reduced payments based on income and loan consolidation. Yet, many delinquent borrowers don’t use these programs.

“We need to market these programs better,” Edmiston said.

The current delinquency rate is more of a reflection of the nation’s economy than a crisis within the student loan industry. Delinquency rates skyrocketed during the recession and throughout the recovery. Unemployment among adults aged 20 to 24 peaked at 17.1 percent in April 2010, when the national average was at 9.9 percent.

“Like much else, we need economic growth and jobs to settle many of our financial

concerns,” Edmiston said. “The younger generation was hit especially hard by the recession and has been slow to recover.”

Overcoming uncertainties

Karen Wilson graduated in 2005 from a college in Colorado with a degree in civil engineering.

“I did all the right internships and landed a good job with a firm that had plenty of work with local and state governments.”

Then the housing bubble burst, the recession occurred and the number of projects at her firm dwindled.

“Work dried up like last year’s drought,” she said.

She had attended a private college her freshman and sophomore years and was fortunate that her parents helped pay part of her tuition and housing costs. Wilson, however, still took with her a sizable loan debt when she transferred colleges.

“I was careful about my loans and expenses and even calculated my earnings potential-to-debt ratio,” she said.

She met her husband, Justin, her senior year at a church function for young singles. Justin graduated with a degree in education from a college in Florida and taught at a private academy outside Denver. After dating more than a year, the two planned to marry after Karen graduated and established her career.

Justin paid for his tuition with scholarships and by working almost full time while in school. As a Florida resident, he also benefited from a subsidy program he qualified for through that state.

“When I finally learned how much Karen owed, I was a little nervous about paying off that debt, but she assured me that with both our incomes, we would be fine,” he said. “We wouldn’t live in luxury, but we could start our life together.”

And Karen was right. She graduated college, got a job and they married. The couple saved money for a down payment on a house while making monthly payments on Karen’s

more than \$50,000 in student loans.

Everything changed after Karen was laid off.

“My teacher’s salary was nowhere what Karen earned and her health insurance was much better than what my employer offered, so we had to put a lot of things on hold until she found a new job,” Justin said.

They received some help from their families, but the last few years have been difficult for their parents. Karen worked a part-time job at a grocery store and picked up contract work to help pay the bills.

It took her more than three years to find a full-time job, and that was after she went back to college. During this time, she received forbearance on her student loans, which accumulated interest until she could make

innovative and useful programs to educate students about loans, and the U.S. Department of Education also is developing programs to help in this area.

“These programs should help the next generation of borrowers be more educated about student loans,” he said.

Loan education is not the only area undergoing reform. The market for federal student loans also has changed recently, mostly due to the recession and modifications in the federal government’s role and to its programs.

The federal loan program is the most commonly used financial aid program for higher education, accounting for about 75 percent of total aid in the 2013 U.S. Department of Education budget. This has increased, in part, because private lenders have left the market

“ We have done a very, very poor job of educating students about the consequences of their borrowing. ”

regular payments again.

“Like the saying goes, sometimes you have to spend money to make money I guess,” Karen said.

“We’ve already spent enough money, and it’s going to take us a long time to show anything for it,” Justin added.

Justin says parents, colleges and financial institutions need to do a better job of educating students about the ramifications of student loan debt.

“When you’re a young college student, you just don’t think about the significance of it,” Justin said.

Educational reform

Edmiston agrees that the U.S. student loan industry and higher education institutions need to do a better job of educating loan borrowers.

“We have done a very, very poor job of educating students about the consequences of their borrowing,” he said.

But there are signs of improvement. Some colleges and universities have developed

before, during and after the recession.

Edmiston said many private lenders left the market because investors were demanding higher returns on federally guaranteed student loans as credit markets tightened. Legislative caps limited returns; those caps were lowered further in 2007. And borrowers’ options were limited again when the federal government stopped guaranteeing student loans made through private lenders in 2007.

Students, however, still take out unsubsidized loans from private lenders to finance the gap between the cost of education and federal student loan limits. Price and terms vary widely among lenders, and in many instances, the students’ limited credit histories requires co-signers for the loans.

Edmiston understands why the public is concerned about the increase in outstanding student loan debt. Student loan borrowers’ total debt is significantly higher than that of consumers who do not hold students loans.

The average total debt for student loan borrowers, which includes mortgages, was

\$82,994 in the first quarter of 2012, compared to \$66,227 for consumers, with credit reports, who did not hold student loans. The difference, Edmiston said, is the student loan debt. If the loan debt, which averaged \$24,218, is subtracted from the total, remaining debt is lower, on average, for the student loan borrowers.

“This is not revolving debt, like many other forms of debt,” Edmiston said.

Student loan debt can decrease a borrower’s ability to access other forms of credit, especially for someone with a large amount of student loan debt. The student loan borrower’s earning potential, however, is much greater than someone who did not attend college and has a significant amount of revolving debt.

The College Board estimates that lifetime earnings for those with a bachelor’s degree are 66 percent higher than those with a high school diploma. Another recent report estimated that the median lifetime earnings of those with a high school diploma to be more than \$1.3 million, compared to nearly \$2.3 million for those who have a bachelor’s degree, and even greater for those with advanced degrees.

Even considering wages lost while attending college and the effect of paying off student loans after graduation, the average borrower pays off student loans by the time they reach their 30s. Almost one-third of student loan borrowers, however, are over the age of 40.

There are several reasons why borrowers over 40 have student loan debt, such as attending college at a nontraditional age, taking out loans to pay for their children’s college and pursuing graduate education and not starting repayment until they are older.

“You can’t assume that older borrowers have had this debt for a long period and been unable to repay it,” Edmiston said.

Rethinking career paths

When you’re 18 years old, it’s difficult to understand the concept of accumulating a large

amount of debt, Ashley Warner said.

“How much your education is going to cost really isn’t talked about at college, or I just wasn’t listening,” she said.

Warner’s passion was painting and she focused most of her attention on being a successful student.

“In college you know you’re going to be broke, there’s lots of things to distract you, then reality hits when you graduate,” she said. “Having to make a living, owing money on student loans, it did change the kind of day job I would work.”

Warner found it difficult to support herself and achieve her professional expectations after graduating with a bachelor’s degree in fine arts from the University of Kansas, especially in the current economic conditions.

She works in security at the Nelson-Atkins Museum of Art in Kansas City, Mo., just to pay the bills. She plans to go back to college and get her master’s in education from the University of Missouri-Kansas City.

“I like teaching. I’ve given (painting) lessons from time to time, and I think teaching art is a way I can meet my (financial obligations) and do what I love.”

But she also expects to accumulate more student loan debt in the process.

“That’s just the way things are right now,” she said. “You have to rethink your path according to what’s going on in the world.”



BY KEVIN WRIGHT, EDITOR

FURTHER RESOURCES

“STUDENT LOANS: OVERVIEW AND ISSUES”

By Kelly D. Edmiston, Lara Brooks and Steven Shepelwich.
KansasCityFed.org/publications

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



Stabilizing the economy

Evaluating the effects of industrial diversity





State and local officials have sought to reduce short-term volatility in their communities' economic growth rates and potentially boost overall long-term growth by diversifying the mix of industries in their regions. Economic theory predicts that industrial diversity can reduce economic volatility; however, views vary on the effects that industrial diversity has on long-term growth.

In her latest research, Alison Felix, an economist and Denver Branch executive for the Kansas City Fed, examined industrial diversity across the nearly 500 counties of the Federal Reserve's Tenth District. Felix concluded that counties with greater diversity saw more economic stability over a three-decade period. The differences in industrial diversity, however, had no significant impact on overall growth across the period, neither increasing nor restraining growth rates for employment or wages.

She reached this conclusion even after controlling for a variety of county population characteristics and for the effects of two key industries: agriculture and energy.

"Given that industrial diversity does

not appear to affect growth, officials seeking to boost growth rates may need to focus on efforts beyond diversification," Felix wrote in her research article titled "Industrial Diversity, Growth, and Volatility in the Seven States of the Tenth District."

Felix measured industrial diversity using the national diversity index. The index ranks a county more diverse when the distribution of its shares of employment across industry categories is similar to that of the entire United States and less diverse when it is less similar.

Her study divided employment among 15 industries and calculated the diversity index by measuring the difference between each industry's employment share in the county and its employment share in the entire United States. The study concluded that some counties have a diverse distribution of industries, especially metropolitan areas; however, many counties in the Tenth District have high concentrations in one or two industries. For example, Oklahoma and Wyoming specialize in the energy sector; Wichita, Kan., specializes in aerospace manufacturing; and parts of Kansas and Nebraska specialize in agriculture.

Industrial mix of employment in the

Tenth District, which encompasses Colorado, Kansas, western Missouri, northern New Mexico, Nebraska, Oklahoma and Wyoming, changed significantly, mirroring the United States, from 1980 to 2010. For instance, during this time, the share of nationwide employment in agriculture, energy and manufacturing declined, while employment shares increased in service industries, such as healthcare, leisure and entertainment, and professional and business services. The Tenth District experienced similar transitions in employment, with some industries expanding and others contracting.

Researchers who have examined the impact of industrial diversity on economic volatility have mostly found that counties with more industrial diversity are less volatile. Felix's research reached the same conclusion.

"The result holds even after controlling for the effects of several other county characteristics and for the impact of the agriculture and energy industries," she wrote.

Two key indicators of economic activity are employment growth and wage growth. The standard deviation over time in these areas provides a measure of their volatility. The data show that more diverse counties, on average, experienced less volatility from 1980 to 2007 in both employment growth and wage growth.

Slight differences, however, emerge from decade to decade. Volatility was highest in the 1980s, as was the difference in volatility between high- and low-diversity counties. The 1990s saw the least difference between high- and low-diversity counties.

In addition to industrial diversity, other factors such as population size, density, per capita income, and education levels can affect economic volatility. The research found that counties with larger populations have less economic volatility. This finding could stem from highly populated counties having more employers in each industry, which helps avoid sharp employment losses when any one company falters. Data also show that population density, residents per square mile and per capita

income were correlated with greater volatility in employment growth, but had no correlation with volatility in wage growth. The exception was counties with higher numbers of college-educated employees, whose performance-based compensation in the form of bonuses and stock options frequently is more volatile than hourly wage earners.

Researchers have offered opposing theories and results on whether industrial diversity increases or decreases long-term economic growth. And a glance at the Tenth District suggests there is a relationship among greater industrial diversity and faster employment and wage growth.

Taking it a step further, analysis of individual decades shows that employment grew slower in the less diverse counties in every decade. Wages also grew slower in two of the three decades: the 1980s and 1990s. In the 2000s, however, wages grew faster in the less diverse counties. This could reflect the impact of the agriculture and energy sectors, which are highly concentrated in the District's less diverse counties. Wages grew faster in the 2000s in these sectors than in many other industries.

While the results from the 1980s and 1990s support the view that industrial diversity boosts employment growth, the data from the 2000s suggest the opposite—more industrial specialized areas have an advantage.

Analysis shows, however, that industrial diversity does not affect counties' employment and wage growth after controlling for the effect of the agriculture and energy industries. "Although diversity appears to have had some effect on employment growth in the 1990s, it did not have such an effect in the 1980s, the 2000s or the 1980-2007 period as a whole," Felix wrote.

Felix's research concluded that diversifying the industrial mix in a region can stabilize economic volatility in a community. Higher levels of industrial diversity, however, do not significantly impact long-term growth in employment or wages.



Branching out

Alison Felix reflects upon her first year as Denver Branch executive

PHOTO BY DAVID TEJADA

Alison Felix's first year as the Kansas City Fed's Denver Branch Executive has helped her learn about the distinct economies of the states the branch serves and how those states fit into the regional structure of the Federal Reserve.

"This new role has given me the opportunity to build relationships with the Denver Branch Board of Directors and with business and community leaders across the zone," said Felix, who was a senior economist at the Kansas City Fed's headquarters in Kansas City, Mo., before moving to Denver. "Talking with these individuals has provided me with greater insight into how individual industries are performing and how they respond to consumer demand and policy changes."

She uses this information to analyze the Denver zone economies, which includes Colorado, New Mexico and Wyoming.

"Each of these states, and even different areas within them, has a different economic makeup," she said.

The Denver zone is heavily reliant on energy, especially in Wyoming and New Mexico, but other industries also contribute to the region's economy. In

particular, Felix said, tourism plays a vital role in the economies of all three states, and New Mexico's economy also relies on the government sector.

Colorado has the most diverse economy in the region, with many businesses and employees moving to the "Colorful" state, which has a large start-up market.

"Having the opportunity to interact with business leaders and bankers from across the region has really helped me to better understand their unique circumstances," Felix said.

Felix's first interest has always been mathematics, but after attending a microeconomics class as an undergraduate at Kansas State University, she knew she had found the right field. She graduated from K-State with a bachelor's degree in mathematics and economics. She then attended graduate school at the University of Michigan, earning a master's and a doctorate degree in economics.

Since coming to the Kansas City Fed almost six years ago, Felix has focused her research on public finance issues, like in her most recent published study, "Industrial Diversity, Growth, and Volatility in the Seven States of the Tenth District" (See related story page

18). The study examined the effects of state and local government official's efforts to stabilize their economies and spur economic growth by diversifying industries.

Felix plans to continue her research efforts in this area, but she also wants to research labor issues and the economics of education.

Her role, however, is more than doing research. She is the Kansas City Fed's lead officer in the states of Colorado, Wyoming and northern New Mexico. She is responsible for briefing Kansas City Fed President Esther George on business activities in those states. Although Denver is the Kansas City Fed's largest branch, it's a smaller environment than what Felix was accustomed to in Kansas City.

"This smaller size allows employees from different functions of the Bank to interact more," Felix said.

This has given her the chance to learn more about bank supervision, cash and law enforcement functions.

"Although each function of the Bank has different goals, I have been impressed by how each has developed processes to maximize the efficiency and performance of that function," she said.



Increase Your Money Smart IQ

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

Testing, 1-2-3! Teachers are currently testing students’ achievement to assess progress as the school year winds down. These tests will tell teachers how well their classes have mastered the grade-level curriculum and related skills. Many educators also give aptitude tests, which predict future ability based on overall intelligence. These tests often yield an intelligence quotient or IQ, which can be a good indicator of performance in years to come.

As a former teacher and current writer of personal finance lessons, I believe that a Money Smart IQ test would be a valuable addition to the testing schedule. (Try playing our “Show Your Money Smarts: Take It to the Bank” game on page 22 with your child to test their ability.) The process of money management—earning income, smart saving and wise spending—should be taught and assessed regularly. Because teachers often can’t squeeze another subject into their day, I suggest that parents take the charge to acquaint their children with financial skills. April was National Financial Literacy for Youth Month, so it’s an appropriate time to discuss how kids can become money smart.

For young learners, keep the financial ideas simple and to the point by sharing the following:

- There is a difference between what you need and what you want. A need is something you must have to live, such as water, food

and clothing. A want is something you like and desire to have, such as toys, a bike, and candy. You can survive without wants, but not without needs.

- Parents usually take care of their children’s needs, but can’t buy everything they want. There is not enough money to buy what everyone desires, so we have to make choices. Those choices should be smart decisions that we think through before making purchases.
- If you desire wants, you should save for them. Set aside some of your money each time you receive it for allowance, chores or birthdays. Put it in an envelope, piggybank or real bank, so you won’t spend it before you save enough.
- If you’d like more money to buy more wants, earn it! Do extra chores, sell old toys at a garage sale, or make a craft and sell it. You’ll reach your savings goal in no time.

For older learners, use the following “Top Tips to Become Money Smart” as a conversation starter. Discuss each tip’s meaning and ask your child the related question to personalize the concept.

- Do set savings goals and work toward them. What would you like to save for?
- Don’t confuse things that you want with things that you need. Can you think of times you wanted to buy something unnecessary?
- Do think over your shopping choices before you spend. Why is it important to stop and think before purchasing?
- Don’t bring all of your money with you when you shop. What does the saying “money burns a hole in your pocket” mean?
- Do wait to buy something until it’s on sale.

Have you ever seen an item you bought go on sale later?

- Don't buy something just because your friends bought it.

Do you remember a time you bought something to be like your friends?

- Do find opportunities to earn extra cash.

What could you do to earn money around the house?

Becoming money smart isn't just for kids! Consumers of all ages can participate in Money Smart Week in their state during April. Money Smart Week began in 2002 as a public awareness campaign designed to help consumers manage their personal finances. Financial institutions, schools, libraries, nonprofits, government agencies and the media collaborate annu-

ally to emphasize financial literacy through free educational seminars and programs throughout the week. These activities cover all facets of personal finance, from establishing a budget to home buying to estate planning. This year, Money Smart partners had events from April 20-27. So check out your local literacy campaign with the goal of increasing your own financial know-how as well as your child's.

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Financial Education Resources

The Kansas City Fed is committed to promoting economic and financial literacy and greater knowledge of the Federal Reserve's role by providing resources for teachers, students and the public. Visit our website at KansasCityFed.org/education for more information.

FEDERAL RESERVE RESOURCES

Financial Fables from the Fed

These online e-books with colorful bird characters teach financial management skills through money morals. For ages 4-10. (<http://financialfables.kcfed.org>)

"The Piggybank Primer"

This guide explains wants and needs, choice and opportunity cost, and has sections to outline a savings plan and track spending. For ages 6-10.

"Great Minds Think: A Kid's Guide to Money"

This booklet helps kids make financial decisions about earning, spending and saving money wisely. For ages 8-12.

FICTION BOOKS

"Glo Goes Shopping"

by Cheryl Willis Hudson

Glo is searching for just the right birthday gift for her friend. She looks at many choices before finally finding the perfect present. For ages 4-8.

"Pickle Patch Bathtub"

by Frances Kennedy

Donna and her family work to buy a new bathtub by raising cucumbers to be made into pickles. This story shares the difficulties of saving during the Great Depression. For ages 8-12.

(Related lessons for both books can be found at www.stlouisfed.org)

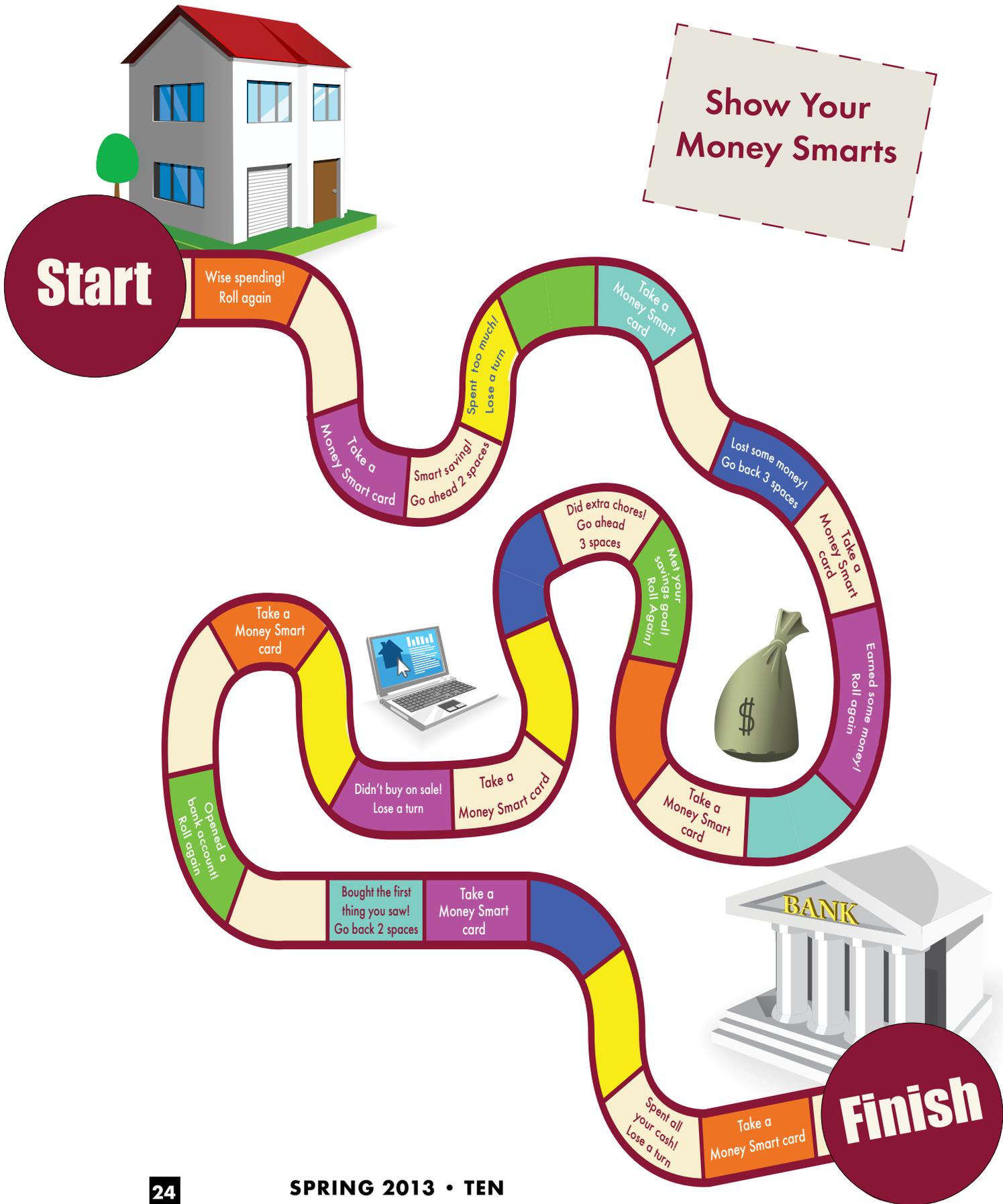
NONFICTION BOOKS

"The Ultimate Parenting Map to Money Smart Kids"

by Linda Leitz

This book explains ways for parents to talk to kids about money, work and the cost of living. Additional chapters give advice on allowances, budgeting and investing. For adults.

“Show Your Money Smarts: Take it to the Bank”



Directions: Cut out the Show Your Money Smarts question cards below and place them face down next to the game board page. Using a coin as a token, play the game by taking turns rolling a die and moving the number of squares shown. Follow the directions on the square you land on. If you need to take a card, another player should pick it up, read the Money Smart question to you, and tell you if your answer is correct. If you are correct, you may take another turn!



The first player to get to the bank wins

True or False:
You should take care of your wants before your needs.

(False)

Explain what "money burns a hole in your pocket" means.

(Accept any reasonable answer)

The price of a toy is \$5.
It is marked 50% off.
What is the sale price of the toy?
a) \$2.50 b) \$2.00 c) \$3.00

(\$2.50)

A wise spender always:
a) pays regular price
b) buys the first thing they see
c) waits for a sale

(c)

Your friend just bought a pair of expensive tennis shoes. You have new tennis shoes that are less expensive. You should:
a) buy the same shoes
b) start saving for the same shoes
c) wear the shoes you have before thinking about more expensive shoes

(c)

Explain what "a fool and his money are soon parted" means.

(Accept any reasonable answer)

True or False:
Earning extra cash will help you reach your savings goal sooner.

(True)

Saving means:
a) to use money to buy goods and services
b) to keep money to spend later
c) to take money out of a bank account

(b)

A soccer ball is on sale at two stores. Store A is selling it for \$20 with an extra 25% off. Store B is selling it for \$20 with an extra \$4 off. Which is the better buy?

(Store A)

Explain what "Money doesn't grow on trees" means.

(Accept any reasonable answer)

Give an example of something you would like to save for. Tell how much you would save each month and how long you would need to reach your goal.

(Accept any reasonable answer)

True or False:
You should take all of your cash with you when you go shopping.

(False)

Explain what "Save for a rainy day" means.

(Accept any reasonable answer)

To receive money for doing work is to:
a) save b) earn c) spend

(b)

An example of a need is:
a) bike b) water c) candy

(water)

“Show Your Money Smarts: Take it to the Bank”

Show Your Money Smarts



2012

Financial Report

The Federal Reserve Bank of Kansas City's 2012 audited financial report is at KansasCityFed.org. Past financial reports, and officers, directors and advisory councils listings, also are online.

BROAD REPRESENTATION, REGIONAL ROOTS

KANSAS CITY FED RELIES ON DIRECTORS FOR INSIGHT

As designed by Congress in 1913, the Federal Reserve is an innovative blending of public and private institutions. While the Board of Governors in Washington, D.C., is a government agency with broad oversight responsibilities, there are 12 regional Federal Reserve Banks located throughout the United States that are under the direction of local Boards of Directors. In addition to oversight responsibilities for their respective Reserve Banks, the regional Fed directors serve as a critical conduit between their local communities and the nation's central bank, offering insight and counsel on the economy drawn from their own expertise and contacts.

This system of the independent regional Reserve Banks, which also have affiliated Branch offices, are in direct recognition of the value Americans place on limiting influence and ensuring broad representation. Prior to the Federal Reserve, the United States had made two attempts at a central bank, but large areas of the country, especially along the frontier and in the South, felt the institutions were too closely aligned with the power centers of the Northeast, and the institutions were abandoned.

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

Here's a closer look at Tenth District directors who joined their boards in 2013.





STEVE MAESTAS
KANSAS CITY DIRECTOR

STEVE MAESTAS

Steve Maestas, deputy chairman of the Kansas City Fed Board of Directors, says the public, and even the business community, needs more exposure to what the Fed does and how it works.

“Serving on the (Kansas City Fed’s) Economic Advisory Council for several years provided an introduction to the Fed and its complexities,” Maestas said. “I grew to appreciate its structure, purpose and role. I want to support those objectives as well as the current monetary policy and thinking from Kansas City.”

He also wants to provide the Fed with an objective voice that reflects the commercial real estate climate and its intricacies. As the managing partner of NAI Maestas and Ward, which provides commercial real estate services from its headquarters in Albuquerque, N.M., Maestas wants to create a platform and environment that enables the firm’s team members to maximize their potential.

“This, in turn, produces better experiences and results for our clients,” he said.

As a director, he hopes to add that same value to the Board.

“I hope to be able to provide an accurate reflection of the business climate in New Mexico, which sometimes is not consistent with certain aspects reflected in the balance of the District,” he said.

Lately, Maestas’ activities have been centered on strategic discussions related to economic development initiatives that affect New Mexico’s tax code. He’s chairman of Albuquerque Economic Development, a private, nonprofit organization that fosters job retention and creation in the Albuquerque area.

He understands that he and his firm are part of something bigger than themselves.

“Our purpose is to foster business growth and opportunity through the conduit of commercial real estate,” he said. “We create jobs, economic growth and enhance the community that we live in.”

He also sees the Kansas City Fed’s role as part of a bigger picture, one that encompasses the entire district and the nation. Through his experience with the Board, he plans “to help bridge that gap for fellow New Mexicans while building new relationships outside my community.”



ANNE HINDERY
OMAHA DIRECTOR

ANNE HINDERY

Anne Hindery wears many hats as CEO of Nonprofit Association of the Midlands.

“One day I could be presenting training on the best way to run your nonprofit business, or I could be researching great group purchasing opportunities for our members,” she said.

You even can find her editing a report or creating programs for members.

“The next day I’ll be meeting with donors to help fund our operations or programs.”

Life in the nonprofit world brings challenges and opportunities, but it takes hard work and dedication to make it all work. Nonprofit Association of the Midlands is a State Association for nonprofits, which is a membership organization open to 501c3s in Nebraska and western Iowa.

“I like to say my job is to make our members’ jobs easier,” Hindery said. “Much of what we do is build leadership, capacity and infrastructure for nonprofit organizations.”

Members join Nonprofit Association of the Midlands for several reasons, but many want to connect with each other, raise their collective voices, gain access to resources and save money.

The nonprofit perspective is what Hindery wants to bring as a director of the Kansas City Fed’s Omaha Branch Board.

“Nonprofits exist in all our communities and are the essential community fabric,” she said. “One in 11 Nebraskans works for a nonprofit and I believe nonprofits are a vital economic force.”

Too often, economists divide the economy into government and private sectors, but rarely talk about the nonprofit economy, she said. Many nonprofits partner with government and private companies to provide services in a nimble and cost-effective manner.

“From social services to the arts and culture, many health-care systems and after-school programs stem from a nonprofit,” she said.

Being a director also gives Hindery the opportunity to learn more about the role of the Fed and to be an advocate for the Kansas City Fed and the Federal Reserve System.

“It’s fascinating to listen to the conversations at the meetings and learn what’s going on in the other sectors of our economy,” she said.

MICHAEL C. COFFMAN

Oil and natural gas are hot commodities in Oklahoma.

“I’ve been here 22 years and we’ve never been busier than any time since I can remember,” said Michael Coffman, CEO and

president of Panhandle Oil and Gas Inc., in Oklahoma City.

The recent energy boom has expanded the state's jobs market and boosted the economy. Panhandle Oil and Gas is small compared to some of the state's oil and gas giants, but its investments and opportunities have plenty of activity.

Because the company is publicly traded, Coffman often is busy answering emails from investors or taking calls from stock analysts. He also meets regularly with engineers and geologists about current projects or potential new wells. Panhandle Oil and Gas owns 255,857 fee mineral acres and has a working interest or a royalty interest in more than 5,600 wells.

"There's always a risk with drilling a well; you may end up with a dry well," he said.

That risk places a lot of responsibility on Coffman's shoulders. He spends parts of his time communicating with the company board and traveling the country talking to current and potential investors. He also is responsible for monitoring the industry, tax implications and regulations, and documentation with the U.S. Securities and Exchange Commission.

He uses his industry knowledge and experience as a director on the Kansas City Fed's Oklahoma City Branch Board.

"I have always been interested in economics and what in the economy works and not works," he said. "I can provide (the Fed) insight of how the oil and gas industry impacts the economy."

By working with the Fed he also can learn how other industries affect the state, local and national economies.

"I'm excited to be associated with the Federal Reserve and serving on its board," he said.

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FOR MORE INFORMATION on the Kansas City Fed's directors, bios and more, visit KansasCityFed.org/aboutus/leadership.



PHOTO BY KEITH BALL

MICHAEL C. COFFMAN
OKLAHOMA CITY DIRECTOR

Kansas City Fed spreads financial awareness through Money Smart

The Federal Reserve Bank of Kansas City continued its participation in national Financial Literacy Awareness month with activities aimed at promoting financial understanding to children and adults. The Money Smart campaign—or Jump\$tart Your Money as it's known in Oklahoma City—took place throughout the month of April and offered financially focused education courses and programs targeted to people of all ages and income levels. The Kansas City Fed, in conjunction with its 137 partners, had 12,155 people participate in 463 events, including Teach Children to Save Day, throughout the Tenth Federal Reserve District.

The Kansas City Fed continues to provide Money Smart events throughout the year. Check out all the free great events and available materials at www.moneysmarkc.org.



Grow Your Own guide offers tips to nurture small business

Efforts to nurture home-grown businesses with entrepreneur-centered strategies, sophisticated marketing, research and technical support is taking root in the Tenth Federal Reserve District and across the country.

One community-based approach was the subject of a Grow Your Own Conference, Oct. 30-31 in Kearney, Neb.

The conference, organized by the Omaha Branch of the Kansas City Fed, examined how communities can focus resources on existing strengths, rather than spend time and money attracting big outside employers. Communities using a “grow your own” strategy develop policies and activities to spur innovation, entrepreneurship and local business growth.

“These entrepreneurship-based economic development models have been turning around many rural communities across the nation,” said Dell Gines, senior community development advisor at the Kansas City Fed.

The conference also introduced a free Grow Your Own Guide, prepared by the Kansas City Fed, which provides communities with strategies to nurture small businesses.

To access the guide, visit www.KansasCityFed.org/publicat/community/gyo/gyo-guide.pdf.

Coin restoration efforts aim to preserve Truman coin collection

The Federal Reserve Bank of Kansas City's Money Museum displays hundreds of coins on loan from the Harry S. Truman Presidential Library and Museum.

The Truman Coin Collection includes many rare pieces, including the 1907 Double Eagle, which was designed by famed sculptor Augustus Saint-Gaudens and completed by his assistant Henry Hering. Hering designed the Spirits of Commerce and Industry for the previous Kansas City Fed headquarters at 925 Grand in Kansas City, Mo.

The Truman coin display allows the Kansas City Fed to highlight its tie to President Truman, who rented office space at the 925 Grand building to write his memoirs following his presidency.

To maintain the collection, the Kansas City Fed partnered with the Truman Library to conduct conservation work on the coins and to fit all of the coins with new, custom mounts.

"These coins have come from a number of sources," said Carol Aiken, the conservator who worked on the project. "Some have been in circulation, private collections, proof sets—they have a wide range of experiences."

The restoration efforts were completed at the end of April.

Visit the Kansas City Fed's Money Museum, open 8:30-4:30 Monday through Friday, to see the Truman Coin Collection. Visit the website at www.KansasCityFed.org/moneymuseum/ for information.



PHOTO BY GARY BARBER

AN EXPERT MEASURED COINS from the Truman Coin Collection that received new custom mounts. The collection, on loan from the Truman Library, is on display in the Kansas City Fed Money Museum.

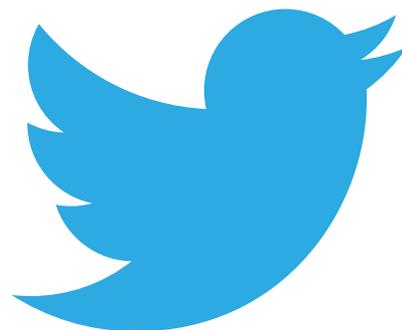
Vault Online offers Kansas City Fed memorabilia delivered to your door

You don't have to visit the Federal Reserve Bank of Kansas City's Money Museum to shop its Vault store.

The Vault Online offers a virtual opportunity to shop the museum's store. The store offers specialty merchandise that includes the Kansas City Fed's logo and educational books, games and toys designed to teach students about being smart with money.

Peruse the online store and order your favorite Kansas City Fed memorabilia or stop by the Vault during your next visit to the Money Museum.

Go to www.KansasCityFed.org/moneymuseum/thevault/ to learn more.



@KansasCityFed reaches 4,500 followers

The Federal Reserve Bank of Kansas City has gained more than 4,500 Twitter followers since it first began tweeting on May 1, 2012. Topics frequently retweeted by the Kansas City Fed's Twitter followers include speeches from Kansas City Fed President Esther George, articles from *Economic Review*, the latest payments systems research and live tweeting from conferences, including the Ag Symposium and the Jackson Hole Economic Symposium.

"We're pleased to see the positive response to the messages we are sharing," said Krissy Young, vice president of Public Affairs at the Kansas City Fed. "Our goal is to provide access to our quality research, programs and products to increase the public's understanding of who we are and what we do."

Follow the Kansas City Fed on Twitter @KansasCityFed.

Student Board of Directors programs wrap up for 2012-2013 academic year

Student Board of Directors programs in the Tenth District have concluded with formal pinning ceremonies to honor student participants for their hard work. The Student Board of Directors program was introduced by the Federal Reserve Bank of Kansas City to offer high school students the chance to learn about the economy, the Federal Reserve and how to prepare for their futures.

This is the second year of the program, which has expanded to the Kansas City Fed's Branch cities of Denver, Omaha and Oklahoma City. Through their participation this year, 44 students had the chance to meet with Kansas City Fed leaders, local business owners and financial educators.

Learning about the economy through behind-the-scenes tours of local businesses was a highlight for all Student Board members. Kansas City Student Board members toured Crown center, an entertainment venue located near the Kansas City Fed headquarters.

"It was interesting to see how it was created and what jobs are there," Student Board member Aaliyah Deggs said.

The students are encouraged to take the lessons they've learned through their participation in the program as they attend college and start their careers.

"One lesson I learned is that your life is in your hands," Student Board member Nahshon Thomas said. "You can screw it up really bad or you can sacrifice now and be on top later."

Learn about the Student Board of Directors at KansasCityFed.org. Also see related story page 84.

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 April, May or June.

Colorado Bank and Trust of La Junta	La Junta	Colo.	89
Sundance State Bank	Sundance	Wyo.	82
First State Bank	Ness City	Kan.	79
First Nebraska Bank	Valley	Neb.	79
Bank of Hartington	Hartington	Neb.	77
Bankwest of Kansas	Goodland	Kan.	74
First State Bank of Colorado	Hatchkiss	Colo.	71
Community Bank and Trust	Neosho	Mo.	71
First State Bank in Temple	Temple	Okla.	70
Citizens-Farmers Bank Cole Camp	Cole Camp	Mo.	68
Bank of Commerce	Rawlins	Wyo.	35
Citizens Bank of Edmond	Edmond	Okla.	32
Bank of Jackson Hole	Jackson	Wyo.	31
Bankers Bank	Oklahoma City	Okla.	27
Castle Rock Bank	Castle Rock	Colo.	27
Cottonwood Valley Bank	Cedar Point	Kan.	10
Peoples Bank	Coldwater	Kan.	10
Heritage Bank	Topeka	Kan.	10
Metcalf Bank	Lees' Summit	Mo.	5
Interbank	Oklahoma City	Okla.	5
Platte Valley Bank	Torrington	Wyo.	5
Platte Valley Bank	Scottsbluff	Neb.	5
Prime Bank	Edmond	Okla.	5
Tri-City Bank	Cheyenne	Wyo.	5
First Northern Bank of Wyoming	Buffalo	Wyo.	1
Equity Bank	Andover	Kan.	1
Security Bank	Laurel	Neb.	1



BY SARAH POPE, TEN CONTRIBUTING WRITER

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

2012 Annual Report

FEDERAL RESERVE BANK *of* KANSAS CITY



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

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

The 2012 audited financial report for the Federal Reserve Bank of Kansas City is available online at KansasCityFed.org.

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THE WORK OF THE FEDERAL RESERVE BANK *of* KANSAS CITY

As the central bank of the United States, the Federal Reserve has a broad range of responsibilities. Its mission areas are: conducting monetary policy, supervising and regulating financial institutions, and providing financial services to depository institutions.

As one of the 12 regional headquarters, the Federal Reserve Bank of Kansas City plays a key role in the success of these three areas. Here's a look at the operations of the Kansas City Fed and its Branch offices in Denver, Oklahoma City and Omaha.



ADMINISTRATIVE SERVICES

This division performs a variety of services to maintain efficient and effective internal operations at the Kansas City Fed. Functions include maintaining the Reserve Bank's facilities; providing a safe and secure work environment; developing and implementing human resources strategies to meet the evolving needs of the Fed's workforce and operating environment; developing the Bank's budget and monitoring its expenses; and providing accurate financial accounting and reporting. Additionally, the division houses the Office of Minority and Women Inclusion (OMWI), which is responsible for overseeing the Bank's diversity initiatives as outlined in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Facilities Management, Protection, Human Resources, Financial Management and National Billing Operations are included in the Administrative Services Division, which employs 270 people.

AUDIT

Audit reports to the Audit Committee of the Board of Directors and provides an independent and objective assessment of the Tenth Federal Reserve District's internal controls, risk management and governance processes to the Board of Directors and senior management. It employs 21 people.

FINANCIAL SERVICES

Financial Services provides financial institutions with services and support in accessing the payments system and meeting the public's

demand for currency and coin. Through Cash Services, Wholesale Operations, Customer Relations and Support departments, and Federal Reserve Consumer Help, the division receives deposits and distributes currency and coin; provides secure and timely transfers of funds and securities between banks; provides customer support and access to payment networks; consults with and sells payments services to financial institutions and manages customer relationships; and provides service to consumers nationwide who have questions or complaints about their financial institution. The Payments System Research Department studies trends and developments in the payments system and shares insights with industry and policy makers. This division employs 188 people.

INFORMATION TECHNOLOGY

The Information Technology Division works to support the efforts of business areas in the Kansas City Fed and the Federal Reserve System through innovative information technology solutions. This division includes the Federal Reserve System's National Service Desk operations, oversight of server management and internal network centralization, staff supporting National IT General Computing, Network, Telephony and Desktop Storage Operations and SharePoint administration, as well as local IT Client Services and Information Security. This division employs 200 people.

LEGAL

The Legal Division serves as the Kansas City Fed's legal counsel. It provides advice to

management and the Board of Directors; represents the Kansas City Fed in administrative and judicial proceedings; assists the Kansas City Fed in complying with applicable law; counsels employees concerning the Kansas City Fed's Code of Conduct; provides training to management; and helps educate employees on legal issues. This division employs five people, including four lawyers.

REGIONAL, PUBLIC AND COMMUNITY AFFAIRS

The division's primary responsibilities are research, resource development and communications. The division's economists track developments in the District's economy and present their findings to senior management as part of the Bank's monetary policy deliberations. Through publications, Money museums, media relations, electronic communication and educational programs, Public Affairs works to explain the Fed's purpose and functions. Community Affairs promotes economic development through fair and impartial access to credit throughout the District. The division employs 59 people.

RETAIL PAYMENTS TECHNOLOGY SERVICES

The Retail Payments Technology Services division is responsible for providing a substantial portion of the technology services supporting the Federal Reserve System's paper and electronic check systems. In October of 2012, the division successfully completed a multi-year project to transition check processing to a new electronic payments platform with minimal customer impact. In addition, the division head is currently providing oversight to the multi-year FedACH Technology Transition Program. This program was initiated to modernize and transform the FedACH processing platform to improve time to market, increase flexibility, and maintain a low-cost platform. The division employs 78 people.

ECONOMIC RESEARCH

Economic Research studies and evaluates monetary policy, macroeconomics, and other issues of importance to the Kansas City Fed and the Federal Reserve System. Through publications and presentations, staff members communicate their research findings to the Bank's senior management and directors, policymakers, other researchers, and the public. Annually, the division, in collaboration with Public Affairs, develops and hosts the Jackson Hole Symposium in Wyoming, where central

bankers, economists, policymakers and academics from around the world gather to discuss global economic topics. Research Automation provides high performance computing and data warehousing services to the Federal Reserve System. This division employs 48 people.

SUPERVISION AND RISK MANAGEMENT

This division is responsible for supervising bank holding companies, savings and loan holding companies, and state-chartered member banks in the Tenth District. The responsibilities include conducting examinations of these institutions to ensure a safe and sound banking system. Staff also examines banks for compliance with consumer laws and regulations and for performance under the Community Reinvestment Act. The division's applications function reviews and analyzes applications received from banking organizations for transactions requiring approval such as acquisitions, mergers, establishing additional branches, and changes in ownership or control. The division's credit and risk management function extends credit to depository institutions and assists organizations in managing Federal Reserve account balances. The division also collects data from financial organizations, studies financial industry trends, conducts banking research, and hosts seminars and forums for banks throughout the region. This division employs 309 people.

TECHNOLOGY SOLUTIONS DELIVERY

The Technology Solutions Delivery Division was created in 2012 to recognize the increasing importance of and extensive growth in technology solutions delivery provided on behalf of the System and the U.S. Treasury. The division is comprised of three distinct areas, including the Application Delivery Services team, which is responsible for the architecture, integration/development, quality assurance testing, and project management oversight for a growing portfolio of solutions; the Human Resources Technology Center which provides project management and operational support for the centrally managed System HR application portfolio; and the Treasury Services area, which provides project management oversight and support for multiple application solutions developed to support the U.S. Treasury. The division employs nearly 200 people.

Officers | Directors | Advisory Councils

FEDERAL RESERVE BANK *of* KANSAS CITY





Management COMMITTEE

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

Esther L. George

President and Chief Executive Officer

Kelly J. Dubbert

First Vice President and Chief Operating Officer

Denise I. Connor

Senior Vice President and Federal Reserve System
Retail Payments Chief Information Officer

Troy Davig

Senior Vice President of Economic Research and
Director of Research

Kevin L. Moore

Senior Vice President of Supervision and
Risk Management

Dawn B. Morhaus

Senior Vice President of Technology Solutions Delivery

Barbara S. Pacheco

Senior Vice President of Financial Services

Karen Pennell

Senior Vice President of Information Technology

Diane M. Raley

Senior Vice President of Regional, Public and
Community Affairs and Board Secretary

Veronica R. Sellers

Senior Vice President and General Counsel

Donna J. Ward

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

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

FEDERAL RESERVE BANK DIRECTORS:

GOVERNANCE OF THE DISTRICT; GUARDIANSHIP OF THE SYSTEM

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

CLASS A

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

Under the Class A category, a director will be elected by a specific group of member banks classified as either 1, 2 or 3. This classification is based on the total amount of capital and surplus for each commercial bank, with Group 1 banks being the largest. Each group within the class elects one director.

For example, Max T. Wake, president of the Jones National Bank & Trust Co. of Seward, Neb., is a Class A director, who was elected by, and represents, Group 3 member banks.

CLASS B

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

CLASS C

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

Like a Class B director, a Class C director may not be an officer, director or employee of a financial affiliation company. These directors may not own stock in a bank or a bank holding company. For example, Terry L. Moore, president of the Omaha Federation of Labor, is a Class C director. From the Class C directors, the Board of Governors selects one person as chairman and another as deputy chairman.

SERVING ON THE BOARD

Federal Reserve Bank of Kansas City

Reserve Bank directors meet monthly to oversee the Bank's operations and policies and to confer on economic and banking developments. The directors also provide information on economic conditions within the District as a part of the Bank president's preparation for Federal Open Market Committee meetings. Among directors' responsibilities is establishing the Kansas City Fed's discount rate, which is subject to review and determination by the Federal Reserve Board. The directors and their classifications are on Page 43.

SERVING THE BRANCHES

Denver, Oklahoma City and Omaha

Each Branch of the Federal Reserve Bank of Kansas City also has its own seven-member Board of Directors. Four of these directors are appointed by the Federal Reserve Bank of Kansas City while three are appointed by the Board of Governors. Branch directors serve three-year terms and provide their respective Branch executives with insight on regional economic conditions as well as offer advice and counsel. Branch directors are on Pages 44-46.



Boards of Directors



KANSAS CITY

(From left) Mr. Ratcliffe, Mr. Moore, Mr. Ikard, Ms. Mowry, Mr. Brownback, Mr. DeBruce and Mr. Stout.

Paul DeBruce, Board Chair

Chief Executive Officer and Founder
DeBruce Grain Inc.
Executive Vice President
Gavilon, LLC
Kansas City, Missouri (Class C)

Barbara Mowry, Board Deputy Chair

Chief Executive Officer
GoreCreek Advisors
Greenwood Village, Colorado (Class C)

David W. Brownback

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

Mark Gordon (not pictured)

Owner
Merlin Ranch
Buffalo, Wyoming (Class B, Group 3)

John A. Ikard

President and Chief Executive Officer
FirstBank Holding Company
Lakewood, Colorado (Class A, Group 1)

Terry L. Moore

President
Omaha Federation of Labor, AFL-CIO
Omaha, Nebraska (Class C)

Richard K. Ratcliffe

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

John T. Stout, Jr.

Chief Executive Officer
Plaza Belmont Management Group LLC
Shawnee Mission, Kansas (Class B, Group 1)

Max T. Wake (not pictured)

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

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

Boards of Directors



DENVER

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

Larissa L. Herda, Board Chair

Chair, Chief Executive Officer and President
tw telecom inc.
Littleton, Colorado

Charles H. Brown III

President
C.H. Brown Co.
Wheatland, Wyoming

Margaret M. Kelly

Chief Executive Officer
RE-MAX, LLC
Denver, Colorado

Richard L. Lewis

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

Brian R. Wilkinson

President
Steele Street Bank and Trust
Denver, Colorado

Anne Haines Yatskowitz

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

Mark A. Zaback

President and Chief Executive Officer
Jonah Bank of Wyoming
Casper, Wyoming

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

Boards of Directors



OKLAHOMA CITY

(From left) Mr. Vasudevan, Ms. Washington, Mr. Dunn, Mr. Delaney, Ms. Fiegel, Mr. Tippens and Ms. Capps.

James D. Dunn, Board Chair

Chair
Mill Creek Lumber & Supply Co.
Tulsa, Oklahoma

Linda Capps

Vice Chairman
Citizen Potawatomie Nation
Shawnee, Oklahoma

Peter B. Delaney

Chief Executive Officer and Chairman of the Board
OGE Energy Corporation
Oklahoma City, Oklahoma

Jacqueline R. Fiegel

Senior Executive Vice President and
Chief Operating Officer
Coppermark Bank
Oklahoma City, Oklahoma

Douglas E. Tippens

President and Chief Executive Officer
Bank of Commerce
Yukon, Oklahoma

K. Vasudevan

Chairman and Founder
Service & Technology Corporation
Bartlesville, Oklahoma

Rose M. Washington

Executive Director
Tulsa Economic Development Corporation
Tulsa, Oklahoma

Boards of Directors



OMAHA

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

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

Todd S. Adams
Chief Executive Officer
Adams Bank & Trust
Ogallala, Nebraska

Jeff W. Krejci
President
First State Bank
Hickman, Nebraska

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

Natalia J. Peart (Not pictured)
Former Chief Executive Officer
Women's Center for Advancement
Omaha, Nebraska

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

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

Advisory Councils



ECONOMIC ADVISORY COUNCIL

(From left) Mr. Bourne, Mr. Maestas, Mr. Aulick, Mr. Sunderland, Mr. Hofmann, Mr. McClain, Mr. Stussi and Ms. Gold.

Vincent L. Aulick

President
Aulick Industries and Aulick Manufacturing
Scottsbluff, Nebraska

John F. Bourne

International Representative
International Brotherhood of Electrical Workers
(IBEW)
Omaha, Nebraska

Katherine Gold

President
Goldbug, Inc.
Aurora, Colorado

Michael W. Hofmann

Vice President and Chief Risk Officer
Koch Industries, Inc.
Wichita, Kansas

Steve Maestas

Managing Partner
NAI Maestas & Ward Commercial Real Estate
Albuquerque, New Mexico

Terry McClain

Senior Vice President
Valmont Industries, Inc.
Omaha, Nebraska

Douglas J. Stussi

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

Charles T. Sunderland

Chairman and Chief Executive Officer
Ash Grove Cement Company
Overland Park, Kansas

Deb Bass (not pictured)

President and Chief Executive Officer
Bass & Associates, Inc.
Omaha, Nebraska

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

Advisory Councils



COMMUNITY DEVELOPMENT ADVISORY COUNCIL

(From left) Ms. Dobreff, Mr. Padilla, Ms. Washington, Ms. Wright, Ms. Marquez and Mr. Romero.

Erica Dobreff

President
Kansas City Equity Fund
Kansas City, Missouri

Shelly Marquez

Vice President & Community Development Manager
Wells Fargo Bank
Denver, Colorado

Clyde McQueen (not pictured)

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

Carol Meyer (not pictured)

Office of Rural Opportunity Representative
Kansas Department of Commerce
Garden City, Kansas

Daniel Padilla

Regional Branch Director
First National Bank
Omaha, Nebraska

Alex Romero

President & CEO
Albuquerque Hispano Chamber of Commerce
Albuquerque, New Mexico

Tom Seth Smith (not pictured)

President and Chief Executive Officer
REI
Durant, Oklahoma

Katrina Washington

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

Lesli Wright

Senior Vice President Risk Management
Hilltop National Bank
Casper, Wyoming

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



COMMUNITY DEPOSITORY INSTITUTION ADVISORY COUNCIL

(From left) Mr. Landen, Mr. Shettlesworth, Mr. Robinson, Mr. Dicus, Ms. Haskin, Mr. Williams, Mr. Bentley and Mr. Crain.

Ted Bentley

President and CEO
First State Bank
Torrington, Wyoming

Brad Crain

Chief Financial Officer
Union Bank & Trust Company
Lincoln, Nebraska

John Dicus

President and CEO
Capitol Federal Savings Bank
Topeka, Kansas

Jane Haskin

President and CEO
First Bethany Bank & Trust
Bethany, Oklahoma

James Landen

President
Security National Bank of Omaha
Omaha, Nebraska

James Robinson

President and CEO
Nodaway Valley Bank
St. Joseph, Missouri

Ron Shettlesworth

President and CEO
Main Bank
Albuquerque, New Mexico

Alex Williams

President
Halstead Bank
Halstead, Kansas

Members were selected from representatives of banks, thrift institutions and credit unions. CDIAAC replaces the Thrift Institutions Advisory Council.

Economic Roundtables



FOOD AND AGRICULTURE ROUNDTABLE

*Front row (from left): Mr. Albright, Mr. Thamodaran, Mr. Horan, Mr. Gottschalk, Mr. Hammes, Mr. Borgman, Mr. McCauley, Mr. Adams and Mr. Wellman.
Second row (from left): Mr. J. Farrell, Mr. R. Farrell, Mr. Cooper, Mr. Kollar, Mr. Robb, Mr. Dixon, Mr. Devine, Mr. Headley, and Mr. Timmerman.
Third row (from left): Mr. Kauffman, Mr. Lapp, Mr. Brooks, Mr. Wyse, Mr. Swedberg, Mr. Hunt, Mr. Detrick, Mr. Hill and Mr. Henderson.*

Jerry Adams
Adams Land & Cattle Co.
Broken Bow, Nebraska

Marty Albright
Koch Fertilizer
Wichita, Kansas

Don Borgman
John Deere
Olathe, Kansas

Bill Brooks
INTL FCSTone
Dearborn, Missouri

Ed Cooper
Wells Fargo Bank
Chicago, Illinois

Terry Detrick
American Farmers and Ranchers
Oklahoma City, Oklahoma

Donald Devine
Harris Ranch
Coalinga, CA

Parry Dixon
A.D.M.
Decatur, Illinois

Jim Farrell
Farmers National Company
Omaha, Nebraska

Ron Farrell
Farrell Growth Group, LLC
Kansas City, Missouri

Andrew Gottschalk
RJ O'Brien & Associates
Greenwood Village, Colorado

Paul Hammes
Union Pacific Railroad
Omaha, Nebraska

Peter Headley
MetLife
Overland Park, Kansas

Jason Henderson
Federal Reserve Bank of Kansas City
Omaha, Nebraska

Howard Hill
National Pork Producers Council
Urbandale, Iowa

Bill Horan
Horan Bros. Ag Enterprises
Rockwell City, Iowa

Steven Hunt
U. S. Premium Beef
Kansas City, Missouri

Nathan Kauffman
Federal Reserve Bank of Kansas City
Omaha, Nebraska

Ken Kollar
Marketing President-Agribusiness
Great Western Bank
Shawnee, Kansas

Bill Lapp
Advanced Economic Solutions
Omaha, Nebraska

Ken McCauley
K&M Farms, Inc.
White Cloud, Kansas

Jim Robb
LMIC
Denver, Colorado

Joe Swedberg
Hormel Foods Corporation
Austin, Minnesota

Dhamu Thamodaran
Smithfield Foods, Inc.
Smithfield, Virginia

Jim Timmerman
Timmerman & Sons Feeding Co.
Springfield, Nebraska

Steve Wellman
American Soybean Association
Syracuse, Nebraska

Ray Wyse
Gavilon Group, LLC
Omaha, Nebraska

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



REGIONAL ECONOMIC ROUNDTABLE

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

Chris Courtwright

Principal Economist
Kansas Legislative Research Department
Topeka, Kansas

David Mitchell

Assistant Professor
Missouri State University
Springfield, Missouri

Lee Reynis

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

Dan Rickman

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

Jim Robinson

Senior Economist, Economic Analysis Division
State of Wyoming
Laramie, Wyoming

Eric Thompson (not pictured)

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

Richard L. Wobbekind

Executive Director, Business Research Division and
Senior Associate Dean
University of Colorado – Boulder
Boulder, Colorado

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

Tenth District OFFICERS

Kansas City

Esther L. George
President and Chief Executive
Officer (2011, current)

Kelly J. Dubbert
First Vice President and
Chief Operating Officer

Troy A. Davig
Senior Vice President and
Director of Research

Denise I. Connor
Senior Vice President and
Chief Information Officer

Kevin L. Moore
Senior Vice President

Dawn B. Morhaus
Senior Vice President

Barbara S. Pacheco
Senior Vice President

Karen A. Pennell
Senior Vice President

Diane M. Raley
Senior Vice President and
Board Secretary

Veronica M. Sellers
Senior Vice President and General
Counsel

Donna J. Ward
Senior Vice President and Direc-
tor of the Office of Minority and
Women Inclusion

Craig Hakkio
Senior Vice President and Special
Advisor on Economic Policy

Stephen E. McBride
Senior Vice President and
General Auditor

Josias A. Aleman
Vice President

Larry D. Bailey
Vice President

Anita F. Costanza
Vice President
(retired Dec. 31, 2012)

Kristi A. Coy
Vice President

Kevin J. Craig
Vice President

Tammy Edwards
Vice President and Community
Affairs Officer

Brian C. Faros
Vice President

Janel K. Frisch
Vice President and
Chief Financial Officer

Kristofer K. Hogan
Vice President

Mark C. Horan
Vice President

Megan L. Hruda
Vice President

James H. Hunter
Vice President

George A. Kahn
Vice President and Economist

Edward S. Knotek II
Vice President and Economist

W. Todd Mackey
Vice President

Renu A. Mehra
Vice President

Korie S. Miller
Vice President

Charles S. Morris
Vice President

Todd A. Offenbacher
Vice President

Annette K. Owens
Vice President

Kimberly N. Robbins
Vice President

Amy M. Seck
Vice President

Linda S. Schroeder
Vice President

Mark A. Watson
Vice President

Pamela L. Weinstein
Vice President

Kristina J. Young
Vice President, Public
Information Officer and Assistant
Board Secretary

Susan E. Zubradt
Vice President

Stanley R. Beatty
Assistant Vice President

Kara Bemboom
Assistant Vice President

Mark Boryla
Assistant Vice President

Dan Bower
Assistant Vice President

J. Stephen Bradberry
Assistant Vice President

Kelley D. Courtright
Assistant Vice President

Kelli J. Cox
Assistant Vice President

Tanya L. Cvetan
Assistant Vice President

Dennis V. Denney
Assistant Vice President

Andrew Frank
Assistant Vice President

Lori D. Haley
Assistant Vice President

Robert L. Hampton
Assistant Vice President

Richard L. Henry
Assistant Vice President

Jill Hicks
Assistant Vice President

Ann L. Hoelting
Assistant Vice President

Dawn Howell
Assistant Vice President

Tara L. Humston
Assistant Vice President

Lowell C. Jones
Assistant Vice President

D. Rick Lay
Assistant Vice President

Christi A. May-Oder
Assistant Vice President

Randall L. Mueller
Assistant Vice President

Kenneth R. Spong
Assistant Vice President and
Economist

Michael R. Steckline
Assistant Vice President

Brosie Strada
Assistant Vice President

Stephanie L. Stratemeier
Assistant Vice President

Leesa G. Thompson
Assistant Vice President

Kathryn A. Webster
Assistant Vice President

James Wilkinson
Assistant Vice President and
Economist

Jonathan L. Willis
Assistant Vice President and
Economist

Ginger K. Wise
Assistant Vice President

Catherine A. Zeigler
Assistant Vice President

Denver

Alison Felix
Assistant Vice President, Branch
Executive and Economist

Amy Hileman
Assistant Vice President

Debbie Meyers
Assistant Vice President
(retired Dec. 31, 2012)

Trina L. Parsley
Assistant Vice President

Richard Thorne
Assistant Vice President

Oklahoma City

Chad R. Wilkerson
Vice President, Branch
Executive and Economist

Robert W. Toler
Assistant Vice President

Omaha

Jason R. Henderson
Vice President, Branch
Executive and Economist

Nicholas Hatz
Assistant Vice President

Commitment to DIVERSITY



FEDERAL RESERVE BANK *of* KANSAS CITY

2012 REPORT TO CONGRESS *on the*

OFFICE *of* MINORITY *and* WOMEN INCLUSION

PEOPLE

PRACTICES

PARTNERSHIPS

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

MARCH 29, 2013

As an organization focused on serving the public, the Federal Reserve Bank of Kansas City places a high priority on ensuring the diversity of our region is reflected in our business activities, our workforce and in the community programs and partnerships we have developed through the years.

Our commitment to ensuring the diversity of our people, practices and partnerships is highlighted throughout the Bank's 2012 Annual Report to Congress on the Bank's Office of Minority and Women Inclusion (OMWI). The following pages detail the successes and challenges we experienced throughout the year in meeting the requirements of Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

In the second full year since the establishment of the Bank's OMWI, we have experienced a number of successes in our diversity and inclusion initiatives. Continuous improvement remains a vital part of the Bank's operations, and we have found ways to improve upon our long-standing commitment to diversity.

To learn more about the ongoing initiatives and successes of the Bank's OMWI, I encourage you to visit our website at www.KansasCityFed.org/diversity. This web page includes links to our OMWI Annual Reports, information on procurement opportunities and hiring, summaries of key programs and more.

A handwritten signature in black ink that reads "Esther L. George". The signature is fluid and cursive.

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

Executive Summary



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

AS THE FEDERAL RESERVE BANK of KANSAS CITY'S OFFICE of MINORITY AND WOMEN INCLUSION completed its second full year, the Bank further strengthened its long-standing commitment to the principles embodied in Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Throughout 2012, the Bank continued to enhance its diversity efforts through new initiatives and identified improvements to a number of successful programs. As an institution dedicated to serving the public, the Kansas City Fed seeks to reflect the changing face of its community and partners across its seven-state District.

In addition, the Bank's Diversity Strategy Steering Committee, consisting of senior-level officers, advises the OMWI director on diversity and inclusion initiatives. The committee is responsible for providing the leadership, guidance and resources needed to ensure diversity efforts are supported across all levels of the organization.

The structure of the Kansas City Fed's OMWI allows for a holistic approach to diversity and inclusion.

OFFICE OF MINORITY *and* WOMEN INCLUSION

The Kansas City Fed's Office of Minority and Women Inclusion (OMWI) is led by Donna Ward, who was appointed as director in 2010. As senior vice president of the Bank's Administrative Services Division, Ward also oversees the Bank's human resources and procurement functions.

Along with these responsibilities, Ward works closely with the Bank's Regional, Public and Community Affairs Division to coordinate OMWI-related public programs and financial education activities. This structure allows for a holistic approach to diversity and inclusion and allows the Bank to effectively identify new opportunities to further promote its strategies.



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

STANDARDS *and* PROCEDURES

The Kansas City Fed has formal standards and procedures for the following:

- Equal Employment Opportunity and racial, ethnic and gender diversity of the workforce and senior management.
- Participation of minority- and women-owned businesses in the Bank's programs and contracts.
- Fair inclusion in contractors' workforces.
- Conducting technical assistance to minority- and women-owned businesses.



The Bank hosted "Small Biz, Day" events in Kansas City, Omaha, Oklahoma City and Denver to provide support and opportunities for minority- and women-owned businesses in particular.

In 2012, the Kansas City Fed had a number of OMWI successes related to its people, practices and partnerships with external groups.

PEOPLE, PRACTICES *and* PARTNERSHIPS

In 2012, the Kansas City Fed had a number of OMWI successes related to its people, practices and partnerships with external groups. Some highlights include the following:

People

- The Bank expanded its campus recruiting efforts to include additional historically black colleges and universities (HBCUs), Hispanic-serving institutions, women's colleges and colleges that serve majority-minority students.
- The Bank expanded its mentoring program, resulting in increased participation of minority and women employees. This included launching a peer mentoring program, called mentorship circles, which included one for minority members of management. The mentorship circles provide an opportunity for employees who share similar development goals to engage in continuous learning and development.



Bank Vice President Josias Aleman, right, was recognized for his mentorship efforts in 2012 by mentee Paulo Dominguez, left, and Senior Vice President Barb Pacheco.

Practices

- The Bank's total spend with minority- and women-owned businesses increased 56.5 percent in 2012, and 26.4 percent of all contracts were awarded to minority- and women-owned firms.
- The Bank hosted "Small Biz Day" events at its offices in Kansas City, Denver, Oklahoma City and Omaha to provide support and development opportunities for minority- and women-owned businesses in particular.

Partnerships

- The Kansas City Fed and other Reserve Banks successfully partnered with the Congressional Black Caucus and the Congressional Hispanic Caucus to deliver financial education programs to minority youth.

- The Bank expanded its successful Student Board of Directors program to all four offices and initiated a "Summer @ the Fed" program to provide additional internship and mentoring opportunities for diverse youth.

These are only a few of the many initiatives the Kansas City Fed's OMWI implemented throughout the year. This report highlights these and other successes and the challenges the Bank faced in its ongoing efforts to strengthen its commitment to diversity throughout the organization.

Overview



Bank employees, from left, Trudie Hall, Erika Ramirez, and Maria Butz, attend one of several outreach events hosted by the Kansas City Fed in 2012.

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

THE TENTH DISTRICT

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

The Kansas City Fed employs about 1,350 people at its head office in Kansas City and at Branch offices in Denver, Oklahoma City and Omaha. The Bank is responsible for the Tenth Federal Reserve District, an area that includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico and western Missouri.

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



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

The Bank also focuses on diversity among the members of boards of directors. In 2012, women held board leadership positions across the District, including as deputy chair of the Kansas City head office board and chair of the Denver Branch board. Additionally, minorities reflected 12 percent of the board of director positions across the District.

People

MINORITY *and* WOMEN EMPLOYMENT



Bank employee Kari Anderson (right) receives the Bank's Diversity Change Agent Award from Bank President Esther George. The award is presented to an employee who makes an extraordinary contribution to diversity and teamwork. Anderson was recognized for leading diversity training activities for the Employee Diversity Council.

AS AN INSTITUTION with A PUBLIC SERVICE-ORIENTED MISSION, the Federal Reserve Bank of Kansas City recognizes that success requires a workforce that represents the diversity of the region it serves. The Bank is an inclusive organization where diversity is respected and viewed as a business strength.

The Bank's Critical Success Factors includes "Valuing Diversity and Teamwork," and a formal diversity strategy guides the Bank's efforts to recruit, retain and develop a workforce that is reflective of its relevant labor markets.

WORKFORCE DIVERSITY STANDARDS

One of the Federal Reserve Bank of Kansas City's core beliefs is that workforce diversity strengthens the organization and enriches the communities it serves. To support this value and provide a framework for diversity and inclusion, the Bank has a formal diversity strategy to guide its actions and practices as it strives to hire and retain a creative and diverse workforce.

Along with a formal diversity strategy, the Bank has workforce diversity standards and an Equal Employment Opportunity (EEO) policy that are leveraged to ensure diverse workforce representation. It is the responsibility of the Bank's OMWI director to ensure Bank policies and standards promoting workforce diversity and inclusion are developed, maintained and enforced in a way that is consistent with Section 342 of the Dodd-Frank Act and the Bank's business needs.

The workforce diversity standards include seeking a workforce that is representative of the labor pool of qualified candidate for its positions, at all levels, in the markets in which it operates. In addition, the Bank seeks to retain a diverse workforce by offering orientation, coaching and the transfer of institutional knowledge through mentorship, training and other initiatives.

WORKFORCE SUCCESS

The Bank experienced a number of successes in 2012 related to its efforts to recruit, retain and develop a diverse workforce.

Recruitment

As part of its regular practices to attract a diverse workforce, the Bank recruits at minority-serving colleges and universities, connects with diverse student groups at universities across its region, participates in urban career fairs targeting minority job-seekers, advertises openings in diverse media and partners with diverse community organizations.



Bank employee Valerie Wahbeh (left) is recognized for her work as a diversity liaison in the Bank's Connect 10 diversity awareness program by Bank First Vice President Kelly Dubbert.

These efforts have led to successes, including:

- Expanding the pool of qualified minority and women job candidates through advertisements placed in 62 diverse online job boards (see chart, “Employment Advertisements”). In addition, the Bank partners with contract agencies to identify diverse slates of candidates.

2012 *Employment Advertisements*

KEY EXAMPLES

LOCAL NEWSPAPERS

Denver Weekly News
Dos Mundos
OKC Herald
The Kansas City Globe

DIVERSE ONLINE JOB BOARDS

AfricanAmericanTimes.net
BeingLatino.us
DiversityBusiness.com
KoreaDirect.com
National Association of Professional Women

FEDERAL RESERVE SYSTEM ADVERTISEMENTS

Asian Life
Black EOE Journal
Hispanic Network Magazine
IMDiversity
Professional Woman’s Magazine

- Continuing to build and develop relationships with minority and women student organizations at 26 colleges and universities, including developing new partnerships with three additional historically black colleges and universities (HBCUs), meeting with faculty and staff, conducting classroom presentations, participating in career fairs and conducting on-campus interviews (see chart, “Diverse Collegiate Recruiting Activities”).
- Working with other Reserve Banks and the Federal Reserve Board of Governors on efforts to recruit women and minority candidates through partnerships with national organizations, including the Association of Latino Professionals in Finance, the National Black MBA Association, the National Society of Hispanic MBAs, the National Urban League and the Thurgood Marshall College Fund. The Federal Reserve System was recognized for its national diversity recruiting work by *The Professional Women’s Multi Cultural Magazine*, *Black EOE Journal* and *Hispanic Network Magazine* as among the top 10 employers committed to diversity and inclusion among financial institutions.

In all, these efforts resulted in minority and women hiring rates of 16.3 percent and 36.0 percent, respectively, as well as a minority full-time hiring rate through campus recruiting of 10.0 percent (see table, “Hiring Rates”).

SCHOOL	DESCRIPTION
Clark Atlanta University	Historically Black College and University
Colorado State University - Pueblo	Hispanic-serving Institution
Cottey College	Women's College
Lincoln University	Historically Black College and University
Morehouse College	Historically Black College and University
Spelman College	Historically Black College and University
Stephens College	Women's College
University of New Mexico	Hispanic-serving Institution

Retention

Through successful employee orientation, career coaching programs and the transfer of institutional knowledge through mentorship, training and other initiatives, the Bank seeks to ensure the long-term success of its employees.

Because the Bank predominantly fills management and senior-level positions with internal candidates, the retention of top talent, including minority and women talent, is an important factor in maintaining a strong leadership pipeline. Developing this pipeline relies on two key initiatives, mentorship and training and development.

Mentorship

The Bank's mentorship program is one of its most effective development tools. Establishing formal relationships between new and experienced staff enhances retention while also building skills and knowledge.

In 2012, the Bank expanded its mentorship program by adding four mentorship circles consisting of employees with similar professional goals. These circles were aimed at providing a resource to groups of employees that historically had experienced high separation rates and

filling existing mentorship gaps. The circles include minority members of management, new members of management, mid-career professionals and analysts.

Through the circles, participation in the Bank's mentorship program increased by more than 39 percent from the previous year. For minority and women employees, participation rates were also sharply higher in 2012 (see chart, "Mentorship Program Participation" and sidebar).

Hiring Rates (PERCENT)	Results 2012
Minority Hiring Rate ¹	16.3
Women Hiring Rate ¹	36.0
Minority Full-Time Hires Through Campus Recruiting	10.0
Minority Internship Hires Through Campus Recruiting and Community Partnerships	28.6

¹Percent reflects only official, management, and professional staff.

MAKING CONNECTIONS THROUGH MENTORSHIP

The Bank's mentorship program experienced strong growth in 2012, and for mentees and mentors alike, the program has significant benefits. Participants gain a different perspective on the Bank's mission while building new relationships.

During his time at the Bank, Tyrone Watson-Ferguson, who works in Check Automation Services, has sought to learn more about the Bank's operations and grow his professional network. Through the mentorship program, he was paired with mentor Jeff Legette, a manager in Banking Supervision and Risk Management (SRM).

"I wanted to learn more about the Bank's culture and see how another area worked," Watson-Ferguson said. "I felt that seeing how all the pieces fit together would give me a better idea of what the Bank is trying to accomplish overall."

Watson-Ferguson and Legette met at least once a month, set goals for what they wanted to accomplish through the program and talked through any issues that came up throughout the year.

"As a mentor, my Number 1 goal was to make sure I was supporting Tyrone's goals and giving him the information he needed," Legette said. "As someone who is responsible for developing a staff in my own area, I hope I added another perspective for him to consider in his career path."

Along with being able to learn from Legette's experience, one of the key benefits of the program for Watson-Ferguson was the opportunity to expand his professional network at the Bank. Legette introduced him to staff in the Bank's Consumer Affairs Department that he might not have met otherwise.

"At Jeff's suggestion, I spent time with some of the employees in Consumer Affairs," Watson-Ferguson said. "I definitely gained a real understanding of the daily activities in SRM. I have also enhanced my perception of the Bank's overall culture by participating in the Mentoring Program consistently."

Mentor Jeff Legette (left) was paired with mentee Tyrone Watson-Ferguson (right) through the Bank's mentorship program. The program saw a significant increase in minority participation in 2012.



Diversity Recruiting Activities

Results 2012

Total Number of Minority and Women College and University Events Attended	25
Historically Black Colleges and Universities Events Attended	10
Hispanic-Serving Institutions Events Attended	11
Women's Colleges Events Attended	4
Sponsorship or Participation in Urban Career Events	4
Number of Employment Advertisements Placed in Diverse Media - Electronic	4,084
Number of Employment Advertisements Placed in Diverse Media - Print	10
Number of Partnerships with Community Organizations - Minority Employment	9

Mentorship Program Participation (Percent)¹

Results 2012

Results 2011

Minority Participation Rate	10.7	5.9
Non-Minority Participation Rate	19.6	8.8
Female Participation Rate	21.7	13.4
Male Participation Rate	15.0	6.3

¹Percent reflects total workforce.

Training and Development

Through the Bank's internal training programs, employees learn more about the value of diversity as a business opportunity and the link between diversity and the Bank's success.

In 2012, the Bank developed and delivered a new diversity training class for non-management staff, *Creating an Inclusive Workplace*, which focuses on the Bank's Diversity Strategy. The training has three learning objectives: (1) increase awareness of diversity and inclusion as a business opportunity; (2) understand the Bank's Diversity Strategy and level of commitment to being an inclusive organization; and (3) identify practical ways that employees can support a culture of inclusion.

The Bank also sponsors several "Community of Practice" programs that allow employees to discuss and collaborate on common interests

and challenges. These groups promote knowledge sharing and development across the Bank. In addition, the Bank has made a significant effort in enhancing its on-boarding programs for new employees to highlight the organization's commitment to diversity, its diversity strategy and the roles and responsibilities of the OMWL.

To further support employee retention, the Bank recently conducted "stay surveys" through a series of focus groups to gain a better understanding about why employees, including minorities and women, choose to stay at the Bank and what drives employee commitment. The information gained from these focus groups is used to assess the Bank's current employee engagement practices and develop new initiatives to support retention objectives.

COMMUNITY PARTNERS

The Bank values its partnerships with community organizations and the role they play in helping the Bank achieve its workforce strategies. These organizations are committed to promoting opportunities for minority professionals (see chart, “2012 Diverse Community Partnerships”), and these relationships provide the Bank with solid business partners who support its diversity initiatives. Successes in 2012 include the following:

2012 Diverse Community Partnerships

INROADS, Inc.
National Black MBA Association
National Society of Hispanic MBAs
Urban Financial Services Coalition
Urban League of Greater Kansas City
Hispanic Chamber of Commerce of Greater Kansas City
Asian American Chamber of Commerce of Greater Kansas City
Black Chamber of Commerce of Greater Kansas City
Greater Kansas City Chamber of Commerce

- The Bank participated in networking events and provided instructors and presenters for training events, workshops and conferences sponsored by diverse community partners. The Bank also hosted annual events for the Kansas City chapters of the National Black MBA Association, the National Society of Hispanic MBAs and the Urban Financial Services Coalition.

The events provided an opportunity for senior Bank leaders, management and other staff to network with minority professionals and expand labor pool outreach.

- The Bank supports the involvement of its employees as leaders within community partner organizations. For example, a member of the Bank’s senior leadership team has served in an advisory position with the INROADS Midwest Region for more than six years. Additionally, staff are actively engaged with the Urban League and National Society of Hispanic MBAs.
- In 2012, the Bank was recognized by a number of partner organizations for its diversity commitment. These included:
 - Platinum Level Partner, Urban Financial Services Coalition
 - Corporate Partner Award, National Society of Hispanic MBAs
 - Presidential Partner, National Black MBA Association
 - Corporate Partner Award, INROADS Inc.

ACCOUNTABILITY *and* COMMUNICATION

The Bank holds itself to a high standard of excellence in all areas, including its diversity initiatives. By communicating this commitment to employees, the Bank seeks to ensure its diversity strategies are supported throughout the organization.

The Bank’s Diversity Strategy Steering

Committee consists of senior-level officers who advise the OMWI director and ensure resources, leadership and guidance are available to achieve diversity goals. In addition, the Bank's Employee Diversity Council increases employee awareness of the benefits of diversity as a business strength. The group coordinates educational events that provide ways for employees to learn how they contribute to an inclusive work environment.

Throughout the year, diversity initiatives are highlighted in the Bank's employee newsletters, on its internal and public websites and through training opportunities. The message to each employee is that they are responsible for understanding the link between diversity and the Bank's success and for contributing to an inclusive environment where excellence thrives.

INTERNAL ASSESSMENT *and* REPORTING

A systematic measurement process is in place to help the Bank gauge its progress. Each quarter, senior management reviews and assesses diversity recruiting results, which include workforce

representation compared to Kansas City MSA EEOC data, minority and women hiring rates, activities at minority-serving and women's institutions, sponsorships and participation in urban career fairs, employment advertisements placed in diverse media and partnerships with community organizations.

Along with these measurements, management analyzes retention metrics such as separation rates, mentorship program participation by women and minority employees, and employee climate survey results. Management discusses trends, challenges and successes on a regular basis and identifies opportunities for improvement.

The Bank also continually assesses and evaluates employee feedback. In 2012, the Bank conducted a biennial employee perspective survey and ongoing stay and exit surveys. The survey results were analyzed and correlated to identify trends and common themes that drive employee commitment, retention and turnover. The Bank is taking action to address these survey results and further strengthen employee engagement.

In addition, the Bank publishes workforce



The Diversity Steering Strategy Committee includes, from left: Vice President Kevin Craig, Senior Vice President Dawn Morhaus, Senior Vice President Kevin Moore, Senior Vice President Denise Connor, Senior Vice President/General Counsel Veronica Sellers, Senior Vice President/OMWI Director Donna Ward, Vice President Kristi Coy, Senior Vice President Diane Raley, Vice President Mark Watson, and Vice President Josias Aleman.



representation data on its website (see Workforce Representation Data in Appendix) and makes its annual OMWI report to Congress available to the public.

CHALLENGES

The Bank's workforce diversity initiatives face the following challenges:

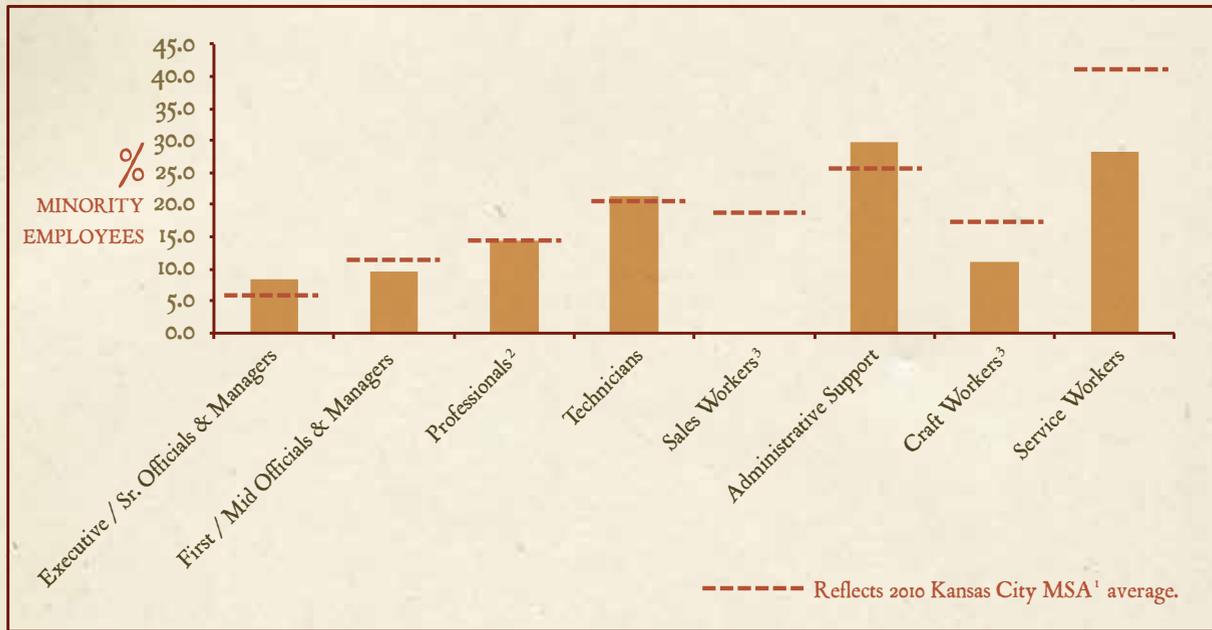
- Within the region the Bank serves, there is a limited number of colleges and universities that are historically minority- and women-serving or have a majority of minority students. As a result, the Bank has expanded its recruiting efforts beyond its region's boundaries; however, prospective diverse job candidates often choose not to relocate to the Tenth District.
- The region's limited minority labor pool for positions that the Bank seeks results in significant competition for qualified minority labor within the region. According to census data, 27.5 percent of the region's population is minority, compared to 36.3 percent for the nation as a whole.
- The Bank has identified a need to improve the diversity of its applicant pool in specialized positions such as auditors, information technology and bank examiners. In response, the Bank has begun to enhance its recruitment and outreach efforts by targeting recruitment venues with more diverse applicant pools.

LOOKING AHEAD

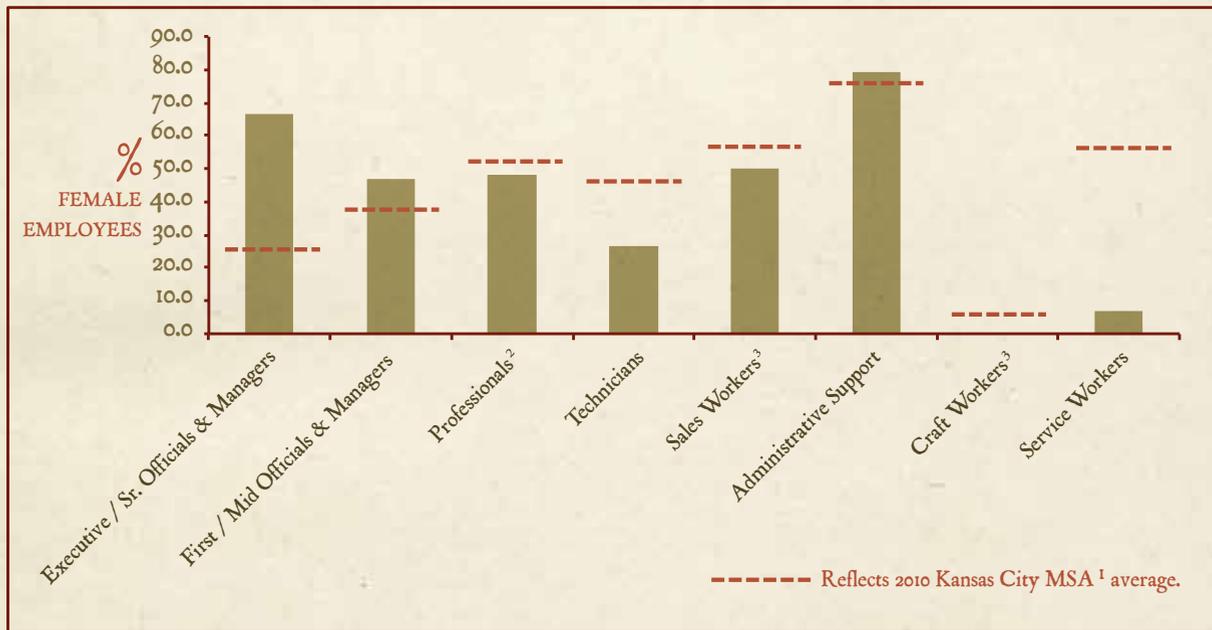
The Bank has identified the following next steps as it looks to the future:

- Further expand current minority recruitment and retention initiatives.
- Continue to evaluate its relationships with minority-serving colleges and universities to ensure a good match between the schools' talent pool and the jobs offered by the Bank.
- Pursue initiatives to increase minority participation in the Bank's mentorship program.
- Continue working with community partners to identify networking opportunities to interact with qualified minority and women candidates, and continue to support these partners in developing minority talent.
- Continue to partner with employment contract agencies to ensure a diverse slate of candidates for positions that are sourced through these third-party vendors.
- Further promote ongoing and open communication with employees to ensure broad awareness of the value of a diverse workforce and the opportunities available to support these efforts.

2012 MINORITY WORKFORCE REPRESENTATION, KANSAS CITY OFFICE



2012 FEMALE WORKFORCE REPRESENTATION, KANSAS CITY OFFICE



¹Kansas City Metropolitan Statistical Area (MSA) is based on 2010 federal statistics provided by the EEOC.

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

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

Note: Numbers may not add due to rounding. Information reflects EEO-1 data as defined by the Equal Employment Opportunity Commission (EEOC). The data is as of August 31, 2012, in order to match our submitted annual EEO-1 report to the EEOC. The report is primarily based on employee self-identification. Per EEOC guidance, if race or ethnic information is not self-reported, observer identification may be used. The Federal Reserve Bank of Kansas City follows a practice of reviewing employee representation against the Kansas City MSA EEO-1 data (broken down by EEO-1 categories). The Bank uses EEO-1 category data because measuring performance against the broader population is not comparable; the broader population data does not take into account the demographics of the labor pool that feed into each job group.

Practices

MINORITY- and WOMEN-OWNED BUSINESS INCLUSION



Through its involvement in outreach events, such as the Business Opportunity Fair pictured above, the Bank provides support, technical assistance and information about procurement opportunities for women- and minority-owned businesses.

IN 2012, THE KANSAS CITY FED'S DIVERSE SUPPLIER INCLUSION EFFORTS resulted in a 56.5 percent increase in the amount spent with minority- and women-owned businesses compared to 2011. In addition, the Bank awarded 26.4 percent of all contracts to minority- and women-owned firms.

These results highlight the Bank’s commitment to diversity throughout its procurement process and reflect the Bank’s core belief that supplier diversity strengthens its operations and benefits the community.

As OMWI director and head of the Bank’s Administrative Services Division, which oversees the procurement function, Donna Ward has responsibility for developing and implementing the Bank’s minority- and women-owned supplier inclusion standards. The Federal Reserve’s National Procurement Office (NPO), which is responsible for managing and facilitating some contracts with all 12 Reserve Banks, also provides support.

one minority- and one women-owned business in all requests for proposals that are issued.

The Bank experienced a number of successes throughout the year in its efforts to enhance its supplier outreach efforts and support of diverse suppliers.

SUPPLIER OUTREACH

The Bank attended or hosted 12 outreach events for diverse suppliers throughout 2012. These included events with regional supplier organizations, networking opportunities and conferences aimed at connecting with potential diverse suppliers interested in doing business with the Bank.

<i>Amounts Paid to Contractors</i>	<i>2012 Amount</i>	<i>2012 Percent</i>	<i>2011 Amount</i>	<i>2011 Percent</i>
Total Reportable Spend ¹	\$45.6 million	100.0	\$37.5 million	100.0
Total Diverse Spend	\$7.2 million	15.7	\$4.6 million	12.2
Women-Owned Business Spend ²	\$5.6 million	12.3	\$4.0 million	10.6
Minority-Owned Business Spend ²	\$1.6 million	3.4	\$618,000	1.6

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

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

For 2012, the Bank spent a total of \$45.6 million with contractors and suppliers. The amount spent with minority- and women-owned firms totaled \$7.2 million, or 15.7 percent of reportable spend. These amounts include prime contractors only (see chart, “Amounts Paid to Contractors”).

To further engage diverse businesses and provide procurement opportunities, the Bank places a strong emphasis on including at least

Highlights of these outreach efforts include the following:

- The MidAmerica Minority Supplier Development Council (MAMSDC) recognized the Bank with two awards at the council’s annual contract recognition ceremony. The mission of the MAMSDC, of which the Bank is a corporate member,

CONNECTING *with* THE COMMUNITY

Starting a business can be daunting for small firms, including minority- and women-owned businesses. The Federal Reserve Bank of Kansas City's Small Biz Day program helps ease some of those challenges.

"The purpose of Small Biz Day is to connect potential and existing small business owners with local resources and organizations that can help them," said Dell Gines, a senior community development adviser who organized the program across the Tenth Federal Reserve District. In 2012, Small Biz Day events were held in Kansas City, Omaha, Oklahoma City and Denver.

Many potential, and even existing, small business owners are not aware of the numerous small business support and resource providers that are available. These organizations provide services such as technical assistance, financing help and networking opportunities.

"People starting out don't know where to get the help they need," said Gines, "and often, if they find one provider, that provider doesn't connect them to the next one."

Small Biz Day brings numerous providers together to help inform potential and existing business owners about how to plan for, finance and market a small business.

The event features a series of sessions offered for start-ups and existing businesses. Service providers are also available at booths to answer questions and provide resources throughout the event.

Small businesses make up the majority of businesses in the United States, making them a key focus area. More than 80 percent of small businesses are considered micro-businesses, meaning they have five or less employees.

"Small businesses play an important role," Gines said. "They can be a path from poverty, or, for someone who lost a job during the recession, starting a small business provides an opportunity to use their skills in a different way. We developed Small Biz Day to help people navigate the process."

Many entrepreneurs and small business owners, including women and minorities, attended the Bank's "Small Biz Day" events in Kansas City, Oklahoma City, Omaha and Denver in 2012.



is to increase business development opportunities for minority-owned firms and to strengthen the community. The awards ceremony highlighted the success of this mission and recognized businesses and minority-owned firms that have entered into a contract of at least \$50,000.

more about the Bank's procurement process. Representatives from about 90 companies attended the event to hear presentations on doing business with the Bank and the Federal Reserve System and met one-on-one with various business areas within the Bank to discuss potential opportunities.



Donna Ward, center, senior vice president and OMWI director, receives an award on behalf of the Bank from the Mid-America Minority Supplier Development Council in recognition of entering into a contract of more than \$50,000 with a minority-owned business.

- Bank staff participated on the planning committee for the MAMSDC's Business Opportunity Fair and Contract Recognition Ceremony. The Bank met with staff from the council and other local business representatives for several months to develop and support the event, including agenda creation, communications and logistics.
- The Bank hosted a Business Opportunity Fair aimed at small, minority- and women-owned businesses interested in learning
- In addition to its involvement with the MAMSDC, the Bank continued its involvement with the Hispanic Chamber of Commerce of Greater Kansas City, the Asian American Chamber of Commerce of Kansas City, the Black Chamber of Commerce of Greater Kansas City, and the Greater Kansas City Chamber of Commerce. The Bank partners with these organizations to help identify diverse suppliers.

- The Bank joined the Women’s Business Development Center (WBDC), a nationally recognized organization that provides women entrepreneurs with comprehensive, full-service business assistance programs to help them improve their capacity as viable suppliers. The Chicago-based WBDC is the Women’s Business Enterprise National Council’s (WBENC) only regional partner for nine states in the Midwest and administers the WBENC’s Gold Standard Certification for women business enterprises, the largest certification program in the country.
- Throughout the year, the Bank fully implemented processes and procedures for making good-faith-effort compliance determinations on 100 percent of the 2011 and 2012 executed contracts with a value greater than \$50,000.
- The Denver office was the host for a supplier diversity symposium and networking event sponsored by the Financial Services Roundtable for Supplier Diversity. The event, “Access, Information and Opportunity: Strategic Steps for Growth,” provided a forum for financial services organizations to discuss supplier diversity initiatives and best practices from across the country.
- The Reserve Banks collectively work together to identify opportunities to further the System’s supplier diversity programs,

practices and actions. This includes coordinating national outreach efforts as well as participating in national supplier diversity conferences. In 2012, the Federal Reserve System collaboratively participated in two supplier diversity conferences to reach minority- and women-owned firms. The conferences attended were sponsored by the WBENC and the National Minority Supplier Development Council (NMSDC).

- Suppliers using the Bank’s website can access a self-registration tool and provide information about their company and the goods or services they provide. This information is made accessible throughout the Federal Reserve System, and a list of newly registered suppliers is provided to Bank departments on a quarterly basis. The self-registration tool is continually supported and reviewed.

DIVERSE SUPPLIER SUPPORT

To ensure the continued participation of women- and minority-owned businesses in the Bank’s procurement processes, the Bank enhanced a number of tools and efforts to support these firms.

- The Bank’s supplier diversity brochure was updated, a procurement business card was developed, and signage for booths at exhibit fairs was created. The brochure includes information about the Federal Reserve, the types of goods and services



Diverse businesses learned more about the Bank's procurement opportunities at its Business Opportunity Fair and other outreach events.

the Bank typically purchases, a link to the supplier self-registration tool and contact information for procurement staff. The brochure and business card are distributed at networking and outreach events.

- Businesses with questions about the Bank's procurement process received technical assistance, including help with using the Federal Reserve's e-sourcing application. Bank staff also meet one-on-one with diverse suppliers.
- The Bank also hosted free technical assistance programs in Kansas City, Oklahoma City, Omaha and Denver through its "Small Biz Day" program. The program is targeted toward small, minority- and women-owned firms, and provides an opportunity to collect information and connect firms with organizations that can help small businesses grow.

INTERNAL ASSESSMENT and REPORTING

The Bank has several metrics and evaluation processes to measure the effectiveness and progress of its supplier diversity strategies. The metrics include:

- Number and dollar value of contracts awarded to diverse suppliers
- Response rate of diverse suppliers
- Inclusion rate of diverse suppliers in competitive acquisitions
- Number of outreach events attended

The Bank has several mechanisms in place to continually evaluate its procurement practices and identify opportunities to improve the participation of minority- and women-owned businesses. For example, at the end of each quarter, the Bank surveys suppliers who did not respond to a formal Request for Proposal (RFP) in the previous quarter. The survey is intended to help identify if the Bank's RFP process influenced the supplier's decision not to respond.

On a quarterly basis, the Bank produces a Diversity and Inclusion Performance report that outlines the metrics mentioned above. This report is reviewed regularly by the Diversity Strategy Steering Committee, which discusses successes, trends and challenges.

CHALLENGES

The Bank has identified the following challenges in its efforts to increase the participation of minority- and women-owned firms in its procurement process:



Bank staff discussed procurement opportunities with women- and minority-owned businesses at the Bank's Business Opportunity Fair.

Additionally, the Bank is in the process of reviewing its supplier-management processes to create enhancements that will better allow it to track historical information and trends such as suppliers who were invited to participate in competitive bids, as well as information as to whether or not they provided a bid. The Bank also tracks feedback received from suppliers about the competitive bid process. These feedback mechanisms are used to assess the Bank's supplier practices and processes.

- Identification and classification of minority- and women-owned firms continue to be a challenge. There is no single, comprehensive information source for determining vendor classifications. The Federal Reserve System has selected a tool to assist in determining vendor classifications, but the Bank consistently encounters differences between this source and others, which requires further research to determine accurate classifications.

A PROACTIVE COMMITMENT *to* DIVERSE SUPPLIERS

The Bank takes a number of steps to ensure diverse suppliers are included throughout its procurement process. These include attending numerous supplier outreach events, contacting minority-business certification entities such as the MidAmerica Minority Supplier Development Council for recommendations, and providing a streamlined contracting process and prompt payment.

For Joe Davis, chief executive officer of Custom Engineering, a minority-owned business that provides mechanical and electrical engineering services, the Federal Reserve Bank of Kansas City has been a valued partner.

After attending a Bank-sponsored procurement event and meeting with Bank staff at other supplier outreach events throughout 2012, Davis learned more about possible contracting opportunities with the Bank. And, Davis adds, he was pleasantly surprised when the Bank contacted him directly to talk more about those opportunities.

"I would characterize the Fed's commitment to working with diverse suppliers as proactive," Davis says. "I was surprised at the steps they took. The Federal Reserve Bank of Kansas City made a conscious effort to include a diverse supplier."

The company's involvement with the Bank "improves our resume and could lead to other opportunities," Davis adds. "The opportunity given to Custom Engineering during the tough economic times was very helpful when not many opportunities were available."

- There is a lack of women- or minority-owned firms that provide specific goods or services; identification of additional resources has been difficult, even when the Bank uses a variety of methods to identify diverse suppliers.

LOOKING AHEAD

As the Bank seeks to improve its women- and minority-owned supplier inclusion practices, it will continue to take the following steps:

- Continue to participate in national business opportunity events in 2013.

- Work with area chambers of commerce and local minority supplier development councils to identify diverse suppliers for the Bank's procurement opportunities.
- Seek other opportunities to increase participation of minority- and women-owned businesses in the Bank's procurement activities, including through participation in local exhibit fairs, networking events and community organizations.

COMMUNITY ENGAGEMENT

In 2012, Bank staff networked with diverse suppliers and discussed the Bank's procurement process at several community events, including the following:

Mid America Minority Supplier Development Council Spotlight Luncheon, FEB. 14 - Bank staff attended this networking forum designed for corporate buyers to meet and learn about key minority businesses. Several minority firms gave short presentations during the lunch.

Asian American Chamber of Commerce Networking Lunch and Learn, MARCH 28 - Bank staff attended this networking event focused on employment and business opportunities.

Small Biz Day, APRIL 21 - The Kansas City office hosted a half-day event to provide information, resources and networking opportunities to small businesses and minority-owned firms.

Mid America Minority Supplier Development Council Contract Recognition Ceremony, MAY 3 - The Bank's OMWI director and staff attended this event, which recognized area companies, including the Bank, that entered into a contract with a minority business for more than \$50,000.

Mid America Minority Supplier Development Council's Annual Business Opportunity Fair, MAY 17 - Bank staff attended this event to network with local minority-owned firms and discuss business opportunities.

Kansas City Government Contracting & Procurement Forum, AUG. 8 - Bank staff attended this forum that showcased government contracting and procurement opportunities for businesses. The Bank hosted an information booth and provided one-on-one information sessions with potential vendors.

Kansas City Fed Business Opportunity Fair, AUG. 10 - Staff hosted a Business Opportunity Fair in Kansas City that was attended by representatives from approximately 90 companies. The event included presentations on doing business with the Bank and the Federal Reserve System and small business resources available through the Bank. Company representatives were able to meet directly with staff from across the Bank to discuss business opportunities.

Kansas City Chamber of Commerce Meeting, AUG. 20 - Bank staff met with chamber representatives to discuss various diversity initiatives, including the Bank's Supplier Diversity Program.

National Minority Supplier Development Council Annual Conference, OCT. 29 - The National Minority Supplier Development Council held their annual conference in Denver, which was attended by staff from most Reserve Banks, including the Kansas City Fed, and the Board of Governors. The event provided an opportunity for small and minority vendors to connect with companies and discuss business opportunities.

Hispanic Chamber of Commerce Annual Gala, NOV. 15 - The Bank's OMWI director, and other staff attended this event to recognize excellence in the Hispanic business community, as well as corporations who support the community.

Mid America Minority Supplier Development Council Corporate Roundtable, NOV. 28 - Bank staff attended this meeting between the council and corporate members to explore ways to improve the council's processes.

Mid America Minority Supplier Development Council Holiday Networking Event, DEC. 13 - The Bank's OMWI director and other staff attended this networking event to meet with local minority-owned businesses.

Partnerships

OUTREACH *and* FINANCIAL EDUCATION



The Bank's Student Board of Directors completed its first academic year in 2012, offering high school students information about careers and financial issues as they enter college or the workforce.

THROUGH DOZENS of FINANCIAL EDUCATION EVENTS AND INITIATIVES ACROSS THE REGION IT SERVES, *the Federal Reserve Bank of Kansas City in 2012 reached thousands of diverse youth.*

By partnering with urban school districts, community organizations and other groups committed to advancing economic education, the Bank has achieved a number of successes in equipping minority youth, women and others with knowledge that can be used to make sound personal financial decisions.

DIVERSE SCHOOL DISTRICT OUTREACH

In 2012, the Bank strengthened its relationships with diverse urban schools in its District, including providing support and resources in a number of areas.

for local educators to learn more about the Bank's resources. In addition, the Oklahoma City Branch held a "Fiscally Fit Bootcamp" event for educators to enhance their personal financial knowledge before teaching the same concepts to students, and the Denver Branch hosted workshops for educators in Albuquerque, N.M., and elsewhere.

Staff in Kansas City collaborated with the Kansas City, Mo., school district and four community organizations to design two monthly professional development programs for K-12 teachers. These programs focused on aligning the Bank's economic and personal finance resources

By partnering with urban school districts, community organizations and other groups committed to advancing economic education, the Bank has achieved a number of successes in equipping minority youth, women and others with knowledge that can be used to make sound personal financial decisions.

Professional development and educator support

The Bank has a long tradition of providing professional development opportunities for educators seeking resources for their financial education efforts. While these development programs are open to all educators, the Bank has made a strong effort to target educators from diverse communities and urban schools. All Bank offices hosted "Evening at the Fed" events

with the school district's curriculum requirements and grade-specific learning targets.

Continued feedback from educators helps the Bank improve its financial education initiatives. Each Bank office collaborates with an Economic Education Advisory Council that formally meets three times a year to discuss challenges, programming and resources. In addition, the Bank tests new resources with many educators, including those from diverse and urban school districts.

STUDENT BOARD MAKES A CONNECTION

Throughout the academic year, students from urban school districts in Kansas City, Omaha, Oklahoma City and Denver have the chance to learn more about college and career planning, speak with area professionals and develop their personal finance skills through the Bank's Student Board of Directors program.

Now in its second year, the program is building a successful record of reaching diverse high school students and providing mentorship and other growth opportunities.

Devin McClenton, who participated in the program's first year as a student from the Southwest Early College Campus in Kansas City, Mo., said the experience shaped his plans more than he expected.

"I thought the group broadened my view about the Fed," he said. "I am leaning toward studying business management, so I could come to work here (at the Bank) someday. I like how it's like a family here."

The 24 members of the Bank's inaugural Student Board of Directors completed the academic year-long program on April 11 with a special ceremony and speakers. The evening included a special video commemorating the Student Board members' experience with the Bank and remarks from Bank President Esther George, the chairman of the Bank's Board of Directors, Paul DeBruce, and U.S. Rep. Emanuel Cleaver.

"You are all at the top of your class and you're involved in this program," Rep. Cleaver said at the event. "You are ahead. Now you have to stay ahead."

Bank employees from several departments also participate in the Student Board of Directors program throughout the year and share their professional experiences with the students through group discussions and other interaction.

Members of the Student Board of Directors met with U.S. Rep Emanuel Cleaver II (far left), Bank President Esther George and Bank Chairman Paul DeBruce (center) in 2012.



One result of this collaboration was the development of a new required 10th-grade financial literacy course for the Omaha Public School District. The Bank's staff in Omaha worked closely with school district staff to create the course and continued to support implementation efforts by hosting workshops for educators throughout the year.

School partnerships and support

The Bank has established formal partnerships with two key urban school districts in the Kansas City metro area: the Kansas City, Mo., and the Kansas City, Kan., school districts. These partnerships allow the Bank to serve as a resource for students, teachers and constituents in these districts.

In Omaha, the Bank has engaged closely with two inner-city magnet schools, Conestoga Elementary and Marrs Middle schools, which both emphasize economics and math. Staff members from the Omaha Branch provide ongoing support, expertise, involvement and resources on economics and personal finance instruction for educators at the schools. The Bank has also established a similar partnership with Adams Elementary in Wichita, Kan.

Along with these formal relationships, staff members work closely with school districts and community partners to advance financial education in urban areas. In Oklahoma City, a Bank employee serves on the organizational committee for an inner-city high school finance academy that launched in 2012.

In addition, the Oklahoma City Branch



The Student Board of Directors program is coordinated with urban school districts across the Bank's region.

hosts student programs to discuss careers, the Federal Reserve and financial education. In Omaha, Bank staff members serve on the committee for the Academy of Finance at four inner-city high schools and the superintendent's council for career education.

In Denver, staff members serve on the Career and Technical Advisory Committee for Littleton Public Schools, mentoring students in a career program and judging entrepreneurship and financial education projects. Denver employees also serve on the Denver Public Schools-South High School Academy of Finance committee and provide speakers, job shadowing and mentoring to students.

Student Outreach

Along with its partnerships with urban and diverse school districts, the Bank participates in a number of direct student outreach initiatives, including the following:

SUMMER @ THE FED

Seven recent high school graduates from schools in the Kansas City, Mo., and Kansas City, Kan., school districts helped share their own financial knowledge and serve as mentors for more than 400 young students during the summer of 2012.

As part of its Summer @ the Fed program, the Bank hired the new graduates as interns to work as camp counselors to implement structured lessons and activities about spending choices, basic banking terms and the importance of saving to 4th- through 6th-graders enrolled at summer programs hosted by the Boys and Girls Clubs of Greater Kansas City, Operation Breakthrough, the Bethel Neighborhood Center and The Upper Room. The Bank's interns were paid a market-rate wage of \$11 per hour.

Each of the camp counselors previously served as members on the Bank's Student Board of Directors during the school year, and their work through the summer provided an opportunity to experience a corporate environment and solidified the experience they received through the Student Board.

"I learned more than I expected about the economy through this program," said one camp counselor. "Learning something as a student is different than teaching it to someone else."

An INROADS intern with the Bank's Summer @ The Fed program led financial lessons for young students across the Kansas City metro area in 2012.



- *Student Board of Directors:* The Bank completed its first full year of its Student Board of Directors program and recruited a new group of students who began the program in the fall of 2012. In addition, each Branch office launched its own Student Board of Directors Program in 2012, targeting students from diverse, urban school districts (see sidebar, “Student Board Makes a Connection”).
- *Summer @ the Fed:* During the summer of 2012, the Bank hired seven members of its Student Board for paid internships to serve as camp counselors to deliver financial education lessons to more than 400 young students enrolled in area summer programs (see sidebar, “Summer @ the Fed”).

High School attended the Summit in Washington, D.C. (see sidebar, “Bank Partners on Financial Education”). Programs similar to the one in Washington were held at the Bank’s offices in Kansas City and at Hinkley High School in Denver.

- *Econ Superheroes Save the Day:* The Bank’s Omaha Branch partnered with Conestoga Elementary School, an urban magnet school, to offer “Econ Superheroes Save the Day,” a program that encouraged students to develop and illustrate a superhero solving a financial problem. The Bank published the best illustrations in a book that was made available online and provided to each student.

During the summer of 2012, the Bank hired seven members of its Student Board to serve as camp counselors to deliver financial education lessons to more than 400 young students enrolled in area summer programs.

- *Financial education video competition:* As part of the Bank’s partnership with the Congressional Black Caucus’ Financial Education Youth Summit, the Bank held a video competition for high school students that explored a financial theme. Following their successful video submission, a team from Grandview (Mo.)

- *Teach Children to Save:* The Bank’s annual “Teach Children to Save Day,” in which staff members provide financial and economic lessons to students at urban schools, expanded its reach by 30 percent in 2012. More than 6,300 students in 292 classrooms at 90 schools participated in the program. Of these students, 31 percent were at majority-minority schools.

BANK PARTNERS ON FINANCIAL EDUCATION

“What do you say to people who view youth more as a burden than an asset?” a student from Grandview (Mo.) High School, asks the Grandview mayor, Steve Dennis.

“I think they’ve probably forgotten how hard it was for them when they were youth,” the mayor said.

The short exchange was included in a five-minute video submitted to the Bank’s Financial Literacy Video Competition in 2012 by a team of Grandview High School students exploring the topic “How does a community benefit when youth are financially educated?” As winners of the competition, the students traveled to Washington, D.C., where they attended the Congressional Black Caucus’ Financial Education Youth Summit on Sept. 21.

The event was held at Trinity Washington University in Washington, D.C. The Bank, in partnership with the Richmond and Cleveland Reserve Banks and the CBC, shared financial education lessons with more than 150 students from the D.C. area and the four students from Grandview. In addition to the financial education lessons, the day included welcome remarks from U.S. Rep. and then-CBC Chair Emanuel Cleaver and a tour of the U.S. Capitol. As a separate initiative, staff from the Bank and the Cleveland and Richmond Reserve Banks led a one-hour financial education session at the Congressional Hispanic Caucus on Sept. 11 for 250 Hispanic high school students from the D.C. area.

“I told the students that they are what W.E.B. DuBois, an African American historian and scholar, called the ‘talented tenth’ or the 10 percent of the population who must educate the 90 percent in order for change to occur,” said Kansas City Fed Vice President and Community Affairs Officer Tammy Edwards. “We encouraged the students who attended the summit to return to their families and friends to teach what they learned.”

The Bank reached an additional 310 students through additional events in Kansas City and Aurora, Colo., on Sept. 21. Reserve Banks across the System hosted similar programming, which included video greetings from members of the CBC. In total, 17 programs were held throughout the country in September. The major themes of the educational programming included banking basics, banking products, guidance on financing a college education, budgeting tips and lessons on credit.



Students from Grandview (Mo.) High School, along with their teachers and administrators, met with U.S. Rep. Emanuel Cleaver II in Washington as part of the Bank's partnership with the Congressional Black Caucus in 2012.



Students from urban high schools in the Tenth District attended a Youth Financial Education Summit hosted by the Kansas City Fed on Sept. 21, 2012. More than 300 attended the events in Kansas City and Aurora, Colo.

2012 SELECTED FINANCIAL EDUCATION and COMMUNITY OUTREACH EVENTS

EVENT	DATE	LOCATION	ATTENDANCE
<i>Colorado JumpStart Educators Workshop</i>	Jan. 26	Westminster, Colo.	200
<i>Colorado Charter Schools Conference</i>	Feb. 23	Broomfield, Colo.	200
<i>Alternative Cooperative Education Challenge</i>	Feb. 24	Littleton, Colo.	300
<i>Awesome Ambitions Jobs & Finance Conference</i>	March 3	Kansas City, Mo.	150
<i>Community Leader Roundtable</i>	March 15	Denver, Colo.	192
<i>Department of Labor Women's Bureau Conference</i>	March 29	Kansas City, Mo.	100
<i>Money Smart Day</i>	March 31	Kansas City, Mo.	186
<i>Alliance for Economic Inclusion</i>	April 3	Kansas City, Mo.	240
<i>New Mexico Financial Education Summit</i>	April 16	Albuquerque, N.M.	377
<i>MoneyMania!</i>	April 21	Oklahoma City, Okla.	300
<i>Teach Children to Save Day</i>	April 24-25	Omaha and Kansas City metros	6,315
<i>Conestoga Elementary and Marrs Magnet Econ Olympics</i>	May 10	Omaha, Neb.	200
<i>Genesis Promise Academy Economic Education</i>	May 10	Kansas City, Mo.	200
<i>Empowerment Network Conference</i>	May 16	Omaha, Neb.	300

EVENT	DATE	LOCATION	ATTENDANCE
<i>Oklahoma City Public Schools Industry Partner Awards</i>	June 7	Oklahoma City, Okla.	250
<i>Albuquerque Public Schools Conference for Educators</i>	Aug. 1	Albuquerque, N.M.	250
<i>Small Business Development Opportunities</i>	Aug. 23	Albuquerque, N.M.	225
<i>Metropolitan Community College Student Leadership Conference</i>	Aug. 30	Omaha, Neb.	125
<i>Ready to Lead Youth Program, Congressional Hispanic Caucus</i>	Sept. 11	Washington, D.C.	250
<i>Youth Financial Education Summit</i>	Sept. 21	Aurora, Colo., and Kansas City, Mo.	310
<i>Youth Financial Education Summit, Congressional Black Caucus</i>	Sept. 21	Washington, D.C.	166
<i>African American Empowerment Network</i>	Sept. 27	Omaha, Neb.	50
<i>Minority Real Estate Professionals</i>	Oct. 11	Omaha, Neb.	20
<i>Financial Access Forum</i>	Oct. 25	St. Louis, Mo.	165
<i>Financial Education in Oklahoma Conference</i>	Nov. 7	Oklahoma City, Okla.	130
<i>MoneyWise Financial Empowerment Tour</i>	Nov. 17	Omaha, Neb.	100



Senior Community Affairs Adviser Dell Gines, left, meets with a member of Omaha's business community as part of the Bank's financial education outreach efforts.

- *Presentations to diverse students:* Bank staff members regularly deliver financial education presentations to students at urban and diverse schools, and the Bank supports Junior Achievement programs at inner-city schools. Specific programs of note include programs at the Bridges to Work program in Denver, the Denver Public Schools Ninth Grade Academy and Upward Bound presentations and workshops in Kansas City and Denver.

PUBLIC and COMMUNITY OUTREACH

As an organization with an important public role, the Bank hosts and delivers many programs aimed at improving financial education and economic development in diverse communities throughout its region.

The Bank participates in several state-level financial literacy coalitions. These coalitions are vital partners in helping to identify areas

and populations where there is an opportunity to improve financial education. Through its Money Smart programs, the Bank, along with partner organizations at each office, offers free workshops, seminars and classes to the community on topics such as using credit wisely, funding education and avoiding fraud and scams.

In addition, the Bank hosts several events throughout the year aimed at supporting the financial education needs of diverse communities.

Highlights include:

- *New Mexico Financial Education Summit:* This event, held April 16 in Albuquerque, offered 15 free sessions on a wide range of financial topics, including budgeting basics and microlending. More than 370 people attended.
- *Financial Education in Oklahoma Conference:* Nearly 130 people attended this event, focusing on consumer credit and hosted in conjunction with the Jump\$Start Coalition.
- *Community Leader Roundtables:* The Bank brought together key stakeholders, including those representing diverse communities, to share information on resources and to explore partnering on new initiatives.

In all, the Bank attended, presented or hosted more than 180 financial education events with diverse audiences in 2012. These events reached more than 18,500 people.

CHALLENGES

The Bank has identified the following challenges related to its financial education efforts:

- School district budgetary challenges limit the Bank's ability to reach educators through traditional venues. Several districts have reported severe restrictions on the time available for educators to participate in professional development.
- Continue to evaluate curricula to include culturally relevant examples and anecdotes to ensure maximum effectiveness.
- Finalize the Bank's "Financial Fables" resource—an online interactive storybook that teaches useful financial skills by using engaging characters.

As an organization with an important public role, the Bank hosts and delivers many programs aimed at improving financial education and economic development in diverse communities throughout its region.

- Limited classroom time available for financial education lessons also poses a challenge. Integrating existing and new resources into existing curricular areas, such as math and reading, will be key going forward.
- Teachers are often prevented from exploring financial and economic topics in their curriculum due to standards-based teaching requirements.
- Continue to partner with diverse, urban schools and school districts to deliver relevant and effective resources.
- Develop webinars and interactive activities to help make financial and economic concepts more relatable for all audiences.
- Evaluate the Student Board of Directors program and other student programming for inner-city and diverse high schools and implement improvements as appropriate.

LOOKING AHEAD

For 2013 and beyond, the Bank plans to focus on the following financial education outreach initiatives:

Female Representation

JOB CATEGORIES	WHITE		BLACK or AFRICAN AMERICAN		HISPANIC or LATINO	
	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>
Executive / Sr. Officials & Managers	7	87.5	-	-	1	12.5
First / Mid Officials & Managers	93	89.4	5	4.8	3	2.9
Professionals ¹	255	85.6	23	7.7	9	3.0
Technicians	19	67.9	7	25.0	1	3.6
Sales Workers	3	100.0	-	-	-	-
Administrative Support	113	70.2	25	15.5	18	11.2
Craft Workers	-	-	-	-	-	-
Service Workers	7	77.8	1	11.1	-	-
TOTAL	497	81.3%	61	10.0%	32	5.2%

Male Representation

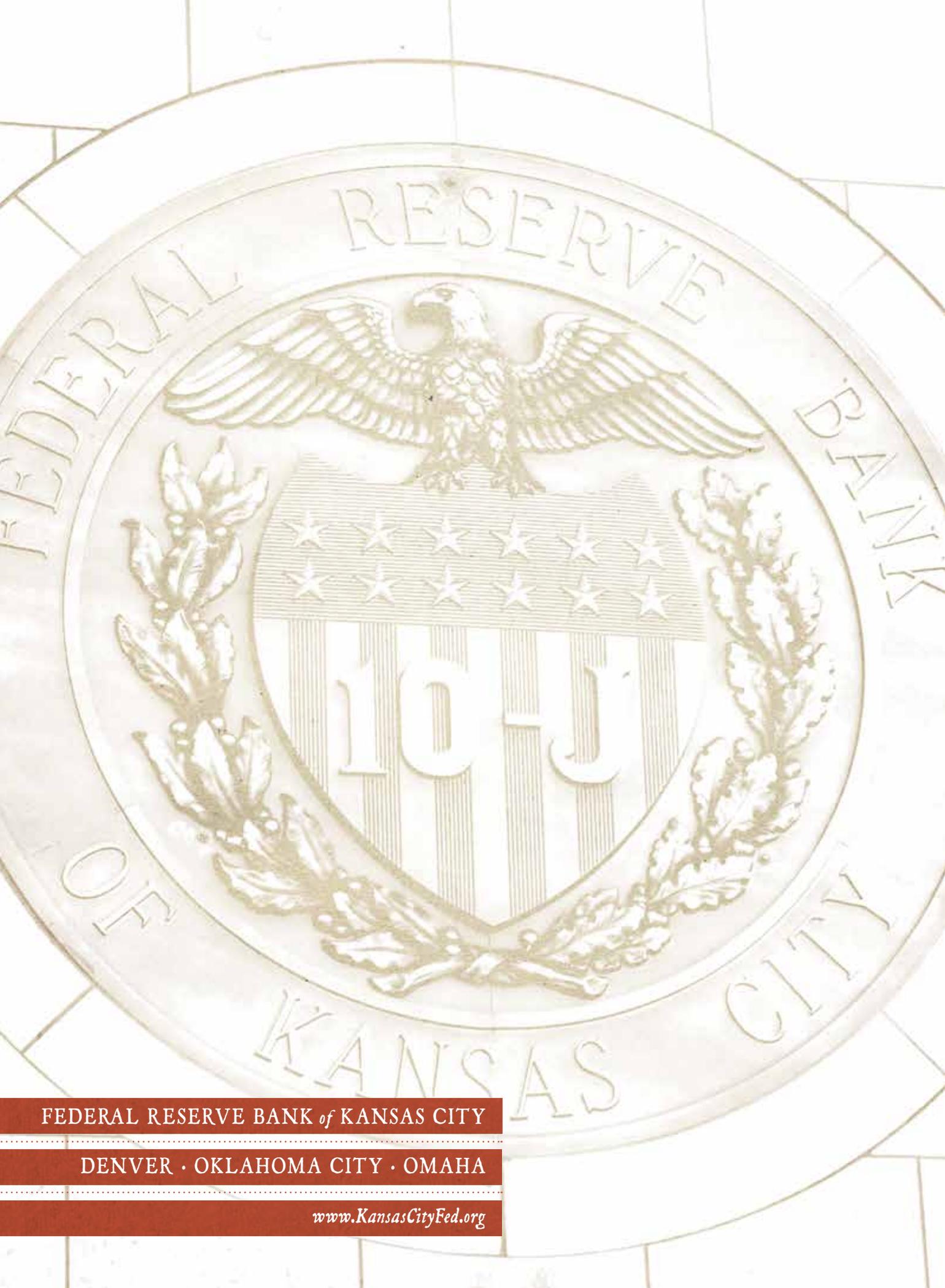
JOB CATEGORIES	WHITE		BLACK or AFRICAN AMERICAN		HISPANIC or LATINO	
	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>
Executive / Sr. Officials & Managers	4	100.0	-	-	-	-
First / Mid Officials & Managers	111	92.5	4	3.3	5	4.2
Professionals ¹	285	85.8	9	2.7	13	3.9
Technicians	61	83.6	8	11.0	-	-
Sales Workers	2	100.0	-	-	-	-
Administrative Support	30	71.4	4	9.5	4	9.5
Craft Workers	31	88.6	2	5.7	1	2.9
Service Workers	64	74.4	11	12.8	7	8.1
TOTAL	588	84.7%	38	5.5%	30	4.3%
GRAND TOTAL	1085	83.1%	99	7.6%	62	4.8%

¹Professionals include analysts, economists, examiners, and IT professionals.

NATIVE HAWAIIAN <i>or</i> PACIFIC ISLANDER		ASIAN		AMERICAN INDIAN <i>or</i> ALASKAN NATIVE		TWO <i>or</i> MORE RACES		OVERALL TOTALS	
<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>
-	-	-	-	-	-	-	-	8	100
-	-	3	2.9	-	-	-	-	104	100
1	0.3	8	2.7	-	-	2	0.7	298	100
-	-	1	3.6	-	-	-	-	28	100
-	-	-	-	-	-	-	-	3	100
1	0.6	3	1.9	-	-	1	0.6	161	100
-	-	-	-	-	-	-	-	0	0
-	-	1	11.1	-	-	-	-	9	100
2	0.3%	16	2.6%	0	0.0%	3	0.5%	611	100%

NATIVE HAWAIIAN <i>or</i> PACIFIC ISLANDER		ASIAN		AMERICAN INDIAN <i>or</i> ALASKAN NATIVE		TWO <i>or</i> MORE RACES		OVERALL TOTALS	
<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>
-	-	-	-	-	-	-	-	4	100
-	-	-	-	-	-	-	-	120	100
-	-	19	5.7	2	0.6	4	1.2	332	100
-	-	2	2.7	1	1.4	1	1.4	73	100
-	-	-	-	-	-	-	-	2	100
-	-	4	9.5	-	-	-	-	42	100
-	-	1	2.9	-	-	-	-	35	100
1	1.2	3	3.5	-	-	-	-	86	100
1	0.1%	29	4.2%	3	0.4%	5	0.7%	694	100%
3	0.2%	45	3.4%	3	0.2%	8	0.6%	1305	100%

Note: Numbers may not add due to rounding. Information reflects EEO-1 data as defined by the Equal Employment Opportunity Commission (EEOC). The data is as of August 31, 2012, in order to match our submitted annual EEO-1 report to the EEOC. The report is primarily based on employee self-identification. Per EEOC guidance, if race or ethnic information is not self-reported, observer identification may be used. The Federal Reserve Bank of Kansas City follows a practice of reviewing employee representation against the Kansas City MSA EEO-1 data (broken down by EEO-1 categories). The Bank uses EEO-1 category data because measuring performance against the broader population is not comparable; the broader population data does not take into account the demographics of the labor pool that feed into each job group.



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The Federal Reserve System

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

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

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

President Woodrow Wilson signed the Federal Reserve Act on Dec. 23, 1913, and the 12 regional Federal Reserve Banks opened on Nov. 16, 1914.

The Federal Reserve Bank of Kansas City

The Federal Reserve Bank of Kansas City and its Branches in Denver, Oklahoma City and Omaha serve the Tenth Federal Reserve District, which encompasses Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming. As a part of the Federal Reserve System, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing other services to depository institutions.



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