

The Money Museum

by [Steve Brown](#)

We had a free afternoon on a beautiful day in downtown Chicago recently so we walked through the financial district. On the way, we noticed a window exhibit of counterfeit currency samples. As we looked closer, we saw there were exhibits on how a wire transfer works and numerous other banking functions. Looking up we noticed the signage said it was the Money Museum at the Federal Reserve Bank of Chicago. Since we couldn't imagine a more captivating subject, we wandered in to take a closer look.

In case you visit the Windy City, we note the museum is free and it is filled with exhibits showing how money works in the US now and over the course of history. There are samples of colonial currency, paper money issued during the Civil War, old coins and even samples of shredded dollars to take home as a souvenir (as with other Fed locations across the country). A story board also takes visitors through the history of the Fed, which we have written about in this publication before so we won't spend time now on it. Finally, there are also some fun interactive exhibits to create a dollar bill with your picture, or a place to get your picture made with a James Bond-style briefcase with \$1mm inside. As we laughed over our picture with the briefcase full of money, another visitor quipped: so this is our tax dollars at work.

There is a perception that any government agency that provides anything outside basic functions is a waste. We could argue here that given the level of financial illiteracy in the US and the pervasive conspiracy theories that surround the Fed, a small museum that imaginatively explains the function of the currency, its history and the function of the Central Bank is hardly a wasted effort.

To bolster our case, consider that the OECD recently surveyed 29K high school students in 18 countries. The students were given a two hour test that covered simple tasks like knowing what an invoice means or understanding price per unit. There were also more complex tasks like choosing the better of two loan proposals. Shanghai came out on top of the rankings with Belgium not far behind. The US came out in the middle of the pack next to Latvia and Russia.

Looking at the top performers, it is interesting to note that in Shanghai there is little formal education in schools on the subject, so students there are gaining financial literacy through other channels like other coursework or experiences. Also of interest is that economic and social status did not affect scores in Shanghai though socio-economic diversity there is similar to that of the US. In the US, some 70% of schools teach financial literacy, but this has not correlated to higher performance on the test. The performance of students here had the highest correlation to social background of any country in the test group, with one group of students showing an average level of performance but then others from lower socio-economic backgrounds performing far below the baseline.

This was a student test, but it's pretty clear that difficulties with financial literacy carry forward into adulthood. The 2013 Consumer Financial Literacy Survey from Harris International found that 75% of adults felt they could benefit from professional advice for basic financial questions and some 40% scored themselves as C, D or F on their knowledge of personal finance.

Either way, we found the Money Museum at the Chicago Fed to be attractive, useful and informative regardless of one's level of background knowledge. Community banks can do plenty to help with financial literacy in their markets and it may help you capture new clients so maybe it is time to pilot a few ideas. To draw in parents, you might consider having a currency exhibit for school kids to visit, or do a tour of the vault. Given all the cyber theft of late, people might really enjoy knowing that there is a vault with real money in it at their local bank!

BANK NEWS

Q3 Facts

Analysis of FDIC data reveals banks with \$1B or less in assets compared to the industry overall: represent 90% in number; earn an asset yield 121% higher; have a cost of funds 140% higher; earn an ROA 95% as high; have an ROE 91% as high; and have leveraged capital of 120%, Tier 1 capital of 136% and Total RBC at 131% above the industry. Meanwhile, comparing loan portfolio percentages outstanding to the industry: this group of banks is at 110% for total real estate; 154% for construction/development; 157% nonfarm nonresidential; 181% multifamily; 182% home equity; 88% other 1-4 family; 109% C&I; 70% consumer and 50% other loans.

Branch Trends

The FDIC has released a report on branching that finds: there were 94,725 branches in the US as of Q2 and 425,000 ATMs; since 2008 the number of branches has declined 4.5%; the number of tellers working in bank branches has declined 45% since 1992; major metropolitan counties average 5 branches per 10,000 people; "micropolitan" or mid-sized urban counties average 3.9 and rural counties 2.8.

Ag Risk

John Deere posed a 20% drop in earnings for its Nov quarter, as lower commodities prices reduced farmer interest in buying new equipment. The CEO said large farm machinery took the brunt of the slowdown.

Welcome Aboard

The Fed has proposed regulating GE Capital as a bank holding company, as it seeks to boost protections to the overall financial system. Under the proposal, GECC would have to increase capital cushions, ramp up reporting and restructure parts of its business in order to adhere to regulations.

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