

# TEN

FEDERAL RESERVE BANK OF KANSAS CITY

Fall 2011

\$12,000

+3000

+2000

Inside:

Effects of payday lending restrictions

The 2011 Jackson Hole symposium

Household response to economic uncertainty

Investment tools for kids

# Growing value

Is the farmland boom sustainable?

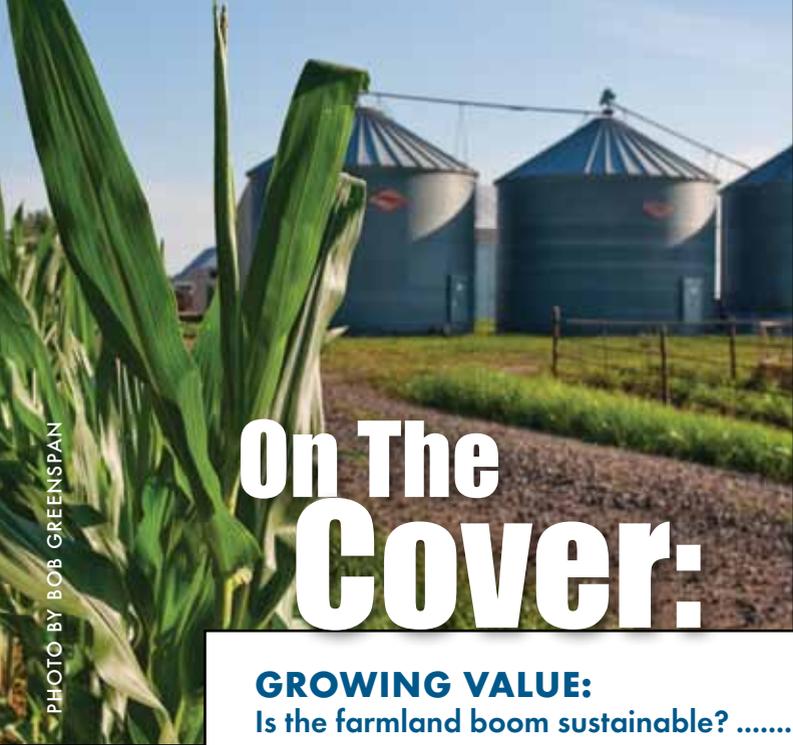


PHOTO BY BOB GREENSPAN

# On The Cover:

# TEN

F a l l 2 0 1 1

<b>GROWING VALUE:</b> <b>Is the farmland boom sustainable? .....</b>	<b>4</b>
Values for farmland across the region are rising sharply. But the sharp increase in land prices has raised concerns about whether the boom is sustainable.	

## FEATURES



<b>PAYDAY LOANS .....</b>	<b>10</b>
<b>Quick, costly, controversial but restrictions may have unintended consequences</b>	

For consumers needing a small-dollar, temporary loan, payday lenders are a popular—and expensive—option. Whether stronger regulations are needed for such loans is a point of debate.



<b>HOW HOUSEHOLDS RESPOND TO ECONOMIC UNCERTAINTY .....</b>	<b>14</b>
<b>Theory versus data</b>	

Theory says households will immediately and sharply contract spending in times of economic uncertainty. Empirical data, however, suggests another scenario.



<b>BROAD REPRESENTATION, REGIONAL ROOTS .....</b>	<b>16</b>
<b>Kansas City Fed relies on directors for insight</b>	

The regional Fed directors serve as a conduit between their local communities and the nation's central bank, offering insight and counsel on the economy drawn from their own expertise and contacts.

## IN EVERY ISSUE

- 1 ABOUT ... THE 2011 ECONOMIC POLICY SYMPOSIUM**
- 20 COMMON CENTS: INVESTMENT TOOLS FOR KIDS**
- 25 ASK AN ECONOMIST: IMPLEMENTING NEW CAPITAL REQUIREMENTS**



# ACHIEVING MAXIMUM *Long-Run* GROWTH

*Economic Policy Symposium*

*Jackson Hole, Wyoming • August 25-27, 2011*

*Federal Reserve Bank of Kansas City*

**M**ore than 100 central bankers, policymakers, academics and economists convened Aug. 25-27 at the Federal Reserve Bank of Kansas City's annual economic policy symposium in Jackson Hole, Wyo.

Speakers included Federal Reserve Chairman Ben Bernanke, European Central Bank President Jean-Claude Trichet and International Monetary Fund Managing Director Christine Lagarde. Participants discussed economic issues, implications and policy options related to this year's topic, "Achieving Maximum Long-Run Growth," including:

- assessing current trends in global growth,
- balancing growth with equity,
- achieving growth amid fiscal imbalances,
- managing natural resources in developing economies,
- regulating financial markets and institutions to promote growth,
- aligning international capital flows with growth and
- setting policy priorities for long-run growth.

"A key objective of central banks around the world is fostering conditions to achieve maximum long-run economic growth. The 2011 symposium furthered our understanding of maximum sustainable growth," says Tom Hoenig, who was attending his final symposium as president of the Kansas City Fed. He retired from the Kansas City Fed on Oct. 1 after 38 years of service.

Symposium attendees focused on the global economy achieving maximum growth, which is necessary to reduce unemployment and fiscal deficits, as it continues to recover from the financial crisis. Strong global growth will allow countries to reduce poverty



DURING A SESSION on “Aligning International Capital Flows with Growth,” Susan Collins (center), dean of the Gerald R. Ford School of Public Policy at the University of Michigan, offers remarks as a discussant for Cornell University Professor Eswar Prasad’s (left) paper, while session chair Jose De Gregorio (right), governor of the Central Bank of Chile, listens.

and improve fiscal obligations related to demographic trends and entitlements.

The recent financial crisis was a reminder that simply achieving maximum growth is not sufficient—growth built on imbalances can be ultimately unsustainable. These imbalances can take on many forms, whether through housing, fiscal deficits, capital flows, trade or widening inequality. In some cases, imbalances can produce crises severe enough to offset the benefits of many prior years of strong growth. This means policies implemented to foster maximum long-run growth in employment and incomes must also address imbalances within and across nations.

The Jackson Hole Symposium last focused on long-run growth in 1992. Since then, many developments have advanced the understanding of the determinants of long-run growth.

In addition to Chairman Bernanke’s remarks, the symposium featured presentations from a number of economists and

central bankers on topics ranging from market failures in developing countries to budget pressures resulting from rising health care costs. Other presentations covered issues such as global financial regulation and global imbalances.

In a luncheon address, Paul Collier, professor at Oxford University and director of the Centre for the Study of African Economies, discussed “Managing Natural Resources in Developing Economies.” In his address, Collier discussed ways “central banks can assist both in the long-term task of converting natural assets into other assets, and in the short-term management of volatility.”

Another highlight of the 2011 symposium was the final panel discussion on “Setting Policy Priorities for Long-Run Growth,” featuring Barry Eichengreen of the University of California, Berkeley; Christine Lagarde; and Jean-Claude Trichet. The three panelists engaged in a dialogue with symposium participants on the current challenges facing the global economy.

## BOOK CAPTURES SYMPOSIUM HISTORY

“Listening to the many wise voices here over the last day or so, I am struck by several salient themes,” Lagarde said in her prepared remarks. “The global economy continues to grow, yet not enough. Some of the main causes of the 2008 crisis have been addressed, yet not adequately. There remains a path to recovery, yet we do not have the luxury of time.”

Last year’s symposium theme was “Macroeconomic Challenges: The Decade Ahead.” The symposiums date back to 1978 when the Kansas City Fed hosted “World Agricultural Trade: The Potential for Growth” in Kansas City. The event moved to Jackson Hole in 1982. Wyoming is in the northwest corner of the Kansas City Reserve Bank’s District, which also includes western Missouri, Nebraska, Kansas, Oklahoma, Colorado and northern New Mexico.

The papers and presentations from this year’s symposium, as well as the proceedings from each of the past symposiums, are available on the Bank’s website at [www.KansasCityFed.org](http://www.KansasCityFed.org).

“Through the years, this event has provided the forum for an invaluable exchange of ideas,” Hoenig says. “Its legacy and prestige are the result of its attendees.”

T

BY BRYE STEEVES, EDITOR

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).

This year, to mark the Kansas City Fed’s 35th Economic Policy Symposium, and the 30th held in Jackson Hole, Wyo., the Bank produced a history of the event and its evolution through the years.

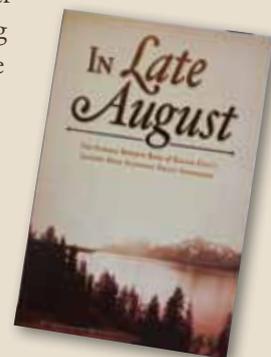
The volume, titled “In Late August,” is not a comprehensive recounting of each symposium. Instead, it serves as a social history to provide a better understanding of the annual event, during which central bankers, private economists, government officials, market participants and academics gather to discuss long-term policy issues of mutual concern.

“The continuing success of the event is due to the contributions of all who have participated over its long history, including the presenters, discussants, panelists and audience members,” Bank President Tom Hoenig writes in the book’s introduction.

The book highlights a number of key symposiums, including the early events, which were held in Kansas City, Mo., and focused primarily on agricultural issues. The shift to wider policy-oriented topics took place in 1982, which was also the first year the symposium took place in Jackson Hole.

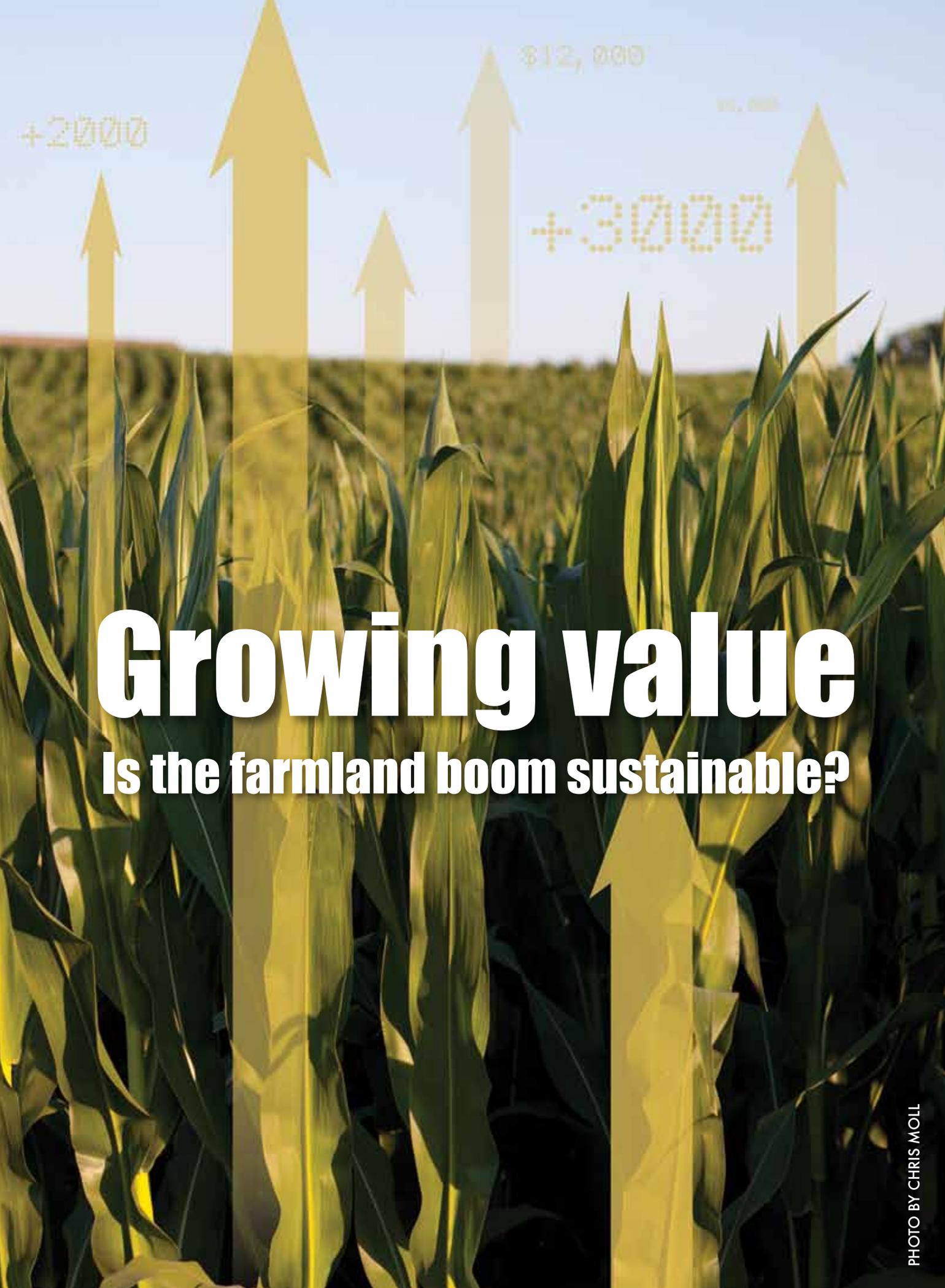
That was also the first year the Federal Reserve chairman, then Paul Volcker, attended the event. The 1982 symposium, titled “Monetary Policy Issues in the 1980s,” included vigorous discussions on the role of the Fed and the policy actions available to central banks to address issues such as inflation and unemployment. Future symposiums would follow similar paths, providing an open forum for the exchange of ideas among participants from around the world.

The book also notes that the symposium’s picturesque location at the Jackson Lake Lodge provides an ideal location for such events. In line with its national park setting, the Lodge is rustic and remote and leads to informal but intense engagement among participants.



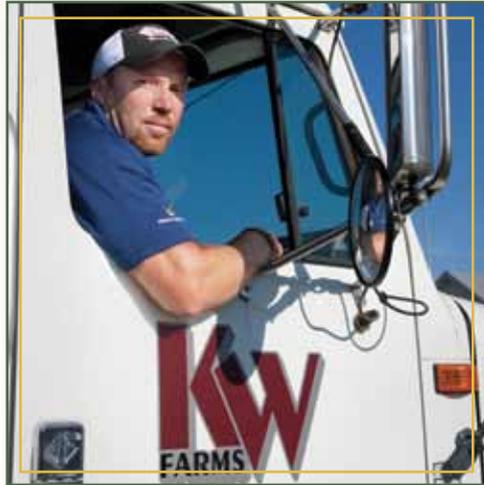
The publication is available for download at [www.KansasCityFed.org](http://www.KansasCityFed.org).

Bill Medley,  
TEN contributing writer



# Growing value

Is the farmland boom sustainable?



When the owners of 200 acres of Nebraska farmland decided to sell their land last fall, Kevin Peterson saw a good opportunity.

**P**eterson, who raises hogs and crops near Osceola, Neb., had a good relationship with the family who owned the irrigated land, and in fact, he owned many of the improvements already on it. He had his eye on the land for some time and thought his private purchase offer was fair and would be accepted by the owners.

But it wasn't going to be that easy. The owners, like many others across the state, decided to sell the land through an auction.

"I thought we made a fair offer, but when you're hearing that the sale price could be 20 percent higher or more if you take it to auction, you're going to take it to auction," Peterson says. He ended up making the winning bid at the auction, but the final sale price was higher than Peterson's earlier offer and ended up costing him "a pretty penny."

"There's so much outside money coming into these sales that it ends up setting a high price floor," Peterson says. "Nothing is bought cheap anymore."

As crop prices pushed toward record highs in 2011, farmland values have followed. After slowing somewhat during the 2007-09 recession, cropland has surged since 2010, with values jumping 20 percent or more compared to a year earlier. In some cases, fertile land that sold for \$6,000 an acre in 2009 is now going for \$12,000 an acre.

But, this surge in farmland values has raised some concerns about its sustainability. Recent figures from the U.S. Department of Agriculture show that while farmland values have risen 40 percent since 2004, cash rents have risen only 17 percent.

Jason Henderson, vice president and Omaha Branch executive at the Federal Reserve Bank of Kansas City, says the Bank's data confirm this disparity. The Bank's Survey of Agricultural Credit Conditions found that land values were rising at nearly double the rate of cash rents near the end of 2010. Historically, the two have moved more closely together.

"The apparent decoupling of land values and rents suggests that other factors could

be driving the farmland value surge,” says Henderson, who recently examined the risks in the farmland market with former Bank economist Brian Briggeman. “One of these factors could be interest rates, which remain at historically low levels and are likely helping drive the rise in land values.”

### **Rising crop values**

As has been the case in other commodity markets, the increase in crop prices since the end of the 2007-09 recession has been swift. Corn and wheat prices have doubled since June 2010 on strong export demand and tight supplies.

Much of the increase in export activity has been due to higher demand in countries

such as China, where rising incomes, improved diets and a weaker dollar are making U.S. agricultural exports more attractive. In addition, tighter crop supplies due to adverse weather conditions in some regions over the last two years have played a role in pushing prices higher.

“When you combine strong demand with tighter supplies, it’s a recipe for higher prices,” Henderson says. “In the case of U.S. crops, the result has been a doubling in some prices, and overall farm profitability has soared.”

The gains have continued into 2011. According to the Kansas City Fed’s second quarter Survey of Agricultural Credit Conditions, farmland values continued to rise, but the pace slowed from earlier this year.

---

KEVIN PETERSON, WHO RAISES HOGS AND CROPS NEAR OSCEOLA, NEB., keeps an eye on potential land deals and has watched values rise sharply in recent years. He has noticed a pickup in activity and interest at the land auctions he attends across the state. “There’s so much outside money coming into these sales that it ends up setting a high price floor,” he says.

---





# Agriculture symposium examines farmland risks from many perspectives

Non-irrigated and irrigated cropland values edged up slightly and remained 20 percent higher than year-ago levels. Many respondents indicated that strong demand for land and tight supplies would keep prices at their current, elevated levels as farm and non-farm investors continued to snap up land at a quick pace.

Farmers, along with the industries that help support them, are reaping the benefits.

“Farm incomes across the region were booming earlier this year,” Henderson says. “And with that, farmers were buying land, tractors and equipment, and many have been paying off loans.”

At Farmers National Company in Omaha, business has been brisk.

“We have been seeing an extremely strong market in 2011,” says Jim Farrell, president and CEO of the firm, which is the nation’s largest farm- and ranch-management company, overseeing more than 3,700 farms in 22 states. Farmers National also operates one of the country’s largest real estate brokerages.

Farrell, who also serves as chairman of the Bank’s Omaha Branch Board of Directors, says 2011 has brought “unprecedented interest in purchasing farmland.”

Farrell estimates that about 70 percent of today’s pool of potential farmland buyers consists of farmers who are looking to expand their operations. The remaining 30 percent is made up of two kinds of investors: those who might have grown up on a farm and have some kind of agricultural background, and those Farrell described as outside investors looking for a place to put their money.

“The outside interest is accelerating,” Farrell adds. “We are being contacted every week by folks who I would say are strictly investors. They are people who might not have a lot of background in agriculture or row crops, but they are buying.”

Although the sharp increase in crop prices is driving much of the new interest in farmland, Farrell sees another factor in play: low interest rates. With rates on deposits so low, and with

With cropland values 20 percent higher than a year ago, and farm incomes soaring with higher commodity prices, some have suggested that agriculture has entered a new golden era.

But, could the glint of banner profits turn out to be fool’s gold? That question brought nearly 200 agricultural banking and business leaders, government officials and academics together for the second annual Agricultural Symposium, “Recognizing Risk in Global Agriculture,” July 19 and 20 in Kansas City.

“A lot of people are looking at the prospects of 9 billion people on the planet having to eat, most of them in developing countries, and the future for agriculture appears to be bright,” said Vice President and Omaha Branch Executive Jason Henderson, who organized the symposium. “Yet, we heard the same things in the 1970s, and the 1980s turned out to be one of the most devastating decades for agriculture.”

Each symposium session focused on potential risks to future profitability in agriculture. The first day centered on food and fuel, while the next morning considered the financial health of agriculture as well as strategies that farmers and agribusiness have used to manage emerging risks.

“We were successful in bringing agricultural lenders, agribusiness leaders and academics together to really discuss the future of agriculture—not only the opportunities, but also some of the potential risks and hurdles that agriculture will have to overcome to remain prosperous in the future,” Henderson said.

Presentations from the symposium are available at [KansasCityFed.org](http://KansasCityFed.org).

Erin Redemske,  
TEN contributing writer



PHOTO BY GARY BARBER

---

THE KANSAS CITY FED examined the risks to future profitability in the agriculture sector during a symposium this July. The symposium featured speakers representing lenders, agribusiness leaders and academics to talk about the future of agriculture. Pictured from left are David Fischhoff of Monsanto Co., Jason Henderson of the Kansas City Fed and Michael Baroni of Archer Daniels Midland Co.

---

many investors seeking out better rates of return than what might be available with bonds or other investments, farmland has presented a good opportunity for some, he says.

Those factors have helped produce a seller's market, and as a result, land prices are higher.

## Risks to values

The quick rise in farmland values over the last couple of years has led to questions over whether the increase is sustainable, Henderson says.

"Usually, when land prices go up, there are concerns about whether they can continue to rise, especially during periods of low interest rates," he says. "Low interest rates help

strengthen farm revenues, while also pushing down the rate at which those revenues are capitalized into asset values. Both factors work to drive farmland values higher."

In general, Henderson explains, people prefer to have a dollar today over the promise of earning a dollar in the future. As a result, future income streams are valued less—or discounted—compared to current income. The amount of this discount depends on interest rates: Lower rates result in a smaller discount of future income, and smaller discounts lift current land values.

"If you have low interest rates in place, the bidding for agricultural real estate becomes much more competitive, as investors bid the price higher and higher in an attempt to gain ownership of the land and capitalize future revenues into current land values," Henderson says. "Lower interest rates mean investors require a lower rate of return on alternative investments, such as CDs, which makes farmland a more attractive investment and pushes farmland prices higher."

Based on his and Briggeman's analysis of current conditions, and taking into account averages for corn prices, yields and capitalization rates, prices for some irrigated cropland in eastern Nebraska appeared to be in balance with market conditions. However, farmland values still face "significant" risks if interest rates rise, the researchers found.

"If higher interest rates lead to higher rates of return on other investment options, capitalization rates could increase, which would push farmland values lower," Henderson says. For example, if corn prices remain constant, but capitalization rates rise to their more-historic levels, the value of irrigated cropland in eastern Nebraska "could fall by nearly a third," he says.

In addition to higher interest rates, declining farm revenues could push land values lower. This remains a real possibility if

U.S. farmers, as expected, increase their crop production in response to higher agricultural prices. The U.S. Department of Agriculture estimates that by 2013, higher corn inventories will push prices lower to \$4.10 a bushel, down from around \$7 a bushel this summer.

If corn prices end up falling close to \$4 a bushel, the same irrigated eastern Nebraska land could drop in value by 20 percent, even if capitalization rates remain unchanged at their current historic low levels, Henderson says.

“Time and time again, farmers tend to produce themselves out of prosperity,” Henderson says. “If the USDA projections for prices and yields hold, farmers would be facing yet another risk to their land values.”

Of course, the worst-case scenario for land values would be a combination of higher interest rates and lower crop prices, Henderson adds. Such a scenario played out in 1981 when higher interest rates pushed capitalization rates to historic highs, while higher exchange rates led to a decline in U.S. agricultural exports, forcing commodity prices and farm revenues to decline. From 1981 to 1987, this double-whammy contributed to a 40-percent decline in real farm values, Henderson says.

“We could see those dynamics at work in eastern Nebraska and other regions if similar events occur,” Henderson says. “If capitalization rates return to their historic average of 7.5 percent and corn prices fall to \$4 a bushel, we could be looking at cropland prices being cut in half from their current levels.”

## The outlook

For now, agricultural market observers don't see a high probability that crop prices will fall soon. Lee Vermeer, vice president of real estate operations for Farmers National, thinks it will take at least a couple of years for crop supplies to increase enough to push prices lower.

“I don't think we're going to see a huge crop this year,” Vermeer says. “We should be holding prices close to these levels through next year. The threat might be going into 2013.”

As a result, aggressive bidding at land auctions appears to remain in play for at least the near term. Peterson, the Nebraska farmer, sees little to dissuade bidders from snapping up land.

“You have people with money to spend who are interested in the rate of return on farmland,” he says. “The return on farmland is simply better than what you can get on bonds, for example, and people are taking advantage of it.”

Even those not interested in buying land are interested in getting a front-row seat to the action.

“Everyone shows up to a land sale—even if they're not interested in buying—just to see the fireworks,” Peterson says. “There could be dozens of folks in the room you don't recognize. Everybody can tell who the investors are.”



BY BILL MEDLEY, TEN CONTRIBUTING WRITER

## FURTHER RESOURCES

### “WHAT ARE THE RISKS IN TODAY'S FARMLAND MARKET?”

by Jason Henderson and Brian Briggeman  
[KansasCityFed.org/publications](http://KansasCityFed.org/publications)

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

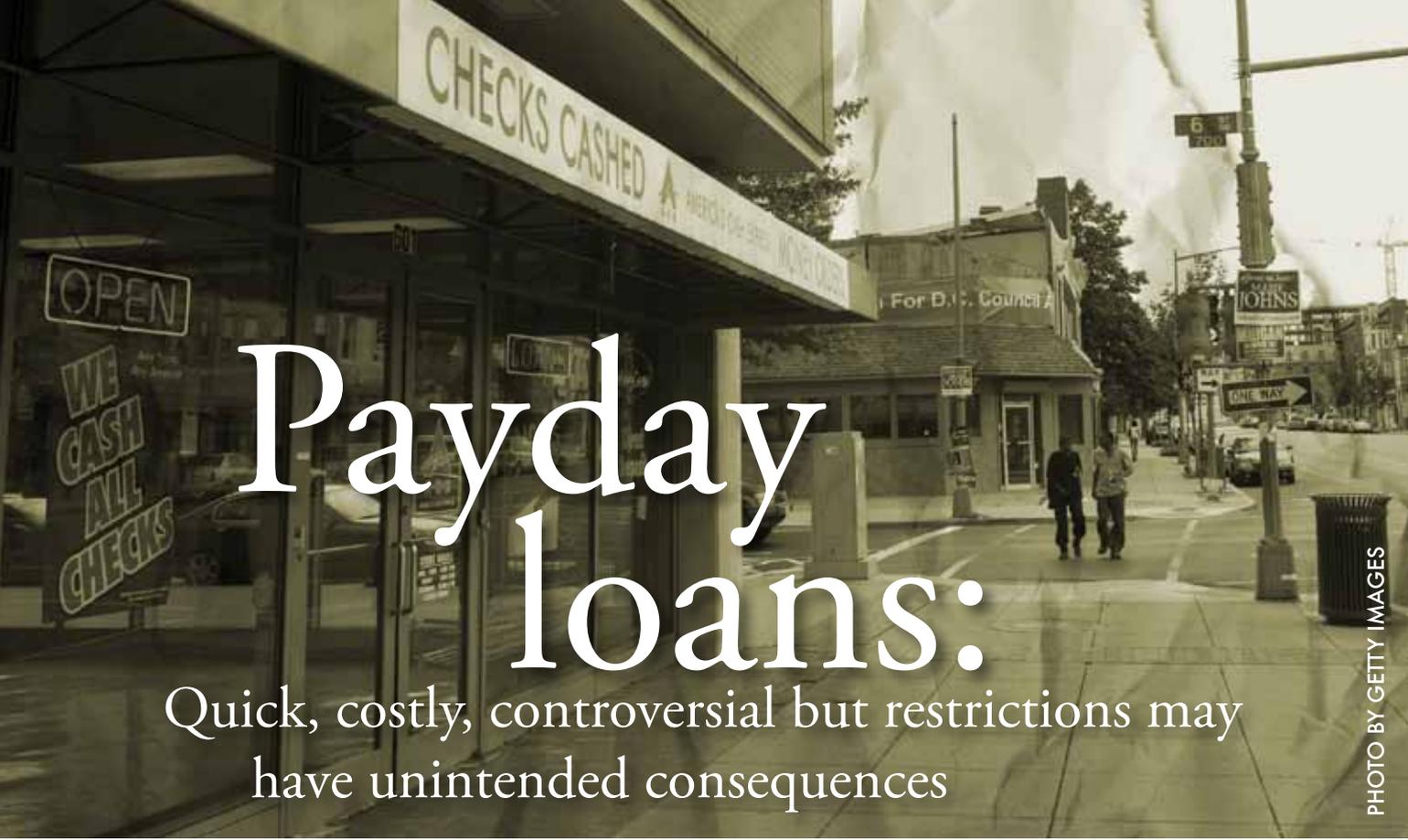


PHOTO BY GETTY IMAGES

# Payday loans:

Quick, costly, controversial but restrictions may have unintended consequences

**W**hether it's unexpected car maintenance, a trip to the emergency room or an overdue utility bill, consumers may need a temporary loan that's fast and convenient.

Though payday loans meet those criteria, they are one of the most contentious forms of credit because of their fees and high propensity for repeat use.

Payday loans are usually small-dollar-amount, short-term unsecured loans that are made to high-risk borrowers. Unlike with commercial banks and other sources of short-term credit, payday lenders require the borrower to post-date a personal check for the entire amount of the loan plus the fees. The typical loan is about \$100, and the typical term is about two weeks.

As the economy continues to recover from the most recent financial crisis, many policymakers are considering strengthening payday lending restrictions with the intent of protecting consumers. Already, many states heavily regulate payday lending. As of May 2011, 16 states effectively ban it, either outright

or by restricting payday lenders so heavily they aren't profitable.

Critics of payday loans say payday lenders take advantage of borrowers by charging exorbitant fees and targeting at-risk populations. They also say payday lending causes borrowers to fall into debt spirals, which creates an unmanageable cycle of debt. However, restricting payday loans could lead to some inadvertent outcomes, says Kelly Edmiston, a senior economist at the Federal Reserve Bank of Kansas City, who recently researched the effects of payday loan restrictions. His research shows consumers without access to legal payday loans, for the most part, don't use traditional credit as an alternative.

"This suggests these consumers don't have access to short-term credit of any type or may end up turning to other options that are more costly than payday loans," he says, citing over-the-limit credit card purchases, bounced checks, pawn brokers and loan sharks as examples.

Edmiston's research does not establish whether restrictions on payday lending are

good or bad, but rather suggests that the potential harmful effects be considered when regulating the industry.

“Restrictions on payday lending may have some unintended consequences for consumers, especially those with low incomes,” Edmiston says, “including lack of access to credit or diminished credit standing. Policymakers should carefully weigh the costs of payday lending restrictions against its benefits.”

## Payday loan use

“Access to payday loans improves people’s lives,” says Darrin Andersen, president and CEO of QC Holdings, which is the parent company of Quik Cash, AutoStart USA and other payday lenders. The Overland Park, Kan.-based company has loaned billions of dollars to millions of customers at more than 500 locations in 23 states. QC Holdings makes roughly 6 percent profit from each payday loan transaction.

Because consumers without access to payday loans typically don’t turn to more traditional credit, consumers are actually losing access to a form of credit without the option of a payday loan, Andersen says.

However, critics often point to the downsides of payday loans, including:

**Cost:** The typical charge for a \$100, two-week loan is about \$15, which equates to an annual percentage rate (APR) of about 390 percent, or 25 times greater than the interest of a typical credit card. Payday lenders generally say they charge these fees because of the nature of their business—they operate in multiple locations with extended hours for customer convenience and are loaning to high-risk borrowers with a higher probability of default.

**Debt spiral:** Research shows the bulk of lenders’ profits come from repeat borrowers, many of whom use new loans to pay off old ones and ultimately pay many times the original loan amount in interest. Consumer advocate organizations, such as the Center for Responsible Lending, say payday loans take advantage of uninformed borrowers who may not understand the terms and conditions of the

loan and find themselves borrowing repeatedly.

**Predatory nature:** Payday lenders are often accused of targeting low-income and minority borrowers, though Edmiston says it is unclear whether this demographic is targeted by payday loan companies or if the companies are offering their service where demand is the highest.

“Consumers may be borrowing money from a payday lender because they don’t have access to other loans, they don’t understand the payday loan terms or it simply makes sense for them to take a high-cost loan,” Edmiston says.

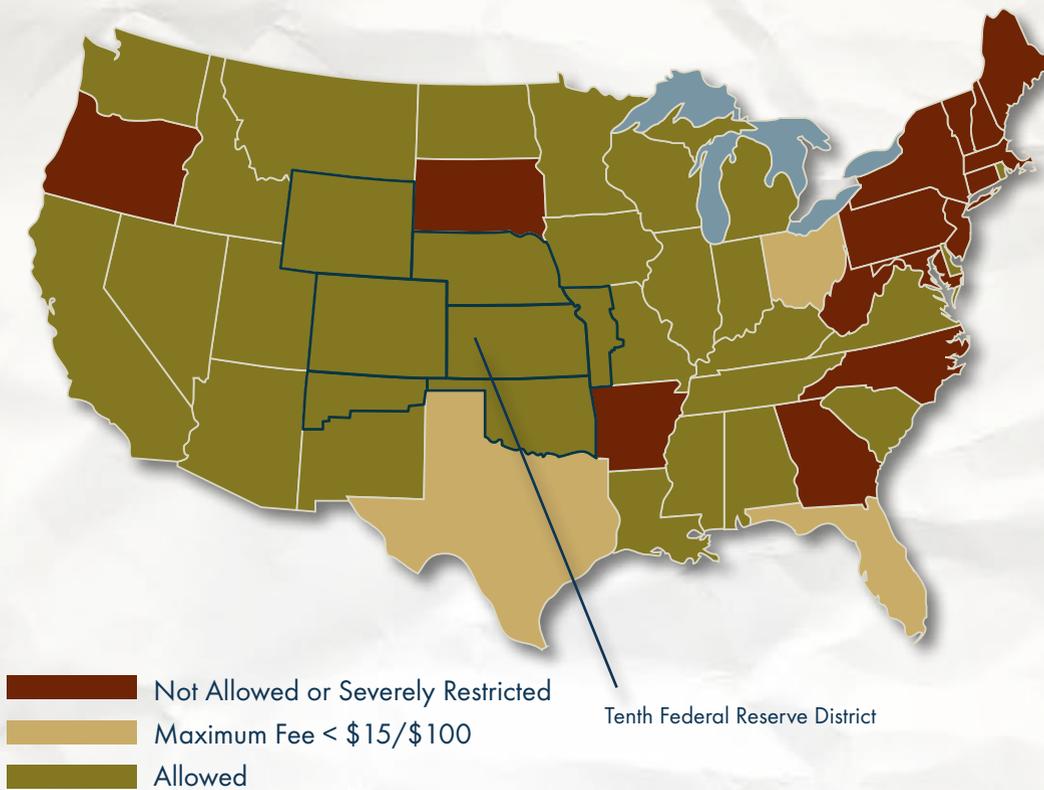
However, Josh Frank, a senior researcher at the Center for Responsible Lending, which provides research and policy advice on consumer lending, says, “There are plenty of alternatives.” He adds that payday loans may be a short-term solution for borrowers, but don’t solve the larger issue: consumers’ lack of personal savings.

“A loan is the last thing you need ... . Ultimately hard choices need to be made,” Frank says, such as liquidating assets at a pawn

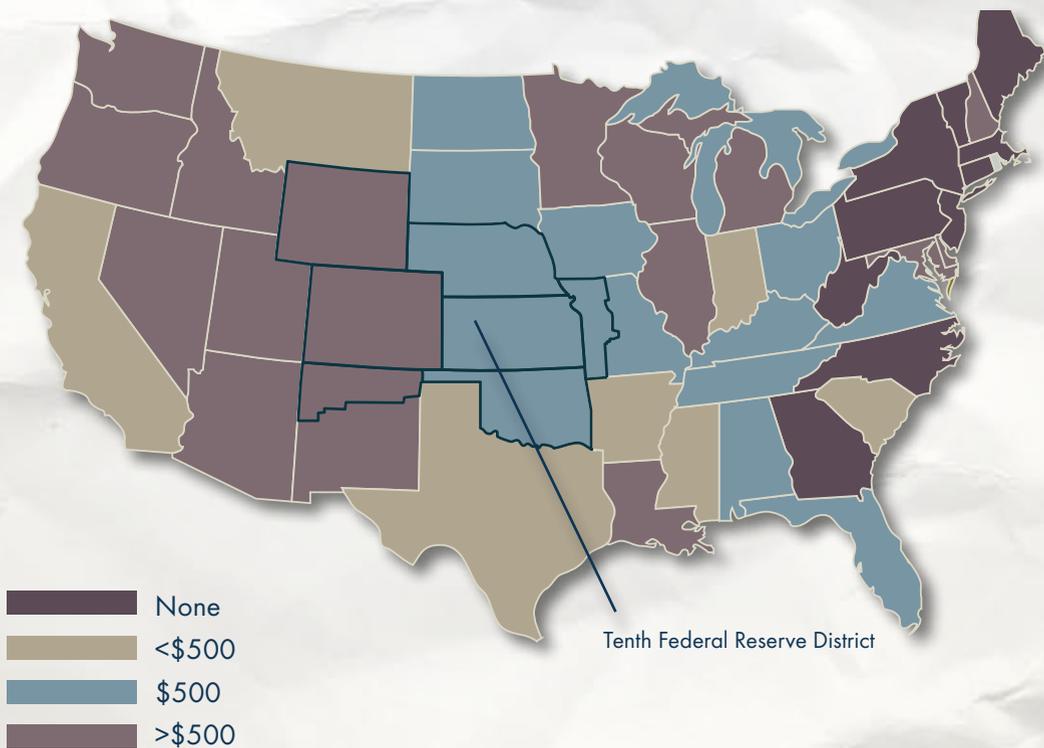


THE KANSAS CITY FED recently hosted a seminar and panel discussion on payday lending with moderator Tammy Edwards, assistant vice president of Community Development; Darrin Andersen, president and CEO of QC Holdings; Kelly Edmiston, a senior economist at the Kansas City Fed; and Josh Frank, a senior researcher at the Center for Responsible Lending. Watch a video of the seminar and view the presentation slides at [KansasCityFed.org/community](http://KansasCityFed.org/community).

# Effective Bans on Payday Lending



# Maximum Loan Amount



shop, for example, to quickly make ends meet.

A report by the Center for Responsible Lending suggests other alternatives to payday loans: payment plans with creditors, advances from employers, credit counseling, emergency assistance programs, credit union loans, cash advances on credit cards and small consumer loans. These options arguably offer better terms than payday loans for most financially strapped consumers, but their access is limited, Edmiston says.

## Restrictions, possible consequences

Concerns over high costs, unmanageable debt spirals and the targeting of financially vulnerable populations have led some states to regulate payday lending.

Of the states that have not effectively banned payday lending, many mandate a cap on the fees for payday loans and many others restrict the loan by varying amounts.

Other common restrictions include:

- limits on the number of times consumers can roll over a loan;
- limits on consumers' collateral requirements;
- an option for the borrower to reconsider the loan within a certain time period; and
- payment plans for troubled borrowers.

Many common payday lending regulations are intended to protect consumers from both lenders and themselves—but they are unlikely to severely reduce use of payday loans or increase use of other forms of credit, Edmiston says.

“The most obvious and important cost of restricting payday lending would be the potential loss of credit access for consumers who may not have other sources of credit,” Edmiston says. “Consumers may not have options, such as borrowing from family or friends, and may opt for other, more costly credit options, such as making over-the-limit credit card purchases or bouncing checks. These choices also can have consequences.”

Payday loan restrictions can affect:

**Credit standing**, including reduced credit scores and late bill payments. Edmiston's

research shows consumers without access to payday loans have, on average, more late-bill payments. Consumers with access to payday lending may be able to better maintain their credit standing by reducing the number of outstanding loans reported to credit bureaus. According to another study, after payday loans were banned in Georgia and North Carolina, households bounced more checks, complained more to the Federal Trade Commission about lenders and debt collectors and filed for Chapter 7 bankruptcy more often than households in states where payday lending was permitted.

**Alternative credit choices**, such as loan sharks, which are often associated with organized crime, become options because payday lending has been restricted and borrowers are seeking nontraditional credit.

**Borrowers' convenience**, which is a factor in their decision to seek a payday loan rather than some other, perhaps less costly, means of short-term financing, is reduced or eliminated.

Critics, such as the Center for Responsible Lending, contend payday loans too often are used to pay for regular monthly expenses when there are safety-net alternatives from the government or nonprofit organizations, such as federal food stamps or housing and utility bill assistance. Payday lenders, like Andersen of QC Holdings, say borrowers have many credit options and sometimes a payday loan makes the most sense.

“If it (a payday loan) was a bad choice for consumers,” Andersen says, “they wouldn't use it.”



BY BRYE STEEVES, EDITOR

## FURTHER RESOURCES

### “COULD RESTRICTIONS ON PAYDAY LENDING HURT CONSUMERS?”

By Kelly D. Edmiston

[KansasCityFed.org/research](http://KansasCityFed.org/research)

# How households respond to economic uncertainty:

ILLUSTRATION BY CASEY MCKINLEY

THE EFFECTS OF  
HEIGHTENED UNCERTAINTY

Increase in economic uncertainty for consumers.

Households have more difficulty predicting future wealth and income prospects.

How do households respond?

THEORY

**S**tock prices dip while headlines declare economic uncertainty.

Economic disruptions often coincide with heightened uncertainty for consumers, says Ed Knotek, a vice president and economist at the Federal Reserve Bank of Kansas City.

This raises the question: Is uncertainty a primary cause of economic weakness, or is uncertainty a consequence of a variety of other factors?

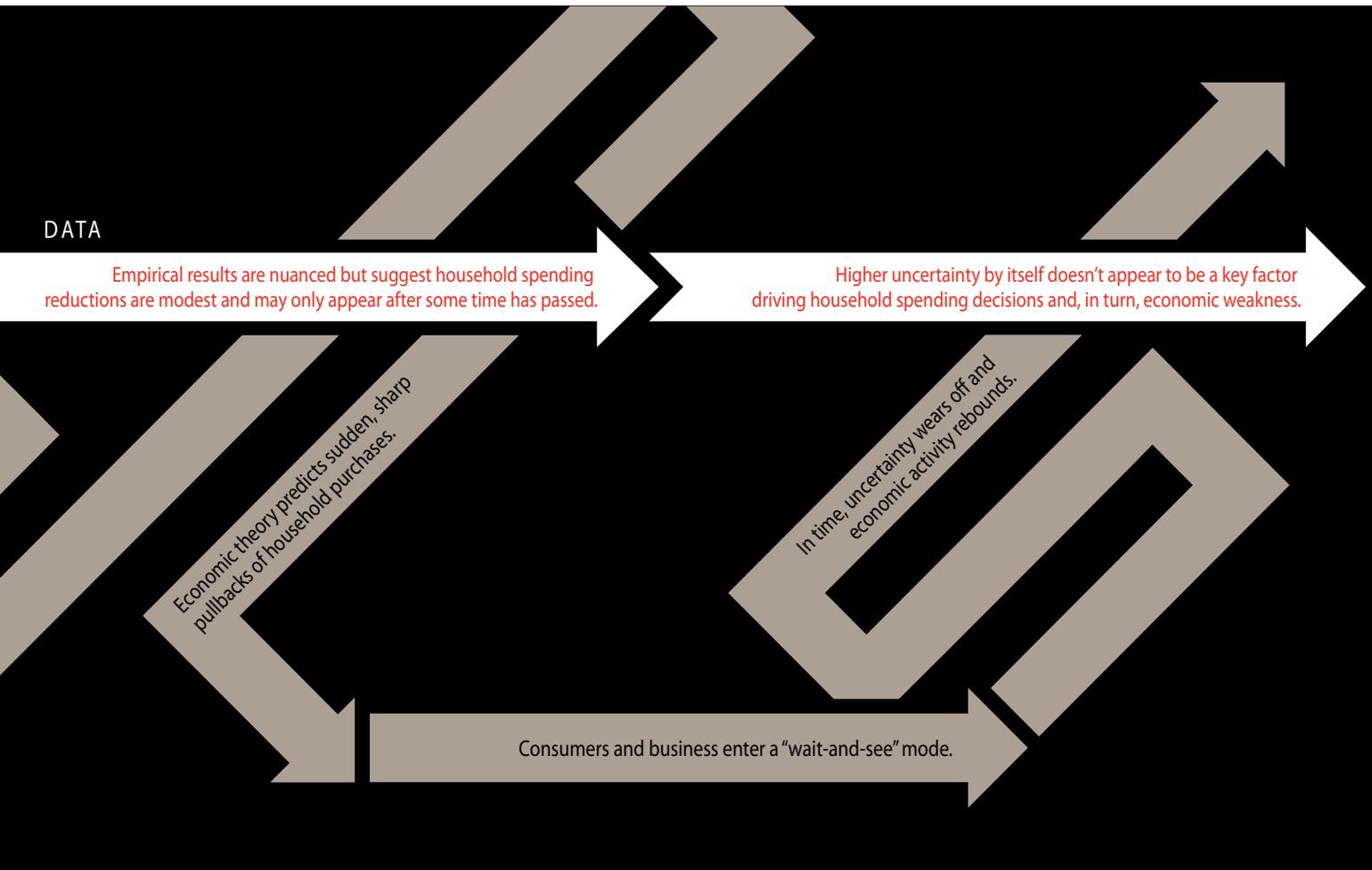
Knotek and Shujaat Khan, a research associate, recently examined this issue in more detail. They focused on how households respond to sudden, unexpected events that

raise the possibility of extreme future outcomes for wealth and income, both good and bad. In other words, they considered household responses to movements in uncertainty—uncertainty shocks.

Knotek and Khan considered two ways to measure uncertainty. One is based on the monthly appearance of the words “uncertainty” or “uncertain” in *New York Times* articles that also contain references to the economy. The second measure is from monthly stock market volatility.

A written record can provide one measure of intangible uncertainty, capturing both the nation’s and Wall Street’s sentiments on the

# Theory versus data



DATA

Empirical results are nuanced but suggest household spending reductions are modest and may only appear after some time has passed.

Higher uncertainty by itself doesn't appear to be a key factor driving household spending decisions and, in turn, economic weakness.

Economic theory predicts sudden, sharp pullbacks of household purchases.

In time, uncertainty wears off and economic activity rebounds.

Consumers and business enter a "wait-and-see" mode.

economy, says Khan. Highly volatile stock price movements may also be associated with more uncertain times, as investor sentiment rapidly shifts between positive and negative outlooks.

Economic theory predicts that household purchases would decline immediately following an increase in uncertainty as consumers take a "wait-and-see" approach before making costly purchases, especially those that aren't easily undone, like buying a home or car.

In the data, however, Knotek and Khan find that uncertainty shocks tend to curtail household spending modestly. In some cases, households do not appear to react quickly

to increases in uncertainty. In addition, uncertainty shocks can explain only a small portion of fluctuations in household spending.

Above is a breakdown of household responses to uncertainty based on theory and based on data.

## FURTHER RESOURCES

### "HOW DOES HEIGHTENED UNCERTAINTY AFFECT ECONOMIC ACTIVITY?"

By Edward S. Knotek II and Shujaat Khan  
[KansasCityFed.org/research](http://KansasCityFed.org/research)

# 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:*



PHOTO BY GARY BARBER

**JOHN T. STOUT JR.**  
KANSAS CITY DIRECTOR

## JOHN T. STOUT JR.

John Stout's contributions to the Federal Reserve Bank of Kansas City started years before he began serving on the Board of Directors in 2010, and even before he served on the Fed's Economic Advisory Council in 2004.

A former Kansas City Fed chairman, Terry Dunn, would often meet with Kansas City executives, including Stout, who is the CEO of Plaza Belmont Management Group in Shawnee Mission, Kan. The company manages private equity funds and sponsors financings for middle market food manufacturing companies, including some well-known brands.

Dunn asked these members of the business community about hiring, wages, expenditures, growth and more. The data and anecdotal observations were one source of information used in forming monetary policy at Federal Open Market Committee (FOMC) meetings—a contribution Stout says he was honored to be a part of.

Now, as a director, Stout says the role of board members is vital to the Federal Reserve's success.

"One of the most important roles of a director is to serve as a conduit of information and opinions from the Tenth District Community to the Federal Reserve System," Stout says. "In this role, we not only collect and provide real-time and forward-looking economic data from members of our District, but we also serve as the voice for the community to our Reserve Bank."

Directors contribute their vast experience, relationships and knowledge in helping form both monetary policy and the direction of the Reserve Bank. Kansas City Fed directors' backgrounds are varied.

"We are a diverse and committed group," Stout says. "And that diversity provides strength to our Bank and the Federal Reserve System."

## NATALIA PEART

When it comes to getting a clear, accurate picture of regional economic conditions, numbers in reports don't tell the whole story, says Omaha Branch Board member Natalia Peart.

"One important role of the Kansas City Fed directors is to help spot trends and to give voice to critical issues of the constituencies we serve that may not be evident in the data," says Peart, who joined the Omaha Branch Board in January 2011.

Peart is the president and CEO of the nonprofit Women's Center for Advancement (WCA) in Omaha. WCA provides essential community services such as domestic violence and sexual assault programs. Over the past few years, however, Peart has been working to expand WCA's direction to now be reflective of other issues important to the local community, such as enhancing financial literacy, economic self-sufficiency and basic work skills. WCA also offers career empowerment services, including a Career Clothing Closet fed by donations.

Her collaborative work with community stakeholders to advance that mission provides



PHOTO BY BOB GREENSPAN

NATALIA PEART  
OMAHA DIRECTOR



LARISSA HERDA  
DENVER DIRECTOR

her with a rich mix of information and insights she in turn brings to the Kansas City Fed.

“In my agency, I work with a broad number of community partners, funders, corporations and clients from every part of this city and from every socioeconomic group,” she says. “That gives me some insight into common points of pain, as well as access to a better understanding of unique issues some groups might be facing.”

The Omaha Branch Board provides Peart with another opportunity to collaborate with her peers from varying industries and areas of Nebraska—something she sees as a great benefit of service.

“It is an honor to serve my community as a director, as I always learn from what others are experiencing in their sectors.”

## LARISSA HERDA

Larissa Herda is chairman, CEO and president of tw telecom inc. in Denver. The organization is the backbone for many businesses’ telecommunication needs. Her company connects people and information—

similar to her role as a board member.

Since she joined the Kansas City Fed’s Denver Branch Board of Directors in 2009, Herda has linked the Fed’s analytical process with her real-time input of the state of business on the local level.

“I can give them a current snapshot, or, even better, a look into the future regarding the plans and direction of my business and others in the community,” Herda says. “It is not just the data, which is the past, but future forecasts. I think this creates a more holistic view of business for the Fed to use.”

Herda gives the Fed a different perspective and insight into business activities.

“Providing the motivations and knowledge of a company’s future actions gives the Fed a view into the issues beyond the numbers,” Herda says.

She says she has learned a lot as a Fed director, especially about the organization itself. The on-the-job-training is something she enjoys, as she learns about agriculture, energy, banking and more.

“I am helping to introduce and educate other community and business leaders to who the Fed is and what it does,” Herda says. “It’s amazing how my connection to others in Colorado has opened the lines of communication and built relationships for both sides.”

## JIM DUNN

Jim Dunn’s interest in the Federal Reserve precedes his service on the Oklahoma City Branch board, which began in 2008. It started during graduate school at Stanford University.

“Stanford taught me the Fed is a complicated national organization, but what I have since learned is that it offers resources and support from a local Branch,” explains the

chairman of Mill Creek Lumber and Supply Company, Inc., headquartered in Tulsa. “I also learned that the Fed takes an autonomous look at the national and regional economy before going to the Federal Open Market Committee meeting.”

This is a lesson he shares with many of his colleagues.

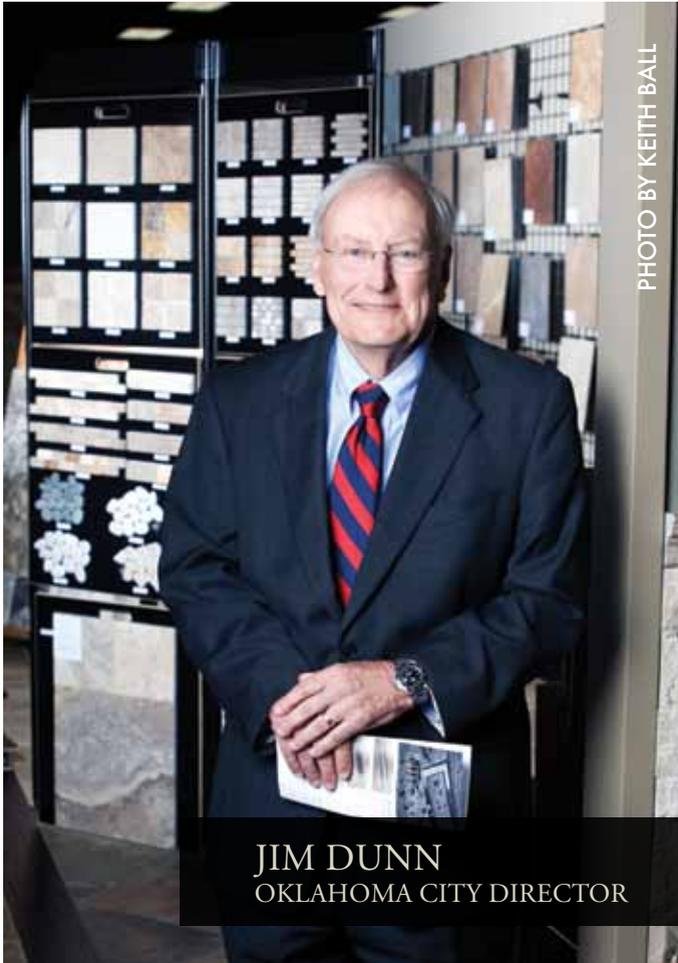
“Many business leaders don’t know very much about the Fed,” Dunn said. “All they know is what they read in the paper. I’ve taken it upon myself to explain that entities can give the Fed input that can affect the policy decisions for the region.”

Being a liaison between the policymakers and the community is a role he fits into naturally having long proactively engaged in the community.

“As a director, I like being able to go out and visit different entities to accumulate the anecdotal economic information and learn what is going on,” he said. “I also enjoy getting insight about the local economy and regulation from the Fed, which in turn allows me to reciprocate with my contacts by explaining complex issues.”

He points to another, more unique aspect of being a Kansas City Fed director: diverse perspective.

“We have a wide diversity of directors, and we gain valuable perspective from the different groups and industries each person represents,” he said. “Most boards I have served on are almost monolithic. I’m just amazed how diverse our directors are and what they bring to the table.”



T

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



## Investments: The gifts that keep on giving

**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.

**W**e've all seen kids enjoy a new toy for a week and then toss it aside, bored. For the next special occasion or holiday, try a gift with more longevity: a savings bond, certificate of deposit or shares of stock. Realistically, an investment gift isn't likely to make little ones or sullen teenagers jump for joy, but there are ways you can make investing fun and, in turn, pique their interest and teach them a financial lesson or two. Once they understand the concept of investing, their interest will grow, quite literally. Here are some investment gift options to consider.

**Certificates of Deposit / Savings Accounts:** CDs and savings accounts are similar, though a CD has a fixed interest rate and is intended to be held until maturity, at which time the investor can withdraw the accrued interest. When I was a math teacher, my students were wowed by the concept of earning interest, learning, for example, that a \$1,000 investment earning 5 percent a year would become \$1,050. Earning interest on that interest excited them even more, as they crunched numbers that showed compound interest would make them "rich." As a class, we made a chart comparing CDs and savings accounts. My biggest savers liked the higher interest rates offered for CDs, assuring me they could handle delaying any fund withdrawals in order to earn the big bucks. Either is a good option for a young investor, around age 8 and older.

**Savings Bonds:** You might also consider giving the kid-friendly gift of savings bonds through the U.S. Treasury. Series EE bonds can be purchased at half their value and become worth their face value in future years. Even younger children can do the math to figure when their bonds will reach maturity. Series I bonds are purchased at face value and are indexed to inflation. They can be redeemed after five years without a penalty. And if the child later redeems the bonds to pay school tuition, the interest earned is not taxed. Bonds are good investments for age 10 and older.

**529 Savings Plan:** Want a great way to build your child's college education fund? This account invests money in mutual funds and grows tax-deferred, with education costs coming out tax-free. Each state has its own 529 plan and most are low maintenance; just enroll



PHOTO BY GETTY IMAGES

and contribute or have amounts deducted from your bank account. You can begin 529 plans at birth and later get your child onboard. Have your child chart the gift contributions and color in the dollars toward his or her education as soon as he or she is able by using our Education Fund Tracker on Page 24.

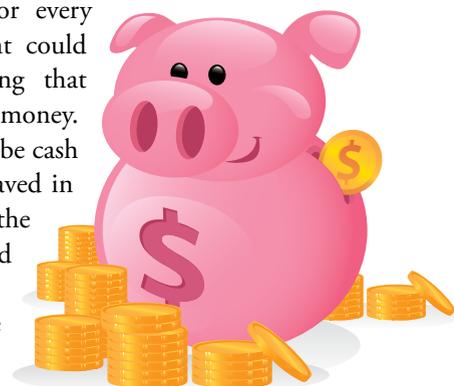
**Stocks:** When is your child ready for the world of stocks? Once he or she understands that a favorite food product, clothing brand or video game is produced by a company for profit. Tell him that companies issue stock to raise money for new products, technology or expansion. Explain that he can become a stockholder, an owner of shares (or parts) of a company. What toys, electronics or restaurants excite him? What stores sell quality products? His answers are a good starting point for picking stocks. Do online research using *quote.com* or *finance.yahoo.com* with your child to find stock prices, as well as their growth or decline in the last year. *Smartstocks.com* offers a free game where kids develop a million-dollar portfolio of their favorite picks and can track their stocks' progress. Background information on companies and graphs of stock gains and losses help players make their choices. Decide which stocks would be the best investment gift. Make the gift more fun by adding a related product, such as a Disney toy or McDonald's gift certificate. Try gifting stock to kids age 12 and older. (Stocks can be purchased for a custodial investment account for those under 18.)

Once the investment has been gifted, the learning begins. Teach kids how to track the progress of their investments. When they have a basic understanding of investing, they may want to research other products to add to their investment portfolios. You may find

them paying more attention to the daily news and state of the economy. If they become discouraged because of a decline, discuss reasons why this might have happened, such as stocks dipping as a result of weather-related effects on crops or bad publicity about certain products. Remind them investing generates wealth over the long-run and is not a get-rich-quick scheme.

**Cash:** If the gift recipient is quite young, it's still not too early to develop awareness in investing money. Consider giving children 5 and younger a piggy bank that they can fill with loose change. For every coin added, the parent could add one, too, teaching that concept of growing money. Subsequent gifts could be cash that's intended to be saved in the piggy bank. As the child grows older and understands more, talk about moving the money into a CD or savings account. You could even help the child draw a chart comparing the two and pointing out the advantages either has over keeping the money in the piggy bank.

Financial advisors say that the sooner kids start investing, the more financially savvy they'll be as adults. This investment building will help them plan for financial goals such as their education, first car or house. And the financial knowledge they learn along the way is truly a priceless gift!



# 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.

## **Kansas City Fed.org:** **"Banking Basics"**

This booklet describes the types of accounts that banks have to offer. For ages 8-12.

## **"The Money Circle"**

This lesson looks at saving and investing tools available and illustrates the importance of compound interest. For ages 12-17.

## **"Building Wealth"**

This booklet discusses the advantages and disadvantages of different investment options, including CDs, bonds, stocks, individual retirement accounts and 401(k) plans. For ages 14-adults.

## **"Diversification and Risk"** **([stlouised.org](http://stlouised.org))**

This lesson discusses developing a stock portfolio through looking at the concepts of risk and diversification. For ages 14-18.



## **Fiction Books:**

### **"Rock, Brock and the Savings Shock"**

by Sheila Bair  
Twin brothers Rock and Brock are very different when it comes to money management. When Grandpa matches the money they save, one twin comes out ahead and shows that saving makes good sense. For ages 8-12.

### **"Lawn Boy"**

by Gary Paulsen  
Lawn Boy is 12 and uses an old riding mower to start his own business. A neighbor gives him investment advice and he soon has 15 employees, money in the stock market and a prizefighter whom he manages. For ages 9-14.

## **Non-Fiction Books:**

### **"Growing Money: A Complete Investing Guide for Kids"**

by Gail Karlitz and Debbie Honig  
This book explains investing and compound interest in terms kids understand. It contains sample forms to record income, savings, withdrawals and to test kids' risk tolerance. For ages 10 and older.

### **"I'm a Shareholder Kit: The Basics About Stock"**

by Rick Roman  
This book takes kids through investing basics, becoming a shareholder and understanding the stock market. It includes a coupon for \$10 off their first share of stock. For ages 12 and older.

### **"The Motley Fool Investment Guide for Teens: 8 Steps to Having More Money Than Your Parents Ever Dreamed Of"**

by David Gardner, Tom Gardner and Selena Maranjian  
This book explains stocks, mutual funds and how to enter the market. Additional features are a glossary, financial worksheets and helpful websites. For teens.

For more free activities, videos, curriculum and other resources, go to [FederalReserveEducation.org](http://FederalReserveEducation.org) and [KansasCityFed.org](http://KansasCityFed.org).



# Take Stock!

Introduce these words to your child as an introduction to investing. Ages 12 and older.

Review the words with your child by reading the definition and asking for the matching word. Make a game of it by scoring points for each correct match.

+10

## Ticker Symbol

Letters that identify a company for trading purposes on the stock market table.

## Profit

The amount of money that remains after subtracting the company's expenses from its earnings.

## Stock

Ownership of shares in a company.

## Quote

The bid or ask price for a stock at a given time.

## Portfolio

A collection of investments owned by one person or organization.

## Diversification

Investing in a variety of companies in order to reduce risk.

## Compound Interest

Interest that is earned on the original sum and also on the interest accumulated.

## Dividend

Portion of a company's profits that may be paid to shareholders.

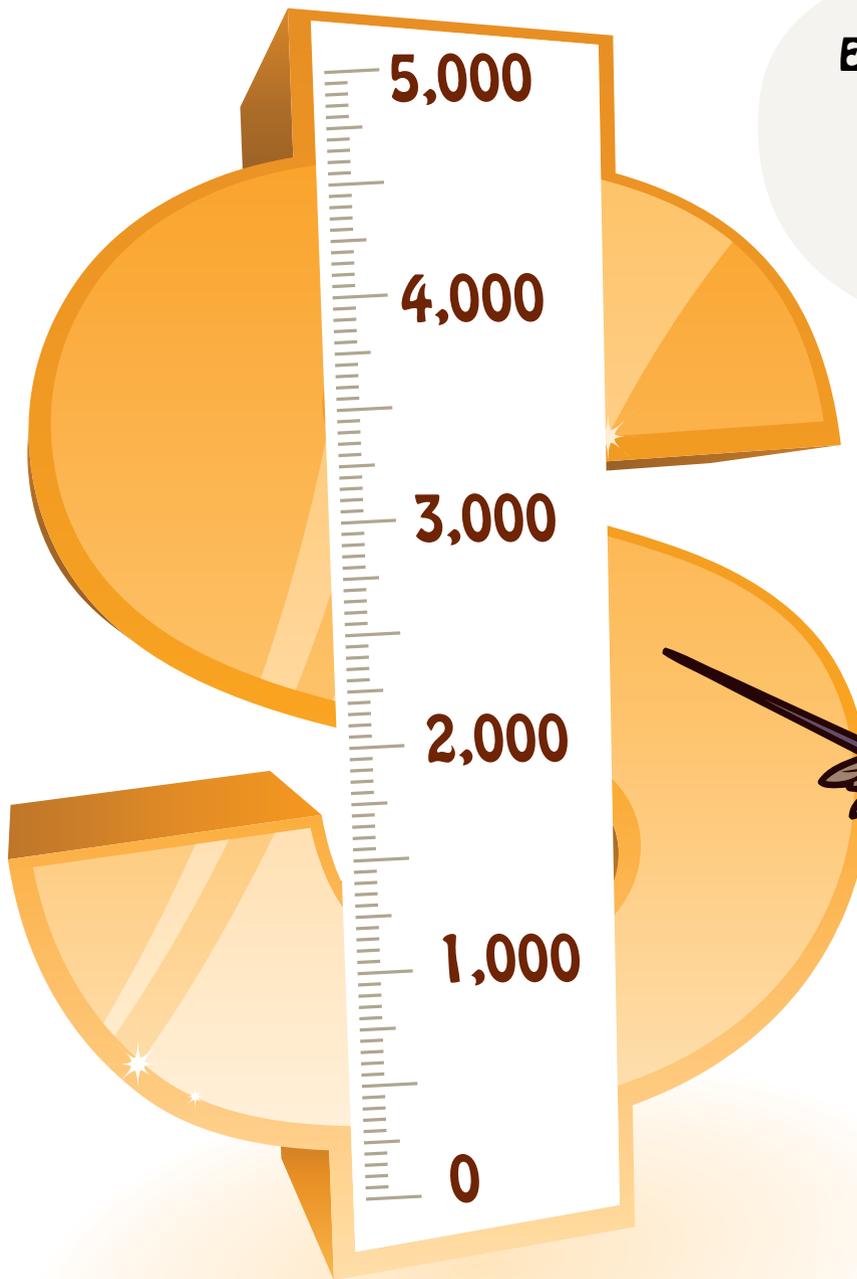
## Principal

The amount of money you invest before interest accumulates.

## Mutual Funds

An investment company that pools savers' money to invest in a variety of stocks and bonds.

# Education Fund Tracker



Each time you receive money toward your education, color in the dollars on your Education Fund Tracker



## How do regulators best implement new countercyclical capital requirements for banks?

Solid bank lending is crucial to maintaining a healthy economy, as well as reviving a fledgling one. Banks are required by regulation to maintain minimum capital ratios to safeguard the financial system. These capital requirements, however, can be detrimental to lending in recessions because reducing lending is the cheapest way to comply with the regulation when capital is depleted by losses.

Recent revisions to capital regulation introduced what is known as “countercyclical capital requirements.” Under the new mandates, banks must maintain higher capital ratios during economic booms than during recessions. The intent is to position banks to better absorb losses and sustain lending during downturns without violating capital requirements.

Whether the countercyclical capital requirements will enhance banks’ willingness to lend in downturns depends on how the requirements will be implemented, says Michal Kowalik, an economist at the Federal Reserve Bank of Kansas City.

### Why does it matter how countercyclical capital requirements are implemented?

Implementing countercyclical capital requirements involves determining when and how much capital ratios should change. Banks need time to increase their capital ratios in booms because capital is expensive, especially when all banks issue new shares and sell their assets at the same time. The level of the capital requirement is also important because a level that is too high in booms may curtail lending, while a level that is too low in recessions may make

bank failures more likely. Thus, the implementation must find the right balance for the timing and level of capital requirements.

### What implementation approaches are being considered?

One approach is discretion, in which the regulator uses judgment to determine when and by how much capital ratios should be changed based on the conditions of the banking sector, economy and capital markets. The other approach is to use a rule, meaning the timing and level of countercyclical capital requirements would be tied to a certain variable or set of variables in a pre-specified formula that accounts for information similar to that used in the discretionary approach.

### What implementation approach would you recommend?

The rule-based approach because it would eliminate the judgment factor. The regulator may be reluctant to increase capital ratios in booms because it might reduce the short-term economic growth. In contrast, relying on a rule guarantees that capital ratios will be increased in booms to support bank lending in recessions.



BY SARA BRUNSVOLD, TEN CONTRIBUTING WRITER

### FURTHER RESOURCES

#### “COUNTERCYCLICAL CAPITAL REGULATION: SHOULD BANK REGULATORS USE RULES OR DISCRETION?”

by Michal Kowalik  
[KansasCityFed.org/TEN](http://KansasCityFed.org/TEN)

## Kansas City Fed hosts 2011 Community Banking Conference

The Federal Reserve Bank of Kansas City hosted its 2011 Community Banking Conference, “Banking on Main Street,” on Sept. 7. Officials at the Federal Reserve moderated discussions of nationally recognized experts and local business leaders to discuss challenges facing community banks and to explore strategies for their continued success.



Topics discussed included what strategies community banks should consider to remain vibrant and successful in this uncertain economic environment, if viability will require larger size and consolidation among community banks, what business model changes should be considered, and how community banks will respond to revenue pressures and higher costs.

Tom Hoenig, the president of the Kansas City Fed, gave the keynote address, relating his nearly 40 years of experience in banking to highlight the importance of basic, sound banking values and practices for banks to be successful in a post-crisis world. He also shared his views on the continuing importance of community banking for local growth and development as well as for the national economy.

For more information about community banking and the Kansas City Fed, visit [www.KansasCityFed.org](http://www.KansasCityFed.org).

## Morhaus named head of new Treasury Services Division

Dawn Morhaus has been named senior vice president of the newly introduced Treasury Services Division of the Federal Reserve Bank of Kansas City. The Kansas City Fed’s role in supporting the U.S. Treasury has grown considerably over the past several years due to its strategic focus on payments and technology development. The formation of the Treasury Services Division will position the Kansas City Fed to effectively support these growing responsibilities.



In her new role, Morhaus will lead the division that will be responsible for the Payment Application Modernization, Payment Information Repository and GOVerify projects. She joined the Kansas City Fed in 1987 as an analyst in the Automation Division. She was appointed assistant vice president in 1997 and vice president in 2000. During her career, Morhaus has held leadership positions in a number of operational and support areas of the Kansas City Fed, and she has led a number of major technology project initiatives including, most recently, the Payment Application Modernization effort.

Morhaus holds a B.S. degree in Business Administration from William Jewell College.

## Kansas City Fed employee receives prestigious national award

Kansas City Fed employee Gayla Gutierrez, who works in the bank supervision and regulation area, recently received the 2010 William Taylor Award for Excellence in Supervision.

The award, which is the highest of its kind, honors those in the Federal Reserve System who have demonstrated extraordinary achievement in the financial regulation sector. The award was established in 1993. Its namesake was the former head of supervision of the Board of Governors who later became the FDIC chairman.

Gayla was recognized for her leadership of the Shared National Credits Modernization Project, which began in 2003. The annual Shared National Credit program reviews the credit quality of large loans shared across at least three regulated financial institutions. The intense, eight-week review involves upwards of 700 examiners from all the national bank regulatory agencies, including the Fed.

The interagency modernization project seeks to increase the efficiency of the review process by giving banks an improved data-reporting functionality and examiners a new, Web-based tool for evaluating the data. Gayla has been the Fed's point person on the project for the past nine years.

"Gayla is a very deserving winner," said Kevin Moore, head of the bank supervision division at the Kansas City Fed. "Gayla's technical expertise, leadership and personal commitment to this project are all attributes that Bill Taylor displayed in his career at the Fed."

Gutierrez is the eighth Kansas City Fed employee to receive the award. Past recipients are Marge Wagner, Dave Anderson, Ron Sisneros, Ed Hughes, Forest Myers, Alinda Murphy and Marsha Reese.



PHOTO BY GARY BARBER

---

GAYLA GUTIERREZ and Kansas City Fed President Tom Hoenig display the William Taylor Award following a recognition ceremony for Gutierrez held at the Kansas City Fed.

---

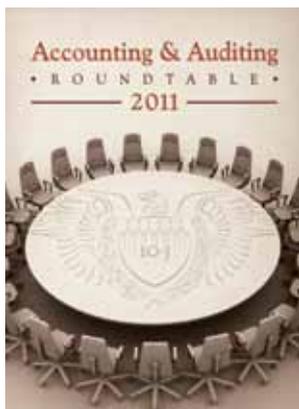
## Bank releases EEO data, Diversity Strategy

In support of the goals of Section 342 of the Dodd-Frank Act, under which the Kansas City Fed's Office of Minority and Women Inclusion has been established, the Board of Governors and all of the Reserve Banks provided workforce representational data to the public. The Kansas City Fed released its Equal Employment Opportunity (EEO) summary data and key elements of its 2011-2013 Diversity Strategy on its website on June 6.

To learn more, visit [KansasCityFed.org](http://KansasCityFed.org).

## Register Now for Accounting/Auditing Roundtables

The Supervision and Risk Management Division of the Federal Reserve Bank of Kansas City is hosting its 19th annual Accounting and Auditing Roundtables the week of Nov. 7 in Kansas City and Denver. Steven Merriett, chief accountant at the Federal Reserve System's Board of Governors in Washington, D.C., will participate in this year's discussions.



The primary goal of the Roundtables is to share knowledge about emerging accounting pronouncements

and related examination issues while enhancing communication with the Federal Reserve. Approximately 120 bankers and accounting and auditing professionals are expected to attend.

For the Roundtable dates and agenda, visit [KansasCityFed.org](http://KansasCityFed.org). There is no charge for the event, but registration is required. Registrations will be accepted through Oct. 27. For questions, call Lisa Aquino at (800) 333-1010 ext. 12491.

# Bank Anniversaries

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

Bank of Versailles	Versailles	Mo.	92
First State Bank of Newcastle	Newcastle	Wyo.	81
Grant County Bank	Medford	Okla.	71
Stock Exchange Bank	Caldwell	Kan.	71
Fidelity Sate Bank & Trust Co.	Dodge City	Kan.	68
First State Bank	Fairfax	Okla.	66
Farmers State Bank	Pine Bluffs	Wyo.	45
Bankers' Bank of the West	Denver	Colo.	31
Citizens State Bank & Trust Co.	Ellsworth	Kan.	31
Citizens Bank & Trust Co. of Ardmore	Ardmore	Okla.	20
Cornerstone Bank	Overland Park	Kan.	10
Farmers Bank	Ault	Colo.	10
Collegiate Peaks Bank	Buena Vista	Colo.	5
Community Bank of Pleasant Hill	Pleasant Hill	Mo.	5
Nebraska Bankers Bank	Lincoln	Neb.	5
FirstBank	Lakewood	Colo.	1
West Plains Bank	Ainsworth	Neb.	1



Fall 2011

VOLUME 7 • NUMBER 2 • ISSN 1554-7469

# 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 western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico. 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 check processing and other services to depository institutions.



SENIOR VICE PRESIDENT & PUBLIC INFORMATION OFFICER:  
Diane Raley

VICE PRESIDENT: Kristina Young

ASSISTANT VICE PRESIDENT & PRODUCTION ADVISOR: Lowell Jones

EDITOR: Brye Butler Steeves

CONTRIBUTING WRITERS: Sara Brunsvold, Jennifer Clark, Pam Gutel, Sarah Kemp, Bill Medley, Stacey Montague, Erin Redemske, Michele Wulff

ART DIRECTOR: Angela Anderson Miles

MAGAZINE DESIGNER: Gary Barber

RESEARCH CONTRIBUTORS: Brian Briggeman, Kelly Edmiston, Jason Henderson, Shujaat Khan, Ed Knotek, Michal Kowalik

COVER PHOTO: Bob Greenspan

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

The views and opinions expressed in TEN are not necessarily those of the Federal Reserve Bank of Kansas City, the Federal Reserve System, its governors, officers or representatives.

TEN articles may be reprinted if the source is credited and the Public Affairs Department of the Federal Reserve Bank of Kansas City is provided with copies. Permission to photocopy is unrestricted.

For a free subscription, please visit [KansasCityFed.org/TEN](http://KansasCityFed.org/TEN) or call 816-881-2683.



Federal Reserve Bank of Kansas City  
1 Memorial Drive  
Kansas City, MO 64198-0001

PRESORTED STANDARD  
U.S. POSTAGE  
PAID  
CONSOLIDATED  
MAILING CORPORATION

CHANGE SERVICE REQUESTED

# HOW CAN *The Federal Reserve Bank of Kansas City*

## HELP YOU?



WEBSITE: [www.KansasCityFed.org](http://www.KansasCityFed.org)

From the home page:

- Recent news and speeches
- Publications and research
- Foreclosure information



CONSUMER BANKING INQUIRIES:

(888) 851-1920

[www.FederalReserveConsumerHelp.org](http://www.FederalReserveConsumerHelp.org)



EDUCATOR AND STUDENT RESOURCES:

[www.FederalReserveEducation.org](http://www.FederalReserveEducation.org)



PERSONAL FINANCIAL EDUCATION:

[www.FederalReserveEducation.org/pfed](http://www.FederalReserveEducation.org/pfed)



PUBLIC TOURS:

Kansas City Fed Money Museum

(816) 881-2683



GENERAL INQUIRIES:

Kansas City (816) 881-2683



FEDERAL RESERVE SYSTEM AND  
BOARD OF GOVERNORS:

[www.FederalReserve.gov](http://www.FederalReserve.gov)