

fed LETTER

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



October 2009

FEDERAL RESERVE BANK of KANSAS CITY

BANK PRESIDENT PROPOSES 'TOO-BIG-TO-FAIL' RESOLUTION PROCESS

Kansas City Fed President Tom Hoenig has been a strong proponent of addressing the issue of so-called “too-big-to-fail” financial firms by establishing a legal process that is consistent to firms of all sizes and holds those responsible for a firm’s condition accountable for its performance.

Hoenig, along with vice president and economist Charles Morris and senior economist Kenneth Spong, has prepared [a document](#) explaining how that process could work.

MANUFACTURING ACTIVITY REBOUNDS IN SEPTEMBER

Tenth District manufacturing activity rebounded in September as firms’ orders picked up slightly, and expectations mostly held steady with last month’s positive outlook, according to the latest [Survey of Tenth District Manufacturing](#). Most price indexes in the survey inched higher but still remained at fairly low levels.

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.

INDEX SUGGESTS DECLINING FINANCIAL STRESS

The [latest reading](#) of the Kansas City Financial Stress Index (KCFSI) suggests financial stress declined in August compared to July but remains higher than its pre-crisis level. The index’s August level was 0.81, compared to 1.26 in July.

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.

TEN MAGAZINE LOOKS AT
RURAL BANKING COMPETITION

The fall issue of *TEN magazine* examines the changing competitive landscape in rural banking. Competition for customers in rural America is increasing, especially from the federally chartered Farm Credit System. Banks say there is an unfair advantage, while the Farm Credit System says choices benefit consumers.

Also included in this issue of *TEN*: a look at the home foreclosure crisis as it spreads to higher-income neighborhoods; a breakdown of how U.S. regions are affected by the most recent recession and what causes the variances; a few words from Kansas City Fed President Tom Hoenig on expanding the Fed's role in the payments system; and tips, free activities and resources for talking to kids about smart spending.

TEN is made up of a variety of feature stories that highlight Kansas City Fed research and practices through the experiences of everyday people from around the Tenth District.

LIVESTOCK INDUSTRY HIT HARD
BY RECESSION, ARTICLE FINDS

The recent recession has wounded the livestock industry. In an article titled "[The Slow Road Back for the U.S. Livestock Industry](#)," Jason Henderson, vice president and Omaha Branch executive, and Brian Briggeman, economist, explore the industry's recent performance in both profitability and competitiveness. The article appears in the latest edition of *The Main Street Economist*.

The authors note that renewed prosperity in the industry hinges on a rebound in protein demand globally. As stronger economic growth emerges in developing countries, foreign consumers will enjoy some of the fastest-rising disposable incomes in the world—with per capita meat consumption to match.

DISTRICT ECONOMIC
INDICATORS UPDATED

Several [indicators of economic activity](#) in the Tenth District were recently updated. These indicators, which are also available on a state level, include data on employment, construction activity, energy and natural resources.

HOLIDAY REMINDER

The Federal Reserve Bank of Kansas City will be closed Monday, Oct. 12, for Columbus Day and Wednesday, Nov. 11, for Veterans' Day. A [full list](#) of Federal Reserve holidays is available from the FRB Financial Services website.

REGULATORY
DEVELOPMENTS
*Supervision policy for nonbank
subsidiaries of bank holding
companies in effect*

Effective immediately, the Federal Reserve System will begin conducting risk-focused [consumer compliance supervision](#) of, and the investigation of consumer complaints against, nonbank subsidiaries of bank holding companies and foreign banking organizations with activities covered by the consumer protection laws and regulations the Federal Reserve has the authority to enforce.

Risk assessments of these entities will be completed by the end of the second quarter of 2010. These assessments will enhance the Federal Reserve's understanding of the consumer compliance risk profile of nonbank subsidiaries and guide supervisory activities for these entities.

*Comment sought on proposed
regulatory capital standards rule*

The federal banking and thrift regulatory agencies are seeking comment on a [**proposed regulatory capital rule**](#) related to the Financial Accounting Standards Board's adoption of Statements of Financial Accounting Standards Nos. 166 and 167. Beginning in 2010, these accounting standards will make substantive changes to how banking organizations account for many items, including securitized assets, that are currently excluded from these organizations' balance sheets.

The agencies are issuing the proposal to better align regulatory capital requirements with the actual risks of certain exposures. Banking organizations affected by the new accounting standards generally will be subject to higher minimum regulatory capital requirements. The agencies' proposal seeks comment and supporting data on whether a phase-in of the increase in regulatory capital requirements is needed. It also seeks comment and supporting data on the features and characteristics of transactions that, although consolidated under the new accounting standards, might merit an alternative capital treatment, as well as on the potential impact of the new accounting standards on lending, provisioning and other activities.

Comments on all aspects of the proposed rule are due by **Oct. 15, 2009**.

*Examination procedures
for Regulation Z 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 amendments released by the Board of Governors of the Federal Reserve System in July 2008 related to higher-priced mortgage loans. These procedures replace the procedures recently released under CA 09-7.

*Credit quality declines in annual
Shared National Credit Review*

The interagency [**Shared National Credit \(SNC\) Review**](#) for 2009 found credit quality deteriorated to record levels with respect to large loans and loan commitments held by U.S. bank organizations; foreign bank organizations; and nonbanks such as securitization pools, hedge funds, insurance companies and pension funds.

The total loss of \$53 billion identified in the 2009 review exceeded the combined loss of the previous eight SNC reviews and nearly tripled the previous high in 2002. The declining credit quality is attributed to weak economic conditions affecting most industries and weak credit underwriting standards leading up to 2008.

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