Central bank perspectives on nonbanks in the payments system

The retail payments system is certainly undergoing fundamental change. It is dynamic, coming from a variety of sources, and it is significant. It also is no coincidence that nonbank firms are a significant part of this change and have become increasingly prevalent throughout the world's payments system.

In this context, the task for the central bankers—and we have varying degrees of oversight responsibility for the retail payments system across the world—is to understand the opportunities, benefits and costs of an evolving market-driven payments system, and then to balance the benefits of such a system against public goals of assuring a sound, stable and safe payments system globally.

The Federal Reserve's mission is to promote a payments system that is efficient, accessible and safe. I would start out my comments by saying, as a general point, nonbank companies have had a positive influence in the areas of efficiency and access around payments. By helping to introduce new technologies and products, entering new markets, and tapping into the economies of scale and scope, nonbanks are enhancing the efficiency in the payments system. By offering payments services that frequently transcend geographic restrictions, for example, by facilitating online payment options, nonbanks are enhancing, on balance, consumer access.

What about the impact on risk? The growing importance of nonbank firms also introduces new sources of risk to the system and raises important questions around how these risks would be managed in an ever-changing payments environment: the role of regulation versus self-regulation.

Examples of recent payments system risk issues, which many people here have mentioned already, are TJX Company's more than 45 million transaction records captured away, and pharmacy cards that represented a means and an introduction to fraud.

Certainly, public confidence in the ability of the payments system to manage new risk is at the core of an effective payments system over time. If private incentives to manage risk are weak, or if they tend to fail under stress, then too often

2007 payments conference

Santa Fe, N.M. • May 2-4, 2007

Federal Reserve Bank of Kansas City

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The conference brought together three principal audiences—industry participants, academics and public authorities—for an exchange of views and thoughts as nonbanks continue to become prominent in payments systems around the world.

Among the issues addressed:

- *What activities do banks and nonbanks perform in payments?*
- *How has rising nonbank participation affected product innovation and market competition in the payments industry?*
- *Do banks and nonbanks compete on a level playing field?*
- *Is the current supervisory framework over bank and nonbank payment service providers adequate to control risk?*
- *What role should public authorities play in overseeing retail payments in light of changing technologies and changing industrial structures?*

Speakers and panelists included representatives from Google, PayPal, the European Central Bank, the Reserve Bank of Australia and the Dutch Central Bank as well as a number of commercial banks and international universities.

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payments crises ensue. And the central bank, or some public entity, must intervene at significant cost. That is what we wish to avoid.

With that in mind, I would like to raise just three questions of how the central bank's role might evolve as we move forward with payments.

- The first is to ask about the adequacy of oversight for nonbanks in terms of the regulatory environment;
- The second is the central bank's role relative to the industry's ability to self-regulate, which is important and has been mentioned;
- And the third is the central bank's role as a participant in the payments system, which varies across the world but is an important question.

First, is the current supervisory and regulatory framework adequate? The problem is, as has been demonstrated here, we are mining the data now and we are still trying to gather enough information to really understand where we ought to be putting the regulatory elements of the evolving payments system. Because it is changing so rapidly, we need to understand the frequency and significance of payments

system disruptions. Understanding data breaches, how they are coming from their sources and how they are evolving, is important to us if we are going to begin to propose regulatory schemes.

At a minimum, we should do more work in terms of assessing the effectiveness of our own regulatory framework for banks, and now for nonbanks, given the magnitude of the changes in the payments system since the framework was originally established.

Some of the following factors are important to consider:

- Nonbanks have increased their presence in all aspects of the payments system and are relied on by banks themselves as critical providers of processing.

- Nonbank firms provide certain services and operate in a concentrated market, so operational disruptions in a single firm may have widespread disruptions. For example, nonbanks run two of the top three debit card networks in the United States. The third—Visa's InterLink, when it becomes public—will put 80 percent of PIN debit transactions in the hands of those institutions.

- Nonbanks play significant roles in access and have a vast amount of consumer and business payments-related data that need to be protected and secured. In addition, the Internet provides criminals new avenues for stealing sensitive consumer data. I am sure we have all heard enough reports of transactions that have been compromised to know how significant and important that is.

- Nonbank firms are subject—and this is important—to different, and certainly in some cases, less oversight than the banking firms in terms of the prudential supervision that takes place on-site. Retailers and other nonbanks are not subject to the Gramm-Leach-Bliley Act and its requirements to protect customer payments data in the same way as banks. Instead, nonbanks are covered in our country under the Federal Trade Commission safeguard rule, which, in many cases, is an after-the-fact approach to taking care of these issues. We do have, in terms of the supervisory oversight, some access to payments processors through the technology services providers—if a bank is using an outside processor then the primary regulator can go in and check that provider to assess whether they are following prudential standards for processing and protecting that data. That is far less oversight than the bank itself receives.

While financial institutions' supervisory agencies use a risk-based approach in their oversight of nonbank payments processors, there remains a sizable gap in coverage. For example, we look at about 90 of these nonbank processors and, by some measures, there are literally hundreds of those operating that are not receiving the same kind of oversight that banks, or those subject to the technology services provider provisions, receive.

Accordingly, while we need to be cautious about taking supervisory matters where they are not needed, the kinds of questions these incidents raise warrant careful consideration as we consider evolving supervisory frameworks.

When I say that, I also want to acknowledge that further consideration does not necessarily mean imposing a bank-like supervisory framework over the nonbank industry. The question that logically follows is whether, in the context of the changing risk profile of retail payments, the industry can self-regulate. Can the incentives be aligned properly to make sure we don't need a whole new set of regulations? How do we define and guide regulations so they are most effective? Where can we rely on incentives?

Certainly, experience has shown that with the right incentives, a market or an industry can attempt to self-regulate and, within certain boundaries, can be successful. Markets naturally resist outside constraints and that, in and of itself, encourages effective self-regulation. This pertains not just to nonbanks but to all payment providers. There are certainly examples of this.

We have heard a lot of discussion here of PCI rules, which are credit card network data security standards, in relation to Visa. Central banks themselves can play an important role in facilitating the industry's efforts to promote safety and manage risk as well as promote efficiency. Examples include rules set around the National Automated Clearing House Association (NACHA). This conference itself is designed to increase the information and perhaps allow the industry to find new ways or discover new incentives to self-regulate.

The Federal Reserve also is involved in some of the ANSI (American National Standards Institute, which coordinates a voluntary standardization system) rule writing. Thus the effort to establish rules can be joint between the central bank and industry, which safeguards and protects the payments system and better assures it runs effectively.

Finally, in the context of past experience, I would raise the question of whether central banks should be participants in emerging

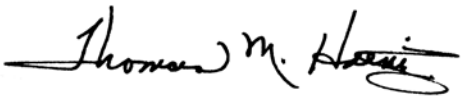
payments systems. Central banks have in the past and continue today to have a role in the broader payments system. Central banks can enhance safety, as well as efficiency and access, by being a direct participant in the payments industry where it serves a purpose. Central banks around the world, for example, are importantly involved in large-value wholesale transactions. Central banks are also involved in some elements of the retail payments system.

The Federal Reserve, of course, has a role in the checks system and in the automated clearinghouse (ACH) system, where it serves as one of two operators to provide a good level of safety, efficiency and access for a growing number of retail payments.

Given this experience and the uncertainties of today's global environment, questions are being raised regarding whether central banks might also participate in electronic retail payments networks.

Should, for example, the central bank operate an ACH network as a switch of last resort? Could such a network accommodate other electronic payments, such as credit and debit transactions, to clear settlement if there is a crisis? Would such a move inhibit or encourage competition or innovation, efficiency and access? Would it provide for a better understanding of emerging yet unknown challenges, such as fraud issues, thereby mitigating risk and encouraging safety? Would it be available in the event of an economywide disruption such as 9/11? Such questions, I agree, are difficult but worth thinking about while we have the time to think about them and before we are forced in unfortunate circumstances to try to figure it out on the run.

There is much to be said. I have enjoyed the last day and a half and have learned a great deal. We, as central banks, need to be thinking more about how the market is emerging; where, in those few instances when the market may fail, we have a role in regulating that market; and where central banks might have a direct role as well.



THOMAS M. HOENIG, PRESIDENT
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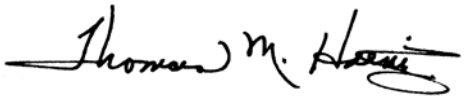

THOMAS M. HOENIG, PRESIDENT
FEDERAL RESERVE BANK OF KANSAS CITY

Payments and mobile devices merge to offer speed, ease and a big 'wow'

Finally, Randy and Rosie Atkinson are speaking the same language. And texting it, too.

Although almost four decades separate them, father and teenage daughter have a bond: their cell phones.

"I keep it with me all the time," says Randy, 53.

"I never leave home on purpose without it," 15-year-old Rosie says.

Both talk on their cell phones easily more than 1,000 minutes a month, "which sounds just ridiculous, I know," Randy says. He discusses business; she chats socially.

Rosie's phone is slightly more supped up. She has special ringtones, can access the Internet and is able to snap pictures, among other technologies that admittedly baffle her dad.

Given the option, both would happily go out and about with their phones—and just their phones—leaving cash and payment cards behind. They agree it would be convenient and pretty cool to make purchases just by waving their cell phone over a scanner at a cash register.

"That's extremely appealing," Randy says.

"It's just less stuff to keep track of," says Rosie.

This could be a possibility in their hometown of Oklahoma City and elsewhere around the country as mobile devices become the latest way to make purchases at convenience stores, fast-food restaurants, cinemas, stadiums and public transportation, among other places.

"The use of cell phones or other mobile devices as a payment method and as a means to bank online is becoming a realistic option for consumers in this country," says Terri Bradford, a Payments System Research specialist with the Federal Reserve Bank of Kansas City.

Bradford recently examined mobile-phone payments and banking, including growth prospects, available technologies and entrance in the market.

It already has been adopted in other parts of the world, such as Japan, where one wireless network sold these services to more than 19 million subscribers. Widespread adoption in the United States may not be far off, say credit card companies, wireless networks and

Calling in ca$h

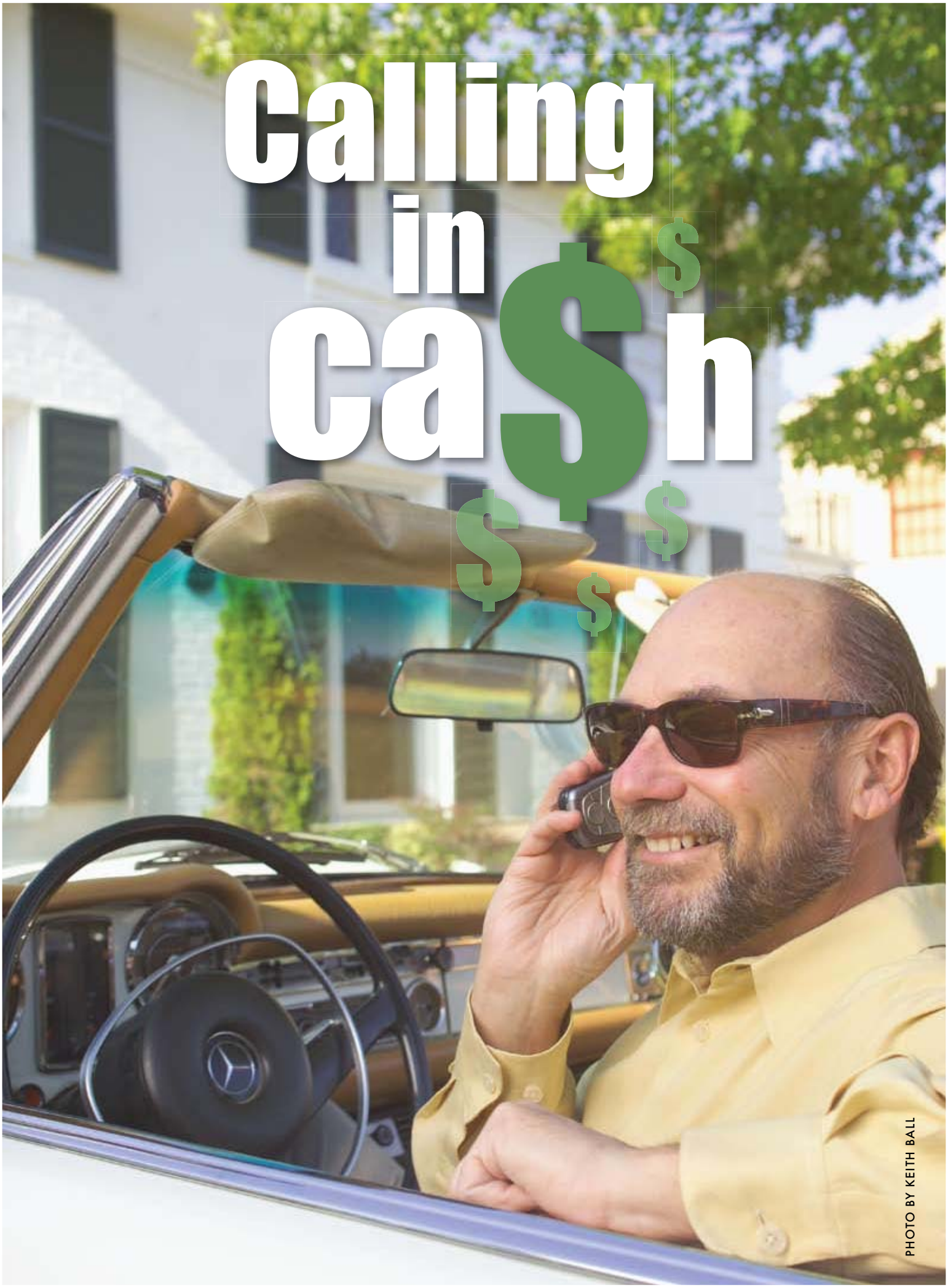

PHOTO BY KEITH BALL

financial institutions, on the heels of successful consumer trials in New York, Boston, Dallas and Atlanta.

"Soon, instead of choosing between paper and plastic when making a payment," Bradford says, "the phone may be a realistic option as well."

Wallet phone

Peter Wakim can hardly pay for a cup of coffee without causing a buzz. Understandably, making a purchase with a flash of his cell phone does have quite the "wow factor," he says.

"People behind me (in line) wouldn't let me get out of McDonald's," Wakim says. "Everyone who sees it—very amazed."

Wakim, director of Corporate Venturing at Nokia, has been using his company's latest product in lieu of cash or cards around Boston, where he lives and works.

The Nokia phone has the same look and features as other cell phones, but is equipped with technology similar to contactless cards and keytags that allow authorized users to make small payments at participating merchants. This particular phone should be available to consumers this year for about $340.

Both merchants and consumers benefit from the convenience, efficiency and speed of this payment method. Mobile device payment also benefits financial institutions and credit card networks as users transition from cash to debit or credit payments. For wireless networks, mobile payment is the latest in the list of consumers' must-have features.

Nokia is just one early-entrant mobile payment provider, along with financial institutions, credit card networks and bill pay companies—many of which are partnering to get consumers to reach for their phones instead of their wallets.

JPMorgan Chase, which also deploys the contactless card called blink, launched a mobile payments trial in late 2005. A small number of Atlanta Thrashers and Hawks season ticket holders, who also have Chase-issued Visa credit card accounts and AT&T (then Cingular) Wireless, could make mobile payments at certain concession stands throughout the arena. Participants said they would like to use mobile devices for paying at other locations for purchases of all sizes.

In California, Visa is now testing mobile payment coupons and rewards delivered via text message, graphic and bar codes to consumers' mobile devices.

Other companies, such as Firethorn LLC, recently have entered the market as a facilitator for banks to provide mobile phone services to their customers. Obopay, launched in 2005, utilizes several technologies to conduct mobile payments. Users establish their accounts online for a prepaid MasterCard and PIN, and then are able to send or request money, and check account status and history via their phones.

PayPal Mobile, which allows users to make payments or send money from their PayPal account, was introduced earlier this year. Users can either text payment information directly to a recipient or call the PayPal automated system. Also offered is "text to buy," where users text the item code to a number shown. PayPal then calls the user to request the PIN for verification and ships the item.

Right time

"A number of forces are at work suggesting mobile phone payments may be poised for growth in this country," Bradford says, citing the rising number of mobile devices, increasing consumer willingness to adopt new payment methods, surging use of payment cards and expanding choice of service providers.

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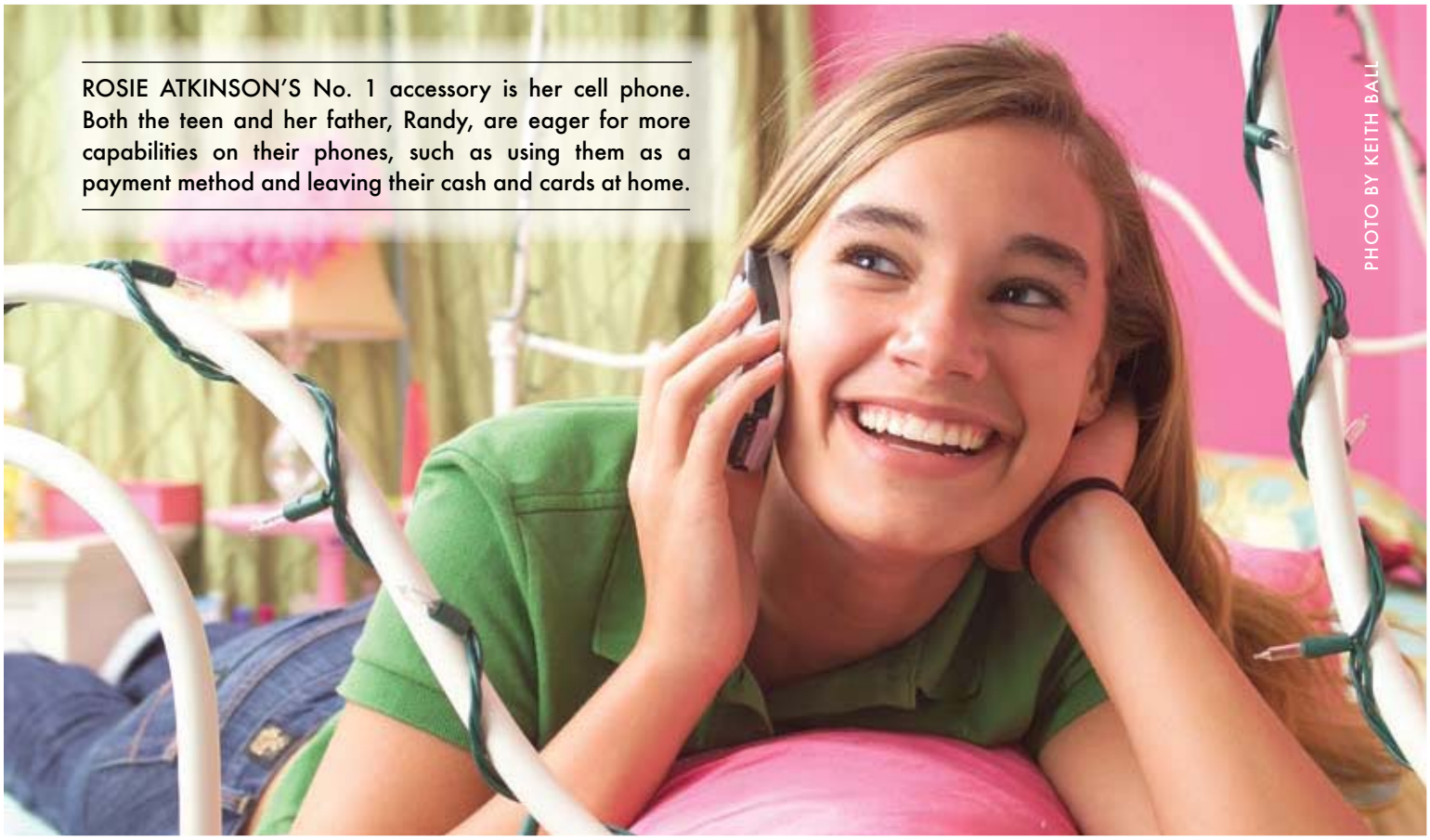


ROSIE ATKINSON'S No. 1 accessory is her cell phone. Both the teen and her father, Randy, are eager for more capabilities on their phones, such as using them as a payment method and leaving their cash and cards at home.

PHOTO BY KEITH BALL

Currently, there are more than 200 million wireless subscribers in the United States, which means three-quarters of the country's total population owns some type of mobile device, whether a phone, BlackBerry or PDA.

According to a Visa survey:

- More than half of consumers have their mobile phones with them at least 75 percent of the time.
- The average consumer is twice as likely to carry a mobile phone as cash.
- The average consumer 18 to 34 years old is four times as likely to carry a mobile phone as cash.

It's no wonder it seems everyone has a mobile phone. They are now used for more than just making and receiving calls. Many phones provide access to the Internet, music, games and text messaging. They double as cameras, iPods and computers.

Cell phones are people's "door to the world," says Illieva Ageenko, director of emerging applications for Wachovia bank.

"Everybody has a cellular phone," Ageenko says. "They have technology in their hands."

For this reason, the financial institution recently launched Wachovia Mobile, its first phase of wireless retail banking for online customers to access account information, such as checking balances and transferring funds, through Internet-enabled mobile devices.

Ageenko likens the consumer demand and subsequent use of mobile device banking to that of online banking. Consumers' needs simply are evolving beyond brick-and-mortar banking.

Consumers have become more familiar with making payments and accessing financial information in new ways, Bradford says. Sixty-three million adult Americans now bank online, according to a Pew Internet and American Life Project poll. PayPal reports more than 100 million person-to-person online payment accounts. And, contactless payments—debit and credit payment methods in devices waved in front of a payment terminal—are on the rise.

"It's entirely conceivable that consumers

may be ready to adopt mobile phones as a way to access payment and financial information, too," Bradford says.

Consumers are also increasingly using credit and, even more so, debit cards for lower-dollar transactions. This may further encourage mobile phone payments, as it has with contactless payments devices. Research shows contactless users reportedly like the devices and would use them more if they were more widely available.

"Speed and convenience are important for both consumers and merchants," Bradford says. "Mobile payment technology could make such transactions even quicker."

Networks are offering incentives to encourage low-dollar merchants to accept cards, and consumers are increasingly using plastic to make payments everywhere from the grocery store to the fast-food drive-thru.

Visa believes this payment method could "absolutely" be used as a substitute for cash, says Pam Zuercher, vice president of product innovation and coordination.

"The time is right for mobile payments," Zuercher says, "and consumers everywhere will benefit from a powerful new payment option that provides more convenience, more security, more flexibility and more control, while at the same time simplifying their lives by allowing them to turn their phones into a wallet."

PHOTO BY GETTY IMAGES

Technology and security

There are several technologies available for mobile phone payment and banking, including:

- NFC (near field communication): a short-range wireless connectivity technology that evolved from a combination of existing contactless identification and interconnection technologies. NFC-based mobile payments may experience acceptance, and therefore growth, related to payment terminals already deployed for use with contactless cards.
- SMS (short message service): exists on most mobile phones; allows users to receive and send short text messages to other mobile phones.
- WAP (wireless application protocol): an open, international standard for applications that use wireless communication; primarily used to enable Web access from mobile devices.
- Application downloads: use a mobile device's WAP capabilities to allow users to type Web addresses to download applications and register their device for use by entering the phone number and creating a PIN.

"Mobile phone technologies may provide another platform to enable all of these types of activities," Bradford says, "acting as the latest offering in a line of emerging payments methods."

However, as with new technologies and consumer acceptance, security considerations raise issues, Bradford says.

With NFC technology, there is concern transmitted information could be captured by

CONSUMERS CAN PAY with their mobile devices at merchants, some public transit lines, and soon they will be able to wave their devices over posters, business cards and the like for tickets, coupons and information, wherever they go.

an unintended recipient. Additionally, without a PIN requirement, if a phone is lost or stolen there is a possibility of unauthorized transactions made before deactivation. SMS technology does have assigned PINs and confirmations, which provides some protection, although not 100 percent, against unauthorized use. WAP has considerations, such as information encryption, similar to Internet use.

Ultimately, application download may offer the most protection, Bradford says. In addition to utilizing PIN protection, the information that resides on a phone is encrypted and comparable in amount to the information provided on an ATM receipt. If the phone is lost or stolen, its owner could remotely wipe it clean of any financial information.

For the Nokia phone, PINs, passcodes and prompts at terminals all protect the user from unauthorized use.

"Like all new technology, there are going to be concerns," says Nokia's Wakim. "Nothing is foolproof, but a lot of steps have been taken."

Role in the marketplace

It's not yet clear to what extent future deployment of mobile payment and banking products will mirror the deployment of online banking and P2P (person-to-person) payment products.

Currently, banks play a prominent role among participants providing NFC-enabled mobile payments—the actual transaction is handled by a bank. With SMS- and WAP-enabled models and downloaded applications, nonbank providers are at the forefront.

Bradford says the approach that ultimately takes hold in the marketplace hinges upon a number of considerations, including consumers' preferred technologies and firms; most convenient options; most secure options; and, ultimately, how widely accepted the payment methods become.

Consumers are already somewhat familiar with the technologies. NFC payment via a tap or wave of a card or key fob is becoming mainstream, so using that payment method via a mobile device is not a stretch. Likewise, SMS

PHOTO BY GETTY INMAGES

instant messaging and WAP-based Internet browsing are familiar for many mobile device users. The use of a PIN at ATMs or point-of-sale terminals is also a mainstream process. Downloading applications to a phone, though, is less familiar.

"While there are challenges to overcome, a significant portion of the population owns a mobile device, and acceptance of previous emerging payment methods continues to increase. Above all, there are a number of interested parties and available technologies that address a variety of mobile payment needs," Bradford says. "Mobile payments may be positioned for a meaningful level of adoption in the United States."

BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

PAPER, PLASTIC...OR PHONE?
By Terri Bradford
www.KansasCityFed.org/TEN

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

PHOTO BY SCOTT INDERMAUR

Labor of Love

Income paid to workers falls while corporate profits surge

Tracy Martin has an avid fan base.

It's not uncommon for the 36-year-old woman to be approached in public, or even be hugged out of awe and adoration.

"Miss Tracy! Miss Tracy!" the little voices shout.

It's inevitable after so many years of working with children.

"That's all I've ever done," says Martin, who worked at a daycare center first while attending college and, years later, opened her own in-home facility. Now she teaches pre-kindergarten full-time at the Blue Springs, Mo., YMCA. "I just love it. Not one day have I ever said, 'I don't want to go to work.'"

Martin, a wife and mother to six, didn't choose her profession with monetary rewards in mind, although she says it does seem unfair that educators or public servants, like police officers and firefighters, are paid less than those in the corporate world or Hollywood. Most workers' wages have not changed significantly during the past decade. Meanwhile, others have reaped large financial rewards.

The chief executives of the country's 500 biggest companies earned average paychecks (including salary, bonuses and other compensation such as exercised stock options) of $10.9 million last year, according to Forbes.com, up from a $1.9 million average CEO paycheck just a decade or so earlier.

And in the celebrity world, entertainers of all types also saw high earnings last year—Tom Cruise raked in $67 million and even Paris Hilton collected $7 million. The combined net worth of the nation's wealthiest was $1.25 trillion, which is an increase of $120 billion

from the year prior, according to Forbes.com.

The United States has experienced strong growth in average labor productivity since the mid-1990s, but income growth has not been equal across households, say Jonathan Willis, a senior economist, and Julie Wroblewski, a research associate, both with the Federal Reserve Bank of Kansas City.

"There has been little increase in real wages for low-income workers while executive pay has skyrocketed," Wroblewski says. "There is growing public sentiment that the average household is not sharing in the recent economic prosperity."

Willis and Wroblewski recently examined how economic gains have been distributed during periods of high and low productivity growth. They found the share of income paid to labor has generally been constant. Short-term changes in the labor share have occurred, and these changes appear to be closely related to movements in the business cycle.

While the share of income paid to labor has been constant on average, income growth across households hasn't been equal. During the last decade of high productivity growth, only the top 10 percent of income earners, at most, appeared to experience real income growth equal to or greater than average labor productivity growth.

"Low-income households have seen no increase in real income during the past decade," Willis says. "Most of the gains likely were concentrated in the top 1 percent of earners."

"Low-income households have seen no increase in real income during the past decade."

Working harder

Between 1996 and 2006, labor productivity grew at a 2.8 percent rate, compared to 1.4 percent between 1974 and 1995. This has contributed to strong economic growth. Economic theory suggests changes in productivity should affect compensation for labor and physical capital—the two main inputs to production. When more output is produced by a given amount of labor and capital, workers and those who own the capital get paid more.

During the past 30 years, the share of income paid to labor and owners of capital has remained stable on average. This shows the share of income received as labor compensation had not changed during the recent period of high productivity growth. However, income shares fluctuated in the short term, which likely is associated with the business cycle.

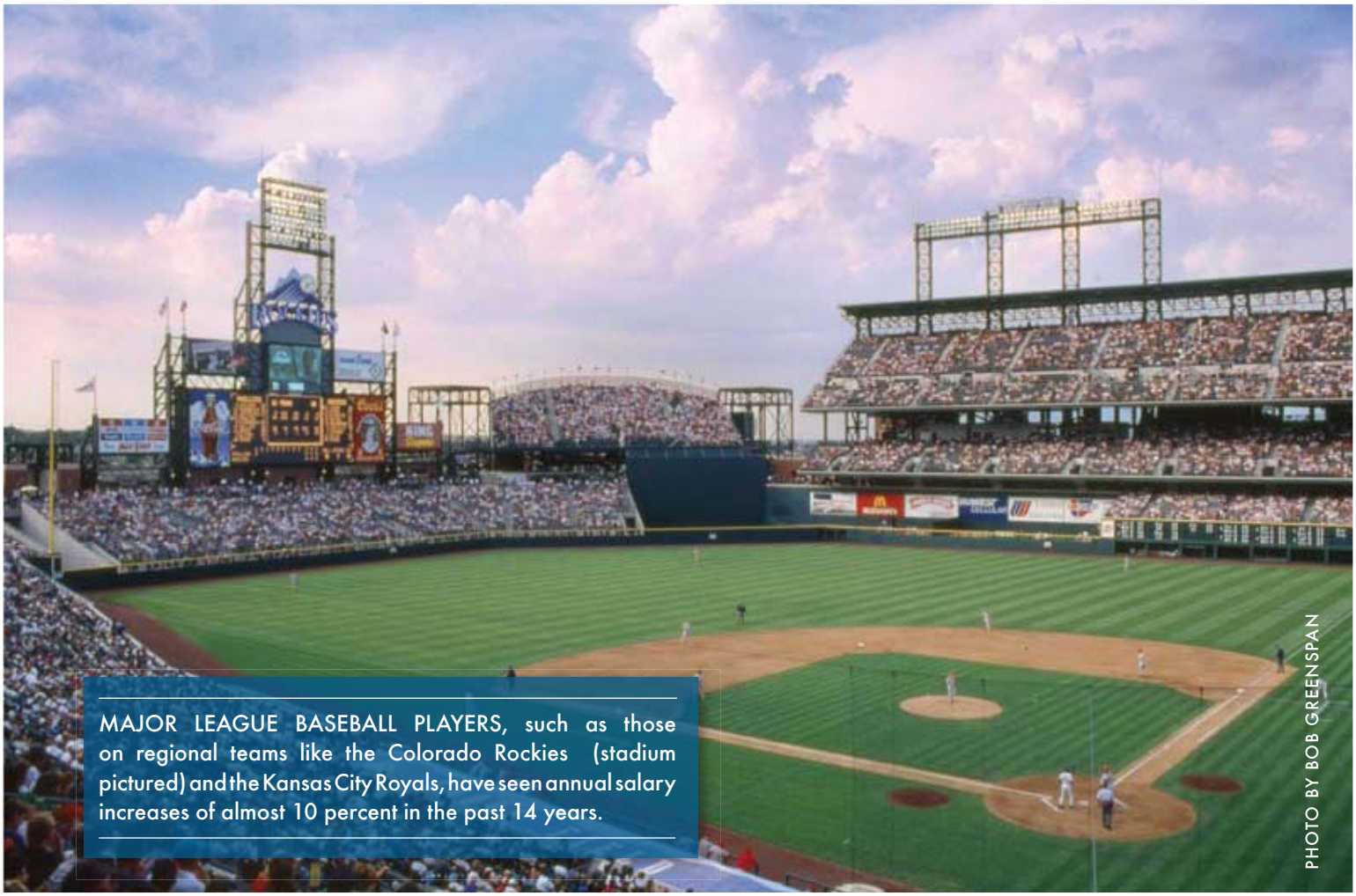
U.S. Census data show income growth has differed substantially across households, which are divided into five quintiles based on income.

For the low productivity growth period between 1974 and 1995:

- The three lowest quintiles had average annual rates for real income growth of 0.4 percent or less, while the average labor productivity growth rate was 1.4 percent.
- Only the top quintile of households experienced real income growth equal to the labor productivity growth rate. The top 5 percent of all households experienced the strongest income growth of 1.9 percent per year.

From 1996 to 2006, it's difficult to identify any household quintile that received strong increases in income growth rates, whereas average labor productivity growth doubled:

- The bottom household quintile experienced no real income growth compared to the prior period.
- Households in the second, third and fourth quintiles experienced only a small increase from the prior period.



MAJOR LEAGUE BASEBALL PLAYERS, such as those on regional teams like the Colorado Rockies (stadium pictured) and the Kansas City Royals, have seen annual salary increases of almost 10 percent in the past 14 years.

PHOTO BY BOB GREENSPAN

- For the top quintile, income growth was unchanged. The top 5 percent of households actually experienced a slight decline in annual income growth from 1.9 percent to 1.6 percent.

"This evidence is in line with recent comments from observers suggesting a large segment of households are not benefiting significantly from recent economic prosperity," Wroblewski says. "Few households received increases in income reflecting the sharp rise in productivity."

There are several possibilities that may explain where gains from the past decade went, say Willis and Wroblewski. One possibility is measurement issues have masked the size of income growth at the top of the household distribution. An alternative dataset from the IRS reveals the highest incomes are not fully reported in the Census survey, which only records income sources up to $1 million.

This means the reported income of high salary earners, such as Yahoo! CEO Terry Semel (who made $231 million last year), is capped and any income growth for these individuals won't be captured in the data.

Based on this alternative dataset from the IRS, only the top 10 percent, at most, of the income distribution received salary income growth equal to or greater than the rate of average labor productivity growth from 1997 to 2001. The top 1 percent received nearly one-fourth of the increase in total wages and salaries.

Payday

This season, the Kansas City Royals signed Gil Meche to a five-year, $55 million contract—an eye-popping salary for a pitcher who has never won more than 15 games in a season. Royals General Manager Dayton Moore offered the 28-year-old former Seattle Mariner

the deal in hopes that Meche's potential would blossom, transforming the struggling team into a winning one.

Hooking sports figures at high prices has become the norm. Between 1987 and 2001, major league baseball players' salaries grew 8.9 percent annually. Entertainers and professional athletes account for about 12 percent of income earned by those at the top of the income distribution.

Also related to the entertainment industry are the technological advancements of the past 10 years. Top professionals in the entertainment industry have been able to reach wider audiences, therefore earning higher incomes as a result of new innovations, such as CDs, DVDs, cable TV, the Internet, video games and iPods. Video game software creators' salaries grew at a rate of 6 percentage points higher than workers who created non-entertainment software.

While multimillion-dollar paychecks handed out in the entertainment industry may seem highly prevalent in today's wealthy society, Willis says a more likely explanation for the strong income growth at the top of the income distribution is the rapid acceleration of CEO compensation. The ratio of CEO compensation, including exercised stock options, to average worker compensation increased from 100 to 185 from 1995 to 2003.

One empirical study of 1,500 large public firms concluded executive compensation from 1993 to 2003 increased by 76 percent more than can be explained by factors tied to the firms' performance. CEOs in the United States earned three times as much on average as CEOs in 13 other advanced countries.

"This strongly implies increased compensation for CEOs in this country is due primarily to factors unrelated to productivity," Willis says.

Factors unrelated to productivity have also affected income distribution: The federal minimum wage hasn't changed in 10 years, which is a decline in real terms as a result of inflation; the decline of labor unions likely contributed to slower income growth; and the number of immigrants has grown rapidly, adding a large supply of low-skilled workers to the labor market.

Impact

The working population recognizes it's working harder and longer, but not reaping monetary benefits, say Burton Halpert, associate professor of sociology, and Matthew Forstater, associate professor of economics, both at the University of Missouri–Kansas City.

"I feel very sad for the average family out there," Halpert says. "They're working hard and not seeing much gain."

Forstater says, "They're experiencing it—they're struggling with their mortgage; they're struggling with their credit cards."

Workers attribute the widening gap in compensation to corporate greed, Halpert says, adding, "People are aware of this, but they can't do very much about it. They need their jobs."

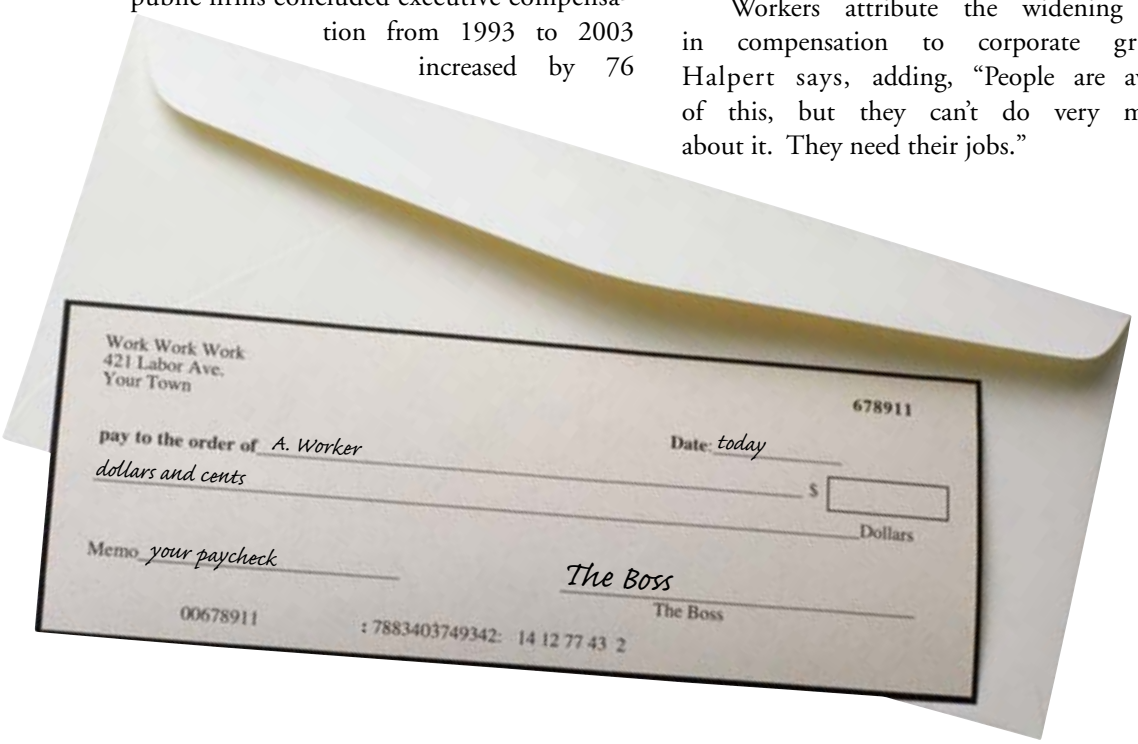


PHOTO BY SCOTT INDERMAUR

TRACY MARTIN LEADS HER PRE-KINDERGARTEN CLASS at the Blue Springs, Mo., YMCA in the hokey pokey song and dance. Martin has worked there for eight years and in child care all of her adult life.

This lowers morale, and, over time, productivity will suffer, Forstater and Halpert predict. Because incentives prompt workers, discontent will lead to unmotivated employees, causing a slowdown which results in less profitability.

"You need a committed population (of workers) out there," Halpert says. "And why should people be committed if they aren't getting a fair shake?"

Tracy Martin knows there are powerful CEOs, superstar athletes and glamorous celebrities who make more—millions more—in one year than she ever will in her lifetime. But, that doesn't bother her.

"Why would I go to a job that I don't enjoy every day but make a lot of money?" Martin says. "I'll stay where I am."

T

BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

WHAT HAPPENED TO THE GAINS FROM STRONG PRODUCTIVITY GROWTH?
By Jonathan L. Willis and Julie Wroblewski
www.KansasCityFed.org/TEN

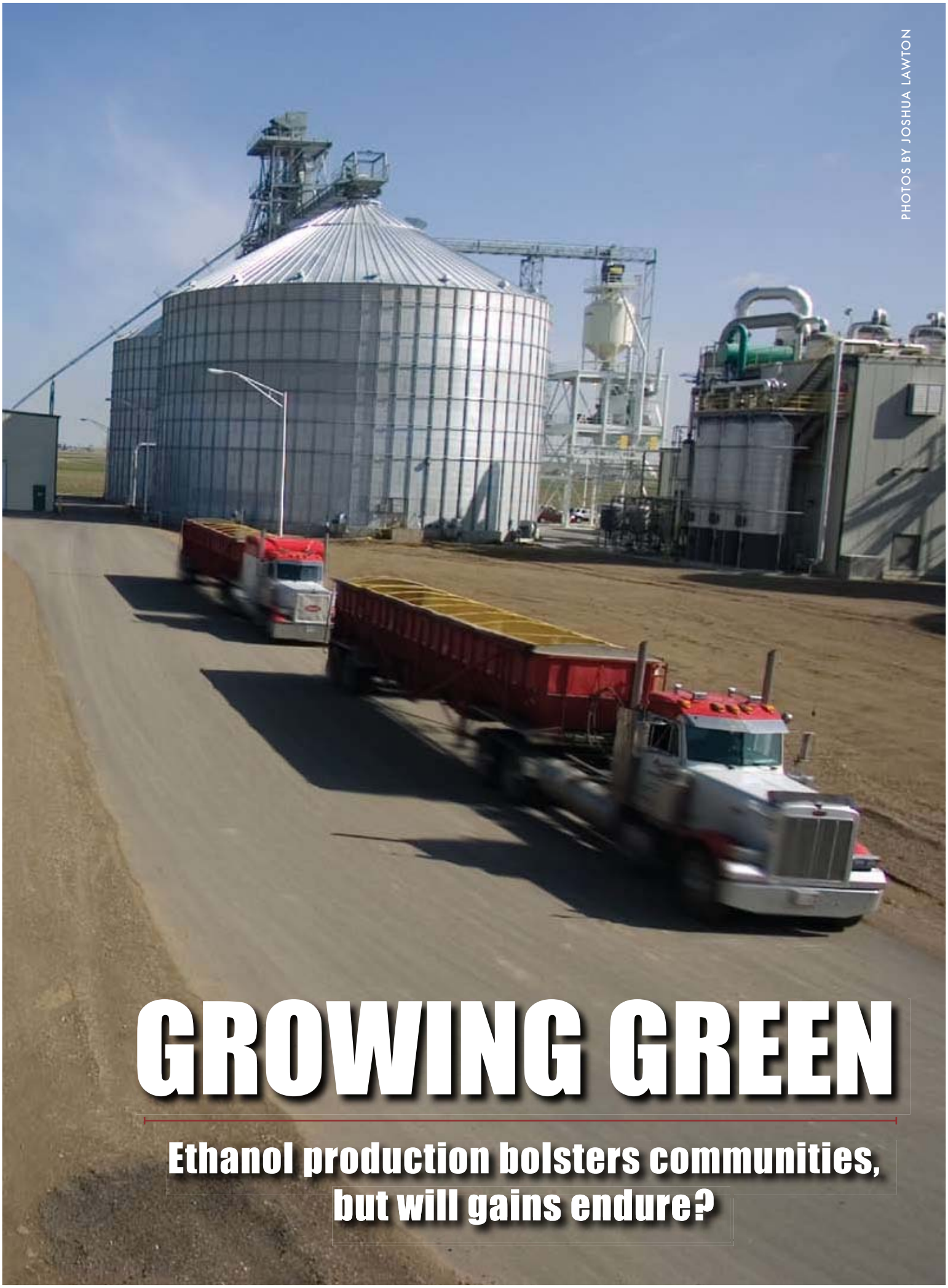
COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.

Looking back, Dan Sanders Jr. admits with a laugh that he "didn't have a clue."

Prior to opening their ethanol plant in 2006, Sanders and his father had no idea the industry would boom like it did and that Front Range Energy LLC would be just one of more than a hundred newly built or under-construction biorefineries to pop up around the country.

But what Sanders knew without a doubt: The plant would pump millions of dollars into Windsor, Colo., benefiting its 16,000 residents unlike any other business.

First, hundreds of temporary workers—who spent their paychecks in town—were hired during the nine-month construction. Thirty-five permanent workers—all locals—have been employed since production began. Supplies and materials are bought in the area as much as possible. The grain is purchased from area farmers. And, the ethanol plant pays taxes to support roads, water and infrastructure. A new school just opened.



PHOTOS BY JOSHUA LAWTON

GROWING GREEN

Ethanol production bolsters communities, but will gains endure?

"It creates a huge amount of wealth for everyone," Sanders says.

And not just in Windsor, but in small communities across the country.

Spikes in gasoline prices, conflict in major oil-producing areas and widespread support for renewable fuels have caused ethanol production in the United States to surge. The increase in profitability has attracted a new class of investors to rural America.

Although some communities oppose ethanol plants because of their high water use, contribution to air pollution and heavy truck traffic, many rural areas welcome the economic surge ethanol production brings to the area.

Though highly successful in recent years, ethanol profits can swing with rising and falling corn and crude oil prices, say Nancy Novack, associate economist, and Jason Henderson, assistant vice president and Omaha Branch executive, both of the Federal Reserve Bank of Kansas City.

Novack and Henderson recently researched whether ethanol can power stalled economies in rural America, examining both the economics of the industry and factors that could shake its stability.

Biorefineries are appearing in all corners of the country, now in 20 states, including seemingly unlikely ones such as New York, California and Georgia. However, production still remains concentrated in the Corn Belt.

The Tenth Federal Reserve District, which includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico, has a high concentration of ethanol plants. The No. 2 ethanol producing state in the country is Nebraska.

"This year the U.S. ethanol industry will produce nearly 6 billion gallons of renewable fuel," Henderson says. "Many rural communities equate ethanol production with economic opportunity in the 21st century."

Although those tied to the industry are optimistic about what the future holds for ethanol production and its benefits for rural America, Novack and Henderson remain cautious.

There are risks and side effects. Future profits will be highly variable given the volatility

Understanding ethanol

Ethanol is a clean-burning fuel most commonly made from corn, but also sorghum, barley, wheat and sugarcane, and is produced in biorefineries through a fermenting and distilling process. It is nontoxic and biodegradable.

In 2006, ethanol production consumed about 20 percent of the country's corn crop. People's consumption of this type of corn is limited; it's used to make corn flakes, corn oil and other processed corn products. Its main use (roughly two-thirds) in the United States is for livestock feed.

Ethanol made from corn creates byproducts, such as grains for cattle feed or carbon dioxide for soft drinks, which enhances revenue.

Blended with unleaded gas (usually 10 percent and called E-10 Unleaded), ethanol's high oxygen content slows the rate at which gas burns and helps it burn cleaner, reducing toxic exhaust emissions, such as carbon monoxide. Another formula produces E-85, a blend of 85 percent ethanol and 15 percent gasoline, that can be used in flexible-fuel vehicles, which continue to be more available in the marketplace.

All major vehicle manufacturers worldwide approve the use of the ethanol-gasoline blend, which also helps improve engine performance and keeps engine parts cleaner.

Enough biomass from both feedstock and non-feedstock sources is available for ethanol to reduce the country's dependence on oil, and meet food, livestock feed and export demands, according to the USDA.

of prices of corn and other energy products.

"With changing markets, environmental policies and technological advances," Novack says, "opportunities could fade quickly."

Makings of a hot market

In 25 years of ethanol production, Lee Reeve hasn't had any biorefineries set up shop near Reeve Agri-Energy, or much interest in general in the work that goes on at his Garden City, Kan., facility and its adjacent farmland. Until now.

After years of being asked "what's ethanol?" there are half a dozen biorefineries "within a stone's throw," and his family-owned and -operated business is approached by investors all the time.

"This is kind of the second start for ethanol," Reeve says.

In 1982, its first year, Reeve Agri-Energy produced 1 million gallons of sorghum-based ethanol. The plant now produces 12 million gallons annually. Reeve also sells a wet grain byproduct for cattle feed.

"You have this tremendous demand. We're not even close to meeting it," Reeve says. "If you're a farmer, this is a good problem to have."

There is no question of the public's current interest in ethanol, which actually dates back to the 1800s. Henry Ford's first automobile ran on pure ethanol.

From 2000 to 2005, ethanol production soared 140 percent, and the industry saw roughly another 20 percent increase in 2006. This translates to more than 4.5 billion gallons of ethanol produced annually in the United States, according to the Renewable Fuels Association.

"Profits have fueled ethanol's massive recent expansion," Henderson says, "but environmental policy is the industry's foundation."

The Clean Air Act Amendments of 1990 required reformulated gasoline be sold in areas where ozone requirements were not being met. Ethanol meets this mandate without the contamination possibilities, such as tainted groundwater, that other substitutes have.

"ETHANOL IS A BOOMING INDUSTRY NOW, " says Dan Sanders Jr., owner of Front Range Energy LLC. "We're probably going to see some overbuilding."

The Energy Policy Act of 2005 eliminated the reformulated gasoline requirement, but still mandates blended gasoline to reduce emissions.

The Renewable Fuels Standard, established under this act, secured the need for ethanol by requiring 7.5 billion gallons of renewable fuels be blended into the nation's fuel supply by 2012.

"Given its explosion of growth," Henderson says, "some rural communities are pinning their hopes for future prosperity on ethanol."

Side effects

In 2006, about 20 percent of the U.S. corn crop went to ethanol production, according to the USDA. And during fall harvest, surging crop prices validated ethanol's potential.

However, higher prices can bring unwanted side effects, Novack says.

Climbing corn prices can tempt producers of other crops to shift production to corn,

which could swell future supplies and dampen prices. Scott Merritt, executive director of the Nebraska Corn Growers Association, says, "This is where the market kicks in."

As part of its objective, the Association supports ethanol production because of the potential boost to crop prices.

"They (farmers) are going to grow what the market tells them," Merritt says. "Crop rotation is determined by markets."

Right now, the demand is for ethanol, so "you're going to see a surge in corn planting for a couple years, no doubt about it," Merritt says.

Higher corn prices also can affect livestock by boosting feed costs, which happened during the last six months of 2006. Crop prices surged and feed costs jumped 24 percent.

However, corn-based ethanol creates a byproduct—distillers dried grains, or DDGs—used to feed cattle. DDGs alleviate some of the cost burden of feed, but spoil quickly and are expensive to transport. As a result, ethanol plants and cattle feedlots are starting to co-locate more frequently.

While co-location makes sense financially, Jim Schwartz worries it could lead to a concentration of cattle in the country's Corn Belt.

"It is going to have an impact," says Schwartz, who is the director of the Wyoming Livestock Board. "A lot of the time, what's good for the farmer is not always good for the rancher. We need to find that balance. I think it can be achieved."

Schwartz predicts higher expenses for beef producers, which would lead to higher beef prices for consumers.

Wealth distribution is also a concern, Novack says. Ethanol facilities are viewed as a way to keep rural wealth invested in rural America. Throughout the years, ethanol plants have become larger in size, and fewer are owned by farmers.

From 1999 to 2005, roughly 70 percent of ethanol plants under construction were farmer-owned. In 2006, that number dropped to just 10 percent.

Farmer cooperatives work well for raising capital to build smaller plants (40-50 million gallons annually), but larger plants (100 million gallons or more annually) need more capital than can typically be raised by farmers in the region alone.

"The long-term viability of these riches in rural communities is yet to be seen," Novack says.

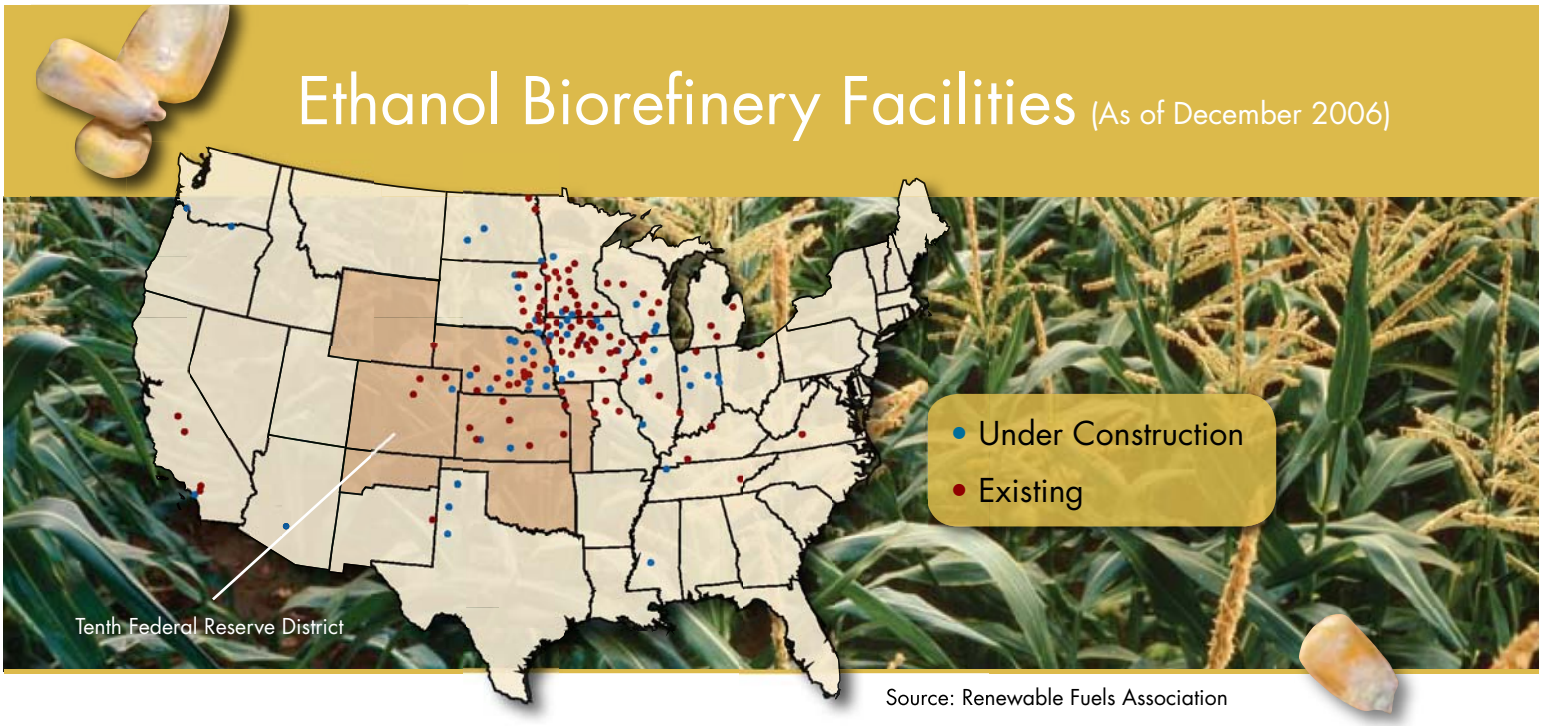
Sustainability

The future of ethanol depends on the market's evolution, environmental policies and emerging technologies, say Novack and Henderson.

In a year's time, ethanol prices have ranged from $1.20 per gallon to $4. Profits have been as volatile as its pricing. By the end of 2006, profits ranged from 50 cents to $3 a gallon.

"High profitability in the future is based on high crude oil prices," Novack says.

Novack and Henderson conducted simulations to determine how sensitive ethanol profits are to fluctuations in both corn and crude oil prices. They found, based on historical relationships, ethanol profits are highly variable



with potential for losses under high corn prices and low crude oil prices.

"This can make ethanol profits disappear overnight," Henderson says. "Or, a period of high crude oil prices and high ethanol profits could attract other substitutes into the market and increase the competition with ethanol, driving its profits down."

Transportation risks are also an ongoing concern. Ethanol-blended gasoline cannot be delivered through the nation's pipeline system because it absorbs impurities from the lines. Transporting it by truck or rail is necessary, but adds as much as 17 cents per gallon to the price.

Policy changes could boost or limit ethanol demand. Moreover, Novack and Henderson say, the industry is federally subsidized 51 cents per gallon of ethanol blended with gasoline. If this is cut, ethanol profits will fall.

A final issue facing the ethanol industry is the impact of new technologies, which are being developed to produce ethanol from other resources, such as waste paper, wood and wheat straw. This would further expand production outside of the Corn Belt, challenging the future of corn-based ethanol.

Despite its challenges, Todd Adams, chief executive officer of Adams Bank & Trust in Ogallala, Neb., and an investor in ethanol biorefineries, has faith ethanol will continue to power rural communities in the future.

"By and large, I think it is sustainable," says Adams, who is also a member of the board of directors for the Omaha Branch of the Federal Reserve Bank of Kansas City. "If we're really determined to reduce our dependence on foreign oil, ethanol is going to play a role in that."

And this means rural America will continue to reap the benefits of ethanol production.

"That's the promise of ethanol—to revitalize our rural areas," says Adams, citing new employment for young workers and a larger tax base. "Those are all the things you see on paper. What's hard to capture on paper is the enthusiasm and optimism this creates in rural communities. 'Does my town have a reason to go on and exist?'

"Ethanol can give it that reason."

BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

CAN ETHANOL POWER THE RURAL ECONOMY?
By Nancy Novack and Jason Henderson
www.KansasCityFed.org/TEN

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

PHOTO BY BOB GREENSPAN

The Consumer Affairs Department

Protecting consumers through bank supervision

Financial institutions and consumers both have a third party working on their behalf: the Consumer Affairs Department of the Federal Reserve Bank of Kansas City.

"We're helping consumers through our supervision of banks," says Alinda Murphy, a senior examiner. "Our primary responsibility is to examine banks to make sure they are following the rules designed to protect consumers. Additionally, we work directly with consumers who have questions or concerns about interactions with their bank."

The number of federal laws to protect consumers has grown since the late 1960s, when Congress first enacted consumer protection and civil rights laws in relation to financial institutions. Consumer Affairs staff, such as Murphy, administers and enforces more than 20 federal laws and regulations through oversight and examination as a part of the Federal Reserve's broader mission to ensure sound banking practices.

"It's our duty, as assigned by Congress, to enforce regulations so all consumers receive information they need to make good financial

decisions," says Esther George, senior vice president of the Supervision and Risk Management Division of the Federal Reserve Bank of Kansas City. "Our Consumer Affairs Department promotes fair treatment for consumers to ensure the banking system is accessible to everyone."

Bank compliance, consumer protection

Many consumers' financial transactions—including credit and debit purchases, ATM withdrawals, account deposits, and mortgage loans—are protected by federal law. The Consumer Affairs staff conducts bank examinations to determine how well a bank is managing its compliance with these laws.

The examination process generally includes discussions with bank management and lending personnel regarding loan policies, operating procedures, audit programs and internal controls for fair lending practices, says Michael Steckline, assistant vice president of the Consumer Affairs Department in Kansas City.

During an exam, Federal Reserve examiners evaluate the overall effectiveness of a bank's:

- management,
- board oversight,
- system of internal controls,
- training program and
- compliance program.

The scope of the examination is tailored to each institution and depends on the complexity of deposit and loan products and services offered, the severity of problems noted at previous exams, a review of consumer complaints, the examiners' assessment of risks, and the effectiveness of policies and procedures relating to consumer protection laws and regulations, Steckline says.

As a result of the examination, banks are assigned a numeric compliance rating ranging from one (strong compliance) to five (needs the strongest level of supervisory attention). These ratings are not publicly disclosed but provide a bank's board of directors and management with a performance assessment.

The frequency of a bank's examination typically ranges from one to five years, depending on the bank's size, complexity and past examination ratings.

Examiners are also specially trained to evaluate Community Reinvestment Act (CRA) performance, which requires banks to meet the community and credit development needs of the area they serve, including low- and moderate-income neighborhoods.

Examiners look at the extent to which a bank has contributed to building affordable housing and other community development in these areas. CRA performance is considered when a bank applies for an acquisition or merger, Steckline says.

An evaluation of the bank's performance under the CRA can occur on a more or less frequent basis, depending upon its prior performance. During this evaluation, examiners may contact members of the local community to gauge the credit needs in the bank's market area and determine its ability to meet those needs.

The CRA performance ratings range from "outstanding" to "substantial noncompliance" and are available to the public.

Mark A. Sutko, president and CEO of Platte Valley State Bank & Trust Co. in Kearney, Neb., says the examination process reinforces a financial institution's stability and the integrity of the country's financial system, ultimately for the good of the consumer.

"Bank regulation plays an important role in protecting the customer, which is the nucleus of every law passed at the state and federal level," Sutko says. "Carrying out the intent of the law is an obligation banks do not take lightly."

'Balancing act'

While bank examinations are not exclusive to the Federal Reserve, its staff has a unique role in writing and interpreting consumer

THE FEDERAL RESERVE BANK OF KANSAS CITY recently launched a new Consumer Protection website. Accessible at www.KansasCityFed.org, it provides a wealth of information about consumer rights and online filing for consumer complaints.

protection regulations, George says.

These regulations protect consumers in dealings with certain businesses such as finance companies, mortgage brokers, retailers and automobile dealers, in addition to banks. For example, Regulation Z requires banks and other creditors to provide detailed information to consumers about the terms and costs of mortgages, vehicle loans, credit cards and other credit-related products. Its purpose is to help consumers make informed decisions about banking products and services.

A goal of the Consumer Affairs staff is to help customers understand the regulations and how they pertain to them, Murphy says.

"The best consumer protection is a well-informed consumer," George says. "We want them to know their rights and have educational resources available to them."

Sutko views his bank's relationship with the Federal Reserve as a partnership.

"The balancing act of maintaining the integrity of the banking industry, the protection of the consumer and the bank delivery system can be challenging at times, but the outcome is well worth it," Sutko says, adding, "It means a sense of confidence and security that their bank is safe, sound and reliable."

Making the connection

"Many consumers don't fully understand what banks can and can't do," Murphy says.

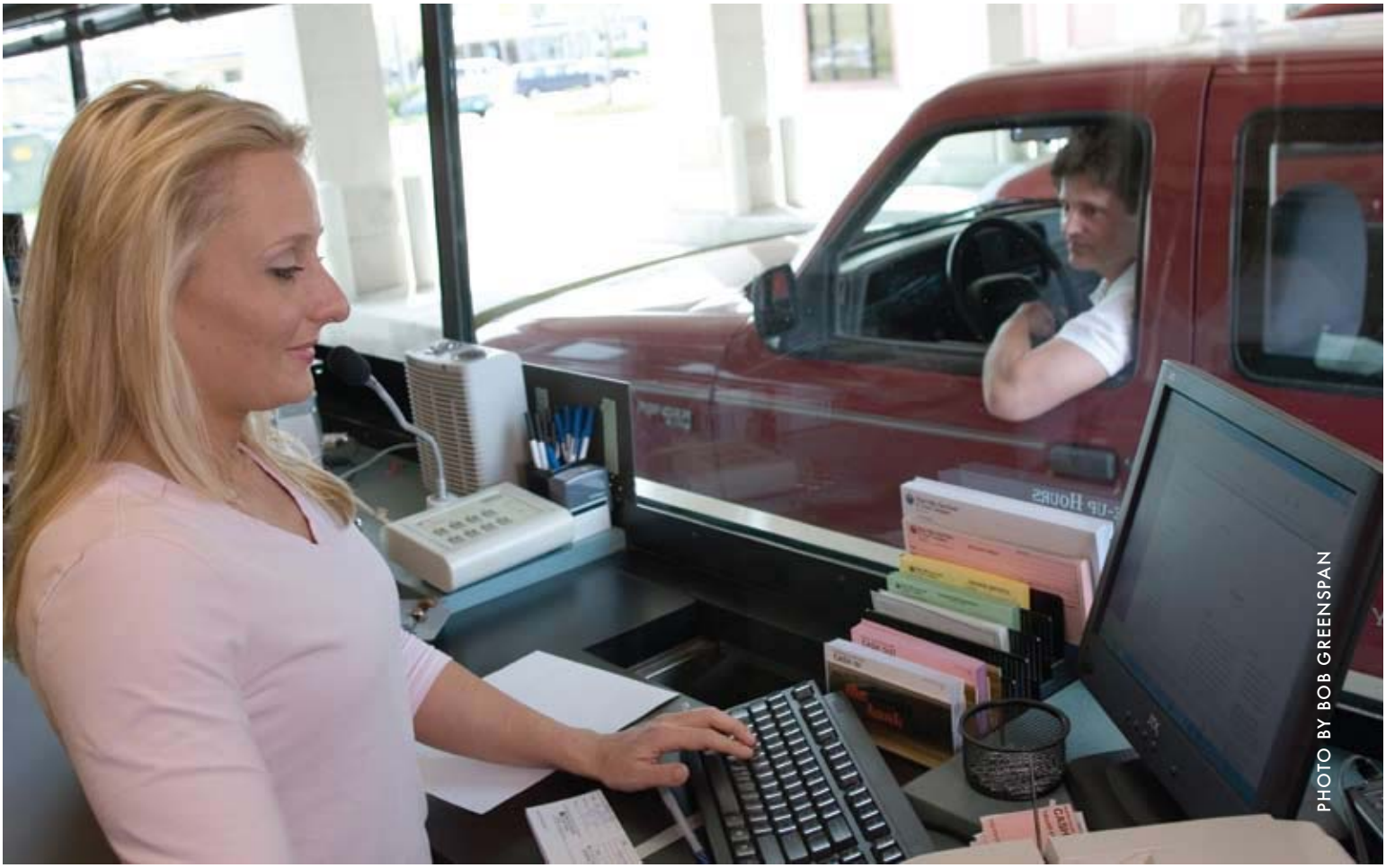
Protect and serve

As part of its mission, the Consumer Affairs Department of the Federal Reserve Bank of Kansas City ensures banks comply with more than 20 federal consumer protection laws and regulations, including the following:

Fair Housing Act (1968): Prohibits discrimination in the extension of housing credit on the basis of race, color, religion, national origin, sex, handicap or family status.

Federal Trade Commission Improvement Act (1980): Authorizes the Federal Reserve to identify unfair or deceptive acts or practices by banks and to issue regulations to prohibit them.

Home Ownership and Equity Protection Act of 1994: Provides additional disclosure requirements and substantive limitations on home-equity loans with rates or fees above a certain amount.



PLATTE VALLEY STATE BANK & TRUST CO. in Kearney, Neb., is just one financial institution that the Federal Reserve oversees to protect consumers and ensure sound banking practices.

"That's where we can assist them."

In response to questions and complaints consumers have about the practices and rules banks must follow, Murphy and other staff spend time investigating their complaints. This is an opportunity for consumers to be proactive and be heard, she says.

Complaints received from consumers are reviewed to identify potential problems in individual financial institutions and to uncover unfair practices, as required by the Federal Trade Commission Improvement Act.

"These data are a vital part of the risk-focused supervisory program, and are used to determine the need for future regulations and educational efforts," George says.

Bank examinations and educational programs are critical to both the Federal Reserve and its state member banks for one overarching reason: to best meet the needs of the consumer.

"This connects the Fed to the public," George says. "And they are why we're here."

BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

FOR MORE INFORMATION ABOUT CONSUMER PROTECTION,
visit www.KansasCityFed.org/TEN.

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

Notes

Metro area volunteers teach children to save

In conjunction with the nationwide program Teach Children to Save Day, local volunteers visited Kansas City, Denver, Omaha and Oklahoma City area classrooms in April to introduce basic money management concepts and promote saving.

For the second year, staff from the Federal Reserve Bank of Kansas City, its Branch offices and partnering organizations taught thousands of students at more than 100 elementary schools. These efforts are part of the Federal Reserve's mission to promote financial and economic education.

The 45-minute lessons, which include a story and group activities, were developed by the Center for Economic Education and Entrepreneurship at the University of Missouri-St. Louis.

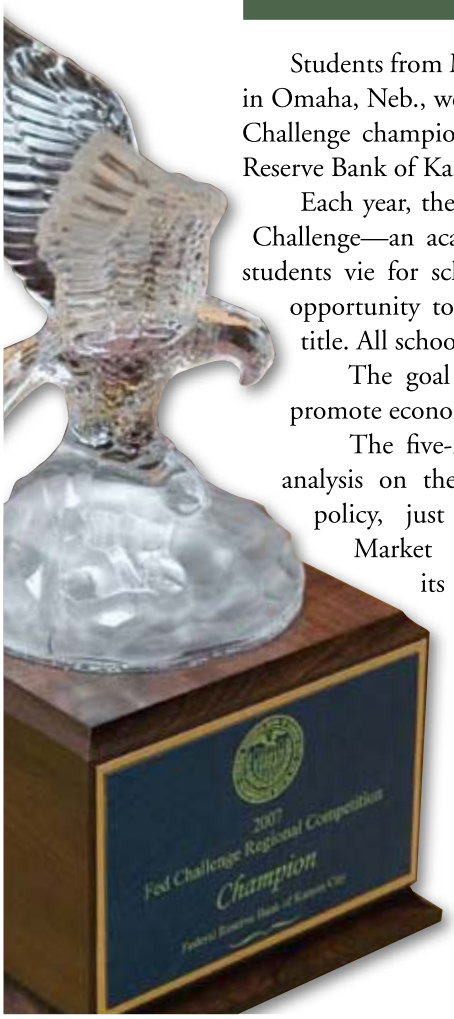
The Center for Economic Education at the University of Missouri-Kansas City provided books and other materials.

The program continues to grow in popularity, says Trudie Hall, program coordinator from the Federal Reserve Bank of Kansas City.

Federal Reserve Bank of Kansas City President Tom Hoenig talks to students at Dunbar Elementary in Oklahoma City, and Sara Brunsvold of the Public Affairs Department leads a group activity at Richardson Elementary in Kansas City. Both volunteers emphasized the concept of saving to the children.

Andrew Grimm, Shelly Malik, Kirsten Miller, Sidra Akhter and Brittany Ford.

Students compete in annual Fed Challenge



Students from Millard North High School in Omaha, Neb., were named the regional Fed Challenge champions in April at the Federal Reserve Bank of Kansas City.

Each year, the Federal Reserve hosts Fed Challenge—an academic competition where students vie for scholarships, grants and the opportunity to compete for the national title. All schools first compete locally.

The goal of the competition is to promote economic education.

The five-member teams present an analysis on the economy and monetary policy, just like the Federal Open Market Committee does during its eight meetings each year. Following a question-and-answer session, a panel of judges scores the teams based on the students' understanding of the subject matter and their research, teamwork and presentation.

Millard North was led by teacher Lance Ott. Members were: Brittany Ford, Shelly Malik, Andrew Grimm, Kirsten Miller and Sidra Akhter.

The judges were Federal Reserve Bank of Kansas City Senior Vice Presidents Alan Barkema and Gordon Sellon, and Senior Economist Jonathan Willis.

In May, the Millard North team advanced to the national level at the Federal Reserve Board of Governors in Washington, D.C. There, they competed against six teams from other Federal Reserve Districts around the country. The team competed in the semifinals, but did not advance to the final competition.

Fed Challenge was first organized at the Federal Reserve Bank of New York in 1994. The Federal Reserve Bank of Kansas City's district began participating in 2005.

Notes

Economic Essay Contest winner

Andrew Grimm of Millard North High School in Omaha, Neb., was named the grand prize winner in the Federal Reserve Bank of Kansas City's economic Essay Contest.

Andrew was awarded a $1,000 savings bond for his paper titled, "Tides of Economic Reality." The students' essay topic was "The Economics of Immigration."

Essays reflected the students' own research, writing and original thinking. Entries were judged by Federal Reserve staff on criteria such as comprehension, organization, conclusions, creativity and writing style. There was no right or wrong answer; students were asked to choose a position and present their arguments in support of it.

A first-, second- and third-place winner was selected from each regional competition (Kansas City, Denver, Oklahoma City and Omaha).

The Essay Contest is open to all 9th- through 12th-grade students in the Tenth Federal Reserve District. Students may enter individually or as a classroom assignment.

"The Federal Reserve is dedicated to financial education and has a longstanding tradition of working with educators to help foster student involvement," says Jan Huckleberry, contest coordinator. "The Essay Contest is a wonderful opportunity for students to expand on classroom learning through personal research and reflection."

This is the first year the Essay Contest was offered District-wide. Last year, the contest was piloted in Kansas.

To read the winning essays, visit www.KansasCityFed.org/TEN.

2007 Essay contest

First-, second- and third-place winners were selected from regions that encompass the Kansas City, Denver, Oklahoma City and Omaha offices. The grand prize winner, Andrew Grimm of Millard North High School in Omaha, was chosen from the four first-place winners.

First place (awarded a $500 savings bond)
Katie Wheeler, El Dorado High School, El Dorado, Kan.
Dylan Levine-Ruxin, Colorado Academy, Denver, Colo.
Stevie Russell, Indianola High School, Indianola, Okla.

Second place (awarded a $200 savings bond)
Jordan Porter, El Dorado High School, El Dorado, Kan.
Nicholas Peterson, Colorado Academy, Denver, Colo.
Caleb Maynard, Indianola High School, Indianola, Okla.
Kiah Haslett, Marian High School, Omaha, Neb.

Third place (awarded a $100 savings bond)
Amanda Gipson, El Dorado High School, El Dorado, Kan.
Alexander Sunderland, Colorado Academy, Denver, Colo.
Amanda Jackson, Indianola High School, Indianola, Okla.
Lacey McPhillips, Lindsay Holy Family School, Lindsay, Neb.

Supervision and Risk Management hosts regulatory update seminars

In March and April, the Supervision and Risk Management (SRM) Division of the Federal Reserve Bank of Kansas City hosted for the 15th year a set of seminars to share current regulatory and supervisory issues, and to hear from bankers about the challenges they are facing.

Designed for presidents, chief executive officers, directors and senior staff of state member banks and bank holding companies, the seminars also included a representative from the local state banking agencies in the Tenth Federal Reserve District.

This year's theme, "Safety, Soundness and Security: A Look at Current Issues in Banking," drew about 400 attendees to seminars in nine cities.

Discussion topics included current banking conditions, executive highlights of important regulatory topics, credit conditions in community banks, the importance of asset and liability management, and sound practices for business continuity.

Presenters included SRM staff. Additionally, President Tom Hoenig, Assistant Vice President and Economist Alan Garner, Assistant Vice President and Oklahoma City Branch Executive Chad Wilkerson, and Assistant Vice President and Omaha Branch Executive Jason Henderson provided economic updates.

To read text of the presentations, visit www.KansasCityFed.org/TEN.

Annual conference bolsters economic education

The Federal Reserve Bank of Kansas City hosted the 2007 Midwest Economic Education Conference, or MEEC, in May.

More than 30 attendees from state and national organizations in the Tenth Federal Reserve District gathered with Federal Reserve Bank staff for two days to discuss and share ideas related to economic education.

These organizations partner with the Federal Reserve to promote economic education and financial literacy.

For educators' resources, visit www.KansasCityFed.org/TEN.

Notes

Denver Branch executive named

Mark Schweitzer has been appointed vice president and branch executive of the Denver Branch of the Federal Reserve Bank of Kansas City as of June 1.

As the branch executive, Schweitzer conducts regional economic research; works with the Denver Branch board of directors; and expands relationships with area banking, business and community leaders.

Each branch office of the Federal Reserve Bank of Kansas City—Denver, Oklahoma City and Omaha—has a branch executive to serve as the lead officer there.

Schweitzer comes from the Federal Reserve Bank of Cleveland, where he was an assistant vice president, economist and director of the Regional Issues Program.

He joined Cleveland's Research Department as an economist in 1992. In 2000, Schweitzer worked as a senior economist in London at the Bank of England. He returned to Cleveland in 2004.

Schweitzer earned his bachelor of economics degree from the University of Chicago, and his master's and doctorate degrees in economics from the University of California, Los Angeles (UCLA).

His research interests span regional economics, including developments in labor markets, determinants of poverty and effects of education on regional economic performance.

Bank Anniversaries

The following banks in the Tenth District are celebrating one, five, 10 or 20 or more years as Federal Reserve members in July, August or September.

Uinta County State Bank	Mountain View	Wyo.	87
Wahoo State Bank	Wahoo	Neb.	75
Gunnison B&TC	Gunnison	Colo.	67
Farmers State Bank	Stanberry	Mo.	66
Union State Bank	Clay Center	Kan.	65
Bank of Holyrood	Holyrood	Kan.	64
Farmers Bank of Lincoln	Lincoln	Mo.	62
Security State Bank	Basin	Wyo.	59
Premier Bank	Lenexa	Kan.	28
Bank of Cushing & TC	Cushing	Okla.	27
MontroseBank	Montrose	Colo.	23
Five Points Bank	Grand Island	Neb.	10
State Bank of Burrton	Burrton	Kan.	10
Cornerstone Bank	York	Neb.	1

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Compiled By TEN Staff

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