



fed LETTER

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

September 2009

FEDERAL RESERVE BANK of KANSAS CITY

ANNUAL SYMPOSIUM PRESENTATIONS AVAILABLE

The Kansas City Fed hosted its annual economic symposium in Jackson Hole, Wyo., from Aug. 20 to 22. This year's symposium focused on "[Financial Stability and Macroeconomic Policy](#)," and featured papers and discussions on current issues facing the global financial system.

[Materials from past symposiums](#), which date back to the first event in 1978, are also available from the Kansas City Fed's website.

MANUFACTURING SURVEY FINDS RISING EXPECTATIONS

Tenth District manufacturing activity eased slightly in August as firms continued to trim inventories, but expectations for future factory activity rebounded to levels not seen since last year, according to the latest [Survey of Tenth District Manufacturers](#). Most price indexes in the survey began to level out after falling sharply through most of the year.

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.

KANSAS CITY FINANCIAL STRESS INDEX DECLINES SLIGHTLY IN JULY

The Kansas City Financial Stress Index (KCFSI), a newly developed tool to measure financial stress, was down slightly in July to 1.26, compared to 1.28 in June. The [current index](#) is well below its peak in October 2008, but is still higher than the beginning of the financial crisis in July 2007.

The [KCFSI](#) is a monthly measure of stress in the U.S. financial system based on 11 financial market variables. A positive value indicates that financial stress is above the long-run average, while a negative value signifies that financial stress is below the long-run average. Another useful way to assess the current level of financial stress is to compare the index to its value during past, widely recognized episodes of financial stress.

**AG SURVEY FINDS SOLID
FARM CONDITIONS**

The District farm economy remained solid in the second quarter after softening from last year's boom, according to the Federal Reserve Bank of Kansas City's [second quarter Survey of Agricultural Credit Conditions](#). The survey of 256 banks also found that farmland values held firm as farm incomes improved with higher commodity prices.

The survey panel consists of about one-third of the District's agricultural banks, selected according to geographic distribution and size. Agricultural banks are those with a greater percentage of agricultural loans in their loan portfolios than the national average of approximately 15 percent. Survey results summarize several indicators of farm financial conditions, including farmland values, interest rates on farm loans, credit supply and demand, and farm commodity prices.

**NEW KANSAS CITY FED
RESEARCH AVAILABLE**

New research from the staff of the Kansas City Fed is now available:

- ["How Will Unemployment Fare Following the Recession?"](#) by Edward Knotek and Stephen Terry, suggests that unemployment may recover much more slowly from this recession than from past severe recessions, and that policymakers may have to reconsider the level of unemployment that is consistent with their goals.
- ["Beyond Inflation Targeting: Should Central Banks Target the Price Level?"](#) by George A. Kahn, examines price-level targeting and discusses why policymakers may be reluctant to adopt such a strategy.
- ["Coming Home to Rural America: Demographic Shifts in the Tenth District,"](#) by Jason Henderson and Maria Akers, examines whether rural areas should focus more on the recent trend of middle-aged families coming home to rural America.

HOLIDAY REMINDER

The Kansas City Fed will be closed on Monday, Sept. 7, for Labor Day and Monday, Oct. 12, for Columbus Day. A [complete listing](#) of Federal Reserve System holidays is available from the FRS Financial Services website.

**WELCOME, NEW STATE
MEMBER BANKS**

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

First Bank of Utica	Utica, Neb.	June 25
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REGULATORY
DEVELOPMENTS

*Kansas City Fed hosting
Accounting/Auditing Roundtables*

The Supervision and Risk Management Division of the Federal Reserve Bank of Kansas City is hosting the 17th annual Accounting/Auditing Roundtables during the week of Nov. 2 in Denver and Kansas City. Registrations will be accepted from late September through mid-October. The primary goal of the roundtables is to share knowledge about issues arising from accounting pronouncements, banking legislation and examination experiences, while enhancing communication with the Federal Reserve. A representative from the Accounting Policy and Disclosure section at the Federal Reserve's Board of Governors will participate in the discussions.

About 120 bankers and accounting and auditing professionals with responsibility relative to financial reporting for their banking organizations are invited to attend one of the four sessions in Denver and Kansas City.

For the agenda and more information, visit the [Accounting/Auditing Roundtable Web site](#), or contact Lisa Aquino at (800) 333-1010, ext. 12494, or Anita Feemster at (800) 333-1030, ext. 38603.

*Disclosure rule changes on
closed-end mortgages and home
equity lines of credit proposed*

The Federal Reserve Board (Board) issued for public comment significant [changes to Regulation Z](#) intended to improve the disclosures consumers receive in connection with closed-end mortgages and home equity lines of credit (HELOCs).

Closed-end mortgage disclosures would be revised to highlight potentially risky features such as adjustable rates, prepayment penalties and negative amortization, and would prohibit payments to mortgage brokers that are based on the loan's interest rate or other terms. The rules for HELOCs would be revised to change the timing, content and format of the disclosures that creditors provide to consumers at application and throughout the life of such accounts.

Under the proposal, consumers would receive a new one-page Board publication summarizing basic information and risks regarding HELOCs at application. Shortly after application, consumers would receive new disclosures that reflect the specific terms of their credit plans.

Comments must be submitted by Dec. 24, 2009.

*Annual adjustment of fee-based
trigger for Regulation Z announced*

Effective Jan. 1, 2010, the dollar amount of the [fee-based trigger](#) for which additional disclosures are required under Regulation Z will rise to \$579. The Home Ownership and Equity Protection Act of 1994 restricts credit terms, such as balloon payments, and requires additional disclosures when total points and fees payable by the consumer exceed the fee-based trigger or 8 percent of the total loan amount, whichever is larger.

*Fair lending examination
procedures revised*

Revised fair lending examination procedures have been developed by the Task Force on Consumer Compliance of the Federal Financial Institutions Examination Council. The revised procedures incorporate changes in credit markets and products since the last update.

Revisions include additional guidance related to pricing, steering, redlining, broker activity and performing examinations with small sample sizes, and confirm that data used in examinations will generally be validated prior to conducting the fair lending examination. The revised Interagency Fair Lending Examination Procedures, like the previous procedures, serve as broad guidelines for conducting routine fair lending examinations.

*New examination
procedures developed for tenant
protection act*

New examination procedures have been developed to assess institutions' compliance with the "Protecting Tenants at Foreclosure Act of 2009," which became effective on May 20, 2009. The Act provides additional protections for tenants who reside in foreclosed properties. The tenant protection provisions apply in the case of any foreclosure on any loan secured by a lien on a one- to four-family residential real property, including individual units of condominiums and cooperatives. They provide that "any immediate successor in interest" in such a foreclosed property, including a bank that takes title to a house after foreclosure, will assume the interest subject to the rights of any bona fide tenant and certain notice requirements.

Under this law, the immediate successor in interest must provide tenants with notice at least 90 days before evicting them. Additionally, tenants must be able to stay in the residence until the end of their lease, with two exceptions: (1) where the property is sold after foreclosure to a purchaser who will occupy the property as a primary residence and, (2) where there is no lease (or where the lease is terminable at will under state law). However, even when these exceptions apply, tenants must still receive 90-days notice before eviction.

*Regulation Z exam
procedures revised*

The Task Force on Consumer Compliance of the Federal Financial Institutions Examination Council recently approved revised interagency examination procedures for Regulation Z-Truth in Lending. These revised procedures incorporate recent amendments to the Truth in Lending Act and include new notification requirements for mortgage loans that are sold or transferred as well as new early disclosure timing requirements for mortgage loans.

In addition, they include the first phase of amendments required by the Credit Card Accountability, Responsibility, and Disclosure Act of 2009 related to the timing of periodic statements for open-end accounts and requirements for change-in-term notices on credit card accounts.

Final amendments to Regulation Z on private education loans approved

As required by the Higher Education Opportunity Act, the Federal Reserve Board has approved **final amendments to Regulation Z** to implement disclosure requirements for private education loans. Creditors that extend private education loans must provide disclosures about loan terms and features on or with the loan application and must also disclose information about federal student loan programs that may offer less costly alternatives. Additional disclosures must be provided when the loan is approved and when the loan is consummated. The amendments are effective Sept. 14, 2009, but compliance is optional until Feb. 14, 2010.

Comment on proposed Call Report revisions requested

The Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board (Board), and the Office of the Comptroller of the Currency (OCC) are requesting comment on a number of **proposed revisions to the Call Report** that would take effect March 31, 2010. The reporting changes include:

- New items identifying the components of other-than-temporary impairment losses on debt securities, consistent with the presentation requirements of a recent accounting standard;
 - Clarification of the instructions for reporting unused commitments;
 - Breakdowns of existing items for unused credit card lines and other unused commitments, with the breakdown of credit card lines required only for certain institutions, and a related breakdown of the existing item for other loans;
 - New items pertaining to reverse mortgages that would be collected annually beginning Dec. 31, 2010;
 - A breakdown of the existing item for time deposits of \$100,000 or more (in domestic offices) and revisions of existing items for brokered deposits as a result of the temporarily increased deposit insurance coverage;
 - New items for the interest expense and quarterly averages for fully insured brokered time deposits and other brokered time deposits;
 - A change from annual to quarterly reporting for small business and small farm lending data and for the number of certain deposit accounts; and
 - The elimination of the item for internal allocations of income and expense from the schedule for income from foreign offices.
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