



# fed LETTER

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

January 2008

FEDERAL RESERVE BANK of KANSAS CITY

## MANUFACTURING OUTPUT GROWS MODERATELY

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

Tenth District manufacturing output increased moderately in December, and firms generally remained upbeat about future factory activity. Prices rose less from a month ago than in previous surveys, but future price expectations were still somewhat elevated.

## WINTER 2008 ISSUE OF *TEN* AVAILABLE

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

The winter issue examines industries that define the region. Whether it is video game software development, aircraft manufacturing or gaming at Vegas-style casinos, certain industries have a significant economic impact on the Tenth Federal Reserve District.

Other feature articles include: the evolution of stored-value cards beyond shopping; the power of technological innovation that now reaches even the most remote communities; the benefits and costs of diversity in the workplace; combating terrorism via anti-money laundering efforts; and the Federal Reserve Bank of Kansas City's foreclosure-prevention efforts.

For a free subscription, register on the ***TEN* page** of our web site, or call (816) 881-2683.

## HOLIDAY REMINDER

The Federal Reserve will be closed Monday, Jan. 21, for Martin Luther King, Jr. Day. The FRB Services Web site features **a full listing** of all holidays observed by the Federal Reserve.

REGULATORY  
DEVELOPMENTS

*Proposed changes to Regulation Z  
(Truth in Lending)*

To protect consumers from unfair or deceptive home mortgage lending and advertising practices while preserving responsible lending and sustainable homeownership, the Board of Governors of the Federal Reserve System (the Board) proposes to [amend Regulation Z](#) adopted under the Home Ownership and Equity Protection Act (HOEPA). The proposed changes and the request for public comment were announced by the Board on Dec. 18. The comment period will end 90 days after the proposed rules are published in the Federal Register.

The proposed revisions would apply four protections to a newly-defined category of higher-priced mortgage loans secured by a consumer's principal dwelling and three new protections to mortgage loans secured by a consumer's principal dwelling regardless of loan price. The proposed changes would also require that advertisements provide accurate information about rates, monthly payments, and other loan features in a clear manner to consumers and would ban deceptive or misleading advertising practices. Finally, the proposed revisions would require creditors to provide consumers with transaction-specific mortgage loan disclosures before they pay any fee other than the fee for reviewing credit history.

*Confidentiality provisions in  
third-party agreements*

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On Dec. 13, the Federal Reserve Board of Governors issued [Supervision and Regulation \(SR\) Letter 07-19](#) to clarify the Federal Reserve's expectations of confidentiality provisions in agreements between banking organizations and their counterparties (including hedge funds, mutual funds and other trading counterparties) or other third parties. The Federal Reserve warns that a banking organization is subject to legal risks if they enter or have entered into confidentiality agreements that:

- (1) Restrict the banking organization from providing information to the Federal Reserve supervisory staff who are on and/or off site;
- (2) Require or permit, without the prior written approval of the Board's General Counsel, the banking organization to disclose to a counterparty that any information will be or was provided to the Federal Reserve supervisory staff; or
- (3) Require or permit, without the prior written approval of the Board's General Counsel, the banking organization to inform a counterparty of a current or upcoming Federal Reserve examination or any nonpublic Federal Reserve supervisory action or initiative.

Confidential information is defined to include any information related to the examination of a banking organization, including the fact that an examination has taken or will take place.

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*FFIEC guidance on  
pandemic planning*

Pandemic planning presents unique challenges to financial institutions, because the potential reach in scale and duration makes the impact of a pandemic difficult to determine. The Federal Reserve and the other Federal Financial Institutions Examination Council (FFIEC) agencies believe the potentially significant effects of a pandemic justify establishing plans to address how each institution will manage an event.

On Dec. 12, the FFIEC issued guidance for financial institutions for continuity planning that should be in place to minimize the potential adverse effects of a pandemic. The Federal Reserve has issued this guidance under **Supervision and Regulation (SR) Letter 07-18**.

This guidance expands upon the contents of the **“Interagency Advisory on Influenza Pandemic Preparedness”** issued in March 2006.

Accordingly, an institution’s business continuity plan should include:

- (1) A preventive program to reduce risk to a bank’s operations from a pandemic event;
- (2) A documented strategy that addresses particular stages of a pandemic outbreak;
- (3) A comprehensive framework of facilities, systems, or procedures to continue critical operations if large numbers of staff members are unavailable for prolonged periods;
- (4) A testing program to ensure that the bank’s pandemic planning practices and capabilities are effective and will allow critical operations to continue; and
- (5) A process for ongoing review and updates to the pandemic plan.

*Exemption for Regulation C  
(Home Mortgage Disclosure Act)*

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Effective Jan. 1, depository institutions with assets of \$37 million or less as of Dec. 31, 2007, are exempt from collecting Home Mortgage Disclosure Act (HMDA) data in 2008. This is the result of the increase from \$36 million to \$37 million for the asset-size exemption for depository institutions based on the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers for the 12-month period ending in November 2007. The Board published this **notice of the asset-size exemption** threshold for depository institutions under Regulation C, which implements HMDA, on Dec. 17. An institution’s exemption from collecting data in 2008 does not affect its responsibility to report the data it was required to collect in 2007.

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*Annual CRA asset-size  
threshold adjustment*

On Dec. 19, the federal bank regulatory agencies announced the annual adjustment to the asset-size thresholds used to define “small bank,” “small savings association,” “intermediate small bank” and “intermediate small savings association” under the Community Reinvestment Act (CRA) regulations. The annual adjustments for banks are required by the 2005 CRA regulatory amendments and for savings associations by the Office of Thrift Supervision’s 2007 CRA regulatory amendments.

Annual adjustments are based on the year-to-year change in the average of the Consumer Price Index (CPI) for Urban Wager Earners and Clerical Workers for each 12-month period ending in November. As a result of the 2.7 percent increase in the CPI for the period ending in November 2007, the definitions of small and intermediate institutions for CRA examinations will change as follows, effective **Jan. 1, 2008:**

- “Small bank” or “small savings association” means an institution that, as of Dec. 31 of either of the prior two calendar years, had assets of less than \$1.061 billion.
  - “Intermediate small bank” or “intermediate small savings association” means an institution with assets of at least \$265 million as of Dec. 31 of both of the prior two calendar years, and less than \$1.061 billion as of Dec. 31 of either of the prior two calendar years.
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