



fed LETTER

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

October 2007

FEDERAL RESERVE BANK of KANSAS CITY

MANUFACTURING ACTIVITY MODEST IN SEPTEMBER

The **monthly manufacturing survey** for the Tenth Federal Reserve District was released Sept. 27. The survey asks plant managers about a variety of manufacturing indicators. The information is compiled into a snapshot of manufacturing in the District.

Growth in Tenth District manufacturing activity was modest in September, and many firms were trimming inventories. However, manufacturers remained relatively positive about future production and capital spending. Price indexes in the survey were mixed, with a minor increase in current raw materials prices, while both future price indexes continued to ease.

NEWEST *TEN* MAGAZINE WEAVES 'COMMON THREADS'

The **new issue of *TEN***, the quarterly magazine of the Federal Reserve Bank of Kansas City, has been released.

This issue, "Common Threads," takes a look at why people choose to live where they do. Other feature articles include: economic development efforts that focus on homegrown businesses; how community banks are changing; and risks associated with new payment options. This issue also includes coverage of the 2007 Jackson Hole Symposium, hosted by the Federal Reserve Bank of Kansas City. The timely topic discussed by policymakers, academics and economists: housing.

For a free subscription to the publication, register on the ***TEN* page** of our website or call 816-881-2683.

HOLIDAY REMINDER

The Federal Reserve will be closed **Monday, Nov. 12, 2007**, for Veterans' Day. The FRB Services website features a **full listing** of all holidays observed by the Federal Reserve.

REGULATORY
DEVELOPMENTS

*Final rule on consumer
credit extended to service
members and dependents*

On Sept. 20, the Federal Reserve issued [Consumer Affairs \(CA\) Letter 07-5](#) describing the final rule published by the Department of Defense that limits the amount that a creditor can charge in interest and fees and for certain types of consumer credit extended to active duty service members and their dependents (the “Talent Amendment”).

Included in this rule is the requirement that total charges must be expressed as an annualized rate referred to as the “military annual percentage rate.” The final rule took effect on **Oct. 1, 2007**, and will apply to covered transactions that are consummated on or after that date.

*Final rules on expanded
examination cycle*

[Final rules](#) expanding the range of small institutions eligible for an extended 18-month on-site examination cycle were issued on Sept. 19 by the federal bank and thrift agencies.

Until recently, only institutions with less than \$250 million in total assets could qualify for an extended on-site examination cycle. The final rules now allow well-capitalized and well-managed banks and savings associations with up to \$500 million in total assets and a composite rating of 1 or 2 to qualify for an 18-month, rather than the previous 12-month, on-site examination cycle.

The final rules were effective on **Sept. 25, 2007**.

*Best practices on garnishment
orders of exempt federal
benefit funds*

The federal financial regulatory agencies have requested public comment on a [proposed statement](#) encouraging federally regulated financial institutions to develop and adopt best practices to protect federal benefit payments from garnishment orders, including procedures to expedite notice to the consumer of the garnishment process and the release of funds to the consumer.

The agencies invite suggestions on other practices that should be considered regarding garnishment practices and comments of developments in the courts in their jurisdiction regarding garnishment practices. Comments must be submitted on or before **Nov. 27, 2007**.

*Complementary activities to
underwriting and selling
health insurance*

The Federal Reserve Board issued a [press release](#) on Sept. 7 announcing its determination that disease management and mail-order pharmacy activities are complementary to the financial activity of underwriting and selling health insurance. Therefore, these activities are permissible for a financial holding company under the Bank Holding Company Act as amended by the Gramm-Leach-Bliley Act.

*Final rules for implementing
“broker” exceptions for banks*

On Sept. 24, 2007, the Board of Governors of the Federal Reserve System and the Securities and Exchange Commission (SEC) announced the adoption of a [set of rules](#) that implements specific exceptions for banks from the definition of the term “broker” under Section 3(a)(4) of the Securities Exchange Act of 1934, as amended by the Gramm-Leach-Bliley Act (GLB Act). The final rules are designed to accommodate the business practices of banks and to protect investors.

Banks are expected to comply with the rules beginning with the first day of their fiscal year commencing after **Sept. 30, 2008**.

The rules define the scope of securities activities that banks may conduct without registering with the SEC as a securities broker and implement the most important “broker” exceptions for banks adopted by the GLB Act. The rules include certain exemptions related to third-party networking arrangements, trust and fiduciary activities, sweep activities, and safe-keeping and custody activities. Also included are exemptions related to foreign securities transactions, securities lending transactions conducted in agency capacity and the execution of transactions other than through a broker-dealer.

*Mandatory purchase of
flood insurance guidelines
issued by FEMA*

The Federal Emergency Management Agency (FEMA) has issued the [revised 2007 edition of the Flood Insurance Guidelines](#) for the federally regulated lending industry to implement the mandatory purchase provisions of the National Flood Insurance Reform Act of 1994.

This act governs the National Flood Insurance Program that mandates federal agency regulations requiring lenders not to make, increase, renew or extend any loan on application property unless flood insurance is purchased or maintained to protect property securing loans in high flood areas. This publication provides greater clarity regarding complex issues that have arisen since the 1999 edition, including a comprehensive explanation of insurance requirements on residential condominiums and on buildings in the course of construction.

An electronic version of this document is provided on the FEMA website, and printed copies will be available for ordering through FEMA in early December 2007.

*Home Mortgage Disclosure Act
(HMDA) 2006 data*

The 2006 data on mortgage lending transactions at financial institutions covered by HMDA in metropolitan statistical areas (MSAs) across the United States is now available to the public through the [Federal Financial Institutions Examination Council's \(FFIEC\) website](#).

Financial institutions that are HMDA reporters should access their HMDA disclosure statements from the FFIEC website and should make this information available in their public files. Financial institutions are required to make their disclosure statements available at their home offices and, for other MSAs in which they have offices, either to make a copy of the statements available at one branch per MSA or to provide a copy upon written request.

*Unlawful Internet Gambling
Enforcement Act*

The Department of the Treasury and the Board of Governors of the Federal Reserve System issued an Oct. 1 [press release](#) describing a proposed rule, jointly made in consultation with the Department of Justice, to implement provisions of the Unlawful Internet Gambling Act of 2006 (the Act).

Unlawful Internet gambling generally covers the act of using the Internet to make a bet or wager that is unlawful under any applicable federal or state law in the jurisdiction of the location where the bet is made.

The proposed rule identifies certain payment systems, including credit cards, electronic funds transfers and checks, that could be used in connection with unlawful Internet gambling transactions. Financial firms participating in these payments systems would be required by the proposed rule to establish policies to prevent, identify and prohibit unlawful gambling transactions. Comments on all aspects of the proposed rule are requested by **Dec. 12, 2007**.

FED LETTER • OCTOBER 2007

Fed Letter is published by the Federal Reserve Bank of Kansas City,
925 Grand Boulevard, Kansas City, Missouri, 64198-0001, (800) 333-1010.

Editor: SARA BRUNSVOLD

Graphic Designer: BETH NORMAN