TEN

FEDERAL RESERVE BANK OF KANSAS CITY

Winter 2011

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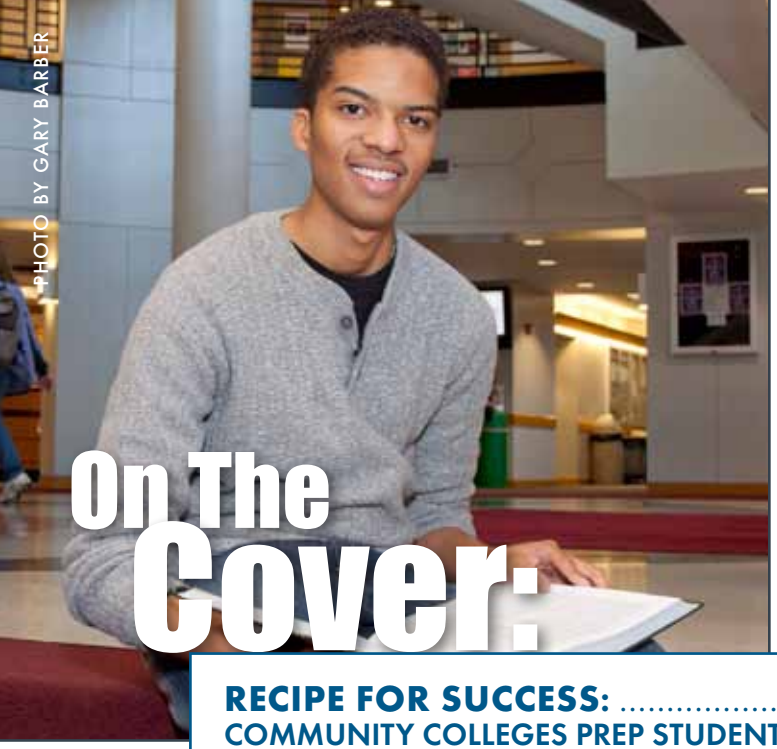
Choosing a Reserve Bank president

President Hoenig in the region

RECIPE FOR SUCCESS:

Community colleges prep students for the workforce



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President's message

'WHO WILL CHOOSE YOUR REPLACEMENT, TOM?'

During my frequent travels through the Tenth Federal Reserve District, I am often asked a wide range of questions related to the economy and banking. As 2010 drew to a close, I began to notice a recurrence of a question on a new topic that hits especially close to home: "Who will choose your replacement, Tom?"

Under rules established by the Board of Governors of the Federal Reserve System, the presidents of the 12 regional Federal Reserve Banks must retire at age 65. For me, that will happen later in 2011. Therefore, the selection of a new president of the Kansas City Fed will be an important event that affects the future of this Reserve Bank and its Reserve District.

Local selection

The short answer to this question is that members of the Federal Reserve Bank of Kansas City's Board of Directors will select the next president. The Board of Governors in Washington may veto a candidate for cause, but they do not select the president. I believe it is important for the public to understand this process, and to do that, it is first necessary to understand the structure of the Federal Reserve System.

Congress created the Federal Reserve System in 1913. It recognized that a central bank must be accountable to the government, so it created a Board of Governors in Washington, D.C. The Board is a government agency with broad oversight for the entire Federal Reserve System. But Congress also understood that politics and the printing press are a risky combination when it comes to the soundness of the currency and therefore it also focused on limiting the government's ability to manipulate Federal Reserve policies for short-run political gain. As a result, the congressional founders of the Federal Reserve in an effort to counterbalance the pressures toward political control, created a system of semi-independent Federal Reserve Banks located across the United States. These Banks operate under the oversight of local Boards of Directors that are filled through a mix of appointed and elected positions. This decentralized network of Banks ensures broad representation of all regions of the country in national monetary, banking and payments policy.

My years as a regional president have only reinforced my confidence in the importance and value of the Federal Reserve's regional structure. The independent views and operational experience of the Reserve Banks are absolutely essential to the success of not only the Banks themselves, but also the institution and our nation.

The local Board of Directors of a Reserve Bank is made up of nine members. Those who closely followed Congress' work on the Dodd-Frank legislation last year will recall that the topic of Reserve Bank presidents was a part of that process. Specifically, the legislation prohibits the three bankers who are elected by their peers to seats on the board of each regional Federal Reserve Bank from having a role in the presidential selection, leaving six nonbank board members from the region—representing business, community and labor—to pick my

successor. Most importantly, although this new rule will reduce the number of Federal Reserve Bank of Kansas City directors involved in the process, it does not change the fact that the next president of the Federal Reserve Bank of Kansas City—like all who have held the position since the Bank's founding—will be selected by individuals from the Tenth Federal Reserve District.

There is a prescribed process for conducting a Reserve Bank president search. The Reserve Bank directors will form a search committee, and use an outside search firm to help solicit and vet candidates. The process is expected to start early in 2011 and to be completed in time to allow a smooth transition here.

THE FEDERAL OPEN MARKET COMMITTE (FOMC) is made up of the Federal Reserve Board of Governors and the regional Federal Reserve Bank presidents. Kansas City Fed President Tom Hoenig is the most senior member of the FOMC. He faces mandatory retirement in 2011.

Qualifications

The directors of the Federal Reserve Bank of Kansas City are fully cognizant of the importance of their role in selecting the Reserve Bank's president. Although the presidency of a Federal Reserve Bank has many responsibilities in each of the Federal Reserve's three mission areas, the most publicly visible of these is participation on the Federal Reserve's Federal Open Market Committee, the FOMC, which sets the nation's monetary policy. The president has a voting role on the FOMC. Although FOMC meetings involve a majority of seven FOMC governors based in Washington, five of its members are Reserve Bank presidents. Also, history has shown that the governors positions turn over relatively quickly. In fact, in recent Fed history, the tenure of a regional Federal Reserve Bank president has been about twice that of a Federal Reserve governor. Critical experience for this committee comes from the presidents.

Beyond monetary policy, a Reserve Bank president leads a management team that runs major operations involving, in our Bank's instance, more than 1,300 employees located in Kansas City, Denver, Omaha and Oklahoma City. These employees help make sure our national payments system functions well; provide liquidity and review the operational integrity of financial institutions located within the Tenth Federal Reserve District. Thus, given the wide range of responsibilities, it is not surprising that Federal Reserve Bank presidents come from a range of backgrounds.

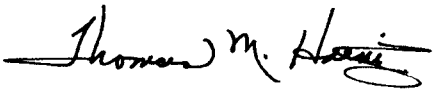
My predecessor at the Federal Reserve Bank of Kansas City was an attorney who left private practice to join the Bank as legal

counsel in 1968 and eight years later became president. Among the presidents early in our history were a former Kansas governor and a banker from Wichita. Other Reserve Bank presidents have backgrounds in business and economics. I am the first economist to have served as the Federal Reserve Bank of Kansas City's president. However, prior to being selected, I spent my entire professional career in banking supervision here.

Clearly, there is no common template for a Federal Reserve Bank president. Likewise, current Federal Reserve governors come from a range of backgrounds, including two academic economists, a law professor, a state banking commissioner, a community banker and a former Wall Street banker.

Based on my experience in being selected and working with our current board of directors, I know that the person chosen as the next president of the Federal Reserve Bank of Kansas City will need to have a proven commitment to the structure of the Federal Reserve System, knowledge of our national economy and a deep understanding of the seven states of the Tenth District. The leadership and counsel of our directors has been especially valuable to me throughout my career and, even more so, during the recent financial turmoil and in its aftermath. Our directors are focused on making sure that the next president of the Federal Reserve Bank of Kansas City is someone who is not only familiar with the people and places of this part of the United States, but is also someone who shares the same values and ideals, and understands the value of independent, thoughtful contributions of this distinct Federal Reserve region.

You will hear more about this process as it gets under way in the months to come. In the meantime, my schedule will remain full as I expect to continue working with my colleagues in helping the Federal Reserve take on challenges in 2011.



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

Learn more about the Fed's structure and directors at KansasCityFed.org/aboutus, or in a story profiling four directors on Page 20 of this issue of TEN magazine.

Recipe for Success:

Community colleges prep students for the workforce

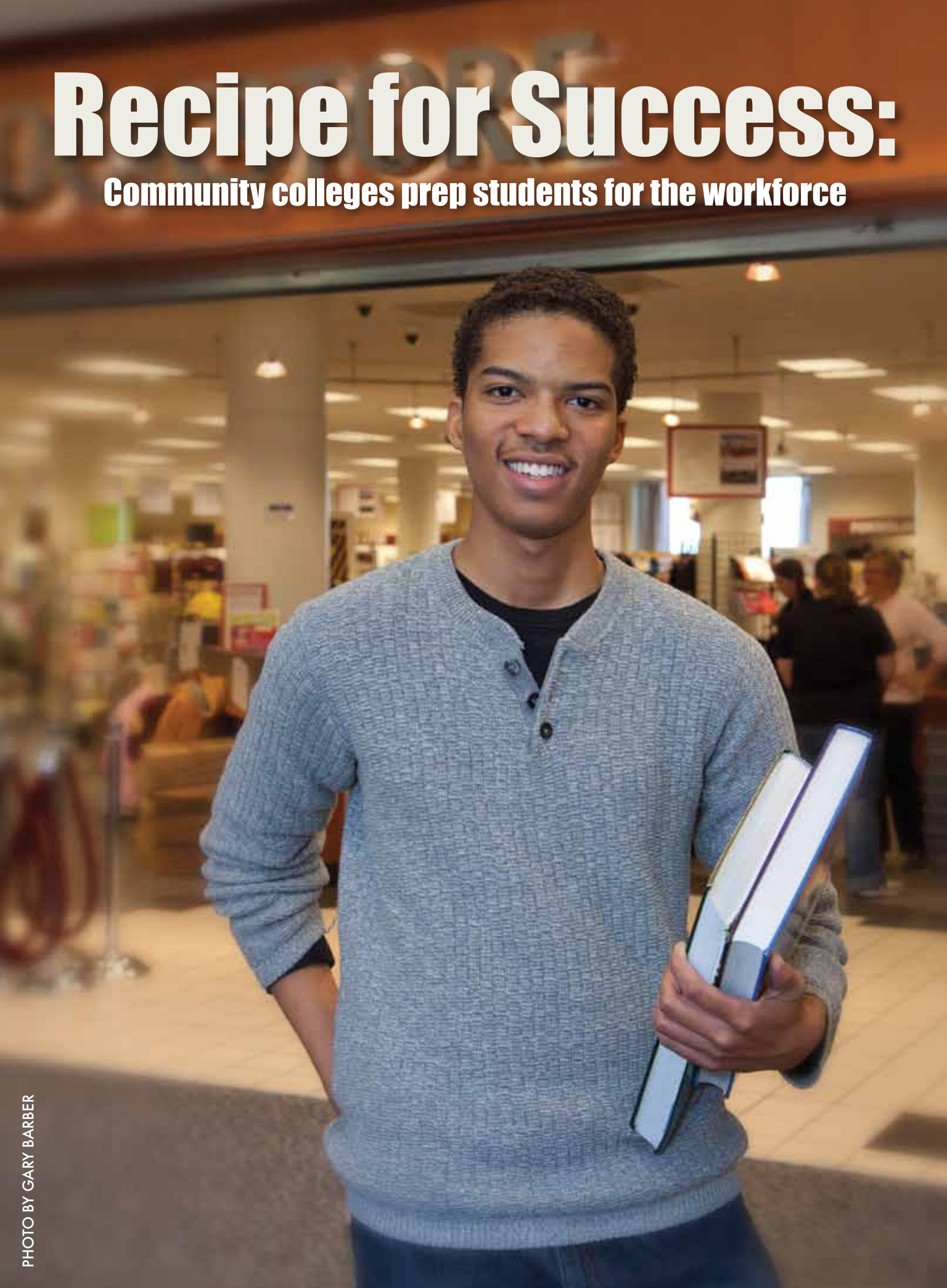
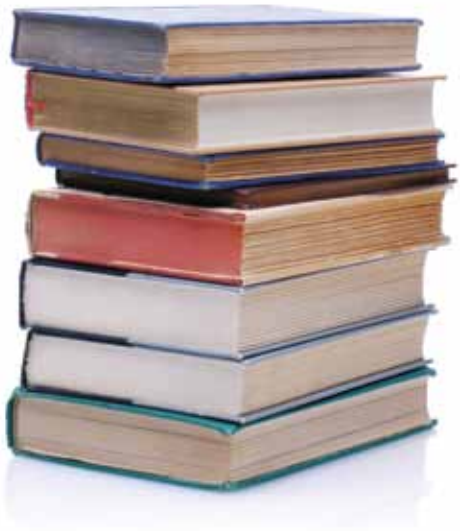


PHOTO BY GARY BARBER



While he was growing up, Corey Paris (pictured left) frequently heard his parents fondly recall their days at Johnson County Community College in Kansas. His parents had met each other as students at the school located in the Kansas City metro several years ago.

When the time came to decide what he was going to do after high school, the 19-year-old Paris decided to check out JCCC for himself. He says his decision to enroll at the institution is already paying off.

"It's such a close-knit school, and you just get a good feeling being here," Paris says. "It's a large school with a small-school atmosphere. I am always meeting people who tell me something about my dad when he was here."

Paris, who serves as the president of the student senate and aspires to eventually enter politics, feels that the community college has provided a good foundation for his future career plans.

"You get your money's worth here," he says. "No other school I looked at had the combination of academic and social opportunities that fit what I wanted."

For a growing number of people such as Paris, the path to better career prospects is leading through a community college. This has been especially true during the recent recession and recovery, as more students looking to save money are turning to community colleges before transferring to four-year colleges, while experienced workers who have been recently laid off are using community college resources to retool their skills for new careers. In both cases, community colleges are providing skills to meet the current and future demands of employers, administrators say.

The role of community colleges in the Tenth Federal Reserve District—an area that includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico—is likely to continue to grow, according to Alison Felix and Adam Pope of the Federal Reserve Bank of Kansas City, who recently completed research on the topic.

"Projections for the labor market suggest that more new jobs in the District over the next decade will be filled by those who have an associate's degree or some college than any other education level," says Felix, a senior economist at the Kansas City Fed. "As the economy continues to change, employers will demand more workers with the skills community colleges can provide."

Across the District, employment in service industries—such as administrative and support; professional, scientific and technical;

KANSAS CITY FED PRESIDENT TOM HOENIG (far left) and members of the Omaha Branch Board of Directors recently toured the healthcare education facilities at a community college in Norfolk, Neb. Community colleges are facing increased demand for their services by those seeking to improve their earnings prospects as the economy recovers.

and healthcare—are expected to show strong gains during the next decade. Each of these industries provides ample opportunities for community college graduates, Felix and Pope say.

But, the researchers add, community colleges are likely to face challenging financial pressures as they are forced to educate growing numbers of students with dwindling funds from state and local governments.

Vital contributors

During the last half century, community colleges have been vital contributors to local economic growth by adapting to meet the needs of the workforce. In addition to providing opportunities for students to work toward two-year associate's degrees, community colleges also allow high school students to earn college credit, provide a place to obtain vocational skills, help students and professionals obtain certification or other training, and help others who simply enjoy learning new skills.

"Students at community colleges receive a number of benefits, including expanding their employment opportunities and developing personal skills, such as personal finance or auto repair," Felix says. "But, perhaps the most common reason people take a community college class is to boost their earnings potential."

Felix and Pope cite a number of studies that found completing one year, or 30 credits, of study after high school increases a worker's wages by 5 to 11 percent. For those who complete a two-year associate's degree, the earnings potential reaches between 20 and 30 percent higher than those with only a high school diploma.

Community college students also have a wide range of career opportunities, which

include occupations in the healthcare, financial, retail and wholesale trades. In addition, positions that were previously filled by high school graduates, such as those in the construction industry, are increasingly being filled by workers who receive training from community colleges in welding, plumbing, and heating and air-conditioning installation. Certification in fields such as nursing, computer technology and firefighting are also provided by community colleges.

Mark James, chancellor of the five-campus Metropolitan Community College system in Kansas City, Mo., says students are enrolling at his institution with more "intentionality."

"Laid-off workers and other nontraditional students are coming to MCC not just for a general upgrade to their skills but with an eye towards what specific jobs will be available to them when they complete the training program, certificate or degree," James says. "They want to know that their investment of time and money will make them more marketable to employers."

But, it's not just workers and students who benefit from community colleges' presence. Local economies gain more productive workforces, more jobs and infrastructure benefits as a result of the training and education available at community colleges, Felix and Pope say.

"Additional worker earnings generate tax revenue, which translates to funding for school improvements, roads and other infrastructure," Pope says. "Research also shows that better educated workers are more productive citizens, which helps create a community where other skilled workers and strong employers want to locate."

Community colleges have also developed productive partnerships with local industries to help develop specific skills sought by employers. A 2004 audit by the Government Accountability Office found 75 percent of community colleges offered some kind of contract training course aimed at meeting an employer's specific need. In rural areas, the partnerships were even more widespread, with more than 90 percent of community colleges offering contract training.

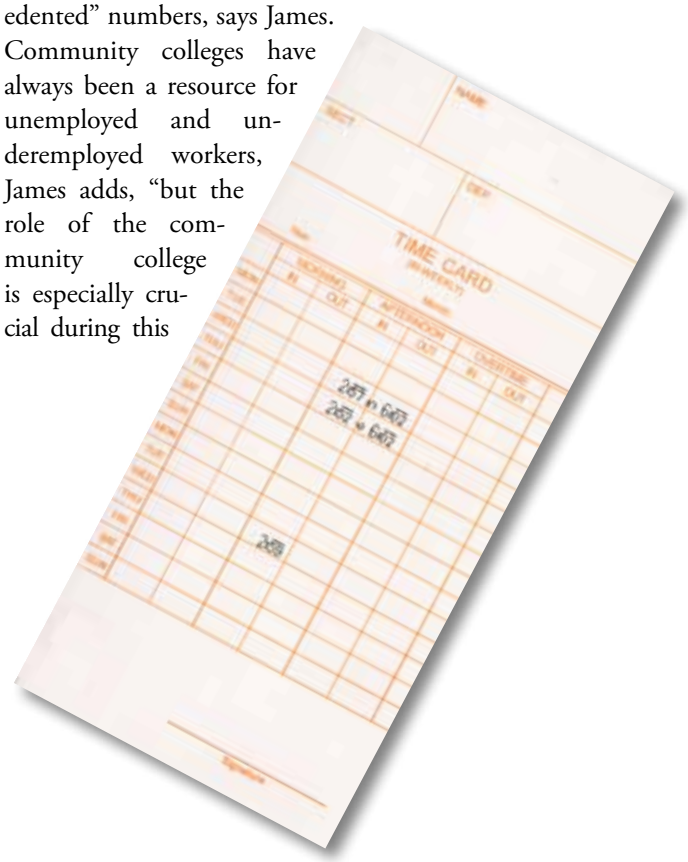
Recent trends

During economic downturns, students and workers alike have traditionally turned to community colleges as an affordable way to meet their educational and training needs. The latest recession was no different.

"That has absolutely been consistent with what our experience has been over the last few years," said Terry Calaway, president of Johnson County Community College.

In terms of total enrollment numbers, JCCC has seen an increase from 17,000 students in 2007 to about 22,000 in the fall 2010 semester, an increase of about 29 percent. Nationally, enrollment at community colleges rose about 24 percent from 2007 to 2009, according to figures Felix and Pope cite.

At MCC, enrollment in recent years has risen at a similar pace, reaching "unprecedented" numbers, says James. Community colleges have always been a resource for unemployed and underemployed workers, James adds, "but the role of the community college is especially crucial during this



recession, when there has been simultaneous growth in businesses' need for efficiency and the number of workers they are forced to lay off."

Area employers are turning to both institutions to meet their needs in a number of fields. Calaway says one of JCCC's trademark programs is its culinary and hospitality program, which offers an associate's degree in chef apprenticeship. The program provides a real-world setting for students to practice food preparation, along with menu planning and purchasing.

"There is a dramatic need for those who want to work in high-end chef positions at country clubs and restaurants," Calaway says.

In addition, JCCC has seen "huge growth" in its small business and entrepreneurship programs, as well as math and science programs. A new two-story, 50,000-square-foot health careers center is scheduled to open this year in Olathe, Kan., on land donated by Olathe Medical Center to house JCCC's programs for nursing, home health aides, certified nurse assistants and others.

"We're preparing students for careers that didn't exist five years ago, and even careers that don't exist today," Calaway says. "That bodes well for the growth of the region."

At MCC, programs in transportation, logistics and supply chain management; animal health; welding; and small business are seeing increased interest from students and employers. Healthcare is also expected to be a major source of growth, specifically professions in health information technology, and occupational and physical therapy assistants, James says.

Effect of budget cuts

However, as more students turn to community colleges during economic downturns, institutions have had to deal with budget cuts from state and local governments that are affected by the same downturns.

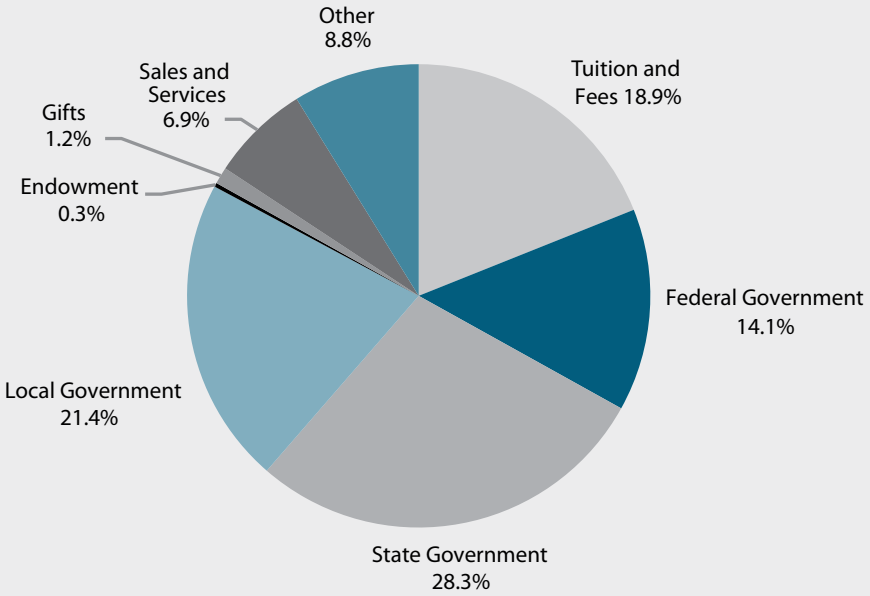
"These budget cuts result in financial pressure on community colleges at a time when they most need funding to maintain or expand their programs," Felix says.

Community colleges rely on state and local

Tenth District Community Colleges

2007 revenue sources

Community colleges in the Tenth Federal Reserve District, which includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and Northern New Mexico, rely on a variety of revenue sources. State and local governments provide about half of community colleges' revenue, and the reliance on these two sources leaves community colleges more vulnerable to changes in tax revenue than four-year colleges, according to Alison Felix and Adam Pope of the Kansas City Fed.



Source: Integrated Postsecondary Education Data System

funding for about half of their total revenue, Felix and Pope say. As a result, community colleges are more vulnerable to changes in state and local tax revenue than four-year colleges, which rely much less on state and local funding.

In the District, community colleges have faced budget cuts ranging from 1.77 percent in Oklahoma to 7.15 percent in Kansas for fiscal year 2011. Many states are still planning to cut more in coming years and are asking colleges and universities to tighten their belts accordingly.

"It definitely makes things more challenging," says JCCC's Calaway. "We took some hits, but we have been prepared."

Calaway said members of the school's board of directors anticipated the pressures of the recession and were able to limit the impact ahead of time. In all, JCCC cut $11 million out of its annual budget of $204 million during the last two years. The school responded through more conservative financial planning and job attrition.

"Next year probably won't be any better budget-wise, but we are working hard to run our college like a business and get ahead of the trends," Calaway says.

MCC has been working to diversify its revenue sources during the last few years by pursuing federal, state, local and private-source grants; leasing unoccupied space in college facilities; and expanding online learning opportunities, among other initiatives.

The college also remains committed to providing a quality education at an affordable price, and "any increase in tuition considered by the Board of Trustees will be with a goal of minimizing the impact on our students," James says.

Forecast

Although the budget picture in many states remains dire, community colleges across the District are still likely to see increased demand for their services as a result of the recent recession and structural changes in the workforce, Felix and Pope said.

However, the District's community colleges appear better equipped to meet the demands for their services than other parts of the country. In every District state except Oklahoma, the student-faculty ratios at two-year institutions are below the national average.

"This suggests that community colleges in the Tenth District might be able to educate more students by increasing their student-faculty ratios," Pope says. "As a result, the region's community colleges are in a relatively good position to meet the increased demand in the long and short run."

The goal for institutions such as JCCC is to continue to use their available resources to train and educate students including Corey Paris.

"I feel I've received exactly the kinds of opportunities I've needed to help me continue my education and start in the professional world," Paris says. "It's more than exceeded my expectations."

BY BILL MEDLEY, TEN CONTRIBUTING WRITER

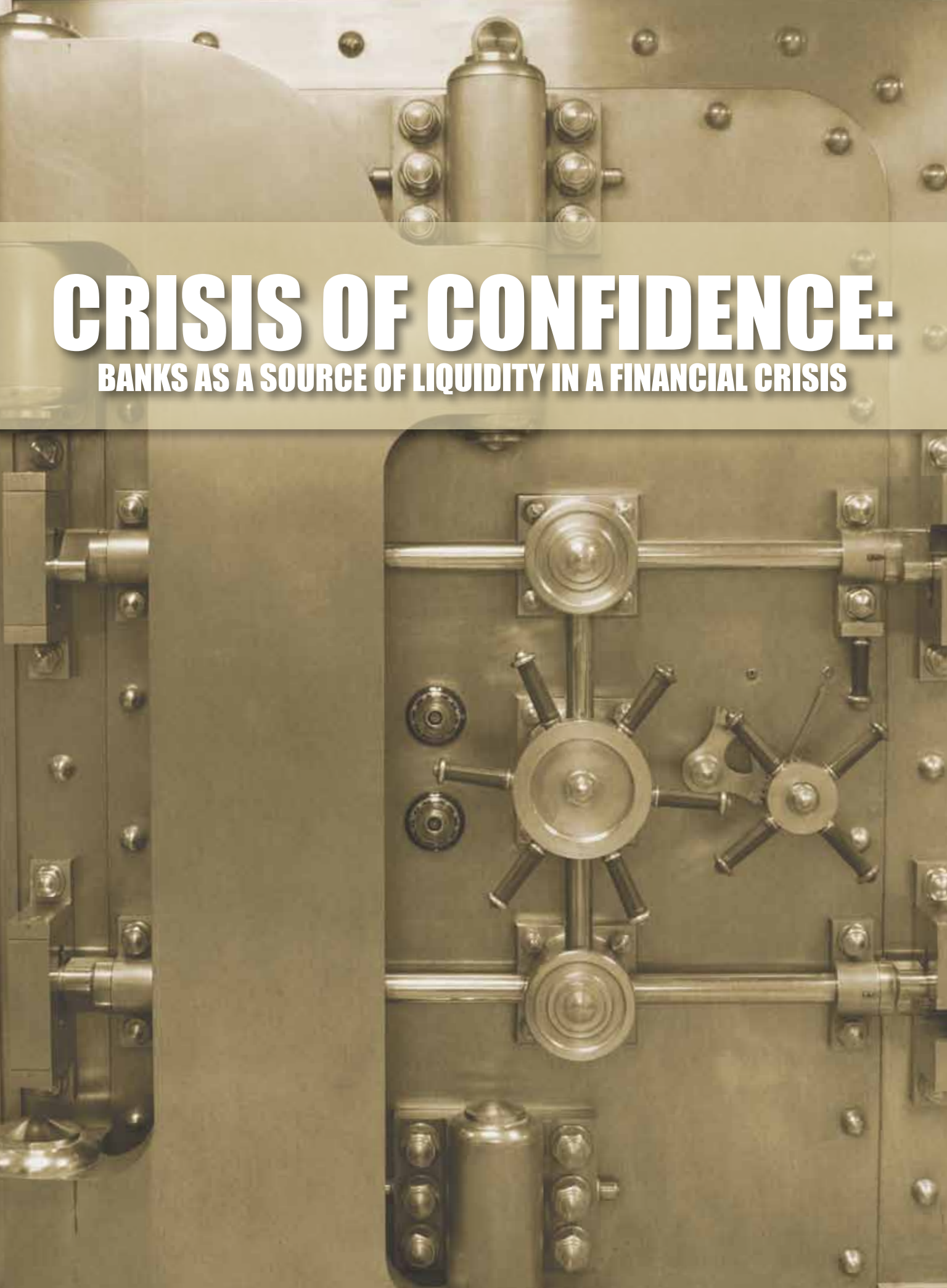
FURTHER RESOURCES

"THE IMPORTANCE OF COMMUNITY COLLEGES TO THE TENTH DISTRICT ECONOMY"
By Alison Felix and Adam Pope
KansasCityFed.org/publications

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

CRISIS OF CONFIDENCE:

BANKS AS A SOURCE OF LIQUIDITY IN A FINANCIAL CRISIS



In most U.S. financial crises, banks have played a critical role in the fight to maintain stability.

By their very nature, banks are ideally positioned to act as a source of liquidity for borrowers cut off from other sources of funds amid market turmoil. That is because, in general terms, an environment of escalating risks makes investors jittery about keeping funds in stocks, bonds and other securities. As a result, investors instead seek the safety that can be found in traditional banks deposits, making banks awash with funds and able to lend.

Although that model had worked well in past crises, the events of 2007-09 raised questions about its viability in all such occurrences.

"This crisis was special in that commercial banks and the entire banking system were much more exposed to losses and uncertainty surrounding these losses than in recent past crises. Not only were banks directly holding mortgage-related securities but they also had offered support to issuers of debt backed by mortgage securities," says Nada Mora, an economist at the Federal Reserve Bank of Kansas City who examined the ability of banks to provide liquidity during the 2007-09 crisis.

Understanding these issues and the degree to which banks might have been compromised in their ability to respond is important for policymakers considering what steps might be necessary to further protect the financial system and the economy from future calamity.

'WHAT WAS ONCE A VERY EXCLUSIVE CLUB'

Those who closely followed the financial turmoil of 2007-09 will recall there was much talk about how the crisis was creating problems between investors/savers and borrowers. Savers' funds can move through numerous channels to get to borrowers. For example, in addition to a traditional bank loan or accessing a pre-established line of credit, corporations that wish to access funds might offer corporate bonds or raise capital through an equity or stock offering.

One funding option, particularly for firms needing funds for only a short period of time, is selling unsecured commercial paper. Unsecured commercial paper is a security with a fixed maturity that ranges between one day and nine months and that is not secured by collateral, such as real property or another security owned by the issuer. Essentially, the commercial paper is backed only by the issuer's creditworthiness and ability to pay off the commercial paper when it matures.

Commercial paper, once used almost exclusively by financial companies and with a history dating back to at least the 1800s, has

become increasingly popular with a full range of businesses in recent decades.

It can be a critical source of funds to cover operating costs, such as payroll or inventory. For borrowers with strong credit ratings, the commercial paper market is especially attractive because it can provide funds at an interest rate that is cheaper than what could be found at a bank or through other means.

However, despite the low interest rate, commercial paper is not an area without risk for investors. The borrower can default on its commercial paper, leading to investor losses. As such, in a period of financial uncertainty, the commercial paper market can become volatile, with rates escalating for even the most creditworthy issuers, or even drying up completely for some firms.

That was the case during what was the first major modern-era crisis involving commercial paper when rail giant Penn Central Transportation filed for bankruptcy in the summer of 1970. The failure of the world's largest railroad and the sixth-largest non-financial firm in the United States was at that time the biggest bankruptcy in the nation's history.

On its own, the failure was a major event, but it also came at a time when some were already expressing concerns that the commercial paper market had been made vulnerable by an unprecedented boom. Prior to Penn Central's collapse, the commercial paper market had nearly doubled from $20.5 billion at the end of 1968 to more than $37 billion in April 1970, according to an article from *The New York Times* from that period.

"The concern of long-time participants in the commercial paper market (both buyers and sellers) is that the market has grown so fast that some 'marginal' companies have slipped into what was once a very exclusive club and that, if one of these should default, it could generate a general crisis of confidence," *The New York Times* reported on June 17, 1970.

Only four days after the article was

OVERLAND PARK, KAN.-BASED YRC was among the companies challenged as credit conditions tightened. The firm's iconic trucks are often seen on highways throughout the Tenth Federal Reserve District, such as this one just outside of Omaha, Neb.

PHOTO BY THE ASSOCIATED PRESS

published, the crisis had its spark: Penn Central declared bankruptcy with $152 million in outstanding commercial paper.

"(T)he glory days of commercial paper may be ending and some new financial difficulties may be beginning," *Time* wrote in its July 6, 1970, edition. "The big buyers of commercial paper are now carefully scrutinizing the credit worthiness of the issuers, and many companies may have difficulty selling new paper."

Within three weeks, outstanding nonfinancial commercial paper had shrunk by almost 10 percent, according to a later review by the Federal Reserve Bank of New York. With the financial uncertainty growing, the Federal Reserve took critical policy steps in response, including the liberalizing of discount window lending, to make funds readily available to financial institutions. As was noted in the New York Fed review, the central bank's actions helped commercial banks act swiftly to meet credit demands, bringing an end to the crisis.

An important response to the Penn Central bankruptcy was that commercial paper issuers began to arrange backup lines of credit with banks. To insulate themselves from future disruptions should investors refuse to roll over maturing commercial paper, companies would be able to draw down funds from the backup bank lines to pay off commercial paper.

'UNCERTAINTY IN THE ECONOMY'

The events of 1970, of course, were only a precursor to more severe financial turmoil in the years to come, including the fall of 1998. After the Russian debt default and the failure of the massive Long Term Capital Management Hedge Fund, commercial paper spreads jumped 50 basis points and outstanding paper from nonfinancial companies dropped about 7 percent from late summer through the end of the year.

"There are occasions when investors, who are the ones that supply the funds to the market, might have suffered a major loss or changed their beliefs about risks or uncertainty in the economy," Mora says. "As a result, they shift funds to low-risk assets such as U.S. Treasury bonds or bank deposits in what is known as a flight to safety."

Many comparisons in Mora's research focus directly on the differences between the '98 crisis and more recent events. And in the '98 crisis, it was clear where borrowers could turn for liquidity when turmoil hit the securities market.

An analysis of the role of banks in providing corporate credit was published by the Federal Reserve Bank of New York in 1999. In it, authors Marc Saidenberg and Philip Strahan found that "in a pinch, even the largest and most highly rated companies go to banks for liquidity.

"Last year (1998), when spreads increased and volume decreased in the commercial paper markets as a result of turmoil … large firms chose to drawn down funds from backup lines of credit. With market liquidity regarded as too expensive, banks proved to be a reliable source of liquidity for non-financial firms."

In a dire scenario, the flight to safety can be broad enough that it creates a systemic shortage of liquidity in securities markets, which is what began to unfold in 2007.

The commercial paper spread relative to Treasury securities first spiked in the middle of August 2007, rising 100 basis points for those borrowers still able to access the market. The climb was followed by a 6 percent drop in outstanding unsecured paper. A little more than a year later, in the aftermath of the Lehman Brothers bankruptcy and as the full range of the crisis came into focus, spreads shot up more than 200 basis points. With twice the increase in interest spreads, the drop in outstanding unsecured commercial paper was more extreme, falling 13 percent from the previous month.

The implications for businesses were substantial, as illustrated in a *Wall Street Journal* article published near the height of the credit crunch.

"Wall Street's financial crisis has rippled across the business landscape, raising borrowing costs for corporate giants, squeezing companies that rely heavily on loans and making it harder

for small enterprises to find capital and close sales," the newspaper reported in its Sept. 18, 2008, edition.

Among several companies featured in the article was Overland Park, Kan.-based YRC Worldwide. The trucking giant had hoped to spend nearly $300 million on new trucks, but, with credit conditions tightening and a need to refinance $325 million in debt, it instead was planning to spend less than a third of that amount to lease equipment.

To raise cash, the firm was selling some assets and turning to an established line of bank credit.

"We feel like we still have a lot of levers at our fingertips to manage through this downturn," Sheila Taylor, YRC's vice president of investor relations told the newspaper. "Would we say we're not worried at all? No, we wouldn't say that."

In the same *Journal* article, Kenneth Barnett, the owner of an underwater lighting business in Georgia talked about the challenges faced by smaller businesses, such as Aqua Lights, in a tight credit environment. Barnett, who had hoped to expand, said he could only secure the funding if he was willing to give up an equity stake and pay 21 percent interest.

"There is just no money out there being lent," Barnett told the newspaper. "It is getting tougher by the day."

'A LOSS OF CONFIDENCE'

In the '07-'09 crisis, banks faced challenges trying to fill the liquidity provision role because they also were suffering from financial problems caused by large holdings of mortgage-related securities. And, to only further cloud the situation, securities and debt linkages had become much more complicated than they were in previous crises.

Since the 1980s, much consumer borrowing, including mortgages, auto loans, credit card borrowing and other debt, was packaged together into asset-backed securities (ABS) to diversify the risks of any one borrower falling behind on his or her loan. ABS are securities where the payments to investors come from payments made by the initial borrowers on the loans backing the securities. Mortgage-backed securities were roughly half of outstanding ABS in mid-2007. Investors were eager to buy ABS because the diversification allowed them to forgo the costs and time associated with examining each borrower individually. The failure of a single household loan, it was thought, would be offset by the others rolled into the security.

Another security that developed to fund consumer debt was secured commercial paper, known as asset-backed commercial paper (ABCP). Like ABS, it was backed by mortgages and other securities. Unlike ABS and similar to unsecured commercial paper, it relied on ABCP investors continually rolling over maturing ABCP.

> "UNCERTAINTY MADE IT IMPOSSIBLE FOR COUNTERPARTIES—EVEN AMONG BANKS—TO GAUGE ANOTHER PARTY'S SOUNDNESS."

For borrowers, the result was lower interest rates. However, for investors, the seeming safety of built-in diversification was actually a recipe for disaster when confidence began to flail. As house prices fell and delinquencies rose on low-credit-quality subprime mortgages, investors became concerned that the initial borrowers would not be able to make the interest payments upon which the ABS and ABCP interest payments depended. As a result, investors shunned ABS and ABCP backed by subprime mortgages.

This liquidity shortage spread to prime mortgage-backed securities, and other ABS and ABCP. The first sign of this liquidity shortage was the sharp tumble in ABCP outstanding in August 2007 by about 20 percent, or $200 billion. This drop was essentially a run by investors in ABCP that refused to reinvest when the ABCP matured.

The crisis also spread to mortgage lenders,

such as Thornburg Mortgage in Santa Fe, N.M., that relied heavily on short-term funding secured by their mortgage portfolio. Even though Thornburg had a very low default rate on its portfolio of mostly jumbo mortgages, it began to experience funding problems in February 2008 when UBS reported a major loss on its jumbo mortgages. Investors rushed to demand more collateral to secure Thornburg's short-term funding.

"UBS's sneeze meant that Thornburg, among others, caught a major cold," wrote William Cohan in House of Cards.

As a result, Mora notes that a crisis originally centered on subprime borrowers unable to pay their loans quickly morphed into something with a much wider reach and one that caused a loss in confidence and did damage to the idea of banks as a safe haven in a crisis.

"Commercial banks, and not just those with concentrated exposures to mortgage-related securities, were affected in this crisis due to the panic that developed from a lack of information and a loss of confidence," Mora says. "Uncertainty made it impossible for counterparties—even among banks—to gauge another party's soundness."

Among other things, Mora's data note that while bank deposit growth rose sharply during the flight to safety of the '98 crisis, there was a slight decline in deposit growth during the first phase of the '07-'09 turmoil. In the most recent crisis, the growth in bank deposits recovered only in the fall of 2008 as the government took emergency measures to provide funds to banks and investors transferred funds from money market funds that were no longer viewed as safe.

The behavior, however, differed among institutions. For example, Mora noted the largest banks, which were seen as too big to fail during the crisis, had a distinct advantage over other institutions in terms of attracting deposits—an issue which has its own range of policy implications, including what it means about the incentive for these firms to take on risk.

While deposits did not follow traditional patterns, Mora also found that on the other side of the bank balance sheet, loan growth also did not follow traditional crisis patterns and differed across banks. Lending growth was especially weak at banks most vulnerable to liquidity demand.

Mora concludes that her research raises serious policy issues that need to be considered in terms of perhaps designing mechanisms to supply credit to creditworthy borrowers during such a crisis. For example, the commercial paper market showed signs of recovery when the Federal Reserve intervened in October 2008. At that time, what had been a commercial paper market of less than $40 billion in 1970 had expanded to $1.5 trillion—down from more than $2 trillion before the turmoil.

As far as the original question at the core of her research, Mora says she found that it cannot be assumed that bank deposits will be a stable source of funding to address market stress when banks are at the center of the crisis.

"In the last crisis, depositors shunned banks generally when there was greater uncertainty about the health of banks and uncertainty over whether the government would support the financial system," she says. "The main message is that bank deposit funds cannot be assumed to be robust to all types of market liquidity stress."

T

BY TIM TODD, TEN CONTRIBUTING WRITER

FURTHER RESOURCES

CAN BANKS PROVIDE LIQUIDITY IN A FINANCIAL CRISIS?
By Nada Mora
KansasCityFed.org/publications

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

President Hoenig travels the District to talk, listen

Whether it's educators in Denver, business leaders in Bartlesville, Okla., or the Nebraska Independent Bankers group, Kansas City Fed President Tom Hoenig speaks to thousands of audience members every year.

In 2010, in particular, those discussions included regulatory reform, monetary policy decisions, the economy and more. Hoenig visits small towns and big cities alike to further educate audiences on what's happening in the economy, the Federal Reserve's role and how they are affected. He also gains first-hand insight from the dialogue that follows his speeches.

"Reserve Banks have a strong tie to the geographic areas they serve," Hoenig says. "Traveling around the District to talk, listen and learn is one of my top priorities. This is my commitment to the region."

PRESIDENT HOENIG ADDRESSES AN AUDIENCE OF 1,500 AT THE UNIVERSITY OF KANSAS SCHOOL OF BUSINESS 2010 ANDERSON CHANDLER LECTURE IN LAWRENCE.

As one of the nation's 12 regional Reserve Banks, the Kansas City Fed's geographic District encompasses seven states with a diverse mix of industry, business and agriculture. It includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico.

In 2010, he spoke at more than 80 events in these seven states, including numerous events in Kansas City, Denver, Oklahoma City and Omaha, where the Kansas City Fed's four offices are located, as well as:

- Joplin, Lee's Summit and Maryville, Mo.
- Lincoln and Norfolk, Neb.
- Lawrence, Overland Park, Topeka and Wichita, Kan.
- Bartlesville and Tulsa, Okla.
- Cheyenne and Jackson, Wyo.
- Vail, Colo.
- Las Cruces, Albuquerque and Santa Fe, N.M.

"Getting out in the District is critical at a time of economic uncertainty and vital to gaining an understanding about what's happening in the regional economy," Hoenig says. "The latter contributes to monetary policy discussions that affect the national and global economies and the everyday people in our region."

T

BY BRYE STEEVES, EDITOR

PRESIDENT HOENIG SPEAKS AT THE NATIONAL ASSOCIATION FOR BUSINESS ECONOMICS IN DENVER, COLO.

OKLAHOMA CITY DIRECTOR K. VASUDEVAN (LEFT), PRESIDENT OF SERVICE & TECHNOLOGY CORPORATION KUMAR KRISHNAN, PRESIDENT HOENIG AND BRANCH EXECUTIVE CHAD WILKERSON DISCUSS ENERGY IN BARTLESVILLE, OKLA.

THE KANSAS CITY FED'S OMAHA BRANCH EXECUTIVE, DIRECTORS AND PRESIDENT HOENIG TOUR NORFOLK IRON & METAL IN NORFOLK, NEB.

PRESIDENT HOENIG MEETS WITH THE MISSOURI SOUTHERN STATE UNIVERSITY PRESIDENT AND FACULTY DURING A VISIT TO JOPLIN FOR THE ECONOMIC FORUMS SPEAKING SERIES.

PRESIDENT HOENIG ANSWERS QUESTIONS FROM THE AUDIENCE AT THE DOMENICI PUBLIC POLICY CONFERENCE AT NEW MEXICO STATE UNIVERSITY.

Kansas City Fed President Tom Hoenig in the region in 2010

Regional speaking engagements: more than 80

Audiences: bankers, business leaders, educators, government officials, policymakers, students and more

Topics: economic outlook, banking, audience dialogues, regulatory reform, the payments system, financial education, regional economics and more

Common ¢ents

BY MICHELE WULFF

Payday on report card day? Cash for grades can emphasize earning rather than learning

Michele Wulff is a former public school educator of 30 years and a 2007 recipient of the peer award "Excellence in Teaching Economics." As an economic education coordinator with the Kansas City Fed, she works to heighten financial literacy throughout the seven states of the Tenth District.

Whether report card day is filled with excitement or apprehension at your house surely depends on your children's academic performance—and how you're motivating them to learn.

Some parents choose to give money to their children for good grades. Often the reasoning is that school is the child's job, and good performance deserves good pay, just like in the real world. But is it really that simple? A counter argument could be that going to school is the child's role within the family, like mom or dad's role of caregiver. No one gets paid for these roles—they're just a part of everyday life.

PHOTO BY GETTY IMAGES

Child psychologists, parents and teachers (myself included in the latter two categories), have long debated the pros and cons of the money-for-grades issue. Psychologists point out that rewarding kids with money is an example of extrinsic motivation, or rewarding from the outside. This type of motivation may work well initially, but is hard to sustain as students become older (and the dollar amount must rise with age or the child's motivation dwindles). Most believe that developing intrinsic motivation, or the internal desire to do well, is what kids need to build. The focus should be on working to reach their potential, not the price tag attached to getting there. Helping children develop a stronger work ethic ultimately benefits them as adults, in work and in life.

Another concern for children is their stress level, which, as a teacher, I saw increase when kids know their academic performance is tied to a dollar amount. This type of pressure can shift their focus from learning to earning: Will I make all A's to get the max offered for this report card? How much extra credit can I do to bump a B to an A? This stress can result in test anxiety, when the mind goes blank and the grades take a nose dive.

So, should parents offer any incentives to their children to earn good grades? Yes. Small rewards keep kids on track without the bribe effect. These incentives might include family outings like dinner at their favorite restaurant, a movie, roller skating night or a trip for ice

cream. Put it in writing and keep this list on the fridge or the child's bulletin board as a reminder of the recognition he or she will receive for a job well done at school. Consider rewarding an improvement in the child's work process (studying hard for a particular test or completing homework on time) as well as a grade achievement. Save a reward for completing a successful school year. Be sure to congratulate the child's work ethic as part of the festivities.

What if you are currently rewarding grades with money or know money is the best motivator for your child's progress? Start depositing most of the cash in your child's bank account at report card time so he or she can save, and learn the value of earning interest and smart spending. Give them a token amount of money for immediate spending, and congratulate them on their good work in school—and in building their savings account.

Financial Education Resources

The Kansas City Fed is committed to promoting economic and financial literacy and greater knowledge of the Federal Reserve's role by providing resources for teachers, students and the public. Visit our website at KansasCityFed.org for more information.

Fiction Books:

The Berenstain Bears Report Card Trouble
by Stan and Jan Berenstain
When Brother Bear spends too much time on sports and brings home a terrible report card, the whole family pitches in to help him improve his grades.
For ages 4-8.

The Report Card
by Andrew Clements
Nora is very bright but pretends to have average ability to avoid attention. Her best friend, Stephen, has test anxiety and pressure to achieve from his parents. Bringing home their report cards are stressful events for both students.
For ages 8-12.

Non-Fiction Books:

Start Smiling on Report Card Day, A Guide to Improving Your Child's Grades
by Anne Emerick
For more free activities, videos, curriculum and other resources, go to
FederalReserveEducation.org and **KansasCityFed.org.**

'Helping to build connections'

directors provide leadership, insight on tenth district communities

As designed by Congress in 1913, the Federal Reserve is an innovative blending of public and private institutions. While the Board of Governors in Washington, D.C., is a government agency with broad oversight responsibilities, there are 12 regional Federal Reserve Banks located throughout the United States that are under the direction of local Boards of Directors. In addition to oversight responsibilities for their respective Reserve Banks, the regional Fed directors serve as a critical conduit between their local communities and the nation's central bank, offering critical insight and counsel on the economy drawn from their own expertise and contacts.

This system of the independent regional Reserve Banks, which also have affiliated Branch offices, are in direct recognition of the value Americans place on limiting influence and ensuring broad representation. Prior to the Federal Reserve, the United States had made two attempts at a central bank, but large areas of the country, especially along the frontier and in the South, felt the institutions were too closely aligned with the power centers of the Northeast, and the institutions were abandoned.

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

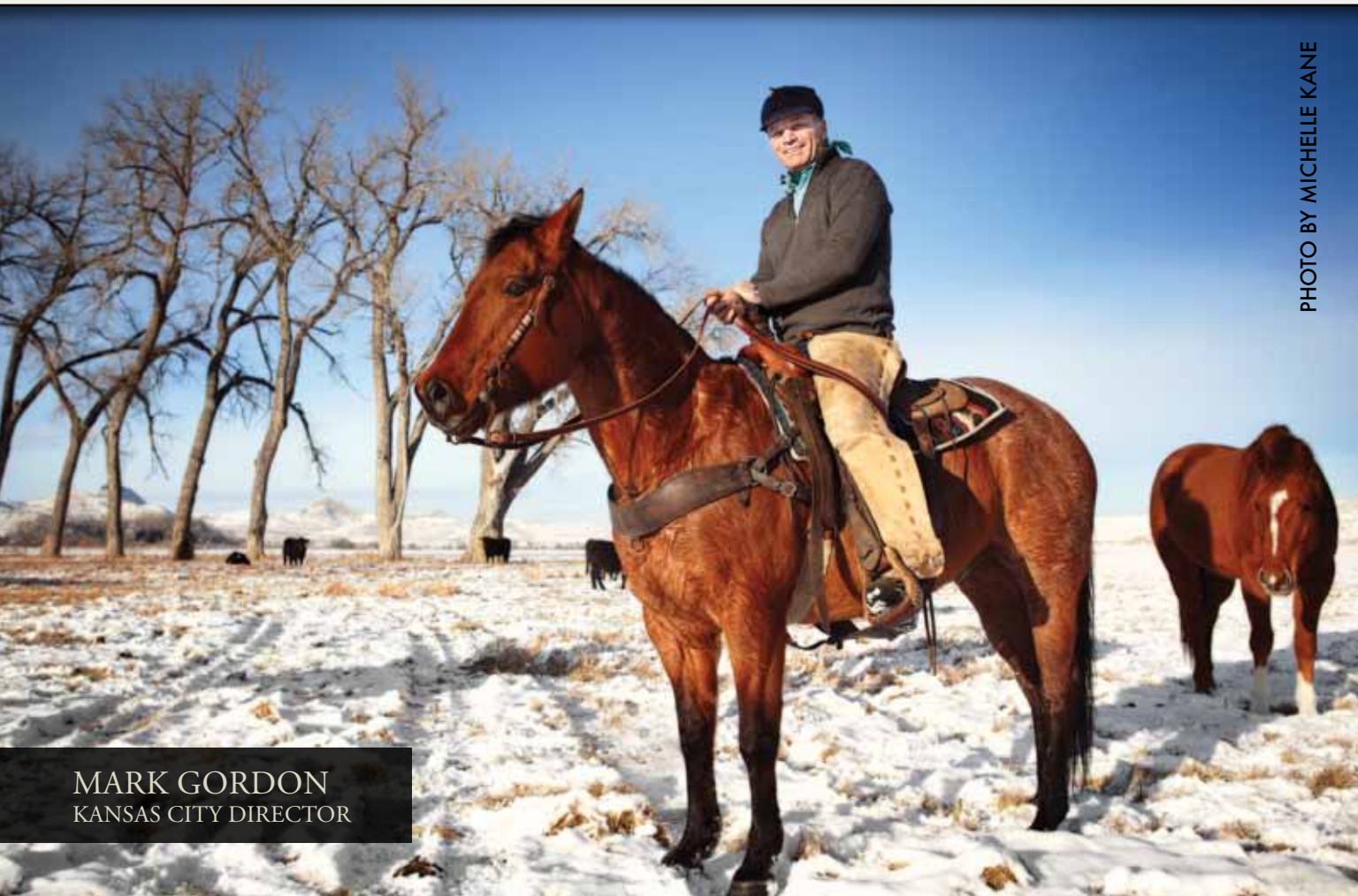


PHOTO BY MICHELLE KANE

MARK GORDON
KANSAS CITY DIRECTOR

MARK GORDON

Mark Gordon's ranch is about as far away from Wall Street as one can get.

This is wide open Wyoming, home to livestock, land and sky. About 4,000 people live nearby in Buffalo, the nearest town and the seat of a county that has more than twice the land of the entire state of Delaware but less than 1 percent of its population.

Gordon, who joined the Federal Reserve Bank of Kansas City's Board of Directors in 2009, also serves on his local school board. In addition to his ownership of Merlin Ranch, he is a partner in the 48 Ranch Partnership in Kaycee, Wyo.; a partner in Buffalo Movie Theater, LLC; and an officer of Willow Park Reservoir Company.

He says that before he joined the Kansas City Board, he was among those looking in from the outside that saw the central bank as a place that "seemed academic—folks who crunched numbers."

Now, not only has he gained an appreciation for the Fed's structure, but also he believes that the central bank's contacts with America's Main Streets will play a pivotal role as the Fed works to boost the economic recovery.

"It will put more emphasis on my colleagues and others across the Federal Reserve System who have extensive experience on what it's going to take to get an economy really working," he says. "It's not just the academics."

And, from his perspective, that will involve small business.

"I don't think we have any medium-sized businesses in the state," Gordon jokes. "I feel a very strong responsibility to my region, my state—those are both overreaching—but I feel a strong responsibility for our small businesses."

ROSE WASHINGTON RENTIE

In Tulsa, Rose Washington Rentie understands concerns about small business.

Rentie, a director on the Board of the Kansas City Fed's Oklahoma City Branch since 2009, is executive director of the Tulsa Economic Development Corporation. Founded in 1979, TEDC has provided or located more than $156 million to help nearly 300 small businesses start or expand.

Rentie calls her job "ground zero" in one of the most important facets of the U.S. economy.

"At any given time, I'm side-by-side with small business owners who are making tough decisions: Make payroll or pay taxes. Reduce or discontinue employee benefits because of rising cost or eliminate another expense. Buy a fixed asset or lease," she says.

This provides her with a high level of insight in regard to both what is going on in the local economy, but also an up close look at emerging issues.

"These business owners anticipate expected hiccups in the industry in real time," she says. "They are purchasing commodities, planning capital expenditures, hiring, anticipating expansion or retraction based on expected

ROSE WASHINGTON RENTIE
OKLAHOMA CITY DIRECTOR

PHOTO BY KEITH BALL

JOANN MARTIN
OMAHA DIRECTOR

orders. I am able to challenge them and pick their brains."

And sharing that insight is a job Rentie takes seriously.

"I feel that my responsibility is not to share my personal opinion, but to bring the voice of Main Street to the Federal Reserve," she says. "The Federal Reserve ensures that many people from all walks of life are able to participate. My responsibility is to share real-time perspectives of those who otherwise may never have an opportunity to provide feedback."

JOANN MARTIN

Federal Reserve Bank of Kansas City President Tom Hoenig often talks about how the directors are especially valuable in his preparations for meetings of the policy-setting Federal Open Market Committee because their insight is extremely timely while economic data is, by its nature, backward looking.

JoAnn Martin, CEO of Ameritas Life Insurance in Lincoln, Neb., and a member of the Kansas City Fed's Omaha Branch Board of Directors since 2008, says looking at only the available economic data "is like looking out the rearview mirror as you are driving 70 miles an hour down a road.

"What insight we can bring as directors is what the scenery looks like that we are in at that moment."

And it is a wide view.

"It is a compilation of experiences and views we gain as we talk to Main Street, but it is also specific industry knowledge," says Martin, whose firm offers both insurance products and financial services through subsidiaries and agents nationwide.

She says that, as a director, she sees firsthand "the importance of having Federal Reserve Banks across the United States and (Reserve Bank) Branches across the Districts."

The regional structure, she says, brings in input from a full spectrum of industries of all sizes as well as the views of the consumer. In a large nation, she says, there can be significant differences between different parts of the country, and the Federal Reserve is able to factor those disparities into national policy.

"While we are all part of one country, we have very diverse economic drivers. The Federal Reserve's structure allows input to be received from many different industries, many different size businesses and the consumer."

BRUCE ALEXANDER

In Colorado, Vectra Bank CEO Bruce Alexander says the role of being a Fed director has changed since he joined the Kansas City Fed's Denver Branch Board of Directors in 2006.

"With all the attacks on the Federal Reserve and how its leadership is selected, the role of director is much more profound than it was five years ago when I started," he says.

Today he is not only bringing the insight gained from his business contacts to the Fed's policy deliberations, but he is also helping the public understand the Fed during a time of economic turmoil and when some have called for changes in the central bank's structure.

Those two roles, he says, are of equal importance.

He says that he believes it is absolutely critical for local leadership and insight to be involved in the Federal Reserve. In fact, he notes, in the current environment, that view from beyond Wall Street and Washington might be even more important. Alexander is able to gain insight from Vectra's 39 locations in Colorado and New Mexico.

"The flow of information from across the country is just so critical in these times," he says. "In addition to our own business expertise, we get to look at the economy from so many of the eyes of our customers and directly see their position on the economy."

He says that he is now also often called upon by local community leaders wanting to get a better understanding of the Federal Reserve and its role in serving the nation. From his perspective, Alexander describes his responsibility as a Fed director very succinctly:

"I'm helping to build connections."

FOR MORE INFORMATION on the Kansas City Fed's directors, bios and more, visit KansasCityFed.org/aboutus/leadership.

BRUCE ALEXANDER
DENVER DIRECTOR

PHOTO BY GARY BARBER

Ask an Economist...

What does the country's financial regulatory reform mean for the Federal Reserve?

President Barack Obama signed into law this past summer the most sweeping changes to the nation's financial system since the 1930s. The intent of this regulatory reform—called the Dodd-Frank Wall Street Reform and Consumer Protection Act—is to correct many of the problems that led to the recent financial crisis.

Although many details have yet to be defined, the law's broad impact affects all sectors of the economy—from consumers of financial products, to investors in securities and financial derivatives, to banks and other financial service providers who will be subject to new and increased supervision and regulation. Some of the most noteworthy changes include increased supervision and regulation of the largest and most complex banks and other financial firms and new authority to close down these firms in an orderly way if they fail. As one of the central bank's 12 regional Reserve Banks, the Federal Reserve Bank of Kansas City is affected by some of the key aspects of the Dodd-Frank Act.

"The financial sector will always be vulnerable to problems—the very nature of providing credit to borrowers using borrowed money from savers and investors is a risky business," says Chuck Morris, a vice president and economist at the Kansas City Fed who has been closely monitoring the financial recovery and reform legislation. "Dodd-Frank has the potential to prevent such problems from developing into crises, such as the one we just experienced, but only if implemented well. This will mean changes for consumers and bankers—and the Federal Reserve."

What impact does the new law have on the Federal Reserve?

Morris: The Federal Reserve has a significant role in the implementation of financial regulatory reform. We have had a strong presence writing banking regulations and supervising the banking industry for years. Dodd-Frank requires the financial regulators to write almost 250 new rules and regulations and conduct almost 70 studies. The Federal Reserve is solely or jointly responsible for many of these. Additionally, the Federal Reserve is now subject to more audits from the Government Accountability Office, although our monetary policy work will not be covered in those audits. The 12 Reserve Banks will see governance changes, including a new limitation on some members of a Bank's Board of Directors that prevent them from voting on appointing Reserve Bank presidents.

How have the Federal Reserve's responsibilities changed?

Morris: The Federal Reserve has retained all its regulatory and supervisory authority for the safety and soundness of the banking industry while gaining additional authority.

Some of the new responsibilities include writing regulations for and supervising the largest banking organizations and those nonbank financial companies determined by the new Financial Stability Oversight Council (FSOC) to be systemically important; exercising stronger authority in supervising bank holding companies (companies that own banks); setting the regulations for savings and loan holding companies (companies that own savings and loans) and examining them; and regulating financial market utilities determined by the FSOC to be systemically important to ensure they aren't taking too much risk. In the consumer protection area, the Fed's responsibility for writing regulations transfers to the new Consumer Protection Bureau, along with examination authority for state member banks with more than $10 billion in assets. Among the approximately 170 banks supervised by the Kansas City Fed, though, only one is greater than this in size.

How does the Dodd-Frank Act affect community banks?

Morris: Much of the discussion has focused on increased consumer protection compliance costs for smaller banks, which could lead to further consolidation as banks try to spread out the higher costs. A major benefit for community banks comes from provisions that level the playing field with larger banks and nonbank companies if the Fed and other regulators do a good job implementing the Act. Examples include ensuring the new resolution process for the largest banks considered too big to fail is credible; implementing capital requirements with fewer loopholes and stronger forms of capital for the largest banks; and expanding consumer protection supervision to competing nonbank companies that currently are not regulated.

What is the Federal Reserve doing to ensure the law is implemented well?

Morris: The Federal Reserve has a range of experts, including economists, lawyers and bank examiners, working to implement the regulations. The Fed also is committed to an open process—public comment is considered before any action is taken, allowing input from the banking and financial industry, consumer groups, and more. Additionally, a summary of any meeting between Fed staff and the public on a rulemaking topic is posted online.

What does this mean for the Kansas City Fed?

Morris: For quite some time, the Kansas City Fed's leaders and Board of Directors have been actively engaged in the regulatory reform process and will continue to be so during the law's implementation. Each Federal Reserve Bank and the Federal Reserve Board of Governors in Washington, D.C., are forming an Office of Minority and Women Inclusion, which is responsible for overseeing the diversity practices of the Reserve Banks and the Board, such as employee recruiting and vendor contracts. We have formed this office, though valuing diversity already has been a critical success factor in Kansas City for decades and nearly all of the law's requirements are already part of our normal business practices. Additionally, our Reserve Bank's supervision area will see the largest change, as staff assumes responsibility for supervising savings and loan holding companies. For our staff members who examine financial institutions, this also means additional training and education to learn new laws and regulations.

T

BY BRYE STEEVES, EDITOR

Money Museum at Denver Branch now open

A 7,000-square-foot visitors center that houses a Money Museum and conference center is open at the Kansas City Fed's Denver Branch.

Modeled after the Money Museum in Kansas City, this space is open to the public for guided and self-guided tours to learn about the economy and the Federal Reserve. Admission is free. Among the highlights are a theater, a wall of $100 bills, and lesson plans and activities for children to supplement their visit.

The Denver Branch is in the heart of downtown on the popular 16th Street pedestrian mall. The U.S. Mint is nearby.

Construction began in August. The renovated visitors center was unveiled in December.

For more information on the Denver Branch, visit KansasCityFed.org/Denver, and for more information on the Money Museum, visit KansasCityFed.org/moneymuseum.

PHOTO BY GARY BARBER

Shop online for Fed merchandise

Browse The Vault from your computer. The Federal Reserve Bank of Kansas City's gift shop is now online.

Fed merchandise, including t-shirts; coffee mugs; books; and souvenirs, such as state quarter key chains, pencils made from recycled currency and coin magnets, can be ordered online and shipped to a home or business address.

The small gift shop is located in the Money Museum at the Kansas City Fed's headquarters building in Kansas City, Mo. To shop for Fed merchandise online, visit KansasCityFed.org/moneymuseum.

Evening at the Fed draws hundreds of educators

This past winter, the Kansas City Fed launched a new program for educators in its offices in Kansas City, Oklahoma City and Omaha.

More than 200 kindergarten through college-level educators attended a free professional development opportunity on the economy called "Evening at the Fed." Attendees also received free classroom materials. Presentations from Kansas City Fed economists covered the economic outlook and some of the recent measures the Fed has taken. Part of the Kansas City Fed's focus is to work with educators to promote economic and financial literacy in the classroom.

For more information about programs and resources, visit KansasCityFed.org/education.

Agricultural Finance Databook available through Kansas City Fed

The Kansas City Fed now oversees the Federal Reserve's Agricultural Finance Databook, a quarterly compilation of data on developments in agricultural finance at both a national and regional level.

An executive summary and selected charts provide an overview of the data contained in the three sections of the Databook. Section A presents national estimates on the size and purpose of farm loans that is derived from quarterly survey data on term lending. Section B reviews farm debt levels and loan performance measures gathered from quarterly call report data submitted by commercial banks. The financial condition of agricultural banks compared to other small banks and the number of agricultural bank failures is also presented in Section B. Section C summarizes data from quarterly surveys conducted by select Federal Reserve Banks on agricultural land values and credit conditions.

Access the Agricultural Finance Databook at KansasCityFed.org/research/indicatorsdata/agfinance.

Discount Window helps with contingency preparedness

Depository institutions have a safety net that provides funding and liquidity, even if they never need it.

The Federal Reserve's Discount Window is a source of temporary funding available to depository institutions regardless of whether they have a Federal Reserve account or are a member.

The Discount Window is most often used by institutions to prevent an overdraft or a deficiency in meeting reserve requirements, but it may also be accessed for a number of other reasons. There are three permanent Discount Window lending programs: primary (short-term funds for sound institutions); secondary (a more restrictive program available to institutions not eligible for primary credit); and seasonal (for smaller institutions with cyclical funding needs, usually tied to agriculture or tourism).

Borrowing from the Discount Window is electronic. To ensure access to the Discount Window, interested institutions should contact the Reserve Bank in their region to obtain the necessary borrowing documents and pledge collateral.

For more information on the Discount Window, visit KansasCityFed.org/banking.

New displays added to Kansas City Money Museum

Two new exhibits at the Kansas City Fed's public Money Museum examine the use of currency throughout U.S. history and the changes affecting its Protection Department since the 1920s.

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

PHOTO BY GARY BARBER

The "To Protect and Serve: Protection Through the Years" exhibit features the Protection Department, which is responsible for securing the Kansas City Fed's property and assets—including the region's largest cash vault. The display looks at significant events since 1920, including information about a fatal 1922 robbery at the U.S. Mint in Denver and the Kansas City Fed's response to the Sept. 11, 2001, terrorist attacks. Also on display are examples of officers' badges, patches and weapons.

Other displays in the Money Museum provide an in-depth and behind-the-scenes look at the current operations of the Kansas City Fed and its role in the economy.

Walk-in visitors with photo ID are welcome for guided or self-guided tours from 8:30 a.m. to 4:30 p.m., weekdays, except for holidays. Admission and parking are free.

For more information, or to sign up for a guided tour, visit KansasCityFed.org/moneymuseum.

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 January, February or March.

Colorado B&TC of La Junta	La Junta	Colo.	87
Lusk State Bank	Lusk	Wyo.	77
St. Marys State Bank	Saint Marys	Kan.	75
First Community Bank	Taos	N.M.	73
Community B&TC	Neosho	Mo.	69
Bank at Broadmoor	Colorado Springs	Colo.	31
First State Bank	Wheatland	Wyo.	30
Alterra Bank	Overland Park	Kan.	10
FirstBank	Antlers	Okla.	10
Community Bank	Topeka	Kan.	1

Winter 2011

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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.

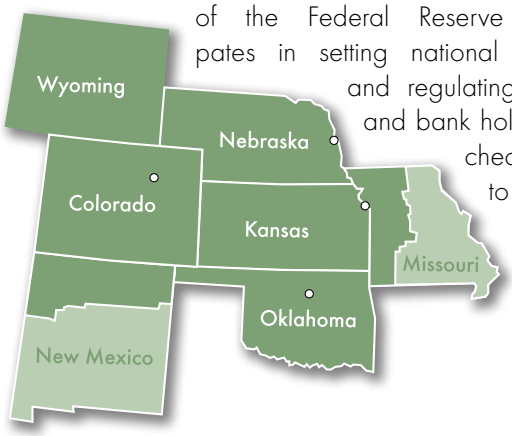
With the Federal Reserve Act, Congress sought to create a central bank the public would be more likely to support by making it "decentralized" with more local control. This new structure was designed to overcome one of the primary weaknesses of the previous central banks: public distrust of an institution 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 in Denver

Learn about the economy and the role of the Federal Reserve through our interactive displays.

- Take a look at $30 million
- Design your own currency
- Explore interactive displays
- See historical currency and more.

Come visit our Denver Branch. Admittance is free; exhibits appeal to all ages. Get details at KansasCityFed.org/moneymuseum.