

# Fed Letter



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## Beige Book released

The latest edition of the Beige Book was released March 9. The Beige Book is a summary of current economic conditions in each Federal Reserve district. Nationally, economic activity expanded at a moderate pace in all 12 districts in late January and February, with increases in the manufacturing and service sector activity and strong real estate activity. Locally, the Tenth District's economy also showed strong movement during the same period. The district's retailers reported favorable sales, manufacturing activity continued to expand solidly, and labor markets, despite price pressures, remained strong.

For details about national and Tenth District economic activity, visit [www.kansascityfed.org](http://www.kansascityfed.org). In the left column, under "Economic News," click "Beige Book."

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## Manufacturing survey released

The monthly manufacturing survey for the Tenth Federal Reserve District was released March 14, 2005. The survey asks plant managers about a variety of manufacturing indicators. The information is compiled into a snapshot of manufacturing in the District. Manufacturing activity in the Tenth District expanded solidly and expectations for future factory production remained strong.

To view the current survey, visit [www.kansascityfed.org](http://www.kansascityfed.org). In the left column, under "Economic News," click "Manufacturing Survey" and then "Current Survey (March 14, 2005)."

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## Regional Asset Indicators: Tapping the Skills Surplus in Rural America

Underemployed workers represent a vital potential asset for regions seeking to reinvent their economies. By tapping this surplus of valuable worker skills, some rural regions may be able to generate high-skill job growth. The February issue of *The Main Street Economist*, the second in a series on regional asset indicators, discusses underemployment, a critical workforce asset.

Read the full report at [www.kansascityfed.org](http://www.kansascityfed.org). Point to "About the Fed," click "Center for the Study of Rural America," then "*The Main Street Economist*" and then "February 2005 – Regional Asset Indicators: Tapping the Skills Surplus in Rural America."

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## Regulatory developments Advisory on confidentiality of supervisory ratings

On Feb. 28, the federal bank and thrift agencies issued an interagency advisory to remind financial institutions that they are prohibited by law from disclosing their CAMELS rating and other nonpublic supervisory information without permission from the appropriate federal banking agency. The advisory is prompted by insurers who have requested or required banks and savings associations to disclose their CAMELS rating during the underwriting process for directors and officers liability coverage. In addition, the agencies have requested the assistance of the National Association of Insurance Commissioners in notifying insurance companies that the practice of requesting or requiring CAMELS ratings should be discontinued.

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**Agencies provide guidance on overdraft protection programs**

On Feb. 18, the federal bank and credit union agencies announced final joint guidance to assist insured depository institutions in the disclosure and administration of overdraft protection programs. Depository institutions sometimes offer these programs to transaction account customers as an alternative to traditional ways of covering overdrafts. In response to concerns about the marketing, disclosure, and implementation of these programs, the agencies published for comment proposed interagency guidance on overdraft protection programs in June 2004. The final joint guidance responds to comments received from various groups, including consumer and community groups and depository institutions.

The final joint guidance contains three primary sections: safety and soundness considerations; legal risks; and best practices. The safety and soundness discussion seeks to ensure that financial institutions offering overdraft protection programs adopt adequate policies and procedures to address credit, operational and other associated risks. The legal risks discussion alerts institutions of the need to comply with all applicable federal and state laws and advises institutions to have legal counsel review their programs. The best practices section addresses the marketing and communications that accompany the offering of such programs as well as the disclosure and operation of these programs.

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**Proposed revisions to Community Reinvestment Act regulations**

The Federal Reserve Board has invited public comment on proposed revisions to its regulations implementing the Community Reinvestment Act (CRA) that are intended to reduce regulatory burden on community banks while making CRA evaluations more effective in encouraging banks to meet community development needs. The Board's notice, issued on Feb. 25, is identical to proposals approved by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation on Feb. 22.

The proposal would exempt banks with assets between \$250 million and \$1 billion (referred to as "intermediate small banks") from the data reporting obligations the current CRA regulations imposed on banks with assets larger than \$250 million; subject intermediate small banks to a two-part test (retail lending and community development) instead of the current three-part test (lending, investment and service); revise the definition of community development for all banks of any size to make it more responsive to the community development needs of rural areas; and clarify when illegal lending practices might reduce the bank's CRA rating. The proposal addresses concerns expressed by the Board in July 2004 when it withdrew a prior proposal to raise the small-bank threshold to \$500 million.

The deadline for providing comment is **May 10**. Questions pertaining to this matter may be directed to the Consumer Affairs Department at either our Kansas City office at 800-333-1010, extension 2488, or our Denver office at 800-333-1020, extension 2605.

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## **Final rule on trust preferred securities**

The Federal Reserve Board adopted a final rule on March 1 that allows the continued limited inclusion of trust-preferred securities in the tier 1 capital of bank holding companies (BHCs). Under the final rule, trust-preferred securities and other restricted core capital elements will be subject to stricter quantitative limits.

The Board's final rule limits restricted core capital elements to 25 percent of all core capital elements, net of goodwill less any associated deferred tax liability. Internationally active BHCs, defined as those with consolidated assets greater than \$250 billion or on-balance-sheet foreign exposure greater than \$10 billion, will be subject to a 15 percent limit. The final rule provides a five-year transition period, ending March 31, 2009, for application of the quantitative limits.

Other final rule elements include the elimination of the requirement for trust preferred securities to include a call option and the clarification of standards for the junior subordinated debt underlying trust preferred securities eligible for tier 1 capital treatment. The final rule also addresses supervisory concerns, competitive equity considerations and the accounting for trust preferred securities.

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## **Internet access**

Regulatory developments like those above can be obtained from our website at [www.kansascityfed.org](http://www.kansascityfed.org). Point to "Banking Information" on the home page, then click "Regulations/Guidance" and select either of the first two categories, as appropriate.

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