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News and Views for Eighth District Bankers

St. Louis Fed Creates One-Stop Shop on Banking Competition

If you are planning a merger or an acquisition, you should make a new St. Louis Fed web site must reading. The site, <http://CASSIDI.stlouisfed.org>, went live in August with the goal of serving as a one-stop shop for information on banking competition.

“One of the appealing features of the site is that it includes information on institutions and banking markets for the entire United States,” said Adam Zaretsky, an economist in the St. Louis Fed’s Research division, who led the effort to get CASSIDI (Competitive Analysis and Structure Source Instrument for Depository Institutions) started. “This is the only web site where the public can get banking competition information packaged in this convenient way for free.” CASSIDI helps bankers:

- view banking market definitions from across the country;
- search for information in a user-friendly format;



- benefit from regular updates as market structures change;
- explore “what if” (pro forma) scenarios by seeing how a potential transaction might change a banking market’s concentration, or affect HHI;
- select whole institutions or individual branches as potential targets;
- look up geographic and depository information for all institutions and their branches; and
- view maps of many banking markets throughout the United States.

Other important CASSIDI features include banking market maps, which enable users to zoom in to see what market a city is located in or zoom out to see what market(s) a county is located in; and the ability to select individual branches as targets in potential transactions. ■

St. Louis Fed President Receives Prestigious Adam Smith Award

The National Association for Business Economics (NABE) honored Bill Poole, president of the Federal Reserve Bank of St. Louis, in September with its prestigious Adam Smith Award.

“Bill Poole has made valuable contributions both within the Federal Reserve and on the outside as a strong advocate of clear communication and transparency,” NABE President Stuart Hoffman said in a related press release. “As an astute observer of monetary policy and its impact on the economy over a long period of time, he

has put his experience and his expertise to work at the Fed to help lead the economy on a low-inflation, stable growth path.”

The NABE president selects the recipient for the Adam Smith Award, the organization’s highest honor, based upon leadership in the profession and the use of ideas and knowledge in the workplace and policy arena. In receiving this award, Poole follows his close colleagues and mentors Milton Friedman, Karl Brunner and Allan Meltzer. ■



Feditorial

Anecdotal Information Makes Raw Data Breathe

By David A. Sapenaro, first vice president of the Federal Reserve Bank of St. Louis

The following is a hypothetical snapshot of six months in a small Midwestern town: A banker decides to open a branch office in a neighboring town. A factory has to cut its labor force. A farmer has a mixed growing season. A residential real estate firm reduces prices to sell more of its inventory.

Those stories by themselves are mere anecdotes. But anecdotal information from people who make day-to-day business decisions is extremely useful to the Federal Reserve because such information helps us clearly see what is happening in the economy and understand what fluctuations in formal data may mean.

When the Federal Open Market Committee (FOMC) meets, the Fed's Board of Governors and Reserve bank presidents give their views on the economic outlook. In crafting monetary policy, the FOMC consults several formal and informal sources—which include anecdotes. Among the sources we use in the Eighth District are:

Economic forums. We invite bankers, business owners, academics, community leaders and others to these networking forums. While the primary internal Fed “audience” is St. Louis Fed President Bill Poole, I often participate in these forums as well to gain a better understanding of the communities in our Fed region to ensure that the forums are designed and facilitated in a manner that provides Mr. Poole with the best information possible.

Industry councils. We established these councils this year to acquire high-level reports on the agri-

business, health care, real estate and transportation industries in the Eighth District. Leaders in those industries meet with Mr. Poole to discuss trends and issues in their respective business sectors.

Business leader luncheons. We often invite business leaders to a lunch with Mr. Poole and some of our senior officers and economists. One of the purposes is a mutual exchange of information on the local/regional economy.

Beige Book input. The *Beige Book* is published two weeks before each FOMC meeting. It's a closely watched document of economic trends based on information and data gathered from reliable sources throughout the nation, including Mr. Poole's sources in the Eighth District.

Boards of directors. Finally, we have our boards of directors, each of which is familiar with the economic and credit conditions in the District and provides Mr. Poole with information on a monthly basis. We have the board of directors for the St. Louis office (nine members), and also for each of our three branch offices (seven members each).

Bankers in the Eighth District are integrally involved in these activities including our economic councils and our boards of directors. Without the anecdotal information that you and others provide, we're left with raw data—which can tell us only so much. Your assistance makes the raw data breathe, and helps the Fed and FOMC make informed decisions. ■

Joint Study Explores Future of Wire Payments

The Federal Reserve System and the Clearing House Payments Co. recently conducted a joint research study into the wire transfer process to understand and anticipate the future of wire payments. (The Clearing House is a company that provides payment services and is jointly owned by several U.S. banking affiliates.)

The study, *Business to Business Wire Transfer Payments: Customer Preferences and Opportunities for Financial Institutions*, examines the issues facing organizations that routinely make wire transfer payments, the motivations driving payment decisions and potential

opportunities for growth in wire payments.

Among other findings, the study concludes that most corporate payments today are paper-based, but they are likely to migrate to electronic payments such as wire transfers and ACH, over time. Small and large companies are looking for a more streamlined way to make wire transfers, and they are willing to pay for a more efficient process.

Read the study at www.frbservices.org/Wholesale/pdf/wire_transfer_research_final.pdf. ■

Go Direct Campaign Successfully Recruiting Direct Deposit Users

Since 2004, the Federal Reserve and the U.S. Department of the Treasury have been urging Americans to Go Direct with a new campaign to motivate recipients of Social Security to use direct deposit. So far, their efforts have been successful.

Under the Go Direct campaign, more than 600,000 people have switched from using paper checks to direct deposit for Social Security. The St. Louis Fed's Memphis region participated in the pilot program in 2004-05; the program went nationwide in 2005.

Direct deposit isn't exactly brand new. The government and private sector have been offering electronic payroll transfer for years. So why would the Fed and the Treasury be making a big deal over an "old" service?

There are several reasons. First, there is the money factor. "The Treasury spends \$.77 more to issue a check compared to a direct deposit payment," says Kathy Paese, vice president of the St. Louis Fed's Treasury Relations and Support Office. "With 150 million checks issued each year, direct deposit means a potential savings of \$120 million. And with the first baby boomers scheduled to retire beginning in 2008, it is increasingly important that we reduce the number of paper Treasury checks to reduce costs and save taxpayer dollars."

From the Social Security beneficiaries' point of view, the convenience of knowing your money is in your account is important: For example, after Hurricane Katrina, more than 85,000 people were stranded without their Social Security or federal benefits checks and needed emergency payments, according to the Treasury. But those who already were using direct deposit had immediate access to their funds from virtually anywhere.

Perhaps most important is security. Direct deposit is a deterrent to identity theft and the possibility of stolen checks. "Direct



deposit eliminates the risk of stolen checks and helps protect people from identity theft. You are 30 times more likely to have a problem with your paper federal benefit check than with direct deposit," says Paese.

Go Direct success comes through partnerships

Even though four out of five people who receive federal benefits checks already use direct deposit, there are holdouts.

That's where local partnerships come in.

Martha Perine Beard, the St. Louis Fed's Memphis senior branch executive, has been involved from the beginning. She

explains that the Fed and Treasury haven't been promoting Go Direct by themselves; national and local organizations, including banks, have been the primary reasons for success. Currently, Go Direct works with about 700 partners, including some in the Memphis area. "The Treasury and Federal Reserve banks are collaborating with groups that recipients know and trust—community organizations, faith-based groups, law enforcement, government and local banks—to encourage more people to convert their benefit payments to direct deposit," she says.

"In Memphis, many groups have already accepted the challenge to promote the benefits of direct deposit. For example, the Aging Commission shares information with the public about Go Direct through their Information and Assistance Hotline. And the Memphis Police Department is a strong advocate for direct deposit because it is safer for Social Security recipients and helps to prevent criminal activity," says Perine Beard.

The Go Direct campaign goal is to exceed 1 million sign-ups in 2007. For more information or for how your bank can get involved, visit www.GoDirect.org. ■

Regional Roundup

AMI Transition Successful

If you want check information, you need to talk to AMI. In November, the Eighth District completed the year-long transition in the way customers receive check supplemental information. The Federal Reserve System has eliminated check supplemental statements, making the Account Management Information (AMI) application the centralized online repository for all accounting-related information.

The Eighth District customer accounting staff has been working with 650 customers throughout the year to ensure a smooth transition; the project is known as the “Check into AMI” transition.

Check information—which was previously provided through check advices and statements of check activity—can now be

found via the AMI application on either FedLine Web® or FedLine Advantage®. Alternatively, some customers also receive check supplemental information from their correspondents.

The Check into AMI initiative has proven to be successful as customers use AMI and access information from various Federal Reserve banks in a more consistent and timely format. Thanks to all the customers who have participated in this effort. Read more about AMI at www.frbservices.org/Accounting/Accnt_mgmt_info.html.

Fed Now Offers E-mail Check Alerts

If a storm knocks out power to a city that processes your checks, or a computer system hiccups, wouldn't you want to know

quickly if there will be a problem in check operations?

St. Louis, Little Rock and Memphis check customers can now receive e-mail notifications regarding significant events impacting their institutions, such as delays in check cash letter presentments because of weather or system problems. The new program improves the Federal Reserve Bank of St. Louis' ability to effectively and efficiently communicate day-to-day issues of check operations.

If you're interested in receiving these e-mails alerts, contact the Eighth District Check Front Office at 1-866-433-3227 and ask for an E-mail Contact Information Form. ■

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U.S. Mint Turns Presidents into Gold

The most familiar faces on U.S. coins are Abraham Lincoln, Thomas Jefferson, Franklin Roosevelt and George Washington (respectively appearing on the penny, the nickel, the dime and the quarter). Starting in 2007, however, every U.S. president will have his own coin. Abe, Tom, Franklin and George won't be the only ones having all the fun.

The U.S. Mint is preparing the Presidential \$1 Coin Program to commemorate the service of American presidents by issuing \$1 coins at a rate of four per year, in the order of service. (Yes, there will be two Grover Cleveland coins.)

According to the Mint, the program seeks to “revitalize the design of United States coins and return circulating coinage to its

position as an object of aesthetic beauty in its own right.” The new coins will feature larger, more dramatic artwork, edge-incused inscriptions of the year of minting or issuance, “E Pluribus Unum,” “In God We Trust” and the mint mark. The reverse will feature a bold rendition of the Statue of Liberty.

The Mint is planning media events, educational materials and a dynamic web site to inform the public on the availability of the new Presidential \$1 Coins. Promotional materials will be available to retailers, financial institutions, educational groups and other stakeholders to increase awareness and promote the use of the new coins in daily transactions.

Full information is available at [www.usmint.gov/\\$1coin](http://www.usmint.gov/$1coin). ■



Christopher H. Wheeler is a senior economist and Elizabeth A. La Jeunesse is a senior research analyst at the Federal Reserve Bank of St. Louis

Residential Aspects of Income Inequality in Louisville and Memphis

By Elizabeth A. La Jeunesse and Christopher H. Wheeler

Income inequality has risen in the United States over the past three decades.¹ While many economists have documented this trend, few have studied its residential aspects. In a paper entitled *Neighborhood Income Inequality*, we examine whether rising income inequality has been accompanied by increasing residential segregation by income.²

Relatively wealthy households may face increasing incentives to separate themselves from households with lower incomes as the income gap widens. As incomes rise, so does the demand for land. If the majority of suburban growth in recent decades involved the movement of relatively wealthy households, then the extent of residential segregation between rich and poor may have increased.

With rising income inequality, relatively wealthy households also may have congregated because they share similar tastes for public goods, preferences for positive peer influences or a desire to avoid crime. This segregation may have become reinforced over time.

We examine these patterns of segregation by using a sample of nearly 165,000 small neighborhoods³ within U.S. metropolitan areas to calculate two components of income inequality. The first measures the extent of income inequality among households within the neighborhoods of a metropolitan area. When this type of income inequality is relatively high, we know that neighborhoods are relatively integrated by income level. The second component mea-

sures the extent of income inequality among households that live in different neighborhoods. This measure captures the extent of residential segregation by income between neighborhoods.

We found that the majority of income inequality during the past three decades has been associated with inequality within, rather than between, neighborhoods. In each year, more than 75 percent of income inequality within a typical metropolitan area can be linked to income inequality among households living in the same neighborhood.

Despite this fact, we discovered a significant run-up in between-neighborhood inequality during the 1980s. Over this period, the portion of the average metropolitan area's overall income inequality attributable to inequality among households living in different neighborhoods rose by nearly 60 percent. Between-neighborhood inequality decreased slightly in the 1990s.

Metropolitan-level results for Louisville and Memphis are generally consistent with these trends. Louisville has experienced only three percent more overall inequality, on average, and 47 percent more between-neighborhood inequality, compared with the typical U.S. metropolitan area. In each year, more than 70 percent of Louisville's income inequality has been linked to within-neighborhood income differences. Louisville also saw its share of between-neighborhood income inequality increase by 30 percent during the 1980s.

But Memphis experienced overall average inequality that is 17 percent higher than—and between-neighborhood inequality that is more than double—the typical U.S. metropolitan area level. Still, in each year more than 61 percent of Memphis's overall inequality can be linked to within-neighborhood inequality. Memphis' fraction of overall income inequality attributable to between-neighborhood differences also increased during the 1980s by 44 percent.

Overall, results suggest that U.S. metropolitan areas have experienced the majority of their income inequality among households within individual neighborhoods. Over time, this residential integration may prove to be beneficial for lower-income households, since individuals tend to be positively influenced by the characteristics of the neighborhoods in which they reside. However, income inequality between neighborhoods rose significantly in the 1980s, and is also relatively more acute in cities like Memphis that tend to be more segregated along these lines. ■

ENDNOTES:

- ¹ These numbers are available at www.census.gov/hhes/income/histinc/ie6.html.
- ² Wheeler, Christopher H. and La Jeunesse, Elizabeth A. *Neighborhood Income Inequality*, Federal Reserve Bank of St. Louis Working Paper 2006-039A, June 2006.
- ³ Defined by U.S. Census block groups. Each block group contains, on average, 527 households.

Bankers' Bank Exemption Proposed

In response to inquiries concerning whether certain nondepository entities may permissibly do business with bankers' banks, the Board of Governors recently proposed revisions to the bankers' bank exemption from reserve requirements in Regulation D.

Generally, qualified bankers' banks may only do business with other banks, certain individuals in banking and certain bank-owned organizations. The proposal expands the range of customers with which a bankers' bank may permissibly do business by allowing the Board to determine, on a case-by-case basis, whether an entity may become a bankers' bank customer to a limited extent.

Summary HMDA Reports Released

In September, the Federal Financial Institutions Examination Council released the 2005 Home Mortgage Disclosure (HMDA) summary statistical reports for each lender and an aggregate report for each metropolitan statistical area. Preliminary indications are that the data will show that the proportion of mortgage loans with prices above the price reporting thresholds increased from 2004 to 2005.

Note that the frequently asked questions indicate that conclusions of discrimination should not be drawn based on the data alone. Pricing disparities may indicate the need for closer scrutiny, but key pricing determinants, such as credit history, debt-to-income ratios, and loan-to-value ratios (which are not included in the data), provide the additional information needed to draw definitive conclusions.

HMDA reporters are encouraged to analyze their data in preparation for questions they may receive. Additional perspective may be found at www.federalreserve.gov/boarddocs/press/bcreg/2006/20060403/default.htm. ■

Regulation E Recent Amendments and Final Rules for Payroll Cards

The Federal Reserve Board has approved the final rule to provide that payroll card accounts are covered by Regulation E—Electronic Funds Transfer. The final rule, effective July 1, 2007, gives financial institutions flexibility by not requiring periodic statements if the transaction information is available by: telephone, electronically, and upon the consumer's request (in writing).

A number of recent amendments to the regulation and revisions to the staff commen-

Community Development Finance

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Exploring Innovation: A Conference on Community Development Finance will focus on improving development objectives, increasing access to capital and achieving sustainability. The conference is open to anyone interested in community development, including those working in investment, banking, finance, government, academia, nonprofits, entrepreneurship and philanthropy. It is sponsored by the St. Louis Fed's Community Affairs Office. For more information, visit www.stlouisfed.org/community/innovation/.

tary take effect on Jan. 1. In addition, the Board is requesting public comment on an interim final rule which provides additional clarification regarding Regulation E's coverage of electronic collection of insufficient funds fees and notice requirements for electronic check conversion transactions. Read more at www.federalreserve.gov/boarddocs/press/bcreg/2006/20060824/default.htm. ■



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