

# TEN

FEDERAL RESERVE BANK OF KANSAS CITY

Fall 2012

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**An investment connection**

**The 2012 Jackson  
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## HEAT IN THE HEARTLAND

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### Central Bank Independence

**W**ith the presidential campaign season in full swing, I am often asked how the election results will affect my role and the work of the Federal Reserve Bank of Kansas City.

The answer is easy: Whatever the outcome on Election Day, there will be no direct impact to my role or how we operate in our mission areas of monetary policy, financial services and bank supervision. One of the hallmarks of the Federal Reserve System is its independence from the political process. Congress established this insulation from short-term political pressures, and the concept of independence has been emulated by central banks around the world.

Recently, the topic of central bank independence came up at the Kansas City Fed's Jackson Hole Economic Policy Symposium, with the discussion centering on whether the Federal Reserve's independence was tied to the Board of Governors' status as a ".gov" or the Reserve Banks' status as ".orgs." It's my belief that the Federal Reserve's independence and ability to respond effectively to the U.S. economy's needs are critically dependent on our ".org" structure.

First, the Federal Reserve's independence does not mean absence of oversight. Congress purposely constructed the Federal Reserve in 1913 to include both public and private characteristics and to provide for a regional focus. This structure provides the critical system of checks and balances to central banking in the United States. That is, Congress has the authority to spend money and the Federal Reserve has the sole authority to steer interest rates and the size of the money supply. To that end, the Federal Reserve Board is a government agency and its seven governors are political appointees, while the 12 regional Reserve Banks are separate entities chartered by Congress but with some characteristics of a private corporation. The Board of Governors has broad oversight of the Reserve

Banks that is shared with each Bank's local board of directors. This structure is described in the Federal Reserve Act: "Every Federal reserve bank shall be conducted under the supervision and control of a board of directors."

Second, the board of directors ensures that each Reserve Bank can provide a perspective independent from the governors on banking, payments and monetary policy. My ability to lead a regional Reserve Bank is greatly strengthened by having competent local business, union, consumer and banking leaders, guiding and holding me accountable for the Bank's performance. These directors understand the effects of economic events on their organizations and communities. They are not economists or political appointees and do not represent the interests of any particular constituency. Rather, the directors are private sector leaders with an independent, real-world view, acting in the public's best interest.

The support of a fully empowered board of directors is critical to my ability to express independent views. The Federal Reserve's policy deliberations significantly benefit from the Reserve Bank's unique and independent governance bodies.

Finally, I acknowledge that conflicts of interest may arise. But that is true whether one is a Fed director, a member of Congress, a political appointee, president of a university, or a professor compensated by an outside interest for writing reports. The key issue is how conflicts are handled. In the case of Reserve Bank directors, the federal conflicts of interest statute applies, as well as the Board of Governors' Guide to



Conduct, which includes conduct that would harm the public's confidence in the integrity of the Federal Reserve System or create an appearance of impropriety.

In recent years, some have raised questions about the service of bankers on the boards of the Reserve Banks and FOMC voting rights of Reserve Bank presidents.

Congress was deliberate in creating a complex yet effective way to balance power within the nation's central bank. It is not in the country's best interest to undermine a governance structure that has served it, on balance, very well. Nor are proposals that would, in effect, serve to consolidate more power in the hands of Washington and New York. Limiting the governance role of independent Reserve Bank

directors would negatively affect the System's independence and the value that diverse views bring to policy deliberations.

Without the Reserve Banks' ".org" status, the Federal Reserve would lack the broad representation and credibility that has enabled it to fulfill its responsibility in fostering economic growth and responding to crises over the last 100 years.



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

## 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.

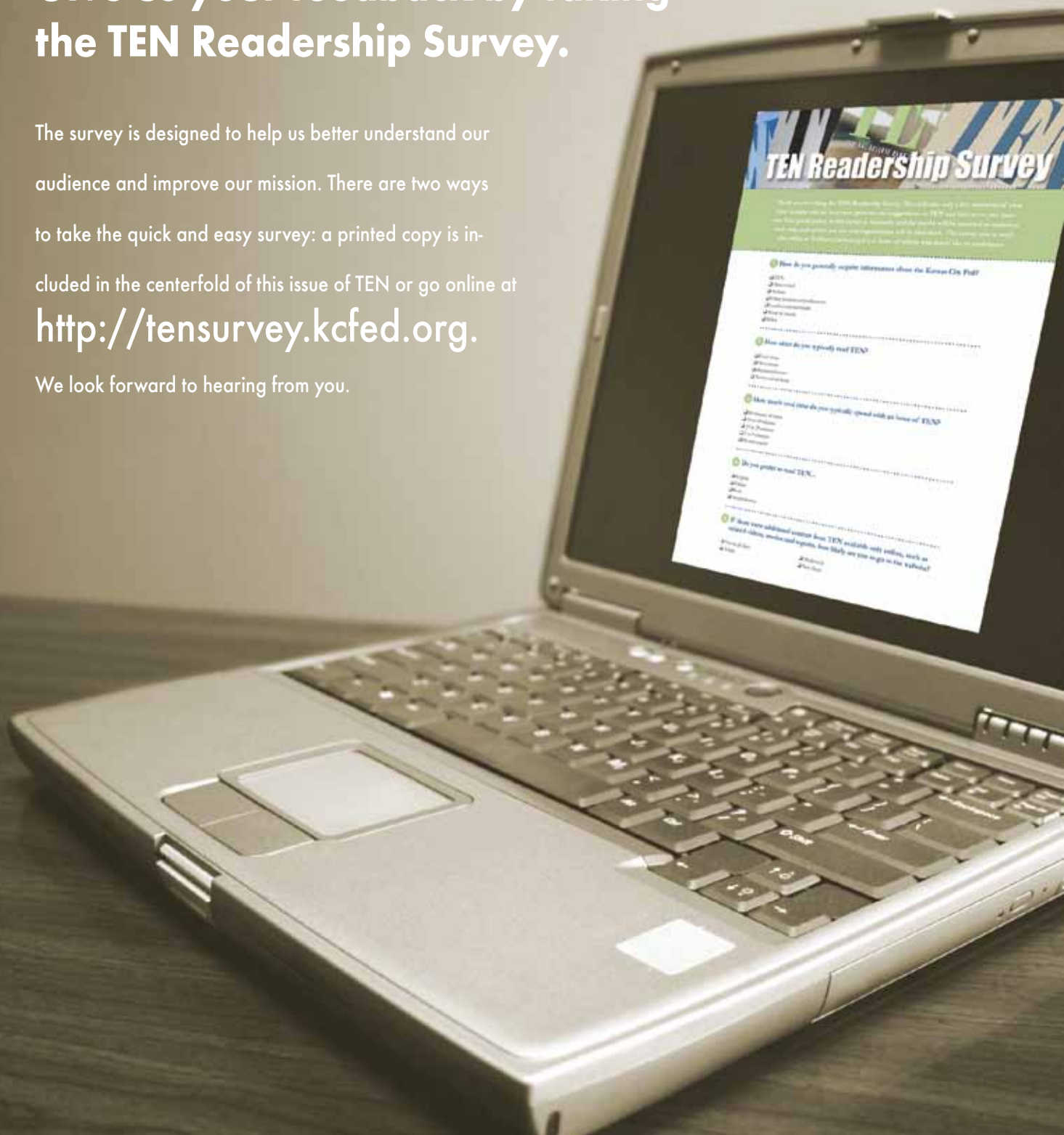
Like a Class B director, a Class C director may not be an officer, director or employee of a financial affiliation company. These directors may not own stock in a bank or a bank holding company. For example, Terry L. Moore, president of the Omaha Federation of Labor, is a Class C director. From the Class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

# TEN Readership Survey

Give us your feedback by taking the TEN Readership Survey.

The survey is designed to help us better understand our audience and improve our mission. There are two ways to take the quick and easy survey: a printed copy is included in the centerfold of this issue of TEN or go online at <http://tensurvey.kcfed.org>.

We look forward to hearing from you.



# Heat in the Heartland

IMPACTS OF THE 2012 DROUGHT





**J**im McMillin's soybean leaves make a lush green blanket across a field near the Missouri River in Sibley, Mo. Remnants of Hurricane Issac came through the area at the end of August, dumping 3 to 6 inches of rain, and about two inches of rain fell a week later.

Though he tries to remain optimistic, he knows the rain may have no effect after the heavy toll the drought took on his crops.

"It's too late for corn, but we'll just have to wait and see about the beans."

The soil underneath the green leaves had been hard, dusty and cracked for more than two months after receiving 0 to 2/10 of an inch of rainfall from the end of June through August.

"The rain usually follows the river and it didn't even do that this year," he said.

McMillin planted corn the week of April 10 and got less than a 50-percent yield in August. He planted soybeans in May, worrying about the possibility of a late frost.

"I'm a little more conservative than other guys, but even back then we had a small window to get everything planted because we battled with moisture levels in the ground."

Four months later, it's the second week of

September and McMillin has another small window of opportunity to harvest soybeans. Prices are good right now, and he hopes there are enough viable beans on the stocks to yield a decent profit.

"Green soybean plants may not be a good sign, even though the plants appear to be thriving, compared to the brown and dead corn stalks in adjoining fields," said Bill Wiebold, a University of Missouri Extension soybean specialist.

A soybean plant needs a steady flow of water moving up the plant's system. The lack of moisture caused soybeans to go into survival mode.

Although the green leaves make the plant appear to have adequate moisture for reproduction, Wiebold said, "More likely, the green results from high nitrogen levels in leaves that have not converted into protein stored in seed pods."

As he walks through the field inspecting different soybean plants, McMillin says it's going to be a random harvest. Some stalks have three or four pods while others have a dozen, sometimes twice that amount.

"A good plant could produce up to 40 to 80 pods, but I don't think we'll get that this



PHOTO BY BOB GREENSPAN

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JIM MCMILLIN, A FARMER IN SIBLEY, MO., looks at the lack of pods on a soybean plant that was affected by the recent drought.

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year,” he said.

And he’s still not sure whether the beans inside those pods are viable.

### **Drought strains Tenth District**

“For many across the nation, the current situation evokes comparisons to the late 1980s, or even the 1950s, when drought slashed U.S. crop production and sent food prices soaring,” said Jason Henderson, a Kansas City Fed economist and Omaha Branch executive.

By Aug. 2, nearly 220 counties in a dozen drought-stricken states were added to the U.S. Department of Agriculture’s list of natural disaster areas. More than 500 were added to the list halfway through the month. By September, the USDA Farm Service Agency listed more than 1,900 counties as drought disaster designations.

Tenth Federal Reserve District states recorded some of the highest consecutive

temperatures in 50 years. As a nation, July was the hottest month since the government began keeping temperature records in 1895. Some areas across the Tenth District averaged four to six degrees higher than normal for 30 consecutive days without rain, according to the National Weather Service.

Climatologists at the National Oceanic and Atmospheric Administration reported that by the end of July, about 63 percent of the nation was experiencing drought conditions, which contributed to the high temperatures. In the Tenth District, more than 90 percent of the area experienced drought or severe drought conditions.

This year was worse than the 1988 drought, during which 45 percent of the nation experienced drought or severe-drought conditions as defined by the Palmer Drought Severity Index. Officials are now saying the 2012 drought is the worst drought in 56 years.



This also is the worst planting season McMillin, 62, can remember. For McMillin, the 1,000 acres of corn and soybean he's planted could yield less than 50 percent.

"It's definitely hurting a lot of people," he said. "I'm very happy to have Federal crop insurance."

## **Saving grace for producers**

With shrinking yields, crop insurance will help some crop producers make up losses by boosting gross revenues, Henderson said.

"Similar to 2011, the majority of farmers are expected to have purchased some form of crop insurance at varying coverage levels."

With lower yields, for example, Illinois farmers with crop-revenue insurance policies could expect payments of \$300 an acre, if crop production follows the trend of the 1988 drought, Henderson said.

Couple this with the increase in food prices and land values, some farmers may be more financially stable than the previous year.

In the Tenth District, which covers Colorado, Kansas, western Missouri, northern New Mexico, Nebraska, Oklahoma and Wyoming, land values rose by less than 3 percent in the second quarter, which is still higher than a year ago. Irrigated cropland is up 26 percent, nonirrigated is up 28 percent and ranchland, 16 percent.

Soybean prices peaked above \$17 a bushel and corn prices \$8 before falling seasonally with the harvest.

In a recent Kansas City Fed survey, bankers in the District said they think farmers are in good financial shape despite the drought. Significant losses, however, could occur for uninsured farmers and people over-hedged in the derivative markets. And losses are on the horizon for ranchers, dairy farmers, and the hog and poultry industries.

## **Trying to break even**

Ranchers felt the pinch of the drought through sun-washed pastures and increasing hay costs.

"Estimates suggest that over 70 percent of all beef cows are in states with pasture conditions rated as poor to very poor," Henderson said.

Alfalfa prices increased 10 percent since the beginning of the year and ranchers weaned calves earlier than usual and increased placement of feeder cattle into feedlots. The Livestock Marketing Information Center reported that cow-calf returns dropped by more than \$100 per cow since May.

Henderson says cattle feedlot enterprises face significant losses from high feed costs, and breakeven prices for cattle feedlot operations surged in July as the price for feeds, such as soybean meal, corn gluten and dried distillers grains, increased more than 25 percent between May and July. This was in conjunction with fed cattle prices falling more than 15 percent. The USDA expects feedlot operations to lose more than \$200 per head this fall.

The heat also affected milk production.

"Although smaller supplies have boosted milk prices on futures markets by 17 percent between May and July, and the prices continue to rise, feed prices have surged more quickly," Henderson said.

Pork and poultry producers will take a loss as well. Rising feed costs pushed hog producers to sell hogs early and lower broiler prices and feed costs cut the price-to-feed costs ratio for poultry producers by 13 percent in June. The industries will take another hit this fall in feed costs, making it difficult to rebound.

Grain handlers, food processors and ag transportation also face uncertain times. Smaller crop production means less supply in the midst of higher demand.

"Although higher commodity costs are likely to be passed through to retail markets and consumers in varying degrees, grain processors have faced difficulties finding adequate supplies to keep their operations active," Henderson said.

## **The aflatoxin effect**

In the Nebraska drought of 2002, the state corn crop had a high amount of aflatoxin,

Mark Fulmer, of Lincoln Inspection Service, told the *Lincoln Journal Star*.

“Since then, there’s been basically nothing,” Fulmer said. “This year is a huge concern with the amount of aflatoxin that could be in this crop.”

Aflatoxins are potent chemical compounds produced by mold fungi that cause a variety of human and animal health problems.

The Regional Office for the Risk Management Agency of the USDA in Topeka, Kan., reported that trace amounts of aflatoxin have been found in corn in Colorado, Kansas, Missouri and Nebraska.

Hot, dry conditions allow the fungus that produces aflatoxins to survive in crop residue and soil, and produce abundant spores throughout the growing season.

Most commonly, aflatoxin reduces the feed efficiency and reproductivity of livestock, affecting the animal’s immune system, leading to the occurrence of more infectious diseases. The most abundant aflatoxin, aflatoxin B1, is a carcinogen. This raises human health concerns because aflatoxin can appear in the milk of dairy cows fed contaminated corn.

And the effects of aflatoxin are random—it can infect an entire crop or a small portion of the yield. One truckload of McMillin’s corn tested positive for aflatoxin, but the remainder of his corn was toxin-free.

A major outbreak could halt feed production and send prices soaring for untainted corn that’s already in short supply. The USDA, however, is not sounding the alarm, saying the trace amounts found are not an indicator of a large-scale problem.

A majority of the corn produced in the Corn Belt goes toward feed and other byproducts, but given the drought’s effects on all crop production, consumers will feel the results at the cash register.

## Increasing food prices

Economists estimate that the drought could increase food prices between 4 to 6 percent, depending on the final outcome of the



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JIM MCMILLIN KEEPS A COPY OF A NEWSPAPER that published a story about the affects of aflatoxin, a potent compound produced by mold fungi that can be found in drought-stricken corn.

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harvest season.

Historically, Henderson says, drought conditions and surging crop prices have led to an initial increase in food prices by boosting the price for cereals and bakery products, despite an initial decline in meat prices.

A result of the 1988 drought, the consumer price index for food increased 5.1 percent annually in September that year. Although meat prices initially declined, prices increased over the next year due to short supply and smaller breeding herds.

In 1989, U.S. livestock prices increased 8 percent, which contributed to a 10-percent increase in the consumer price index for meat in 1990. Henderson says historical patterns could re-emerge from this drought if livestock prices rebound in 2013 and herd sizes shrink.

A moderate increase in food prices could contribute to overall inflation; however, the impact would be small. The consumer price index for food contributes a 14-percent share to United States’ overall consumer price index. A 4-percent increase in retail food price inflation would contribute 0.6 percent to



overall inflation, Henderson said.

Increasing food prices will affect the way people spend more than anything, especially for poorer U.S. households, who spend a majority of their income on food compared with wealthier households.

Historically, as food prices increase, families spend less on food. When eating out, people will choose less expensive restaurants or menu items, and cut out any extras, like dessert, or stop eating out all together. Data also shows that families tend to spend less on nonfood products when retail food prices increase.

And some consumers could see the drought's effect at the pump as ethanol plants are struggling to remain profitable. Corn accounts for 90 percent of total variable costs at an average ethanol plant, said Nathan Kauffman, an economist at the Omaha Branch.

An increase in corn prices has led to cutbacks in production—ethanol production dropped 13 percent below first-quarter levels in July—causing layoffs and some plant closures.

## Lasting effects

The biggest effect of the 2012 drought is higher crop prices, which will remain high as long as inventories remain low.

Higher prices could dissipate over the next

year if the demand for grain and corn decrease through the liquidation of herds and a cutback in ethanol production, as well as less retail food demand.

This is the second year the United States has experienced below-average yields, and climatologists expect drier conditions will continue, although they are uncertain whether it will lead to drought-like conditions. And it's uncertain whether some producers can endure these short-term losses.

What U.S. farmers may see is a shift in global production as countries ramp-up the number of planting acres. Russia and South America have expanded crop production by 48 million and 42 million acres, respectively, since 2003, which could drive down high prices.

But as the old adage goes, it all depends on the weather.

“Although the drought is far from over and its final toll on U.S. agriculture is still uncertain, the 2012 drought will undoubtedly be etched into farmers’ memories for years to come,” Henderson said.



KEVIN WRIGHT, EDITOR

## FURTHER RESOURCES

### “INITIAL IMPACTS OF THE 2012 DROUGHT”

by Jason Henderson and Nathan Kauffman  
[KansasCityFed.org/publications/research/mse/index.cfm](http://KansasCityFed.org/publications/research/mse/index.cfm)

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

# Summer @ THE FED

Even members of the Kansas City Fed's 2012 Student Board of Directors program returned this summer as paid camp counselors for Summer @ the Fed, a free economic education program for fourth-through sixth-grade students in the Kansas City area.

The Student Board members shared interactive economic education lessons with approximately 400 students through June, July and August. The program gave members the opportunity to boost their job skills and serve as role models and mentors to younger students. Six mem-

bers served as camp counselors, leading camp activities and caring for visiting campers, and one member served as camp activities director, coordinating the day-to-day activities alongside Kansas City Fed staff.

Participants in the program came from organizations that have summer programs already in place, including: Bethel Neighborhood Center; Boys and Girls Clubs of Greater Kansas City; Operation Breakthrough; and The Upper Room.



Student Board members Trina Durham and DeVonté Hammond speak to a group of Summer @ the Fed participants before the start of that day's activities.



Summer @ the Fed participant Stacha enjoys an activity with other participants.



Katherine Voo, a Kansas City Fed intern, helps participants with an economics lesson.

Alexis Wade, a Student Board member, explains to camp participants the various coins displayed in the Kansas City Fed's Money Museum.



Josh Chapman, a Student Board member, gives participants a historical overview of the Kansas City Fed and the Federal Reserve System during a visit to the Money Museum.



Summer @ the Fed participants check out one of the displays in the Money Museum.

# BROAD REPRESENTATION, REGIONAL ROOTS

## KANSAS CITY FED RELIES ON DIRECTORS FOR INSIGHT

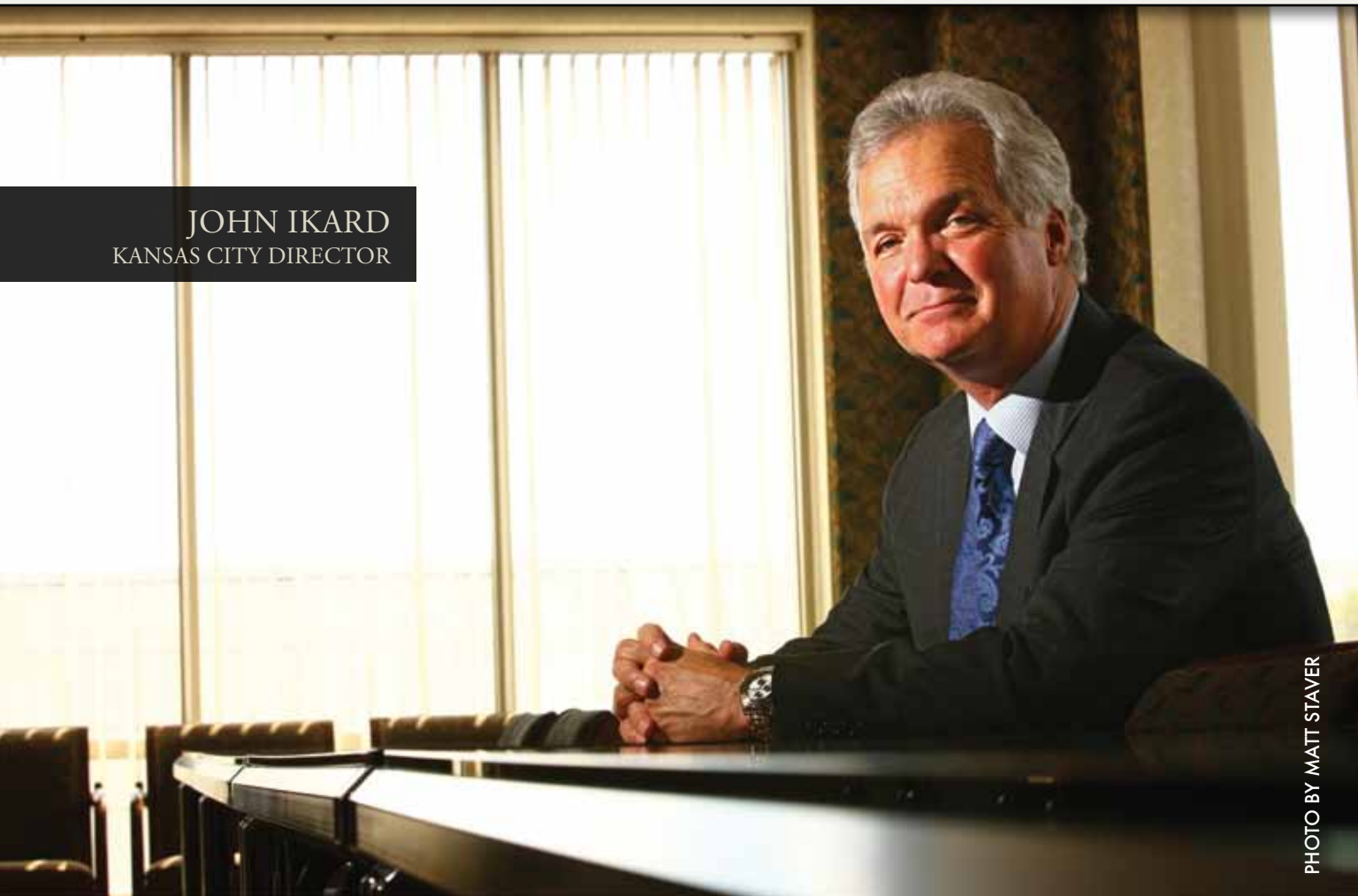
*As designed by Congress in 1913, the Federal Reserve is an innovative blending of public and private institutions. While the Board of Governors in Washington, D.C., is a government agency with broad oversight responsibilities, there are 12 regional Federal Reserve Banks located throughout the United 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 critical 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 western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico. The Kansas City Fed has three Branch offices, Denver, Oklahoma City and Omaha, in addition to its headquarters.*

*Here's a closer look at four Tenth District directors:*

**JOHN IKARD**  
KANSAS CITY DIRECTOR



## JOHN IKARD

John Ikard compares being president and CEO of FirstBank Holding Company to being a quarterback who directs a team of exceptional players. He ensures FirstBank gets top talent, puts them in the right positions, gives them an environment to thrive in and then makes sure to hold onto them.

Ikard says a CEO sets the cultural barometer of the company. And he knows a CEO is only as good as the employees under his or her leadership.

“Quarterbacks get way too much credit,” he said with a laugh.

Ikard has been with FirstBank, which has \$12 billion in assets and more than 125 locations throughout Colorado, Arizona and California, for 30 years, 13 of those years as CEO. Founded in 1963, FirstBank was built on the philosophy of cultivating relationships. Those relationships will lead to deposits, which leads to loans, Ikard said.

FirstBank also believes in building community.

“We believe a healthy Colorado makes for a healthy FirstBank,” he said. “It’s important for us that we support the community.”

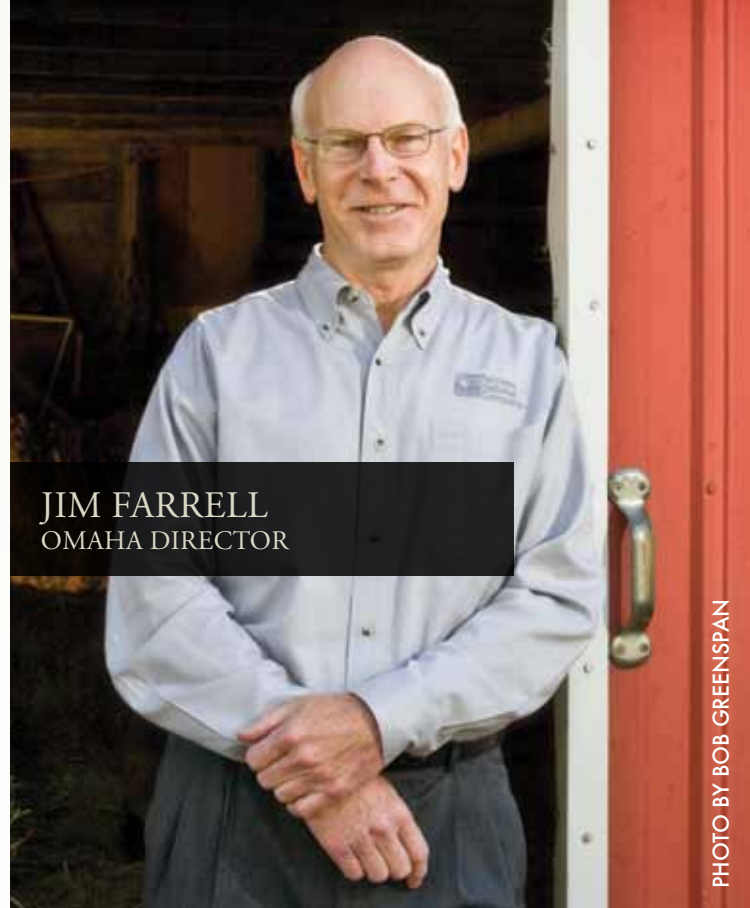
The thought of community comes to mind when Ikard attends the Kansas City Fed Board of Directors meetings. When directors sit around the table and give updates from their areas of the Tenth District about local economies and other matters, Ikard is impressed by the Kansas City Fed’s ability to gather people from various communities with a wide range of knowledge and experience.

As the captain of a tight-run ship, he appreciates how the Kansas City Fed can blend academics with banking traditions, but maintain its Midwestern qualities—hardworking, trustworthy and strong leadership.

“Kansas City is so well-run,” he said. “As directors, we never go into crisis mode.”

## JIM FARRELL

Managing a single property is a handful for a family. Managing more than 5,000 farms



and ranches for landowners in 24 states takes a company.

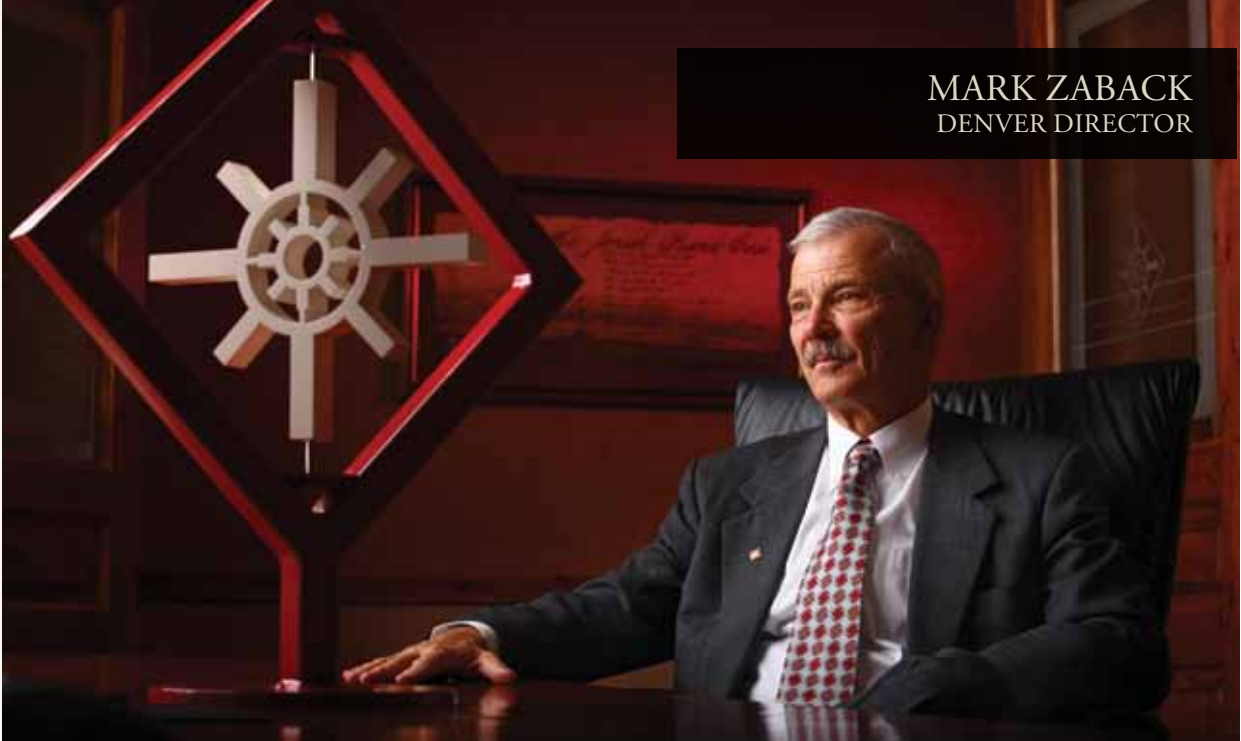
Farmers National Company, Omaha oversees 2.5 million acres on behalf of landowners.

“We also sell land (over 750 farms and ranches each year), we manage just over 80,000 oil and gas assets, we appraise land, we insure farm operations and we manage hunting leases for landowners,” said Jim Farrell, president and CEO.

Farrell, chair of the Kansas City Fed’s Omaha Branch Board, performs a variety of daily tasks, such as working with new clients, interacting with existing clients, and reviewing all new farm management agreements and subsequent commission programs. This doesn’t include the time he spends with vice presidents, directors and managers of departments within the company.

Throughout the year, he tries to visit the company offices in the 24-state service area. The visits include meeting with key business influencers, clients and key account holders.

Farrell uses these encounters along with his knowledge of the agricultural industry to fulfill



his duties as a director.

“I bring a broad perspective to the board about how monetary policy is affecting ag as an industry,” he said. “I also bring a perspective on how the ag industry is performing.”

This experience has helped Farrell learn more about the Federal Reserve and how monetary policy affects the general economy.

“I have learned a great deal in my tenure on the Board, and the experience has been very enlightening.”

Farmers National Company also is involved with the banking industry, managing both farm and mineral assets for a large number of bank trust departments and independent trust companies.

As a director, Farrell connects the Federal Reserve to Main Street America, “helping to keep monetary policy focused not only on what is good for the big banks and Wall Street, but also for local and regional banks and Main Street businesses around the District.”

## MARK ZABACK

Jonah Bank of Wyoming operates on similar principles encapsulated in “Cowboy Ethics,” a book that is based on the Code of the West. Mark Zaback, president and CEO, said the bank created its own code in an effort to enhance its mission of building a better Wyoming.

The Code of the West was never written. Authorities, however, know it existed and every cowboy knew it.

It puts hard work, integrity and trust above the bottom line—principles that the book’s author, Jim Owen, said the business world, especially Wall Street, lacks. He wrote “Cowboy Ethics” after 35 years as a successful businessman because he was dismayed by the country’s epidemic of corporate scandals and social discord. Like Jonah Bank, the State of Wyoming adopted the Ten Principles of Cowboy Ethics as its official state code in 2010.

Jonah Bank’s two major shareholders and its employees also embraced the bank’s code, Zaback said, which has helped the bank become a vital part of the Casper and Cheyenne communities.

“It’s truly not about making money for investors,” said Zaback, a director on the Kansas City Fed’s Denver Branch Board. “We make decisions that may not seem right for the bank in the short term, but they’re the right decisions that work for the bank in the long term.”

It’s about working hard, building trust and following through on commitments.

Although he spends a lot of time in meetings and making sure the bank operates efficiently and effectively—“At a small bank you wear a lot of hats; I wear a lot of hats”—



Zaback works toward making sure the bank and its branches are a part of the community not just in the community.

A connection to community is what Zaback wants to provide the Kansas City Fed's Denver Branch.

"As a community bank, what you're dealing with—your customers, your business transactions—is important," he said. And what the Fed deals with—monetary policy and economic assessments—is just as important. That's why Zaback makes sure he provides information that is timely and an accurate reflection of what's happening not only in Casper and Cheyenne, but also in the state of Wyoming.

"We bring in current information, not just the numbers, but a grassroots-level perspective," he said.

## PETE DELANEY

Pete Delaney always liked economics. In college, he made economics and finance his major areas of study. After graduation, he spent 15 years in investment banking on Wall Street before going into corporate management. He says his education and professional experience prepared him for serving as a Federal Reserve director.



PHOTO BY KEITH BALL

PETE DELANEY  
OKLAHOMA CITY DIRECTOR

"I believe this background enables me to provide an appropriate perspective as a board member of the Oklahoma City Branch of the Kansas City Federal Reserve Bank," he said. "In addition, my CEO positions at an electric utility and natural gas midstream business provide a great view into our local and state economies as well as the national energy situation."

Delaney plays key leadership roles as chairman of the board and CEO of OGE Energy Corporation. OGE has a single vision to be the industry leader with a passion for helping customers, developing members and delivering stockholder value, he said.

As chairman and CEO, Delaney must work with the Board of Directors to provide governance and direction for OGE and make sure that the culture, the core values and beliefs of its members, is prevalent throughout the corporation.

"My other primary objectives are providing a clear strategic direction and vision, ensuring the organizational capabilities are in place to execute our mission and inspiring our members to fully engage in achieving our vision."

This perspective of running a business in today's world helps Delaney provide relevant information to the Kansas City Fed about the financial and economic systems. Although the primary role of the directors is oversight of the activities of the Oklahoma City Branch and giving input, "I do believe the anecdotal evidence provided by directors to the staff is very helpful to providing insights into our economy when viewed in conjunction with the statistical economic analysis."

He also thinks there is great opportunity for Federal Reserve directors to bring a sense of familiarity, connection and credibility to the (Fed) with the general public.



FOR MORE INFORMATION on the Kansas City Fed's directors, including bios, visit [KansasCityFed.org/aboutus/leadership](http://KansasCityFed.org/aboutus/leadership).

**M**ore than 100 central bankers, policymakers, economists and academics gathered Aug. 30-Sept. 1 for the Federal Reserve Bank of Kansas City's 36th Economic Policy Symposium in Jackson Hole, Wyo.

The 2012 symposium, "The Changing Policy Landscape," presented a range of perspectives on the challenges facing policymakers in the aftermath of the global financial crisis and the changing policy landscape in which they now operate.

Speakers at the symposium included Federal Reserve Chairman Ben Bernanke; Andrew Haldane, executive director of financial stability, Bank of England; Zeti Akhtar Aziz, governor, Central Bank of Malaysia; Stanley Fischer, governor, Bank of Israel; and Jaime Caruana, general manager, Bank for International Settlements.

Five years after the beginning stages of the global financial crisis, central banks continue to cope with its aftershocks and to seek ways to prevent a recurrence. One of the greatest challenges facing central banks has been the road back to financial stability. The challenges in the real economy have been no less daunting. Deleveraging by the private sector in the wake of the crisis has weighed on growth, as has fiscal austerity among European countries. Unemployment rates in many advanced economies remain far above pre-crisis levels, and high long-term and youth unemployment have raised fears of permanent labor market scarring.

Against this backdrop, central banks in advanced economies have sought to stimulate domestic economies by pushing interest rates to low levels. In some cases, new policy tools such as asset purchases and communications strategies have been used to provide additional accommodation at the zero bound on nominal interest rates or to relieve pressures in specific markets.

Highly accommodative policy environments in advanced economies affect emerging economies in integrated financial markets through capital flows and asset price move-

ments. And central banks have been forced to confront the idea that mitigating long-term threats to financial stability may require a larger role for monetary policy and macroprudential supervision than was previously recognized.

Participants discussed several economic issues related to these topics, including:

- Ensuring long-term financial stability
- Policymaking in an interconnected world
- Leverage, business cycles and monetary policy
- Global policy perspectives
- Labor markets and monetary policy

The symposium dates back to 1978 when the Kansas City Fed organized "World Agricultural Trade: The Potential in Growth" in Kansas City, Mo. The event moved to Jackson Hole in 1982. The location is in the northwest corner of the Kansas City Fed's Tenth District, which includes Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming.

Given the participants, topics and notoriety, there is substantial interest in the symposium. To help foster the open discussion that is critical to the symposium's success, attendance at the event is limited. All symposium participants, including the media, pay a fee to attend. The fees are used to recover event expenses.

"As we continue to recover from the global financial crisis, Jackson Hole provides an environment for attendees to present insights and exchange ideas about important economic issues," says Esther George, who hosted her first symposium as president of the Kansas City Fed. "The economic symposium has been built upon the prestige of its attendees, and it will continue to offer a forum for today's and the future's leading economists and policymakers."

To read the proceedings, including papers and commentary, for this year's economic policy symposium and previous symposiums, visit [KansasCityFed.org/research](http://KansasCityFed.org/research).

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## Economic Symposia

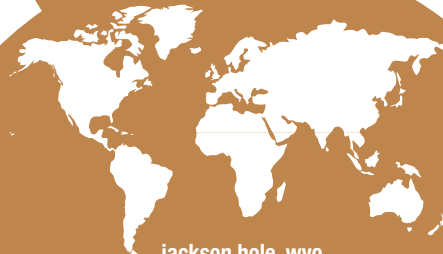
The Changing Policy Landscape  
Achieving Maximum Long-Run Growth  
Macroeconomic Challenges: The Decade Ahead  
Financial Stability and Macroeconomic Policy  
Maintaining Stability in a Changing Financial System  
Housing, Housing Finance, and Monetary Policy  
The New Economic Geography: Effects and Policy Implications  
The Greenspan Era: Lessons for the Future  
Global Demographic Change:  
Economic Impacts and Policy Challenges  
Monetary Policy and Uncertainty:  
Adapting to a Changing Economy  
Rethinking Stabilization Policy  
Economic Policy for the Information Economy  
Global Economic Integration: Opportunities and Challenges  
New Challenges for Monetary Policy  
Income Inequality Issues and Policy Options  
Maintaining Financial Stability in a  
Global Economy  
Achieving Price Stability  
Budget Deficits and Debt: Issues and Options  
Reducing Unemployment:  
Current Issues and Policy Options  
Changing Capital Markets: Implications for Monetary Policy  
Policies for Long-Run Economic Growth  
Policy Implications of Trade and Currency Zones  
Central Banking Issues  
in Emerging Market-Oriented Economies  
Monetary Policy Issues in the 1990s  
Financial Market Volatility  
Restructuring The Financial System  
Debt, Financial Stability, and Public Policy  
Competing in the World Marketplace:  
The Challenge for American Agriculture  
The U.S. Dollar - Recent  
Developments, Outlook, and Policy Options  
Price Stability and Public Policy  
Industrial Change and Public Policy  
Monetary Policy Issues in the 1980s  
Modeling Agriculture for Policy Analysis in the 1980s  
Future Sources of Loanable Funds for Agricultural Banks  
Western Water Resources: Coming  
Problems and the Policy Alternatives  
World Agricultural Trade: The Potential for Growth

# THE

# CHANGING POLICY

# LAND- SCAPE

## 2012 JACKSON HOLE SYMPOSIUM



jackson hole, wyo.  
aug. 30 - sept. 1, 2012  
federal reserve bank of kansas city



## Paying It Forward: Kids as Philanthropists

**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.

**D**oes your child suffer from “entitled child syndrome” or a chronic case of “gimmes”? As the holidays approach, why not turn the tables by asking him to focus on the needs of others, rather than his own self-fulfillment? Introduce the idea of charitable giving as a way to teach your child the life lessons of consideration and compassion toward others. Help him establish a donating habit to experience the satisfaction of giving back to the community, as well as to develop financial management skills. Once he includes charitable giving in his budget, he will be ready for lifelong philanthropy.

To set the stage for paying it forward, discuss charitable organizations that might appeal to your child. Does she want to help other kids in need? Suggest child welfare agencies. Cure a disease? Offer names of cancer organizations. Feed the hungry? Look at your local food pantry. Support homeless pets? Try the animal shelter. If you want to explore charitable options with your child, research online at [www.justgive.org](http://www.justgive.org) to investigate possibilities in the “Find a Charity” section. Use our Doing Good Deeds Guide on Page 20 to list the top prospects and make a final decision. If a local charity is chosen, I would recommend a visit to and tour of the organization, if possible. This will give her a visual picture of how the organization helps others and encourage continued giving. Take home brochures from the visit to remind

the child of the charity’s goals and importance to the community.

Once your child has found a charity he’s passionate about, discuss and agree on donation amounts and frequency. If allowance is your child’s only income, a percentage of his pay could be set aside. If he has a part-time job, a portion of each paycheck could be budgeted for donation. When your child receives additional gifts of cash, he has the option of adding to the charitable total. Use our How Much Should I Give? worksheet in the Doing Good Deeds Guide to figure out a donation plan. A separate piggy bank or envelope for charitable giving helps to keep the contributions from being “accidentally” spent before the donation date.

During my teaching career, I saw kids get so excited about donating to their adopted charity that they decided to fundraise for additional contributions. If this happens at home, make sure your child chooses a product that will be easy to sell or a service that’s easy to provide. Suggest food products such as cookies, popcorn or lemonade, or services such as yard care or pet-sitting. Your child may want to recruit friends to assist in a group garage sale or car wash. Role-play how to take cash, give change and offer good customer service with the crew. Have them create a sign noting that the profit will be given to the charitable organization chosen. If it is possible, develop a public service announcement for your local TV or radio station to promote the fundraiser.

Another way your child can support charitable giving is through the use of Charity Checks. Read about these unique checks at [www.charitychecks.us](http://www.charitychecks.us). A donor buys a “giving certificate” in check form and receives it with the payee line blank. The donor gifts the check

to a relative or friend, who fills in the payee line with an IRS-approved nonprofit of their choice and donates. This method gives the joy of giving to others. If your child is old enough to understand taxes, and pay them, he can claim a tax deduction for his contributions through itemizing deductions. In the meantime, he'll be rewarded through feeling good about doing good for others.

What if your child simply does not have the funds to donate? She can always give of herself by volunteering her time to charities through school and church activities. Parents

can model the giving spirit through offering their services to these and other nonprofits as well. A family that volunteers together demonstrates the belief that giving back to the community is important to all members. Whether your donation is in time or dollars, your charitable contributions will be instilling a giving philosophy in kids for years to come.



## 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](http://KansasCityFed.org) for more information.

### **Federal Reserve Resources**

#### **"The Piggy Bank Primer"**

This booklet suggests ways to spend, save and share money wisely. For ages 6-10.

#### **"Kids and Money: Teaching Children to Manage Their Finances"**

This guide discusses savings activities that will aid charitable giving. For ages 6-12.

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

This booklet includes a budgeting worksheet that helps kids plan for donations. For ages 8-12.

### **Fiction Books**

#### **"The Berenstain Bears Lend a Helping Hand" by Stan Berenstain**

The cubs find there are rewards in giving a helping hand to those less fortunate. For ages 4-8.

### **Nonfiction Books**

#### **"A Kid's Guide to Giving"**

by Freddi Zeiler  
Written by kids, this guide includes suggestions on giving money, volunteering, donating goods and organizing charity events. For ages 6-12.

#### **"The Giving Family: Raising Our Children to Help Others"**

by Susan Crites Price  
This book outlines steps adults can take to instill the spirit of giving in children. It explains how kids can learn philanthropy in and out of the home and become active in nonprofit groups. For adults.

# Doing Good Deeds Guide

## CONGRATULATIONS ON YOUR DECISION TO HELP OTHERS IN

**NEED!** Research the charities you are interested in by thinking of whom you want to help. These groups might include kids less fortunate, those who are ill, people who are hungry or homeless, or animals. Once you find some great charities, list your favorites below and discuss them with a parent before making a decision.

### CHARITIES I LIKE...

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### I HAVE DECIDED TO GIVE TO...

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### I CHOSE THIS CHARITY BECAUSE...

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## HOW MUCH SHOULD I GIVE?

To decide how much you will donate to your charity, list your monthly income (the money you earn or receive for allowance, jobs or gifts) below. Write in the amounts you will save and spend. Use the workspace to subtract these amounts to see what you can afford to donate. Be sure to write how often you will give your donation.

MY MONTHLY INCOME IS \$ ..... 

---

I WILL SAVE \$ ..... 

---

I WILL SPEND \$ ..... 

---

I WILL DONATE \$ ..... 

---

I WILL MAKE THIS DONATION EVERY ..... 

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# TEN Readership Survey

Thank you for taking the TEN Readership Survey. This will take only a few moments of your time to make sure we hear your opinions and suggestions so TEN can best serve your interests. Your participation in this survey is voluntary, and the results will be reported as statistical totals only, and neither you nor your organization will be identified. The survey also is available online at <http://TenSurvey.kcfed.org> if you know of others who would like to participate.

## 1. How do you generally acquire information about the Kansas City Fed?

- TEN
  - Direct email
  - Website
  - Other institutional publications
  - Local or national media
  - Word of mouth
  - Other
- .....

## 2. How often do you typically read TEN?

- Every issue
  - Most issues
  - Occasional issues
  - Never read an issue
- .....

## 3. How much total time do you typically spend with an issue of TEN?

- 60 minutes or more
  - 30 to 59 minutes
  - 10 to 29 minutes
  - 1 to 9 minutes
  - Do not read it
- .....

## 4. Do you prefer to read TEN...

- In print
  - Online
  - Both
  - No preference
- .....

## 5. If there were additional content from TEN available only online, such as related videos, stories and reports, how likely are you to go to the website?

- Not at all likely
- A little
- Moderately
- Very likely

6a. TEN focuses on a number of topics. Please rate your interest in knowing about the following subjects:

|                                     | Very interested          | Interested               | Somewhat                 | Not                      | No opinion               |
|-------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Personal finance                    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Financial education                 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Banking                             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Technology/innovation               | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Leadership profiles                 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Regional economy                    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Labor market                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Community development               | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| State and local government policies | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Agricultural economics              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Industry/manufacturing              | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

6b. Please rate your interest in knowing about these additional topics:

|  | Very interested          | Interested               | Somewhat                 | Not                      | No opinion               |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Regulation reform                      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Global economics                       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Small business                         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Healthcare reform                      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Fed education                          | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Office of Minority and Women Inclusion | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

6c. Please suggest any new topics that you would you like to read in TEN.

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7. Please rate the quality of TEN on the following:

|                   | Excellent                | Good                     | Average                  | Poor                     | Very poor                | No opinion               |
|-------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Topics covered    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Cover             | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Ease of reading   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Layout and design | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Photography       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Writing           | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

8. Please indicate your agreement with this statement: “TEN strengthens my personal connection to the Kansas City Fed.”

- Strongly agree
- Agree
- Disagree
- Strongly disagree
- No opinion



**9a. Please identify the ways in which TEN strengthens your connection to the Kansas City Fed: (check all that apply)**

- Serves as a source of continuing knowledge about the general economy
- Serves as a source of knowledge about finance
- Serves as a source of knowledge about business
- Serves as a source of knowledge about monetary policy
- Keeps me in touch with the Tenth Federal Reserve District community
- Provides useful research information
- Serves as a source of economic and financial education
- Other: \_\_\_\_\_

**9b. Please identify the ways in which TEN does not enhance your connection with the Kansas City Fed or the District: (check all that apply)**

- The magazine does not address topics of interest to me
- The magazine does not reflect my experience
- The magazine is not an objective source of information about the institution
- The magazine does not accurately reflect the economic marketplace
- Other \_\_\_\_\_

**10. To what degree do you consider TEN to be a credible source of information? (check one)**

- Consistently portrays the topics accurately and objectively
- Contains some “spin” but is generally accurate and objective
- Usually portrays the Fed only in a positive light
- Is not a good source of objective information
- No opinion

**11. What story topic would you consider to be the most memorable in the last year?**

\_\_\_\_\_

**12. What is it that you like most about TEN?**

\_\_\_\_\_

**13. What is it that you like least about TEN?**

\_\_\_\_\_

**14. Are there any changes or improvements you would like to suggest?**

\_\_\_\_\_

**15. What is your age?**

- Under 25
- 25 to 34
- 35 to 49
- 50 to 64
- 65 and over

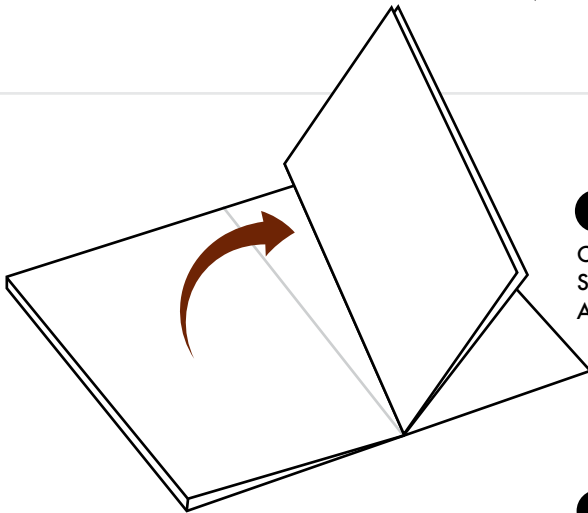


**16. What is your gender?**

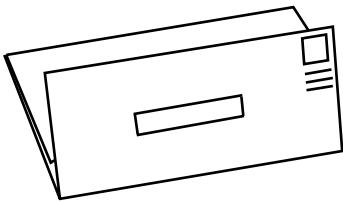
- Female
- Male

# TEN Readership Survey

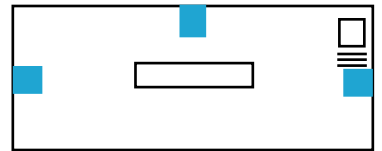
## MAILING INSTRUCTIONS



**1**  
CAREFULLY PULL OUT THE READER-SHIP SURVEY FROM TEN MAGAZINE AND COMPLETE THE SURVEY.



**2**  
FOLD SO THAT THE MAILING INFORMATION PANEL IS FACING OUTWARD. LIGHT GRAY LINES HAVE BEEN PRINTED ON THE PAGE TO HELP WITH FOLDING.



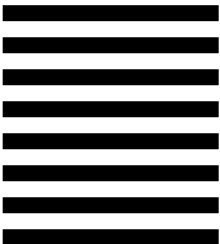
**3**  
USING CLEAR TAPE, PLEASE SEAL THE THREE PLACES NOTED AND DROP INTO THE MAIL.



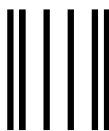
FEDERAL RESERVE BANK OF KANSAS CITY  
PUBLIC AFFAIRS  
P O BOX 419442  
KANSAS CITY, MO 64179-0707

POSTAGE WILL BE PAID BY ADDRESSEE

**BUSINESS REPLY MAIL**  
FIRST-CLASS MAIL PERMIT NO. 4437 KANSAS CITY, MO.



NO POSTAGE  
NECESSARY  
IF MAILED  
IN THE  
UNITED STATES



# Ask an Economist...

## How important is good risk management for a bank?

In financial crises and ensuing downturns, defaults are often triggered in the financial, corporate and even government sectors. The 2007-2009 global crisis and recession produced another cluster of defaults, adding to the historical record. Accompanying a rise in defaults is a rise in default losses. How well financial institutions cope with the possibility of large losses depends on the robustness of their risk management process, including a proper assessment of recovery risk, says Nada Mora, an economist at the Federal Reserve Bank of Kansas City.

### What did the recent economic crisis expose about banks?

The crisis revealed that risk management at banks and other financial institutions had shortcomings. As a result, the riskiness of their loans and other investments resulted in large losses that arguably contributed to the severity of the recession.

### How do recovery rates factor into a bank's risk management?

The recovery rate measures the extent to which the creditor (or bank) recovers the principal and accrued interest due on a defaulted debt. Although financial companies, their regulators and researchers commonly assume that the recovery rate is constant, in practice, actual recovery rates vary significantly depending on the borrower's industry, whether the debt is secured, its seniority, and so on. Moreover, recovery rates are systematically related to default rates. One reason why recovery and default rates may be inversely related is that they are both strongly influenced by the business cycle.

### What happens when a bank or financial institution makes these assumptions?

It's inappropriate to treat the recovery rate as constant, or random but not related to aggregate factors like recessions as well as industrywide factors. Doing so will likely produce biased estimates of loss measure and may neglect specific risks altogether. The underestimation of extreme losses by risk managers and market participants is not of pure academic interest, but has effects on investment activity in the real economy if banks cut back lending to absorb large losses. In an extreme outcome, the financial institution can fail and cause significant disruptions to its borrower and counterparty relationships.

### Has recovery risk assessments changed since the recession?

Not the process itself, but to help protect the economy from future financial instability, policymakers and regulators have made broad changes to how the financial sector is monitored and regulated. One change is to use stress testing, particularly of the largest banking organizations. The purpose of stress tests is to understand how adverse macroeconomic conditions would affect the losses, revenues, and capital levels of these companies, and then to require specific actions to ensure that the companies could remain viable should such adverse conditions occur.



BY KEVIN WRIGHT, EDITOR

## FURTHER RESOURCES

### "WHAT DETERMINES CREDITOR RECOVERY RATES,"

by Nada Mora

Visit the Kansas City Fed's website at [KansasCityFed.org/research/bankingandpayments/](http://KansasCityFed.org/research/bankingandpayments/)



# MAKING A CONNECTION

PROGRAM PROVIDES ORGANIZATIONS AN OPPORTUNITY TO FIND INVESTORS





**T**he Center for Rural Affairs in Nebraska needs funding to support a program that helps beginning farmers and ranchers get off to a good start.

RedTire, a program of the KU Center for Entrepreneurship, wants to redefine retirement for small business owners in rural towns.

Neighborhood Housing Services of Kansas City plans to create a fund that acquires and rehabilitates abandoned properties and then funds first mortgage loans so low-income buyers can purchase the rehabilitated homes.

But finding investors for these projects, and many others like them, is difficult sometimes. And many of these nonprofits can't appear on "Shark Tank," an ABC television show that features a panel of venture capitalists called "sharks" who consider proposals from other entrepreneurs seeking investments for their business or product.

The concept of "Shark Tank," however, intrigued the Community Development Department at the Kansas City Fed.

"To make the concept work for our stakeholders we had to modify the funding decision timeframe and come up with a more appropriate name than 'Shark Tank,'" said Tammy Edwards, vice president and community affairs officer, who initiated the

idea for the program.

The program also had to coincide with the Kansas City Fed's mission of helping communities develop economically.

What emerged was Investment Connection, which brings together nonprofit community and economic development organizations, funders and bankers to establish new relationships.

Instead of a panel of investors meeting one-on-one with entrepreneurs, the Kansas City Fed works as a mediator, coordinating an event that gives nonprofits the opportunity to showcase new and existing community and economic development proposals to an audience of potential funders.

The organizations submit proposals to the Kansas City Fed more than 30 days before the event. Community Development reviews each proposal and examiners determine whether the organization and proposal are eligible under the Community Reinvestment Act and fits program criteria, such as the organization is an established nonprofit and meets auditing standards.

A few weeks before the event, Community Development circulates the eligible proposals to potential funders, which include banks, philanthropies, community development funders and government agencies. The day of the event,

organizations are given the opportunity to speak for 10 minutes and then take questions about their proposals.

“So far, we have been quite successful in helping nonprofits and funders make connections,” Edwards said.

## Successful connections

Community Development piloted the first Investment Connection on May 12, 2011, in Denver. Eight organizations presented proposals at the event. Three organizations received a total of \$695,000 in funding to date and have been promised more funding in the future, said Ariel Cisneros, a senior Community Development advisor at the Denver Branch.

One organization that received funding, Rocky Mountain MicroFinance Institute

to develop a business, learn about fiscal-related topics and build credit toward a microloan to start a business.

“They start out with zero credit and earn more credits as they progress,” Smith said.

RMMFI’s maximum loan amount is \$2,500 and each recipient has six to 12 months to pay back a loan. The great thing about the loan is that once it’s repaid, a business owner can take out another loan to continue growing a business, Smith said. So one \$2,500 loan could turn into four \$2,500 loans, depending on how many times that one client takes out a loan.

This not only gives the client capital, it also improves their credit. “Each time they successfully repay a loan, each loan shows up on their credit report,” either helping to repair

## “SO FAR, WE HAVE BEEN QUITE SUCCESSFUL IN HELPING NONPROFITS AND FUNDERS MAKE CONNECTIONS.”

(RMMFI), found its niche serving Denver’s lower-income entrepreneurs who have challenging credit or no credit history. Their clients would not qualify for traditional bank loans, and in most instances, would not fit within the small business parameters of a mid-level nonprofit lender, such as the Colorado Enterprise Fund, which provides loans from \$10,000 to \$250,000.

RMMFI started four years ago by providing education and business planning for potential entrepreneurs. The organization has helped about 1,200 people with either planning a new business or growing a business.

“What we found was not many people were launching their businesses when it was left up to them,” Executive Director Rob Smith said.

RMMFI decided to provide additional outreach programming and access to small, low-risk loans. What developed was the Business Launch Boot Camp, a 12-week course that allows potential business owners

the client’s credit or helping him or her build a good credit history, Smith said.

The organization recently started its fifth session of the boot camp, which accepts 10 to 12 applicants per session. More than 30 people have graduated from the program and started a business, Smith said.

And RMMFI has a 100-percent loan repayment rate.

For some groups, that’s when the work is done, but for RMMFI, the organization continues to support business owners through mentoring programs and special events.

One of the connections RMMFI made at Investment Connection was with the Bank of Oklahoma, which gave the organization a \$10,000 grant. That grant was split into two \$5,000 loan funds, Smith said. The event also helped the organization solidify an agreement with the Denver Foundation.

“We began to form a relationship with them before, but Investment Connection strengthened that relationship and helped it




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**BRENDAN LANDRY, DIRECTOR OF PROGRAMS,** provides instruction at the Rocky Mountain Micro-Finance Institute's business launch boot camp in Denver, Colo.

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happen more quickly," Smith said.

The Denver Foundation granted RMMFI funding for both operational and programming expenses, and Smith now is a member of the foundation's steering committee.

With the success of the first Investment Connection in Denver, Community Development organized another event in 2011 in Kansas City.

One of the presenters, the city of Hutchinson, Kan., had found a need among its 42,000 residents, but instead of a lack of entrepreneurship or business, there was a lack of housing.

"We have identified affordable housing as the No. 1 issue in Hutchinson," said Nancy Scott, director of Planning and Development for the city.

Hutchinson's business community has grown over the years, especially with the addition of Siemens Wind Energy. That one company will have a total economic impact of more than \$50 million in capital investments, \$14 million in payroll and more than \$12 million in earnings of additional jobs, which represents more than 800 new jobs.

The housing market, however, is unable to accommodate the varying levels of income.

The Hutchinson City Council created the Housing Commission in 1999. The mission of the Commission, which consists of city staff and community leaders, is to identify housing problems and opportunities for the greater Hutchinson area and to develop comprehensive housing solutions.

Hutchinson's Housing Needs Assessment

of 2009 showed the city had a growth in households earning \$20,000 to \$35,000 and \$60,000 to \$150,000 while other brackets lost population. It also showed that current homeowners can often afford more than their home's value; 45 percent of all homes are valued from \$50,000 to \$100,000.

From this report, the city formulated a housing program that addresses several issues, such as the formation of a housing department within city government; creating a housing trust to buy vacant parcels and dilapidated properties for redevelopment; expanding local housing agencies programs; provide training for local housing agencies and city planners; a revolving fund for loans or grants for repairs and renovations to existing homes; revolving loans for the construction of affordable living spaces; and the creation of another fund for gap financing of pre-development costs of new housing projects.

The proposal was good, but the city lacked the financing to implement the program.

"When we heard the Federal Reserve Bank of Kansas City accepted our proposal, we thought that was absolutely exciting," Scott said.

NeighborWorks America, a congressionally chartered nonprofit housing agency, liked the proposal and has entered into a partnership agreement with Hutchinson.

Most recently, NeighborWorks granted \$50,000 to the city for the pre-development costs for the Townhomes at the Santa Fe, a new residential workforce housing project. The money also will help establish a Community Housing Trust through the Hutchinson Community Foundation, Scott said.

A member of the Housing Commission, John Scott, president and CEO of Interfaith Housing Services, will attend the NeighborWorks Achieving Excellence in Community Development Program at Harvard University's Kennedy School of Government. He was one of 50 nonprofits leaders in the United States selected for the program.

The 18-month program will help John Scott formulate a plan that will address challenges his organization faces. His \$38,000 tuition was paid for by a scholarship funded by money Hutchinson received from NeighborWorks.

He is not the only person receiving training. NeighborWorks is providing resident leadership training and staff certification training for community leaders and city employees.

The city of Hutchinson missed the proposal deadline for this year's Investment Connection in Kansas City, but that won't deter the city from trying again next year.

Nancy Scott said it's "an opportunity that we can't pass up, especially after this past year's successes."

## **Waiting to connect**

Rose Jaspersen, executive director of Nebraska Enterprise Fund, attended the Investmet Connection event in Omaha in June 2012. Her proposal garnered some interest, but the organization had already worked with two of three banks that approached her after the event.

"It wasn't anything above and beyond," Jaspersen said of the banks' interests.

But it did allow Jaspersen and the representative of the third bank to discuss possibly working together in the future.

"We didn't know going into the event who the funders were going to be," Jaspersen said. "But you never want to pass up an opportunity to educate people about this field."

Nebraska Enterprise Fund is a Community Development Financial Institution that provides direct loans to start-up and existing micro/small businesses across Nebraska. Most recently, the organization has expanded its role in gap financing.

For example: NEF guaranteed a loan for Adam Rief, the owner of Rief Design and Manufacturing in Bancroft, Neb., after traditional banks turned him down due to a lack of collateral. Rief's business, which designs



and manufactures custom farm equipment and was featured in TEN's winter 2012 edition, had outgrown its current space and needed \$90,000 for a new shop.

The organization has helped people outside the agricultural industry, from a husband and wife who reopened a gas station and convenience store that sat abandoned for several years in the Cunningham Lake area to a family who made popsicles for family and friends and turned it into a local frozen treats business in Omaha.

senior Community Development advisor in Kansas City.

## On the horizon

Investment Connection has become a signature program for the Kansas City Fed with the two events in 2011 and an event at the main Kansas City Fed office and an event at each of its Branches in Denver, Oklahoma City and Omaha in 2012.

Community Development did not set a specific funding goal when they started the

## “ WHEN WE HEARD THE FEDERAL RESERVE BANK OF KANSAS CITY ACCEPTED OUR PROPOSAL, WE THOUGHT THAT WAS ABSOLUTELY EXCITING. ”

“We have to be really open to who comes through the door,” Jaspersen said. “You never know who will be the next Kool-Aid.”

The Kansas City Fed tries to take the same approach with the program. Although only eight organizations present at each Investment Connection event, Community Development circulates all eligible proposals to funders.

Kim Wilson Housing, Inc., in Kansas City, Kan., submitted a proposal for a program that will expand another nonprofit's current programming for children with severe emotional disturbances. PACES housed more than 200 children last year in interim housing that has only four beds. The longest the organization keeps a child is 72 hours.

Kim Wilson Housing wants to renovate and expand PACES current housing to 10 beds for at-risk youth and build two temporary lodging units for homeless families.

The aim of the project is to provide adequate shelter for an estimated 1,400 homeless children, who face some form of crisis.

“Although Kim Wilson Housing wasn't chosen to present, an investor saw their proposal when we sent them out to funders and plans to contact them,” said Paul Wenske,

program, Edwards said; however, about a third of the organizations that presented proposals at an Investment Connection event in 2011 have received or been promised funding for a combined total of more than \$3 million, and some presenters are reporting funding agreements in 2012.

“Our overarching goal was to efficiently expose CRA eligible projects to potential funders,” Edwards said. “We have done that.”

Community Development will continue to evaluate feedback from presenters and funders and make improvements where necessary, Edwards said.

“We are also considering expanding the program to other Tenth District cities in 2013,” she added.

**T**  
BY KEVIN WRIGHT, EDITOR

## FURTHER RESOURCES

FOR MORE INFORMATION ABOUT INVESTMENT CONNECTION, contact Ariel Cisneros at [ariel.cisneros@kc.frb.org](mailto:ariel.cisneros@kc.frb.org).



MEMBERS OF THE CENTRAL BANK OF NIGERIA visited the Kansas City Fed staff, including President Esther George (center), in July for a seminar on regulation, supervision and performance of banks and financial institutions.

## KANSAS CITY FED FOSTERS RELATIONSHIP WITH NIGERIAN CENTRAL BANK

**V**ictor Ekpu, a former banker in Nigeria and financial consultant, knew there was a need for training at his native country's central bank. Nigeria had gone through several bank crises in the past few decades and the Central Bank of Nigeria has had difficulty regulating the various financial institutions in the country.

As Ekpu, a doctoral candidate in economics at the University of Glasgow, Scotland, researched training solutions, he came across Ken Spong's book "Banking Regulation: Its Purposes, Implementation, and Effects," now in its fifth edition. Spong, an economist at the Federal Reserve Bank of Kansas City, researches topics related to the regulation, supervision and performance of banks and financial institutions. After reading the book, Ekpu knew he found the right person.

Ekpu and Spong corresponded by email, and through Ekpu's connections at the Central Bank of Nigeria, he arranged a meeting be-

tween Spong and the bankers in October 2011. During his two-week visit, Spong saw up close some of the economic issues Nigeria faces.

More than 20 million people live in crowded conditions in the Nigerian capital of Lagos—the main financial hub of a country that has the largest population in Africa and a GDP that grows 6 to 8 percent annually. Nigerian life is a stark contrast to life in America, Spong said, and nowhere is it more evident than the country's infrastructure.

Drivers at high speeds dodge potholes on unmarked streets, navigate washed out roads, and pilot their way around cattle and goats. The driver of a vehicle Spong rode in one day struck another vehicle. The two drivers settled it with a wave.

Several Nigerians earn their livelihood through hard manual labor without the benefit of capital and technology—many of them work long days with their hands and simple tools, Spong said. Nigeria also grapples with

## “ WE HAVE FACED MANY DIFFERENT ISSUES DURING THE TIME WE HAVE SUPERVISED BANK HOLDING COMPANIES, AND THE NIGERIANS WERE HOPING TO LEARN FROM THIS EXPERIENCE. ”

political, religious, legal and terrorism issues, as well as an unstable economy.

The Nigerian central bankers were eager to learn more about the Fed’s regulations as a potential model to help them address insider abuses and other banking problems they face. The Central Bank of Nigeria supervises all banks and certain financial institutions, including 21 major money deposit banks, nearly a thousand micro-financial institutions and more than 100 mortgage lenders. And despite a lack of mortgage lending in Nigeria, the country continues to experience banking crises.

The central bank has responded by calling for an increase in bank capital and by helping to consolidate the banking sector through mergers of weaker banks or by replacing the management and directors of financial institutions.

“In Nigeria, they made a decision to adopt a bank holding structure,” Spong said. “They were operating under a universal banking structure they created in 2000. Banks were doing everything through their own subsidiaries, and the Nigerian central bank was concerned about supervision. What happens during a crisis if one activity causes problems?”

After the visit, Ekpu and Spong determined that the central bank officers and examiners needed further training. Eight officers and examiners came to the Kansas City Fed in July for a seminar where they reviewed major aspects of how the Federal Reserve System regulates and supervises bank holding companies and addresses other issues that may arise.

“We created a 144-page guide for the Nigerian central bankers on how to use this structure and gave them copies of our holding company regulations, as well as our supervisory manual,” Spong said. “We have faced many different issues during the time we have supervised bank holding companies, and the Nigerians were hoping to learn from this experience.”

The seminar also covered enforcement authority and gave examples of how the Federal Reserve handles problems and issues within the

banking industry.

“We went over what we expect of the board of directors of holding companies, how we take ownership of our actions and what the implications might be for Nigeria,” Spong said. “We had some intense discussions on a number of issues.”

The Nigerian bankers also wanted to learn more about consumer financial protection and how to develop better disclosures and resolve mistakes in deposit accounts and other transactions.

Kansas City Fed representatives had a great experience with the overall interaction, Spong said. It gave them a chance to help bankers in another country and to make new connections.

“We’re not used to some of the issues they deal with, and we were able to learn from the kind of problems they face,” Spong said.

The Kansas City Fed will continue to help the Central Bank of Nigeria with supervision and regulation as new questions arise.

“They are thinking of immediate problems and, from our perspective, there is the understanding that there will be more to think about as they continue to improve their banking structure,” Spong said.

The Kansas City Fed’s partnership with the Central Bank of Nigeria is one of its many international relationships. Other organizations the Kansas City Fed has worked with include the Reserve Bank of India; the Moroccan central bank, the Central Bank of Iraq; the Central Bank of Malawi; and the China Banking Regulatory Commission.



**SARAH KEMP POPE**, TEN CONTRIBUTING WRITER

### FURTHER RESOURCES

Read Spong’s research at [KansasCityFed.org/speechbio/spong.cfm](http://KansasCityFed.org/speechbio/spong.cfm)

# CREATING SUCCESS

MANUFACTURING IN THE GREAT PLAINS REMAINS SOLID





**R**oy Dunlap's business took off when his small machine shop and a mechanical engineering professor at the University of Kansas collaborated on a new type of level switch.

The mechanical switch, which used a static O-ring, was a revolutionary product for high-pressure equipment and delivery systems within the oil, gas and energy production industries. The product was so successful that Dunlap adopted Static O-Ring as the company's name.

"There are stories where Roy took those first switches that were produced and put them in a sack and he would go out and try to sell them," said Bert Benton, vice president of operations.

Soon Static O-Ring gained a reputation as an industry leader. Dunlap's original lathe and other tools he used to create his ideas still sit in the company's 110,000-square-foot factory in Lenexa, Kan. Dunlap, who recently celebrated his 90th birthday, used to come to the factory several years ago and work on new ideas, even though he had retired.

"He doesn't do it anymore, but he's a remarkable man," Benton said.

The company's name has changed to SOR, Inc., but it maintains the principles Dunlap used to grow the company. Dunlap called it the "three-legged stool" approach: quality, delivery and customer service.

"We think those (principles) are relevant today, but we actually have expanded and deepened the meaning," said CEO Mike Waters, pictured above. "The quality relates not only to the quality of our products and conformity to specifications, but the quality of the data we share with our customers and the quality of our relationships with our customers and our associates."

SOR continues to manufacture high-quality pressure and level-measuring instruments for the oil, gas, energy production, cement and water treatment industries, and is developing new products that will propel the company into the millennium.

Like SOR, many manufacturers in the Great Plains region have found success in both domestic and international markets while manufacturing overall in the United States still struggles to grow jobs and strengthen production following the recent recession.

## U.S. manufacturing growth

In 1990, manufacturing accounted for one of six jobs in the United States. This also was a time when factories began migrating south and west.

“One reason could be that factory wages in the Boston and New York Districts were the highest among Fed Districts in 1990, perhaps driving some firms to seek cheaper domestic labor elsewhere,” said Chad Wilkerson, vice president and Oklahoma City Branch executive of the Kansas City Fed.

Other reasons such as unions, right-to-work laws, and state tax rates and incentives may have made other parts of the country more appealing.

Factory workers in states like Michigan, Indiana, Illinois, Missouri and Wisconsin saw more people join their ranks in the 1990s as labor increased throughout the Midwestern states by 5 percent. And nowhere was that more evident than in the auto-related industries, which experienced an increase in production

and average salaries for factory workers hovered at \$47,451.

The Midwest wasn't the only region profiting from the migration. States in the Great Plains, from as far north as Minnesota and North Dakota to the Gulf shores of Texas, saw traditional industries and emerging companies, such as technology, increase production.

At the same time, Northeastern states still paid the highest factory salaries, with the New England area averaging \$49,556 per worker and factories in the New York area paying an average salary of \$48,064. Soon though, manufacturers in California and Washington would produce high-paying salaries as technology giants, such as Microsoft, Dell and Hewlett-Packard, emerged in the 1990s.

This, however, signaled the beginning of the decline in U.S. manufacturing employment.

## Losing steam

Data from the Bureau of Labor Statistics showed a steady decline in production workers

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**SOR, INC. IS ONE OF THE LEADING MANUFACTURERS** in high-quality pressure and level-measuring instruments for the oil, gas and energy production, cement, and water treatment industries. It operates a 110,000-square-foot plant in Lenexa, Kan.

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in the United States. In 1998, there were 12.2 million production workers. By 2002, a total of 10.3 million production workers were employed in the United States. By 2011, factories employed one of every 11 workers in the nation. This was part of a 34-percent decline in U.S. manufacturing jobs from 1990 to 2011.

“The decline wasn’t spread evenly across the U.S.,” Wilkerson said.

Wilkerson and associate economist Megan Williams’ new research, which uses the Federal Reserve districts as boundaries, shows most of the factory job losses in the United States occurred in the six eastern Federal Reserve Districts. New York lost more than half its factory jobs in the last two decades, and the Boston and Richmond districts lost almost half. Philadelphia, Cleveland and Atlanta districts each lost one-third.

“Factories located in the Fed districts further west fared better, but a few experienced sharp declines,” Wilkerson said.

In the Chicago, St. Louis and San Francisco districts, factory employment fell nearly 30 percent from 1990 to 2011, close to the national average, while the Great Plains districts of Kansas City, Dallas and Minneapolis lost 10 percent during that time. The losses, however, did not occur until the 2000s.

The United States also experienced the loss of manufacturers to overseas markets and emerging technology.

Of the 83 U.S. manufacturing industries for which detailed data employment is available at the state level, 78 lost jobs from 1990 to 2011. The six largest percentage declines were in textile-related industries, which were led by apparel knitting mills (85 percent of jobs lost), followed by print-related industries (44 percent).

“Printing and textiles historically relied heavily on relatively low-wage, labor-intensive production, and the globalization and productivity enhancements of the past few decades have decimated U.S. workforces in these industries,” Wilkerson said.

## **Strength in the Heartland**

Although the decline affected all the regions in the United States, the Great Plains districts have consistently had either faster manufacturing job growth or smaller factory job losses than all other districts since the 1990s, Wilkerson said.

“Factory jobs actually grew in five Federal Reserve Districts during the 1990s, including more than 12 percent in each of the Great Plains districts,” Wilkerson said.

The Great Plains districts comprise Colorado, Kansas, northern Louisiana, Minnesota, western Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, northern Wisconsin, Wyoming, and the upper Michigan peninsula.

Much of the Great Plains districts’ manufacturing growth in the 1990s was due to the region’s attractiveness, which includes available land, inexpensive cost of living and cost of doing business, reasonable wages, and a growth in population. This growth provided some districts with a diverse mix of industry.

This mix helped the Great Plains districts as regional attractiveness no longer played a leading role in stability and growth, especially as overall manufacturing in the United States declined in the early 2000s and then again after 2006.

“As in the 1990s, the three Great Plains Fed districts experienced better manufacturing employment trends than all other districts in both of the post-2000 cycles,” Wilkerson said.

## **A positive outlook**

The most important factory industries in the Great Plains districts have remained largely unchanged in the past two decades, with printing and production of control instruments staying at the top in the Minneapolis Fed District. Aerospace products and parts manufacturing in the Kansas City and Dallas districts fell from first- to second-largest in each zone, replaced by meat processing in the Kansas City District, and agriculture, construction

and mining machinery manufacturing in the Dallas District.

Despite the volatility within the industry, manufacturers in the Great Plains districts have a positive outlook even with slow recovery, and most recently, the 2012 drought.

Food prices and crop insurance will help farmers recoup losses caused by the drought, but manufacturers in the industry, such as meat processing plants, could feel the pinch

American Community Survey. The statistics not only showed a higher percentage of people in the Midwest work, 83 percent, but that they start working younger and work more into their twilight years than the rest of the nation. The Midwest region also lost fewer jobs in the recession, and some Midwesterners worked harder, working two jobs after the economic downturn.

Waters says SOR's customer service

## “FACTORY ACTIVITY IN OUR REGION GREW SLIGHTLY FASTER THIS MONTH IN SPITE OF THE ONGOING DROUGHT HAVING A NEGATIVE EFFECT ON PRODUCERS OF AGRICULTURAL EQUIPMENT.”

as ranchers deplete herds early, and hog and poultry producers pay higher costs for feed.

There's also concern about the drought's effect on retail food prices. Historically, as food prices increase, families spend less on food. Data shows that families also tend to spend less on nonfood products, putting off purchases of clothing, electronics, automobiles and other manufactured products. They also cut back on vacations and entertainment.

But most industries in the Kansas City District reported modest gains in August and September, according to data the Kansas City Fed released in its monthly manufacturing survey.

“Factory activity in our region grew slightly faster this month in spite of the ongoing drought having a negative effect on producers of agricultural equipment,” Wilkerson said.

### Opportunities for growth

A part of the regional attractiveness that gave manufacturers in the Great Plains success in the 1990s and the ability to surmount economic downturns in the 2000s is what some researchers describe as a Midwestern work ethic.

In a 2009 study, David Drozd, research coordinator of the Center for Public Affairs Research at the University of Nebraska-Omaha, compiled data from the 2008

philosophy speaks well to that Midwestern work ethic, which has helped the company weather the economic crises of the past and the present.

“We're willing to do the right thing, even if it's the hard thing,” Waters said.

SOR, which is still owned by the Dunlap family, plans on staying in the region, and Waters is hopeful about the company's future.

“This family is so committed to the associates and team members that have made this business successful for 50-plus years,” Waters said. “The heart of SOR will always be in this community, because SOR is made up of the people, not the products.”

Its employees helped the company succeed in manufacturing products in the United States and selling and supporting those products in domestic and overseas markets.

“We have significant presence in Asia, which is possibly atypical,” Waters said. “We are taking market share from domestic manufacturers in what is historically a low-cost production region.”

Today, about 65 percent of the company's sales are in exports, mainly China, with a growing segment in the United Kingdom and Europe.

“We are doing that because of our service model and the attention of our quality process, the way we approach the market and how



we approach our customer experience,” Waters said.

Benton says SOR’s approach to manufacturing is similar to Toyota and other companies that use a lean concept. Lean, however, doesn’t mean SOR strips down production, weakens the product and overworks employees, Benton said.

SOR found ways to cut waste, use every inch of space effectively for production, maximize technology, minimize inventory, and assess and control each step of the manufacturing process.

Waters said the company took what he described as a Midwestern approach to the recession: Don’t panic. SOR declined to divest significant assets and make significant and painful cost reductions for short-term gains. The company instead took a long-term approach that concentrated on maintenance, repair and operation in support of its products sold three, five and 10 years ago. When the recovery occurred, it placed the company in a strong position for growth.

“We were prepared better than other companies to take advantage of the rebound. We didn’t have to rehire and reinvest.”

SOR’s mature product line gives the company stability, which allows it to invest in new technologies and products.

That growth in new technologies will be based on data, not gut instinct, and also will rely on SOR’s reputation.

“Our brand has instant credibility,” he said. “The last thing we want to be is a surprise. In the measurement and control business you want to be very predictable. So we are predictably reliable.”

## Retooling America

SOR is the type of manufacturer former U.S. Commerce Secretary John Bryson said the United States will rely upon as it reemerges from years of decline.

In an address at MIT earlier this year, Bryson said that “after a decade in which we lost too many manufacturing jobs, in the past two

years we’ve added back nearly half a million. At the same time, the number of job openings in manufacturing has more than doubled.”

A Department of Commerce report released in May shows that manufacturing workers earn pay and benefits about 17 percent higher than the average American worker. It also shows that manufacturing is responsible for 70 percent of the United States private sector research and development, 90 percent of patents, and 60 percent of U.S. exports.

One area of manufacturing that is experiencing resurgence in the Kansas City District is related to the oil, gas and energy production industries. New technologies created a boom in U.S. oil production since the recovery, and energy-rich Oklahoma is leading the industry, adding 9 percent more jobs since 2010.

But even with the resurgence of traditional manufacturers in the Great Plains region, there can be unforeseen hurdles and fluctuations in the market, making many manufacturers in the Great Plains cautiously optimistic.

“Look at the last four years,” Waters said. “No one could have predicted how the recession would have affected not only our industry but the entire global marketplace.”



BY KEVIN WRIGHT, EDITOR

## FURTHER RESOURCES

### “THE TRANSFORMATION OF MANUFACTURING ACROSS FEDERAL RESERVE DISTRICTS: SUCCESS FOR THE GREAT PLAINS?”

by Chad Wilkerson and Megan Williams

Visit the Kansas City Fed’s website at [KansasCityFed.org/research/bankingandpayments/](http://KansasCityFed.org/research/bankingandpayments/)



## \$1 trillion in student loan debt: The story behind the numbers

Research by the Federal Reserve Bank of Kansas City examines student loan debt, which now surpasses \$1 trillion, to gain a better understanding of student loan debt levels, the implications, and what can be done to assist students and their families in making the best choices for themselves when financing their higher education.

In their recent research paper, Kelly Edmiston, Steven Shepelwich and Lara Brooks look at the drivers of the rising levels of student loan debt, the reasons contributing to the increased volume of student loan delinquencies and defaults, and the segment of student populations that may be especially impacted.

“With student loan debt now surpassing the \$1 trillion mark, many students and their families are struggling to best finance their education,” Shepelwich said. “While the cost of higher education continues to rise, it remains a valuable investment if properly planned and financed.”

To read the research paper, “Student Loans: Overviews and Issues,” visit [www.KansasCityFed.org/publicat/reswkpap/pdf/rwp%2012-05.pdf](http://www.KansasCityFed.org/publicat/reswkpap/pdf/rwp%2012-05.pdf)

For updates on this topic and other economic-related issues, follow @kansascityfed on Twitter.

## Financial Fables share money morals with young audience

“Financial Fables,” a collection of animated children’s stories featuring birds that teach financial lessons, has taken flight. The fables, which teach students from preschool to fifth grade about saving money and the importance of having financial goals, show it is never too early to start learning financial literacy concepts.

Michele Wulff, economic education coordinator for the Kansas City Fed, contributed to the project as author and developer of personal finance content.

“Our goal was to create an interactive curriculum of everyday life lessons learned in the form of money morals,” she said. “We also wanted to develop a fun product that educators could easily fit into their reading curriculum.”

Each fable introduces a bird character that faces a financial problem. People may recognize one of the central figures of “Financial Fables,” Jay the Eagle, from displays and activities in the Kansas City and Denver money museums and other economic education products.

Casey McKinley, a designer in the Kansas City Fed’s Public Affairs Department, designed Jay a few years ago, and since then, Jay has become the mascot for the Kansas City Fed’s elementary education resources. For “Financial Fables,” McKinley created all of the artwork, including additional bird characters and background scenery.

The Kansas City Fed has reached out to its network of educators to spread the word about “Financial Fables,” which can be viewed online at <http://financialfables.kcfed.org>.

## Partnerships with Congressional Hispanic, Black Caucuses provide financial education to youth

The Kansas City Fed expanded its partnership to provide financial education programs to students who attended the Congressional Hispanic Caucus (CHC) and Congressional Black Caucus (CBC) in Washington, D.C., this year to include additional financial education events across the country.

The Kansas City Fed began its partnerships with the CHC and CBC in 2011. The success of the programs caught the attention of other caucus members who wanted to bring the programs to the constituents in their districts. The major themes of the educational programming include: banking basics, banking products, guidance on financing a college education, budgeting tips and lessons on credit.

This year, staff from the Kansas City, Cleveland and Richmond Feds led a one-hour financial education session at the CHC for 300 Hispanic high school students from the Washington, D.C., area. The program was based on the Kansas City Fed's financial education materials and was a part of a leadership program sponsored by the CHC called "Ready to Lead."

The CHC will have seven additional sessions of this program in the CHC representatives' congressional districts.

"The information provided by the speakers was reinforcement to what (the students) have been taught in their business classes at the high school," said Kerry Coombe, a Grandview High School instructor and Business Department chair. "Often times hearing it from another source other than their teachers provides them with a reality check regarding budgeting, credit and college finances. Each speaker gave them information that will assist them in their current and future financial planning."

On Sept. 21, the Kansas City Fed, in partnership with the Cleveland and Richmond Feds and the CBC, had a day-long Youth



Summit aimed at sharing financial education lessons with students at Trinity Washington University in Washington, D.C. The summit was attended by 150 students from the D.C. area and four students from Grandview High School near Kansas City, Mo. The day included welcome remarks by current CBC Chair and U.S. Rep. Emanuel Cleaver, a tour of the U.S. Capitol, and sessions on financial management.

The Kansas City Fed reached 320 students through two additional events in Kansas City and Aurora, Colo., on that day. Each of the 12 Federal Reserve Banks had similar programming throughout the country.

The program also supports the Kansas City Fed's commitment to the tenets of its requirements under the Office of Minority and Women Inclusion provision the Dodd-Frank Act.

Look for details at [www.KansasCityFed.org/community/news/cbc-youth-summit.cfm](http://www.KansasCityFed.org/community/news/cbc-youth-summit.cfm)

## Money museums provide year-round attraction

The Kansas City Fed's money museums provide a year-round attraction for thousands of visitors of all ages through a variety of exhibits and hands-on entertainment in its Kansas City and Denver offices.

The Kansas City Money Museum's historical currency exhibit traces the evolution of U.S. paper money from the nation's beginnings to the present day. The display has 23 various notes from the Free Banking Era, the Civil War period, the National Banking Era, the Federal Reserve Era and more. It shows how currency has changed since 1729, when goldsmith bearers' receipts were used to purchase goods.

Speaking of money, the look of U.S. currency has changed in the last several years. Visitors can give the nation's currency their own redesign with an exhibit designed specifically for the Money Museum.

Another exhibit, "To Protect and Serve: Protection Through the Years," features the



Protection Department, which is responsible for securing the Kansas City Fed's property and assets—including the region's largest cash vault. Protection's track record is pristine, despite the fatal shooting of a Denver Branch protection officer in 1922. The robbery occurred outside the nearby U.S. Mint, when a truck was delivering money from the Denver Branch.

The Money Museum in Denver features information about this event along with many other exhibits and activities. Modeled after the museum in Kansas City, the Denver museum receives thousands of visitors each year, including guided and self-guided tours, at its 16th Street pedestrian mall location.

Visitors can learn about the economy and the Federal Reserve System. Among the highlights are a theater, a wall of \$100 bills, and lesson plans and activities for children.

Walk-in visitors with a valid government-issued photo ID are welcome at each location from 8:30 a.m. to 4:30 p.m. weekdays, except for holidays. Admission and parking are free. For more information, or to sign up for a guided tour, visit [KansasCityFed.org/moneymuseum](http://KansasCityFed.org/moneymuseum)



## Kansas City Fed's Ag Symposium 2012 takes a look at farm boom

The Kansas City Fed shared its expertise in agricultural research at the 2012 Ag Symposium, which reflected on agriculture's past, explored its future and assessed whether agriculture could escape its historical cycles of boom and bust.

Past farm booms quickly faded as economic and financial market conditions changed. Today, farm incomes are swelling because of record high exports and strong demand for bio-fuels. At the same time, with historically low interest rates, farmland values reached record highs. Although these current conditions mirror the past, farmers have hesitated to take on

debt in financing new investments, raising the possibility that this boom could be different.

More than 200 people from various sectors of agriculture attended the two-day symposium.

The keynote speaker, pictured below, was Ambassador Clayton Yeutter, former U.S. Trade representative and secretary of agriculture.

View presentations from this year's event at [www.KansasCityFed.org/publications/research](http://www.KansasCityFed.org/publications/research).



PHOTO BY LAWRENCE FISCHER

## Economic Forums offer insight to communities

Throughout the fall, Kansas City Fed economists and officials have the annual Economic Forums around the region.

The Forums provide an opportunity for the Kansas City Fed to offer a regional and national economic update to business leaders and hear directly from those leaders about their communities.

Speakers at the forums include Kansas City Fed President Esther George, Director of Research Troy Davig, Omaha Branch Executive Jason Henderson and Denver Branch Executive Alison Felix.

The Kansas City Fed has the forums in District states on a rotating basis. This year, the forums were in eight locations in three of the District's seven states:

- Kearney, Neb.
- Scottsbluff, Neb.
- Norfolk, Neb.
- Lincoln, Neb.
- Omaha, Neb.
- Cody, Wyo.
- Rock Springs, Wyo.
- Albuquerque, N.M.



The Tenth District includes Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming. For updates on the regional economy, go to [www.KansasCityFed.org/research/regionaleconomy](http://www.KansasCityFed.org/research/regionaleconomy). For the latest ag research, follow us on Twitter @KansasCityFed

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

|                                      |             |       |    |
|--------------------------------------|-------------|-------|----|
| Bank of Versailles                   | Versailles  | Mo.   | 93 |
| First State Bank of Newcastle        | Newcastle   | Wyo.  | 82 |
| Grant County Bank                    | Medford     | Okla. | 72 |
| Stock Exchange Bank                  | Caldwell    | Kan.  | 72 |
| Fidelity State Bank & Trust Co.      | Dodge City  | Kan.  | 69 |
| First State Bank                     | Fairfax     | Okla. | 67 |
| Farmers State Bank                   | Pine Bluffs | Wyo.  | 46 |
| Bankers' Bank of the West            | Denver      | Colo. | 32 |
| Citizens State Bank & Trust Co.      | Ellsworth   | Kan.  | 32 |
| Citizens Bank & Trust Co. of Ardmore | Ardmore     | Okla. | 21 |
| ANB Bank                             | Denver      | Colo. | 1  |



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## The Federal Reserve System

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

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

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

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

## The Federal Reserve Bank of Kansas City

The Federal Reserve Bank of Kansas City and its Branches in Denver, Oklahoma City and Omaha serve the Tenth Federal Reserve District, which encompasses 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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