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FEDERAL RESERVE BANK of KANSAS CITY

MANUFACTURING ACTIVITY DECLINES AT SLOWER PACE

Tenth District manufacturing activity declined at a slightly slower pace in March, according to the latest [Survey of Tenth District Manufacturing](#). Firms' expectations for future activity improved somewhat over last month, while price indexes in the survey remained mostly negative.

The monthly survey asks plant managers about a variety of manufacturing indicators, and the information is compiled into a snapshot of manufacturing activity in the Tenth District.

ARTICLE ANALYZES RECESSION'S IMPACT ON RURAL AMERICA

As the recession intensified in 2008, rural economies held firm. Through the first half of the year, strong commodity prices supported robust farm incomes and contributed to relatively stronger gains on Main Street. Moreover, the housing correction was less intense than in urban areas, and the financial crisis was less severe than on Wall Street.

While these factors shielded the rural economy from the worst of the recession, rural America was not immune. In the article, "[Recession Catches Rural America](#)," Jason Henderson, vice president and Omaha Branch executive, and Maria Akers, assistant economist, review the state of the rural economy and explore how the recession could affect the rural economy in 2009. The article appears in the first quarter edition of the Bank's [Economic Review](#).

KANSAS CITY FED PRESIDENT SAYS 'TOO BIG HAS FAILED'

On March 6, Thomas Hoenig, president of the Federal Reserve Bank of Kansas City, delivered a speech in Omaha titled, "[Too Big Has Failed](#)." The text of this speech and others is available on [KansasCityFed.org](#).

REGULATORY DEVELOPMENTS
*Fourth quarter 2008 district
banking conditions released*

A presentation on the 2008 fourth quarter statistics of [district banking conditions](#) is now available.

Banking conditions continue to weaken across the country as asset quality worsens and loan loss provisions rise. Bank earnings continued to decline into the fourth quarter of 2008. Coverage ratios have also declined to half the level seen in 2005. Deterioration in banking conditions is especially evident in rising levels of noncurrent loans, particularly in construction and land development (CLD) loans. Among Tenth District banks, CLD noncurrents have nearly tripled since year-end 2007.

*Currency transaction
reporting requirement
pamphlet now available*

The U.S. Treasury Department's Financial Crimes Enforcement Network has made available an educational pamphlet, "[Notice to Customers: A CTR Reference Guide](#)," for financial institutions and their customers. This pamphlet contains information on the currency transaction reporting (CTR) requirement.

The pamphlet is designed as a resource for financial institutions to help address questions frequently asked by their customers and to explain the CTR requirement to those who may not be familiar with a financial institution's obligations under the Bank Secrecy Act. Financial institutions are not required to use the pamphlet, but may find it useful when a customer opens an account and expects to handle large amounts of currency, or when a customer has questions about particular currency transactions.

*Trust preferred securities and
core capital rule delayed*

On March 17, the Board of Governors announced the adoption of a [final rule](#) that delays the effective date of new limits on the inclusion of trust preferred securities and other restricted core capital elements in tier 1 capital of bank holding companies (BHCs). This action is being taken in light of continued stress in financial markets and the efforts of BHCs to increase their overall capital levels.

The new requirements, which: (1) limit the aggregate amount of cumulative perpetual preferred stock, trust preferred securities, and minority interests in the equity accounts of most consolidated subsidiaries (collectively, restricted core capital elements) included in the tier 1 capital of all BHCs; and (2) require BHCs to deduct goodwill, less any associated deferred tax liability, from the sum of core capital elements in calculating the amount of restricted core capital elements that may be included in tier 1 capital, will become effective March 31, 2011, instead of March 31, 2009.

*Federal Reserve
supervisory policies
and guidance reiterated*

On Feb. 24, the Board of Governors of the Federal Reserve System issued [SR Letter 09-4](#), “Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies (BHCs).” The letter largely reiterates longstanding Federal Reserve supervisory policies and guidance in light of recent market events. The principles discussed in this letter are applicable to all BHCs, and are especially relevant for BHCs that are experiencing financial difficulties and/or receiving public funds under the Department of Treasury (Treasury) Capital Purchase Program (CPP) and any other Treasury programs.

A fundamental principle underlying the Federal Reserve’s supervision and regulation of BHCs is that a BHC should serve as a source of managerial and financial strength to its subsidiary banks. Consistent with this premise, the Federal Reserve expects an organization to hold capital commensurate with its overall risk profile.

BHCs participating in the CPP and other government capital programs must comply on an ongoing basis with the pertinent capital and other requirements established by the Treasury (including those explicitly set forth in Emergency Economic Stabilization Act of 2008).

*Statement in support of the
‘Making Home Affordable’
loan modification
program issued*

On March 4, 2009, the Treasury Department released [detailed program guidelines](#) for modifying eligible mortgages under the Homeowner Affordability and Stability Plan. The program, called the Home Affordable Modification Program, offers refinancing options to borrowers whose homes have lost substantial value and are unable to refinance under standard mortgage programs. The program also offers a loan modification program aimed at distressed borrowers who currently have high mortgage debt levels. Both lenders and borrowers who participate in the program are eligible for compensation for their participation.

In a [statement](#) also released on March 4, the Federal Reserve System, as well as the other regulatory agencies, encourages all federally regulated financial institutions that service or hold residential mortgage loans to participate in the program. Financial Stability Plan recipients will be required to use the program’s guidelines for loan modifications.

*Amendments to
Regulation Z for private
education loans proposed*

On March 11, 2009, the Federal Reserve Board proposed for public comment amendments to Regulation Z as required by the Higher Education Opportunity Act (HEOA). The rule will require creditors to give additional disclosures when making private education loans. These include providing disclosures about loan terms and features on or with the loan application and disclosing information about federal student loan programs that may offer less costly alternatives. Private education loans are defined as loans made expressly for postsecondary educational expenses, but excluding open-end credit; real estate-secured loans; or loans made, insured or guaranteed by the federal government. Comments may be submitted until May 26, 2009.

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