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

March 2010

FEDERAL RESERVE BANK of KANSAS CITY

SURVEY SHOWS MANUFACTURING SECTOR STRENGTHENING

Tenth District manufacturing activity continued to strengthen in February, according to the latest [Survey of Tenth District Manufacturing](#). Production increased further, and producers' expectations for future activity, including for hiring, were positive overall. Raw materials price indexes remained elevated, but finished goods prices were generally unchanged, although a rising number of firms plan to increase finished goods prices in the future.

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.

BEIGE BOOK SHOWS ECONOMIC ACTIVITY GROWS MODESTLY

Economic conditions continued to expand, although severe snowstorms in early February held back activity in several Federal Reserve districts, according to the latest [Beige Book](#) report. Although some districts reported an uptick in hiring or a slowdown in layoffs, labor markets generally remained soft throughout the nation, which resulted in minimal wage pressures.

In the [Tenth District](#), economic activity grew modestly, but some unexpected weakness was noted in several sectors of the district economy due to bad weather. Consumer spending was flat compared to year ago levels, while the district's manufacturing and transportation sectors expanded further

**DISTRICT CROPLAND VALUES,
FARM INCOME RISE,
AG SURVEY FINDS**

Cropland values strengthened in the fourth quarter of 2009 with rising farm income, according to the Federal Reserve Bank of Kansas City's quarterly [Survey of Agricultural Credit Conditions](#). The survey of 241 bankers reported that stronger farm incomes due to a harvest rise in crop prices and above-average yields underpinned a rise in nonirrigated and irrigated cropland values. In contrast, anemic profits in the livestock sector placed downward pressure on ranchland values.

The survey panel consists of agricultural banks selected according to geographic distribution and size. Agricultural banks 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.

**INDEX SUGGESTS SLIGHT
INCREASE IN FINANCIAL STRESS**

The latest reading of the [Kansas City Financial Stress Index](#) (KCFSI) suggests financial stress edged up in January, remaining well below the previous peak but somewhat higher than before the crisis. The index's January level was 0.31, compared to 0.23 in December. A positive value indicates that financial stress is above the long-run average, while a negative value indicates stress is below the long-run average.

The KCFSI is a monthly measure of stress in the U.S. financial system based on 11 financial market variables. [More information](#) is available from the Kansas City Fed's website.

**REGULATORY
DEVELOPMENTS**
*Meeting the needs of creditworthy
small business borrowers*

The federal financial regulatory agencies and the Conference of State Bank Supervisors issued a [statement](#) Feb. 5 on prudent lending to creditworthy small business borrowers. The statement emphasizes that financial institutions that engage in prudent small business lending after performing a comprehensive review of a borrower's financial condition will not be subject to supervisory criticism for small business loans made on that basis.

Financial institutions should understand the long-term viability of the borrower's business and focus on the strength of a borrower's business plan to manage risk rather than using portfolio management models that rely primarily on general inputs, such as a borrower's geographic location or industry.

*Schedule for Regulatory Update
Seminars 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 Midwestern 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 at (800) 333-1010, extension 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.

*Revised examination procedures
for Regulation Z approved*

The Task Force on Consumer Compliance of the Federal Financial Institutions Examination Council approved **updated examination procedures** for Regulation Z. The procedures now incorporate regulatory changes effective Feb. 14 that require creditors that extend private education loans to provide disclosures about loan terms as required by the Higher Education Opportunity Act.

Also included in the updated procedures are regulatory changes that became effective on Feb. 22 that incorporate Phase II of the Credit Card Accountability, Responsibility and Disclosure Act of 2009. These changes apply to all credit card accounts, and some provisions also apply to open-end credit that is not home-secured. The provisions include limitations on rate increases, establish special requirements for extensions of credit to consumers who are under the age of 21 and require card issuers to consider a borrower's ability to make required payments.

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