



fed LETTER

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

JULY 2006

FEDERAL RESERVE BANK *of* KANSAS CITY

FURTHER STREAMLINING OF CASH- AND CHECK-PROCESS- ING OPERATIONS AHEAD

As the U.S. payments system continues to become more electronic, the Federal Reserve has announced further streamlining of cash- and check-processing operations across the nation. The Tenth Federal Reserve District is committed to supporting this transition.

Cash-processing operations in Omaha will transition to a third-party-operated cash depot. This depot, serviced by the Kansas City office's Cash Department, will handle deposits from and distribute currency orders to financial institutions in Nebraska and Iowa. This change in service will most likely occur in mid-2008.

The check-processing operations at the Kansas City office will be consolidated into the Eighth (St. Louis) District. The check adjustments function at the Kansas City office will not be affected. The consolidation is expected to occur in late 2007 or early 2008.

Meanwhile, the Denver office will assume check-processing responsibilities from the Helena, Mont., branch of the Ninth (Minneapolis) District by mid-2008.

BEIGE BOOK RELEASED

The latest edition of the Beige Book was released June 14. The Beige Book is a summary of current economic conditions in each Federal Reserve District. Overall economic activity continued to expand from mid-April to early June, but there were some signs of deceleration. Activity moderated in four Districts (Atlanta, Kansas City, Richmond, and San Francisco), and the New York District noted increased concern about the outlook for the second half. Seven Districts – Boston, Chicago, Cleveland, Dallas, Minneapolis, New York, and St. Louis – said growth was similar to the pace reported in the last Beige Book. The Philadelphia District, however, reported an improvement in overall economic conditions.

SUMMER ISSUE OF
TEN AVAILABLE

The **new issue** of *TEN*, the quarterly magazine of the Federal Reserve Bank of Kansas City, has been released. The cover story of this issue focuses on soaring farmland values as a result of the hot trend of outdoor recreation, which is spiking real estate prices and challenging farmers. Other features include credit union growth and bankers' concerns; financial education in the workplace and its effect on the bottom line; an update on interchange fees; and a look at the Federal Reserve Bank's international teaching program.

For a free subscription to the publication, register on the ***TEN* page** of our Web site or call 816-881-2683.

MANUFACTURING
SURVEY RELEASED

The **monthly manufacturing survey** for the Tenth Federal Reserve District was released June 29. The survey asks plant managers about a variety of manufacturing indicators. The information is compiled into a snapshot of manufacturing in the District. June held solid expansion in the District's manufacturing activity, following rapid growth in May. However, expectations for future factory activity were much less optimistic than in the recent past. The price indexes in the survey all increased and were at or near all-time highs.

LATEST ISSUE OF *THE
MAIN STREET ECONOMIST*
AVAILABLE

The **newest issue** was released June 22. In "A New Rural Economy: A New Role for Public Policy," authors Mark Drabenstott and Jason Henderson present the positive trends in rural employment and income growth in recent years, but suggest that rural regions face long-term economic challenges. They discuss the roles of entrepreneurship, innovation, and building critical mass in economic development and how public policy can foster these activities.

LESSONS LEARNED FROM
HURRICANE KATRINA
BOOKLET AVAILABLE

The Federal Financial Institutions Examination Council (FFIEC) and the Conference of State Bank Supervisors have compiled an informational booklet on how financial institutions can prepare for catastrophic events based on the experiences and lessons learned following Hurricane Katrina. The extent of destruction wrought by Katrina exceeded the scope of disaster recovery and business continuity at some institutions.

Major hardships faced by the Katrina-affected institutions included:

- communications outages,
- limited or nonexistent transportation to restricted areas,
- lack of electricity or fuel for generators,
- multiple facilities damaged, some to the point of inoperability,
- interrupted mail service for extended periods of time.

Insured depository institutions may access an **electronic copy** of the booklet on the FFIEC.gov Web site.

REGULATORY
DEVELOPMENTS

Bank Secrecy Act recordkeeping

The Federal Reserve Board, jointly with the Department of the Treasury's Financial Crimes Enforcement Network (FinCEN), on June 16 issued an **advance notice of proposed rulemaking** (ANPR) that seeks information on the potential benefit and burden of lowering or eliminating the \$3,000 threshold in the recordkeeping rule for funds transfers and transmittals of funds by financial institutions. The ANPR requests public comment on the potential benefit of a lower threshold to law enforcement and the potential burden of a lower threshold to the financial system. In addition, the ANPR seeks input from the general public on the potential impact that a lower threshold might have on their funds transfer or transmittal of funds practices.

*Banking agencies issue host
state loan-to-deposit ratios*

On June 13, 2006, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency announced the release of **updated host state loan-to-deposit (LTD) ratios** for use in determining compliance with section 109 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994.

Section 109 generally prohibits a bank, or branches controlled by an out-of-state bank holding company, from establishing or acquiring branches outside of its home state primarily for the purpose of deposit production. The host state LTD ratios are used for comparison with a multistate bank's statewide ratios for a particular state in order to determine the bank's compliance with section 109.

*Payment System Risk (PSR)
Policy announcements*

Below are three announcements related to the Federal Reserve Board of Governors' PSR Policy.

❖ The Federal Reserve Board is requesting public comment on a **consultation paper** that is intended to help the Board obtain broader information on intraday liquidity management issues and to lay the groundwork for discussions about the long-term evolution of its PSR Policy. The consultation paper stems from the Federal Reserve's ongoing review of the long-term effects of market, operational, and policy changes by the financial industry and the Federal Reserve on intraday liquidity and risks in the financial markets and the payments system, including account overdrafts at the Reserve Banks.

Comment is requested by **Dec. 15, 2006**.

❖ The Federal Reserve Board is requesting comment on proposed revisions to Part I of its **PSR Policy**, which addresses risk management in payments and settlement systems. The proposed revisions affect the policy in several ways:

1) The Board is proposing to incorporate into its policy the international risk management standards for central counterparties recently developed by the Committee on Payment and Settlement Systems of the central banks of the Group of Ten countries and the Technical Committee of the International Organization of Securities Commissions.

2) In support of these standards, the Board is proposing revisions to the scope of Part I of the policy with regard to central counterparties, and revisions to the purposes of Part I of the policy to clarify its views on risk management for payments and settlement systems generally and its expectations for systems subject to its authority.

3) The Board is proposing revisions that would establish an expectation that systemically important systems publicly disclose self-assessments against the principles or minimum standards incorporated in the PSR Policy.

Comment is requested by **Sept. 22, 2006**.

❖ As previously announced, modifications to the Federal Reserve's PSR Policy will be implemented on **July 20, 2006**, and will affect the processing of interest and redemption payments for securities issued by government-sponsored enterprises and certain international organizations. Information on the policy changes and resulting operational considerations can be found [here](#).

As a reminder, changes to the timing of some of these payments may affect account management for daylight overdraft purposes.

*More regulatory
developments*

To see more regulatory developments, go to the [Banking Information page](#) on our Web site and click "Regulations/Guidance" in the left column.

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