

fed LETTER

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February 2010

FEDERAL RESERVE BANK of KANSAS CITY

FEDERAL RESERVE LAUNCHES RESOURCE FOR BANK DIRECTORS

To assist new commercial bank directors in learning more about their roles and responsibilities—and to provide a refresher for experienced board members—the Federal Reserve Bank of Kansas City has launched a new website, BankDirectorsDesktop.org.

The website features resources, references, training and other information to help directors better understand the issues and challenges associated with serving on a bank's board. BankDirectorsDesktop.org includes links to the “Training for Bank Directors” interactive course and the latest edition of *Basics for Bank Directors*, a comprehensive guide to directors' roles and responsibilities.

CONDITIONS DETERIORATE FOR LMI COMMUNITY, SURVEY FINDS

Economic and financial conditions in the Tenth District's low- and moderate-income (LMI) community continued to deteriorate in the fourth quarter of 2009, but the rate of decline moderated for most indicators in the quarterly [LMI Survey](#). Unemployment, lower incomes, lack of insurance and poor housing choices were commonly cited as factors impairing recovery in the LMI community.

The survey measures the economic conditions in LMI populations and the organizations that serve them. The goal is to provide service providers, policymakers, and others a gauge to assess changes in the economic conditions of the LMI population over time.

HOLIDAY REMINDER

The Federal Reserve Bank of Kansas City will be closed Monday, Feb. 15, for Presidents' Day. A [full list](#) of Federal Reserve holidays is available on the FRB Financial Services website.

DISTRICT MANUFACTURING
CONDITIONS REBOUND
IN JANUARY

Growth in Tenth District manufacturing activity strengthened in January, with production returning nearly back to year-ago levels, according to the latest [Survey of Tenth District Manufacturing](#). Producers' expectations for future factory activity also rebounded strongly after easing slightly in December. Price indexes moved higher, with twice as many firms reporting a rise in current and expected raw materials prices, but pass-through to finished goods prices remained limited.

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.

FINANCIAL STRESS INDEX
DECLINES IN DECEMBER

The December reading of the [Kansas City Financial Stress Index](#) (KCFSI) was 0.26 in December, down from 0.47 in November. The decline followed two months of little change and continued the overall downward trend in the index since its peak in October 2008. The KCFSI ended the year slightly above its long-run average and somewhat higher than at the beginning of the crisis in July 2007.

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.

REGULATORY
DEVELOPMENTS
*Online regulatory filing
system introduced*

On Jan. 25, the Federal Reserve announced the availability of [Electronic Applications](#), or "E-Apps," a new Internet-based system for financial institutions to submit regulatory filings. E-Apps allows firms and their representatives to file applications online, eliminating the time and expense of printing, copying and mailing the documents. In addition, [registered users](#) may access the system at any time to upload additional documents or create new filings.

*Final risk-based capital standards
rule announced*

The federal banking and thrift regulatory agencies announced on Jan. 21, the [final risk-based capital rule](#) related to the Financial Accounting Standards Board's adoption of Statements of Financial Accounting Standards Nos. 166 and 167. These new accounting standards make substantive changes to how banking organizations account for many items, including securitized assets, that had been previously excluded from these organizations' balance sheets. This final capital rule better aligns risk-based capital requirements with the actual risks of certain exposures.

Regulatory Update Seminar schedule announced The Supervision and Risk Management Division is again conducting its **Regulatory Update Seminar** series this spring at various locations in the Tenth District. This half-day program will focus on current issues and strategies relevant to state member banks and bank holding companies in the Midwest and Mountain regions. The seminar will include topics covering the economy, current banking conditions and risk management, as well as executive highlights of safety and soundness and compliance issues.

The seminar is designed for directors, presidents, chief executive officers and senior staff of state member banks and bank holding companies throughout the District. Dates and locations of the seminar are listed below.

For assistance with registering or questions about the seminars, please contact Lisa Aquino in the Kansas City office at (800) 333-1010, ext. 12491, or by **e-mail**.

Dates and locations:

- March 23 - Wichita, Kan.
- March 26 - Kansas City, Mo.
- April 1 - Denver, Colo.
- April 6 - Albuquerque, N.M.
- April 8 - Kansas City, Mo.
- April 13 - Oklahoma City, Okla.
- April 14 - Tulsa, Okla.
- April 22 - Kearney, Neb.
- April 23 - Omaha, Neb.
- April 27 - Montrose, Colo.
- April 29 - Casper, Wyo.

Interagency advisory on interest rate risk management issued On Jan. 11, the Federal Reserve issued **Supervisory Letter 10-1** to remind institutions of long-standing supervisory expectations regarding interest rate risk management. This **advisory**, issued along with the other financial regulators, reiterates the importance of effective corporate governance, policies and procedures, risk measuring and monitoring systems, stress testing, and internal controls related to the interest rate risk exposures of depository institutions. It also clarifies elements of existing guidance and describes effective interest rate risk management techniques.

Rules to protect credit card users approved

The Federal Reserve approved a **final rule** amending Regulation Z to incorporate the second stage of credit card changes required by the Credit Card Accountability, Responsibility, and Disclosure Act. These proposed changes will limit the circumstances under which credit card interest rates may be increased, ban the two-cycle billing method, restrict credit card marketing to consumers under 21 years of age, and prohibit the allocation of payments in a manner designed to maximize interest charges. The final rule is effective on Feb. 22, 2010.

Regulation CC amended

The Federal Reserve Board has announced its final consolidation of check processing operations in the Federal Reserve System. On Feb. 27, 2010, the Federal Reserve Bank of Atlanta will transfer its check processing operations to the Federal Reserve Bank of Cleveland. When this transfer occurs, all checks will be cleared through a single check processing region. As a result, there will no longer be any checks that are non-local. Banks are advised to **amend their Regulation CC** and check hold policies and procedures to include this change, as funds-availability periods will now be shorter.

FED LETTER • FEBRUARY 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