



# fed LETTER

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

April 2011

FEDERAL RESERVE BANK of KANSAS CITY

## TEN MAGAZINE LOOKS AT BUILDING WEALTH THROUGH HOMEOWNERSHIP

While homeowners in the past have been able to build more wealth over time than those who rented, research shows much depends on when a home is purchased and where it is located. Read how sometimes renting might be a better financial decision in the spring 2011 issue of [TEN magazine](#).

Also in this issue, read about carbon emissions in the region; first-hand insight from the Board of Directors; dissent and monetary policy deliberations; economic research at the Fed; money personalities; and the Kansas City Fed's 2010 Annual Report.

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

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## MANUFACTURING GROWTH HITS RECORD HIGH IN MARCH, SURVEY FINDS

Growth in Tenth District manufacturing activity accelerated rapidly in March, posting a record high for the second straight month, according to the latest [Survey of Tenth District Manufacturing](#). Expectations moderated slightly from last month but still remained solid. Price indexes for raw materials reached historically high levels, and more firms indicated plans to pass cost increases on to customers.

The 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.

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KANSAS AND MISSOURI  
ECONOMIES CONTINUE TO  
STABILIZE, REPORT FINDS

The Kansas and Missouri economies showed further signs of stabilization heading into 2011, and some firms were seeking to expand, according to the first quarter edition of *The Midwest Economist*. However, unemployment remains elevated, and real estate and construction activity is still sluggish.

*The Midwest Economist* is a new quarterly publication from the Kansas City Fed that provides economic information for Kansas and western Missouri.

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OKLAHOMA RECOVERING  
MODERATELY FROM RECESSION

Economic activity in Oklahoma is recovering from the recent recession, though at a somewhat moderate pace, according to the latest edition of *The Oklahoma Economist*. Strong energy and services activity is being offset to some degree by cutbacks in state and local government and continued sluggishness in housing, but business firms are increasingly planning to expand.

*The Oklahoma Economist* is a new quarterly publication from the Kansas City Fed that provides economic information for the state from staff at the Oklahoma City Branch office.

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STRONG HIRING AND SALES LIFT  
NEBRASKA'S ECONOMY

Robust sales and stronger hiring provided an extra spark to the Nebraska economy at the end of 2010, according to the March edition of *The Nebraska Economist*. Amid strong holiday shopping and rising automobile sales, jobs at retail stores spiked in December. In addition, the number of service positions climbed higher with professional, business, education and healthcare firms adding jobs at a solid clip.

The Nebraska Economist provides information on Nebraska's economy from the staff of the Kansas City Fed's Omaha Branch office.

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REGULATORY DEVELOPMENTS  
*Final rule finalized on escrow  
account requirements for home  
mortgage loans*

The Federal Reserve Board has finalized a **rule** under Regulation Z that increases the annual percentage rate (APR) threshold used to determine whether a mortgage lender is required to establish an escrow account for property taxes and insurance for first-lien, "jumbo" mortgage loans.

Creditors are required to establish escrow accounts for first-lien, higher-priced mortgage loans. A first-lien mortgage is considered a higher-priced mortgage loan if its APR is 1.5 percentage points or more above the current average prime offer rate. Under the final rule, the escrow requirement will apply to first-lien, jumbo loans only if the loan's APR is 2.5 percentage points or more above the average prime offer rate. The final rule is effective for covered loans for which the creditor receives an application on or after April 1, 2011.

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*Proposed rules issued on risk-based pricing notices and adverse action notices*

The Federal Reserve Board jointly with the Federal Trade Commission has issued **proposed rules** under Regulations B and V to implement provisions contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act. The proposed rule would require creditors to disclose credit scores and related information to consumers in risk-based pricing and adverse action notices if a credit score was used in setting the credit terms or taking adverse action. Comments must be submitted by April 14, 2011.

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*Rule proposed to lengthen escrow account periods, require new disclosures*

The Federal Reserve Board has issued a **proposed rule** under Regulation Z to implement provisions contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act related to escrow accounts. The proposed rule would lengthen the required mandatory escrow account period for higher-priced mortgage loans from one year to five years.

The proposal also would require new disclosures regarding escrow accounts in advance of loan consummation. The disclosures would need to be provided three business days before consummation of a mortgage loan and would explain, as applicable, how the escrow account functions or the effects of not having an escrow account. Finally, the proposal would provide an exemption from the escrow requirement for banks that originate fewer than 100 loans annually, originate a majority of their higher-priced mortgage loans in distressed or underserved areas, and do not currently escrow for any loans they service. Comments must be submitted by May 2, 2011.

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*Amendments to Regulation CC proposed on check collection and funds availability*

The Federal Reserve Board has issued **proposed amendments** under Regulation CC. These amendments are designed to facilitate the banking industry's ongoing transition to fully electronic interbank check collection and return, including proposed amendments to condition a depository bank's right of expeditious return on the depository bank agreeing to accept returned checks electronically either directly or indirectly from the paying bank.

The Board also is proposing amendments to the funds availability schedule provisions to reflect the fact that there are no longer any non-local checks. Finally, the Board is requesting comment on whether it should consider future changes to the regulation to improve the check collection system, such as decreasing the time afforded to a paying bank to decide whether to pay a check in order to reduce the risk to a depository bank of having to make funds available for withdrawal before learning whether a deposited check has been returned unpaid. Comments must be submitted by June 3, 2011.

*Revised examination procedures approved for Regulation Z*

The Task Force on Consumer Compliance of the Federal Financial Institutions Examination Council has approved revised examination procedures for Regulation Z—Truth in Lending. The procedures include three regulatory changes effective April 1, 2011.

The first provision outlines prohibitions related to mortgage loan originator compensation. The second provision relates to appraisal independence, and the procedures incorporate provisions related to ensuring independence and appropriate appraiser compensation. The final provision incorporates the new, higher-priced threshold for jumbo loans to determine if escrow accounts must be maintained. These revised examination procedures supersede all previous procedures and are transmitted by the Federal Reserve Board under Consumer Affairs Letter (CA) 11-3.

*Clarifications to Regulation Z issued on open-end credit plans*

The Federal Reserve Board has approved a rule amending Regulation Z to clarify certain provisions implemented in 2010 in accordance with the Credit Card Accountability Responsibility and Disclosure Act of 2009. The rule contains three clarifications pertaining to credit card accounts.

First, credit card issuers must consider a borrower's individual income, not household income, when approving credit applications. Second, promotional programs that waive interest charges for a specified period of time must provide the same consumer protections as promotional programs that apply a reduced rate for a specified period. Finally, application and similar fees that a consumer is required to pay before a credit card account is opened are covered by the same limitations as fees charged during the first year after the account is opened. The rule is effective Oct. 1, 2011.

*Initial registration period begins under S.A.F.E. Act's mortgage loan originator provisions*

On Jan. 31, the federal bank, thrift and credit union regulatory agencies announced that the National Mortgage Licensing System and Registry had begun accepting registrations for employees of banks, savings associations and credit unions who originated more than five residential mortgage loans during the preceding 12 months. The 180-day registration period ends on July 29, 2011, at which time such employees who have not met the federal registration requirements will be prohibited from originating additional residential mortgage loans.

*Customer notification of deposit insurance changes*

**District banking conditions** for the fourth quarter show bank earnings improved in 2010, with fewer banks experiencing a net loss on the year. Loan loss provisions decreased; however, they remain at historically high levels and will continue to be a drag on earnings. Problem assets are near 2009 levels, although asset quality continues to be a concern as noncurrent loans remain at elevated levels. Noncurrent loans continue to be driven by problems in the construction and land development and one- to four-family residential portfolios.

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*Consumer protection regulations expanded*

The Federal Reserve Board has finalized **two rules** that expand the coverage of consumer protection regulations to credit transactions and leases of higher dollar amounts under Regulation Z—Truth in Lending and Regulation M—Consumer Leasing. The final rules implement provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act and raise the exemption threshold for which transaction-specific disclosures on consumer loans and leases are not required from \$25,000 to \$50,000. In addition, the threshold will be adjusted annually based on the consumer price index. The final rule is effective on July 21, 2011.

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