

fed LETTER

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



August 2009

FEDERAL RESERVE BANK of KANSAS CITY

FED CHAIRMAN VISITS THE KANSAS CITY FED FOR TOWN HALL MEETING

Federal Reserve Chairman Ben Bernanke took part in a town hall-style forum at the Kansas City Fed on July 26 hosted by PBS “NewsHour” anchor Jim Lehrer. Chairman Bernanke fielded numerous questions from Kansas City-area residents on the state of the economy and the Fed’s response to the financial crisis.

Excerpts from the town hall meeting, which aired on “NewsHour” July 27, 28 and 29, are available from [the program’s website](#).

MANUFACTURING ACTIVITY REMAINS FLAT IN JULY

Tenth District manufacturing activity was largely flat in July as firms continued to trim inventories, according to the [Survey of Tenth District Manufacturers](#), released on July 30. Manufacturing expectations also remained fairly stable following June’s increase. Price indexes eased after a marginal increase in the previous month.

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.

BEIGE BOOK POINTS TO TENTH DISTRICT STABILIZATION

The Tenth District economy showed further signs of stabilization in June, according to the latest edition of the [Beige Book](#), released July 29. Consumer spending was generally sluggish, but improvements were noted in auto sales and tourism spending. Manufacturing activity expanded modestly, primarily in nondurable goods production.

District bankers reported weaker loan demand, stable deposits and a continued negative outlook for loan quality. While growing conditions improved, agricultural profit opportunities softened, especially for livestock producers. Despite higher input prices, retail price pressures eased and little evidence of wage pressures was reported in District labor markets.

TEN MAGAZINE LOOKS AT
HOW COMMUNITY BANKS ARE
'WEATHERING THE STORM'

The nation's smallest banks are experiencing problems along with the rest of the industry, but so far they seem to be suffering less today than during the crisis of the 1980s. Read what a few community bankers in the region say about the current conditions in the [summer issue of TEN](#).

The issue also includes the following: tips and free resources for talking to kids about the economy; an introduction by Bank President Tom Hoenig on the Kansas City Fed's new book, *The Balance of Power*; a tribute to former Kansas City Fed President Roger Guffey; a look at rewards offered by credit and debit cards; and more.

TEN is made up of stories that highlight Kansas City Fed research and practices through the experiences of everyday people from around the Tenth District.

NEW RESEARCH AVAILABLE IN
THE *ECONOMIC REVIEW*

Several new research articles from the staff of the Kansas City Fed are now available in the latest edition of the [Economic Review](#).

["Financial Stress: What Is It, How Can It Be Measured, and Why Does It Matter?"](#) by Craig S. Hakkio and William R. Keeton presents a new index of financial stress: the Kansas City Financial Stress Index.

["Characteristics of High-Foreclosure Neighborhoods in the Tenth District"](#) by Kelly D. Edmiston analyzes the seven states of the Tenth Federal Reserve District to help shed light on the foreclosure rate pattern and to explore where foreclosure trends are likely to head.

["Do State Corporate Income Taxes Reduce Wages?"](#) by R. Alison Felix shows that state corporate taxes have increasingly reduced wages over the past 30 years—and the effect has been larger on more highly educated workers.

HOLIDAY REMINDER

The Federal Reserve Bank of Kansas City will be closed Monday, Sept. 7, in observance of Labor Day. A [complete listing](#) of Federal Reserve System holidays is available from the FRS Financial Services website.

REGULATORY
DEVELOPMENTS
*Interagency guidance on funding
and liquidity risk management
issued*

The Federal Reserve System, together with other banking regulatory agencies, has issued [proposed liquidity risk management guidance](#) that will apply to banks and bank holding companies. The guidance emphasizes the importance of cash flow projections, diversified funding sources, stress testing, a cushion of liquid assets and a formal contingency funding plan as primary tools for managing liquidity risks. Comments on the proposed guidance are requested by Sept. 4, 2009.

*Revisions to questions and answers
regarding flood insurance*

On July 21, a revised set of **questions and answers (Q&As)** regarding flood insurance was released by the federal agencies. The revisions include 77 Q&As, which supersede the 1997 interagency Q&A document. The revised Q&As provide additional guidance regarding the flood insurance requirements and lender responsibilities for condominiums, subordinate lien loans, construction loans and loan participations. The Q&As are effective Sept. 21, 2009.

The agencies are also proposing for public comment five new Q&As on determining insurable value in calculating the maximum limit of coverage available for particular types of properties and the timing of force placement of required flood insurance by lenders. After receiving and considering public comment on the five new proposed Q&As, the agencies intend to incorporate them into the 2009 revisions. Comments must be submitted by Sept. 21, 2009.

*Final rules and guidelines for accurate
consumer reports published*

On July 2, 2009, the federal financial regulatory agencies published **final rules** and guidelines to promote the accuracy and integrity of information furnished to credit bureaus and other consumer reporting agencies. Under the rules, required by the Fair and Accurate Credit Transactions Act, entities that furnish information about consumers to consumer reporting agencies must develop policies and procedures to ensure that the information provided is accurate and of integrity. The rule also authorizes consumers to file credit report disputes directly with the entity that provided the information to the consumer reporting agency and requires the entity to investigate the dispute. These final rules are effective July 1, 2010.

The federal agencies are also publishing an Advance Notice of Proposed Rulemaking (ANPR) to address unresolved final rule issues related to the definition of credit report integrity. The ANPR seeks comment regarding account information that furnishers should be required to provide to consumer reporting agencies. Comments must be submitted by Aug. 31, 2009.

*Interim final rule implementing
credit card provisions*

On July 15, 2009, the Federal Reserve Board released an **interim final rule** amending Regulation Z as required by the Credit Card Accountability Responsibility and Disclosure Act of 2009. The interim final rule implements three provisions that are effective on Aug. 20, 2009:

Creditors must provide written notice to consumers 45 days before the creditor increases an annual percentage rate on, or makes significant changes to, the terms of a credit card account.

Creditors must inform consumers in the same notice of their right to cancel the credit card before the change goes into effect.

Creditors must mail or deliver periodic statements for credit cards and other open-end consumer credit accounts at least 21 days before the payment is due.

Comments on the interim final rule may be submitted by Sept. 21, 2009, and will be considered when issuing the next set of provisions required by the Credit Card Act.

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