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THE MAIN STREET ECONOMIST DETAILS FACTORS LEADING TO RURAL RECOVERY

Over the course of the recent recession, rural economies have held up better than their metro peers, thanks to strong rural economic gains early in the downturn. But in the latest edition of ***The Main Street Economist***, Omaha Branch Executive and Vice President Jason Henderson finds that the long-term health of rural America in the 21st century will rest on pursuing policies that focus on amenity-based development, entrepreneurship and innovation.

KANSAS CITY FED ANNOUNCES RESULTS OF DIRECTOR ELECTIONS

The Kansas City Fed has announced the results of a recent election to fill two seats on its board of directors.

David Brownback, president and CEO of Citizens State Bank and Trust Co., Ellsworth, Kan., was elected as a Class A director, representing commercial banks that are members of the Federal Reserve System. Brownback will serve a three-year term starting Jan. 1, 2010. He succeeds Mark W. Schifferdecker, whose term expires at the end of 2009. Brownback was nominated to the board by Group 2 member banks, which have a combined capital and surplus of $3.25 million and over, but less than $16 million.

John T. Stout Jr., CEO of Plaza Belmont Management Group, a private equity fund in Shawnee Mission, Kan., specializing in the acquisition of food manufacturing companies, was elected as a Class B director, representing the public. He will also serve a three-year term starting Jan. 1, 2010. He succeeds the late Kevin K. Nunnink. Stout was nominated by Group 1 member banks, which have a combined capital and surplus of $16 million and over.

Also, the Board of Governors of the Federal Reserve System reappointed Lu Cordova, CEO of Corland Industries, Boulder, Colo., as Board chair for 2010, and Paul DeBruce, chairman and CEO of DeBruce Grain, Kansas City, Mo., as deputy chair.

Manufacturing activity, optimism growing in district

Tenth District manufacturing activity grew moderately in November, and producers were increasingly optimistic about the months ahead, according to the **latest Survey of Manufacturing Conditions**. Price indexes continued to rise for raw materials, and finished goods price indexes also began to edge higher.

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.

Ag survey shows farmland values holding steady

Despite weaker farm incomes and credit conditions, district farmland values held steady in the third quarter, according to the Federal Reserve Bank of Kansas City's third quarter **Survey of Agricultural Credit Conditions**. The survey of 263 bankers showed more district bankers reporting weaker farm incomes due to sagging protein demand and a summer decline in crop prices.

The Bank's quarterly Survey of Agricultural Credit Conditions provides current indicators of the financial performance of Tenth District agriculture. The accumulated results also help trace longer term trends.

New survey measures conditions in LMI population

A new quarterly survey from the Kansas City Fed measures the economic conditions of low- and moderate-income (LMI) populations and the organizations that serve them. LMI individuals have incomes below 80 percent of the area median income. Survey results are used to construct five indicators of economic conditions in LMI communities and two indicators of the condition of organizations that serve them. The goal is to give service providers, policymakers and others a gauge to assess changes in the economic conditions of the LMI population over time.

According to the **most current survey**, the financial condition of LMI populations in the Tenth District continued to worsen in the third quarter, resulting in increased demands for services by the LMI community.

Index suggests little change in financial stress

The **latest reading** of the Kansas City Financial Stress Index (KCFSI) suggests financial stress changed little in October, down sharply from 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.

Payments policy conference examines central banks' role

An international payments policy conference hosted by the Federal Reserve Bank of Kansas City Nov. 9-10 explored the changing retail payments landscape and assessed the role of central bank policies in this quickly evolving area. Participants included industry representatives, policymakers, academics and other payments system stakeholders. **Papers and handouts** from conference presenters are available from the Kansas City Fed's website.

PSR Briefing urges publication of fraud statistics

The **latest edition** of *Payments System Research Briefing*, by senior economist Rick Sullivan, argues that publication of fraud statistics helps the payment industry to coordinate security efforts, provides useful information for policymakers and helps to promote consumer confidence in payments. However, though other countries regularly publish such statistics, it is an open question whether they will become available in the United States.

Holiday Reminder

The Kansas City Fed will be closed Friday, Dec. 25, for Christmas and Friday, Jan. 1, 2010, for New Year's Day. A **full list** of Federal Reserve holidays can be found on the FRB Financial Services website.

Regulatory Developments

Prudent commercial real estate loan workout statement adopted

The Federal Reserve has adopted a policy statement on **prudent commercial real estate (CRE) loan workouts**. The banking agencies issued this policy statement to update longstanding guidance regarding the workout of CRE loans, especially in light of recent increases in such workouts. This guidance is intended to promote prudent CRE loan workouts at regulated financial institutions and to ensure examiners take a balanced and consistent approach in reviewing institutions' workout activities. If conducted in a reasonable and prudent manner, such workouts are often in the best interest of both the institution and the borrower.

Financial institutions that implement prudent loan workout arrangements after performing comprehensive reviews of borrowers' financial conditions will not be subject to criticism for engaging in these efforts, even if the restructured loans have weaknesses that result in adverse credit classifications. In addition, renewed or restructured loans to creditworthy borrowers on reasonable terms will not be subject to adverse classifications solely because the value of the underlying collateral declined.

The examiner's evaluation of a loan workout should be based upon the fundamentals of the particular loan, considering the project's current and stabilized cash flows, debt service capacity, guarantor support, and other factors relevant to the borrower's ability and willingness to repay the debt. The statement sets forth the appropriate standards for evaluating the management practices, workout arrangements, credit classification, regulatory reporting and accounting for prudent CRE loan workouts.

Temporary exemption to limits in section 23A of the Federal Reserve Act announced

The Federal Reserve Board announced that a **temporary exemption** to the limitations in section 23A of the Federal Reserve Act, instituted as part of the response to the financial crisis, expired as scheduled on Oct. 30, 2009.

The exemption, which was subject to various conditions to promote safety and soundness, allowed all insured depository institutions to provide liquidity to their affiliates for assets typically funded in the tri-party repo market. It was originally approved on Sept. 14, 2008, and was extended on Jan. 30, 2009. Since the approval of the extension in January, the functioning of the tri-party repo market has improved considerably.

Real Estate Settlement Procedures Act (RESPA) examination procedures revised

The Task Force on Consumer Compliance of the Federal Financial Institutions Examination Council has approved **updated examination procedures for Regulation X**. The updated procedures incorporate technical regulatory changes effective Jan. 16, 2009, and substantive changes to the Good Faith Estimate and HUD 1-1/A Settlement Statement effective Jan. 1, 2010, that were released by the Department of Housing and Urban Development on Nov. 17, 2008.

Board develops frequently asked questions on Regulation Z

The Federal Reserve Board has developed a list of **frequently asked questions** to clarify requirements of the higher-priced mortgage provisions of Regulation Z that were effective Oct. 1, 2009. This guidance is released under Consumer Affairs (CA) letter 09-12 and clarifies the presumption of compliance for balloon loans with terms of less than seven years.

Final rule issued on transaction fees for ATMs and debit cards

The Federal Reserve Board has issued a **final rule** under Regulation E that prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machine (ATM) and one-time debit card transactions, unless a consumer consents, or opts-in, to the overdraft service for those types of transactions. The consumer is also required to have an ongoing right to revoke consent for the opt-in, and consumers, whether or not they choose to opt in, must have the same account terms and conditions. The final rule has a mandatory compliance date of July 1, 2010. For a bank's existing customers, the opt-in must be received by Aug. 15, 2010, if fees for overdrafts related to ATM and one-time debit card transactions are assessed.

Federal regulators issue final model privacy notice form

A **revised model privacy form** has been released that will make it easier for consumers to understand how financial institutions collect and share information about them. This new form can be used by financial institutions to comply with information-sharing disclosure requirements under the Gramm-Leach-Bliley Act and the implementation of Regulation P. The revised form contains a tabular format that is more succinct and makes it easier for consumers to compare practices of different institutions.

Rule to restrict fees and expiration dates for gift cards proposed

As required by the Credit Card Accountability, Responsibility, and Disclosure Act of 2009, the Federal Reserve Board has issued a **proposed rule** under Regulation E related to gift cards. The rules would restrict the fees and expiration dates that apply to gift cards. The proposed rules would prohibit dormancy, inactivity and service fees on gift cards unless: (1) there has been at least one year of inactivity on the certificate or card; (2) no more than one such fee is charged per month; and (3) the consumer is given clear and conspicuous disclosures about the fees. Expiration dates for funds underlying gift cards must be at least five years after the date of issuance or five years after the date when funds were last loaded. Comments may be submitted until Dec. 21, 2009.

Interim final rule issued for mortgage loan consumer notices

The Federal Reserve Board issued an **interim final rule** to Regulation Z to implement a recent statutory amendment requiring that notice be given to consumers when their mortgage loan has been sold or transferred. The new disclosure requirement became effective immediately upon enactment of the Helping Families Save Their Homes Act in May 2009. Under that act, a purchaser or assignee who acquires a mortgage loan must provide the required disclosures in writing within 30 days. The interim final rule provides guidance on meeting this requirement and is effective on Nov. 20, 2009. However, compliance with the interim rule is optional until Jan. 19, 2010.

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