



# fed LETTER

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

December 2007

FEDERAL RESERVE BANK of KANSAS CITY

NEW *MAIN STREET*  
*ECONOMIST PUBLICATIONS*  
RELEASED

In the [latest issue](#), released Dec. 3, high hopes have come true, or so it seems for the farm sector in 2007, and the outlook for 2008 also appears bright. But the agricultural sector is not without risks. Maria Akers and Jason Henderson explore farm income performance in 2007 and the 2008 farm outlook in “Farm Spending Surges with Record Incomes.”

Also, in the [October issue](#), Megan Williams explores how the industrial structure of the Tenth Federal Reserve District continues to evolve, what defining industries are, why they are important to a state or region and possible implications for rural communities. The article delves into the long-standing defining industries in the Tenth District as well as those defining industries that are emerging in the region.

MANUFACTURING ACTIVITY  
GROWS MODESTLY

The [monthly manufacturing survey](#) for the Tenth Federal Reserve District was released Nov. 29. 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 output remained modest in November, but new orders picked up and producers’ expectations for future activity were generally still solid. Price indexes were mixed, with mostly stable finished goods price indexes and slightly higher raw materials price indexes.

HOLIDAY REMINDERS

The Federal Reserve will be closed Tuesday, Dec. 25, for Christmas and on Tuesday, Jan. 1, for New Year’s Day. The FRB Services Web site features a [full listing](#) of all holidays observed by the Federal Reserve.

### THIRD QUARTER FARM INCOMES SURGE

Farm incomes surged in the third quarter with strong crop prices and a bountiful fall harvest setting record highs, according to the Federal Reserve Bank of Kansas City's third quarter [Survey of Agricultural Credit Conditions](#). The survey results were released on Nov. 15.

In the survey of 273 banks in the seven-state Tenth District, the District's farm income index surpassed the record high set in 2004. Nebraska posted the largest income gains, where abundant yields and high crop prices coupled to boost crop receipts.

---

### BEIGE BOOK RELEASED

The [latest edition](#) of the Beige Book was released Nov. 28. The Beige Book is a summary of current economic conditions in each Federal Reserve District.

Reports from the twelve Federal Reserve Districts suggest that the national economy continued to expand during the survey period of October through mid-November, but at a reduced pace compared with the previous survey period.

The Tenth District economy expanded modestly from mid-October to mid-November, but with some mixed signals across industries. Consumer spending strengthened overall, and energy and agricultural activity remained strong.

---

### NEW DIRECTORS NAMED TO TENTH DISTRICT BOARD

Business leaders from Boulder, Colo., and Kansas City, Mo., have been appointed chairman and deputy chairman of the Federal Reserve Bank of Kansas City's Board of Directors by the Board of Governors of the Federal Reserve System.

Lu M. Cordova, chief executive officer, Corlund Industries, and chairman, CTEK Angels, Boulder, Colo., was appointed chairman of the Bank's Board of Directors. She has served as the Board's deputy chairman since 2006. She was initially appointed to the board in 2005.

Paul DeBruce, chief executive officer, chairman and founder, DeBruce Grain, Inc., Kansas City, Mo., was appointed to the Board as deputy chairman. He has previously served as a member of the Bank's Economic Advisory Council.

A [complete list](#) of all chairman and deputy chairman appointees in each Federal Reserve district is available on the Federal Reserve's Web site.

---

REGULATORY  
DEVELOPMENTS

*Final rules to implement Basel II*

**Final rules** to implement a new risk-based capital adequacy framework, known as Basel II, have been approved by the Federal Reserve Board.

The intent of Basel II is to protect the safety and soundness of complex, internationally active banking institutions by aligning regulatory capital requirements with actual risks.

Basel II would be mandatory in the United States for large, internationally active banking organizations with at least \$250 billion in total assets or at least \$10 billion in foreign exposure. The framework would be optional for other non-core institutions. For banking organizations that meet qualifying criteria, Basel II would replace Basel I, the current rules implementing the Basel Capital Accord of 1988.

Under Basel II, core banking organizations would be required to enhance the measurement and management of their risks, including credit risk and operational risk, through the use of advanced approaches for calculating risk-based capital requirements.

The federal banking agencies intend to issue a proposed rule that would provide all non-core banking organizations, which are not required to adopt Basel II's advanced approaches, with the option to adopt a standardized approach under Basel II. The proposed rule is intended to be finalized before the core banking organizations may start their first transition period year under Basel II.

*Clarification of requirements for  
electronic consumer disclosures*

On Nov. 1, The Federal Reserve Board announced the adoption of **amendments** to five consumer financial services and fair lending regulations (Regulations B, E, M, Z and DD) to clarify the requirements for providing electronic consumer disclosures.

Although the Board published interim rules in 2001 establishing uniform standards for the electronic delivery of disclosures, the compliance date was lifted and institutions have not been required to comply with these interim rules.

The current amendments simplify the interim rules by:

- (1) Withdrawing certain portions of the 2001 interim final rules that restate or cross-reference provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act) and accordingly are unnecessary;
- (2) Withdrawing provisions of the 2001 interim final rules that may impose undue burdens on electronic banking and commerce and may be unnecessary for consumer protection; and
- (3) Adopting certain provisions that provide guidance on the use of electronic disclosures.

The mandatory compliance date is Oct. 1, 2008.

*Identity theft “red flags” and notices  
of address discrepancies*

The **final rules** implementing sections 114 and 315 of the Fair and Accurate Credit Transactions (FACT) Act of 2003 were issued on Oct. 31 by the federal financial institution regulatory agencies and the Federal Trade Commission.

The final rules implementing section 114 of the FACT Act require financial institutions and creditors to develop and implement an identity theft prevention program for new or existing accounts that hold consumer credit or other accounts with foreseeable risks of identity theft.

Each program would be expected to include policies and procedures for detecting, preventing and mitigating occurrences of identity theft. In addition, the rules implementing section 114 also require credit and debit card issuers to validate the notification of changes of address under certain circumstances. The agencies are issuing joint rules under section 315 to provide guidance that must be employed when a consumer reporting agency sends the user a notice of address discrepancy. The joint final rules are effective **Jan. 1, 2008**, and the mandatory compliance date for these rules is **Nov. 1, 2008**.

*Accuracy and integrity  
of consumer report information*

---

On Nov. 29, the federal financial agencies and the Federal Trade Commission announced that they will be publishing for comment **proposed regulations and guidelines** to help ensure the accuracy and integrity of information provided to consumer reporting agencies. These measures identify the circumstances under which an entity that furnishes consumer information to consumer reporting agencies must reinvestigate disputes about the accuracy of information contained in a consumer report based on a direct request from a consumer.

The proposed rules would also allow consumers to directly dispute inaccuracies of certain consumer report information with financial institutions and other institutions that provide information to consumer reporting agencies. These regulations and guidelines implement the accuracy and integrity provisions and the direct dispute provisions in section 312 of the Fair and Accurate Credit Transactions (FACT) Act of 2003. The comment period will end 60 days after the proposed rules are published in the *Federal Register*.

*Consumer compliance  
examination procedures*

On Nov. 6, the Federal Reserve Board published [Consumer Affairs \(CA\) Letter 07-08](#), issuing the consumer compliance examination procedures regarding unfair or deceptive acts or practices (UDAP) as prohibited under Section 5(a) of the Federal Trade Commission Act.

On March 11, 2004, the Board and the Federal Deposit Insurance Corp. issued a joint statement ([CA 04-02](#)) outlining standards to specify what acts or practices of state-chartered banks are unfair or deceptive. This joint statement included guidance for state-chartered banks to avoid such acts or practices.

An “unfair practice” is legally identified as an act or practice that:

- is unfair when it causes, or is likely to cause, substantial injury to consumers;
- cannot be reasonably avoided by consumers; *and*
- is not outweighed by countervailing benefits to consumers or competition.

The legal standards for “deceptive practices” are such that:

- a representation, omission or practice misleads, or is likely to mislead, the consumer;
- a consumer’s interpretation of the representation, omission or practice is considered reasonable under the circumstances; *and*
- the misleading representation, omission or practice is material.

The consumer compliance examination procedures released in CA Letter 07-08 incorporate the guidance issued in the joint statement under CA 04-02 with new guidance to assist examiners when analyzing potential UDAP issues during a complaint investigation or a consumer compliance examination.

**FED LETTER • DECEMBER 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:* BILL MEDLEY

*Graphic Designer:* BETH NORMAN