



# fed LETTER

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

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FEDERAL RESERVE BANK of KANSAS CITY

## MANUFACTURING ACTIVITY SEES MODERATE EXPANSION

The **monthly manufacturing survey** for the Tenth Federal Reserve District was released Aug. 30. 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 expanded moderately in August, and although producers' expectations for future growth eased slightly, most indexes remained at solid levels. Price indexes in the survey moderated, with both raw materials and finished goods prices posting lower readings than the previous month.

## FARM INCOME AND LAND VALUES CLIMB

The quarterly **Survey of Agricultural Credit Conditions** for the Tenth Federal Reserve District was released Aug. 15. The results of this survey of agricultural banks in the District summarize several indicators of farm financial conditions.

Farm income expectations and farmland values rose in the second quarter, fueled by strong crop prices and easing drought conditions.

## HOLIDAY REMINDER

The Federal Reserve will be closed **Monday, Oct. 8**, for Columbus Day. The FRB Services Web site features a **full listing** of all holidays observed by the Federal Reserve.

WHAT EXPANSION  
STRATEGIES ARE COMMUNITY  
BANKS ADOPTING?

Over the last several decades, banking consolidation has greatly transformed the banking industry. While this has left us with fewer and larger banks, notable consolidation and branching expansion has also occurred among community banks. Possible motivations for community bank consolidation include attempts to reach a more efficient and viable scale of operations, a need to achieve greater product and geographic diversification, and a desire to expand into faster growing markets.

[“The Changing Bank Structure: What Expansion Strategies are Community Banks Adopting?”](#) by James Harvey and Kenneth Spong, reviews these consolidation trends, concentrating on small banks that have expanded beyond their traditional markets, and analyzes how successful these strategies have been with regard to growth, earnings, capital adequacy and other measures of performance.

The article appears in the August 2007 *Financial Industry Perspectives*.

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BEIGE BOOK RELEASED

The [latest edition](#) of the Beige Book was released Sept. 5. The Beige Book is a summary of current economic conditions in each Federal Reserve District.

Reports from the 12 Districts indicate that economic activity has continued to expand. Most reported that the recent developments in financial markets had led to tighter lending standards for residential mortgages. Retail sales were generally positive, and nearly every District reported at least modest increases in employment.

In the Tenth District, consumer spending increased, driven by strong tourism spending, and labor markets continued to expand. Commercial real estate activity continued at a solid pace, but residential real estate weakened further.

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REGULATORY  
DEVELOPMENTS

*Statement on loss mitigation  
strategies for servicers of residential  
mortgages*

Many subprime and other mortgage loans have been transferred into securitization trusts governed by Pooling and Servicing Agreements.

The federal financial regulatory agencies and the Conference of State Bank Supervisors issued on Sept. 4, 2007, a [statement](#) encouraging federally regulated institutions and state-supervised entities that service securitized residential mortgages to review the Agreements to determine the extent of their authority to restructure loans that are delinquent, in default or in imminent risk of default and to pursue strategies to mitigate losses while preserving homeownership.

The statement provides steps that are appropriate for institutions to take when an increased risk of default is identified.

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*Proposed illustrations to  
support Statement on Subprime  
Mortgage Lending*

In an Aug. 14 [press release](#), the federal financial regulatory agencies issued proposed illustrations of consumer information for certain adjustable-rate mortgage (ARM) products described in the agencies' Statement on Subprime Mortgage Lending (Subprime Statement), effective July 10, 2007.

The financial regulatory agencies request public comment on these proposed illustrations on or before **Oct. 15, 2007**.

The illustrations are intended to provide an explanation of key risks identified in the Subprime Statement and examples of potential consequences of payment shock to assist institutions in providing consumers clear, balanced and timely information about the benefits and risks of certain ARM products, as recommended in the Subprime Statement.

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*FFIEC releases revised BSA/AML  
Examination Manual*

On Aug. 24, 2007, the Federal Reserve Board issued [Supervision and Regulation \(SR\) Letter 07-15](#) announcing the release of the 2007 *Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual* by the Federal Financial Institutions Examination Council (FFIEC).

While the revised manual does not set new standards, it does provide a compilation of existing regulatory requirements, supervisory expectations and sound practices in the BSA/AML. The revisions are meant to further clarify supervisory expectations; incorporate regulatory changes since July 28, 2006; and to provide current and consistent risk-based guidance for banking organizations to comply with the BSA and safeguard operations from money laundering and terrorist financing.

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*Annual adjustment of fee-based  
trigger for additional mortgage  
loan disclosures*

In an Aug. 1 [press release](#), the Federal Reserve Board announced its annual adjustment of the dollar amount that triggers additional disclosure requirements under the Truth in Lending Act for home mortgage loans that bear rates or fees above a certain amount. The adjustment is effective **Jan. 1, 2008**.

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