

fed LETTER

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



March 2009

FEDERAL RESERVE BANK of KANSAS CITY

ECONOMIC CONDITIONS WORSEN ACROSS THE TENTH DISTRICT

Economic conditions in the Tenth District continued to deteriorate in January and early February, according to the Federal Reserve's [most recent Beige Book](#), released March 4. Consumers retrenched further, shying away from durable goods and curtailing restaurant dining and travel. The decline in real estate activity intensified as construction weakened further and home prices maintained their downward trend. Energy activity dampened significantly as drilling waned and rig counts hit five-year lows.

Ten out of 12 Federal Reserve districts reported deteriorating conditions. Looking ahead, contacts from various districts rate the prospects for near-term improvement in economic conditions as poor, with a significant pickup not expected before late 2009 or early 2010.

MANUFACTURING ACTIVITY WEAKENS FURTHER

Manufacturing activity continued to decline sharply in February, and firms' expectations for future activity weakened considerably, according to the Federal Reserve Bank of Kansas City's monthly [Survey of Tenth District Manufacturing](#). Price indexes in the survey continued to fall, with most now in negative territory.

The survey asks plant managers about a variety of manufacturing indicators, and the information is compiled into a snapshot of manufacturing activity in the Tenth District.

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:

Peoples Exchange Bank	Belleville, Kan.	Jan. 12
Bank VI	Salina, Kan.	Jan. 20
Gardner Bank	Gardner, Kan.	Jan. 26

AGRICULTURAL CREDIT
SURVEY: FARMLAND VALUES
FELL IN FOURTH QUARTER

Farmland values declined in the fourth quarter of 2008 amid weaker farm incomes and softer non-farm demand, according to the Federal Reserve Bank of Kansas City's [Survey of Agricultural Credit Conditions](#), released on Feb. 12. Even though farmland values have declined, the survey of 254 Tenth District bankers found that values remain above 2007 levels.

The banks surveyed are those with a greater percentage of agricultural loans in their loan portfolios than the national average of approximately 15 percent. Survey results summarize several indicators of farm financial conditions, including farmland values, interest rates on farm loans, credit supply and demand, and farm commodity prices.

MAIN STREET ECONOMIST FINDS
TIGHTER AG BANK CREDIT
STANDARDS

Agricultural credit standards have tightened as agricultural lenders shift more financial risk to borrowers amid concern about creditworthiness and dimmer economic prospects for the agricultural economy, according to the latest issue of the [Main Street Economist](#).

While the financial crisis and resulting recession have trimmed profits, Omaha Branch Executive Jason Henderson reports that agricultural banks have performed much better than other commercial banks and appear to have funds available for agricultural lending.

REGULATORY DEVELOPMENTS
*Risk management guidance
for remote deposit capture
activities issued*

The Federal Financial Institutions Examination Council (FFIEC) has issued [risk management guidance for remote deposit capture \(RDC\) activities](#). RDC is a delivery system that enables financial institution customers to initiate deposits in a digital format at customers' locations and, in most instances, eliminates the requirement to physically deliver deposited items to the financial institution.

RDC systems have the potential to decrease processing costs, support new and existing banking products, and accelerate customer funds availability. However, RDC also introduces new risks and increases existing risks inherent in traditional deposit processing, including legal, compliance, reputational and operational risks. The following considerations are expected in managing RDC activities:

- Sound risk management and mitigation processes at the financial institution and at customer locations;
- An initial assessment, and periodic assessments thereafter, to identify the types and levels of risk exposure presented by RDC implementation;
- Comprehensive customer contracts and agreements that clearly identify roles, responsibilities, and liabilities of all parties in the RDC process; and
- Appropriate technology and process controls at both the institution and customer locations to address operational risk.

Financial institutions can expect examiners to evaluate RDC activities during the next regularly scheduled examination.

Currency transaction reporting requirements simplified

On Dec. 4, 2008, the Financial Crimes Enforcement Network published its [final rule](#) simplifying the requirements for depository institutions to exempt their eligible customers from currency transaction reporting. This new rule became effective on Jan. 5, 2009.

Standard flood hazard determination form revised

The Federal Emergency Management Agency (FEMA) has made minor revisions to the [Standard Flood Hazard Determination Form](#) (SFHDF) 81-93 and the accompanying instructions. The new SFHDF contains an updated form expiration date of Dec. 31, 2011, and the instructions have been modified to include the addition of the Department of Homeland Security as part of the address provided for those who want to send comments or suggestions concerning the estimated paperwork burden time. The use of the revised form is mandatory as of June 16, 2009.

FED LETTER • MARCH 2009

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:* ALISON LAYNE