

# Fed Letter



## New Consumer Advisory Council members named

The Federal Reserve Board named 10 new members to its Consumer Advisory Council earlier this year, including Lance Morgan of Winnebago, Neb. Morgan is president and CEO of Ho-Chunk, Inc.

The council, which meets three times a year in Washington, D.C., advises the Board on the exercise of its responsibilities under the Consumer Credit Protection Act and other matters involving consumer financial services. Council members serve three-year terms.

For more information about new and existing council members, see the press release on the Board of Governors' website at <http://www.federalreserve.gov/boarddocs/press/other/2006/20060109/default.htm>.

## Beige Book released

The latest edition of the Beige Book was released Jan. 18. The Beige Book is a summary of current economic conditions in each Federal Reserve district. Economic expansion continued nationwide through the last several weeks of 2005. Half of the districts, including the Tenth District, characterized their economies as expanding moderately or modestly, while in the other districts activity accelerated, increased, expanded, or remained reasonably strong. The Tenth District reported robust expansion in manufacturing activity, increased employment, and strong housing markets.

For details about national and Tenth District economic activity, visit <http://www.federalreserve.gov/fomc/beigebook/2006/20060118/default.htm>.

## Manufacturing Survey released

The monthly manufacturing survey for the Tenth Federal Reserve District was released Dec. 29. The survey asks plant managers about a variety of manufacturing indicators. The information is compiled into a snapshot of manufacturing in the district. Manufacturing activity in the Tenth District accelerated in December, with expectations for solid future factory activity, especially for capital spending. Survey price indexes remained elevated, and future finished goods prices may reach a new record high.

To view the current survey, visit <http://www.kansascityfed.org/mfgsurv/2005Dec29mfg.htm>.

## Latest issue of *The Main Street Economist* available

Farmland values continue to rise and agricultural credit conditions remain strong throughout the nation. Despite rising farm input costs trimming farm incomes in 2005, the overall picture of farm income remains bright, and estimates indicate that 2005 will be the second-largest net farm income year on record. In addition to these issues, the article "U.S. Agricultural Credit Conditions: Rising Energy Prices Boost Farm Costs" in the November 2005 issue explores issues related to farm loans. *The Main Street Economist* is available at <http://www.kansascityfed.org/RuralCenter/mainstreet/MainStMain.htm>.

## Seasonal credit available for community banks

The Federal Reserve offers seasonal credit to community banks with less than \$500 million in deposits to help them meet their local customers' seasonal needs. Community banks that experience intra-yearly fluctuations in their deposits and loans - caused by construction or farming operations, college or resort activities, and other types of seasonal business - frequently can qualify.

Eligibility for the Seasonal Credit Program is based on the following criteria:

- The need arises from movement in loans and deposits.
- The need lasts for at least four consecutive weeks and generally no more than nine months.
- The need is partially funded from the institution's own sources of liquidity.

Once approved, banks can use their seasonal lines as a primary seasonal funding source or as backstop credit. The Federal Reserve's seasonal credit is offered at a market-based rate; as of Jan. 19, 2006, the seasonal credit rate was 4.40 percent. Credit may be drawn down incrementally, as needed, and partial and full prepayments are allowed without penalty.

If you have any questions or would like an application, please contact our Credit staff at (800) 333-2987, or visit [www.frbdiscountwindow.org](http://www.frbdiscountwindow.org). Select "General Information," then select "Seasonal Lending Program."

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## Schedule announced for Regulatory Update series

The Supervision and Risk Management Division will be conducting Regulatory Update Seminars at various locations in the Tenth District again this spring. The half-day program will focus on current issues and strategies relevant to state member banks and bank holding companies. The seminar will include topics covering the economy and current banking conditions for Midwestern and Mountain region banks, executive highlights of important regulatory topics, fundamentals of loan portfolio management, and an examiners' discussion on effective compliance programs in community banks.

The conference is designed for presidents, chief executive officers, directors, and senior staff of state member banks and bank holding companies throughout the district. Dates and locations of the conference are listed below. Registration begins at 8 a.m., with the program starting at 8:30 a.m. and ending by 12:15 p.m. Although there is no cost to attend the conference, pre-registration is required. The registration deadline is **March 6, 2006**. Please contact Lisa Aquino in our Kansas City office at (800) 333-1010, extension 2491 (816-881-2491 locally), or by e-mail at [lisa.aquino@kc.frb.org](mailto:lisa.aquino@kc.frb.org).

March 21 – Wichita, Kan.  
March 22 – Oklahoma City, Okla.  
March 23 – Tulsa, Okla.  
March 28 – Omaha, Neb.  
March 29 – Kearney, Neb.  
March 30 – Kansas City, Mo.  
April 7 – Kansas City, Mo.  
April 18 – Montrose, Colo.  
April 19 – Denver, Colo.  
April 20 – Casper, Wyo.

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## Holiday reminder

The Fed will be closed **Monday, Feb. 20, 2006**, for Presidents Day. A listing of the holidays observed by the Federal Reserve System is available at [www.frbervices.org](http://www.frbervices.org). In the left column, click "Holiday Schedules."

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## Regulatory developments

### Home Mortgage Disclosure Act information

The Board published on Dec. 16 its annual notice of the asset-size exemption threshold for depository institutions under Regulation C, which implements the Home Mortgage Disclosure Act. The asset-size exemption threshold for depository institutions is based on the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers. The adjustment from \$34 million to \$35 million effectively exempts depository institutions with assets of \$35 million or less as of Dec. 31, 2005, from data collection in 2006. The revision is effective **Jan. 1, 2006**, and applies to all data collection in 2006.

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### Proposed guidance on nontraditional mortgage products

On Dec. 20, the federal financial regulatory agencies issued proposed guidance on residential mortgage products that allow borrowers to defer payment of principal and sometimes interest. Examples of these nontraditional mortgage products include "interest-only" mortgage loans, where a borrower pays no principal for the first few years of the loan, and "payment option" adjustable-rate mortgages, where a borrower has flexible payment options, including the potential for negative amortization.

While innovations in mortgage lending can benefit some consumers, the agencies are concerned that these practices can present unique risks that institutions must appropriately manage. They also are concerned that these products and practices are being offered to a wider spectrum of borrower, who may not otherwise qualify for more traditional mortgage loans or may not understand fully the associated risk of nontraditional mortgages. The proposed guidance discusses the importance of carefully managing the potential heightened risk levels created by these loans.

Suggested measures for management include:

- Assessing a borrower's ability to repay the loan, including any balances added through negative amortization, at the fully indexed rate that would apply after the introductory period.
- Recognizing that certain nontraditional mortgage loans are untested in a stressed environment and warrant strong risk management standards as well as appropriate capital and loan loss reserves.
- Ensuring that borrowers have sufficient information to understand clearly loan terms and associated risks prior to making a product or payment choice.

Comments are due by **Feb. 27, 2006**.

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### Final amendments to Regulation E

On Dec. 30, the Board announced final amendments to Regulation E (Electronic Fund Transfer Act) that clarified the responsibilities of parties involved in electronic check conversion transactions and required that consumers receive written notification in advance of these transactions. Additional revisions to the regulation's official staff commentary provided guidance on preauthorized transfers from consumers' accounts, error resolution, and disclosures at automated teller machines.

As a separate measure, the Board also amended Regulation E so that it covers payroll card accounts. This separate interim final rule provides that payroll card accounts established for the purpose of providing salary, wages, or other employee compensation on a recurring basis are accounts covered by Regulation E.

The final rule addressing electronic check conversion and other matters takes effect on **Feb. 9, 2006**; the mandatory compliance date is **Jan. 1, 2007**. The amendments to address payroll cards are being issued as interim final rules so that interested parties may comment on the new requirements. The Board requests comments by **March 13, 2006**; the effective date for the final rule will be **July 1, 2007**.

**Request for  
burden reduction  
recommendtions**

On Jan. 4, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision issued a request for comment under the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) review. The agencies request comments and suggestions on ways to reduce burden with respect to rules regarding Prompt Corrective Action and the Disclosure and Reporting of CRA-Related Agreements, which are in the Capital and Community Reinvestment Act categories of regulations. This request represents the final request for comment on categories of regulations in the EGRPRA process. Comments must be received no later than **April 4, 2006**.

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**Proposed guidance on  
commercial real estate  
lending**

The federal bank and thrift regulatory agencies issued for comment on Jan. 10 proposed guidance on sound risk management practices for concentrations in commercial real estate lending. The agencies have observed that some institutions have high and increasing concentrations of commercial real estate, where such concentrations may expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in the general commercial real estate market.

The proposed guidance reinforces existing guidelines for real estate lending and safety and soundness. It provides criteria for identifying institutions with commercial real estate loan concentrations that may warrant greater supervisory scrutiny. As provided in the guidance, such institutions should have robust risk-management systems in place and capital levels higher than the regulatory minimums and appropriate to the risk associated with these concentrations.

Comments are requested on all aspects of the guidance and are due by **March 14, 2006**.

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**Public service  
campaign to help  
hurricane victims**

The federal financial regulatory agencies announced on Jan. 13 a public service campaign to aid in the financial recovery of victims of last year's hurricanes. The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, and state financial regulators are encouraging banks, thrifts, and credit unions to continue to work with borrowers affected by the hurricanes.

The federal financial agencies continue to work to meet the needs of federally insured depository institutions and their customers. Additional guidance is available at the Federal Financial Institution Examination Council's website at **<http://www.ffiiec.gov>**.

The public service announcements (PSAs) are being distributed to print and radio media outlets with the highest concentrations of people affected by the hurricanes. The PSAs also are available for download and use from the OCC website at **<http://www.occ.gov/hurricane.htm>**.

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**Internet access**

Regulatory developments like those above can be obtained from our website at **[www.kansascityfed.org](http://www.kansascityfed.org)**. Point to "Banking Information" on the home page, then click "Regulations/Guidance," and select either of the first two categories, as appropriate.

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Editor: Sara Brunsvold

Supervisor: Jim Saladin

Graphic Designer: Beth Norman