THE FEDERAL RESERVE BANK of ST. LOUIS

Central Banker

FALL 2003

News and Views for Eighth District Bankers

Banker Outreach Sessions Focus on Reducing Regulatory Burden

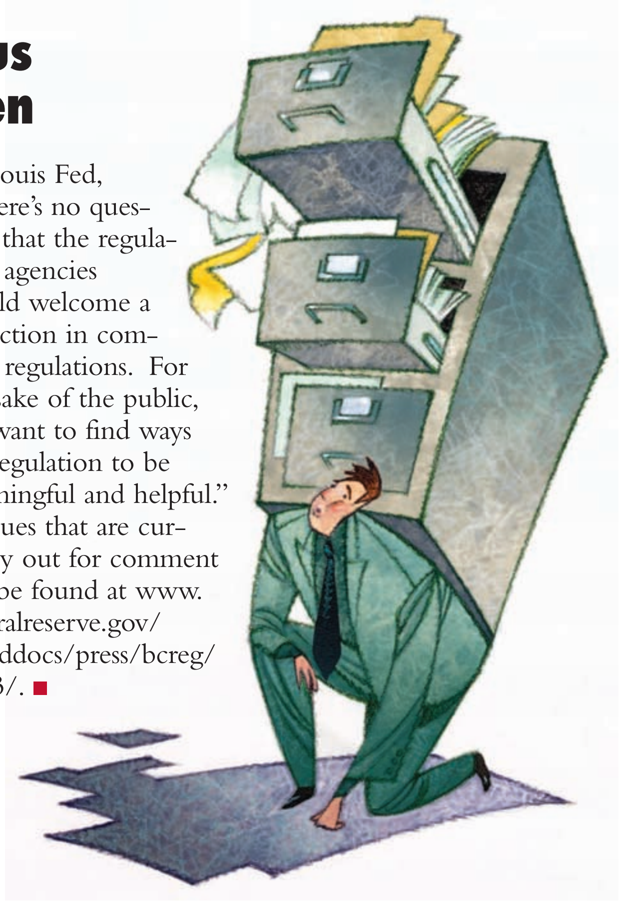
About 60 Midwestern bankers met in St. Louis during June to voice their opinions on opportunities to reduce regulatory burden. The meeting was one of five outreach sessions sponsored by the FDIC and is part of a mandated, multiyear, multiagency effort to identify and eliminate outdated, unnecessary or overly burdensome bank regulations.

The sessions are designed to put important issues in front of bankers so they will participate in upcoming public comment processes. Overall, the St. Louis session was positive, but some bankers raised a number of concerns.

Many bankers from smaller institutions stated that regulations are particularly burdensome and disproportionately costly for them. They expressed the most concern over certain consumer compliance regulations. They also said they would prefer no change at all in regulations vs. small, incremental changes, which wouldn't provide enough benefit to make up for the time and money involved in altering their processes.

According to Julie Stackhouse, senior vice president of Banking Supervision and Regulation at the St. Louis Fed, "There's no question that the regulatory agencies would welcome a reduction in complex regulations. For the sake of the public, we want to find ways for regulation to be meaningful and helpful."

Issues that are currently out for comment can be found at www.federalreserve.gov/boarddocs/press/bcreg/2003/. ■



Are You Ready for a Changing Payments System?

The Sales and Marketing departments of the Fourth and Eighth Federal Reserve districts are holding a payments symposium on Nov. 18-19 at the Opryland Hotel in Nashville. All bank CEOs and key executives are encouraged to attend this free conference and network with industry experts, senior Fed officials and other banking executives.

This year's theme is "Payments in a Changing World—Are You Ready?" The keynote speaker is Denny Carreker, chairman and CEO of Carreker Corp., a leading provider of technology and consulting solutions for the financial industry. Carreker will speak on existing payment mechanisms and future needs. Other topics that will be discussed during the symposium include:

- how Check 21 and check-to-ACH conversion will influence the payments system;
- new directions in retail payments; and
- changing practices of generating revenue in the banking industry.

For more information, contact Debbie Boren at (314) 444-8496 or 1-800-333-0810, ext. 44-8496. To view the agenda or to register online, go to www.stlouisfed.org/financial. ■

Feditorial

The Cash Restructuring Initiative: It's a Matter of Efficiency

By LeGrande Rives, first vice president of the Federal Reserve Bank of St. Louis

We've made some difficult decisions this year. In February, we announced that Little Rock and Louisville check-processing services will be moving to Memphis and Cincinnati, respectively, by the end of 2004.

The loss of check-processing revenues would force us to rely upon cash-processing services to support these two branches. That's neither practical nor efficient so, we must discontinue Little Rock and Louisville cash-processing operations, also by the end of 2004.

This move will save the St. Louis Fed approximately $3.4 million a year, which is in addition to the $4.9 million annual savings realized from the check re-engineering initiative. While these savings are very important, you have my assurance that this initiative will not come at your expense. Financial institutions that process cash through either Little Rock or Louisville should notice little change in their service. We will contract with local third-party providers and use their facilities, allowing institutions to drop off and pick up cash in each city.

Despite the elimination of cash- and check-processing services, the St. Louis Fed is committed to maintaining an active presence in both cities. We will expand our community outreach, economic education and community development activities, and each Branch will maintain its own board. Our directors provide extremely valuable knowledge and insight into their businesses and regional economies, which, in turn, shape our monetary policy recommendations.

As for the affected cash employees, we want them to remain with the Fed through the transition so, we've offered them the same retention benefits and severance packages as our check employees. This will ensure that each Branch continues to operate fully and efficiently.

Once the transition is complete, the Little Rock and Louisville branches will have a small staff headed by a senior executive. We're considering several options, such as selling the branch buildings and moving to leased quarters in both cities, but it will take some time to work out the details. For upcoming announcements, visit our web site, www.stlouisfed.org. ■

Senate Seeks to Improve Financial Literacy

The Consumer Federation of America (CFA) released a new survey on July 28, which showed that most Americans have little or poor knowledge about credit reports and credit scores. The survey found that only 25 percent of Americans knew their credit score, with minority populations, young adults and those of low or moderate income the least knowledgeable. Three recent bills have been introduced to change this.

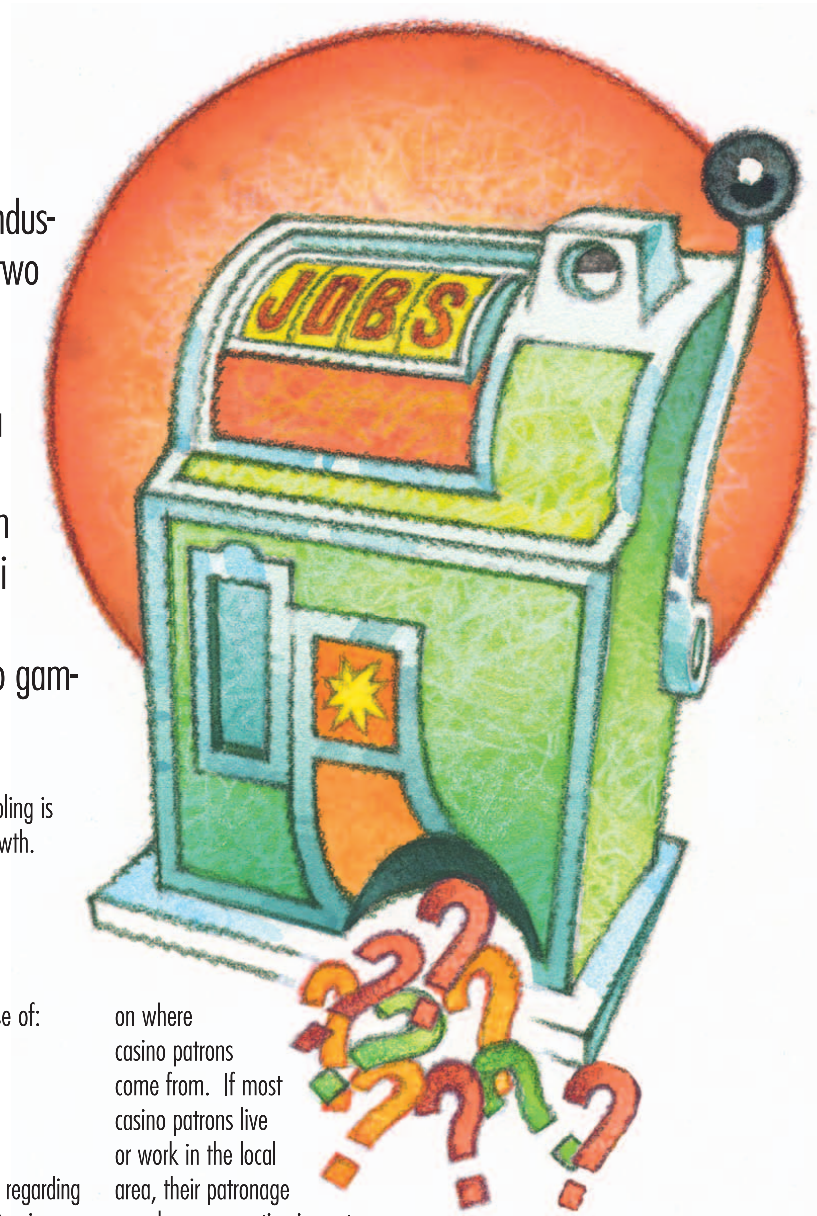
Sens. Debbie Stabenow, D-Mich., and Michael Enzi, R-Wyo., introduced a bill (S. 1532) to establish the Financial Literacy Commission. If enacted, the legislation would establish one central location—most likely, a web site and toll-free number—where consumers could access a range of consumer information and financial literacy programs currently offered by at least 16 branches of the federal government.

The Senate Banking Committee's ranking member, Sen. Paul Sarbanes, D-Md., and Sen. Jon Corzine, D-N.J., introduced a bill (S. 1470) to establish the Financial Literacy and Education Coordinating Committee. If enacted, the legislation would create a committee within the Treasury to better coordinate financial information offered by various levels of government as well as the private sector.

Corzine also introduced the Youth Financial Literacy Act (S. 1181) to make youth financial education a priority in our schools. If enacted, $100 million in grants would be distributed to states for teacher preparation and the development and implementation of financial-education programs in elementary and secondary schools. ■

Employment Effects of Casino Gambling in the Eighth District

Casino gambling has become a major industry in the United States over the past two decades, amassing revenue of $27 billion in 2001. Prior to the early 1990s, casino gambling was legal only in Nevada and Atlantic City, N.J. Riverboat casino gambling first began in Iowa and Illinois in 1991; it now exists in Indiana, Mississippi and Missouri. Additionally, Louisiana and Michigan have legalized land-based casino gambling within the last decade.



The primary reason many states have legalized casino gambling is because casinos are seen as a potential tool for economic growth. The greatest perceived benefits are:

- increased employment,
- greater tax revenue for state and local governments, and
- growth in local retail sales.

Casinos also have gained more appeal and acceptance because of:

- increased fiscal pressures on state budgets during the 1990-91 recession,
- the fear of lost revenue to neighboring states' casinos and
- a more favorable public attitude.

Recent research from the St. Louis Fed discusses several issues regarding the potential effects of casino gambling on local employment. One issue is the casino's location and the required skill level of its work force. Most casino jobs require skills such as accounting, dealing cards or security.

If a casino is planning to move to a rural area that has few residents with the required skills, then the casino probably will draw skilled labor from outside the area. If workers remain outside of the local area and commute to the casinos, then local unemployment will remain unchanged. If, however, some of this skilled labor decides to move near the casino, then the local unemployment rate will fall because the number of local residents employed has increased.

It is the latter scenario that often is used as evidence that casinos have improved local employment, but this is misleading. Unemployment for the original population essentially remains unchanged—only the new arrivals have found employment with the casino, and this is what decreases the unemployment rate.

Another issue is the effect of casino gambling on non-casino employment. When a new casino opens, existing local businesses may close, resulting in layoffs. However, new businesses may open—ones that complement casinos, such as restaurants and hotels.

Past research has provided mixed evidence, but researchers generally agree that a casino's impact on local business and employment depends on where casino patrons come from. If most casino patrons live or work in the local area, their patronage may have a negative impact on local businesses because they can spend their money at the casino rather than at local businesses. However, if the casino is part of a tourist attraction that brings in patrons from outside the area, this new money may foster increased business activity in the local area.

Our research estimated the employment effects of casino gambling in four rural counties and two urban counties, most of which are located in the Eighth District. As a direct result of adopting casino gambling, three of the four rural counties experienced increased household employment (the number of people in a county who are working regardless of location) and payroll employment (the number of jobs in a county, regardless of employees' residence). This seems to be true even though casino employment is usually dispersed over several counties outside the home county. We also found that employment gains are much greater in the rural counties that have adopted casino gambling as a major or predominant industry.

Our research also indicates that it's harder to detect the impact of casino gambling in urban areas because employment fluctuates more, and casinos only constitute a small portion of total employment. However, urban casino gambling can constitute a significant portion of net payroll employment gains or losses, even though it is a minor industry. ■

RegionalRoundup

Eighth District Announces Check Restructuring Dates

Bank President Bill Poole and First Vice President LeGrande Rives have announced the schedule for restructuring check processing across the Eighth District. Little Rock's check processing operations will be consolidated to Memphis in July 2004, and Louisville's operations will shift to Cincinnati in August 2004. ■

Federal Reserve Launches New HMDA Web Site

The Federal Reserve Bank of St. Louis recently released a new web site, which describes the Regulation C amendments that are effective for calendar year 2004 HMDA data. This national web site supplements the FFIEC HMDA web site but does not replace it. It provides practical guidance for compliance personnel, plenty of examples and a page of frequently asked questions. To find out more about collecting and reporting calendar year 2004 HMDA data, visit www.stlouisfed.org/hmdaregcamendments/default.html. ■

St. Louis Fed Offers Seminars on FR 2900

The St. Louis Fed will be holding seminars to teach bank operations staff how to properly complete the Report of Transaction Accounts, Other Deposits and Vault Cash (FR 2900). Participants will hear about changes to the report, discover what should be included in each line item, learn about the connection between their bank's FR 2900 report and their reserve requirements, and see how to use web-based applications and online tools.

Seminars will be held at the following dates and places:

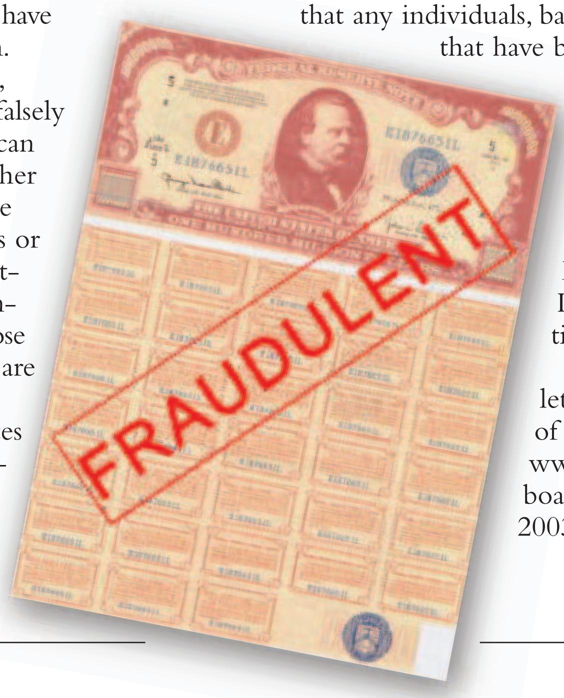
- Sept. 17 - Louisville
- Sept. 24 - Memphis
- Oct. 1 - St. Louis

The seminar is free, and a continental breakfast and lunch will be provided for all participants. For more information, contact Sue Horton at (314) 444-8743, or 1-800-333-0810 ext. 44-8743. ■

Federal Reserve Board Issues W arning about Fraudulent Federal Reserve Note Schemes

The Federal Reserve Board issued a supervisory letter on July 16, warning examiners and bankers of the growing use of altered Federal Reserve notes in illicit investment schemes. The worthless notes have face values of astronomical amounts—$1 billion, $100 million or $50 million—and have coupons attached to them.

According to the letter, "wrongdoers have been falsely claiming that the 'notes' can be taken to banks and other financial institutions to be used to collateralize loans or traded as part of an investment program. They cannot be used for any purpose whatsoever because they are entirely bogus."



Because the phony notes are in such high denominations, one would assume that the public wouldn't easily be fooled; however, the perpetrators of the frauds often claim that the altered notes they hold are very special. Ploys might include saying that the notes are part of a secret trove issued by the Fed that has been hidden abroad for decades.

Federal law enforcement authorities ask that any individuals, banks or other entities that have been contacted about the fraudulent notes contact their local office of the FBI, U.S. Secret Service, U.S. Bureau of Immigration and Enforcement or the IRS' Criminal Investigation Division.

To view this supervisory letter and an image of one of the bogus notes, go to www.federalreserve.gov/boarddocs/SRLETTERS/2003/sr0314.htm. ■

What Can We Learn from Consumer Confidence Surveys?

By Jeremy M. Piger, economist, and Michelle T. Meisch, analyst, Research

(An earlier version of this article was published in the April 2003 edition of *The Regional Economist*. To view this article, go to www.stlouisfed.org/publications/re/2003/b/pages/confidence.html.)

Every month, the two primary measures of U.S. consumer confidence, the University of Michigan's Index of Consumer Sentiment and the Conference Board's Consumer Confidence Index, are released with much media fanfare. Consumer confidence is a catchall phrase that describes the opinions and attitudes consumers have about the economy's current and future strength.

The attention these indexes receive often centers on the potential information they contain regarding current and future economic conditions. In other words, changes in these indexes are often thought to foreshadow changes in economic conditions in broad terms.

The University of Michigan and the Conference Board both measure consumer confidence by asking five questions to a random sample of consumers. These questions cover individual sentiments regarding current and expected future conditions, as well as the individual's personal financial situation. After the surveys are conducted, the responses are aggregated into a single number called an index of consumer confidence.

The figure shows the Conference Board's Consumer Confidence Index measured from the late 1960s to the present, and the shaded bars indicate the time periods our economy has been in recession. As is evident from the figure, consumer confidence falls sharply whenever the economy goes into a recession, while it is at increasingly high levels during an expansion. Additionally, consumer confidence often peaks *before* the economy enters a recession.

Several research studies have investigated how much advance information consumer confidence indexes can provide. One study, by Philip Howrey, asked whether consumer confidence correlates to current economic conditions. He tested whether predictions of current-period consumption growth—the measure believed to be most closely related to consumer sentiment—can be improved by using results from the Michigan confidence index from that same period.

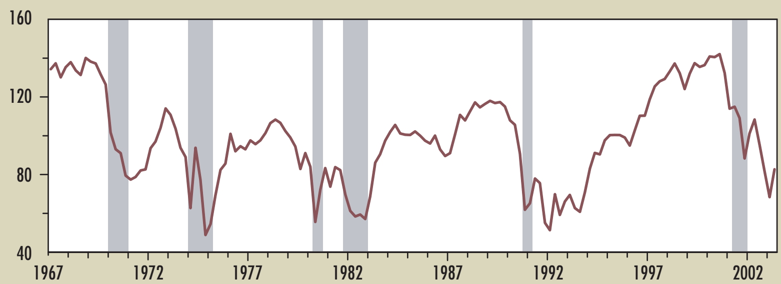
The answer to this question is important because consumer confidence reports are released at the end of the month measured, while most other economic data reports lag anywhere from a month or more. Thus, if the information inside consumer confidence reports truly is representative of current economic activity, then the reports would provide an early indication of the economy's strength. This study's results indicated that the indexes do provide some useful information for predicting the value of consumption growth; however, the improvement is generally small.

A second study, by Christopher Carroll, Jeffrey Fuhrer and David Wilcox, asked whether consumer confidence might predict future economic activity. This study tested whether the value of the University of Michigan index from the previous month—for instance, January—was able to improve forecasts for the next month's consumption growth—for instance, February. The study found that when consumer confidence is the *only* variable used in the forecast, it can significantly improve forecasts. However, once other widely available data are taken into consideration, consumer confidence increases the forecast's accuracy only marginally.

There's little question that today's consumer confidence indexes do give meaningful clues to the economy's strength; nevertheless, the data do not contain super-forecasting powers. If an economic forecaster had only consumer confidence data at her disposal and nothing else, she could use those measures to provide an educated guess about the economy's strength in broad terms. But we need to remember that the ability of consumer confidence to improve economic forecasts is modest at best, especially when considered along with other forecasting information. ■

Conference Board Consumer Confidence Index

(Shaded areas indicate U.S. recession dates)



FedFacts

Banking on Our Future

St. Louis Fed President Bill Poole and Operation HOPE Chairman John Bryant spoke to St. Louis-area children at the Herbert Hoover Boys and Girls Club on June 18. The two taught a lesson from the "Banking on Our Future" classroom curriculum—the only face-to-face economic literacy program taught year-round in public schools at no cost to the schools.

The program, which was developed by Operation HOPE, is available in English and Spanish. It uses a growing network of volunteer bankers to teach four core modules:

- the basics of banking,
- how to open and maintain a checking and savings account,
- the importance of credit and
- the power of investments.

Operation HOPE is a non-profit self-help organization that collaborates with leading government, private sector and community interests. Its goal is to bring economic self-sufficiency and revitalization to America's inner city communities. Federal Reserve Chairman Alan Greenspan and several Reserve bank presidents are participating in Operation HOPE programs across the country.

Mark Your Calendar for Fed Exchange

Fed Exchange is a regional information-sharing event for the Financial Services customers in the Fed's Fourth and Eighth districts. Here are the dates and locations for the fall 2003 series:

Sept. 9
Four Points By Sheraton | *Mars, Pa.*

Sept. 10
Holiday Inn Select | *Memphis*

Sept. 16
Embassy Suites | *Lexington, Ky.*

Sept. 17
Holiday Inn Airport/South | *Louisville*

Sept. 23
Holiday Inn | *Independence, Ohio*

Oct. 7
Holiday Inn South County Center | *St. Louis*

Oct. 22
Embassy Suites | *Dublin, Ohio*

Oct. 23
Embassy Suites | *Little Rock*

CalendarEvents

UPCOMING FED-SPONSORED EVENTS FOR EIGHTH DISTRICT DEPOSITORY INSTITUTIONS

Fair Lending Meeting
Sept. 11, 2003—Collinsville, Ill.
8:30 a.m. to 11 a.m.

Madison and St. Clair county lenders in Illinois will hear about recent changes to the Home Mortgage Disclosure Act. Of special interest will be a panel discussion among bank examiners from the St. Louis Fed, the FDIC and the OCC. For more information, contact Jean Morisseau-Kuni at (314) 444-8646, or 1-800-333-0810, ext. 44-8646.

Small Business Innovation Research Program
Sept. 18, 2003—Evansville, Ind.
11:30 a.m. to 1:30 p.m.

This seminar will explain how the Small Business Innovation Research Program assists small businesses in selecting appropriate research topics, preparing proposals and identifying resources. For more information, contact Faith Weekly at (502) 568-9216.

Third Annual St. Louis Community and Lender Investment Fair
Sept. 23, 2003—St. Louis
11:30 a.m. to 1:30 p.m.

This fair will showcase investment opportunities and resources for St. Louis-area financial institutions and community development organizations. For more information, contact Matt Ashby at (314) 444-8891, or 1-800-333-0810, ext. 44-8891.

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