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October 2006

FEDERAL RESERVE BANK of KANSAS CITY

REVISIONS MADE TO OPERATING CIRCULAR NO. 10, LENDING

The Federal Reserve Banks will be revising Operating Circular No. 10, Lending (Revised OC 10), effective Oct. 15, 2006. From time to time, the Federal Reserve Banks revise Operating Circulars to incorporate changes in law and practice. Since current Operating Circular No. 10 (Current OC 10) became effective Jan. 2, 1998, a number of such changes have occurred, including:

- A new secure lending law has been adopted in some form by each of the 50 states.
- “Regulation A of the Board of Governors of the Federal Reserve System, Lending” was amended.
- The importance of flexibility in contingencies became increasingly apparent.

The revisions to Current OC 10 reflect these and other considerations. The complete Revised OC 10 and a summary of the more substantive changes are available on the [Federal Reserve Discount Window's Web site](#).

Questions regarding Revised OC 10, or establishing a borrowing relationship, should be directed to the Federal Reserve Bank of Kansas City's Credit and Risk Management Department at (800) 333-2987.

ANNOUNCEMENT MADE IN SPECIAL EDITION OF *THE MAIN STREET ECONOMIST*

The Bank recently expanded its commitment to regional and rural research, integrating the Center for the Study of Rural America into the Regional, Public and Community Affairs (RPCA) Division. In effect, the RPCA Division has replaced the Center in the Bank's organizational structure.

For details, read the [special edition](#) of *The Main Street Economist*.

MANUFACTURING SURVEY
RELEASED

The [monthly manufacturing survey](#) for the Tenth Federal Reserve District was released Sept. 28. 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 manufacturing activity slowed in September, but activity was still well above year-ago levels and plant managers remained optimistic about future growth. Materials price pressures eased somewhat, but finished goods price increases were expected to persist.

BEIGE BOOK RELEASED

The [latest edition](#) of the Beige Book was released Sept. 6. The Beige Book is a summary of current economic conditions in each Federal Reserve District.

Reports from the 12 districts indicate that economic activity continued to expand since the last report, but five districts indicated deceleration while the remaining seven reported little change in the pace of growth. Some slowing in economic growth was seen in the Boston, New York, Philadelphia, Kansas City, and Dallas districts, though Dallas still characterized growth as strong. Most other districts reported continued modest growth, though Atlanta described activity as “mixed,” Richmond observed that growth was “slow,” while San Francisco noted a “solid” growth pace.

REGULATORY
DEVELOPMENTS
*Proposed Basel II and market
risk rules*

On Sept. 5, the federal bank and thrift regulatory agencies announced that they are requesting public comment on a [notice of proposed rulemaking \(NPR\)](#) that would implement new risk-based capital requirements in the United States for large, internationally active banking organizations. The NPR details the agencies’ plans for implementing the Basel Committee on Banking Supervision’s new capital accord (Basel II) that was issued in 2004. The agencies also request comment on proposed Basel II supervisory reporting templates.

Separately, the agencies announced that they are requesting comment on proposed revisions to the market risk capital rules that the Office of the Comptroller of the Currency, Federal Reserve Board and Federal Deposit Insurance Corporation have used since 1997 for banking organizations with significant exposure to market risk. Under the market risk capital rule, certain banking organizations are required to calculate a capital requirement for the general market risk of their covered positions and the specific risk of their covered debt and equity positions.

The agencies remain committed to issuing in the near future additional proposed revisions to their existing risk-based capital rules, known as Basel IA, in a timeframe that will allow for overlapping comment periods for both the Basel II NPR and the NPR for the proposed Basel IA revisions. Comments on the Basel II and market risk rules are due by **Jan. 23, 2007**.

*Results of the Shared National
Credit review*

The federal bank and thrift regulators released the [results of the 2006 Shared National Credit](#) (SNC) review on Sept. 25. The results indicated that the volume of syndicated credits rose rapidly, in part reflecting a rise in merger and acquisition activity over the past year. The bulk of this increase was associated with credits held by nonbank entities, while problem loans at regulated institutions, particularly those with insured deposits, grew slightly. These results, reported by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision, are based on analyses prepared in the second quarter of 2006 and reflect business and economic conditions at the time.

More regulatory developments

To see more regulatory developments, go to the [Banking Information page](#) on our Web site and click “Regulations/Guidance” in the left column.

FED LETTER • OCTOBER 2006

Fed Letter is published by the Federal Reserve Bank of Kansas City,
925 Grand Boulevard, Kansas City, Missouri, 64198-0001, (800) 333-1010.

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