

# TEN



Spring 2010

FEDERAL RESERVE BANK OF KANSAS CITY

**Inside:**

**Financial education on the job**

**How the Fed gets regional perspective**

**Teaching kids about credit**

## **A PIVOTAL INDUSTRY:**

**Energy's ups and downs drive economies**

ANNUAL REPORT ISSUE



# On The Cover:

# TEN

SPRING 2010

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## A PIVOTAL INDUSTRY:

Energy's ups and downs drive economies..... 6

With large energy reserves across the region, the Tenth Federal Reserve District is not immune to the industry's volatility.

## FEATURES



**A COMMUNITY AFFAIR: Kansas City Fed programs take policymakers to the front lines..... 12**

In an economic downturn, the need for research, relationships and resources is critical.



**CONFERENCE ROOM TO CLASSROOM: Financial education in the workplace benefits employees, employers ..... 16**

Tiffany Kuper says her employer's on-site financial education program "is a stress relief." The company says the program has positively affected its bottom line.



**FINANCIAL STABILITY REPORTS: How useful during a financial crisis? .....20**

Many countries publish the condition of the financial system and assess risks. Would such a report in the United States have made a difference during the recent financial crisis?



**REGIONAL CONNECTIONS TO NATIONAL POLICY: Directors from the Kansas City Fed's District offer local perspective .....24**

The Reserve Bank's directors come from a wide range of backgrounds and are critical in connecting it with the communities it serves.

**2009 ANNUAL REPORT .....38**

Listings of the Federal Reserve Bank of Kansas City's officers, directors, advisory councils and roundtable groups, and more.

## IN EVERY ISSUE

- 1      PRESIDENT'S MESSAGE**
- 28     ABOUT ... BANK DIRECTOR TRAINING**
- 30     COMMON CENTS**
- 34     NOTES**

### Banking, democracy and the critical balancing of power

**B**oth the financial crisis and the way it was handled by policymakers have generated substantial anger and frustration with our nation's financial system. Many, including me, believe there are important questions about how a nation that believes so strongly in capitalism can intervene to protect some who assumed excessive risk simply because of their size and "interconnectedness" while smaller firms are allowed to fail.

These are issues about how our markets are structured and function as well as several of the values Americans hold deeply, including fairness and honesty. In a nation where many of us are disgusted to see steroids taint the sports record books, the idea that the most powerful financial firms play by a different set of rules to similarly bolster their performance is an outrage. In many regards, it might seem that finding a way to avert the rules has become the true national pastime.

Despite the frustration many feel, I believe it is important to recognize that the arrogance and mistaken ideals of a few—albeit a very powerful and influential few—do not represent the broad population. And so, as we look at the financial crisis, it is important to point out that most bankers—in fact, almost all—play by the rules; are proud to serve their communities; and are perhaps the most dismayed about the crisis and how it was handled. Bankers, especially those at the community banks, are not the bad guys.

This is a reality that has seemingly been lost in the current national discussion about our financial system. Similarly lost have been the reasons why Congress, when it created the Federal Reserve nearly a century

ago, made a point of involving both bankers and the government in the oversight of our nation's central bank in such a manner that each balances the other. This balance is the Federal Reserve's real strength, and it is unfortunate that discussions about our financial system and the Fed's structure are happening in an era where opinions are largely shaped by sound bites, which are, by design, incomplete. Conducting much of this review at only a superficial level is not only tragic, but also dangerous for our national economic well-being over the long term. Politics is a short-term game, while decisions about monetary policy and how we regulate our financial institutions have substantial and far-reaching implications.

The most fundamental element to protecting our nation's democratic values is balancing power. The Federal Reserve, as an institution, is accountable to: the Congress, which created it; the administration, which appoints its chairman and governors; and the public, which it serves.

With this column, I would like to answer some of the most frequently asked questions about our nation's central bank and address some of the more widely held misconceptions on a full range of topics. In discussing these points, I think it will also illustrate not only how power and responsibility are distributed throughout the Federal Reserve, but also why it is so important to our nation.



## **Bankers do not control the Reserve Banks**

The Fed's congressional founders recognized the dangers of giving the government direct and sole control over the printing of currency. Because the public, including bankers, did not trust the politicians with the printing press, one-third of the seats on each board responsible for the oversight of the 12 Federal Reserve Banks are held by bankers. Bankers within each Federal Reserve District were given the opportunity to elect several local directors. However, two-thirds of the directors on a Reserve Bank's board are not permitted to be bankers.

While the public did not trust politicians, the politicians also recognized the risk in giving control to bankers. At the time of the Fed's founding, the nation had already made two attempts at a central bank, and neither one was successful because they were privately held institutions. To block private interests from controlling the central bank, a government agency known today as the Board of Governors was created and given broad oversight for the entire System. The governors are appointed by the president of the United States and confirmed by the U.S. Senate. Among their numerous responsibilities, the governors appoint one-third of the directors of each regional Federal Reserve Bank, including both the chair and deputy chair of each board.

With this structure, the Federal Reserve has the most grassroots, representative structure of any federal entity because the Washington-based Board of Governors, a federal agency, has the benefit of 12 regional Reserve Banks that

are located on "Main Streets" all around the United States.

## **Director elections, appointments are a model of accountability**

Congress included provisions in the Federal Reserve Act governing director eligibility and selection, in addition to requirements that dictate the makeup of regional Reserve Bank boards. Reserve Bank directors meet legal requirements and practices that guide their eligibility and conduct. They are held accountable by law. They come from diverse backgrounds within every region of the country and every sector of the economy: business, industry, labor, agriculture and banking. The Federal Reserve Board recently strengthened its rules to address Reserve Bank director eligibility in light of changes in the status of affiliated financial firms as occurred during the financial crisis, such as when investment banks quickly became bank holding companies.

Each Reserve Bank has nine directors:

- Three directors of each Reserve Bank board are appointed by the Board of Governors, the government agency. These directors are prohibited from any involvement in banking, including stock ownership, and are the only directors eligible to be chair and deputy chair.
- Three directors who are not bankers are elected by bankers from within their respective Federal Reserve district. These directors have no reporting responsibilities to any banks.
- Three directors who are local bankers within the region are elected by their peers. Regulations mandate that smaller banks must

hold two of these seats. Often in the Tenth Federal Reserve District, all three banking positions are held by individuals affiliated with community banks.

Federal Reserve Bank stock is owned by state-chartered member banks and all federally chartered banks. These bankers do participate in elections and may serve as directors. The percentage of stock they are required to own, and the dividend paid on that stock, is prescribed by law, thereby eliminating any incentive or reward to benefit from Reserve Bank operations.

Directors receive only travel reimbursement for meetings and a modest stipend. There is no meaningful monetary incentive to serve as a director.

A recent example of a director conflict that may be the source of public concern involved Stephen Friedman, former chairman of the Federal Reserve Bank of New York who also was the former chairman and a large shareholder of Goldman Sachs.

There are a few points about Mr. Friedman that may not be widely known, but are a matter of public record:

- Mr. Friedman was not elected by bankers to serve on the Federal Reserve Bank of New York's board. He was, in fact, appointed to his position at the New York Fed by the Board of Governors in Washington.
- Mr. Friedman later became ineligible for Federal Reserve service when Goldman Sachs was made a bank holding company as approved by the Board of Governors in Washington.
- Mr. Friedman, however, was allowed to continue to serve on the New York Fed board under a waiver of the rules that was granted

by the Board of Governors in Washington. He resigned from the position in the spring of 2009.

Directors have no role in banking supervision. As the central bank, the Fed plays a role in banking supervision. The bankers on Reserve Bank boards provide valuable insight on banking conditions and the general economy but are prevented by strict controls from any involvement in the Reserve Bank's supervisory role. There is no conflict.

Though Reserve Bank directors have important oversight responsibilities for the operation of their respective Reserve Bank, they have absolutely no role in banking supervision. By law, the Board of Governors is responsible for the supervision of banks, and any information or discussion related to supervisory issues moves directly between the regional Reserve Banks' staff and the Board in Washington. The Federal Reserve supervises all bank holding companies, so it is a misnomer that directors can put their own firm under Fed supervision for favorable treatment. If a bank director wants to convert his or her bank to Fed membership, the Board of Governors in Washington must act on the proposal and other agencies comment. When a Reserve Bank director who is a banker comes under a supervisory action, he or she typically resigns from the Reserve Bank's board.

## **Reserve Bank directors have no role in monetary policy voting**

The Federal Reserve has important protections in place to keep the banking community from becoming intertwined



with monetary policy votes. All Reserve Bank directors play an important role in the monetary policy process by providing economic and financial industry data that helps a Reserve Bank president understand current conditions. However, directors play no role in dictating how that president votes on the federal funds rate.

Reserve Bank directors, including bankers, do vote on the discount rate, which is the rate at which the Federal Reserve lends funds to financial institutions, but the rate must be ratified by the Board of Governors before it takes effect. Therefore, there is full control over the rate charged by the Federal Reserve Banks to the banking industry. In my view, there is extreme risk of some group or sector attempting to assert influence if this structure is put under greater political control.

### **Reserve Bank presidents vote on the FOMC, have political checks and balances**

Political appointees have the majority vote on the Federal Open Market Committee (FOMC). However, in designing the Fed's structure, Congress nearly a century ago recognized that it was important for views from a wide range of the public to contribute to important decisions. One of the most common complaints about any government agency or initiative, without regard to topic or political party, is that it is created entirely "inside the Beltway" and not connected to the concerns of the rest of the nation. The Fed's structure addresses this issue very directly.

When the modern FOMC was formed

some 20 years after the Fed's creation, this design was also reflected in its structure, with the Federal Reserve governors given a majority—seven of the FOMC's 12 voting seats. To suggest that only government appointees should be allowed to vote is, frankly, extremely dangerous from a policy perspective. However, the suggestion that government appointees are somehow free of other conflicts and considerations compared with the Reserve Bank presidents is false. One need only look to the U.S. Treasury and the various connections held by Goldman Sachs to see that, ultimately, any government appointee is a private citizen with a background and perhaps some concern about the opportunities in their future. The real question is: Are adequate protections in place?

It could be argued that the Reserve Bank presidents are far more insulated from financial interests than any elected or appointed official who can step directly into their post from the private sector. An examination of the current 12 regional Federal Reserve Bank presidents shows that six have come to their position after lengthy careers at the Fed, having moved up through the ranks. This means that their activities and personal investments have been heavily restricted for much—and in some cases all—of their professional lives. Three presidents have come to their positions at the Fed after extensive careers in academia. The remaining three presidents have backgrounds in banking and finance, but have also either held other posts within the Federal Reserve, or have spent time in public service or academia.

Reserve Bank presidents, though chosen by their boards of directors, may be vetoed by the Board of Governors. That is, they may be

prevented from serving if they are unsuitable, regardless of their selection by Reserve Bank directors.

Reserve Bank presidents undergo an annual review. This review involves both the Board of Governors and the local board of directors.

Reserve Bank presidents must be reappointed to their jobs every five years by their Bank's Board of Directors.

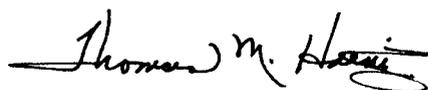
## **The Fed is transparent, accountable**

The Federal Reserve undergoes a wide range of audits and reviews involving the Board of Governors, the Government Accountability Office, the Treasury, an independent outside auditor and an internal auditor. Finally, the Fed is directly accountable to Congress, and Federal Reserve officials testify before Congress regularly.

The author of the so-called "audit the Fed" amendment has played down these numerous reviews in seeking support for his initiative. Congressman Ron Paul's goal is not a review of the central bank but, as is evidenced by the title of his most recent book, to "end the Fed." For those who see that as a desirable outcome, it is important to note that our nation was without a central bank for eight decades. Even a quick review of U.S. economic history shows this was a period of recurring financial crises as the nation wrestled with, among other problems, the pitfalls created by an inelastic currency whereby liquidity issues, rather than being addressed, could quickly bring about near economic collapse. Additionally, without

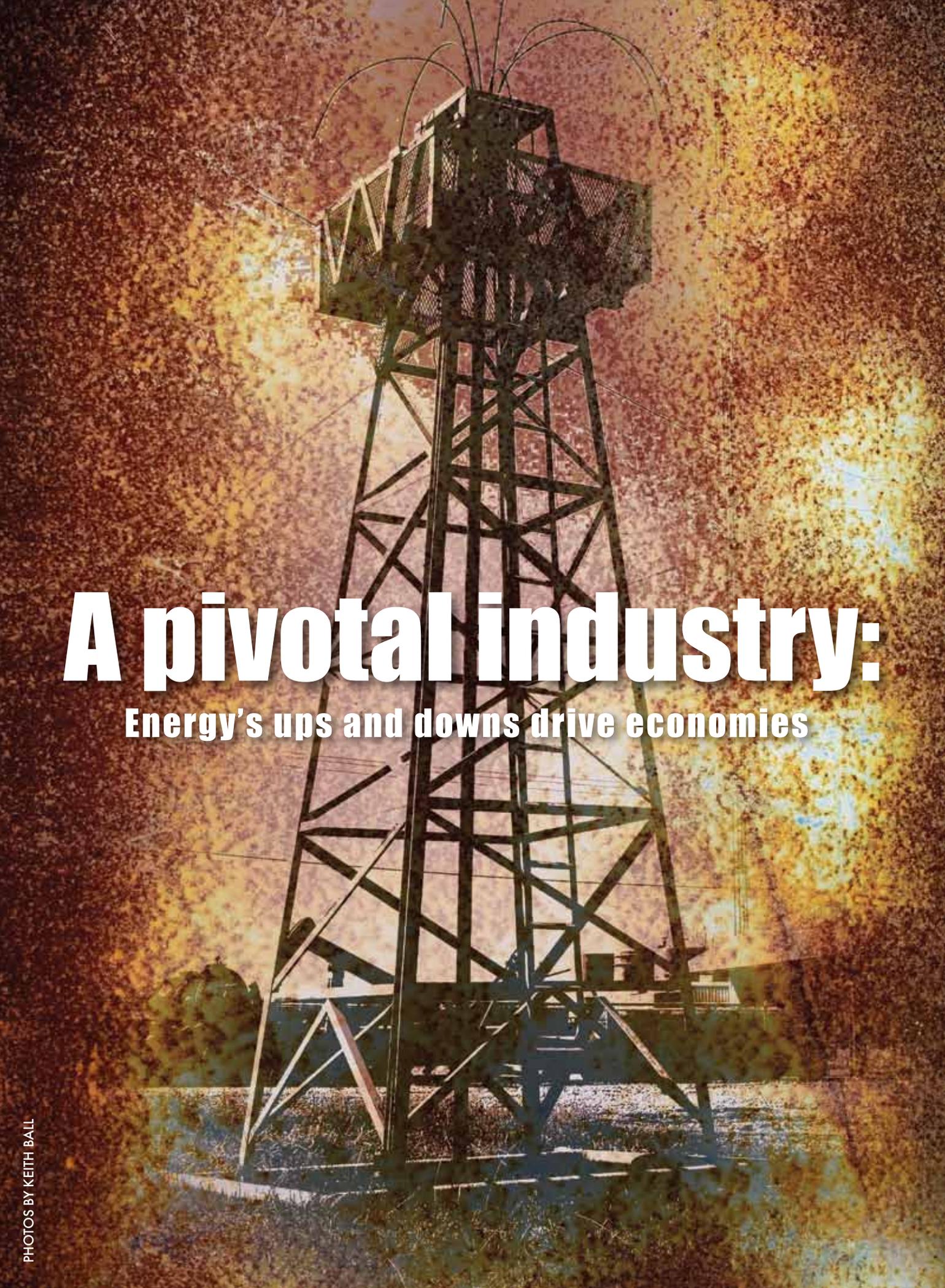
elasticity, credit could be unavailable to smaller banks that serve the broad population and tightly controlled by the largest institutions.

The Federal Reserve's structure was specifically crafted by Congress to limit the influence of financial and political interests on the nation's central bank. It is the direct result of the nation's populist movement and the desire to carefully balance competing interests. It is a structure that Congress has repeatedly supported. If anything, the events of the past year have convinced me that this delicate balance is at least as important—if not more—as it was when the Fed was created nearly a century ago.



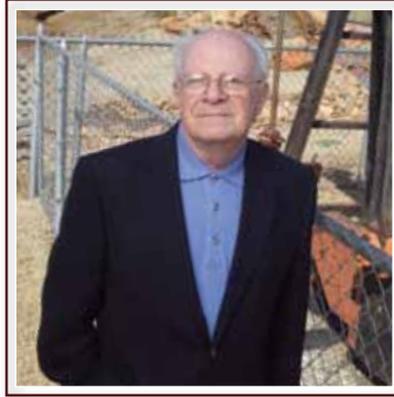
THOMAS M. HOENIG, PRESIDENT  
FEDERAL RESERVE BANK OF KANSAS CITY

The book "**The Balance of Power**" summarizes the Federal Reserve's political history. Read it online at [KansasCityFed.org](http://KansasCityFed.org).



# **A pivotal industry:**

**Energy's ups and downs drive economies**



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From his company's headquarters in Seminole, Okla., Melvin Moran has experienced every oilfield boom during the last six decades. Unfortunately, he's also had an up-close seat to every bust.

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**S**ince 1953, when he joined Moran Oil Enterprises—the company his father started in the 1930s—Moran has seen Seminole's fortunes swing up and down, much like the pumpjacks that still dot the surrounding east-central Oklahoma landscape.

Oil was discovered in the region during the 1920s, boosting the city's population from 864 to more than 30,000 in just a few months. At its height in the early 1930s, Seminole was producing about one-third of the world's oil.

"Oil really built Seminole," Moran says. "It was a real boom town—a lot like the gold towns that sprung up in the 1800s. Almost every oil company had a presence in Seminole at some point."

After periods of increasing production and higher oil prices, the market would occasionally fall, sending oil prices lower and jobs elsewhere. For Moran, an especially memorable oil bust took place in the 1980s. In 1985, he recalls,

oil went for about \$28 dollars a barrel. A year later, the price had dropped to \$9. Almost all of Seminole's 200 or so oil firms disappeared, leaving about 20 to pick up whatever business remained.

"The area was decimated," Moran says. "People were losing money with every barrel they produced. It was a tough time for a lot of people."

But in the two decades since that bust, oil and natural gas production rebounded once again in Seminole, where 60 to 70 energy firms are now based in the city of about 6,800.

Similar stories are common in towns across Oklahoma. In good times, the state's economy has reaped the benefits of higher energy prices, driving job growth, tax revenues and income to supporting industries and households.

The strength of the oil and natural gas industry in recent years also provided support when the nation's economy slowed. Mark Snead, assistant vice president and Denver

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**VOLATILITY IN THE ENERGY INDUSTRY** has long affected the economies of towns such as Seminole, Okla. In the 1980s, a boom saw about 200 oil firms searching for office space in the town, and a bust closed the doors of all but 20. Though oil is still prominent in Seminole's economy today, a more diversified mix of industries helps the town better weather energy's boom-bust cycle.

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Branch executive at the Federal Reserve Bank of Kansas City, says the industry's growth allowed traditional energy states such as Oklahoma to avoid the start of the latest recession.

"The record-high crude oil and natural gas prices we saw provided a buffer for the major energy-producing states, such as Oklahoma, as the recession began," Snead says. "While other states started losing jobs, the rapid expansion in oil and natural gas production and exploration helped support the economies of energy states in the early stages of the recession."

But, Snead adds, the recession eventually caught up with energy-producing states. By mid-2009, falling demand pushed oil and natural gas prices lower, and the economies of the energy states began underperforming the rest of the country.

"This kind of volatile shift in economic activity tied to energy prices is very similar to what happened in the 1970s and 1980s," Snead says. "It suggests that the energy cycle is still alive and well in the traditional energy states."

## **The energy states**

While many states produce some oil and natural gas, only a few can truly be considered an "energy state." The distinguishing mark of an energy state is whether a change in energy prices leads to a rapid expansion or contraction in the state's overall economy, Snead says.

During times of high energy prices, the oil and gas industries in energy states are a major driver of overall economic growth—providing jobs and boosting incomes, even in the face of a national recession. But, lower energy prices can lead to a significant slowdown in an energy



state's economy, even if the rest of the country is experiencing an expansion.

This distinction means that a state such as California, which is the country's third-largest producer of crude oil, is no longer considered an energy state because of the minor role energy now plays in its overall economy, Snead says.

"For example, in Oklahoma and Texas, the economic health of the state is strongly tied to the health of the oil and gas industries," he adds. "The same is true in North Dakota, where the energy industry is very small in comparison to other states, but it influences the state's overall economy."

Snead has identified a core group of 13 energy states. These include a "top tier" of Oklahoma, Wyoming, Texas, Alaska and Louisiana, and a second tier consisting of New Mexico, Colorado, West Virginia, Kansas, Mississippi, Montana, North Dakota and Utah.

Among these states, North Dakota and West Virginia have the greatest potential to



move into the top tier, if production of oil and gas continues to grow and identified oil and gas sources are developed, Snead says. By the same token, Kansas and Mississippi may start losing their energy state status as the earnings paid to workers by oil and gas firms continue to decline as a percentage of total state earnings. In addition, Snead says, it's debatable whether Utah is still an energy state: It has large natural gas sources in development, but growth in its non-energy industries has outpaced that in oil and gas.

The fact that oil and gas still influence the overall health of the top energy states to such a large degree suggests that few have successfully diversified their economies, Snead says.

"Many of these states still depend on oil and gas for a large share of their total earnings," he says. "The risk is that a prolonged slide in energy prices could pose considerable problems to these states' recoveries. We're seeing a little bit of that now with natural gas prices remaining well below their previous highs."

## A slump in Wyoming

In the heart of Kemmerer, Wyo.—not far from the first dry goods store operated by James Cash Penney—John Sawaya continues a century-long tradition of outfitting western Wyoming workers with shoes and clothing at his family's store. As with many areas rich in natural resources, the town has seen its share of energy booms over the last 100 years.

The latest one peaked in 2008 as natural gas companies, spurred by record-high prices, rushed into the state to build pipelines and processing plants. Jobs were plentiful, and hotel rooms, usually reserved for tourists taking in the area's scenery, were filled with workers.

"Because of the natural gas boom, it seemed like all the major companies were expanding," Sawaya says. "We were extremely busy with construction workers coming in from Illinois and Texas. They were working outside in the winter, and it gets to minus 20 here."

But, starting in 2009, the pace of work slowed, and Sawaya says the "two-stoplight town" returned to a more peaceful pace.

"This last year, a lot of projects were completed and others are not really getting off the ground as quickly," he says. "They're either being postponed or using fewer workers. Instead of 1,000 people working day and night, it's fewer people taking longer to complete it. We're going through quite a slump."

Further signs of that slump can be found across the state. City governments are facing stiff cuts due to lower sales tax revenues. At the statehouse, debates over how to spend revenue surpluses are no longer taking place; lawmakers are now preparing for a much more conservative budget.

Perhaps more significantly, the state's unemployment rate rose from 2.7 percent in January 2008—a level well below the national average at the time—to 7.5 percent in December 2009, still below the national average but the highest in Wyoming since 1987. In late November, Wyoming's Department of Employment cited an "unprecedented"

# Energy States in the Tenth District

Among the 13 energy states identified by Mark Snead of the Federal Reserve Bank of Kansas City, five are in the Tenth Federal Reserve District: Oklahoma, Wyoming, New Mexico, Colorado and Kansas. Two of these states—Oklahoma and Wyoming—have the highest concentrations of oil and gas earnings in the country and are in the top tier of energy states.

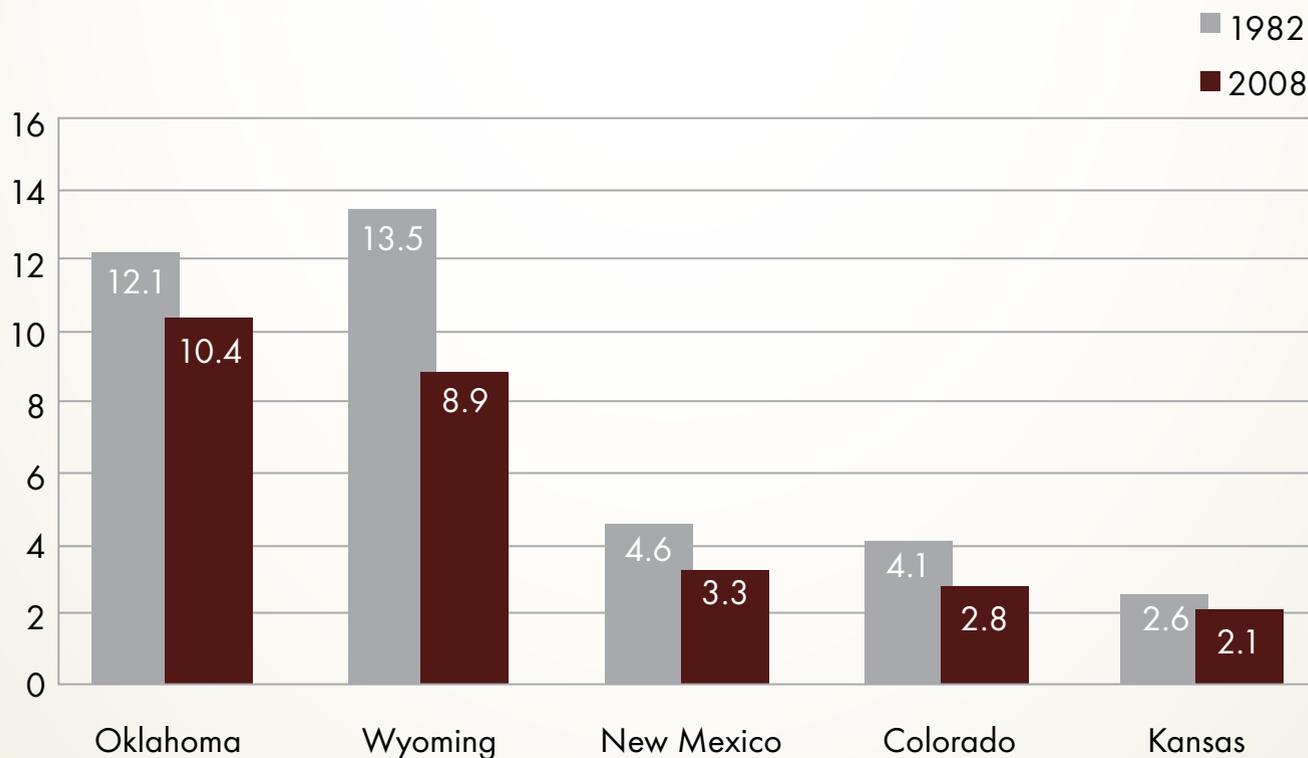
Historically, the District, which is located in the center of the country, has had a high concentration of energy states, and as a result, the District tends to follow the ups and downs of the energy industry more than the national economic cycle, Snead says.

For the latest recession, this has meant that the District fared better than the rest of the country in terms of job losses and overall growth at the beginning of the economic slowdown. And, as was the case in prior recessions, the District began underperforming the rest of the country once energy prices began declining.

However, Snead says, the current downward trend is not likely to match the conditions the region experienced in the 1980s oil bust.

"The down part of the cycle is probably not going to be as severe or prolonged as it was in the 1980s because oil prices have already bottomed and bounced back," Snead says. "The strength in oil prices will partly offset the decline in natural gas, but the sensitivity to natural gas could continue to be a drag for some energy states' economies."

**Percentage of total state earnings contributed by oil and gas**



number of calls to its Unemployment Insurance Division.

Much of the state's recent economic highs and lows can be tied to movements in the natural gas market. According to Snead's research, natural gas prices surged from \$2 per unit to more than \$10 from 2003 to 2008, setting a record high in the process. But as the recession continued and demand fell, natural gas sunk back down to about \$2 per unit before rebounding to around \$5 in the early part of 2010.

As the price declined, many companies slowed exploration and drilling. According to the Wyoming Oil and Gas Conservation Commission, natural gas production last year fell for the first time since 1997. The number of wells also fell significantly with 2,162 drilling permits issued statewide, compared to 3,681 in 2008. With fewer wells to drill, many jobs disappeared.

For Sawaya, fewer workers are around to buy shoes and clothing from his business. He says the impact is noticeable in other businesses around Kemmerer, such as auto parts and hardware stores.

"It's nice and quiet again," he says. "But I'm not happy to see such a dependence on the energy market."

## The recovery

That dependency on energy is the biggest risk faced by the energy states, Snead says.

"The traditional energy states typically enter recessions later and emerge sooner than the rest of the country as energy prices recover," Snead says. "Oil prices are rebounding to more-balanced levels, but the continued downward pressure on natural gas prices could potentially result in a slower recovery than usual in some energy states."

In Oklahoma, Moran says state and local economic development officials are well aware of the risks of relying on energy too heavily. Though the most recent recession was relatively mild for Oklahoma due to the rebound in oil

prices, the experience of the 1980s bust is still fresh in many minds, and worries about natural gas prices are widespread.

"Oklahoma has been trying to diversify," Moran says. "We're providing all kinds of incentives to encourage other kinds of industries, and I think we've had some success."

In Seminole, where oil was the only game in town for many years, the largest employers are now a meat processor and an apparel manufacturer. Moran credits a number of creative-thinking leaders for attracting different kinds of businesses to the town over the years. Still, oil keeps a prominent place in the area's economy.

"The oil price is absolutely perfect right now," Moran says. "It's good for producers and it's not too expensive for consumers. People are still drilling, and the economy is picking up."

While conditions in Wyoming have slowed for Main Street business owners like Sawaya, he's still optimistic about future prospects.

"Since the 1950s, we've seen this kind of cycle," he says. "I expect to see some kind of pickup soon. It's always been like this."



BY BILL MEDLEY, SENIOR WRITER

## FURTHER RESOURCES

### "ARE THE ENERGY STATES STILL ENERGY STATES?"

By Mark Snead  
[KansasCityFed.org/TEN](http://KansasCityFed.org/TEN)

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

# A Community Affair:



## Kansas City Fed programs take policymakers to the front lines

**T**he Federal Reserve System's economic growth objectives are not focused solely on big business and large financial institutions.

A truly strong economy is one that has growth, and opportunity, for individuals at all levels.

To help meet this need, Community Affairs professionals at each of the 12 Federal Reserve Banks are focused on promoting community development and fair and impartial access to financial products. In a challenging economy, the need for innovative research, relationship building and a broad capacity to share information with diverse stakeholders is even more critical.

The Federal Reserve and its Community

Affairs programs are well-positioned to meet that challenge, taking policymakers to the front lines of the important community issues through a range of initiatives, including roundtables, directed research and advisory councils. With its access to financial institutions, economists and community development experts, the Federal Reserve Bank of Kansas City also has the ability to link nonprofits and small businesses to potential funding sources and assist cities and grassroots groups to help residents in underserved areas.

The Kansas City Fed serves the Federal Reserve's Tenth District, which includes Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming. The Community Affairs staff draws on the Fed's credibility and broad geographic

reach to serve all seven states through Branch offices in Denver, Oklahoma City and Omaha. While the Kansas City Fed tailors programs to the needs of its region, it shares goals with the 11 other Federal Reserve Banks and the Board of Governors, giving it the ability to collaborate on successful programs that can be replicated regionally and nationally.

Within the Tenth District, Community Affairs focuses on five strategic areas: neighborhood stabilization; consumer financial stability; economic development that spurs entrepreneurship; capacity-building for nonprofits; and programs that assist lenders in identifying community development investment opportunities.

At the heart of its mission is the integration of research, relationship-building and the capacity to be a reliable resource of information on low- and moderate-income (LMI) populations, allowing Community Affairs to assist its diverse stakeholders to respond more effectively to emerging challenges.

## Research and analysis

Research is a key component in developing programs to address community needs. The

most visible evidence recently has been in the dissemination of foreclosure data and trends to cities and community organizations dealing with the effects on troubled borrowers and distressed neighborhoods.

For example, in 2007, as Kansas City was feeling the brunt of the foreclosure crisis, the department's senior economist published research showing the roles played by subprime and other non-traditional mortgages and falling home values. The research helped bring together concerned business and civic and nonprofit leaders, who met at the Bank to discuss ways to respond to the spread of foreclosures.

The meeting resulted in the Greater Kansas City Foreclosure Task Force, which remains active two years later. Task force recommendations have led to city and state initiatives ranging from better upkeep of vacant homes to protecting tenants innocently caught up in foreclosures. More recently, the task force began studying promising post-foreclosure projects in other cities to see if they might work in Kansas City.

Another research project has found signs that Tenth District businesses can benefit from well-designed financial education programs in the workplace. Workers in Kansas City and Omaha made better personal financial decisions, and employers found themselves with less-stressed employees. The project was in collaboration with United Way of the Midlands in Omaha and the University of Nebraska at Omaha.

The department has also implemented an innovative survey of nonprofit organizations that assist LMI individuals. The quarterly LMI Survey is designed to measure the financial conditions of that population as well as the

For details of a specific Community Affairs program, see the article "Conference room to classroom" on Page 16.



capacity of the nonprofit organizations to continue to serve their clientele. Research not only serves local partners but is broadly disseminated throughout the Federal Reserve System, providing insight to Fed policymakers.

## **Relationship building**

The role of Community Affairs has grown significantly since it was created in the 1980s to support the implementation of the Community Reinvestment Act.

At its founding, Community Affairs mainly helped banks understand their responsibilities and incentives under the act to reinvest in their communities. But as it became more active in development issues, Community Affairs forged new relationships with nonprofit community groups. Over the years, Community Affairs has sought out new opportunities for collaboration to assist LMI populations.

For example, the Kansas City Fed's Oklahoma City Branch collaborates with the

Oklahoma Asset Building Coalition to conduct listening sessions around the state to assess the economic pressures and barriers facing Oklahomans. Information gathered is used to advise financial institutions, community organizations and policymakers on promising practices that promote economic security in underserved communities.

The Denver Branch has a long relationship with the Bureau of Indian Affairs and the New Mexico Tribal Homeownership Coalition, which led to collaboration on the Borrowing Guide for Tribal Members. The purpose of the guide is to identify ways to reduce the processing time for tribal members to obtain loans.

Across its seven-state region, the Kansas City Fed has joined with hundreds of community partners, including lenders and consumer credit counselors, to sponsor Money Smart Week and similar events in Nebraska, Kansas City, Oklahoma City and Denver. This

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**AFFORDABLE HOUSING ISSUES ARE AMONG THE FOCUS AREAS** of Community Affairs. For instance, the department has partnered with nonprofit organizations NeighborWorks America and the HOPE NOW Alliance to sponsor foreclosure-prevention workshops. Homeowners who attend the workshops have the opportunity to hear from loan servicers and housing counselors.

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national program, aimed at helping individuals make wise financial decisions, annually draws thousands of consumers to events that range from budgeting to investment strategies. Reaction has been overwhelmingly positive.

On a national level, the Kansas City Fed and the Center for Social Development at Washington University in St. Louis in June 2009 co-hosted the second annual meeting of state-assets coalitions, bringing together development leaders from more than 30 states to discuss the needs of underserved communities.

These are but a few of the hundreds of relationships that have resulted in initiatives dedicated to serving the LMI community.

## Resource development

As needs have grown, so has the role of Community Affairs, which has expanded its menu of educational programs, workshops and seminars to support not only community organizations, but also consumers directly.

Aligned with its strategy to be a resource for affordable housing issues, Community Affairs departments are working with the HOPE NOW Alliance and NeighborWorks America to sponsor foreclosure-prevention workshops. The events bring consumers face-to-face with loan servicers and housing counselors.

More than 730 homeowners were served at the Kansas City workshop—twice the number expected. Many had never met with a counselor before. The large turnout was credited in part to working with local stakeholders on grassroots marketing campaigns that featured direct mailings and media coverage aimed at consumers.

The Denver workshop attracted more than 525 homeowners, who could meet with staff from seven counseling agencies brought in by the Colorado Foreclosure Task Force. The workshops in both cities also featured roundtables where loan servicers and housing counselors discussed the obstacles, challenges and opportunities that exist in serving homeowners

struggling with their mortgages.

The Internet is also a major tool for community development. An online Foreclosure Resource Center provides a four-step approach for communities to address neighborhood foreclosures. Interactive maps show up-to-date foreclosure and credit data. This is in addition to information on conferences, presentations and research on everything from money management to business development.

## The future

As the nation's central bank, the Federal Reserve has the reputation and national influence necessary to engage lenders, community organizations, city and state leaders, and the small business community around significant issues, especially those involving the financial well-being of the nation's most vulnerable citizens.

With more than 25 years of experience addressing the distinctive needs of their local markets, Community Affairs departments have become integral parts of their communities, keeping the Federal Reserve leadership focused on what is happening in the nation's diverse geographic regions, stretching far beyond Washington, D.C., and Wall Street.



**BY PAUL WENSKE,**

SENIOR COMMUNITY AFFAIRS ADVISER

## FURTHER RESOURCES

For a list of recent Kansas City Fed Community Affairs programs and partnerships, visit [KansasCityFed.org/TEN](http://KansasCityFed.org/TEN).

# Conference *room to* classroom



## Financial education in the workplace benefits employees, employers

**T**iffany Kuper (pictured far right) and her husband work full-time, save for retirement and have minimal debt, but they weren't sure they could afford to start a family.

"We didn't think we had enough money," Kuper, 31, remembers. "I had no idea if I was even on track."

So Kuper enrolled in an on-site financial education program offered by Nebraska Furniture Mart, where she works as a benefits administrator at the company's Omaha headquarters. After attending a general course in a group setting, Kuper and her husband, John, met with an adviser to discuss their finances.

"We realized we were blowing 400 bucks

a month on, well, we didn't know what. That's the same cost as daycare."

Since completing the program a couple of years ago, Kuper has set up accounts for bills, savings and spending, and she has started budgeting for emergencies and vacations. She and her husband have continued to meet with an adviser and, more recently, the couple started a college savings plan for their 1-year-old daughter, Delaney.

Having a better understanding of their finances and clearly defined goals "is a stress relief," Kuper says. "I know I can live off what I make, and I don't have to live paycheck to paycheck."

Megan Berry Barlow, who oversees the financial education program offered at

Nebraska Furniture Mart, hears similar stories from many of the 150 or so employees who have participated. To her, this means more satisfied workers.

Other businesses also cite less-stressed and more-productive employees. Research shows financial education generally improves personal financial outcomes, says Kelly Edmiston, a senior economist at the Federal Reserve Bank of Kansas City. Furthermore, he says, these improvements can cross over and affect employers' bottom lines in the form of fewer requests for pay advances, increased participation in 401(k) plans and more.

Edmiston and Molly McGrath, who works in the Community Affairs Department at the Kansas City Fed's Omaha Branch, conduct ongoing research on the effects of participation in financial education programs and the link between personal financial improvements and the workplace.

Edmiston and McGrath reviewed national trends in savings, debt and retirement funding. They also surveyed and interviewed employees from several large companies who participated in financial education programs at work as well as their employers. Responses were used to gauge financial knowledge and financial behavior, both before and after participating in the class. The companies included a financial institution, a health-care organization, a chain restaurant and a retail business in the Kansas City, Mo., and Omaha metro areas.

"There seems to be a relationship between financial knowledge, financial behavior and, in turn, workplace outcomes," McGrath says. "This leads us to believe it can be advantageous for employers to offer these programs at work, where the knowledge can be applied right away, benefiting both the worker and the employer."

## A need

In many instances, consumers may not understand the consequences of over-spending and not saving. Participants in one financial education course said they now realize not

paying off their credit card balance each month meant they were paying interest on a meal at McDonald's or on hairspray that was purchased in college.

It's generally accepted that Americans like to consume—big houses, nice cars, designer clothes. But whether this constitutes over-consumption isn't as important to maintaining personal financial health as is "consumption smoothing," or balancing spending over a lifetime, Edmiston says. Generally, this means some borrowing when young, saving during peak earning years and drawing down savings during retirement.

Although the basics of personal finance may be well-known—pay bills on time, limit debt, build an emergency fund and save for the golden years—consumer debt (excluding home mortgages) was \$2.6 trillion in January 2009. Before the most recent recession that began in December 2007, the national savings rate was negative, meaning that in addition to



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MEGAN BERRY BARLOW, center, oversees the financial education program at Omaha-based Nebraska Furniture Mart for employees such as Stacy Harbaugh, left, and Tiffaney Kuper. Such programs have benefits not only for the employees but also for the employer, say Kansas City Fed researchers.

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not saving, people were spending more than they were earning. The personal savings rate jumped back into positive territory during the recession.

“Time will tell whether the increase in saving is a permanent change, or whether Americans will go back to their old ways once the economy improves,” Edmiston says. “Regardless, most Americans aren’t financially prepared for retirement. Most people aren’t saving enough during their working years to maintain their optimal consumption during retirement years. The balance of accumulated retirement savings is just as important, if not more so, than the savings rate.”

As it is, just more than half of the families recently surveyed by the Federal Reserve hold financial assets in a retirement account. Another study revealed roughly 45 percent of workers cash out their 401(k) accounts when they change jobs. And, about three-quarters of families held some kind of debt, according to data from 2007.

There is “good debt,” which helps the borrower smooth lifetime consumption, such as student loans or a mortgage (as long as it is proportionate to the household’s income).

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**WORKERS WHO HAVE USED FINANCIAL EDUCATION opportunities offered through their employers report improvements in how they handle their finances, such as using a more formal budget and making it a priority to pay off credit card balances each month. In turn, employers report seeing positive effects on their bottom line, both directly and indirectly.**

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“There is nothing inherently bad about holding debt,” Edmiston says. “Consumption smoothing means there is some accumulation of debt early on for most people. However, for many, debt is rising faster than income, and people find they have more than they can manage.”

“Unmanageable debt is too much debt,” McGrath adds. “Especially when it’s coupled with no personal savings.”

## **On-the-job learning**

It’s not too late for adults to learn—and practice—good financial behavior, says Shawn Macken, who teaches programs across the nation as a financial adviser at Overland Park, Kan.-based Waddell & Reed Inc. Adults are usually responsible for their own financial well-being, so a financial program likely resonates more so with them than it would for school-aged children. Also beneficial is learning in the same place where the participant can invest for retirement.

Participants learn common financial tenets, such as budgeting, credit and taxes, and attend a series of one-on-one meetings with a financial adviser as well as periodic reviews for one year.

Whether their goals are to pay an unexpected medical bill in full, buy holiday gifts without carrying a credit card balance, or save for a down payment on a house, participants find that the financial education programs help them focus on making better decisions with their money—not necessarily on increasing their income. After completing the program, many participants reported using a more formal budget, paying off credit card

balances each month, paying bills on time and forgoing payday lenders.

Why do these facets of an employee's personal life affect his or her employer? It's simple, Macken says: "A business runs on its people."

Edmiston and McGrath cite several ways workers' personal financial condition can affect employers' bottom lines, both directly and indirectly:

- Wage garnishment may be the most direct impact, which is costly and cannot be recouped. Employers can't charge a fee or fire a worker for garnishment.
- Employee recruitment could be affected because nondiscrimination requirements mandate a balance between 401(k) contributions for high- and low-paid workers. If lower-paid workers aren't saving, then the employer may not be able to attract other employees with generous retirement benefits.
- Advances on paychecks and loans from 401(k) plans are administratively expensive.
- Employee theft, embezzlement, absenteeism and time spent at the workplace dealing with personal financial problems are costly and decrease productivity.
- General stress from financial problems can hinder productivity, and in more extreme cases, lead to workplace accidents or violence.

"On so many levels, financial education programs can and do influence personal financial behavior, so it would seem advantageous for employers to offer formal assistance to workers," Edmiston says. "And those employees should take advantage of that. After all, people see professionals for other areas where they lack expertise, such as doctors, mechanics and personal trainers. Those who need help managing their finances should also seek guidance."

## **Making the grade, getting results**

Although employers' benefits aren't easily quantified, it seems those who offer subsidized financial education to employees see a positive

impact on their bottom lines. Results from surveys and interviews show success for employers and employees alike. Furthermore, all of the companies surveyed by the Kansas City Fed that hosted the pilot programs three years ago still have the program in place now and are offering it to more employees.

At Nebraska Furniture Mart, it's also a retention tool, Barlow says.

"There's always going to be someone who pays more or offers better health insurance," but Nebraska Furniture Mart wants to let its 3,000 employees know the company cares about them.

"Should we really be doing this at work? Yes. It's the right thing to do," Barlow says. "I'm happy to say we're an employer who offers it."

As a result of her participation, long-time employee Stacy Harbaugh and her husband, Craig, increased their insurance coverage and started college savings plans for their two pre-teen children.

"It was very convenient for us," Harbaugh says. "There was no reason not to (enroll in the program)."

Tiffany Kuper agrees.

"My parents never told me (about finances); you don't learn it in school or hear it from your friends."

She learned at work.



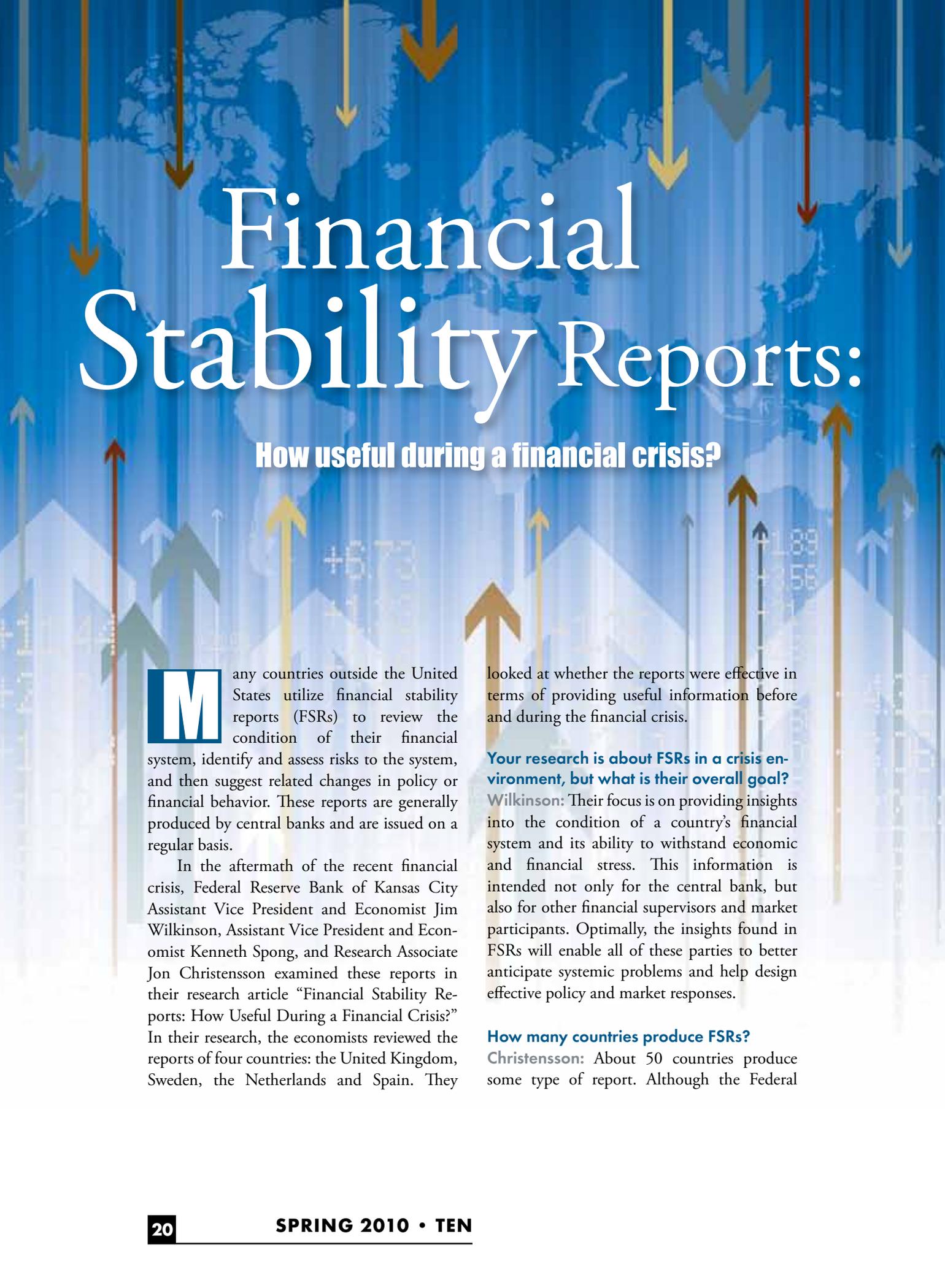
**BY BRYE STEEVES**, SENIOR WRITER

## **FURTHER RESOURCES**

### **"WEIGHING THE EFFECTS OF FINANCIAL EDUCATION IN THE WORKPLACE"**

By Kelly D. Edmiston, Mary C. Gillett-Fisher and Molly McGrath  
[KansasCityFed.org/TEN](http://KansasCityFed.org/TEN)

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



# Financial Stability Reports:

## How useful during a financial crisis?

**M**any countries outside the United States utilize financial stability reports (FSRs) to review the condition of their financial system, identify and assess risks to the system, and then suggest related changes in policy or financial behavior. These reports are generally produced by central banks and are issued on a regular basis.

In the aftermath of the recent financial crisis, Federal Reserve Bank of Kansas City Assistant Vice President and Economist Jim Wilkinson, Assistant Vice President and Economist Kenneth Spong, and Research Associate Jon Christensson examined these reports in their research article “Financial Stability Reports: How Useful During a Financial Crisis?” In their research, the economists reviewed the reports of four countries: the United Kingdom, Sweden, the Netherlands and Spain. They

looked at whether the reports were effective in terms of providing useful information before and during the financial crisis.

### **Your research is about FSRs in a crisis environment, but what is their overall goal?**

**Wilkinson:** Their focus is on providing insights into the condition of a country’s financial system and its ability to withstand economic and financial stress. This information is intended not only for the central bank, but also for other financial supervisors and market participants. Optimally, the insights found in FSRs will enable all of these parties to better anticipate systemic problems and help design effective policy and market responses.

### **How many countries produce FSRs?**

**Christensson:** About 50 countries produce some type of report. Although the Federal

Reserve and the other U.S. financial regulators have regular surveillance and monitoring programs, the United States is actually the only major industrialized country that does not produce an FSR.

### What types of things do FSRs include?

**Spong:** They are all a little different, but generally an FSR looks at three areas: macroeconomic conditions or sectoral imbalances, financial sector risks, and international or external risk sources. And then within each of those areas, you evaluate if risks are increasing and if they are of a significant nature and likely to be realized. There are a lot of different ways to identify and measure risks. For example, a central bank might look at a wide range of indicators, including capital and asset quality measures at financial institutions, household debt levels, earnings and debt ratios for nonfinancial firms, and market-based indicators such as stock price information. Many reports also evaluate how the financial system and its stability would be affected if any of the risks they identify are realized. This analysis is often based on stress tests, or “what-if” tests. The specific information and analysis presented in an FSR will further depend on the economic structure of the particular country.

### Did the FSRs see the crisis coming?

**Wilkinson:** The FSRs we reviewed generally did well in spotlighting the economic and financial trends that would prove to be so disruptive and threatening to financial stability. For example, some of the factors and trends the reports saw were highly indebted households, growing leverage in parts of the corporate sector, and historically low credit spreads and risk premiums on financial instruments. The FSRs also cautioned about the growth in complex and less-transparent financial instruments, rising interconnectivity among large institutions, and heavy reliance by financial institutions on short-term, wholesale funding sources, both domestic and foreign.

Several FSRs also mentioned unsustainable housing booms; concerns over risks and imbalances spreading from the U.S. and U.K. financial systems; and, in the case of Sweden, the lending exposures that several banks had to slowdowns in the Baltic States.

### It sounds like the FSRs had a good idea of where the economies were going, so why wasn't more done to prevent the crisis?

**Spong:** The reports made some strong attempts to measure how the risks they identified might affect their country's banking system and financial stability. For instance, the four countries constructed a number of scenarios and made assumptions about the channels through which these risks would be transmitted to the financial system. The countries then conducted stress tests to estimate the magnitude of the likely outcomes. These stress tests reflected such scenarios as a substantial increase in bank funding costs, a significant impairment in credit quality, the failure of a major financial institution in a country and a notable decline in housing prices.

**Wilkinson:** These stress tests appeared to be helpful in giving the central banks a better understanding of the resiliency of their financial markets and the type of responses that might






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IN THEIR RESEARCH ON THE VALUE OF FINANCIAL STABILITY REPORTS in a financial crisis, Jon Christensson, left; Jim Wilkinson; and Kenneth Spong studied reports issued in four countries. Generally, the reports created by a nation's central bank are issued on a regular schedule.

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be needed as the crisis continued. However, the stress tests and other analysis in the FSRs generally underestimated the magnitude and severity of many of the risks that were identified and evaluated.

**Christensson:** When looking at it, it is probably not too surprising that many of the countries affected by the crisis underestimated it, particularly given the unprecedented severity of the crisis and the fact that much of the crisis originated from events outside of several of these countries. Central banks must also be very careful to strike the right balance in writing FSRs and not overestimate the risks and threats to a country's financial system. You don't want to cry wolf every time, then eventually no one will believe you, or if they do, you might create a self-fulfilling panic. However, we believe that the warnings issued in the

reports will most likely be given more attention now in the aftermath of the crisis, particularly in those countries where the reports identified many of the factors leading up to the financial collapse.

#### What comments have the central banks made about their FSRs?

**Wilkinson:** The FSRs and the central banks we studied had a number of insights that were helpful with regard to the challenges in writing and using FSRs.

As an example of the difficulties in judging risks, the United Kingdom in its 2007 FSR stated, "The speed, force and breadth with which these risks combined was not fully anticipated by the authorities or market participants." Also, Martin Andersson of the Sveriges Riksbank, Sweden's central bank, suggested

that the formulation of FSRs is becoming more difficult: “The market dynamics have become more difficult to predict and market shocks have an increasingly rapid sequence of events.”

Stefan Ingves, governor of the Sveriges Riksbank, discussed the challenge of getting supervisors and market participants to take appropriate steps when he stated, “When we look back, we must be self-critical and admit that we did not see the liquidity crisis that developed in the financial system in time. We did, however, issue repeated warnings about the development of risks in the Baltic countries and the fact that risk in general was priced too low on the financial markets. Unfortunately, our warnings in these cases were not sufficiently acted upon.” Karolina Ekholm, deputy governor of the Riksbank, also spoke on this topic and mentioned several ideas for better coordinating the macroeconomic perspective of FSRs and the supervision and market responses of individual banks. One of Ekholm’s ideas was “to link the work of Finansinspektionen (the Swedish financial supervisory authority) and the Riksbank more closely together and increase cooperation between the two authorities.”

### Would FSRs have made a difference if they had been used in the United States?

**Christensson:** I think the most we can say is that it is conceivable. For example, FSRs could have provided a more focused and comprehensive look at the risks and market imbalances that led up to the crisis here. Ideally, they might have given a clearer picture of the channels through which the crisis was moving and how it worked its way through markets and around the globe. There are obviously limitations, as we found in our study, such as with estimating the actual magnitude and the timing of the effects in a country. Overall, though, there are clear benefits, and some of these benefits go beyond anticipating or dealing with a crisis.

### Such as?

**Spong:** There are actually quite a few, such as increasing transparency, assuming that you make the FSR publicly available. If that’s the case, then it could help market participants better understand and respond to regulatory and financial stability concerns. It could also help by getting regulators—both domestically and internationally—to see what issues might be worth a little closer look. One benefit is that a lot of the work that regulators do, such as monitoring institutions, is highly confidential, and FSRs might be a way to share a little more of what we are seeing with the public. And then, it seems there would be major benefits to central bankers and regulators in just going through the exercise of examining financial trends and emerging risks. Other benefits could be derived from conducting regular stress tests and engaging in thoughtful analysis to gain insights into how resilient our financial system would be in an uncertain environment.



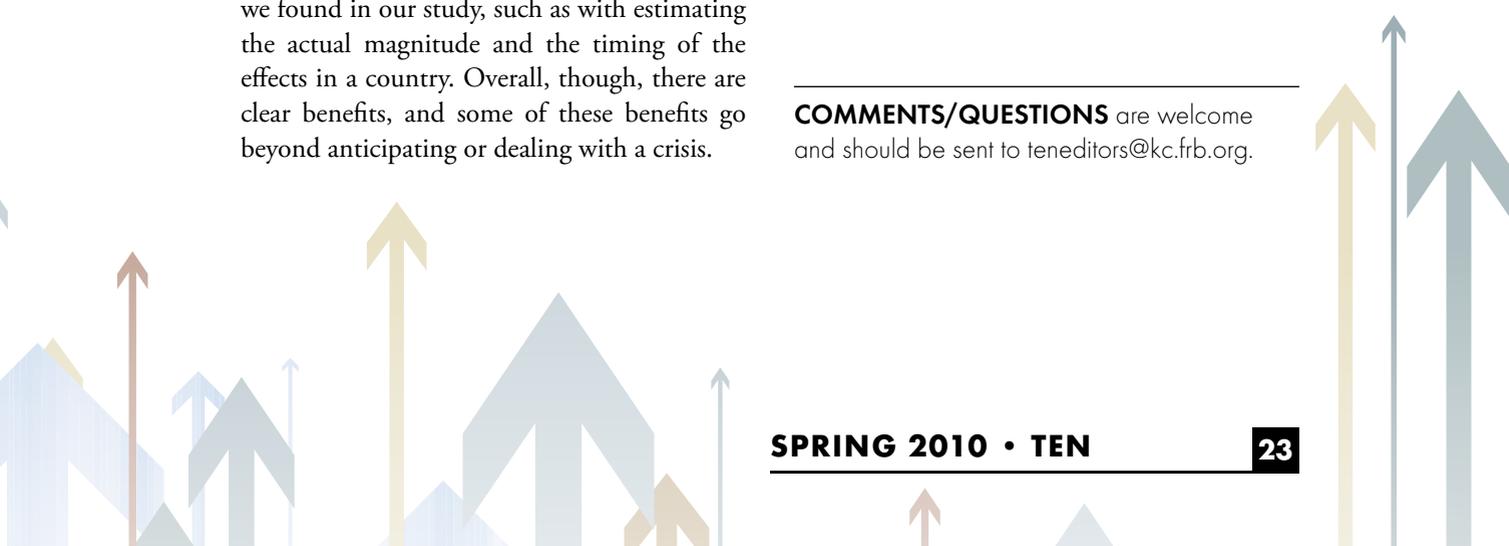
BY TIM TODD, EDITOR

## FURTHER RESOURCES

### “FINANCIAL STABILITY REPORTS: HOW USEFUL DURING A FINANCIAL CRISIS?”

By Jim Wilkinson, Kenneth Spong and Jon Christensson  
[KansasCityFed.org/TEN](http://KansasCityFed.org/TEN)

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



# Regional connections to national policy:

DIRECTORS FROM THE KANSAS CITY FED'S DISTRICT OFFER LOCAL PERSPECTIVE





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The individuals who serve on the Federal Reserve Bank of Kansas City's Board of Directors come from a wide range of backgrounds spanning community development, business, banking, organized labor and entrepreneurship.

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**L**ike any corporate board, these individuals have important oversight responsibilities for the Reserve Bank's operations. However, these directors also serve another role unique to their connection with the central bank: They serve very literally as a conduit between the Federal Reserve's national policy deliberations and the communities of the Tenth Federal Reserve District.

In many aspects, they are the key component in the Federal Reserve's structure.

### **Local control**

When congressional leaders prepared legislation to create the nation's central bank in 1913, they recognized that it could not be under the sole control of the nation's political system. Elected leaders, they recognized, might not be willing to take difficult steps, such as increasing interest rates, because of political considerations. Certainly, the ability to secure short-term support by creating an artificial economic boom, and doing long-term damage to the nation's financial standing, was a very real concern. It is an issue that continues to plague some nations even today.

With the idea of giving total control to the private sector obviously not viable, they created a system that



**MEMBERS OF THE FOUR BOARDS** from Kansas City, Denver, Oklahoma City and Omaha gather with Reserve Bank staff on the Omaha riverfront, where five larger-than-life bronze sculptures depict the hard work and dedication of union labor. As a part of last year's annual joint Board meeting, the directors and staff toured an electrical union facility to learn how the union partners with the local business community to train skilled workers.

blended the two components: a central government agency in Washington, D.C., with broad oversight responsibilities while 12 regional Federal Reserve Banks located throughout the country are under the leadership of local boards of directors.

Although similar in structure with many corporate boards, a directorship of a regional Federal Reserve Bank might be comparable to a public service. Directors receive minimal stipends, but assume significant responsibilities during their three-year terms. By law, they are responsible for the Bank's operations and policies, but they also provide information on economic conditions within their community and area of expertise. This information, which

is provided during monthly meetings, plays a key role in preparations for meetings of the Federal Reserve's policy-setting Federal Open Market Committee. Additionally, the Bank's Board is responsible for establishing the discount rate, which is subject to review and determination by the Board of Governors in Washington, D.C.

## The directors

Just as the Federal Reserve's oversight is a blend of various components, the nine director seats on each Federal Reserve Bank's Board are filled through a variety of methods.

### Class A

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, which encompasses western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico.

For example, the current Class A director serving Group 3 member banks, which have less than \$3.25 million in capital and surplus, is Robert C. Fricke, president and chief executive officer of Farmers & Merchants Bank of Ashland in southeast Nebraska. Fricke is the great-great grandson of Farmers & Merchants founder Ernest A. Wiggenhorn, who opened the bank on Nov. 15, 1883. Today, the bank serves a community of about 2,200 residents from a building that Wiggenhorn opened in 1887.

### Class B

Three Class B directors represent the public. Class B directors may not be an officer, director or employee of a bank or bank holding company.

For example, the current Class B director elected by Group 2 member banks is Richard Ratcliffe, chairman of textbook seller Ratcliffe's Inc., based in Weatherford, Okla. The business, which serves colleges in the Sooner State including the University of Oklahoma, was founded nearly a century ago by Lee Ratcliffe,

who sold books off the shelves of his parents' sandwich shop.

Richard Ratcliffe's election to the Bank Board of Directors follows his serving as chairman of the Bank's Oklahoma City Branch Board.

### Class C

The public is also represented by three Class C directors. However, unlike Class B directors, these seats are appointed by the Board of Governors of the Federal Reserve System, adding another layer to the blending of public and private control over the nation's central bank. The Board of Governors also selects both the chairman and deputy chairman of each regional Federal Reserve Bank's Board of Directors from among the Class C directors.

These directors are highly insulated from banking relationships. They may not be an officer, director or employee of a bank or bank holding company. Additionally, these directors may not own stock in a bank or a bank holding company.

Among the Bank's current Class C directors is Terry Moore, president of the Omaha Federation of Labor, AFL-CIO. Moore, who has also held positions on the Bank's Omaha Branch Board of Directors and on its Economic Advisory Council, has headed the labor group since 1976. He is the longest-serving head of a labor federation in the United States and represents more than 30 unions.

### Branch directors

Each of the Federal Reserve Bank of Kansas City's Branch offices in Denver, Oklahoma City and Omaha also has its own seven-member board of directors. Four of these directors are appointed by the Federal Reserve Bank of Kansas City while three are appointed by the Board of Governors. Branch directors serve three-year terms and provide their respective Branch executives with insight on regional economic conditions as well as offer advice and counsel.

Individuals holding positions on Branch Boards in 2009 included Littleton, Colo.'s Larissa Herda, chairman, chief executive



PHOTO BY BRANDI SIMONS

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AS A WAY TO EXPLORE THE TENTH DISTRICT more in-depth, Kansas City Fed officials, including President Tom Hoenig, right, and directors, including Oklahoma City Director Bill Anoatubby, governor, Chickasaw Nation, hold off-site meetings on a regular basis. They tour local businesses and organizations.

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officer and president of tw telecom inc.; Bill Anoatubby, who has served as governor of Oklahoma's Chickasaw Nation since 1987; and Rodrigo Lopez, president and chief executive officer of Omaha's AmeriSphere Multifamily Finance, LLC.

Learn more about the responsibilities and selection of directors in the President's Message on Page 1.



BY TIM TODD, EDITOR

### FURTHER RESOURCES

#### BOARDS OF DIRECTORS

To see a list of current and alumni members, visit [KansasCityFed.org/TEN](http://KansasCityFed.org/TEN).

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

# About...

# Bank Directors Desktop Training



Kansas City Fed launches updated website, offers free materials

**I**t's during times of turmoil that the need for training is perhaps most evident.

This is certainly the case today for bank directors, who are serving in the midst of a banking crisis during the country's worst economic downturn since the Great Depression.

"When times are good, it's hard to fathom such a dramatic economic decline like this most recent recession," says Steve Henslee, manager of the Federal Reserve Bank of Kansas City's Consumer Affairs Department. "But it's continual learning that helps prepare banks for problems—and recover from them. That's why we offer bank directors training and resources, regardless of the economic climate."

Free training from the Kansas City Fed is available online, in print or on site. The online and print materials recently have been updated. The revised website is now available at [BankDirectorsDesktop.org](http://BankDirectorsDesktop.org).

"The Kansas City Fed's revamped website, along with other training tools, is now even more accessible and easy for directors to use,"

Henslee says. "Our goal is to help directors know their duties, gain more insight of the banking industry and be more comfortable in their role."

Directors' duties include overseeing its bank's management, supervising its affairs, adopting and following sound policies, and staying informed of its condition. Directors are asked to serve in this position by a bank's shareholders. Directors come from a variety of backgrounds, ranging from law to the business community. They may not have direct knowledge of the banking sector, but bring related skills from their own work experiences.

"A bank director's job is an extremely important one," Henslee says. "After all, they safeguard a bank on behalf of its shareholders and customers—in good times and bad times."

## What's available?

**Online:** The "Bank Directors Desktop" website allows users to quickly access general information on directors' roles and responsibilities, and then choose other links to take them to more in-depth information if

necessary. Information includes management oversight as well as basic financial analysis, control and monitoring of credit, and liquidity and market risks. The website can be accessed publicly.

**In print:** The “Basics for Bank Directors” book helps familiarize directors with banks and their role. It addresses regulation, compliance and components of a bank exam from a regulator’s point of view. The fifth edition can be publicly downloaded or ordered online.

**On site:** Instructors from the Kansas City Fed visit banks to teach “Basic Training for Bank Directors.” The half-day class mirrors the online materials, helping directors to understand their role and ask questions. It also is being updated later this year. The class is a benefit offered only to Federal Reserve state member banks.

Though the target audience of these resources is directors of community banks, the materials—and principles—apply to virtually all financial institutions.

“The tenants of being a good director transcend the size of a bank,” Henslee says. “This information is widely applicable.”

Bankers and regulators see the value in this training for directors.

“Fabulous for new directors and great for old directors,” one banker says.

A regulator says, “I appreciate this (online) course for quick reference and for its to-the-point approach.”

## Why is this so important?

“Generally, banks with active, informed directors perform better during times of crisis,” says Linda Schroeder, a vice president in the Kansas City Fed’s Supervision and Risk Management Division. “We can see this looking back nearly 30 years. Training may have prevented many of those problems and also stop them from reoccurring later.”

Today’s crisis bears some resemblance to that of the ‘80s—bubbles in commodity prices then and real estate now, among other factors, with resulting problem loans impacting the health of the banking industry. These problem

loans contributed to massive bank failures between 1982 and 1992, when more than 2,800 institutions failed. And bank failures continue to climb today.

“During times of trouble, problems need to be recognized and addressed in a timely matter to avoid deeper losses,” Schroeder says. “Lessons learned from the ‘80s remind us strong risk management practices are critical.”

## Why does the Fed do this?

In addition to its work in monetary policy and the payments system, the Federal Reserve has supervisory and regulatory authority over a wide range of financial institutions and activities. It works with other federal and state supervisory authorities to ensure the safety and soundness of financial institutions, stability in the financial markets, and fair and equitable treatment of consumers in their financial transactions.

The Kansas City Fed offers bank director training in support of this mission, says Kevin Moore, senior vice president who oversees the Supervision and Risk Management Division for the Federal Reserve’s Kansas City region.

“When directors are effective, banking problems can be avoided, or identified early,” Moore says. “Training helps not only individual banks but also the banking industry as a whole.”

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BY BRYE STEEVES, SENIOR WRITER

The Kansas City Fed’s updated “Bank Directors Desktop” website is now available. For the latest training tools and resources for bank directors, visit [BankDirectorsDesktop.org](http://BankDirectorsDesktop.org).

A related book, “Basics for Bank Directors,” is also updated. To download or order the free book, visit [BankDirectorsDesktop.org](http://BankDirectorsDesktop.org).



## Laying the foundation for responsible credit use

**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**uring a fifth-grade personal finance lesson, I asked my students to define credit. In the discussion that ensued, I heard not only wide-ranging definitions but also several negative credit stories, such as how their parents cut up their cards in frustration over mounting bills and rising interest rates.

The conversation showed me two things: First, it's important to help children gain a well-rounded understanding of credit, both its advantages and costs. Second, even young children can begin to learn personal finance principles that lead to a strong understanding about credit use. Below are age-appropriate suggestions for paving the way.

**Preschool age:** Teach your child the difference between a want and a need to begin the decision-making process.

**Elementary age:** Receiving an allowance can help your child practice money skills such as saving and paying off debts. Honing these skills is great preparation for credit management.

**Pre-teen and early high school:** Provide your budding

credit manager a certain amount of money or a prepaid debit card to purchase school clothes and supplies. Make sure your child understands that the shopping ends once the balance reaches zero.

**Older teens:** Consider having your teen open a checking account that includes a debit card. This experience can help your teen practice budgeting and money management, as well as how to handle a debit card.

**College age:** At this age, young adults may be ready to take responsibility of a low-limit credit card. You may want to co-sign for the credit card. Alternatively, a college student with independent funds for bill payment could accept the responsibility of an individual card.

Children as young as the fifth graders I was teaching can understand the details of credit cards. Be sure to point out the advantages credit cards offer, such as:

- They are more convenient and safer to use than cash;
- They can help in financial emergencies;
- Card issuers sometimes offer incentives for paying by credit card, such as points toward free products, airline miles or charitable donations.

Also point out the potential pitfalls of not using credit wisely, such as:

- Excessive debt (iterate that credit is not "free" money);
- The effects of compounding interest (to illustrate, try the "Doubling Dilemma" activity on Page 32 with your child);
- The danger of acquiring too many cards.

The high school years are a great time to familiarize your teen with the new Credit Card Accountability, Responsibility and Disclosure Act (CARD Act), emphasizing your teen's



PHOTO BY GETTY IMAGES

rights and responsibilities as a consumer. For instance, the act requires card issuers to keep the same billing date each month and send statements at least 21 days before that due date, as well as give advance information about rate and fee increases. Issuers also must report how long it would take the consumer to pay off the total balance if the consumer sent in only the minimum monthly payment. This can be a rude awakening for many teens.

Particularly significant to your teen, the act requires consumers under 21 show they are financially able to make payments before

receiving a credit card. This can serve as a good conversation starter on how to determine your teen's creditworthiness. Use the "Get a Credit Clue" quiz on Page 33 to test your teen's knowledge about common credit card facts.

Also stress that credit card use can help build a good credit history—something your teen will want on his or her side when it's time to buy a car or home, or even apply for a job. Show your child how to obtain a personal credit report, and urge him or her to check the report for accuracy each year.



## 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.

### **Online at KansasCityFed.org/TEN:**

#### **"Professor Finance and Fed Boy Meet the Catastrophe Clan"**

Introduces students to the use and misuse of credit in a humorous, superhero format. An explanation of the Credit CARD Act and consumers' rights and responsibilities is included. For ages 12-15.

#### **"The Money Circle: Theme Two—Money Principles, Lesson Two—Credit: Friend or Foe?"**

Helps students analyze personal spending patterns; evaluate credit sources; recognize the importance of a good credit history; and evaluate the costs and benefits of using credit. For ages 14-18.

#### **"It's Your Paycheck: Unit 3—All About Credit"**

Contains several in-depth lessons on credit cards, figuring loan rates, and the rights and responsibilities of both the consumer and creditor. For ages 14-18.

#### **"Choosing a Credit Card"**

Provides a primer of basic information about credit cards, including understanding card features, fees and characteristics. For teens and adults.

#### **WhatsMyScore.org**

Includes downloadable money guides on credit card basics and credit history, a blog answering credit questions, and a credit score video. For teens and adults.

### **Literature**

#### **The Skinny on Credit Cards, How to Master the Credit Card Game**

By Jim Randel

Gives credit card information in an entertaining cartoon story format. For teens and adults.

#### **Managing Your Debt ("Which?" Essential Guides)**

By Phillip Inman

Focuses on managing finances, credit cards, student loans and decreasing debt. For teens and adults.

# Doubling Dilemma: The Effects of Compound Interest

## Which is greater:

\$1 million or a penny that doubles in value every day for 30 days?



Using a calculator, figure the compound interest of the doubling penny below to see what happens. (Take each new total and multiply by 2 to double.)

Day	Amount	Day	Amount
1	1¢	16	
2	2¢	17	
3		18	
4		19	
5		20	\$5,242.88
6		21	
7		22	
8		23	
9		24	
10	\$5.12	25	\$167,772.16
11		26	
12		27	
13		28	
14		29	
15	\$163.84	30	

Did you guess correctly?





## Take this credit quiz to see if you are credit card worthy!

Score a point for each correct answer and get your “credit report” below.

- |  |          |          |
|--|----------|----------|
| 1. An advantage of having a credit card is that it is a more convenient and safer form of payment than cash. | <b>T</b> | <b>F</b> |
| 2. APR stands for actual payment rate, which is how much you should pay monthly.                             | <b>T</b> | <b>F</b> |
| 3. Compound interest is interest computed as a percentage of the original loan amount.                       | <b>T</b> | <b>F</b> |
| 4. A credit limit is the total amount you may charge on your credit card.                                    | <b>T</b> | <b>F</b> |
| 5. It is best to make only the minimum payment on your card each month.                                      | <b>T</b> | <b>F</b> |
| 6. The APR for a cash advance may be higher than the APR for a purchase on the same card.                    | <b>T</b> | <b>F</b> |
| 7. A credit history is the history of a consumer’s employment.   | <b>T</b> | <b>F</b> |
| 8. According to the Credit CARD Act, anyone over the age of 19 can receive a credit card.                    | <b>T</b> | <b>F</b> |

### Credit Report:

- 8 correct: Credit Candidate
- 6-7 correct: Becoming Credit Competent
- 4-5 correct: Becoming Credit Capable
- 1-3 correct: Credit Confused

### Answers:

1. T    2. F    3. F    4. T    5. F    6. T    7. F    8. F



## Fed to offer electronic application submissions

Beginning this year, banking organizations will have another option—one that's more time and cost efficient—when filing regulatory applications with the Federal Reserve System.

A new system called Electronic Applications (E-Apps) will allow financial institutions and their agents to file applications via a secure connection to the Internet.

These applications are required when institutions wish to engage in new activities, expand through mergers and acquisitions, or establish new branches. Most paper applications can be filed electronically.

For more information on E-Apps, visit [KansasCityFed.org/TEN](http://KansasCityFed.org/TEN), or contact Pat Grant, the Kansas City Fed's E-Apps expert, at (816) 881-2990.



## Community Development Speaker Series coming to an office near you

The Kansas City Fed announces a new speaker series designed to promote the expertise of prominent thought leaders in community development issues. Attendance at the quarterly Community Development Speaker Series is open to anyone with interest in the speakers' topic.

Among the topics to be discussed in the series are housing issues, foreclosures, microfinance, trends in the nonprofit sector and entrepreneurship. Speakers include Eric Belsky of the Joint Center for Housing Studies at Harvard University and Rick Cohen, a national correspondent for *Nonprofit Quarterly*.

Each quarter, the Kansas City Fed's Community Affairs Department will host the speaker series at the Kansas City Fed's headquarters office and videocast the presentation live to its Branch offices in Denver, Omaha and Oklahoma City, as well as other Federal Reserve offices across the nation. Registered attendees may go to their nearest Federal Reserve office to watch the presentation.

For more information about the speakers, their topics and registration instructions, go to [KansasCityFed.org/TEN](http://KansasCityFed.org/TEN).



## Kansas City Fed receives MainStay Award

The Main Street Corridor Development Corporation (MainCor) of Kansas City has presented the Kansas City Fed with its 2010 MainStay Award.

For the last several years, the Kansas City Fed has been a partner of MainCor, a community organization that champions development along the city's historically significant Main Street. The MainStay Award recognizes individuals or organizations who have demonstrated extraordinary commitment to the Main Street community. The Kansas City Fed was one of two recipients of the 2010 award.

The award recognized the efforts the Kansas City Fed made when constructing its new headquarters building along the Main Street corridor to ensure the project brought value to Main Street and the surrounding neighborhoods.



## Roundtable focuses on state of energy industry

The Federal Reserve Bank of Kansas City connects with community and business leaders to learn about industries in a variety of ways. One way in which it does that is through topical roundtables. Within the Tenth Federal Reserve District, which includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico, oil and gas is a major industry.

The Kansas City Fed recently hosted a group of energy industry representatives at a business roundtable. Top executives from oil and gas companies convened at the Oklahoma City Branch office of the Kansas City Fed to share perspective on the short-, intermediate- and long-term outlooks for the energy industry.

The roundtable provided valuable information, said Vice President and Oklahoma City Branch Executive Chad Wilkerson. He added that he hoped the roundtable discussants might be able to serve in a greater advisory capacity in the future.



### Enjoy what you're reading, but not a subscriber?

TEN is a free, quarterly magazine published by the Federal Reserve Bank of Kansas City. You can have TEN delivered to your inbox or mailbox and learn how the Fed and the economy affect you. Other free publications from the Federal Reserve are also available.

To browse our selection and then order or subscribe, visit [KansasCityFed.org/TEN](http://KansasCityFed.org/TEN).

## Survey provides insights into low- and moderate-income families

What unique economic conditions do people making less than 80 percent of the area's median income face? This basic question helped lead the Kansas City Fed in 2009 to launch a quarterly survey aimed at organizations that serve the low- and moderate-income (LMI) community in the seven-state Tenth Federal Reserve District. The goal of the survey is to measure the economic life of the LMI community and share that information with a broader audience.



The survey provides valuable—and sometimes unexpected—insights.

Respondents answer questions about the economic status of the LMI population, including social services needs, access to affordable housing and credit, and job availability. The survey also asks about the adequacy of financial and nonfinancial resources among the organizations serving the LMI population. In addition, respondents provide general comments to give further context to their survey answers.

Responses are used to calculate indices that allow the Kansas City Fed to track the assessments of LMI economic conditions over time. Survey results are compiled by the Kansas City Fed's Community Affairs Department.

Find the latest report at [KansasCityFed.org/TEN](http://KansasCityFed.org/TEN).

## Traveling currency exhibit available

The Kansas City Fed is offering its traveling exhibit of historic U.S. currency to banks and depository institutions in the Tenth Federal Reserve District for temporary display.

The exhibit features currency from the Colonial period through today. It focuses on historically significant items, such as State Bank notes, and also includes silver and gold coins, Confederate notes, and Demand notes, which are often called “greenbacks.”

There is no charge to host the exhibit, but institutions must have at least \$5,000 in liability insurance and must pay shipping costs to transport the display to its next location. It ships in two cases, each weighing about 130 pounds. The exhibit is circular and needs a space of at least 6- by 6-feet to stand.

To reserve the exhibit, contact the Kansas City Fed at (800) 333-1010 ext. 12554.





## Free publications for all audiences

The Federal Reserve offers hundreds of free titles on a variety of economic-related topics, including financial markets, financial education, money, banking, payments system and the Federal Reserve System.

Publications include comic books, such as “Once Upon A Dime” and “The Story of Inflation,” that explain financial and economic subjects in an easy-to-understand manner for students. Many, such as “Know Before You Go ... Get a Mortgage” and “How to Establish, Use and Protect Your Credit,” are beneficial for consumers and encourage them to make informed financial decisions. Other publications explain the ins and outs of the financial system, such as the development of credit markets, and the Fed’s role in the economy, including the Fed’s history and its functions and operations. To view, order or subscribe to Federal Reserve publications, visit [KansasCityFed.org](http://KansasCityFed.org).

# Bank Anniversaries

The following banks in the Tenth Federal Reserve District are celebrating one, five, 10, 20 or more years as Federal Reserve members in April, May or June.

Sundance State Bank	Sundance	Wyo.	79
First Nebraska Bank	Valley	Neb.	76
First State Bank	Ness City	Kan.	76
Bank of Hartington	Hartington	Neb.	74
Bankwest of Kansas	Goodland	Kan.	71
First State B&TC	Larned	Kan.	68
First State Bank of Hotchkiss	Hotchkiss	Colo.	68
First State Bank in Temple	Temple	Okla.	67
Citizens-Farmers Bank Cole Camp	Cole Camp	Mo.	65
Bank of Commerce	Rawlins	Wyo.	32
Citizens Bank of Edmond	Edmond	Okla.	29
Bank of Jackson Hole	Jackson	Wyo.	28
Bankers Bank	Oklahoma City	Okla.	24
Castle Rock Bank	Castle Rock	Colo.	24
Battle Creek Street Bank	Battle Creek	Neb.	10
Community Banks of Colorado	Greenwood Village	Colo.	10
Colorado Community Bank	Yuma	Colo.	5
First Bethany Bank & Trust	Bethany	Okla.	5
Country Club Bank	Kansas City	Mo.	1
First Bank of Utica	Utica	Neb.	1
Halstead Bank	Halstead	Kan.	1
High Country Bank	Salida	Colo.	1

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

# 2009 Annual Report

FEDERAL RESERVE BANK *of* KANSAS CITY



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

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

The 2009 financial letters, statements and notes for the Federal Reserve Bank of Kansas City are online at **[KansasCityFed.org](http://KansasCityFed.org)**.

The Work of the Federal Reserve Bank <i>of</i> Kansas City .....	40
Management Committee .....	43
Boards of Directors.....	44 – 48
Advisory Councils .....	49 – 51
Roundtable Participants.....	52 – 53
Tenth District Officers.....	54

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

As the central bank of the United States, the Federal Reserve has a broad range of responsibilities.

Its mission areas are: conducting monetary policy, supervising and regulating banks and bank holding companies, and providing financial services to depository institutions.

As one of the 12 regional headquarters of the nation's central bank, the Federal Reserve Bank of Kansas City and its Branches in Denver, Oklahoma City and Omaha play a key role in the success of these three areas. The Reserve Bank serves the Tenth Federal Reserve District, a large and diverse geographic area that includes Nebraska, Kansas, Wyoming, Oklahoma, Colorado, northern New Mexico and western Missouri. Here is a look at the Bank's operations.

## ADMINISTRATIVE SERVICES

Administrative Services performs a variety of services to keep the internal operations of the Federal Reserve Bank of Kansas City running smoothly on a daily basis. Functions include maintaining the Bank's facilities; providing a safe and secure environment; developing and implementing human resources strategies to meet the evolving needs of the Fed's workforce and environment; developing the budget; and providing accurate financial accounting and reporting. Additionally, the division performs services on behalf of the Federal Reserve System, such as providing human resources information systems and billing users of Federal Reserve System services. Facilities Management, Protection, Business Continuity, Human Resources, Accounting, Financial Management, Human Resources Technology Center, and the Billing Operations Site are included in this division, which employs 311 people.

## AUDIT

Audit serves as an independent and objective evaluator of the Tenth Federal Reserve District's performance. This division reports on the soundness of the Kansas City Fed's operations to the Board of Directors, senior management and the Board of Governors. This division employs 22 people.

## INFORMATION TECHNOLOGY

The Information Technology Division consists of three functions: information technology services and support to local and select System business areas; technical support for System check processing services; and technology project management for the U.S. Treasury. This division employs 266 people.

## LEGAL

The Legal Department serves as the Kansas City Fed's counsel. It provides advice to management and the Board of Directors; represents the Kansas City Fed in administrative and judicial proceedings; helps the Kansas City Fed comply with applicable law; counsels employees concerning the Kansas City Fed's Code of Conduct; and helps educate employees on legal issues. This division employs six people.

## FINANCIAL SERVICES

Financial Services works to provide financial institutions across the country with services and support to assist them in carrying out their daily business. Through Cash Services, Wholesale Operations, Check Services, the Customer Contact Center and Regional Sales departments, the division distributes coin and currency; provides secure and quick transfers of funds and securities between banks; processes paper and electronic checks; provides customer support and access to payments networks; manages customer relationships; and provides service to consumers nationwide who have questions or complaints about their financial institution. This division employs 212 people.

## REGIONAL, PUBLIC AND COMMUNITY AFFAIRS

The division's two primary responsibilities are research and communications. The division's economists track developments in the District's economy and present their findings to senior management as part of the Bank's monetary policy deliberations. Through publications, media relations, electronic communication, and educational programs, Public Affairs works to explain the

Fed's purpose and functions. Community Affairs promotes economic development through fair and impartial access to credit throughout the District. This division employs 58 people.

## ECONOMIC RESEARCH

This division conducts research on macroeconomics and monetary policy; banking and financial markets; the payments system; and other issues of importance to the Kansas City Fed and the Federal Reserve System. Through publications and presentations, staff members communicate the results of this research to policymakers, other researchers and the general public. Annually, the division, in collaboration with Public Affairs, develops and hosts the prestigious Jackson Hole Symposium in Wyoming, where central bankers, economists, policymakers and academics from around the world gather to discuss global economic topics. This division employs 48 people.

## SUPERVISION AND RISK MANAGEMENT

Supervision and Risk Management is responsible for regulating bank holding companies and state-chartered member banks in the Tenth District. Staff members conduct examinations of these institutions to ensure a safe and sound banking system. In addition, the division works to make sure consumers are treated fairly in their dealings with banks and reviews applications by banking organizations seeking to acquire another institution, open a branch, change ownership or conduct other activities. The division also makes advances to depository institutions through the discount window, studies financial industry trends and hosts seminars and forums for banks throughout the region. This division employs 267 people.

# Officers | Directors | Advisory Councils

FEDERAL RESERVE BANK *of* KANSAS CITY





## Management COMMITTEE

*(From left) Ms. Connor, Ms. Raley, Mr. Barkema, Mr. Sellon, Mr. McBride, Mr. Hoenig, Mr. Dubbert, Ms. George, Mr. Moore, Ms. Pacheco*

**Thomas M. Hoenig**

President and Chief Executive Officer

**Esther L. George**

First Vice President and Chief Operating Officer

**Alan D. Barkema**

Senior Vice President of Economic Research and  
Director of Research (incoming)

**Denise I. Connor**

Senior Vice President of the Electronic Check Platform  
Project for the Federal Reserve System's Retail Products  
Office

**Kelly J. Dubbert**

Senior Vice President of Check Automation Services,  
Information Technology and Treasury, and  
Chief Information Officer

**Stephen E. McBride**

Senior Vice President of Administrative Services

**Kevin L. Moore**

Senior Vice President of Supervision and  
Risk Management

**Barbara S. Pacheco**

Senior Vice President of Financial Services,  
Cash Services, Wholesale Operations and the Federal  
Reserve System's Customer Relations and Support Office

**Diane M. Raley**

Senior Vice President of Regional, Public and  
Community Affairs, Public Information Officer  
and Secretary

**Gordon H. Sellon, Jr.**

Senior Vice President of Economic Research and  
Director of Research (outgoing)

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

# FEDERAL RESERVE BANK DIRECTORS:

## GOVERNANCE OF THE DISTRICT; GUARDIANSHIP OF THE SYSTEM

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

### CLASS A

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

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, Robert C. Fricke, president and chief executive officer of the Farmers & Merchants Bank of Ashland, 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. Class B directors may not be an officer, director or employee of a bank or a bank holding company. However, 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 bank or a bank holding company. These directors may not own stock in a bank or a bank holding company. For example, Terry L. Moore, president of the Omaha Federation of Labor, is a class C director. From the Class C directors, the Board of Governors selects one person as chairman and another as deputy chairman.

### SERVING ON THE BOARD

*Federal Reserve Bank of Kansas City*

Reserve Bank directors meet monthly to oversee the Bank's operations and policies and to confer on economic and banking developments. The directors also provide information on economic conditions within the District as a part of the Bank president's preparation for Federal Open Market Committee meetings. Among directors' responsibilities is establishing the Kansas City Fed's discount rate, which is subject to review and determination by the Federal Reserve Board. The directors and their classifications are on Page 45.

### SERVING THE BRANCHES

*Denver, Oklahoma City and Omaha*

Each Branch of the Federal Reserve Bank of Kansas City also has its own seven-member Board of Directors. Four of these directors are appointed by the Federal Reserve Bank of Kansas City while three are appointed by the Board of Governors. Branch directors serve three-year terms and provide their respective Branch Executives with insight on regional economic conditions as well as offer advice and counsel. Branch directors are on Pages 46-48.

# Boards of Directors



## KANSAS CITY

(From left) Mr. Fricke, Mr. Schifferdecker, Mr. Ikard, Mr. Moore, Ms. Córdoba, Mr. DeBruce, Mr. Ratcliffe, Mr. Gordon

**Lu M. Córdoba, Board Chairman;**  
Chief Executive Officer, Corlund Industries;  
President and General Manager, Almacen Storage Group  
Boulder, Colorado (Class C)

**Paul DeBruce, Board Deputy Chairman;**  
Chief Executive Officer, Chairman/Founder  
DeBruce Grain Inc.  
Kansas City, Missouri (Class C)

**Robert C. Fricke**  
President and Chief Executive Officer  
Farmers & Merchants Bank of Ashland  
Ashland, Nebraska (Class A, Group 3)

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

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

**Kevin K. Nunnink**  
Chairman, Integra Realty Resources  
Westwood, Kansas  
(deceased August 25, 2009)

**Terry L. Moore**  
President  
Omaha Federation of Labor  
Omaha, Nebraska (Class C)

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

**Mark W. Schifferdecker**  
President and Chief Executive Officer  
Girard National Bank  
Girard, Kansas (Class A, Group 2)

FEDERAL ADVISORY COUNCIL REPRESENTATIVE  
**Bruce R. Lauritzen** (not pictured)  
Chairman, First National Bank of Omaha  
Omaha, Nebraska

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

# Board of Directors



## DENVER

*(From left) Mr. Brown, Ms. Mowry, Mr. Pearson, Ms. Schloss, Mr. Alexander, Ms. Herda, Mr. Enloe*

**Kristy A. Schloss, Board Chairman;**

President and Chief Executive Officer  
Schloss Engineered Equipment  
Aurora, Colorado

**Bruce K. Alexander**

President and Chief Executive Officer  
Vectra Bank Colorado  
Denver, Colorado

**Charles H. Brown III**

President  
C.H. Brown Co.  
Wheatland, Wyoming

**William C. Enloe**

President and Chief Executive Officer  
Los Alamos National Bank  
Los Alamos, New Mexico

**Larissa L. Herda**

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

**Barbara Mowry**

President, Chief Executive Officer and  
Board Member  
Silver Creek Systems  
Westminster, Colorado

**John D. Pearson**

President  
Pearson Real Estate Company Inc.  
Buffalo, Wyoming

*Branch directors provide insight on local economic conditions and advise and counsel the Branch executives.*



## OKLAHOMA CITY

*(From left) Mr. Tippens, Mr. Dunn, Mr. Vasudevan, Mr. Agee, Ms. Fiegel, Mr. Anoatubby, Mr. Ramos*

**Steven C. Agee, Board Chairman;**

President  
Agee Energy, L.L.C.  
Oklahoma City, Oklahoma

**Bill Anoatubby**

Governor  
Chickasaw Nation  
Ada, Oklahoma

**James D. Dunn**

Chairman  
Mill Creek Lumber & Supply Co.  
Tulsa, Oklahoma

**Jacqueline R. Fiegel**

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

**Fred M. Ramos**

President  
RGF Inc.  
Oklahoma City, Oklahoma

**Douglas E. Tippens**

President and Chief Executive Officer  
Bank of Commerce  
Yukon, Oklahoma

**K. Vasudevan**

Chairman and Founder  
Service & Technology Corporation  
Bartlesville, Oklahoma

# Board of Directors



## OMAHA

*(From left) Mr. Farrell, Mr. Sutko, Ms. Martin, Mr. Hermes, Ms. Wallin Ziegenbein, Mr. Lopez, Mr. Adams*

**Charles R. Hermes, Board Chairman;**

President  
Dutton-Lainson Company  
Hastings, Nebraska

**Todd S. Adams**

Chief Executive Officer  
Adams Bank and Trust  
Ogallala, Nebraska

**James C. Farrell**

President and Chief Executive Officer  
Farmers National Company  
Omaha, Nebraska

**Rodrigo Lopez**

President and Chief Executive Officer  
AmeriSphere Multifamily Finance, L.L.C.  
Omaha, Nebraska

**JoAnn M. Martin**

Chairman, President and Chief Executive Officer  
Ameritas Life Insurance Corp.  
Lincoln, Nebraska

**Mark A. Sutko**

President and Chief Executive Officer  
Platte Valley State Bank  
Kearney, Nebraska

**Lyn Wallin Ziegenbein**

Executive Director  
Peter Kiewit Foundation  
Omaha, Nebraska

# Advisory Councils



## ECONOMIC ADVISORY COUNCIL

*(From left) Mr. Kemp, Mr. McClain, Mr. Graves, Ms. Johnson, Mr. Sunderland, Mr. Stout, Ms. Bass*

**Deb Bass**

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

**Greg M. Graves**

Chairman and Chief Executive Officer  
Burns & McDonnell  
Kansas City, Missouri

**Deborah Johnson**

Chief Executive Officer  
Rick Johnson and Company, Inc.  
Albuquerque, New Mexico

**Garry Kemp**

Executive Vice President  
Greater Kansas City Building &  
Construction Trades Council, AFL-CIO  
Independence, Missouri

**Terry McClain**

Senior Vice President and Chief Financial Officer  
Valmont Industries, Inc.  
Omaha, Nebraska

**Bradford S. Mead** (not pictured)

Attorney at Law  
Mead & Mead  
Jackson, Wyoming

**John T. Stout, Jr.**

Chief Executive Officer  
Plaza Belmont Management Group, L.L.C.  
Shawnee Mission, Kansas

**Charles T. Sunderland**

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

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

# Advisory Councils



## COMMUNITY DEVELOPMENT ADVISORY COUNCIL

*(From left) Mr. Franklin, Ms. Haines Yatskowitz, Ms. Wright, Ms. Dobreff, Ms. Tinney, Mr. Padilla*

**Linda Capps** (not pictured)  
Vice Chairman  
Citizen Potawatomi Nation  
Shawnee, Oklahoma

**Erica Dobreff**  
President  
Kansas City Equity Fund  
Kansas City, Missouri

**Bernard Franklin**  
President  
Penn Valley Community College  
Kansas City, Missouri

**Anne Haines Yatskowitz**  
President/Chief Executive Officer  
ACCION New Mexico•Arizona•Colorado  
Albuquerque, New Mexico

**Carol Meyer** (not pictured)  
Office of Rural Opportunity Representative  
Kansas Department of Commerce  
Garden City, Kansas

**Daniel Padilla**  
Regional Branch Director  
First National Bank  
Omaha, Nebraska

**Linda Tinney**  
Vice President  
U.S. Bank  
Denver, Colorado

**Lesli Wright**  
Vice President Risk Management  
Hilltop National Bank  
Casper, Wyoming

**Jeffrey Yost** (not pictured)  
President and Chief Executive Officer  
Nebraska Community Foundation  
Lincoln, Nebraska

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

# Advisory Councils



## ADVISORY COUNCIL ON PAYMENTS

*(From left) Mr. Reuter, Ms. Carter, Mr. Frank, Mr. Fosler, Mr. Hipp, Mr. Davidson, Mr. Oatman*

### *Kansas City*

**Mollie Carter**

President  
Sunflower Bank  
Salina, Kansas

**Tim Connealy** (not pictured)

Executive Vice President and  
Chief Operating Officer  
Bank Midwest  
Kansas City, Missouri

**Lloyd Davidson**

President  
First Bank Kansas  
Salina, Kansas

**Steve Hipp**

Executive Vice President  
INTRUST Bank, N.A.  
Wichita, Kansas

### *Denver*

**Mark Frank**

Senior Vice President  
CoBiz Bank, N.A.  
Denver, Colorado

**James A. Reuter**

President  
FirstBankData Corporation  
Lakewood, Colorado

### *Oklahoma City*

**Scott Copeland** (not pictured)

Executive Vice President  
BancFirst  
Oklahoma City, Oklahoma

**C.H. Wyatt, Jr.** (not pictured)

President and  
Chief Executive Officer  
Interbank  
Sayre, Oklahoma

### *Omaha*

**Craig E. Champion** (not pictured)

Senior Vice President  
TierOne Bank  
Lincoln, Nebraska

**Alan L. Fosler**

Senior Vice President and Cashier  
Union Bank and Trust Company  
Lincoln, Nebraska

**Russell A. Oatman**

Senior Vice President  
First National Bank of Omaha  
Omaha, Nebraska

*Members, who are senior officers from financial institutions around the Tenth District, meet twice a year with Kansas City Fed staff to share insight on issues affecting the payments system.*

# Roundtables



## FOOD AND AGRICULTURE ROUNDTABLE

*(Front row, from left) Mr. Robb, Mr. J. Farrell, Mr. Headley, Mr. McCauley, Mr. Fraley, Mr. Timmerman, Mr. Albright, Mr. Briggeman, (Middle row, from left) Mr. R. Farrell, Mr. Dixon, Mr. Horan, Mr. Elmore, Mr. Hammes, Mr. Butler, Mr. Barr, Mr. Gottschalk, Mr. Kollar, (Back row, from left) Mr. Henderson, Mr. Cooper, Mr. Kluempke, Mr. Detrick, Mr. Swedberg, Mr. Cassidy, Mr. Brooks, Mr. Hunt, Mr. Skold*

**Marty Albright**  
Koch Fertilizer  
Wichita, Kansas

**Barrett Barr**  
Deere and Company  
Lenexa, Kansas

**Bill Brooks**  
Dowens-O'Neill/FC Stone, L.L.C.  
Dearborn, Missouri

**Brian Briggeman**  
Federal Reserve Bank of Kansas  
City – Omaha Branch  
Omaha, Nebraska

**Don Butler**  
National Pork Producers Council  
Urbandale, Iowa

**Dan Cassidy**  
Missouri Farm Bureau  
Jefferson City, Missouri

**Ed Cooper**  
Wells Fargo Bank  
Chicago, Illinois

**Terry Detrick**  
American Farmers & Ranchers  
Oklahoma City, Oklahoma

**Parry Dixon**  
Archer Daniels Midland Company  
Decatur, Illinois

**Steven Elmore**  
Pioneer – A DuPont Business  
Johnston, Iowa

**Jim Farrell**  
Farmers National Company  
Omaha, Nebraska

**Ron Farrell**  
Farrell Growth Group, L.L.C.  
Kansas City, Missouri

**Robert Fraley**  
Monsanto  
St. Louis, Missouri

**Andrew Gottschalk**  
R.J. O'Brien and Associates  
Greenwood Village, Colorado

**Paul Hammes**  
Union Pacific Railroad  
Omaha, Nebraska

**Peter Headley**  
MetLife  
Overland Park, Kansas

**Jason Henderson**  
Federal Reserve Bank of Kansas  
City – Omaha Branch  
Omaha, Nebraska

**Bill Horan**  
Horan Brothers Agricultural  
Enterprises  
Rockwell City, Iowa

**Steve Hunt**  
U. S. Premium Beef  
Kansas City, Missouri

**Pat Kluempke**  
CHS Inc.  
Inver Grove Heights, Minnesota

**Ken Kollar**  
Great Western Bank Agribusiness  
Shawnee, Kansas

**Ken McCauley**  
National Corn Growers Association  
White Cloud, Kansas

**James Robb**  
Livestock Marketing Information  
Center  
Lakewood, Colorado

**Jeffrey Rowe** (not pictured)  
Pioneer – A DuPont Business  
Johnston, Iowa

**Karl Skold**  
ConAgra Foods  
Omaha, Nebraska

**Joe Swedberg**  
Hormel Foods Corporation  
Austin, Minnesota

**Norman Timmerman**  
Timmerman Feeding Corporation  
Indianola, Nebraska

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



## REGIONAL ECONOMIC ROUNDTABLE

*(Standing, from left) Mr. Davig, Ms. Felix, Mr. Snead, Mr. Mitchell, Mr. Wilkerson, Mr. Thompson, Mr. Henderson, Mr. Wobbekind, Mr. Robinson, Ms. Reynis, Mr. Edmiston, (Seated, from left) Mr. Hill, Mr. Evans*

**Troy Davig**

Assistant Vice President and Economist,  
Economic Research  
Federal Reserve Bank of Kansas City

**Kelly Edmiston**

Senior Economist, Community Affairs  
Federal Reserve Bank of Kansas City

**Russell Evans**

Director, Center for Applied Economic Research  
Oklahoma State University  
Stillwater, Oklahoma

**Alison Felix**

Economist, Regional Affairs  
Federal Reserve Bank of Kansas City

**Jason Henderson**

Vice President, Branch Executive and Economist  
Federal Reserve Bank of Kansas City –  
Omaha Branch

**Jeremy Hill**

Director, Center for Economic Development  
and Business Research  
Wichita State University  
Wichita, Kansas

**David Mitchell**

Associate Professor, Economics  
Missouri State University  
Springfield, Missouri

**Lee Reynis**

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

**Jim Robinson**

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

**Mark Snead**

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Branch Executive and Economist  
Federal Reserve Bank of Kansas City –  
Denver Branch

**Eric Thompson**

Director, Bureau of Business Research  
University of Nebraska – Lincoln  
Lincoln, Nebraska

**Chad Wilkerson**

Vice President, Branch Executive and Economist  
Federal Reserve Bank of Kansas City –  
Oklahoma City Branch

**Richard Wobbekind**

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

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

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Economist

**D. Rick Lay**  
Assistant Vice President

# Financial Report

The Federal Reserve Bank of Kansas City's 2009 audited financial report is at [KansasCityFed.org](http://KansasCityFed.org). Past financial reports, and officers, directors and advisory councils listings also are online.







Spring 2010

VOLUME 5 • NUMBER 4 • ISSN 1554-7469

SENIOR VICE PRESIDENT & PUBLIC INFORMATION OFFICER: Diane Raley

VICE PRESIDENT: Krissy Young

ASSISTANT VICE PRESIDENT & PRODUCTION ADVISOR: Lowell Jones

EDITOR: Timothy Todd

SENIOR WRITERS: Brye Butler Steeves, Bill Medley

ART DIRECTOR: Angela Anderson Miles

MAGAZINE DESIGNER: Gary Barber

COPY EDITORS: Sara Brunsvold, Sarah Kemp

CONTRIBUTORS: Jon Christensson, Kelly Edmiston, Molly McGrath, Mark Snead, Kenneth Spong, Paul Wenske, Jim Wilkinson

COVER PHOTO: Getty Images

# 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.



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.

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