



fed LETTER

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

July 2010

FEDERAL RESERVE BANK of KANSAS CITY

DISTRICT MANUFACTURING EASES IN JUNE

Growth in Tenth District manufacturing activity eased slightly in June, and producers were somewhat less optimistic than in previous months, according to the Kansas City Fed's latest [Survey of Tenth District Manufacturers](#). Price indexes fell from the previous month, with considerable easement in current materials prices and some slowing in finished goods price increases.

The monthly 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.

MAIN STREET ECONOMIST EXAMINES GOVERNMENTS' FISCAL CHALLENGES

Fiscal challenges at state and local governments are a potential threat to the economic recovery in rural America, according to the [latest edition](#) of the Kansas City Fed's *Main Street Economist*. Though many solutions to fiscal challenges can be painful, economist Alison Felix and Omaha Branch Executive Jason Henderson explain that rural America has the opportunity to foster a new round of innovation in service delivery through consolidation, cooperation and privatization of services.

The [Main Street Economist](#) is a bimonthly electronic newsletter that reviews the major economic challenges and opportunities emerging in the Tenth District, both in rural and urban communities.

NEW BANK RESEARCH AVAILABLE
IN *ECONOMIC REVIEW*

The second quarter 2010 edition of the Federal Reserve Bank of Kansas City's *Economic Review* is now available and contains the following articles:

- “[The Efficacy of Large-Scale Asset Purchases at the Zero Lower Bound](#),” by Taeyoung Doh, uses a preferred-habitat model that explicitly considers the zero bound for nominal interest rates. The analysis suggests that purchasing assets on a large scale can effectively lower long-term interest rates.
 - “[What Is the Effect of Financial Stress on Economic Activity?](#)” by Troy Davig and Craig Hakkio, finds that financial stress has a strong effect on the real economy when the economy is distressed but also plays a role in eventually tipping a strong economy into a distressed one.
 - “[Taylor Rule Deviations and Financial Imbalances](#),” by George Kahn, explores whether monetary policy leading up to the recent financial crisis inadvertently exacerbated financial imbalances by keeping policy-controlled interest rates too low for too long.
 - “[The Changing Nature of U.S. Card Payment Fraud: Industry and Public Policy Options](#),” by Richard J. Sullivan, explores payment card fraud in the United States and whether the card payment industry can limit fraud by developing its own standards and procedures.
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WELCOME, NEW STATE
MEMBER BANKS

The Federal Reserve Bank of Kansas City is pleased to welcome the following state member banks to the Tenth District of the Federal Reserve System:

First Community Bank	Beemer, Neb.	June 10
First Bank and Trust of Fullerton	Fullerton, Neb.	June 28

ECONOMIC ADVISORY COUNCIL
WELCOMES NEW MEMBERS

The Federal Reserve Bank of Kansas City has named four new members to its Economic Advisory Council, who are each joining the council for a three-year term:

- Vincent L. Aulick, president of Aulick Industries and Aulick Manufacturing, Scottsbluff, Neb.
- Michael Hofmann, vice president and chief risk officer of Koch Industries Inc., Wichita, Kan.
- Steve Maestas, managing partner of Maestas & Ward Commercial Real Estate, Albuquerque, N.M.
- Tom L. Ward, chairman, chief executive officer and president of SandRidge Energy Inc., Oklahoma City, Okla.

The council, which includes representatives from the business and labor sectors, meets twice annually with Federal Reserve Bank of Kansas City President Thomas M. Hoenig to discuss the regional economy.

REGULATORY
DEVELOPMENTS

*Clarifications to final Regulations E
and DD rules announced*

The Federal Reserve Board (Board) has announced [clarifications](#) to its Nov. 17, 2009, final Regulation E rule regarding assessing overdraft fees on one-time debit card and automated teller machine (ATM) transactions. The final clarifications state that the prohibition in Regulation E on assessing overdraft fees without the consumer's affirmative consent applies to all institutions, including those with a policy and practice of declining ATM and one-time debit card transactions when an account has insufficient funds.

In addition, clarifications to the Board's Dec. 18, 2008, final Regulation DD rule regarding disclosure practices related to overdraft services have been published. The final clarifications provide information on the application of the final rule to sweep accounts and clarify terminology that should be used on the periodic statement disclosures.

*List of distressed or underserved
nonmetropolitan middle-income
geographies available*

The federal bank and thrift regulatory agencies announced the availability of the [2010 list](#) of distressed or underserved nonmetropolitan middle-income geographies in which revitalization or stabilization activities will receive Community Reinvestment Act consideration as "community development." The 2010 list and lists from previous years can be found on the [Federal Financial Institutions Examination Council](#) website, along with the data source information used to generate the list.

*Guidance issued for Unlawful
Internet Gambling Enforcement
Act compliance*

The Federal Reserve Board has issued interagency [guidance](#) for reviewing supervised financial institutions' compliance with the final rule implementing the Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA). The guidance includes an overview of the final rule under UIGEA, applicable exemptions and non-exclusive safe harbors for compliance.

*Guidance addresses bargain
purchases and FDIC- and NCUA-
assisted acquisitions*

The Federal Reserve Board has issued interagency [guidance](#) addressing supervisory considerations related to bargain purchase gains and the impact such gains have on the application (licensing) approval process. The guidance also highlights the accounting and reporting requirements unique to business combinations resulting in bargain purchase gains and Federal Deposit Insurance Corporation- and National Credit Union Administration-assisted acquisitions of failed institutions.

*Final rules protect credit card users
from certain practices*

The Federal Reserve Board has issued a **final rule** under Regulation Z to incorporate the third stage of changes required by the Credit Card Accountability, Responsibility and Disclosure Act. These changes address practices related to excessive credit card penalty fees and require credit card issuers to inform consumers of the reasons for increases in rates. The final rule includes the following provisions:

- Prohibits credit card issuers from charging a penalty fee of more than \$25 for paying late or otherwise violating the account's terms unless the consumer has engaged in repeated violations or the issuer can show that a higher fee represents a reasonable proportion of the costs it incurs as a result of violations.
- Prohibits credit card issuers from charging penalty fees that exceed the dollar amount associated with the consumer's violation.
- Bans "inactivity" fees, such as fees based on the consumer's failure to use the account to make new purchases.
- Prevents issuers from charging multiple penalty fees based on a single late payment or other violation of the account terms.
- Requires issuers that have increased rates since Jan. 1, 2009, to evaluate whether the reasons for the increase have changed and, if appropriate, to reduce the rate.

The provisions go into effect on Aug. 22, 2010.

*Agencies propose expanding scope
of Community Reinvestment
Act regulations*

The federal bank and thrift regulatory agencies propose a **change** to the Community Reinvestment Act (CRA) regulations to support stabilization of communities affected by high foreclosure levels. The proposed change specifically would encourage depository institutions to support the Neighborhood Stabilization Program (NSP) administered by the U.S. Department of Housing and Urban Development (HUD).

Under the NSP, HUD has provided funds to state and local governments and nonprofit organizations for the purchase and redevelopment of abandoned and foreclosed properties. The agencies' proposal would encourage depository institutions to make loans and investments and provide services to support NSP activities in areas with HUD-approved plans.

The proposal would supplement existing CRA consideration for community development activities, including neighborhood stabilization activities. The comment period closes on July 26, 2010.

*Guidance issued for incentive
compensation arrangements*

The bank and thrift regulatory agencies have issued interagency **guidance** addressing incentive compensation arrangements at financial organizations. The final guidance, which is effective June 25, 2010, provides direction to ensure that incentive compensation arrangements fully account for pertinent risks and are consistent with safe and sound practices. The agencies will be conducting additional cross-firm horizontal reviews of incentive compensation practices at large, complex banking organizations, and will incorporate oversight of incentive compensation arrangements into the regular examination process for smaller organizations.

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