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FEDERAL RESERVE PRESIDENTS PANEL

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PARTICIPANTS:

Moderator:

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Senior Chairman
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Panelists:

DR. RAPHEAL BOSTIC
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P R O C E E D I N G S

MODERATOR: The leaders in the banking industry join us for discussion. It's the Presidents of the three Federal Reserve Districts. Esther George is the President and CEO of the Kansas City Federal Reserve Bank. Esther has been President of the Kansas City Fed for about eight years and is Executive Sponsor of the Fast Advance Task Force, as well as an alternate voting member of the Federal Open Market Committee.

Dr. Raphael Bostic, President and CEO of the Atlanta Reserve Bank. He has been President there since 2017 and he serves on the Open Market Committee. The Atlanta Bank also operates the Retail Payments Office of the Federal Reserve.

And we have Charles Evans who is President of the Chicago Federal Reserve Bank and Charles has been President of the Chicago Fed for 11 years and they also play a key role in retail payments in the Fed system. Charles is also an alternate voting member on the Open Market Committee.

I'm very appreciative of all of them making it here and blazing through the winter storms that have started already out in the mid-west. So we're very appreciative. Moderating the panel is Rodgin Cohen who should need no introduction to all of you. Rodgin is Senior Chairman of Sullivan & Cromwell and a longtime advisor to the Clearing House and its number of banks. So I'm going turn it over to you, Rodgin. Thank you.

MR. COHEN: Thank you and good afternoon. We're all fortunate to hear from, and I am privileged to moderate, the Federal Reserve Bank Presidential panel. Now the structural debate at the origin of the Federal Reserve System was intense, but whether it was genius, politics, or luck or probably a combination of all three, the Reserve Bank approach, then merge, has helped produce a financial system that has been interval to this nation's economic success. And one of the home marks of that system has been quality of the Federal Reserve Bank Presidents. They have produced, not only student financial, economic, and regulatory judgements, but important balance. And I think you will all see these qualities on exhibit today.

I do have a series of prepared questions, but I would also invite each of our panelists to respond to any of the other President's comments and we'll try and reserve a few minutes for audience questions. So to begin with, something on everybody’s mind, each is from a different area of the country and could I ask that you start with some insights into how the economy is doing in your particular area of the country and I'll just go that way, right to left.

MS. GEORGE: Alright. I want to thank the Clearing House for inviting us. I appreciate the opportunity to be here. I do serve a region of the country that is quite squarely in the middle of the U.S. A seven state region that is largely driven by industries like agriculture, energy, transportation including the aerospace manufacturing industry there. And that is a region of the country that is doing very well, but for the ag sector. We continue to see in feedback from our business contacts and others in that region, a fair amount of concern about shortages of labor and their ability to fill positions in the region to carry out manufacturing a number of things. So that’s become really a key issue in that part of the country with a very low unemployment rate right now.

Energy also is a big focus for us and again, as the price of oil rises and falls so do the region’s economy in many ways. We have seen tremendous amount of capacity come out of that region in terms of the preventive capability of energy and we watch that very carefully.

And finally I would just say from the ag sector, you know, a predominant focus largely rule part of the country and for the last several years farm income has been quite depressed as commodity prices have fallen and on top of that more recently some trade issues with China, which will not help at all.

So, overall good, some sectors like ag is suffering, but a good part of the country to try to take (inaudible).

MR. EVANS: Okay our Chicago district is all in the mid-west. We've got five states, Illinois, Indiana, Michigan, Wisconsin, and Iowa. And so we've got a lot of manufacture activity. We've got a lot of automobile production and as everybody knows General Motors made some news yesterday about the closing of five General Motors plants, not all of them were in our district.

I believe I looked on the program last night and you had a speaker, the author of the book Jamesville. Jamesville is exactly the same type of subject where there was a General Motors plant and looking at the relocations of all the auto workers. And so, there are definitely challenges there, but having said that, the auto sector is strong. Throughout the recovery they've been an important part of the strength. Our recovery has, sort of, plateaued at this point. There seem to be more challenges. That's a big part of our district.

Chicago has a lot of national business that runs through Chicago, transportation, logistics, corporate headquarters, and so as the U.S. is doing, Chicago has done fairly well as well. We also have the equipment manufacturers, Deere, Caterpillar, Cummins engine, and others and so they've been challenged to some extent because of the low agricultural prices that Esther mentioned and other things, but labor is something that we hear from all of our business contacts and advisory council members.

It's difficult to come by high skilled workers. The unemployment rate is 3.7 percent. I think that's a terrific outcome, but businesses are certainly struggling with that.

DR. BOSTIC: Good afternoon everyone. I

oversee the 6^{th} District, which is in the southeast, so that's Florida, Georgia, Alabama, Mississippi, Louisiana, and Tennessee, parts of the last three. And if you look at the 6^{th} District it is basically a micromodel of the U.S. economy. So the distribution of industries and sectors in the 6^{th} District almost exactly mirrors the distribution of sectors and industries in the U.S. economy. So what you see with the U.S. is pretty much what you're going to see in the 6^{th} District and so that's pretty much what's happening.

The one thing I would say though is that while district wide, if you take it in aggregate, there is a really positive picture of how the economy's performing. If you did it spatially within the district it is not equally distributed across the entire district. So we have cities that are doing extremely well. Atlanta, where we are, Tecmo is going to go there, a ton of Fortune 500 companies, I think this is the third highest ranked city in the U.S. for Fortune 500 headquarters.

You have Nashville. You have Miami, New Orleans. Those places are doing extremely well, even places like Birmingham, which you might not think, but then if you just looked at the map, there's everywhere else and when you go to those places -- so I’ve been to Albany, Georgia. I’ve been to Muscle Shoals, Alabama. Those places are having a very different experience. So while we have a large aggregate positive story to tell, there are still pockets of distress that we need to think about and be mindful of as we think about how the economy is functioning and how our policies should be deployed to make a difference there.

MR. COHEN: It is very interesting that you're all drawing a similar stage between areas doing well and not so well and that was to President Evan’s comment and so much of the subject of the talk last night by Amy Goldstein. Jamesville very different than the bigger cities.

Staying on broad topics for a moment and let’s move to monetary policy and go in reverse order and what are the principle challenges you see today about monetary policy? Are there framework changes? Are there tailoring changes, which could be made or are things just about fine?

DR. BOSTIC: Things are great. Everything’s wonderful. I don’t have to worry about anything. Well, I mean, you heard the Vice-Chair Clarida talk this morning about some of the key metrics that we use in determining how the economy is performing and how (inaudible) around and how they can have state dependency, which is at a particular moment in time that measure may negate for a change and we’ve got to be mindful of that. So those are things that we also always think about.

For me, I’m scarred still from the great recession where, you know, the Fed, I was out there at the time, said, you know, we don’t have to worry about housing. There are no issues there. We can just keep moving and it turned out to be wrong. And so, I'm trying to make sure that our team thinks hard about well where are those places that we should be looking, but we haven’t looked historically to make sure that we don’t miss something.

And so for me one of the biggest challenges is trying to find a trend before it shows up in aggregate data. We have a lot of staff that spends time going and talking to people among the CEO’s across the entire district so we can try to identify common themes that are happening in different sectors and different parts of the district and try to put together a story to give me a sense of whether there's something going on that we're not actually seeing in numbers. And if we can get that and identify those, I feel like we can make sure our policy is deployed on time.

MR. EVANS: Yeah those are good comments and let me build on that a little bit. We're all well aware of the national data. The national data projects strength of the U.S. economy, unemployment at 3.7 percent. We've got growth, looks like it will be over 3 percent this year, you know, looking for continued improvements of the unemployment rate with growth above trended. So with that headed to 3-1/2 in monetary policy readjusting something towards more neutral levels, we've been providing a lot of combination. Over time we -- I tend to think it's time to get back to something that's more neutral. We've gotten inflation up to 2 percent and I think that that's really something to be happy about because we spent a lot of time below 2 percent. So we say that our objective is symmetric, 2 percent objective, so we need to be at 2 percent.

And having said that, you know, we've heard a lot of commentary about tariffs, trade, international environment and so we're always looking for additional commentary from business contacts, our staff, uncovering things that aren't in the national data that, kind of indicate, well, you know, maybe we're a lot closer to neutral than we think or maybe we've got further to go. It sort of depends if there's more inflation or depression. So I think that's sort of -- some of the things I'm thinking about.

MS. GEORGE: We're all interested in hearing -- making sure that we follow through on the bottom line to that mandate, which is to make sure that our policy's calibrated relative to the productive capacity of the economy to continue to grow and after having spent so many years at zero and engaging in unconventional policies, as we have gone through this process of normalizing, it's created certain challenges and things we have to be more mindful of. Is it me? As the balance sheet shrinks? And what is a steady, steady size for that. So, Rodgin, you mentioned how it challenges our thinking about frameworks. It will require significant thought to what kind of an operating system will we use. Will we have abundant reserves? Will we go back to a scarce reserve regime? So there are many things -- as consequences, the crisis that we are still dealing with and we'll have to be mindful of as we go forward.

MR. COHEN: So let me turn to some regulatory/supervisory issues and I'd like to start with, President George, on this one and there is a view that the current regulatory system for community banks is misaligned with their business model and has become dually burdensome and I know this is an issue you have focused on and I'd like to ask, first of all, if you agree with the premise and then to elaborate a bit, if you do, what can we (inaudible)?

MS. GEORGE: So I come from a part of the country where there are a number of community banks. That region, you will probably find 20 percent of the nation's community banks. It has a legacy of being a unibanking state. So even with changes and a lot of consolidation we still see a number of community banks.

Having visited many of those communities in my region, I think they do disproportionately bear a burden with the current regulatory regime. Why is that? I think, in part, because the banking system has changed dramatically over the last 30 years. Today we have a much more concentrated banking system and regulation has been focused on how to address those that are systemically important versus those that still operate from, what I call, a more traditional model, taking in deposits and lending. So you will find the overlay of regulation over that industry to be enormous.

The answer to that, I think you will find the banking agencies very focused on right now and I think there is a shared sense that something needs to be done. The question, of course, is what. How do you make sure that things like BSA and money laundering have the same rigor and consumer protection has the same rigor?

I think at the end of the day what you want to make sure of in this industry is that we have a level playing field. That you have not unduly handicapped one part over another either through your capital frameworks, through acquitting requirements, through really what is a lot of process and then calibrate your supervisory framework in that way too. So I'm hopeful the agencies will pay attention to that and produce some meaningful reg relief for that segment of the banking industry. Thank you.

MR. COHEN: So, President Evans, I know you have spoken recently about CCPs and this has been heralded by some, at least a number of years ago, that this was the answer to all the problems with clearing derivatives and taking care of other issues arising during the financial crisis, but there is a counterview that instead we are concentrating rather than diffusing risk. So, again, I know this has been a subject of interest to you, so could I ask for your views?

MR. EVANS: Well that’s exactly right. I mean, if you're going to, you know, direct, you know, more trading activity into an exchange so that, you know, they can provide a finality to all the participants and then trade variation margin as the position’s change over time as opposed to building out some surpluses or debits, that could be difficult to settle at a different time. It’s based on a triple A rating that all of a sudden changes and then there’s a call for that during a very difficult time.

So the proposition is a very good one, but, of course, it does concentrate more activity in one place and so I think, you know, Ben Bernicki used to quote Mark Twain, “If you're gonna put all your eggs in one basket you wanna look at the basket really carefully and make sure everything’s done well”. And so I think that the, you know, the supervisory oversight of those activities is really important to make sure that there are very strong institutions and that they can be resilient and handle all the challenges that they face, but I think that the finality that they offer people in trade options is really very valuable. So I think it's a good model.

MR. COHEN: So it's the model, but it's -- you say you've gotta make sure the basket is --

MR. EVANS: You absolutely do. Yeah you absolutely do. So, obviously, with all of the -- everything's digital, everything's electronic, with all the cyber risks involved, the resiliency and you got to make sure that there are backup plans in all debt, so it's a really tough task. You know, it's the other side of the community banking or the previous, you know, panel where they talked about customer expectations and, you know, everybody wants something on their phone to be able to do everything for them. I can do it. I can check my payment just this morning that it got there, you know, for some reason it's going to be a check and not a digital, but I found out about that.

There's a lot more associated with that and, you know, that’s a high fixed cost and so that’s going to limit the size of some of these operations. That’s what competition’s all about and I think everybody’s got to figure out their game strategy for that.

MR. COHEN: Dr. Bostic, maybe it’s that at president level of a reserve banker, been insulated from the issue that I'm going to raise, but we keep hearing at least that the supervisor system continues to be overly adversarial and overly confrontational between, it’s not just the Federal Reserve, it’s all the federal supervisors and the banking industry, and I'm wondering if you are hearing that? If you believe it’s a problem and is there something more which could be done?

DR. BOSTIC: So that’s such a great big question and, you know, I'll just say it from the perspective that I have coming into the 6th District. Through the financial crisis the 6th District had more bank failures than anywhere else. We had more foreclosures than anywhere else and so, my view, is that we need to be engaging more with the banks that we oversee to make sure that they are as sensitive to risks as we are to make sure that we don’t have a repeat of that experience. Now whether that’s considered to be adversarial or collegial or having a tough conversation, you know, if they're tough conversations we probably need to have them. That's our role.

Now there's a question of what's an appropriate level of risk and how do we think about this at an institutional level and at a systemic level and that's a conversation that we need to have. I mean, we're going to have to have some view points and that's going to be something to go back and forth on and those could be collegial conversations, those could be difficult conversations, those can be adversarial or confrontational.

You know, what I try to impress upon my team is that, you know, we actually have the same objective as the management of the banks that we examine. We want them to be successful. We want them to be around and we want there not to be significant exposures. And, I think, we start that viewpoint and then the conversations are understood in a much more professional way. And the notion of adversarial, I think, starts to, sort of, fade away a little bit. So that's how I, kind of, view it.

The one thing I do want to say on this is that another thing that my team is ready to talk about a lot is that much banking is now not happening in banks and so the ways that we are going to interact with the nonbank sector is going to be something that's particularly important moving forward. So we know Quicken is the lenders mortgage originator right now. If you think about where leverage lending is happening, it's happening in a lot of nonbank areas and it's growing fast. So as we start to think about systemic issues and how we are a steward for the financial system, I think there's a conversation about how do we engage in the nonbank context is going to be a little more important.

MR. COHEN: Could I just actually pick up with that? Because I agree it is a very important issue. I mean, whatever database you look at, more and more of what used to be traditional banking is occurring outside the banking system. And that's an issue of competition for the banks, but it's also an issue for the Federal Reserve. How can it implement to regulatory policy if increasingly those that it has regulated is regulating our shrinking piece of the pie. So what -- can I ask each of you, what are your views as to what could be done, should be done, in systemic, you know -- congress tried to get at that in Dodd-Frank, but it's more than just systemic.

MS. GEORGE: I'm going to start with that, Rodgin, because I think we need to remember -- your point about the banking system is becoming a shrinking part of our financial system in general is true. Remember the underlying premises and why banks are special in many respects in terms of the role they play in innomediation, the role they play in the payment system, the fact that with being heavily regulated they have a safety net. A safety net either of deposit insurance and certainly access to the Federal Reserves (inaudible).

So as we look at what some may call encroachment on that system, competition -- I don't know what you want to call it, I think we need to be very careful and thoughtful as we think about what the consequences are to the current institutional frameworks. Clearly things need to innovate and are innovating in that space, so the underlying principles in this country that have, I think, served us well for many years in terms of what role that safety net plays.

We need to be careful before we extend it ever more broadly. And I don’t have the answer to that, but I think it’s something that’s worth careful consideration before we just extend regulation and assuming assumptions about what access to the safety net there is.

MR. EVANS: You know, I, you know, look at the large number of new players in the financial system with intake firms and there’s a lot of competition and there’s a lot of demand on the part of the consumers for, you know, better applications, more access to their funds and data, and I think that banks have been very innovative over a long number of years in trying to deliver, but obviously new competitors bring new insights and things that I’ve learned to appreciate.

My, you know, children, you know, find this substandard and they want more than that and so I think competition is a very powerful force. I think it’s healthy, I think, as long as we understand where the safety net is and isn’t, you know, that’s very important to a lot of people, you know. I think my son has an account with one of these and, you know, he’s got some funds built up and they’re not insured, you know, if you understand that that’s okay and as long as it doesn’t go wrong, that’s okay, but these are risks and everything. So, I think, that everybody needs to understand that, but I think competition is very healthy.

DR. BOSTIC: Yes. I might just trying to be a Fintech (inaudible) and so I get the opportunity to go and talk to a lot of entrepreneurs in this space and the one thing that I try to talk to them about is think about more than just your innovation. And actually to acknowledge and recognize that with innovation comes risk and comes possibilities for exposures and I talk to a lot of young leaders in this job, almost none of them has risks at the top of what they’re thinking about and that makes me nervous, right? In the sense that, you know, we’re going to have a bunch of innovations plug into our financial system and there may not have been sufficient due diligence about, well what about protections we have in place to make sure that you're not exposing the whole system or major parts of the system to significant risks. So I'm trying to have that conversation to make sure that they know that we care about this and the more prominent they get the more they’re going to have to come up against this. So if we get that done in advance I think that’s a good thing.

A second thing that I’ve been doing -- trying to do with the bankers I talk to is -- you guys tell all the time to have a level playing field, how would you design a regulatory structure? It would be incredibly helpful to have some industry view on what an appropriate regulatory structure would look like that could be the basis for a conversation around this to try to see if we can move to a different kind of approach and I think that would be useful as well.

Now the third thing I worry about, and Charlie talked about this a little bit, is that with all these innovations, consumers have no idea what risks they’re exposed to. So my partner loves Apple Pay. It’s like Apple Pay, you bump the phone up against -- whatever, he’s doing that and -- you have Apple Pay too? I'm not doing it, so -- I'll stick to credit cards and I'll be good. But we know that -- like when you do a credit card you can get your money back for carrying all that kind of stuff. (Inaudible) didn’t have a set up for that or (inaudible) didn’t have a set up for that and so they had problems. And if there’s a problem with Apple Pay, it’s not clear on some arrangements, you know, what's going to happen there? And consumers are not aware that the mode that you pay comes with different levels of responsibility and rules of the road and all that sort of stuff.

And so we actually have a challenge at the consumer level as well so that as these things mature and become more robust and more wide-spread, everyone really understands exactly what the deal is because otherwise we're going to have a bunch of angry consumers and they're going to come for, like, us and I try to avoid that.

MS. GEORGE: So if I could add onto that?

MR. COHEN: Please.

MS. GEORGE: I was struck listening to the last panel of bankers and how large of the conversation was consumed by talking about Fintech and financial innovation. And I think that's right. We've been watching for more than a decade how financial services industry is innovating and how much of that came from nonbanks with that innovation. So much -- and we know the states were involved, there was regulatory framework that those nonbanks had been subject to. So now as we contemplate a federal charter for Fintech, I think it's interesting because this is now raising the number of policy questions. It will raise the questions of what is a bank and how do we define a depository institution and, I think, for the Federal Reserve this will be a challenging issue. I think it will be challenging because national banks have generally been Fed members, which then provided access to the payment system for having a master account with the Fed. I think we will also have to sort out what does it mean under the Bank Holding Company Act and whether these charters are subject to that in some way.

So again, back to my point about the institutional frameworks around this, I think they require us to think carefully about what we are stepping out onto in terms of innovation, in terms of providing things to the public, and making sure that we keep in mind things like loose management that Rocky Owen referred to and other things.

MR. COHEN: Thank you. Let me continue with the theme of financial innovation, but take it in a slightly different direction. We have had for decades, forever, a significant segment of the population that is either unbanked or underbanked. You see financial innovation whether within the banking system or outside the banking system trying to mitigate, at least, that century-old problem.

DR. BOSTIC: So I think this is a complicated question. So the World Bank estimated that there are about 1.7 billion unbanked people and of that amount 2/3 have a cell phone, right? So if you have that kind of penetration in a population we're trying to reach, it becomes an actual thought that, you know, this app type of innovation could reach them and get them to engage in the banking system with a payment system more broadly.

But then if you, you know, you get sober when you start thinking, like, why don't they have bank accounts? Why are they not using banks? And for many it's the fees are more than they can handle or there is a minimum balance that you've got to have on these accounts to keep them alive or they are aware they have sufficient uncertainty and volatility in their income such that they're not sure they can keep these things open on a regular basis and those things have to be addressed.

So if we're going to have a financial innovation that gives access to the paying system and the banking system for people who have been unbanked, it’s got grapple with these issues with the causes of that and I'm not sure there are easy answers there. That’s kind of where I'm going on both sides for (inaudible) probably. Like in the U.S. we know that 50 percent of the unbanked have income at some point. So it’s not that they don’t want to have a banking account, it’s that circumstances have not really worked for them. And so we’ve got to find ways to make the circumstances work and perhaps by going to an app world and you're overhead costs go down and so do the fees and start changes in finding out the way to make things more accessible. But these are all things that are unproven today.

MS. GEORGE: Can I just add to that? I think as we looked at faster payments in the U.S. and ways to modernize, this has been focus, to think about what benefits could accrue to the unbanked and underbanked, but as, Raphael, said, there are a variety of reasons why individuals find themselves without bank accounts or not utilizing them. So it will not be, I think, the silver bullet to that. On the other hand, if we think about equitable access and ways for people to have that opportunity, surely I think it has some benefits that could derive from that when you think about the cost, fees, often how people manage their money can result in fees. This may be a way with real-time payments to minimize some of that. So I think it does have opportunity for that segment of the population that currently underutilizes banking services.

MR. EVANS: I think these are great issues. I think it is a very drilling observation when you read and find out that people who don’t have a bank account previously had a bank account, but then they had an unhappy experience with fees -- overdraft and then additional charges after that and they just can't -- you know, it ends up being $400 perhaps and they didn’t have that. Marry that with this observation about so many people who have cell phones around the world, I actually haven’t read this, but it must be the case that they prepay that phone. They don’t have an account that’s going to allow them to charge $300 and then not pay up or something. So they’re already in this, you know, pay a window kind of world.

So, I think, everybody understanding the market that they’re facing, you know, banks I heard one of the previous panelists mention electronic services. You know, we know it’s going to have to be free, checks are free, nothing is free. It’s got to be made up somewhere else and a lot of this is about where the other fees are going to be and who is going to be cross-subsidizing or being distributed and things like that. So it’s a difficult business proposition and it’s what competition’s going to be about.

MR. COHEN: So, President George, you just referred to real-time payment and, of course, this is a very major issue for the Clearing House and last month with that release -- a notice that is seeking public input on actions that they could take to facilitate real-time payment. Could you give us some background and/or views on where you think the Federal Reserve is going because I fully agree this is a, maybe not the only, it’s far from the only, but it is certainly a key element of survey the bank (inaudible).

MS. GEORGE: Oh I think so. So the Federal Reserve, several weeks ago, issued for public comment, a federal register notice that really builds on work that has been taking place over the last five or six years with the industry including the Clearing House, an important participant in this discussion, about how the U.S. payment system should be modernized. And we convened because we do not have central authority over payments in the United States, but used the authorities that we have, which are largely a convener. We have a role as an operator and in some cases as a regulator, but really built on, I think, 105 years of engagement with the banking industry and more broadly around how the payment system should work in the U.S. going forward. We put together two task forces, some 300 participants in that payments ecosystem, if you will, that spent a lot of time and a lot of back and forth on what would be the benefits, how would this unfold, how would the market look in going forward around real-time payments.

And, I think, those task forces, one focused on this idea of a rail that would deliver faster payments, the other thinking about the security aspects of that, really settled in thinking about the U.S. needing to move forward with real-time payments and I think there was broad consensus around that.

In fact, the report that came out of that Faster Payments Task Force about a year ago, highlighted really how the task force saw those issues and out of that pointed to the Federal Reserve to really get clarity around what role the Federal Reserve would play. One of the things out of that task force report was the value they saw in real-time settlement, 24 by 7 by 365 and asked the Fed to assess what role it should play in that.

For the last year we have really been thinking about what role does the Central Bank have this in this space? How does it support the market? How might the market unfold? The comment notice closes December 14 and I'll do a little ad here. Hopefully we get plenty of comments. You can go out to the Fed's website and see those as they come in real-time and it's really a question around a couple of things, one is does the public see real-time payments as the future for the country and, secondly, thinking about how that would unfold. Does that require real-time gross settlement provided by the Federal Reserve? Would that require an acquitting management took to make sure that that kind of real-time provision of payments can be managed across master accounts held at the Federal Reserve? So this is really an important context for the Federal Reserve to understand how the public sees these issues and how we should then step back and think about a going forward posture, whether that's something the Federal Reserve should provide.

Our goal, remember as it has been for many decades, is to make sure that we have an efficient payment system, to make sure there is equitable access to that payment system, and to make sure it's safe. So those will really be the guiding principles as they have been. Obviously, we have a move of framework and monitor and control act to work through, but we really want to understand how the Federal Reserve can facilitate the private sectors delivery of faster payments (inaudible). So please send your comment.

MR. COHEN: So one innovation is that the questions now come on the IPad so you don't have to go around looking for the microphone and then whoever has the microphone it never works, so they bring it to the questioner. Two of these has come in directly in response to that answer. I think the first is very much rhetorical, at least I hope, and that is wouldn't real-time payments lower the incidents of overdraft and the need for payday lending and therefore respond to some of the comments that all three of our panelists have made.

MR. EVANS: You know, I think it depends on the platform, obviously, and how it’s going to be used. And so if it’s somebody who’s got a bank account, you know, it’ll certainly -- imagine that if it’s somebody who, you know, has a phone. They don’t have a bank account, but they’re somehow wanting to make a payment, I'm not quite certain how that plays out.

I thought that, you know, again I thought the previous panel was terrific. The comment about one of the CEO’s had hired a full-time senior person to talk to her about the customer experience. We’ve got somebody in our bank that’s, you know, curating websites and the customer experience and it’s very different than my experience. It’s, you know, Esther’s and Raphael’s and my son and my daughter and other people, and we all have different preferences and so, I think, this real-time payment system, you know, this is the academic side of me, if I can sort of start from scratch and at the public level, what is it that would be best for everybody, the entire consumer experience, that would solve some of the problems that they’re having at different income levels, different wealth that they have, and it’s very difficult to see exactly how these things will play out.

It’s often the case that once somebody has a platform, a dominant platform, then that stays unchallenged for a long period of time until or unless somebody else can sort of challenge that model easily. I think back to Microsoft when all of a sudden they won and Netscape disappeared back in the late 90s and they had Internet Explorer and that was the best browser you were going to get and they didn’t put any effort into updating it, but then eventually others came. There was competition and so what is it that would lead to the best type of competition so we understand how consumers are served best. I think Ester ran a program where we got a lot of input from the industry, many different people, and so that’s how we’re trying to respond to this. I'm optimistic.

MS. GEORGE: Consumer groups too. So it’s ideal that it would helpful there, but I would also say we heard from small businesses that real-time payments would be helpful to them in terms of their cash flow, in terms of how the information that might flow through the clearing and settling of faster payments could help them, but then less on check and use other, more digitized payment forms going forward. So that too, I think, came through on that task force.

MR. COHEN: Dr. Bostic, any views?

DR. BOSTIC: You can call me, Raphael, so my guys know, I don’t do the doctor thing. So, but this is a hard one, right? So the whole model of (inaudible) is you have someone that has some value that they can't monetize, right? So they go to someone to play that role. That’s kind of outside the payment system altogether, like there are no payments happening there. And so, you know -- but it does create opportunity, so I agree with Charlie. So, you know, I remember when I was a graduate student, this is not on payments, but when I was a graduate student, I would -- I liked economics so I went to a -- I had a job interview and the professor I'm talking to says, “Well why are your working on economics? These are going away”. There’s no cost for communication, like, a whole theory of a city was that you needed to be close to people to talk to them and work with them and as soon as you get (inaudible) you didn’t get to live next to somebody anymore. But what we didn’t understand, what he didn’t appreciate, was that people are creative, right? And they take a context and they do things that no one would have thought of before and create new reasons for things to exist and new ways for people to do things.

I think that by adding this new technology it creates an opportunity to rethink a lot of these relationships and perhaps have particular business models not be the only way to provide that service and maybe even not be the optimal way to do it. So you can see that disappear over time.

MR. COHEN: The other question on this topic, I think, may go to demonstrate that the drafters of that notice accomplish, and I really mean this as a compliment, what they should have, which is so that various people read it in various different ways and that would, of course, lead to comments. Also people could see their fears realized.

So the question is, President George, mentioned the work convener and private sector, but the question is whether the notice also does not contemplate the idea of the Federal Reserve's own rail in competition with the private sector. And you may not want to comment on whether it contemplated it or not, but whether it did or didn’t, views that any of the three of you would have on a Federal Reserve rail.

MS. GEORGE: Okay, I'll start. You two feel free to offer your views in. So when I think about whether the Fed should be an operator in this phase, I really just think about the history of what role the Central Bank has played, what role the regional feds have played. Really since I found that it involved an important role in facilitating payments and that, of course, has evolved over the years. That has required us to find ways to fairly compete under the Monetary Control Act, as we’ve seen a lot of changes in the industry. I’d like to think we’ve played a role in helping promote efficiency in that payment system and innovation. I think about Check 21, the idea of visualizing that paper to make payments more efficient.

So I think there is every reason that we saw in that task force report a question about what role the Federal Reserve should play. And, of course, we’ve made no decisions. We really are asking the public to help us sort through. What is your forecast for how the market could evolve?

But I do think we will be informed by the role that we have played historically and the question will be does that apply today? Does that apply around this rail? We haven't looked at an issue like this in, what? Some four decades, since this has been in the fore. But when I look at that history I think there has been an important role for the Fed and seen that confirmed. The government accountability office asked this question in the last couple of years about what has been the effect of the Fed engaging in that payment system and, I think, while there were some that disagreed, I think on the whole pointed to innovation, the consumer had benefitted, that more innovation and market sharing had gone to the private sector during that time.

So, again, I don't know where we'll come out on this and when I say we, I mean the Board of Governors, but I think if you look at the history I can see why the task force pointed to the Federal Reserve and asked us to address this.

MR. EVANS: Very well said.

MR. COHEN: Okay. Let me change some things just a bit. I don't want to let the time expire without mentioning the Community Reinvestment Act. I think there is close unanimous view that CRA needs reform.

It’s been around a long time, very little has been done to change it and the world has changed a lot. I’d like to ask for your views on that possibility and one specific -- Dr. Bostic, had suggested building runways to grow on the investment opportunities and the stress variants of our cities and I’d be interested to hear a bit more elaboration on that idea as well.

DR. BOSTIC: Sure, happy to talk about that. So I agree that CRA needs to be reformed. It needs to be updated. So when it was passed in the 19 -- 1970s, the bank branches were the main way that people did banking and so it’s natural that their branch would be the foundation for how you assess bank performance and the geographics and all that kind of stuff. Usually when I go out and talk to people and ask, how many people have been in the branch in the last month or two months or six months and it is more than 30 percent, that’s a huge number of people who are not banking in branches anymore.

And so in that context, the CRA is stuck in a mode and an evaluation framework that doesn’t match how people are actually experiencing the sector, it doesn’t make sense. So I think that there definitely needs to be some thinking about how we think about what a community is for a bank and how we think about who should serve that community. I think that’s important.

The other piece that I think is really important is think about what kind of activities are really representing reinvestment. And by large, the early framers of the regulation really thought about this lending directly. (Inaudible) you're going to do some investments, but that’s going to be secondary kind of consideration and the concern I have, and it’s become sharpened since I’ve been going around my district, is that in some communities you don’t have a lot of resources that are ready to receive the loans that would be most helpful. So it may be the case that some of the investments that really get businesses and families and communities ready to be good credits, are the right investments to be making and to me they count. The things that actually prepare communities to take advantage of the banking system and the service that you guys can provide is critical.

And so, thinking hard on what are the set of things we should count. How should we think about, maybe it’s not actually things, its categories. So loan, just equity investment, those sorts of things to try to get to a much more comprehensive notion of what reinvestment looks like and I think that would be quite helpful.

The challenge of all these things, of course, is, you know, regulators like Bright Lines, right? Actually you guys do too, I know, so this is in, this is out. So finding ways to articulate this in a way that it was clear and that activities were going to work would be important. I mean, I think, Esther, you guys do a really interesting thing around the CRA in Kansas City, investment connections trying to partner. I know, maybe you should say a few things about that.

MS. GEORGE: I think to Raphael’s point, we -- it is time to modernize CRA and really think about what things help communities a lot. So he referenced a program that we’ve been doing for several years in the Kansas City region, which is to bring together those that need the funding, work with them to make sure that they are in a position to understand what is required when you get that, obviously a living, underwriting work, and other things, to bring those that have funds to lend into the same room where it is more efficient for them, more efficient for those that need the funding. We have a fair amount of success in making sure that the examiners are looking at these at the same time with those that are thinking about making the investments too.

So this program, which we call, Investment Connections, across several of our communities in that seven state region have seen great success, I think, in connecting that.

I think as we go forward and contemplate though how we make those meaningful things, the other aspect is one you touched on and that is our regulatory framework and our supervisory posture around things. So this is where I hear from some communities, I could go into this community, I know this community, I could make a loan, but here are the requirements that I'm swimming against in terms of examiners coming in and saying, well, you know, you have to prove this, you have to have policy and this and that. So, I think, both are thinking about the modernization of that, as well as how the supervisory framework may complement and support when we need the responses.

MR. COHEN: You know, I learned a long time ago that the only role that's important for a moderator is to make sure you end on time. So, I've got one last question and it's sort of going to bookend because we're going to back to economics and monetary policy. It was actually the first question when you came in and had several votes. And the question is what should be more important statistic for policy makers, as you guys, unemployment or labor force participation and do the two have different implications for monetary policy?

MR. EVANS: Well I think they're both very important to me. You know, one of the things that's so, you know, nice about the current environment is the way the work has been strong. We've seen strong payroll employment growth.

We've seen the unemployment rate fall. It was up to, you know, about 10 percent. It's, you know, down to 3.7 percent and, you know, one of the challenges for growth going forward, we'd all love to help those 3 to 4 percent trend in growth year after year repeated and so many people have talked about the big challenge there is -- there's an identity at work for long-term growth. It's going to be, you know, how many workers do you add, labor input every year, and what can they do? What's their productivity growth rate? And so labor force saw that we've got the aging of the population.

We've got reduced participation rates across a number of segments, secular demographics at work that, sort of, lead us to think that trend growth is under 2 percent, not above 2 percent, if we could get stronger labor force growth that would be wonderful. So I think that's really important. That's a longer term issue, I mean, sure I think that there's still some people on the sidelines who can come into the workforce, but when we talk to our businesses who sort of say they're having trouble finding high skilled workers. I don't think the ones on the sidelines are the ones with the skills that they're looking for.

So I think in terms of added additional wage growth is going to have to come from somewhere else. I think labor force growth is very important, but it's a longer term issue beyond just monetary policy. So I think in the moment, they're both very important and the inflation rate getting back to 2 percent, I think, is also very important. It's just sort of figuring out where we're going from here.

MS. GEORGE: I think as a policy maker and pretty quickly realizing $20 trillion economy, we cannot rely on single aggregate measures. That economy changes structurally, cyclical factors, so whether it’s unemployment, whether it’s inflation, whether it’s productivity, many -- you have to look at many aspects of that economy and try to gauge where it is because one statistic is not going to tell you the whole story.

DR. BOSTIC: She took what I was going to say, but I would just add that the productivity piece that Charlie talked about is actually quite important in thinking about the productive capacity of the entire economy. So when I think about how is our labor force doing? They’re not being as productive as they could be. If they stay, kind of, where they are the prospects of growth moving forward become dampened and so another area that I look at and looking at pretty intensively is business and estimate and are businesses making investments that can improve and increase the productivity of the work force.

That’s not labor measure, per se, it is a signal of what labor is likely to be able to do in the future and that’s something we definitely want to pay close attention to.

MR. COHEN: Well we are at the 3:30 hour and I'd like to thank all three of our panelists, our Presidents, for their insightful and educational evaluations of these questions and responses and, I think, highly constructive for all. Thank you so much.

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