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CentralBanker

WINTER 2008

News and Views for Eighth District Bankers

Gloomy Times Continue at District Banks

By Michelle Neely

In response to tight credit markets and a still-weakening economy, earnings and asset quality at Eighth District and U.S. peer banks continued their descent in the third quarter.

In the District, return on average assets (ROA) declined another 14 basis points in the third quarter to 0.67 percent. ROA was down 39 basis points from its year-ago level. (See adjoining table.) U.S. peer banks (banks with average assets of less than $15 billion) fared even worse, with ROA declining to 0.45 percent in the third quarter compared with 1.18 percent one year ago.

The decline in ROA in the third quarter was due to a slight increase in net noninterest expense and a more substantial increase in loan loss provisions. The trend in earnings components was similar at U.S. peer banks. Once again, the average net interest margin (NIM) stayed flat at 3.79 percent at District banks. Loan loss provisions (LLP) as a percent of average assets hit 0.60 percent at District banks and 0.76 percent at U.S. peer banks.

The LLP ratio has almost tripled at District banks and has more than tripled at peer banks over the past year. The coverage ratio (the loan loss reserve as a percentage of nonperforming loans) has sunk over the same time period at both sets of banks. At the end of the third quarter, District banks had just 84 cents reserved for every dollar of nonperforming loans compared with $1.28 reserved one year ago.

Increases in loan loss provisions and declines in coverage ratios can be traced to continued deterioration in asset quality at District and U.S. peer banks. The ratio of nonperforming loans to total loans rose to 1.68 percent at District banks and 2.19 percent at peer banks in the third quarter. In the District, increases in nonperforming real estate loans—especially construction and land development (CLD) loans—and commercial and industrial loans drove the uptick in the composite nonperforming loan ratios. Almost 5 percent of District banks' outstanding CLD loans were nonperforming at the end of the third quarter, compared with less than 2 percent one year ago. At U.S. peer banks, the decline in quality is even more pronounced, with almost 7 percent of outstanding CLD loans in nonperforming status.

Despite the bleak picture painted by the earnings and asset quality numbers, District banks remain on average well-capitalized. At the end of the third quarter, just three banks (out of 707) failed to meet one of the regulatory capital minimums. District banks averaged a leverage ratio of 9.07 percent. ■

Michelle Neely is an economist at the Federal Reserve Bank of St. Louis.

Not a Pretty Picture[1]

	3rd Q 2007	2nd Q 2008	3rd Q 2008
RETURN ON AVERAGE ASSETS[2]			
District Banks	1.06%	0.81%	0.67%
Peer Banks	1.18	0.61	0.45
NET INTEREST MARGIN			
District Banks	3.91	3.79	3.79
Peer Banks	4.02	3.83	3.83
LOAN LOSS PROVISION RATIO			
District Banks	0.23	0.52	0.60
Peer Banks	0.25	0.71	0.76
NONPERFORMING LOANS RATIO[3]			
District Banks	1.02	1.53	1.68
Peer Banks	1.00	1.92	2.19

SOURCE: Reports of Condition and Income for Insured Commercial Banks

1 Banks with assets of more than $15 billion have been excluded from the analysis.
2 All earnings ratios are annualized and use year-to-date average assets or average earning assets in the denominator.
3 Nonperforming loans are those 90 days or more past due or in nonaccrual status.

Feditorial

How To Plan for the Unexpected

By Julie Stackhouse, senior vice president, Banking Supervision and Regulation

Before the disruptions in financial markets, "planning for the unexpected" was typically described as contingency planning for disaster recovery. In today's uncertain environment, planning for the unexpected involves a different contingency: alternative sources of liquidity.

One source of potential liquidity for banks is the Federal Reserve discount window. For smaller banks, the Fed's primary credit program (a Fed discount window lending program) has become attractive. Loans under this program are available for up to 90 days and are priced at the primary credit rate—currently, the federal funds rate plus 25 basis points. Other banks may be interested in the Term Auction Facility (TAF). Under this program, auctions are announced and funds made available through a bidding process, similar to the process used in Treasury auctions.

For both of these facilities, the institution must be in generally sound financial condition, have filed legal documents with the Federal Reserve and pledged acceptable collateral. Details can be found on the Fed's discount window web site at www.frbdiscountwindow.org.

Banks that are *not* eligible for participation in the TAF have special liquidity planning challenges. Contingency liquidity sources may not be as reliable as expected. For example, when an institution is designated as "undercapitalized" for prompt corrective purposes, it must seek a waiver from the FDIC for the acceptance, renewal or rollover of brokered deposits. (See *Prompt Corrective Action* at www.stlouisfed.org/publications/cb/2008/c/pages/views.html.) Moreover, the effective yield on deposits may be subject to interest rate restrictions. (See Part 337.6(b)(3)(ii) of the FDIC's Rules and Regulations.) Funding arrangements may also be reduced, or the lender may request the pledge of additional collateral.

Therefore, contingency liquidity planning should consider funding concentrations. Concentrations might include a large reliance on uninsured deposits, dependency on a few large depositors or a single lender, or large blocks of funds maturing near the same point in time.

Contingent liabilities should also be considered, such as unfunded loan commitments and letters of credit. Rapid changes in contingent liabilities can result in a quick drain on liquidity when sources of liquidity are no longer available.

Reviewing your bank's liquidity position with your board of directors is a good idea. Plan for the unexpected—be comfortable that your sources are available should conditions unexpectedly change. ■

Bernanke Drops By Bank Commissioners' Meeting

Julie Stackhouse, senior vice president of the St. Louis Fed's Banking Supervision and Regulation division, hosted the Eighth District's seven state bank commissioners and their deputies at a Sept. 11 meeting at the St. Louis Fed. The commissioners also met Fed Chairman Ben Bernanke and St. Louis Fed President Jim Bullard and discussed the state of the economy.

Shown are, from left: Arkansas Commissioner Candice Franks, Senior Vice President Julie Stackhouse, Tennessee Commissioner Greg Gonzales, Kentucky Commissioner Charles Vice, Chairman Ben Bernanke, Missouri Commissioner Eric McClure, President Jim Bullard, Mississippi Commissioner John Allison, Illinois Commissioner Jorge Solis and Indiana Commissioner Judith Ripley.

Ask These Questions about Bank Liquidity

By Tim Bosch and Gary Corner

The current financial environment has drawn bankers' attention to an often forgotten component of the CAMELS rating: the "L" component, liquidity. Management of liquidity has become a challenge for many banks experiencing asset quality issues. In some cases, the inability to cover maturing deposit outflows can cause a bank to fail.

Locally generated FDIC-insured deposits have historically been a stable source of funds for banks. Unfortunately, over the past decade stable core deposits have declined as a percentage of most banks' liabilities. Banks now rely on many other sources of funds that are not as stable, including high-rate deposits, Federal Home Loan Bank advances, fed funds purchases and brokered deposits.

If your bank depends significantly on noncore deposit funding, then it is important to "stress test" liquidity and contingency liquidity sources. Here are a few commonsense questions to get started:

What is a good way to measure liquidity?

Your liquidity position is best estimated as a flow of funds over multiple time periods. In other words, measure expected cash inflows and outflows in near-, medium- and longer-term periods. A simplified analysis might include elements in the adjoining list.

This analysis can be conducted under multiple scenarios, ranging from normal operations to broad, systemic disruptions. The point of stress scenarios is to identify liquidity vulnerabilities and to identify appropriate contingency funding sources well in advance of the need.

How many and what type scenarios should be completed?

This depends on your liquidity risk profile. At a minimum, we suggest two scenarios: a normal state and one with your bank undergoing a specific stress state. If your bank is exposed to significant asset quality issues, we suggest more scenarios. As discussed later, liquidity sources that are dependable in good times often disappear when the balance sheet becomes distressed.

This is a simplified analysis. Find a downloadable version with 30-, 60- an 180-day increments at www.stlouisfed.org/publications/cb/2008/d.

TIME HORIZON
- Sources of liquidity
- Loan collections and maturities
- Investment collections and maturities
- New deposits generated
- Other sources

USES OF LIQUIDITY
- Loan originations
- Deposit maturities
- Scheduled Investment/asset purchases
- Federal funds purchased maturities
- Repurchase agreement maturities
- FHLB borrowing maturities
- FRB discount window maturities
- Other borrowing maturities

TOTAL CHANGE IN LIQUIDITY
- Estimated borrowing capacity
- Available federal funds purchased capacity
- Available repurchase agreement capacity
- Available FHLB capacity
- Available FRB discount window capacity
- Available other lines/borrowing capacity

TOTAL ESTIMATED BORROWING CAPACITY

TOTAL CHANGE IN CASH

BEGINNING CASH

ENDING CASH

OTHER UNENCUMBERED, READILY MARKETABLE ASSETS

How do I think about the liquidity risk of insured high-cost CDs and brokered deposits?

When an institution is designated "undercapitalized" for prompt corrective action purposes, it must receive a waiver from the FDIC to accept, renew or roll brokered funds. Moreover, the rate paid on deposits may not exceed 75 basis points over the local market rate. This creates an important stress scenario that cannot be overlooked.

Can I count on Federal Home Loan Bank advances as a contingency liquidity source?

When a borrower's financial condition begins to deteriorate, any lender may take steps to reduce a possible loss on the loan, such as require additional collateral, reduce the available line or call the loan. If you rely significantly on FHLB advances, consider a reduction in the line as another scenario to test.

Should I consider the discount window in my liquidity contingency planning?

Setting up a borrowing relationship and pledging collateral to the discount window is a sensible component of a contingency liquidity plan. Discount window credit is then available when unexpected events occur. Note, however, that federal law limits the Federal Reserve's ability to provide discount window credit to undercapitalized and critically undercapitalized institutions.

Your bank regulator expects you to adopt a well-thought out policy and implement commensurate practices to control liquidity risk. Having a realistic, tested, contingency funding plan is essential to weather today's volatile financial environment. ■

Tim Bosch is a vice president of the Banking Supervision and Regulation division and Gary Corner is a senior examiner at the St. Louis Fed.

Foreclosure Forums Present Solutions

RECOVERY | RENEWAL
REBUILDING
A Federal Reserve Foreclosure Series

Many cities across the nation had already been struggling with their own problems when the foreclosure crisis hit. The foreclosure crisis wiped out decades of neighborhood stabilization progress in a matter of months, according to Alan Mallach, nonresident senior fellow at The Brookings Institution.

Mallach was one of several hundred participants from community groups, the private sector, various levels of government, and the Federal Reserve System who gathered for a series of foreclosure forums this summer and fall across the country. Some of the common themes that developed include the need to:

- give realistic expectations for all parties concerning scarce funding resources,
- alleviate foreclosures so that properties don't become REO (real estate owned) or lead to evictions,
- develop mutually agreeable plans for vacant property, and
- bring all parties to the table.

The short takeaway from the forums is that each municipality needs a good, localized plan. Youngstown, Ohio, Mayor Jay Williams, who spoke at the final forum Oct. 20 in Washington, D.C., said smart citywide planning is critical. As with many forum speakers, Williams talked about how to use the $3.92 billion Neighborhood Stabilization Program money allocated by HUD (Department of Housing and Urban Development) in September. While the money is welcome, Williams cautioned that during hard economic times, some people think that *any* investment is good investment.

"There *must* be a good plan because resources invested in needy but ill-prepared cities will result in disaster. We have to maintain a pragmatic approach of what we can actually do and when," Williams said. "Using a peanut-butter strategy, where resources are spread thin, will typically fail to achieve measurable successes."

A place at the table. Good planning should include all parties. Bankers, servicers and lenders can and should definitely play a role in community revitalization, said Faith Schwartz, executive director of the nationwide HOPE NOW Alliance. "There needs to be a bridge between servicers and locals to get a grip on these unprecedented volumes and understand each other," Schwartz said at the final forum. Mary Tingerthal of the Housing Partnership Network agreed. "It's apparent that nonprofits alone won't solve this," Tingerthal said at the Washington, D.C., forum. "Even though it's sometimes tough for an angry mayor or nonprofit to call a servicer to talk about a specific property, it's necessary to try to understand the situation from the servicer's point of view."

That's something Jack Bailey can appreciate. As a mortgage officer with Heartland Bank in Chesterfield, Mo., Bailey needs to produce. From the bank's perspective, he's an originator who closes loans. "But it's critical that we plug into what's going on beyond what we're doing," says Bailey, who attended the St. Louis forum, held Sept. 24-25. "The concentrations of foreclosures and vacant properties are quite dramatic—and it's incumbent upon us as individuals and organizations to do something.

"One thing that can help, though, is remembering that every loan—good or bad—is unique, and every issue is a one-on-one situation," Bailey says. Using the tools already at hand—such as offering an FHA loan instead of a prime loan—can help.

Cynthia Jordan, business development representative at Southwest Bank in St. Louis, also attended the St. Louis forum and saw some opportunity. "The forum gave us new ideas and strategies to add to what we are already doing as a community or looking at putting in place," said Jordan, whose bank has a foreclosure task force.

What next? If you're wondering what you can do next, check out what some of the following organizations are doing. (Links go to forum presentations.)

- **HSBC Bank USA:** "Your Home Counts" pilot REO disposition program. See www.stlouisfed.org/RRRseries/event2/Event2_Dallis.pdf.
- **Living Cities:** weak-market programs in Cleveland and Detroit. See www.stlouisfed.org/RRRseries/event4/Event4_Novotny.pdf.
- **Genesee County (Michigan) Land Bank:** vacant property disposition program. See www.stlouisfed.org/RRRseries/event5/Event5_kildee.pdf.

See www.stlouisfed.org/RRRseries for forum notes and PDF files of the presentations. For more on foreclosures, see the Foreclosure Resource Center at www.stlouisfed.org/foreclosure. ■

How Will Fannie and Freddie Operate in the Future?

By William R. Emmons

William R. Emmons is an officer and economist with the Banking Supervision and Regulation division at the Federal Reserve Bank of St. Louis.

The U.S. mortgage market has gone through enormous change during the past few years. Fannie Mae and Freddie Mac, two giant government-sponsored enterprises (GSEs), have been at the center of much of this upheaval. Today, Fannie and Freddie are in an unprecedented and paradoxical position. They dominate mortgage lending to an extent never seen before, yet the firms themselves lie in financial ruin. How will Fannie and Freddie operate in the future?

Fannie, Freddie and the financial crisis. Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Mortgage Loan Corp.) dominated the mortgage market early in the decade, with almost $2.5 trillion of mortgages underwritten to their credit standards—so-called prime conventional/conforming mortgages—during the peak year of 2003. This accounted for 62 percent of all mortgage loans made that year. The surge since early 2007 occurred because other mortgage lenders were contracting or exiting the market altogether. Moreover, Congress increased the loan amounts that Fannie and Freddie could purchase—that is, the conforming-loan limit was raised, creating the new category of "conforming jumbo loans."

Despite their commanding market presence, Fannie Mae and Freddie Mac collapsed into government conservatorship on Sept. 7, 2008, a form of suspended animation in which holders of the GSEs' common and preferred stock were virtually wiped out. But the mortgage operations continued uninterrupted, and all the debt and mortgage-backed securities that the firms issued were guaranteed by the federal government.

How did we get here? Despite many advantages, including an expectation by many market participants that the federal government would not let them fail, Fannie and Freddie badly misjudged the risks involved in mortgage lending. The GSEs and many other mortgage lenders essentially (and foolishly) had assumed that house prices could not decline significantly across the entire country at the same time. Once this began to happen after 2006, the rate of default and the losses lenders suffered on each default began to increase sharply. The initial spike in defaults appeared in subprime mortgages, but, by mid-2008, it had become clear that near-prime and even prime mortgage portfolios were suffering loss rates many times higher than previously expected. Because they held so little capital against unexpected losses, Fannie and Freddie—by far the largest mortgage funders and guarantors in the market—had became insolvent.

The future of Fannie and Freddie. Many people are asking how Fannie and Freddie will operate in the future. No one really knows because the fates of Fannie and Freddie lie with a future Congress. Federal lawmakers must decide whether, and how, to rehabilitate and reform the GSEs.

There are at least four distinct options under consideration. Will we go back to the traditional GSE model, in which the federal government provided numerous financial and competitive advantages to the firms while private shareholders provided equity capital and expected competitive returns on their stock? Will we, instead, liquidate the GSEs' operations and allow the private sector to fill the void created by the disappearance of Fannie and Freddie? Or will we effectively nationalize the former GSEs, operating them much like the Federal Housing Administration (FHA) and Ginnie Mae? Or will the GSEs' huge portfolios be carved up into many small mortgage lenders that are privatized separately with no federal-government preferences or guarantees?

The ultimate decisions on Fannie's and Freddie's fates are sure to be hard-fought politically. Whatever political choices are made, the technical and legal obstacles to a smooth transition likely will be formidable. Yet, the future of mortgage lending in the United States depends critically on how the fates of Fannie and Freddie are resolved. ■

Central Banker Online Compares Present Bank Failures with Collapses during the 1980s

Check out this issue's online-only content at www.stlouisfed.org/cb, including the following:

- Failures of banks, thrifts and other key financial institutions set a record in 2008
- St. Louis Fed President Jim Bullard discusses systemic risk
- Fed examines what the data say about crime rates relative to a community's desirability
- Treasury offers new Treasury Covered Bond Framework
- Major Federal Reserve action reports gathered at new site
- Reg Z fee-based trigger increase takes effect Jan. 1
- Reg R entity compliance outlines bank broker exceptions
- Fed outlines Treasury early ACH/ check deliveries

Senior Bankers: Ask the Fed

The St. Louis Fed recently began a call-in program for senior officers of state-member banks and bank holding companies.

Titled Ask the Fed, the monthly call-in program features representatives of the Fed's Banking Supervision and Regulation division taking your questions following a briefing on a pertinent financial or regulatory topic.

Potential topics include economic updates, liquidity issues, loan losses and causes of financial challenges.

At the present time, the program is by invitation only. If you are a senior officer of a state-member bank or bank holding company and did not receive an e-mail or postcard invitation, contact the St. Louis Fed's Pat Pahl at 314-444-8858 or patrick.pahl@stls.frb.org.

P.O. Box 442
St. Louis, Mo. 63166-0442

Editor
Scott Kelly
314-444-8593
scott.b.kelly@stls.frb.org

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https://www.stlouisfed.org/publications/central-banker/winter-2008/bank-thrift-and-other-key-financial-institution-failures-set-ignominious-standard-in-2008

Views: Bank, Thrift and Other Key Financial Institution Failures Set Ignominious Standard in 2008

William R. Emmons , Andrew P. Meyer

Although the most banks and thrifts have failed during 2008 since 1994, the number of failed institutions is minuscule compared with the number of failures that occurred during the 1980s and early 1990s. (See Figure 1, and the FDIC's failed-bank list for the latest failures.) In the peak year of 1989, there were 534 failures, including 206 banks and 328 thrifts. And even those turbulent years pale in significance when compared with the early 1930s, when more than 1,000 banks failed each year between 1930 and 1933. Indeed, the 4,000 banks that were "suspended" during the single year of 1933 exceed the total number of insured banks and thrifts that have failed since then (less than 3,600).

Yet, 2008 is setting an ignominious standard in another way. The total assets of the 14 banks and three thrifts that had failed by Oct. 24 total about $350 billion, more than in any previous year. The bulk of this total is represented by the assets of Washington Mutual's two thrifts ($307 billion) and IndyMac ($31 billion). These failures, however, are not the first of large banks or thrifts. (See Figure 2.) Adjusting for inflation, the previous peak year for the asset values of bank and thrift failures was in 1989, at $250 billion.

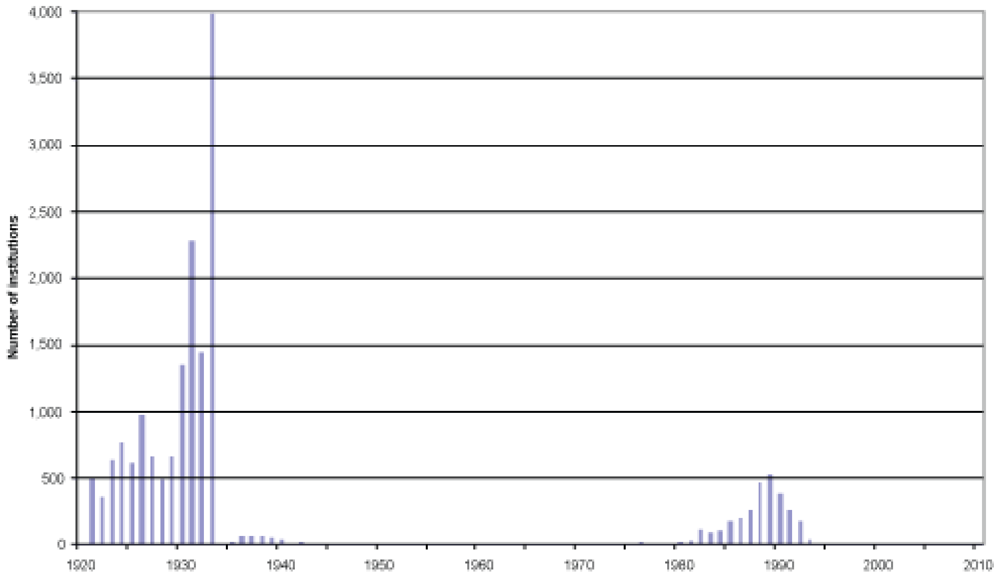
Even more significant are the banks that came very close to failing but were acquired by another bank with government assistance, and the non-depository financial institutions that collapsed or were given special government assistance. Measured by total assets at the parent- or holding-company level at the end of last year, there have been seven major U.S. financial institutions so far that failed, were rescued or were given "open-bank assistance" by the Federal Reserve and/or the Federal Deposit Insurance Corporation (FDIC), or used the Treasury's Capital Purchase Program to avoid failure. (See table.) In several cases, the total assets measurement seriously understates the scope of their operations and their importance to the financial system. The largest of these institutions was AIG, a global insurance and financial-services company with more than $1 trillion of assets. Six of the seven financial institutions were larger than the largest depository institution ever to fail, Washington Mutual.

If we add the 17 bank and thrift failures during 2008 to these seven major firms that collapsed or were rescued with government assistance, the value of total assets of financial failures (or virtual failures) this year exceeds $5 trillion—which we estimate may be *greater than the total assets of all previous financial failures in the history of the United States.*

Moreover, these figures do not reflect the full extent of government intervention into the financial system this year. The Federal Reserve and the federal government have expanded direct lending to a wide range of financial firms through the Fed's discount window and by providing liquidity backstops for money-market mutual funds and commercial-paper markets. In sum, 2008 sets an unfortunate standard for financial failures and government intervention into financial markets—one we all hope will never be repeated or exceeded.

Figure 1

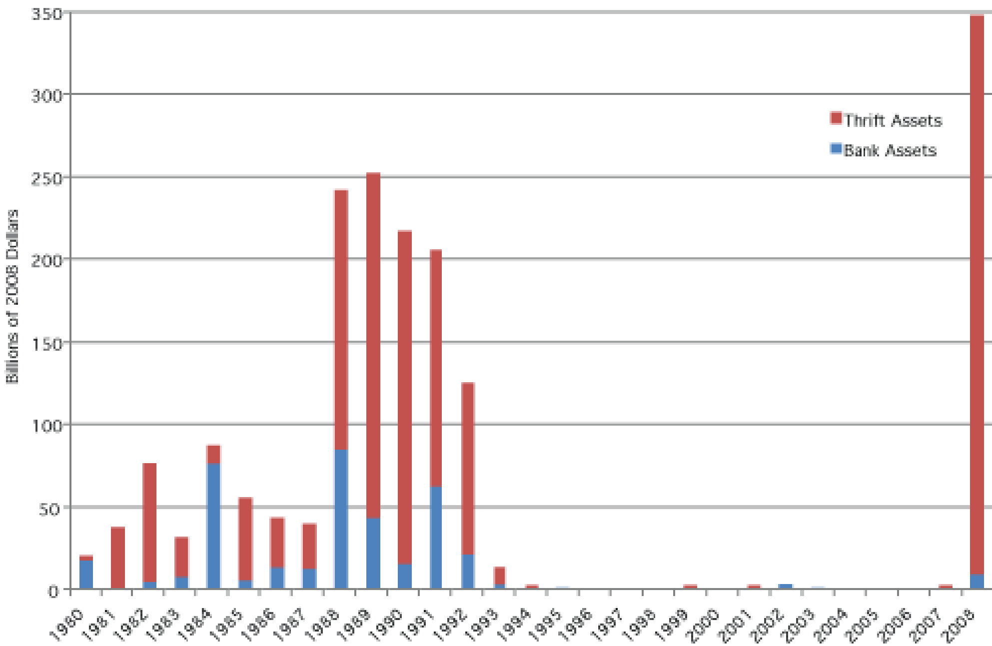
Bank Suspensions (1921-1933) and Bank and Thrift Failures (1934 to Present)



SOURCES: Milton Friedman and Anna Schwartz, *A Monetary History of the United States* (1963) for 1921-1933, FDIC (2008) for 1934-2008. Note that present-day failures can barely be seen in this chart in comparison to the previous ones.

Figure 2

Assets in Bank and Thrift Failures (Billions of 2008 Dollars) 1980 to Present



SOURCE: FDIC

Table

Major Financial Firms That Failed, Were Rescued by the Federal Reserve or the Federal Government, Were Acquired With Extraordinary Federal Assistance, or Were Acquired in Connection with the Treasury's Capital Purchase Program During 2008 (through Oct. 24)

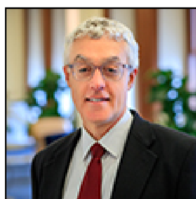
Name	Type of institution	Holding-company assets at end of 2007 financial year (billions of dollars)
AIG	Insurance company/financial conglomerate	$1,061
Fannie Mae	Government-sponsored enterprise	883
Wachovia*	Financial holding company/commercial bank	783
Freddie Mac	Government-sponsored enterprise	764
Lehman Brothers	Securities firm/investment bank	660
Bear Stearns	Securities firm/investment bank	395
National City**	Financial holding company/commercial bank	150
	Total assets	**$4,696**

SOURCE: Company financial statements.

* Government-assisted takeover by Citigroup was withdrawn in favor of takeover by Wells Fargo.

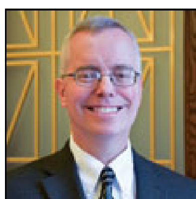
** Takeover by PNC Corp. was assisted by the Treasury's Capital Purchase Program.

ABOUT THE AUTHORS



William R. Emmons

Bill Emmons is an assistant vice president and economist in the Supervision Division at the Federal Reserve Bank of St. Louis.



Andrew P. Meyer

Andrew Meyer is a senior economist at the Federal Reserve Bank of St. Louis.

CENTRAL BANKER | WINTER 2008
https://www.stlouisfed.org/publications/central-banker/winter-2008/st-louis-fed-president-jim-bullard-discusses-systemic-risk

Views: St. Louis Fed President Jim Bullard Discusses Systemic Risk

Systemic risk can be a tricky term to define, but it's one that is getting much attention following the recent shake-ups in our economy, St. Louis Fed President Jim Bullard said Oct. 2 in a speech to faculty members and graduate students in economics at Indiana University—Bloomington.

"Systemic risk is often associated with incomplete information," Bullard said. "In the case of a banking system, systemic risk can arise when a bank's depositors—even relatively sophisticated depositors, such as other banks—become unsure about the condition of the bank in which they hold their funds." (Read the full text or watch a video of the speech. Bullard's remarks start about 11 minutes into the clip.)

Greater supervision of financial firms, Federal Reserve oversight of the payments and settlement system, and creation of an orderly framework to liquidate investment banks and other securities firms might decrease systemic risk, Bullard said. No firm, though, should be considered too big or too connected to fail because of systemic concerns, he said.

"Bailouts are expensive—not just because they commit taxpayer funds, but because they can encourage behavior that increases subsequent systemic risk," Bullard said. "A firm that expects government protection if its investments go awry may take bigger gambles than a firm that expects no protection."

For more from Bullard, see his speeches and "Worry Less about Systemic Risk, More about Inflation" in the October 2008 *Regional Economist.*

CENTRAL BANKER | WINTER 2008
https://www.stlouisfed.org/publications/central-banker/winter-2008/fed-research-examines-poverty-concentrations-in-america

Views: Fed Research Examines Poverty Concentrations in America

Concentrated poverty in America—those pockets of dense, crippling poverty exemplified by photos coming out of New Orleans after Hurricane Katrina—is the focus of new research from the Federal Reserve.

The report, *The Enduring Challenge of Concentrated Poverty: Case Studies from Communities Across the U.S.*, highlights themes that are common in all of the low-income communities that were studied: lack of human capital development, high unemployment and inadequate housing. However, concentrated poverty occurs in varying social and economic contexts and the need for tailored strategies to tackle the problem is clear, according to the report.

The Federal Reserve collaborated with the Brookings Institution's Metropolitan Policy Program to study the issue. While concentrations of poor people living in poor neighborhoods have been observed in large cities, concentrated poverty also exists in smaller cities, immigrant gateways, suburban municipalities and rural counties. The resulting report contains case studies, undertaken by the Federal Reserve System's Community Affairs Offices, of 16 high-poverty communities.

One of the case studies focuses on Holmes County, Miss., located in the Federal Reserve's Eighth District. With a poverty rate that stood at more than 41 percent in 2000, Holmes County is both geographically and economically isolated.

While the communities were diverse, four common factors emerged: poverty became concentrated over time, and decades of disinvestments are difficult to turn around; residents are often isolated from the larger community, and local organizations lack the resources to meet the community needs; many of these neighborhoods experienced significant demographic changes, such as an increase in immigrant households, a rise in single-parent families, or both; and, these communities exist in both weak and strong regional economies.

High-poverty communities included in the report are: Albany, Ga.; Atlantic City, N.J.; Austin, Texas; Blackfeet Reservation, Montana; Cleveland, Ohio; El Paso, Texas; Fresno, Calif.; Greenville, N.C.; Holmes County, Miss.; Martin County, Ky.; McDowell County, W.Va.; McKinley County, N.M.; Miami, Fla.; Milwaukee, Wis.; Rochester, N.Y.; and Springfield, Mass. The report's findings will help the Federal Reserve in its ongoing work with community development partnerships in these areas.

Read the full report. Single copies of the publication are free from: Publications, Mail Stop 127, Federal Reserve Board, 20th and C Streets, N.W., Washington, DC 20551; or by calling 202-452-3245.

CENTRAL BANKER | WINTER 2008
https://www.stlouisfed.org/publications/central-banker/winter-2008/new-fed-study-examines-crime-rates-at-the-city-level

Views: New Fed Study Examines Crime Rates at the City Level

Whether a community is perceived as a desirable place to live and visit is determined, in part, by its crime rates. Naturally, crime rates are important to a community's economic success and have been the topic of numerous academic studies. Most of these have used data at the county, state or national level to explore long-term relationships between economic conditions and crime and between deterrence and crime.

A new study from the Federal Reserve Bank of St. Louis, *Local Crime and Local Business Cycles,* narrows the data down to the *city* level and looks at whether economic conditions and deterrence affect the short-term growth rates of seven major crimes: murder, rape, assault, robbery, burglary, larceny and motor vehicle theft. Authors Tom Garrett, St. Louis Fed economist, and Lesli S. Ott, senior research associate, zero in on monthly data for 23 large cities in the United States, including St. Louis, Memphis, Little Rock and Louisville.

Overall, Garrett and Ott found little evidence that changes in a city's economic conditions or its number of arrests significantly affected short-term crime rates. This suggests that short-run changes in economic conditions do not induce individuals to commit crimes. That being said, the authors did find that short-term economic changes in some of the cities influenced crimes against property. "This likely reflects the fact that nonviolent property crimes are more likely to result in financial gain than violent crimes," the study says.

The authors also found strong evidence that law enforcement reallocates its resources in response to increases in crime, especially those that are more visible to businesses and tourists, such as robbery, vehicle theft and assault.

Finally, the study revealed that relationships between economic conditions and crime and between deterrence and crime are not likely to be the same across cities or regions. This suggests that, to implement effective public policy at the local level, it is important to conduct local analyses, using more disaggregated data.

The report is available at www.stlouisfed.org/community. For a print copy, call the Fed's Cynthia Davis at 314-444-8761. Garrett is making presentations on the report in the Eighth District. The next meeting is Dec. 9 in Memphis.

CENTRAL BANKER | WINTER 2008
https://www.stlouisfed.org/publications/central-banker/winter-2008/more-term-auction-facility-funds-available-to-discount-window-borrowers

Tools: More Term Auction Facility Funds Available to Discount Window Borrowers

To address the disruptions in the financial markets, the Federal Reserve has enhanced its funding support for financial institutions, including expansion of the Term Auction Facility (TAF).

On Oct. 6, the Board of Governors announced that the sizes of both 28-day and 84-day TAF auctions would be boosted to $150 billion each. These increases will eventually bring the amounts outstanding under the regular TAF program to $600 billion. In addition, forward TAF auctions were conducted in November to extend credit over year-end. The size of these auctions totaled $150 billion each, so that $900 billion of TAF credit will potentially be outstanding over year-end.

For further information regarding TAF auctions, contact our discount window staff at 314-444-8444 or toll-free at 866-666-8316 or visit the Federal Reserve discount window web site.

CENTRAL BANKER | WINTER 2008
https://www.stlouisfed.org/publications/central-banker/winter-2008/treasury-can-authorize-early-redemption-and-ach-files-delivery

Tools: Treasury Can Authorize Early Redemption and ACH Files Delivery

In late August and early September, the U.S. Department of the Treasury took unusual efforts to ensure that individuals in areas affected by hurricanes Gustav and Ike were able to receive their federal benefit payments early.

The postal service delivered checks early in areas affected by evacuation orders, and ACH files were delivered early to financial institutions in those areas. In addition, financial institutions in affected areas also were authorized to redeem EE and I savings bonds less than one year old presented from September 2008 through November 2008.

Treasury hoped to ensure that those facing hardships from the hurricanes did not face the additional hardship of being unable to access their funds when they were needed.

Announcements of this nature can be found at www.frbservices.org under the Treasury Services heading.

CENTRAL BANKER | WINTER 2008
https://www.stlouisfed.org/publications/central-banker/winter-2008/use-these-guidelines-if-youre-interested-in-using-covered-bonds

Tools: Use These Guidelines if You're Interested in Using Covered Bonds

During the summer, the U.S. Treasury and Fed introduced the covered bond framework to encourage additional sources of financing within the mortgage market and strengthen financial institutions.

A covered bond is a secured debt instrument that provides funding to a depository institution, collateralized by high-quality mortgage loans that remain on the issuer's balance sheet. The Treasury, Federal Reserve, FDIC, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Securities and Exchange Commission collaborated to create a best practices guide for covered bonds.

See the press releases if you're interested in beginning a covered bond program at your institution. Also see Fed Gov. Kevin Warsh's remarks on the covered bond framework.

CENTRAL BANKER | WINTER 2008
https://www.stlouisfed.org/publications/central-banker/winter-2008/follow-major-federal-reserve-actions

Tools: Follow Major Federal Reserve Actions

The Fed now pays interest on depository institutions' required and excess reserve balances; there is now a Commercial Paper Funding Facility; the Fed lends billions of dollars to AIG—but not Lehman Brothers; and Freddie Mac and Fannie Mae are now in conservator status.

Are you keeping it all straight?

With major Federal Reserve actions, economic decisions and related events coming in a flurry since late summer, the Board of Governors created a comprehensive web page encompassing all of the news and decisions. Here, you'll find links to press releases, *Federal Register* notices, relevant speeches and congressional testimony, and other related information. Materials are organized by date.

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CENTRAL BANKER | WINTER 2008
https://www.stlouisfed.org/publications/central-banker/winter-2008/regulatory-roundup

Regulatory Roundup

The following are regulatory changes of note that bankers should keep in mind:

Reg Z Fee-Based Trigger Increase Takes Effect Jan. 1

Effective Jan. 1, the dollar amount of the fee-based trigger under the truth in Lending Act (Regulation Z) will increase to $583.

This adjustment does not affect the new rules that the Board adopted in July 2008 for higher-priced mortgage loans, the coverage of which are determined using a different rate-based trigger.

The Home Ownership and Equity Protection Act of 1994 restricts credit terms, such as balloon payments, and requires additional disclosures when total points and fees that the consumer pays exceed either the fee-based trigger or 8 percent of the total loan amount, whichever is larger.

Bank Broker Exceptions Outlined in Reg R Entity Compliance

If your institution is engaging in broker-related activities, see the Fed's Small Entity Compliance Guide issued earlier this year.

The guide is issued under Regulation R, which implements certain key exceptions for banks from the term "broker" The exceptions include:

- certain third-party networking arrangements,
- trust and fiduciary activities,
- deposit "sweep" activities, and
- custody and safekeeping activities.

Any bank that wants to rely on one of these exceptions or exemptions to the definition of broker should review and understand the terms, limits and conditions to the particular exception or exemption.