



fed LETTER

Colorado ★ Kansas ★ Missouri ★ Nebraska ★ New Mexico ★ Oklahoma ★ Wyoming

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FEDERAL RESERVE BANK of KANSAS CITY

AG FINANCE CONDITIONS STRENGTHEN, DATABOOK FINDS

Agricultural finance conditions strengthened amid soaring farmland values, booming farm incomes and rising commodity prices, according to the latest edition of the Federal Reserve *Agricultural Finance Databook*. Elevated incomes, especially in grain-producing regions, drove cropland values as much as 20 percent above year-ago levels. With stronger loan portfolios, agricultural banks ended the year with their best performance since the start of the financial crisis.

The Federal Reserve System's Agricultural Finance Databook is a quarterly compilation of national and regional agricultural finance data.

COMMUNITY AFFAIRS NEWSLETTER NOW AVAILABLE

The Spring 2011 issue of *Community Connections* showcases a variety of new outreach activities, including an effort by 13 Community Development Financial Institutions (CDFIs) in Colorado to band together to increase their impact. The issue also describes collaborative efforts in Kansas City to transform vacant properties into affordable housing and efforts in New Mexico to curtail foreclosure rescue scams. The newsletter also describes the Kansas City Fed's new executive succession-planning toolkit, tailored to nonprofit organizations. The regular Q&A feature this quarter focuses on economic development and workforce challenges facing rural Kansas.

Published quarterly, *Community Connections* reports on research, programs and emerging issues affecting low- and moderate-income and small business communities. [An archive of past issues](#) is available from the Kansas City Fed's website.

DISTRICT MANUFACTURING
MODERATES IN APRIL

Growth in Tenth District manufacturing activity moderated somewhat in April, but remained solid, according to the latest [Survey of Tenth District Manufacturing](#). Most producers continued to report healthy expectations. Raw materials prices continued to rise, and more producers raised selling prices.

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.

LATEST *ECONOMIC REVIEW*
RESEARCH AVAILABLE

New articles from the Kansas City Fed's [Economic Review](#) are now available on the Bank's website:

[“Could Restrictions on Payday Lending Hurt Consumers?”](#) by Kelly D. Edmiston, finds that restrictions could deny some consumers access to credit, limit their ability to maintain formal credit standing or force them to seek more costly credit alternatives.

[“The Importance of Off-Farm Income to Servicing Farm Debt,”](#) by Brian C. Briggeman, finds that financial stress among farmers intensifies as local unemployment rates rise—especially among small farmers, livestock producers and young farmers who operate near manufacturing areas.

[“Output Gaps and Monetary Policy at Low Interest Rates,”](#) by Roberto M. Billi, examines why policymakers should usually focus on the output gap as an indicator of economic activity when policy rates are constrained by the zero lower bound.

[“Building U.S. Agricultural Exports: One BRIC at a Time,”](#) by Jason Henderson, explores the future of agricultural export markets in Brazil, Russia, India and China.

REGULATORY DEVELOPMENTS
Fed proposes repeal of Regulation Q

The Federal Reserve Board is requesting comment on a [proposed rule](#) to repeal Regulation Q, which prohibits the payment of interest on demand deposits by institutions that are member banks of the Federal Reserve System. The proposed rule would implement Section 627 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Comments are due on or before May 16, 2011.

Agencies request comment on proposed rule for margin and capital requirements

Federal financial services regulatory agencies are requesting comment on a [proposed rule](#) that would require certain swap entities regulated by the five agencies to collect minimum amounts of initial margin and variation margin from counterparties to non-cleared swaps and non-cleared, security-based swaps. The proposed margin requirements would apply to new, non-cleared swaps or security-based swaps entered into after the proposed rule's effective date. The proposal also seeks comment on several alternative approaches to establishing margin requirements. Comments are due on or before June 24, 2011.

*Incentive compensation
rule proposed*

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the federal financial regulatory agencies have issued a joint **proposed rule** on incentive compensation. The rule would apply to certain financial institutions—generally those with more than \$1 billion in assets—and would establish heightened standards for institutions with more than \$50 billion in assets. The proposal, which complements guidance previously issued by the agencies, would prohibit excessive incentive-based compensation, fees or benefits, as well as incentive-based compensation that encourages risks that could lead to material loss.

The proposal requires that incentive compensation practices be consistent with three key principles: 1.) that they appropriately balance risk and financial rewards; 2.) that they be compatible with effective controls and risk management; and 3.) that they be supported by strong corporate governance.

The proposal also requires that financial institutions with more than \$1 billion in assets have policies, procedures and regulatory reports to ensure compliance with the rule. The Board is requesting comment on definitions of key terms, time constraints proposed, alternative approaches and all other aspects of the proposal. Comments must be submitted by May 31, 2011.

*Model risk management supervisory
guidance issued*

The Federal Reserve and Office of the Comptroller of the Currency (OCC) have issued “**Supervisory Guidance on Model Risk Management**,” which is intended for use by banking organizations and supervisors as they assess management of model risk. It expands on prior model guidance that focused on model validation, addressing sound development, implementation and use of models as vital elements. Furthermore, model risk management encompasses governance and control mechanisms such as board and senior management oversight, policies and procedures, controls and compliance, and an appropriate incentive and organizational structure.

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