fed LETTER

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

November 2010 | FEDERAL RESERVE BANK *of* KANSAS CITY

FED LETTER READERSHIP SURVEY AVAILABLE ONLINE

The **2010 Fed Letter Readership Survey**, designed to let readers offer their thoughts and suggestions on *Fed Letter*, is now available. The survey is aimed at better understanding the needs of *Fed Letter* subscribers and making *Fed Letter* more useful in 2011.

The survey will be available until Dec. 31, 2010. Please contact editor Bill Medley at **bill.medley@kc.frb.org** or (816) 881-2556 if you have any questions about the survey or additional suggestions for *Fed Letter*.

KANSAS CITY FED ANNOUNCES BOARD OF DIRECTORS ELECTION RESULTS, FEDERAL ADVISORY APPOINTMENT

The Federal Reserve Bank of Kansas City announces the results of a recent election to fill two seats on its Board of Directors.

Max T. Wake, president of Jones National Bank and Trust Company, Seward, Neb., was elected as a Class A director, representing commercial banks that are members of the Federal Reserve System. Mark Gordon, owner of Merlin Ranch Inc., Buffalo, Wyo., was reelected as a Class B director, representing the public. Both were elected to serve three-year terms starting Jan. 1, 2011, by Group 3 member banks, which have a combined capital and surplus of less than $3.25 million.

The Kansas City Fed's Board of Directors includes nine members: Six are elected by member banks in the seven states of the Tenth Federal Reserve District and three are appointed by the Board of Governors of the Federal Reserve System to represent the general public. Directors meet monthly to confer on economic and banking developments and to advise the Bank on its operations and policies. The directors are responsible for establishing the Bank's discount rate, subject to review and determination by the Federal Reserve Board.

Also, Stanley Lybarger, president and CEO of Bank of Oklahoma, Tulsa, Okla., was appointed as the Bank's representative to the Federal Advisory Council for 2011. Council members consult with and advise the Federal Reserve Board of Governors in Washington, D.C., on all matters under the Board's jurisdiction.

Board of Directors appointments announced at Branches

Several appointments were made to the Boards of Directors at the Bank's branch offices in Omaha, Denver and Oklahoma City, effective Jan. 1, 2011. Each Branch board consists of seven members serving three-year terms who provide advice and counsel to the Federal Reserve Bank of Kansas City.

At the Omaha Branch, JoAnn Martin, chairman, president and CEO of Ameritas Life Insurance, Lincoln, Neb., was reappointed to the Branch's board, and James Farrell, president and CEO of Farmers National Co., Omaha, Neb., was named chairman for 2011.

At the Denver Branch, Mark Zaback, president of Jonah Bank of Wyoming, was reappointed to the board, and Barbara Mowry, senior vice president of Oracle, Broomfield, Colo., was renamed chairman for 2011.

At the Oklahoma City Branch, Doug Tippens, president of Bank of Commerce, Yukon, Okla., and Jacque Fiegel, senior executive vice president and COO of Coppermark Bank, Oklahoma City, were reappointed to the board.

Manufacturing survey finds activity expands moderately

Tenth District manufacturing activity continued to expand moderately in October, and producers were increasingly optimistic about future activity, according to the latest **Survey of Tenth District Manufacturers**. Price indexes in the survey edged up slightly for the second straight month.

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 financial stress edges lower

The Kansas City Financial Stress Index (KCFSI) was 0.05 in October, up from -0.11 in September. The moderate increase in the index followed a substantial decline in August and a slight decrease in September. The October increase moved the KCFSI back above its long-run average of zero, but by only a small margin.

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.

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:

FirstBank of Colorado	Lakewood, Colo.	Oct. 18

Holiday reminder

The Federal Reserve Bank of Kansas City will be closed on Nov. 25 for Thanksgiving. A **full list** of Federal Reserve holidays is available from FRB Services.

New Federal Reserve report details neighborhood stabilization efforts

During the last two years, the Federal Reserve System has sponsored programs across the country aimed at improving conditions in neighborhoods facing high foreclosure rates. A new report, **Addressing the Impact of the Foreclosure Crisis**, details these innovative, community-based foreclosure prevention and neighborhood stabilization activities.

The report is part of the Federal Reserve's Mortgage Outreach and Research Efforts (MORE) initiative, which was created in 2009 by the presidents of the 12 Federal Reserve Banks, working closely with the Board of Governors in Washington, D.C., to leverage the Fed's expertise in mortgage markets in ways that are useful to policymakers, community organizations, financial institutions and the public.

Regulatory Developments

Enhanced consumer protections and disclosures for home mortgage transactions proposed

The Federal Reserve Board has proposed **amendments to Regulation Z** as part of a comprehensive review of the Regulation's rules for home-secured credit. This proposal would revise the rules for the consumer's right to rescind certain open-end and closed-end loans secured by the consumer's principal dwelling. In addition, the proposal contains revisions to the rules for determining when a modification of an existing closed-end mortgage loan secured by real property or a dwelling is a new transaction requiring new disclosures.

The proposal would amend the rules for determining whether a closed-end loan secured by the consumer's principal dwelling is a "higher-priced" mortgage loan subject to special protections. The proposal would provide consumers with a right to a refund of fees imposed during the three business days following the consumer's receipt of early disclosures for closed-end loans secured by real property or a dwelling. Finally, the proposal also would amend the disclosure rules for open- and closed-end reverse mortgages. Comments must be received on or before Dec. 23, 2010.

Interim rule released revising disclosure requirements for closed-end mortgages

The Federal Reserve Board (Board) released an **interim rule under Regulation Z** that revises the disclosure requirements for closed-end mortgage loans. Under the interim rule that was required by the Mortgage Disclosure Improvement Act, cost disclosures must include a payment summary in a tabular format that indicates how a borrower's payment can change over time. Disclosures also must state any features of the loan that will cause the loan amount to increase. Compliance with the interim rule is required on Jan. 30, 2011. In addition, the Board is requesting comment on the interim rule until Nov. 23, 2010.

Final Community Reinvestment Act rule announced to implement Higher Education Opportunity Act provision

The federal banking and thrift regulatory agencies have announced a **final Community Reinvestment Act (CRA) rule** to implement a provision of the Higher Education Opportunity Act. The provision requires the agencies to consider low-cost higher education loans to low-income borrowers as a positive factor when assessing a financial institution's record of meeting community credit needs under the CRA.

The final rule also incorporates the statutory provision that allows the agencies to consider capital investment, loan participation and other ventures undertaken by nonminority-owned and women-owned financial institutions in cooperation with minority- and women-owned financial institutions and low-income credit unions as a factor when assessing an institution's CRA record. The final rule is effective on Nov. 3, 2010.

Reverse mortgage products: Guidance adopted for managing compliance and reputation risks

The Federal Reserve, along with other financial regulators of the Federal Financial Institutions Examination Council, has adopted **guidance on reverse mortgage products**. The guidance was developed to address the compliance and reputation risks associated with reverse mortgages in light of the anticipated growth in the market as the U.S. population ages. While reverse mortgages allow senior citizens to access the equity in their homes, the loans are highly complex. Accordingly, lenders must manage the compliance and reputation risks associated with reverse mortgages, and should disclose adequate information and provide other appropriate protections to consumers as discussed in the guidance.

The guidance, titled Reverse Mortgage Products: Guidance for Managing Compliance and Reputation Risk, has been incorporated by the Federal Reserve as Consumer Affairs (CA) letter 10-11. Senior management of state member banks should ensure that risk management practices related to reverse mortgages incorporate this guidance. Compliance examinations of state member banks who offer reverse mortgage products will include a review of these products for compliance with the guidance. The guidance is effective as of Oct. 18, 2010.

Interim final rule announced on real estate appraisals

The Federal Reserve Board announced an **interim final rule** to ensure that real estate appraisers are free to use their independent, professional judgment in assigning home values without influence or pressure from those with interests in the transactions. The rule also seeks to ensure that appraisers receive customary and reasonable payments for their services.

The interim final rule provides that the Home Valuation Code of Conduct, the current standard for appraisal independence for loans purchased by Fannie Mae and Freddie Mac, will have no further force or effect. The interim final rule applies to creditors, appraisal management companies, appraisers, mortgage brokers, realtors, title insurers and other firms that provide settlement services. It applies to appraisals for any consumer credit transaction secured by the consumer's principal dwelling. The rule clarifies the use of in-house staff appraisers and affiliated appraisal management companies and provides special guidance on establishing firewalls between the appraisal function and the loan production function for institutions with assets of $250 million or less.

The interim final rule is required by section 1472 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which amended the Truth in Lending Act (TILA). Section 1472 of Dodd-Frank codifies the 2008 Appraisal Independence Rules, enacted by the Board under the Home Ownership and Equity Protection Act, and expands on the protections in those rules. TILA is implemented by the Board's Regulation Z, 12 CFR part 226. The interim final rule was published in the Federal Register on Oct. 28, 2010, and public comments are due by Dec. 27, 2010. The rule becomes effective on Dec. 27, 2010, but compliance is optional until April 1, 2011.

Fed Letter • November 2010

***Fed Letter* is published by the Federal Reserve Bank of Kansas City,**
1 Memorial Drive, Kansas City, Missouri, 64198-0001, (800) 333-1010.

Editor: Bill Medley
Graphic Designer: Beth Norman