



# fed LETTER

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

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FEDERAL RESERVE BANK of KANSAS CITY

## WINTER ISSUE OF *TEN* MAGAZINE HIGHLIGHTS LABOR MARKET CHANGES

Although it may seem counterintuitive, unemployment continues to rise as the nation's economy recovers from the most recent recession. Changes in the labor market and the effects of the banking crisis may mean hiring will rebound more slowly compared to past severe recessions. Read how this will affect those in the workforce, as well as those looking for work, in the [new issue of \*TEN\*](#).

Also in this issue:

- How the recession and consumer behavior are affecting hog and cattle producers;
- Why the resurgence of middle-age workers can offset the out-migration of young adults in rural America;
- Which areas of the banking industry are faring better during the housing industry's dramatic decline;
- Perspective on voting with the Federal Open Market Committee from Kansas City Fed President Tom Hoenig;
- Tips, activities and resources to help kids set financial resolutions for the new year, from *TEN* columnist Michele Wulff, and more.

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

## BRIEFING PROVIDES OVERVIEW OF INTERCHANGE DEVELOPMENTS

Though consumer protection legislation relating to payment cards and other electronic payments has had a long history in the United States, congressional interest in the merchant relationship with the electronic payments industry is relatively recent.

The latest issue of [Payments System Research Briefing](#) provides a summary of recent developments in interchange legislation in the United States as well as the recently released Government Accountability Office report detailing its findings on interchange fees.

**SURVEY FINDS MANUFACTURING  
ACTIVITY MODERATES**

Growth in Tenth District manufacturing activity moderated somewhat in December, according to the [Survey of Tenth District Manufacturers](#), released Dec. 30. In addition, the survey found that producers were slightly less optimistic about the months ahead, with few planning major capital expenditures. Price indexes remained mostly stable.

The monthly survey provides information on current manufacturing activity in the Tenth District. The survey monitors manufacturing plants selected according to geographic distribution, industry mix and size.

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**FARMLAND VALUES EXPLORED  
IN LATEST EDITION OF *THE  
MAIN STREET ECONOMIST***

Farmland values have skyrocketed in recent years, but the recent recession cut farm incomes and cooled residential and recreational demand for farmland. In the latest edition of [The Main Street Economist](#), Jason Henderson and Maria Akers explore the sharp run-up and sudden cooling, as well as the key effects of residential and recreational demand on values. The article also describes how two factors—profitability from crop production and changes in capitalization rates—could influence future values.

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***FINANCIAL INDUSTRY PERSPECTIVES*  
EXAMINES MORTGAGE  
ORIGINATIONS' IMPACT  
ON LENDERS**

The residential real estate market in the United States has experienced dramatic deterioration in the last several years, and this deterioration has led to large declines in lending across the board—by type and size of lender—according to the latest edition of [Financial Industry Perspectives](#).

This study examines these trends, with particular emphasis on the effect of loan securitization and how it affected different types of lenders. The article finds that insured institutions, and especially smaller banks, have seen a substantial increase in their share of the residential real estate market over the last several years. The study also analyzes the potential implications of these changes on the various providers of residential real estate finance.

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**FINANCIAL STRESS REMAINS  
UNCHANGED IN NOVEMBER,  
ACCORDING TO INDEX**

The [latest reading](#) of the Kansas City Financial Stress Index (KCFSI) suggests financial stress did not change in November, remaining substantially lower than a year ago but higher than before the crisis.

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.

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**HOLIDAY REMINDER**

The Federal Reserve Bank of Kansas City will be closed Monday, Jan. 18, for Martin Luther King Jr. Day. A [complete list](#) of Federal Reserve holidays can be found on the FRB Financial Services website.

WELCOME, NEW STATE  
MEMBER BANKS

The Federal Reserve Bank of Kansas City is pleased to welcome the following state member banks to the Tenth District of the Federal Reserve System:

CNB Community Bank	Greeley, Nebraska	November 16
Citizens State Bank	Wisner, Nebraska	December 7
Farmers & Merchants Bank	Ashland, Nebraska	December 15
Stanton State Bank	Stanton, Nebraska	December 21
Community Bank	Topeka, Kansas	January 1

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REGULATORY  
DEVELOPMENTS

*Mortgage loan modifications and  
Regulation B adverse action  
requirements clarified*

The Federal Reserve Board has developed a four-part analysis to help institutions determine if an adverse action notice under Regulation B is required for loan modification declinations. This guidance is being distributed under [Consumer Affairs Letter \(CA\) 09-13](#). In making this determination, institutions must consider whether an application for an extension of credit was received and whether the request, as submitted by the applicant, was denied.

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*21-day periodic statement  
now required for credit card  
accounts only*

On Nov. 6, 2009, President Barack Obama signed the Credit CARD Technical Corrections Act of 2009. This statute amends section 163(a) of the Truth in Lending Act to narrow the scope of application of the new requirement added by the Credit Card Accountability, Responsibility and Disclosure (CARD) Act. This provision required creditors to mail or deliver periodic statements at least 21 days before the payment due date on all open-end credit plans. The technical amendment will change this provision and require the 21-day delivery of a periodic statement only on credit card accounts.

The Federal Reserve Board intends to revise Regulation Z, Section 226.5(b)(2), which implemented the 21-day billing rule, to conform with this change when it finalizes the Phase II provisions to the regulation required by the CARD Act.

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*Asset-size exemption threshold for  
depository institutions under  
Regulation C published*

The Federal Reserve Board has published its [annual notice regarding the asset-size exemption threshold](#) for depository institutions under Regulation C, which implements the Home Mortgage Disclosure Act (HMDA). The asset-size exemption for depository institutions with offices located in metropolitan areas will remain at \$39 million. Depository institutions with assets of \$39 million or less as of Dec. 31, 2009, are exempt from collecting data in 2010.

*Annual asset-size threshold adjustments announced*

The federal bank regulatory agencies have announced the [annual adjustment to the asset-size thresholds](#) used to define “small bank” and “intermediate small bank” under the Community Reinvestment Act (CRA) regulation. The definitions of small and intermediate small institutions for CRA examinations will change, and the new asset-size threshold adjustments are effective Jan. 1, 2010.

“Small bank” means an institution that, as of Dec. 31 of either of the prior two calendar years, had assets of less than \$1.098 billion. “Intermediate small bank” means a small institution with assets of at least \$274 million as of Dec. 31 of both of the prior two calendar years, and less than \$1.098 billion as of Dec. 31 of either of the prior two calendar years.

*Examination procedures for Regulation DD updated*

The Task Force on Consumer Compliance of the Federal Financial Institutions Examination Council has approved [updated examination procedures for Regulation DD](#). The procedures now incorporate regulatory changes effective Jan. 1, 2010, which require institutions to disclose on periodic statements the aggregate dollar amounts charged for overdraft and return item fees. Also included in the updated procedures is the requirement to provide a balance through automated systems that does not include additional funds that may be available to cover overdrafts.

*Third quarter 2009 District banking conditions report available*

The nationwide decline of [banking conditions](#) has continued, driven by deteriorating asset quality. Bank earnings continued to decline in the third quarter, with more than 28 percent of all banks posting a loss through September 2009. Loan loss provisions have steadied but remain at high levels, causing the coverage ratios to further deteriorate as nonperforming assets continue to rise.

*United States regulators encourage comments to Basel Committee*

On Dec. 17, the Basel Committee on Banking Supervision (the Committee) [released for comment](#) new proposals that aim to strengthen the resiliency of the banking sector through new capital and liquidity standards. Following the Basel II enhancements released in July 2009, these proposals represent part of the Committee’s ongoing effort to apply lessons learned from recent market events to enhance regulation, supervision and risk management of global banks. Proposed changes include introduction of new standards for liquidity risk management, the addition of a leverage ratio to the Basel II framework, improvements to the quality and consistency of capital and strengthening of capital requirements for counterparty credit risk.

The Committee requests [responses on the proposals](#) by April 16, 2010. The Office of the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision, which are members of the Committee, encourage interested persons to review and comment on the proposals.

*Agencies issue final rules on risk-based pricing notices*

The Federal Reserve Board has issued a **final rule** to implement the risk-based pricing provisions in section 311 of the Fair and Accurate Credit Transactions Act of 2003, which amends the Fair Credit Reporting Act. The final rules require a creditor to provide a consumer with a notice when, based on the consumer's credit report, the creditor provides credit to the consumer on less-favorable terms than it provides to other consumers. The final rules provide creditors with several methods for determining which consumers must receive risk-based pricing notices.

As an alternative to providing risk-based pricing notices, the final rules permit creditors to provide consumers who apply for credit with a free credit score and information about their score. The final rules are effective Jan. 1, 2011.

*Interagency guidance issued on transparency and compliance in cross-border transfers*

The federal bank regulatory agencies have issued **guidance** on transparency and compliance for U.S. banking organizations conducting cross-border funds transfers. The interagency guidance references a paper issued by the Basel Committee on Banking Supervision in May 2009 entitled **Due Diligence and Transparency Regarding Cover Payment Messages Related to Cross-Border Wire Transfers**.

The guidance clarifies the U.S. federal banking agencies' perspective on certain points in the Basel Committee paper, including expectations for intermediary banks on Office of Foreign Assets Control sanctions screening and transaction monitoring to comply with Bank Secrecy Act/anti-money laundering regulations and requirements. It also discusses the banking agencies' approach to reviewing institutions' risk management practices with respect to cross-border funds transfers, including cover payments.

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