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December 2008 | Federal Reserve Bank of Kansas City

Farm credit conditions healthy but expected to soften

Farm credit conditions in the Tenth Federal Reserve District remained healthy in the third quarter but are expected to weaken in the coming months, according to the Bank's third quarter **Survey of Agricultural Credit Conditions**.

In the survey, which was released on Nov. 17, agricultural lenders reported tighter credit standards and reduced fund availability with strong loan demand. Still, less than 2 percent of survey respondents reported refusing a loan due to a shortage of funds. District bankers also reported that after pausing in the second quarter, farmland values moved higher as the fall harvest approached.

The quarterly survey of 255 banks provides a snapshot of regional agricultural lending conditions in the seven-state region.

District manufacturing activity continues decline

Tenth District manufacturing activity weakened further in November, and firms' expectations for future activity declined considerably, according to the latest **Survey of Tenth District Manufacturing**, which was released Nov. 26. Price indexes in the survey also fell markedly for the second straight month.

The monthly survey asks plant manufacturers about a variety of manufacturing indicators. The information is compiled into a snapshot of manufacturing activity in the Tenth District.

Holiday Reminder

The Federal Reserve Bank of Kansas City will be closed Dec. 25 for Christmas and Jan. 1 for New Year's Day. The FRB financial services website features a **complete listing** of holidays observed by the Federal Reserve.

Regulatory Developments

Public alerted to questionable consumer solicitations

On Nov. 4, the Federal Reserve Board of Governors issued **an alert** regarding solicitations that promise consumers access to personal loans through a Federal Reserve loan program. These solicitations ask consumers to deposit funds with a broker as a security deposit for participation in the loan program. The Federal Reserve has no involvement with these solicitations and does not currently have a loan program targeted directly to consumers.

Consumers who receive a similar type of solicitation and have questions may contact the Federal Reserve Board Consumer Help Center at 1-888-851-1920.

Agencies issue final rule to implement Unlawful Internet Gambling Enforcement Act

On Nov. 12, the Board and the Department of the Treasury **announced a joint final rule** to implement the Unlawful Internet Gambling Enforcement Act of 2006. The final rule applies to financial firms that participate in designated payment systems, which are defined as automated clearing house systems, card systems, check collection systems, wire transfer systems, and money transmitting businesses.

These financial firms must establish and implement policies and procedures that are reasonably designed to prevent payments to gambling businesses in connection with unlawful Internet gambling. The primary focus of the policies and procedures should be directed at establishing a due diligence process to ensure commercial customers are not engaged in unlawful internet gambling activities. Compliance with the new rule is required on Dec. 1, 2009.

Agencies seek comment on proposed interagency appraisal and evaluation guidelines

On Nov. 13, the federal bank regulatory agencies jointly issued for comment **proposed Interagency Appraisal and Evaluation Guidelines** that reaffirm supervisory expectations for sound real estate appraisal and evaluation practices.

Volatility within certain real estate markets and associated credit risk underscore the importance of independent and reliable collateral valuations. In this regard, there is an expanded discussion of portfolio management techniques and circumstances under which an institution should update or replace a collateral valuation for an existing real estate transaction.

The proposed guidance would replace the 1994 Interagency Appraisal and Evaluation Guidelines to incorporate recent supervisory issuances and reflect changes in industry practice, revisions to the Uniform Standards of Professional Appraisal Practice, and available technologies. Comments are due on or before Jan. 20, 2009.

Interagency statement on meeting the needs of creditworthy borrowers

The Department of the Treasury, the Federal Deposit Insurance Corp., and the Federal Reserve have recently put into place several programs designed to promote financial stability and to mitigate procyclical effects of the current market conditions. These programs make new capital widely available to U.S. financial institutions, broaden and increase the guarantees on bank deposit accounts and certain liabilities, and provide backup liquidity to U.S. banking organizations.

Regardless of their participation in particular programs, all banking organizations are expected to adhere to the principles in **this interagency statement**. At this critical time, it is imperative that all banking organizations and their regulators work together to ensure that the needs of creditworthy borrowers are met. The statement covers four topics which support this objective:

Lending to creditworthy borrowers

The agencies expect all banking organizations to fulfill their fundamental role in the economy as intermediaries of credit. It is essential that banking organizations provide credit in a manner consistent with prudent lending practices, however, if underwriting standards tighten excessively or banking organizations retreat from making sound credit decisions, the current market conditions may be exacerbated.

Strengthening capital

Maintaining a strong capital position complements and facilitates a banking organization's capacity and willingness to lend and bolsters its ability to withstand uncertain market conditions. Supervisors will continue to review the dividend policies of individual banking organizations and will take action when dividend policies are found to be inconsistent with sound capital and lending policies.

Working with mortgage borrowers

The agencies expect banking organizations to work with existing borrowers to avoid preventable foreclosures. Supervisors will fully support banking organizations as they work to implement effective and sound loan modification programs.

Structuring compensation

Management compensation policies should be aligned with the long-term prudential interests of the institution, should provide appropriate incentives for safe and sound behavior, and should structure compensation to prevent short-term payments for transactions with long-term horizons.

The **full interagency statement** is available on the Federal Reserve's website.

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