



fed LETTER

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February 2011

FEDERAL RESERVE BANK of KANSAS CITY

DISTRICT MANUFACTURING ACTIVITY MODERATES, SURVEY FINDS

Growth in Tenth District manufacturing activity moderated somewhat in January, but activity was stronger than a year ago, and optimism remained fairly high, according to the Kansas City Fed's monthly [Survey of Tenth District Manufacturing](#). Price indexes in the survey were still elevated, particularly for raw materials.

The monthly survey monitors manufacturing plants selected according to geographic distribution, industry mix and size. Survey results reveal changes in several indicators of manufacturing activity, including production and shipments, and identify changes in prices of raw materials and finished products.

SURVEY SUGGESTS RECOVERY ELUSIVE IN LMI COMMUNITY

The Kansas City Fed's fourth quarter [Low- and Moderate-Income \(LMI\) Survey](#) indicates that while the pace of decline of economic and financial conditions in the Tenth District's LMI community continues to moderate, the broadest measures of the financial status of the District's LMI population remained below neutral, suggesting that economic recovery remains elusive in the LMI community. Nevertheless, many survey respondents have seen the job market stabilize, and expectations were neutral going forward with regard to jobs and affordable housing

The quarterly survey measures the economic conditions of low- and moderate-income populations in the Tenth Federal Reserve District and the organizations that serve them. The goal is to provide service providers, policymakers and others a gauge to assess changes in the economic conditions of the District's LMI population over time.

HOLIDAY REMINDER

The Federal Reserve Bank of Kansas City will be closed Monday, Feb. 21, for Presidents Day. A full list of Federal Reserve System holidays is available from the [FRB Services](#) website.

LATEST ISSUE OF *COMMUNITY CONNECTIONS* NOW AVAILABLE

The winter 2011 issue of *Community Connections* highlights how the Kansas City Fed is enhancing its community outreach efforts using research findings on why millions of low-income families fail to use banks to manage their money. The issue also focuses on insights drawn from the Bank's LMI Survey on how low- and moderate-income families fare during economic recession and recovery. In addition, the newsletter features the Citizen Potawatomi Nation's efforts in Oklahoma to preserve its history while taking an entrepreneurial approach to the future.

The quarterly newsletter reports on research, programs and emerging issues affecting low- and moderate-income and small business communities and the work of the Bank's Community Affairs Department.

NEW RESEARCH AVAILABLE IN THE *ECONOMIC REVIEW*

The fourth quarter 2010 edition of the Kansas City Fed's *Economic Review* is now available and includes the following research:

"Monetary Policy under a Corridor Operating Framework," by George A. Kahn, examines how a corridor system works in theory and practice. While such a framework may offer a number of advantages as an operating system, it may also create new challenges.

"The Effectiveness of Homeownership in Building Household Wealth," by Jordan Rappaport, compares the wealth that homeowners have historically accumulated by building equity in their houses with the wealth they could have accumulated by renting an identical house and investing the resulting saved cash flow in stocks and bonds.

"Are U.S. States Equally Prepared for a Carbon Constrained World?" by Mark C. Snead and Amy A. Jones, evaluates the current energy posture of the states and how prepared they are to cope with ongoing trends in energy use, especially restrictions on carbon emissions.

THE MAIN STREET ECONOMIST EXAMINES FARMERS' DEBT

Farmers have significantly increased their debt levels in recent years. Since 2004, real farm debt has risen nearly 5 percent annually, the fastest increase since the prelude to the 1980s farm debt crisis. The latest issue of *The Main Street Economist* examines the concentration of debt and farm financial stress across U.S. producers. It also considers how financial stress would be affected by an abrupt surge in interest rates or a drop in farm income.

The Main Street Economist is a bimonthly publication discussing major economic issues and opportunities for agriculture and rural America.

WELCOME, NEW STATE MEMBER BANK

The Federal Reserve Bank of Kansas City is pleased to welcome the following state member bank to the Tenth District of the Federal Reserve System:

Condon Bank & Trust Company Coffeyville, Kan. Jan. 3

KANSAS CITY FED NAMES
ADVISORY COUNCIL MEMBERS

The Kansas City Fed recently announced the establishment of a Community Depository Institution Advisory Council. Council members will provide input to the Bank and its senior management on the economy, lending conditions and other issues. Members, who will serve staggered terms through 2013, represent banks, thrift institutions and credit unions and provide diverse views from community institutions across the Tenth Federal Reserve District.

A full list of members, along with more information about the council, is [available](#) from the Bank's website.

KANSAS CITY FED ESTABLISHES
OFFICE OF MINORITY AND
WOMEN INCLUSION

The Kansas City Fed recently **announced** the formation of its Office of Minority and Women Inclusion (OMWI), a requirement under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The office will lead the Bank's ongoing work to promote diversity throughout its operations.

Effective Nov. 1, 2010, the Bank appointed Donna Ward as senior vice president and director of OMWI. In this role, Ward will be responsible for the Bank's administrative functions, including recruiting and procurement. She formerly served as vice president of Human Resources at the Bank and has considerable experience in workforce recruiting and inclusion strategies.

In addition, the Bank encourages the participation of women- and minority-owned businesses in its procurement process. In its effort to obtain competitive, high-quality goods and services, the Bank seeks to identify and maintain a diverse group of potential suppliers. More information about the Bank's minority and women inclusion efforts, including supplier diversity, is available at www.KansasCityFed.org/diversity.

REGULATORY DEVELOPMENTS
*Revised examination procedures for
Regulation Z approved*

The Task Force on Consumer Compliance of the Federal Financial Institutions Examination Council has approved **revised examination procedures for Regulation Z—Truth in Lending**. The procedures include regulatory changes effective Jan. 1 and Jan. 30, 2011. The Jan. 1 provisions require specific notices to be sent to homeowners when their mortgage loans are transferred or sold. The Jan. 30 provisions revise the payment disclosures that must be included on a loan's Truth-in-Lending disclosure statement. These revised examination procedures supersede all previous procedures and are transmitted by the Federal Reserve Board under Consumer Affairs Letter (CA) 11-1.

*Schedule for 2011 Regulatory Update
Seminar series announced*

The Supervision and Risk Management Division will present its annual **Regulatory Update Seminar** series this April at various locations in the Tenth District. This half-day program will focus on current issues and strategies relevant to state member banks and bank holding companies in the Federal Reserve System's Tenth District. The seminar will include topics covering the economy, current banking conditions and executive highlights of safety and soundness and compliance issues.

The seminar is designed for executive management, senior staff and directors of state member banks and bank or savings and loan holding companies throughout the District. Dates and locations of the seminar are listed below.

By attending this seminar, you can earn continuing professional education credits. For more information regarding the seminar or registration, please see the **seminar invitation**. You may also contact Lisa Aquino in the Kansas City office at (800) 333-1010, ext. 12491, or by **e-mail**.

Dates and locations:

April 5 - Kearney, Neb.

April 6 - Omaha, Neb.

April 7 - Kansas City, Mo.

April 12 - Oklahoma City, Okla.

April 13 - Tulsa, Okla.

April 14 - Wichita, Kan.

April 19 - Montrose, Colo.

April 20 - Denver, Colo.

April 21 - Casper, Wyo.

April 26 - Albuquerque, N.M.

April 28 - Kansas City, Mo.

*Federal Reserve does not plan to proceed
with finalizing three pending mortgage
rulemakings under Regulation Z*

The Federal Reserve Board of Governors (Board) has **announced** that it does not plan to finalize August 2009 and September 2010 proposed rulemakings that were issued under Regulation Z. The proposals would have reformed Truth-in-Lending consumer disclosures for both closed-end and open-end loans secured by residential real estate. The proposed rules also would have revised the disclosures for reverse mortgage loans. General rulemaking for most consumer protection regulations will transfer to the new Consumer Financial Protection Bureau (CFPB) on July 21, 2011. As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the CFPB will be required to make amendments to Regulation Z and other regulations that cover residential real estate loans. In order to avoid issuing numerous rules with different implementation periods and to ease compliance burden, the Board will not proceed with the 2009 and 2010 proposals.

Customer notification of deposit insurance changes

On Nov. 9, 2010, the Federal Deposit Insurance Corporation (FDIC) issued a **final rule** that provides unlimited deposit insurance for non-interest-bearing transaction accounts from Dec. 31, 2010, through Dec. 31, 2012. This rule is similar to the FDIC's Transaction Account Guarantee Program (TAGP) and replaced the TAGP at the end of 2010. The program covers traditional checking and demand deposit accounts on which the depository institution pays no interest. The program also covers Interest on Lawyers Trust Accounts (IOLTAs), which the FDIC announced in a Jan. 18, 2011 **press release**.

The FDIC is concerned about the differences between the TAGP and the new rule and, as a result, required institutions to provide certain disclosures and notices by Dec. 31, 2010. One of the disclosures required by each depository institution that offers interest-bearing transaction accounts is to post a model notice in the lobby of its main office, in each branch, and on its website, if it offers Internet deposit services. During the course of examinations, compliance examiners will be reviewing financial institutions' websites to ensure compliance with this disclosure requirement.

Board provides direction on impact of high-cost credit protection transactions

The Board recently released **Supervision and Regulation Letter 11-1**, which provides direction to supervisory and banking organization staff on the potential impact of high-cost credit protection transactions on their assessment of a banking organization's overall capital adequacy. Banking organizations should analyze and document the economic substance of credit protection transactions that have unusually high-cost or innovative features to assess the degree of risk transfer and the associated impact on the organization's overall capital adequacy. The letter lists the factors that banking organizations should consider and supervisors will assess in evaluating the degree of risk transfer of a transaction. In particular cases, the Board may determine that a transaction should not be recognized as a guarantee for risk-based capital purposes.

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