

TEN

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FEDERAL RESERVE BANK OF KANSAS CITY

Inside:

Bank merger boom

Greensburg's disaster recovery

Consumer help

The Money Museum

Annual economic symposium



SHIPPING OUT

Can rising exports sustain the farm boom?



TEN

F a l l 2 0 0 8

SHIPPING OUT: CAN RISING EXPORTS SUSTAIN THE FARM BOOM? 16

Global factors, such as droughts tightening food supplies and the weak dollar making U.S. goods more affordable overseas, mean prosperity for farmers. Historically, a bust followed times like these.

FEATURES



A PERFECT BLEND: MERGERS STRENGTHEN BANKS, MAINTAIN CUSTOMER TIES 4

Merger booms have reduced the number of small banks, causing many to worry. Research shows the banks may end up stronger while maintaining customer relationships.



MASTER PLAN: BANKS CAN LEARN FROM GREENSBURG'S RECOVERY 8

As bankers rebuild after the May 2007 tornado that obliterated this Kansas town, the need for financial institutions' emergency preparedness is reinforced.



THE MONEY MUSEUM: A BILLION DOLLAR EXPERIENCE 22

The Kansas City Fed's free, interactive museum is now open. The public is invited to come and learn about currency, the economy, bank operations, the Fed and much more.



THE ANNUAL ECONOMIC POLICY SYMPOSIUM: MAINTAINING STABILITY IN A CHANGING FINANCIAL SYSTEM 24

The 32nd annual symposium hosted by the Kansas City Fed focuses on the transformation of financial systems around the world.

IN EVERY ISSUE

- 1 PRESIDENT'S MESSAGE**
- 26 ABOUT...HELPING CONSUMERS**
- 30 NOTES**

Is your bank account safe?

With the recent rise in bank failures and the increasing media coverage of banking and financial issues, many consumers are understandably taking a closer look at where they put their money. At the Federal Reserve Bank of Kansas City it is not uncommon for us to receive a call from someone wanting to know if their bank, and more directly, their money, is safe.

We do not talk about the status of specific financial institutions or offer our opinions about the likelihood of their success.

However, I can tell you that if you are asking the question: "Is my money safe in my bank?" the answer is almost always, "Yes."

For many people, especially those whose first interaction with finance or banking came during the market boom of the 1990s, these seem to be unprecedented times. Unfortunately, that is not the case. In fact, you don't have to look back far to find another period where banks were under extreme pressure.

I joined the Federal Reserve Bank of Kansas City in 1973, working in bank supervision. I stayed in the division as an economist and eventually a senior officer, until I was named president in 1991. If you were involved in banking or business during that time, there is a period you likely remember well. I know I do.

Between 1980 and 1994, more than 1,600 banks nationwide either failed or received financial assistance amid turbulence in agriculture, energy and real estate markets. The number of banks involved in that crisis is far larger than what we

are seeing today, so we do have some experience with these kinds of issues to help guide us through today's challenges.

In its quarterly banking profile for the period that ended June 30, the Federal Deposit Insurance Corporation said 117 institutions were on its "Problem List." The number is out of a field of approximately 8,500 commercial banks and savings institutions nationwide. Those institutions represent only a little more than 1 percent of all banks.

That number, although small, certainly has its significance. The FDIC says those "problem" banks hold a total of about \$78.3 billion in assets and it should also be noted that the "Problem List" has been growing since it hit a historic low of 47 institutions in September 2006. And certainly, if your bank is one of those on the list, the fact that the other 99 percent of banks is doing fine offers little comfort.

But the numbers also make it clear that banks remain a good place to store your money. Moreover, even if your bank fails, you will get all your money back up to \$100,000 immediately. That is no accident. The nation's banking regulators play an important role in ensuring that consumers are well-protected, regardless of the conditions. I hope that more information about



Bank safety



this system—and the backstops it provides in the instance of bank failure—will provide consumers with more confidence in the nation's banks, even in challenging times.

So, what happens when a bank fails?

Decisions about closing banks are made by the individual bank's chartering agency after the bank is determined to be insolvent, which generally means the bank is unable to meet the demands of its depositors under normal operating conditions. For national banks, the chartering agency is the Comptroller of the Currency. State banks are chartered by state banking authorities.

Generally, in the case of a bank approaching failure, a banking regulator has determined that the bank's capital is inadequate. The regulator will

back and some chance they will get it all.

Although the FDIC could take steps such as creating a "bridge bank" to carry on the functions of the closed bank, there are essentially two options considered by the FDIC in the case of a failed bank. One is to simply pay off the insured deposits, liquidate the bank's holdings and then use that money to pay off uninsured deposits, along with any other creditors, in a manner similar to a typical bankruptcy.

History, however, has indicated this course of action is usually not the one followed. The FDIC is required to protect the consumers but at minimal cost to the insurance fund. Most likely, the FDIC's first step will be to attempt to reach a purchase-and-assumption agreement where another financial institution takes over the failed bank, purchasing its assets and assuming some or

“ More recently, changes are being considered that could be helpful to uninsured account holders. ”

ask the bank's directors to increase the capital to certain specifications within a certain period of time, often between 30 and 90 days, depending on the bank's condition and any applicable state laws. At that point, the chartering agency may decide to formally declare the bank insolvent and place it into receivership.

As far as the customers of a failed bank are concerned, the FDIC is the insurance agency. For banks that are FDIC-insured, accounts of up to \$100,000 are guaranteed, meaning customers will get their money the next business day. And, in instances where accounts are greater than \$100,000, recent history has shown it is highly likely depositors will get most of their money

all of its liabilities including the insured deposits. These efforts are generally successful.

The FDIC holds a list of banks that have indicated they would be interested in bidding to acquire a failing institution. When it becomes clear that regulators will be closing a bank, the FDIC begins a bidding process with these institutions. To offset any difference between assets and liabilities, the FDIC may offer an interest-bearing note to the successful bidder.

In any case, the bid process moves extremely quick in a matter of a few days. Generally, the announcement of a bank's closing and the finalized purchase-and-assumption transaction are announced after the bank closes on a Friday.

insured deposits

Member FDIC

Regulators and bank staff then work through the weekend to have the bank ready to open for regular business, under a new name, the following Monday. The terms of any accounts will be unchanged. In fact, the only difference is that customers will now have a new name on their checks and will be doing business with a stronger financial institution—one that has been reviewed by regulators and deemed up to the challenge of acquiring, and turning around, a failed business.

The purchase-and-assumption transactions can be structured in various ways. For example, the acquiring institution does not necessarily need to assume uninsured deposits. In fact, the acquiring institution must pay a premium for the uninsured deposits, which suggests they need to be judged as deposits that are unlikely to depart the new owner soon after the acquisition.

More recently, changes are being considered that could be helpful to uninsured account holders. It is also noteworthy that when Mutual of Omaha Bank was selected to acquire First National Bank of Nevada and First Heritage Bank of Newport Beach, Calif., earlier this year, it included all the liabilities, even those deposits above the insurance limit. A Mutual of Omaha executive told *American Banker* the bank was concerned about the negative impact it would suffer if it did not include all deposits.

There are other benefits for an acquiring bank to include all deposits under a purchase-and-assumption transaction. The fact that those with accounts exceeding \$100,000 may be more likely to be major customers of the bank, and more likely to take all of their business elsewhere if they lose some of their funds, is certainly a consideration.

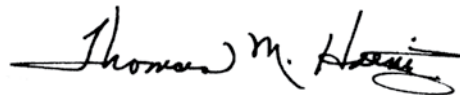
Although I have offered a general overview of the process involved with a failing bank, I would

advise those who may have questions about FDIC coverage to seek more information.

There is an old story about a man who saw on the news that his bank was insolvent and the matter was being handled by the FDIC. He went to the bank excited, telling the cashier that he was there for his money. He was disappointed when the cashier gave him only the \$200 he had in his account. He'd heard each account was insured for several thousand dollars and had expected that payout instead of what he had deposited.

There are some complexities in the FDIC rules. For example, a married couple could actually hold three accounts (one under each individual name and one joint account) and have \$300,000 in coverage, while IRAs can be eligible for \$250,000 in coverage. The FDIC has a feature on its website called the Electronic Deposit Insurance Estimator that you can use to enter your specific information and see what coverage you are afforded. You can find it at <http://www.fdic.gov/edie/>

I would also encourage you to learn as much as you can about your bank. Most likely you are going to find out you are well-protected.



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



A perfect blend

Mergers strengthen banks, maintain customer ties

Inspired by the time he spent in Costa Rica as a student years earlier, Danny O'Neill started roasting coffee in the basement of his Kansas City, Mo., home.

He knew what he wanted to channel his entrepreneurial energy into. He also knew he needed a small business loan.

O'Neill visited six banks, though just one "seriously considered" him.

"I really had no money, and I was in there asking for a lot of money," O'Neill remembers with a laugh. "I didn't know any better."

The staff at Missouri Bank listened to his dream. And, gave him a loan to start The Roasterie coffee shops and roasting plant.

Now, nearly 15 years later, the two popular cafes thrive in a trendy urban neighborhood and

in nearby downtown. Along the way, O'Neill received a few more loans from Missouri Bank.

It's this banking relationship that customers typically value from small community banks, like Missouri Bank. However, the bank merger boom of the 1990s and 2000s has reduced the number of community banks (those with assets less than \$1 billion) nationwide by one-third, causing many to worry their personal banking relationship will erode, says Julapa Jagtiani, a senior economist with the Federal Reserve Bank of Kansas City. She recently researched this merger boom and its effects on community

banking, finding that small banks are not being driven to extinction but may be benefiting from mergers.

“A common perception is that most of these small banks are being gobbled up by large banks,” Jagtiani says. “But more than half of the acquiring banks were actually community banks themselves, often creating stronger, more efficient banks.”

Fewer community banks

From 1989 to 2006, the number of community banks decreased by about 36 percent while large banking organizations increased their share of U.S. banking assets significantly. Mergers were the primary reason, Jagtiani says.

Of the 4,200 mergers of publicly traded banking organizations during the past two decades, more than 90 percent involved acquisitions of community banks. The number of community banks would have declined even more if the loss of banks through mergers had not been offset by a substantial number of new charters, she says.

Prompting concern, research shows bank mergers can significantly impact the supply of credit to small businesses. That impact depends on the size of the acquiring bank. Unlike large bank mergers, those among small banks are less likely to cause a reduction in supply of credit to small businesses, and small business lending could actually increase as a result.

According to Jagtiani’s research, mergers between community banks accounted for more than half of all community bank acquisitions in terms of numbers, and 30 percent in terms of assets acquired. Most of the remaining community bank acquisitions were by medium-size banks (\$1 billion to \$10 billion in assets) rather than by larger banks. This means it’s unlikely that community bank acquisitions reduced the supply of credit to small businesses, Jagtiani says.

While dollar volume of small business lending has increased for both large and community banks during the last 15 years,

small business lending has continued to represent a much higher percentage of assets at community banks.

Additionally, Jagtiani says acquiring banks tend to be more efficient and more profitable than the banks they acquire, which indicates the operations of the target bank could become more efficient. Community bank acquirers also seem to have more sound lending practices and practice more conservative reserve management than their targets. This means the transfer of assets from targets to acquirers could improve the overall health of merging banks, she says.

Large banks acquiring community banks

With the right approach, a large bank acquiring a small bank does not mean the merged bank can’t meet the needs of the community, says Clyde F. Wendel, president of the asset management division of UMB and vice chairman of UMB Bank. The key is to understand the community and establish a “sense of connection between the borrower and lender,” he says.

“We’re not coming in to just take your deposits,” Wendel says. “We’re coming in to be a part of the community.”

Customer concerns of personal service “are challenges for the acquiring bank and the bank that’s put itself up for sale,” he says.

UMB’s approach to this is twofold: keep decision making local and be a good corporate citizen in the community, such as sponsoring the Little League team. This requires the time and commitment of the acquiring bank.

“It’s important to know the people in your community,” Wendel says. “Banking is a relationship business.”

UMB Financial Corporation itself began as a small bank in Kansas City, Mo., in the early 1900s. Through acquisitions, it grew and eventually became a



bank holding company. More acquisitions led to expansion throughout the West, where its banking centers are located along with investment services and trust management.

Wendel says a large bank's entrance into a small community has certain advantages, including bringing in a well-known brand name with a large number of accounts to spread costs, as well as the ability to combine operations to improve efficiencies. For the customer, a large bank's resources translate into more options, such as online banking, ATMs, investment products, and the large scale of these options may mean less-expensive or even free services. However, the value of community banks is not diminished, Wendel says.

"I think there are always going to be strong community banks," he says. "There's always a role for well-run community banks."

Community banks acquiring community banks

There is research that supports focusing mergers, which would allow the concentration of strengths by combining banks that specialize in similar activities. Furthermore, Jagtiani's

research shows in the acquisitions of community banks, average merger bids generally are larger when the acquirer is also a community bank. This suggests community banks can create more value when they merge, rather than when a community bank is acquired by a larger bank, she says. Furthermore, merging with a bank of similar size may be more conducive to the community banking mantra.

Additionally, Jagtiani's research shows the majority of community bank mergers during the boom have been in-state, allowing the merged bank to continue their relationship with local customers and maintain their connection with the community with no interruption.

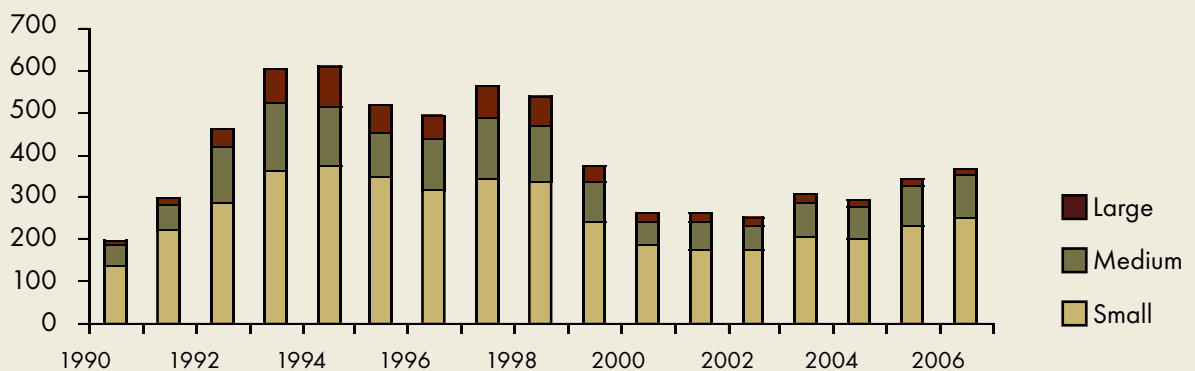
"Community banks appear to merge with the goal of concentrating their efforts on what they do best—provide personal service to small businesses and other local customers," Jagtiani says.

This is Central Bancompany Inc.'s strategy. Based in Jefferson City, Mo., the company has 15 bank charters with many of its community banks located throughout the Kansas City metro area.

"We believe banks should have a community base," says Chuck Weber, Central

Mergers and Acquisitions

Size of acquiring bank when the target bank is small.



Bancompany executive vice president and general counsel.

By acquiring only small banks, Central Bancompany uses its resources—innovation, technology, streamlined operating approach—to conduct business more efficiently while offering the customer more services, such as online banking, that might not

have been available when their community bank was under different, smaller ownership.

This approach offers customers the product and cost benefits of larger entity ownership via the community banking concept of personal service and local management, Weber says.

“Overall, the merger boom may be joining successful small banks with less successful ones,” Jagtiani says, “in effect creating stronger and better managed banks.”

After the boom

The community banking sector today remains strong, Jagtiani says. These banks have continued their commitment to small business lending and personal service. Even though thousands of community banks have disappeared through mergers, many new banks have been chartered.

“The community banks that survived the merger boom may be in a good position to continue serving the local businesses and depositors who value personal service and relationship lending,” Jagtiani says.

Though Missouri Bank has never acquired another bank nor has it accepted offers to be an acquisition itself, President and CEO Grant Burcham says, “We love mergers. It tends to create a lot of new customers for us.”

Burcham says his independent, privately owned community bank in Kansas City, Mo., offers relationships to its customers, like The



ONE OF THE ROASTERIE'S EMPLOYEES sorts coffee beans prior to roasting. The company's beans are sold to coffee shops, restaurants, grocery stores and others nationwide. Owner Danny O'Neill got his first small business loan from a community bank in Kansas City, Mo.

Roasterie owner Danny O'Neill.

“Banking is a people business. ... We have to focus on that,” Burcham says. “That's our point of differentiation. We'll always know our customers better.”

That's why O'Neill says he banks there.

“They just take really good care of us.”



BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

“UNDERSTANDING THE EFFECTS OF THE MERGER BOOM ON COMMUNITY BANKS”

By Julapa Jagtiani
KansasCityFed.org/TEN

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

GREENSBURG, KANSAS

SCALE 1/2" = 1 FT.
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Master plan

Banks can learn from Greensburg's recovery



PHOTO BY DEA CORNS

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At the end of a typical Friday in May last year, the staff of Greensburg State Bank closed up shop as usual, only to reopen the following Monday with a cashbox on the hood of a car.

A tornado, nearly two miles wide with 205-mile-per-hour winds, ripped through this small southwestern Kansas town of 1,400 residents that Friday evening. The storm obliterated 95 percent of Greensburg and killed 12.

Greensburg State Bank President Tom Corns first assessed the damage to his own home, and then made his way through the destruction to Main Street. Once at the bank, Corns had to crawl through a broken window to get inside. He then realized there was no roof and the eastern half of the building had been destroyed. The other two banking offices in town—The Peoples Bank branch and the Centera Bank branch—also were inoperable. All three banks were challenged to quickly restore operations in a town that had lost nearly everything.

The banks' staff took extensive measures to reestablish banking services. The roles of their disaster recovery and business continuity plans

were crucial to these efforts. Their experience provides bankers everywhere important lessons on how to restore operations after an emergency, and what key items should be included in bank recovery plans.

Although few are likely to face what the Greensburg bankers did, emergency planning is a topic of increasing importance for financial institutions. Apart from the traditional concerns with hurricanes, floods and other natural disasters, bank planning must now address a much wider range of threats, including: disruptions and outages in banks' data, transaction and communication networks; hacker and terrorist attacks directed toward the financial system; and pandemic flu preparedness exercises.

Reopening after the tornado

The weekend after the tornado hit, the three banks started planning how to best resume operations. These plans reflected, in part, each bank's existing office structure, prior planning



PHOTO BY GARY BARBER

GREENSBURG STATE BANK PRESIDENT TOM CORNS, ALONG WITH HIS WIFE DEA and bank staff, started moving into the bank's new building in late August. The May 2007 tornado that obliterated nearly all of Greensburg, Kan., also destroyed the bank. Immediately after the tornado, all three of the town's banks turned to their contingency plans and took action to resume banking operations.

for disaster recovery, bank data processing systems and providers, and assistance provided by others. All three banks were faced with the task of how to reopen and serve their customers' emergency needs without bank offices and very little in the way of equipment, supplies and local utilities.

Greensburg State Bank

Greensburg bank officers met the morning after the tornado, which was a Saturday, at the shelter that had just been set up in Haviland (a smaller community about 10 miles east) and came up with a plan to open for business Monday morning on the sidewalk in front of the bank. There was a clear path to the bank's vault, allowing customers access to their safe deposit boxes. By that Tuesday, Greensburg State Bank had a table and tent in front of the bank building's rubble.

"Customers were mostly needing cash for

food, lodging and other necessities, and the typical withdrawal was \$200 to \$300," Corns says. "We had a surplus of cash on hand in our vault, and we cashed checks for anyone, with many transactions based on trust."

Vice President Chris Wirth says, "People just wanted reassurance that their money was safe and the bank would reopen."

Greensburg State Bank also began working during that first weekend to restore its data processing services. The bank was able to obtain a room at the Haviland Telephone Co. with phone lines and a high-speed Internet connection for use as its data center. On that Saturday, Wirth called the Fiserv offices that provide the bank's processing services and found out that the company had already been trying to contact him.

"Fiserv then worked through the weekend to give us connections for inquiry and

maintenance capabilities, and to configure a branch capture machine and several new computers for our data processing work and report printing,” Wirth says. “Fiserv also put together a box of emergency office supplies to replace what we lost.”

Until the town’s phone services were restored during the second week of the recovery, all communications between the data center and the bank staff in Greensburg were by cell phone. Reliable electrical services in Greensburg were not restored for a month.

Greensburg State Bank’s efforts to restore its operations also were aided by its disaster recovery planning, which included contracting for a temporary banking facility complete with a teller counter, drive-up window, vault, two

housing displaced residents and relief workers.

“We cashed checks on demand for any of the three banks, although many of the people didn’t have identification on hand,” Loomis says.

Because The Peoples Bank does its data processing in-house at its main office, all of the records on its own customers were secure and immediately available. Staff posted announcements at its offices, in area shelters and businesses, and on its website, while also getting the word out through local radio stations to let customers know where they could bank.

To provide banking services closer to the Greensburg area, the bank’s next step was to set up an office in nearby Haviland, using the

“ ... we cashed checks for anyone, with many transactions based on trust. ”

offices, bookkeeping area and a generator. It arrived the Tuesday after the tornado. For more than a year it provided a base for operations. This August construction of a new building was complete and it opened to the public.

The Peoples Bank branch

After the storm, Greg Waters, manager of The Peoples Bank branch in Greensburg, remembers thinking, “Hey, our sign is still standing—maybe it isn’t so bad,” but when he got closer, he found the building had suffered the most damage of the three bank buildings.

J. Porter Loomis, president of The Peoples Bank, met with Waters and other bank officers and directors on that Saturday morning and they were able to secure key computer systems and confidential documents.

Loomis and his management staff also made the decision to keep their main office in Pratt open throughout the weekend after the tornado to serve the many Greensburg residents who were going there. Pratt, which is about 30 miles east and operates as a trade center for the area, quickly become an outpost for many tornado relief efforts and for

insurance facility of the Haviland State Bank.

“Most of the facility was available for our operations because all of the insurance people were out doing field work in Greensburg,” Loomis says.

By the end of May, operations were moved into a temporary banking trailer next to the highway in Greensburg.

Centera Bank branch

Centera Bank officers went through much the same planning process as Greensburg State Bank and The Peoples Bank. Branch Manager Steve Kirk, Executive Vice President Michael Cearley and Chairman Michael Stevens, who had to rush back from an out-of-state trip, worked during the weekend following the storm to plan Centera’s recovery.



“We had difficulty getting into Greensburg, but were able to persuade law enforcement officers to let us in on Saturday by showing our bank business cards,” Cearley says. “We found the vault in good condition and were able to get our computers loaded up and gather everything else we thought we should take to our Dodge City branch. We went back to board things up on Sunday, but couldn’t get back in.”

After assessing the damages to the branch there and the long-term nature of any rebuilding process, Centera Bank officers ordered a trailer for temporary use. For immediate needs, though, Haviland State Bank offered to share its branch office in Mullinville, which is 11 miles west of Greensburg. Centera employees posted signs and spread the word.

Centera Bank also was able to quickly restore its communication and data processing networks as well as set up the equipment recovered from its Greensburg branch. After

A key component emphasized by all the bankers is getting the technology and information security part of a plan right. Each bank took different steps in this portion of their planning based on the differences in their office structure and choice of in-house processing versus outside vendors. However, all succeeded in keeping their records safe, avoiding any loss of computer and customer information, and being in a position to restore their data processing in a timely fashion.

Wirth, of Greensburg State Bank, says, “Our plan laid the framework for working with our service providers in business resumption ...no computer information was lost. Local computer files reside on the server and on backup tapes, and the tapes were in the vault and intact.”

All the Greensburg bankers had many offers of help and equipment from providers and vendors. This experience thus shows the need for bankers to actively discuss emergency

“ A key component emphasized by all the bankers is getting the technology and information security part of a plan right. ”

its banking trailer arrived, Centera brought operations back to Greensburg with a new location along the highway.

“The help we received from others was just amazing,” Stevens says.

Centera recently purchased property to build a new branch on Main Street, directly across from its former location. The facility will be built using “green” standards; the bank will continue to operate out of its temporary trailer until construction is complete.

Lessons learned

All the Greensburg bankers say they found their disaster recovery planning to be useful and a good framework for the steps they took in restoring their operations. They also have a new perspective on what to include in future plans.

planning with IT staff and service providers and find out what assistance is available.

All three banks had recognized the possibility of a tornado in their disaster recovery plans, although more detail likely will be added in future plans. For Greensburg State Bank, its planning ensured quick access to a temporary banking facility. Centera Bank’s and The Peoples Bank’s plans anticipated filling in with their other bank facilities in the event that services were disrupted at one of their offices, but The Peoples Bank also maintained a list of temporary bank facility providers in its disaster recovery plan.

The bankers in Greensburg also had a number of suggestions regarding employee safety, communications and availability for work. The loss of homes and services hindered the efforts of all three banks to reach employees

right after the tornado, although nearly every employee was accounted for by the following day.

Stevens, of Centera Bank, says, “The key thing is communications. It goes back to common sense—you’ve got to be able to communicate with your people. For a bank with several locations, more centralized communications would have worked better for us.”

Although a few bank employees were unavailable or left town after the tornado, the banks generally were able to maintain an adequate staff while also giving employees time to attend to their own household recovery and rebuilding needs.

The bankers also discussed what they could do in their emergency planning to better protect bank records, supplies and equipment. Cearley, of Centera Bank, says, “Sometime before the tornado, our auditor asked us to

tag everything we had and make a list, which proved very helpful for insurance purposes.”

Loomis, of The Peoples Bank, recommended bankers have pictures of their facilities from different angles.

All the bankers found their vaults and the contents to be undamaged by the tornado except for minor water seepage around the door of one vault after the subsequent rains.

“We should place more reliance on our vaults in our emergency planning,” Loomis says.

One banker noted that the file cabinets they had were able to withstand the heavy rains, while another found their fireproof cabinets weren’t waterproof.

“We had backup supplies and bank forms in a storeroom and at an off-site location—both of which were destroyed by the tornado,” Corns says. “Since we have a very substantial basement over which we will build our new building, we

ALL THREE OF GREENSBURG’S BANKS operated out of temporary trailers while their facilities were being rebuilt. Meeting the needs of their customers was the No. 1 priority, the staffs said, especially when residents had lost almost everything.





PHOTO BY ISTOCK

Gaining priority access in an emergency

Oklahoma banker H.C. Bauman knows one certainty about emergency response planning: Access after a disaster is key.

“Why have a plan if you can’t enact it?” he says.

This proved challenging for Bauman, president and CEO of First State Bank in Picher, after a tornado hit the small mining town in northeast Oklahoma on a Saturday evening in May. More than 200 homes and businesses were destroyed and seven people died, according to reports.

Bauman had been tracking the storm from home in nearby Wyandotte, where First State’s sister bank is located. After the tornado passed and Bauman was able to account for the six bank employees by phone, he made his way to Picher. But for safety reasons, law enforcement officers stopped him on the highway and wouldn’t let him into town.

Access also proved difficult for bankers in Greensburg, Kan., during that town’s tornado recovery in May 2007. There, bankers had trouble receiving priority admittance or utility restoration during the recovery.

The bankers’ efforts in both Picher and Greensburg reflect a critical

component of recovery: getting money into the hands of those who need it while maintaining public confidence in the financial system.

After the 9/11 terrorist attacks, major financial institutions and their regulators worked together to analyze what they had learned. One lesson was the need for improved cooperation among emergency responders, law enforcement and financial institutions’ disaster recovery personnel. Since that time, the public and private sectors have worked to develop credentialing systems that allow essential staff from financial institutions access to disaster sites.

Bankers are involved in a number of other efforts to address emergency access issues and post-disaster business resumption. An example is ChicagoFIRST, a nonprofit association of financial institutions in the Chicago area that works with government representatives on business continuity and priority access during disaster recovery. This model has been replicated in more than a dozen major U.S. cities.

In Picher, it wasn’t until after midnight on the day of the tornado that Bauman got a call letting him know

First State Bank had only minor exterior damage, although, without electricity, the alarm system wasn’t functional. By the following Monday, Bauman and other merchants were allowed into town. He and a staff member transferred cash and other valuables to the Wyandotte bank, as outlined in the banks’ contingency plan. Because the plan also called for the duplication of records, staff could have operated easily out of the Wyandotte bank if the Picher building had been unable to open. By that Thursday, the Picher bank—which is the only one in town—was operational again.

During the recovery period, staff worked overtime closing and reopening accounts, processing insurance checks, and generally assisting residents and business operators.

“It was an unbelievable workload for our staff,” Bauman says, but one they were well-prepared for—the bank tests its contingency plan yearly.

“Definitely have a plan,” Bauman says. “It served us well.”

BY BRYE STEEVES, SENIOR WRITER



PHOTO BY GARY BARBER

will prepare for future emergencies by using it more for our backup storage.”

One area cited by all the bankers where better planning would pay off is in working with law enforcement, utility companies and other parties to get priority treatment for banks during emergencies. The Greensburg bankers noted their supervisory agencies were quick to offer assistance and to approve temporary facilities. One suggestion made by the bankers to further improve banker/regulator communication in an emergency was to exchange cell phone numbers.

“What happens will always be different from what you have worked through in your planning and testing,” Loomis says. “What is important is the process.”

Further challenges in Greensburg

More than 140 new homes are being built in Greensburg as well as several businesses on Main Street. The city has started to restore the downtown streetscape and also broke ground on the Business Incubator building, conceptualized to foster entrepreneurship there. Restoration on the county courthouse is underway. Insurance money, various emergency assistance programs and bank lending are helping to build

this new community, with many projects being done under “green” building standards.

Greensburg faces a number of challenges in this rebuilding process, including how to replace those residents who left after the tornado and have not returned. The cost of new construction may not prove economically viable for everyone. The bankers, though, are optimistic.

“The community has a rural work ethic that will sustain the effort to recreate ourselves and the town,” Corns says.

Many say the same of the three banks and their staff.

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**BY ERIC ROBBINS, POLICY ECONOMIST,
AND KEN SPONG, SENIOR ECONOMIST**

A version of this research appeared in the July/August issue of the RMA Journal. Copyright 2008 by The Risk Management Association (www.rmahq.com). All rights reserved. Used by permission.

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Shipping out

Can rising exports sustain the farm boom?





Oklahoma farmer Orel Sallaska is selling his wheat bushels for a dollar more than he did last year. Not a bad increase, but had he not locked in that selling price a while back, he could have gotten nearly double per bushel.

Sallaska and his wife Jeanne, who farm 1,040 acres of wheat and alfalfa with their dog Cheech, can't kick themselves too much. The couple couldn't have predicted such an increase in global demand.

"I think we're in uncharted territory," says Orel, 57.

Overall, the Sallaskas' hard red winter wheat crop—used to make flour—was more profitable than Orel anticipated in 2007 and so far in 2008, but he's not sure how long the boom will last.

"(It) has allowed me to get ahead," Orel says. "Prices go up and down. Things change fast."

Recently, farm profits and investments have soared, and farmland values have surged. For farmers around the country—including those in the Tenth Federal Reserve District states of Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and New Mexico—times are good, but likely won't last indefinitely, say Maria Akers, an assistant economist, and Jason Henderson, an economist and the Branch executive, both at the Federal Reserve Bank of Kansas City's Omaha Branch. Akers and Henderson recently researched the role of exports in the current farm boom.

"In short, prosperity for U.S. agriculture often hinges on exports," Henderson says, citing global factors that most recently boosted

U.S. agricultural exports:

- droughts tightened food supplies;
- growing populations and strong economies spurred food demand;
- the weak dollar made U.S. products more affordable abroad.

“U.S. agriculture has benefited greatly from these conditions,” Akers says. “However, changing trends could quickly redraw the outlook for exports.”

After farming for more than three decades, Orel and Jeanne Sallaska have seen bad times follow good ones.

“The pendulum swing has been so wide,” Orel says. “I think there are some tough times ahead.”

Bon voyage

Since 1960, U.S. farm exports have been larger than imports. But this year, the USDA is projecting the value of those exports will

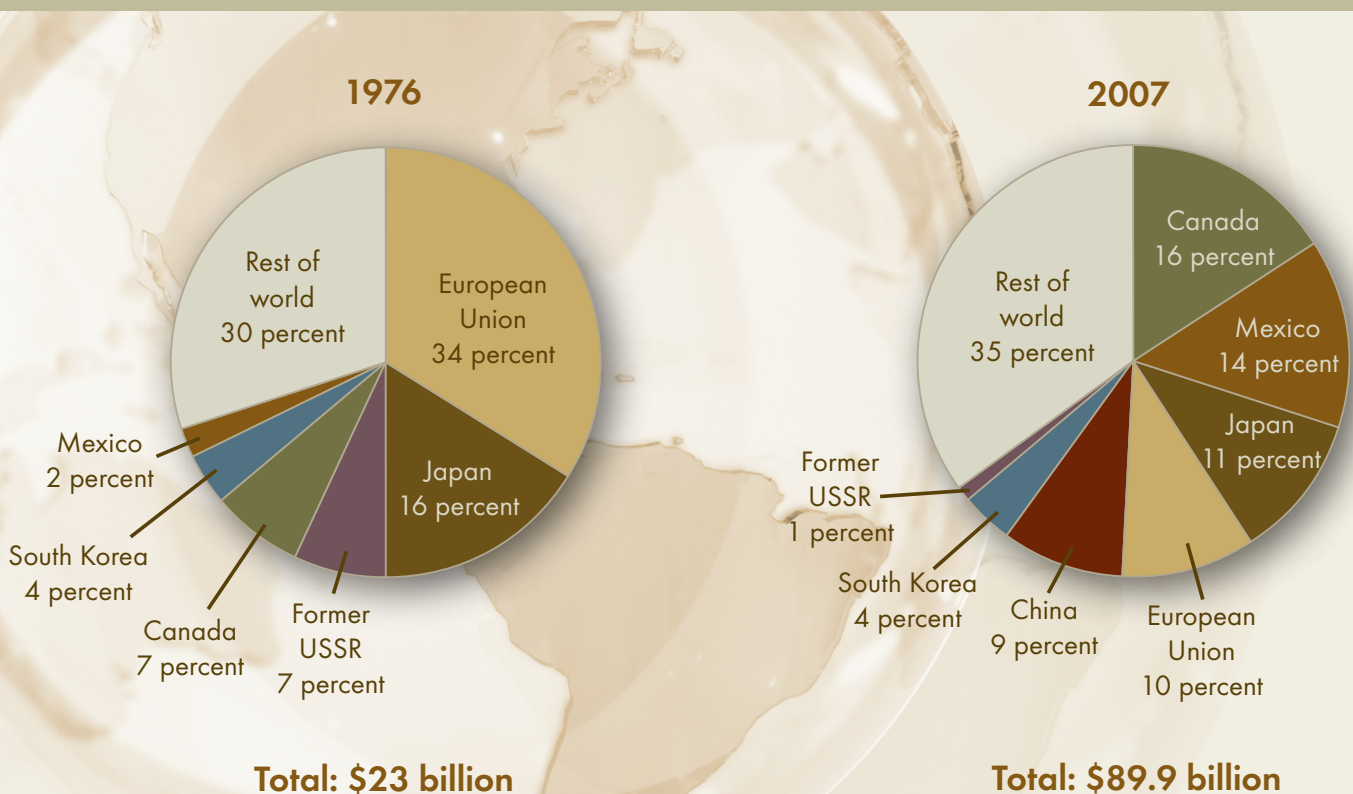
reach a record high of more than \$108 billion. The biggest gains in U.S. exports are processed agricultural goods, which have accounted for the majority of agricultural exports for nearly the last decade.

Horticultural and livestock products make up most of these exports, although livestock exports have varied as a result of foreign trade restrictions in response to Mad Cow disease in 2003.

More recently, though, “exports for beef have just been tremendous,” says Jim Timmerman, chief financial officer of Timmerman & Sons Feeding Co. based in Springfield, Neb. The family business, started by Timmerman’s father in 1946, operates feed yards and cattle ranches around the country. Timmerman also is a member of the Kansas City Fed’s Omaha Branch board of directors.

He attributes this spike in foreign demand to increasing populations and rising wealth

U.S Agriculture Export Destinations





SOME OF THE UNITED STATES' LARGEST EXPORT GAINS have been in beef and dairy, with the latter sector seeing a record export value of \$3.06 billion last year. Mexico, Southeast Asia and Canada are the biggest importers of U.S. dairy products.

as well as smaller supplies in other exporting countries due to weather conditions and other factors. Large importers of U.S. beef include Mexico, Russia and many Asian countries.

Timmerman predicts U.S. beef will remain competitive because of its high quality; U.S. cattle are grain fed whereas other beef export countries feed their cattle grass. This demand will help offset producers' rising expenses, such as fuel and feed, which is in competition with ethanol production—the type of corn used in ethanol is the same type that is primarily used for livestock feed, and, less so, for human consumption.

“The bottom line is getting better all the time,” Timmerman says.

Some of the other largest gains have emerged in the dairy sector. In 2007, the U.S. dairy industry saw a record export value of

\$3.06 billion, which is a gain of 62 percent, says Tom Suber, president of the U.S. Dairy Export Council. He says high international prices contributed to this gain, as did growth of the middle class, poor weather conditions prompting drought and other countries' export restrictions. But the biggest factor is high global demand coupled with insufficient supply from other countries that export dairy products.

While future growth may be at a slower rate, Suber says “the export market is going to continue to see their (U.S. dairy producers') product.”

This is certainly beneficial to dairy producers' profits because “with input costs, that margin is getting squeezed,” says Dave Drennan, executive director of Missouri Dairy Association, which acts as an advocate on behalf of the state's dairy farmers. Labor, electricity

and fuel expenses tend to be higher than those of other commodities due to the nature of producing and transporting dairy products.

“I don’t see it turning around and going the other way,” Drennan says, citing particularly strong growth in U.S. cheese and whey exports.

Mexico, Southeast Asia and Canada are the biggest importers of U.S. dairy products. Trade with Mexico and Canada in particular has skyrocketed since the North American Free Trade Agreement (NAFTA) was ratified in 1993 and trade tariffs were eliminated. These two countries purchase almost one-third of all U.S. agricultural exports, primarily fresh produce and grains. Asia also is a major export market for U.S. goods—primarily grains and oilseed. Additionally, U.S. grain exports have spiked recently in the European Union as a result of droughts in 2007.

Will the boom last?

Historically, U.S. agricultural prosperity has been tied to exports, say Akers and Henderson. In the 1970s and mid-’90s, surging exports led to strong farm incomes—much like we are seeing today.

“However, past export booms faded quickly,” Henderson says. “The agricultural boom of the ’70s became the bust of the ’80s.”

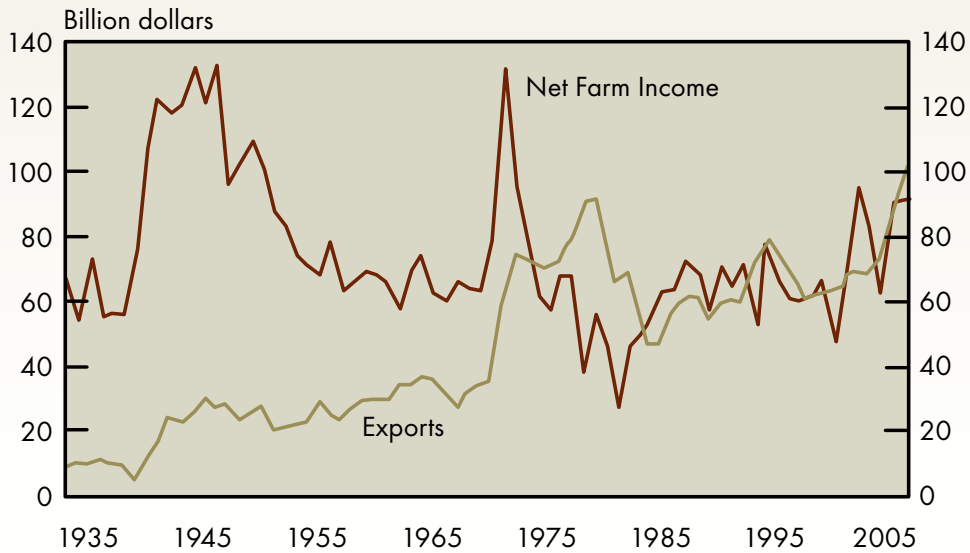
By the 1980s, agricultural exports were hurt by worldwide recession, a sharp rise in the U.S. dollar and embargos on U.S. grain sales to Russia. Commodity prices weakened, U.S. farm incomes dropped and farmland values fell quickly.

By the mid-’90s, exports had surged again, as demand grew for processed agricultural products and the dollar declined. But later that decade, the rising exports and strong farm incomes faded as a result of a financial crisis

JEANNE, LEFT, AND OREL SALLASKA DINE OUT AT TENA’S CAFE near their 1,040-acre farm in the western Oklahoma town of Corn. For the farming couple, times are good right now, but rising costs are biting into their profits. “It’s just such a capital-intensive business,” Orel says.



U.S. Real Net Farm Income and Agriculture Exports



Source: USDA

Note: 2007 is the base year, meaning dollars have been converted to that year's value.

in Asia and a rising U.S. dollar. Crop prices dropped and, as a result, farm government subsidy payments surged, underpinning farmland values.

Again today, sharp gains in both price and quantity have driven U.S. exports to their highest level in decades.

"Today's farm boom is following historical trends," Akers says. "With expectations of lean supplies and robust demand, farmers could enjoy another bountiful year of rising exports."

But, an unexpected surge in production costs, such as even higher fuel expenses, or a drop in crop prices could undercut farm incomes and farmland values, posing a financial risk to the farm sector, Akers says. Thus far, however, the industry's debt levels are up only modestly, helping to mitigate the risks of a drop in farm incomes.

The USDA predicts agricultural exports will rise steadily during the next decade. High-valued products, such as fruits, vegetables and processed foods, likely will account for the majority of this increase. Exports this year already have reached the USDA-projected levels of 2013.

"There are a lot of uncertainties with

agricultural exports though," Henderson says. "Their future will be influenced by the supply here and abroad, which is dependent on weather conditions, exchange rates, trade policies, population growth and other factors."

In Oklahoma, Orel and Jeanne Sallaska aren't sure they'll break even by the end of '08, considering that increased world wheat production has trimmed export demand while fuel costs are soaring, he says. Orel is less optimistic for 2009.

Export demand, he says, is "as unpredictable as the weather."



BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

"CAN RISING EXPORTS SUSTAIN THE FARM BOOM?"

By Maria Akers and Jason Henderson

"WILL FARMLAND VALUES KEEP BOOMING?"

By Jason Henderson

KansasCityFed.org/TEN

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THE MONEY MUSEUM

A billion dollar experience

See millions of dollars inside the region's largest cash vault. Design your own currency. Learn about the Federal Reserve's role in the economy.

The Kansas City Fed's new, interactive Money Museum is open and the public is invited to come learn about currency, the economy, bank operations, the Fed's purpose and functions, and much more.

Tours are free, available weekdays during regular business hours, and can be guided or self-guided.

Exhibits appeal to visitors of all ages, but some—such as student groups—may want to take advantage of additional resources. Fed staff wrote lesson plans for educators to use in conjunction with a Money Museum tour as well as take-home activities for families.

The 3,000-square-foot museum is a part of the Kansas City Fed's recently built headquarters at 1 Memorial Drive in Kansas City, Mo.

Many exhibits have touch screens with video and text. Visitors can watch two short films on the Kansas City Fed and its history.

Additionally, the museum's coin machine is stocked with the latest issues of state quarters and presidential dollars, and The Vault gift shop sells Fed merchandise, including T-shirts, books and one-of-a-kind items.



The Truman Coin Collection:

More than 450 coins from every presidential administration, on loan from the Harry S. Truman Library.





Cash operations: Through glass, a portion of the vault and the automated vehicles that move the money can be seen.

Exhibits for young children: Include displays about the role of currency in the economy; creating their own money at the rubbing station; and lifting a gold bar.



"The Fed and You": A short introduction film displayed on a 12-foot-long video wall.




The Legacy Exhibit: Includes artifacts dating back to the Kansas City Fed's opening day in 1914, such as this Tommy Gun used by guards.



Interactive exhibits: Allow guests to step into the role of a bank examiner, try to spot a counterfeit note and learn more about the Fed.

For more information on The Money Museum, directions, parking, group-specific tours and making reservations, visit KansasCityFed.org or call (800) 333-1010 ext. 12683.



2008

MAINTAINING STABILITY

IN A CHANGING FINANCIAL SYSTEM
JACKSON HOLE, WYOMING
FEDERAL RESERVE BANK of KANSAS CITY

The annual economic policy symposium

Recent turmoil in financial markets has been the first real stress test of the stability and integrity of the world's financial structure since the global shift away from the traditional bank-based model to a market-based system of financial intermediation

As recent events have shown, the current system has some critical flaws and unexpected vulnerabilities.

More than 100 central bankers, policymakers and economists examined the recent crisis during the Federal Reserve Bank of Kansas City's 32nd annual economic policy symposium in Jackson Hole, Wyo. They discussed if changes in financial regulation and monetary policy are necessary to deal with future crises. The symposium, held Aug 21-23 in the northwest corner of the Bank's Tenth Federal Reserve District, continues the

tradition of the symposium focusing discussion on a key policymaking issue.

"The symposium has proven over the years to provide a valuable forum for the exchange of ideas on important policy issues," says Tom Hoenig, president of the Federal Reserve Bank of Kansas City. "As in past years, we were once again honored to host a distinguished group of individuals who engaged in discussion and exploration of a crucial matter facing central banks around the world."

In addition to remarks from Federal Reserve Chairman Ben Bernanke; Mario Draghi, governor of the Bank of Italy; and Stan Fischer, governor of the Bank of Israel, sessions for this year's symposium, titled "Maintaining Stability in a Changing Financial System," included:

- **Financial Crises in Historical Perspective**

An examination of the key features of the

subprime mortgage crisis and a look at it in a historical context.

• **The Role of Incentives and Asymmetric Information in Financial Crises**

The possible vulnerabilities revealed by the recent credit crisis stemming from the development of the new “originate to distribute” model of lending; the increased complexity of securitized products and some of the new off-balance structures, such as structured investment vehicles.

• **Asset Prices and the Credit Cycle: The Role of the Macroeconomic Environment**

The lessons that can be drawn from the recent credit crisis about the role of risk misperceptions, low interest rates, and pro-cyclical leverage in generating financial booms and financial crises.

lender-of-last-resort policies and adopting a more accommodative policy stance. Although both were used by the Federal Reserve in recent months, questions have surrounded the actions.

“Although our Reserve Bank receives much of the credit, the symposium’s stature and success is the result of the individuals who attend and participate by offering their insight and opinions during the conference sessions,” Hoenig says. “Over the years, these individuals have made the symposium into what it is today.”

Last year, symposium participants focused on “Housing, Housing Finance and Monetary Policy.”

The origin of the symposium dates back to 1978 when the Kansas City Fed hosted “World

“ **The symposium has proven over the years to provide a valuable forum for the exchange of ideas on important policy issues.** ”

• **The Role of Liquidity in Financial Crises**

The causes and consequences of liquidity strains in financial crises, with special attention to liquidity implications of a market-based financial system.

• **Implications for Regulation and Prudential Supervision**

A look at possible areas for reform including those that would correct incentives for excessive risk taking by financial institutions and reforms designed to increase the liquidity of new financial products.

• **Central Banks and the Financial Crisis**

Generally speaking, central banks have employed two basic approaches when dealing with financial crises: providing temporary and targeted liquidity through

Agricultural Trade: The Potential for Growth” in Kansas City. The event moved to Jackson Hole in 1982—the first to use the symposium’s current structure, which focused on “Monetary Policy Issues in the 1980s.”

BY **TIM TODD**, EDITOR

Papers presented during the 2008 symposium, as well as complete copies of the proceedings from each of the previous events since 1978, are online at KansasCityFed.org.

About...

Helping consumers

Thousands more than expected call for assistance

Recently when the Federal Reserve decided to streamline its efforts to assist consumers with questions or complaints about their financial institutions, Kansas City Fed bank examiner Alinda Murphy's first thoughts were: "How would the consumer want to approach this? What would most benefit the consumer?"

The answer: A one-stop source called Federal Reserve Consumer Help.

Administered by the Kansas City and Minneapolis Feds, this approach provides a single entry point for consumers and standardizes the front-end service that the 12 Federal Reserve Banks offer. Rather than consumers struggling to find information about their financial institutions, they can contact

FRCH staff via phone, fax, e-mail or an online complaint form; each Fed works with the bank and consumer. This streamlined approach was launched in October 2007 with the implementation of a customer contact center and the website FederalReserveConsumerHelp.gov. One year later, staff sees success.

"Now when consumers contact us," Murphy says, "they get a person right away who directs them instantly to the appropriate resources based on the inquiry. Or, if they want to file a complaint, they will be directed to the right agency so they easily can do so. Consumers know exactly what's going to happen—it's not going to vary by Reserve Bank."

In addition to filing a complaint, the resources FRCH offers to consumers range from

topics such as how to avoid overdraft fees to how the Federal Reserve can help consumers. Other resources include information on preventing identity theft, avoiding home foreclosure, banking online and choosing a credit card. The FRCH website, which is updated regularly to reflect interactions with consumers, provides answers to frequently asked questions about banking issues. And, with the click of a button, consumers can read the Web site's text in Spanish.

"This is in line with the Federal Reserve's responsibility for enforcing consumer protection laws," says Linda Schroeder, FRCH director and Kansas City Fed vice president in Supervision and Risk Management. "Consumers who understand their rights make better-informed financial decisions."

This need is being met through FRCH's efforts.

"It's consumer driven," Murphy says. "We wanted to prevent consumers from getting lost in the system, and that's what FRCH does."

Serving customers, meeting needs

Murphy helped develop FRCH and now monitors its progress. On a monthly basis, Murphy listens to a sampling of recorded calls not only to assess the questions consumers ask, but also the responses given and the overall progress of FRCH.

Common inquiries include questions about bank late charges, loan interest rate changes, and overdraft and insufficient funds fees. Murphy wrote uniform answers to questions like these that consumers often ask FRCH staff. Additionally, she helped develop training materials for the staff of 15 in both Kansas City and Minneapolis. The two Reserve Banks support each other for contingency purposes as well as for other benefits of geographic diversity, such as alleviating call volume when necessary.

There also are benefits beyond immediately assisting the consumer with a problem. Data from FRCH is a voice for consumers, Schroeder says. It can not only aid the Federal Reserve



At a glance:

Federal Reserve Consumer Help

What: A one-stop source for consumers to get information or file a complaint against their financial institution.

Ways to contact FRCH staff:

phone: (888) 851-1920

fax: (877) 888-2520

e-mail: ConsumerHelp@FederalReserve.gov

online: www.FederalReserveConsumerHelp.gov

Getting results:

- total number of cases: **15,214**
- volume of online complaint submissions: **2,142**
- most frequent method of consumer contact: **phone** (staff received an average of 524 calls per week)
- average time to answer a consumer's phone call: roughly 90 percent are within **60 seconds**
- most common query: **banking fees** related to credit cards and overdraft protection
- average number of days to respond to an inquiry (resolve or refer): **one**
- number of complaints referred to other agencies for resolution: **5,315**

Note: Data reflects FRCH's first six months.

with its policymaking decisions, but also paint a picture for Congress.

“That’s another way for us to serve consumers—getting this information to the Board of Governors in a comprehensive and timely manner,” Schroeder says. “We believe as a result of FRCH, the Board hears more from consumers than ever before. Since FRCH’s inception, the Board has been in front of Congress to discuss how the Federal Reserve is helping consumers with banking problems—including FRCH services.”

Award-winning efforts

For her significant contributions to FRCH’s creation and implementation, Murphy was recently recognized with the William Taylor Award for Excellence in Bank Supervision. This prestigious award—the highest of its kind—honors those in the Federal Reserve System who have demonstrated extraordinary achievement in the sector of financial regulation. Established in 1993, a year after Taylor’s death, the award is in commemoration of his career to the Federal Reserve and the banking system, first as an



CONSUMERS CAN GO ONLINE TO FederalReserveConsumerHelp.gov for banking information.

examiner at the Chicago Fed and ultimately as the chairman of the FDIC.

Murphy was one of four Federal Reserve System employees recognized this year at a ceremony in Philadelphia, where each was presented with the award. She was honored again by her colleagues at the Kansas City Fed shortly thereafter.

“The William Taylor Award is an affirmation of FRCH and the importance of the service the Federal Reserve System provides to consumers,” says Tom Hoenig, president of the Kansas City Fed. “Alinda Murphy’s efforts made that possible.”

Murphy is the sixth Kansas City Fed employee to receive this award in the past 15 years. Most recently, Forest Myers, a policy economist, was bestowed the honor for his development of bank director training materials, including lesson plans for an on-site and online course, and the book “Basics for Bank Directors.” The other Kansas City Fed recipients were Ed Hughes, Ronald Sisneros, Dave Anderson and Marge Wagner.

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BY BRYE STEEVES, SENIOR WRITER



Fed publications online

To read these publications and more, and to sign-up for e-alerts , visit KansasCityFed.org.

Economic Review: A quarterly journal of economists' research on business, finance, agriculture, policy topics and more.

.....

Main Street Economist: A bimonthly newsletter on economic challenges and opportunities in rural and urban communities.

.....

Financial Industry Perspectives: Periodic articles on a variety of banking issues and topics.

.....

Payments System Research Briefing: Periodic articles covering the payments system's methods, developments and participants.

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Money Smart in Nebraska

In an effort to increase financial literacy for Nebraskans of all ages and income levels, organizations across the state are partnering to offer events this fall.

Money Smart Week is Nov. 10-16. Businesses, banks, schools, the media and others are collaborating to stress the importance of financial literacy and let consumers know help is available.

“Free educational seminars, activities and related materials are available,” says Jennifer Clark, Public Affairs coordinator for the Kansas City Fed’s Omaha Branch, who also directs

financial education efforts for the Tenth District. “Topics range from establishing a budget to buying a home to planning an estate.”

MoneySmartWeek is the first annual effort led by the Nebraska Financial Education

Coalition, of which Clark is the president. The Kansas City Fed’s Omaha Branch led the formation of this coalition that is made up of businesses, financial institutions, nonprofits and government agencies from across the state.

Kansas City Fed President Tom Hoenig is the keynote speaker for the Money Smart Week kickoff. The Fed believes informed consumers are the backbone of a strong economy.

For the calendar of events and more information, visit MoneySmartNebraska.org.

Gatherings create dialogue in region

The Kansas City Fed hosted its annual Economic Forums this fall in Nebraska, Wyoming and New Mexico to interact with community members and discuss economic issues.

Attendees included bankers, community leaders and members of nonprofit organizations. Forums were held in Grand Island, Norfolk, Scottsbluff/Gering, Lincoln and Omaha, Neb.; Albuquerque, N.M.; and Laramie and Casper, Wyo. Kansas City Fed economists, including President Tom Hoenig, gave presentations. Forums also included informal discussions and question-and-answer sessions.

“The exchange of information is beneficial for all participants,” says Stacey Montague, Public Affairs coordinator at the Kansas City Fed’s Denver office. “Additionally, it is helpful for the Fed to hear directly from members of communities about how they are affected by current economic conditions.”

The Kansas City Fed’s Branches in Denver, Oklahoma City and Omaha organized these events. Forums, which started more than 50 years ago, are held in every region of the Tenth Federal Reserve District at least every two years. The District includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico.

“Hosting forums in different locations improves the flow of communication throughout the District,” Montague says. “What’s happening in Cheyenne or Albuquerque is not the same as Scottsbluff, Nebraska.”

To read the forums speeches, visit KansasCityFed.org.



Kansas City Fed hosts regional housing conferences

The Kansas City Fed and its Denver Branch hosted housing conferences in Kansas City and Denver in September to educate consumers and help homeowners facing default.

These events are the most recent in the Fed's ongoing efforts related to housing issues. Part of the Fed's mission is to spur economic growth through community development, which includes financial education, asset building and entrepreneurship, says Ariel Cisneros, senior community affairs advisor for the Denver Branch. This year, the Kansas City Fed also organized events in Oklahoma City and Omaha, where two Branches are located.

Attendees included educators, lenders, real estate agents, and members of nonprofit and government agencies. Topics included the impact of foreclosures on a community, neighborhood involvement and municipal strategies. The conferences are an opportunity to collaborate with area organizations for solutions to the problems plaguing distressed homeowners and the housing market.

"We are trying to keep people in their homes, or find the best solutions for them," Cisneros says.

The Fed's message to homeowners: Get help as soon as possible.

For more information on assistance in the Kansas City metro area, visit KCForeclosureHelp.org, and in Colorado, ColoradoForeclosureHotline.org.

Oklahoma City Branch to co-host conference

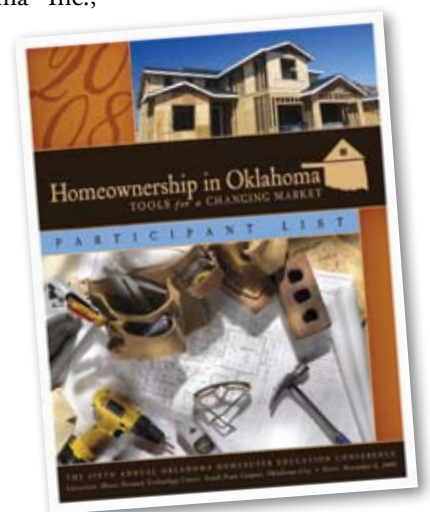
The Kansas City Fed's Oklahoma City Branch will co-host the conference "Homeownership in Oklahoma: Tools for a Changing Market" on Nov. 6.

This event in Oklahoma City is designed for professionals in the housing industry, including housing and banking professionals. The program will present a picture of the state's housing market and options available to assist homeowners, says Steve Shepelwich, senior community affairs advisor at the Oklahoma City Branch.

"These efforts are in line with the Fed's financial literacy efforts for all consumers, who are the backbone of a strong economy," Shepelwich says.

The Kansas City Fed is partnering with the Oklahoma Homebuyer Education Association (OHEA). Organizing sponsors are the Oklahoma Association of Community Action Agencies and the Kansas City Fed. Other sponsors include the Oklahoma Bankers Association, Oklahoma Housing Finance Agency, Oklahoma Association of Realtors, Oklahoma Gas and Electric Company, USDA Rural Development, Rural Enterprises of Oklahoma Inc., First Mortgage Company, Muskogee Housing Authority and Stratos Realty.

For conference details and to register, visit KansasCityFed.org/OHEA.



Kansas City Fed names new officer of Community Affairs

Tammy Edwards recently joined the Kansas City Fed as its assistant vice president and Community Affairs officer.

Edwards' duties include leading the Community Affairs Department, which is responsible for promoting economic development through fair and impartial access to credit as well as focusing events and research on economic issues affecting low- and moderate-income communities. Edwards will direct efforts of Community Affairs staff in each of the Kansas City Fed's Branches in Denver, Oklahoma City and Omaha.

The department's three primary focus areas are: enhancing financial education, supporting the availability of affordable housing in strong neighborhoods, and encouraging entrepreneurship and the development of small businesses. Community Affairs staff work with the Federal Reserve Board of Governors, government entities, financial service providers, community development organizations and others.

Edwards, a native of Kansas City, Mo., has a bachelor of business administration degree and a master's degree in finance from the University of Missouri-Kansas City.

"Community Affairs has a meaningful impact on this region. I am excited to be a part of these significant efforts," Edwards says.

For more information on Community Affairs, visit 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 October, November or December.

Bank of Versailles	Versailles	Mo.	89
First State Bank of Newcastle	Newcastle	Wyo.	78
Farmers State Bank	Fort Morgan	Colo.	70
Grant County Bank	Medford	Okla.	68
Stock Exchange Bank	Caldwell	Kan.	68
Fidelity State B&TC	Dodge City	Kan.	65
Bank of Commerce	Wetumka	Okla.	63
First State Bank	Fairfax	Okla.	63
Farmers State Bank	Pine Bluffs	Wyo.	42
Bankers' Bank of the West	Denver	Colo.	28
Citizens State B&TC	Ellsworth	Kan.	28
Farmers State Bank	Phillipsburg	Kan.	10
Bank of Western Oklahoma	Elk City	Okla.	10

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Compiled By TEN Staff

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Fall 2008

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The Federal Reserve System

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

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

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

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

The Federal Reserve Bank of Kansas City

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



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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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THE MONEY MUSEUM

A billion dollar experience

Information about the Kansas City Fed's new, interactive museum is now online:

- Read about the museum's highlights
- Book a free guided tour, workshop or presentation
- Get hours, directions and parking information
- See what's in The Vault gift shop

Admittance and parking are free; exhibits appeal to all ages.

Get details at KansasCityFed.org/MoneyMuseum.

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