

# Fed Letter



## Holiday reminder

The Fed will be closed Monday, **Jan. 20, 2003**, in observance of Martin Luther King, Jr. Day. A list of the holidays observed by the Federal Reserve System through 2005 is available at [www.kc.frb.org](http://www.kc.frb.org). Point to “Services for Financial Institutions,” click “Publications,” and then “Holiday Schedule.”

## Manufacturing survey released

The manufacturing survey for the Tenth Federal Reserve District was released Dec. 9. The survey asks plant managers about a variety of manufacturing indicators. The information is compiled into a snapshot of manufacturing in the District. In November, optimism about future activity remained high, but the lack of significant improvement from the sluggish activity levels of a year ago suggests manufacturing conditions in the region remain relatively weak.

To view the current survey, past survey results, and a schedule of 2003 release dates, visit our Web site ([www.kc.frb.org](http://www.kc.frb.org)) and point to “Economic Research & Data.” Next, click “Regional Economic Information” and then “Manufacturing Survey.”

## Welcome new member bank

The Kansas City Fed is pleased to welcome the following state member bank to the Federal Reserve System in the Tenth District:

Peoples Bank                      Lawrence, Kan.                      Dec. 14, 2002

## Regulatory developments

Guidance on USA Patriot Act rules

The Federal Reserve, through Supervision and Regulation Letter SR 02-21, has issued guidance adopted jointly with the other federal supervisory agencies. This guidance concerns two matters associated with section 314(a) of the USA Patriot Act: a moratorium on new information requests about suspected money launderers and terrorists; and the elimination of the FBI Control List. The FBI’s list is to be replaced by the section 314(a) information request process used by FinCEN (Financial Crimes Enforcement Network) to communicate information about individuals suspected of engaging in terrorist financing activities.

Questions regarding SR 02-21 should be directed to Shirlene Gonzalez in our Kansas City office at (800) 333-1010, extension 2960 (816-881-2960 locally) or by e-mail at [shirlene.c.gonzalez@kc.frb.org](mailto:shirlene.c.gonzalez@kc.frb.org).

## Accounting guidance for credit card securitizations

The Federal Reserve, through Supervision and Regulation Letter SR 02-22, has issued guidance adopted jointly with the other federal supervisory agencies to clarify the appropriate accounting treatment for financial institutions that securitize credit card receivables and record an asset commonly referred to as Accrued Interest Receivable (AIR). The guidance clarifies that, when the institution’s (seller’s) right to the AIR is subordinated as a result of a securitization, the seller generally should include the AIR as a subordinated retained interest in accounting for the sale of credit card receivables and in computing the gain or loss on sale. In addition, the AIR should be reported in “Other Assets” in regulatory reports and not as a loan receivable. If an institution has not followed this accounting approach in the past, it should adopt it in the next regulatory report that it files (i.e., as of Dec. 31, 2002) and in all subsequent periods.

Questions concerning SR 02-22 should be directed to Jane Padget in our Kansas City office at (800) 333-1010, extension 2147 (816-881-2147 locally) or by e-mail at [jane.m.padget@kc.frb.org](mailto:jane.m.padget@kc.frb.org)

**Proposed revision  
to Regulation Z  
staff commentary**

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The Board is proposing revisions to its official staff commentary that applies and interprets the requirements of Regulation Z (Truth in Lending). The proposed revisions would clarify: the status of certain credit card-related fees; rules for replacing an accepted credit card with one or more cards; the treatment of private mortgage insurance payments in disclosing the payment schedule; and the selection of Treasury security yields for determining whether a mortgage loan is covered under HOEPA (Home Ownership and Equity Protection Act). The comment period extends through **Jan. 27, 2003**.

Questions concerning the proposed revisions should be directed to the Consumer Affairs Department in our Denver office at (800) 333-1020, extension 2605 (303-572-2605 locally), or in our Kansas City office at (800) 333-1010, extension 2488 (816-881-2488 locally).

**Inspector General  
report on the  
failure of the  
Oakwood Deposit  
Bank Company**

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On Oct. 25, the Board's Office of Inspector General (IG) issued a report on the failure of the Oakwood Deposit Bank Company (Oakwood). A provision in the Federal Deposit Insurance Act requires the IG of the appropriate federal banking agency to review the agency's supervision of certain failed institutions. Oakwood, a former state member bank based in Oakwood, Ohio, failed on Feb. 1, 2002, due to a massive fraud perpetrated by a trusted senior executive who exploited a weak corporate governance environment and inadequate internal control structure. The Oakwood example points to the ultimate exposure operational risks can pose for banks that fail to adequately establish and maintain a strong control environment. The report specifies that banks should be acknowledged as "high-risk" institutions if they have five characteristics: 1) a weak board of directors; 2) a dominant senior executive; 3) inadequate separation of duties; 4) a weak or non-existent internal and external audit program; and 5) a history of internal control deficiencies. However, an institution with any of these factors should address the operational risks inherent in these traits.

**Internet access**

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Regulatory developments like those above can be obtained from our Web site at **www.kc.frb.org**. Point to "Banking Information" on the home page, then click "Regulations/Other Guidance," and select either of the first two categories, as appropriate.

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