

FEDERAL DEPOSIT INSURANCE CORPORATION

**BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM**

[Docket No. OP-1369]

DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

[Docket ID OCC-2010-#####]

DEPARTMENT OF THE TREASURY

Office of Thrift Supervision

[Docket ID OTS-2010-#####]

Correspondent Concentration Risks

AGENCIES: Federal Deposit Insurance Corporation (FDIC); Board of Governors of the Federal Reserve System (Board), Office of the Comptroller of the Currency, Treasury (OCC); and Office of Thrift Supervision, Treasury (OTS).

ACTION: Final guidance.

DATE: Effective upon publication in the Federal Register.

SUMMARY: The FDIC, Board, OCC, and OTS (the Agencies) are issuing final guidance on Correspondent Concentration Risks (CCR Guidance). The CCR Guidance outlines the Agencies' expectations for financial institutions to identify, monitor, and manage credit and funding concentrations to other institutions on a standalone and organization-wide basis, and to take into account exposures to the correspondents' affiliates, as part of their prudent risk management practices. Institutions also should be aware of their affiliates' exposures to correspondents as well as the correspondents' subsidiaries and affiliates. In addition, the CCR Guidance addresses the Agencies' expectations for financial institutions to perform appropriate due diligence on all credit exposures to and funding transactions with other financial institutions.

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SUPPLEMENTARY INFORMATION:

I. Background

The Agencies developed the CCR Guidance to outline supervisory expectations for financial institutions¹ to address correspondent concentration risks and to perform appropriate due diligence on credit exposures to and funding transactions with correspondents as part of their

¹ This guidance applies to all banks and their subsidiaries, bank holding companies and their nonbank subsidiaries, savings associations and their subsidiaries, and savings and loan holding companies and their subsidiaries.

prudent risk management policies and procedures.² Credit (asset) risk is the potential that an obligation will not be paid in a timely manner or in full. Credit concentration risk arises whenever an institution advances or commits a significant volume of funds to a correspondent, as the advancing institution's assets are at risk of loss if the correspondent fails to repay.

Funding (liability) concentration risk arises when an institution depends heavily on the liquidity provided by one particular correspondent or a limited number of correspondents to meet its funding needs. Funding concentration risk can create an immediate threat to an institution's viability if the advancing correspondent suddenly reduces the institution's access to liquid funds. For example, a correspondent might abruptly limit the availability of liquid funding sources as part of a prudent program for limiting credit exposure to one institution or organization or as required by regulation when the financial condition of the institution declines rapidly. The Agencies realize some concentrations arise from the need to meet certain business needs or purposes, such as maintaining large due from balances with a correspondent to facilitate account clearing activities. However, correspondent concentrations represent a lack of diversification that management should consider when formulating strategic plans and internal risk limits.

The Agencies generally consider credit exposures arising from direct and indirect obligations in an amount equal to or greater than 25 percent of total capital³ as concentrations. Depending on its size and characteristics, a concentration of credit for a financial institution may represent a funding exposure to the correspondent. While the Agencies have not established a funding

² Unless otherwise indicated, references to "correspondent" include the correspondent's holding company, subsidiaries, and affiliates.

³ For purposes of this guidance, the term "total capital" means the total risk-based capital as reported for commercial banks and thrifts in the Report of Condition and the Thrift Financial Report, respectively.

concentration threshold, the Agencies have seen instances where funding exposures of 5 percent of an institution's total liabilities have posed an elevated risk to the recipient, particularly when aggregated with other similar sized funding concentrations. An example of how these interbank correspondent risks can become concentrated is illustrated below:

Respondent Institution (RI) has \$400 million in total assets and is well capitalized with \$40 million (10 percent) of total capital. RI maintains \$10 million in its due from account held at Correspondent Bank (CB) and sells \$20 million in unsecured overnight Federal funds to CB. These relationships collectively result in RI having an aggregate risk exposure of 75 percent of its total capital to CB. CB, which has \$2 billion in total assets, \$1.8 billion in total liabilities, and is well capitalized with \$200 million (10 percent) total capital, has a total of 20 respondent banks (RB) with the same credit exposures to CB as RI has to CB. The 20 RBs' \$600 million aggregate relationship represents one-third (33 percent) of CB's total liabilities. These relationships create significant funding risk for CB if a few of the RBs withdraw their funds in close proximity of each other.

These relationships also could threaten the viability of the 20 RBs. The loss of all or a significant portion of the RBs' due from balances and the unsecured Federal funds sold to CB could deplete a significant portion of their capital bases, resulting in multiple institution failures. The RBs' viability also could be jeopardized if CB, in turn, had sold a significant portion of the Federal funds from the RBs to another financial institution that abruptly fails. In addition, the financial institutions that rely on CB for account clearing services may find it difficult to quickly transfer processing services to another provider.

Although these interbank exposures may comply with regulations governing individual relationships, collectively they pose significant correspondent concentration risks that need to be monitored and managed consistent with the institutions' overall risk-management policies and procedures. Therefore, the Agencies published the proposed *Correspondent Concentration Risks* Guidance (Proposed Guidance) for comment and are now issuing the final CCR Guidance after consideration of the comments received on the Proposed Guidance.

II. Overview of Public Comments

The Agencies received 91 unique comments on the Proposed Guidance primarily from financial institutions and industry trade groups. In general, the commenters agreed with the fundamental principles underlying the CCR Guidance, but some responses characterized the CCR Guidance as excessive, unnecessarily complex, and burdensome. A number of institutions and industry trade groups also voiced concern that the credit and funding thresholds in the CCR Guidance would be applied as “hard caps” rather than as indicators of potentially heightened risk. A few commenters noted that a 5 percent funding threshold was vague and lacked sufficient discussion on relevant issues, such as the type, term and nature of some funding sources. Other commenters raised concerns the CCR Guidance would effectively amend the Board’s Regulation F (Regulation F).⁴

The Agencies requested comment on all aspects of the Proposed Guidance. The Agencies also specifically requested comment on:

⁴ 12 C.F.R. Part 206.

- The appropriateness of aggregating all credit and funding exposures that an institution or its organization has advanced or committed to another financial institution or its correspondents when calculating concentrations, and whether some types of advances or commitments should be excluded.
- The types of factors institutions should consider when assessing correspondents' financial condition.
- The need to establish internal limits as well as ranges or tolerances for each factor being monitored.
- The types of actions that should be considered for contingency planning and the timeframes for implementing those actions to ensure concentrations that meet or exceed organizations' established internal limits, ranges, or tolerances are reduced in an orderly manner.
- The operational issues the Agencies should consider when issuing the final CCR Guidance, such as the single excess balance account limitation.⁵

In response to the Agencies' specific questions, many commenters responded that the CCR Guidance needed to be flexible, providing financial institutions latitude in establishing relationships with correspondents that are appropriate with the institutions' individual risk management practices and business needs. Almost all of the commenters asked the Agencies to clarify the types of loan participations to be included when calculating credit exposures. Further, many commenters supported using Regulation F's specified factors for assessing institutions' financial condition and timeframes for contingency plans.

⁵ An excess balance account (EBA) is an account held at a Federal Reserve Bank that is established for purposes of maintaining the excess balances of one or more eligible institutions through an agent. Under the terms of an EBA agreement, an eligible institution is permitted to participate in one EBA at a Federal Reserve Bank.

Several commenters also suggested that the Agencies should exclude transactions from the credit and funding concentration calculations when these transactions would have a nominal effect on the calculations, especially when the recordkeeping and cost of tracking complex exposures outweighed the benefit of obtaining this information. Many commenters also raised concerns that the calculation of credit and funding exposures on both a gross and net basis created significant additional burden on financial institutions. Some commenters suggested that the Agencies should provide a detailed example of how to calculate credit and funding exposures. Further, many commenters also strongly supported the use of multiple excess balance accounts.

A small number of commenters stressed that the Agencies need to apply the CCR Guidance uniformly to all financial institutions engaged in correspondent banking services to ensure that smaller scale correspondents are not placed at a competitive disadvantage to large institutions due to a perception of large institutions being “too big to fail” or having government support. In addition, a few commenters asked the Agencies to make the CCR Guidance effective 90 days after its issuance to provide institutions with time to implement any additional procedures that might be needed to ensure compliance. The following discussion summarizes how the Agencies addressed these issues in the CCR Guidance.

III. Revisions to the CCR Guidance

The Agencies made a number of changes to the Proposed Guidance to respond to comments and to provide additional clarity in the CCR Guidance.

Scope of the CCR Guidance

The Agencies revised the CCR Guidance to state that it does not supplant or amend Regulation F, but provides supervisory guidance on correspondent concentration risks. The CCR Guidance clarifies that financial institutions should consider taking actions beyond the minimum requirements established in Regulation F to identify, monitor, and manage correspondent concentration risks in a safe and sound manner, especially when there are rapid changes in market conditions or in a correspondent's financial condition. The revised CCR Guidance also specifies that the credit and funding thresholds are not "hard caps" or firm limits, but are indicators that a financial institution has concentration risk with a correspondent. In addition, the Agencies modified the credit concentration threshold calculation to reflect positions as a percentage of total capital rather than tier 1 capital. This revision provides consistency with Regulation F.

Identifying, Calculating, and Monitoring Correspondent Concentrations

The CCR Guidance clarifies that for risk management purposes, institutions should identify correspondent credit and funding concentrations to assist management in assessing how significant economic events or abrupt deterioration in a correspondent's risk profile might affect

their financial condition.⁶ In responses to commenters' concerns, the Agencies maintained supervisory flexibility, as the CCR Guidance clarifies that each financial institution should establish appropriate internal parameters (such as information, ratios, trends or other factors) commensurate with the nature, size, and risk characteristics of their correspondent concentrations. An institution's internal parameters should:

- detail the information, ratios, or trends that will be reviewed for each correspondent on an ongoing basis,
- instruct management to conduct comprehensive assessments of correspondent concentrations that consider its internal parameters, and
- revise the frequency of correspondent concentration reviews when appropriate.

The Agencies also clarified the types of loan participations to be included when calculating credit exposures. The Agencies did not exclude transactions that may have a nominal effect from either the credit or funding concentration calculations to ensure consistency with Regulation F.

The Agencies maintained their expectation that, as part of prudent risk management, institutions should calculate their credit and funding exposures with a correspondent on both a gross and net basis. While institutions already calculate their exposures on a net basis, the

⁶ Financial institutions should identify and monitor all direct or indirect relationships with their correspondents. Institutions should take into account exposures of their affiliates to correspondents, and how those relationships may affect the institution's exposure. While each financial institution is responsible for monitoring its own credit and funding exposures, institution holding companies should manage the organization's concentration risk on a consolidated basis.

benefit of management being aware of the institution's overall risk position with a correspondent on a gross basis outweighs the potential burden of conducting a secondary set of calculations to ascertain the institution's aggregate exposure. Further, the CCR Guidance includes examples on the method for calculating credit and funding exposures on a standalone and on an organization-wide basis for illustrative purposes only in response to some commenters' requests for examples.

Other Commenter Issues

The Agencies appreciate the concern of commenters who remarked that failure to apply the CCR Guidance uniformly to all financial institutions engaged in correspondent banking services could cause smaller scale correspondents to be placed at a competitive disadvantage to large institutions due to a perception of large institutions being "too big to fail" or having government support. The Agencies are working together to ensure that the CCR Guidance is applied uniformly to all financial institutions engaged in correspondent banking services. Further, since institutions already have policies and procedures for identifying, monitoring, and managing credit and funding concentrations on a net basis, the Agencies decided not to delay the effective date of the CCR Guidance. In addition, when the Board authorized Federal Reserve Banks to offer excess balance accounts, the Board stated that it would re-evaluate the continuing need for those accounts when more normal market functioning resumes. 74 Fed. Reg. 25,626 (May 29, 2009). The Board will consider these comments within the context of such a re-evaluation.

IV. Text of Final CCR Guidance and Illustrations in Appendix A and Appendix B

The text of the final CCR Guidance and the illustrations in Appendix A and Appendix B follows:

Correspondent Concentration Risks

A financial institution's¹ relationship with a correspondent² may result in credit (asset) and funding (liability) concentrations. On the asset side, a credit concentration represents a significant volume of credit exposure that a financial institution has advanced or committed to a correspondent. On the liability side, a funding concentration exists when an institution depends on one or a few correspondents for a disproportionate share of its total funding.

The Agencies³ realize some concentrations meet certain business needs or purposes, such as a concentration arising from the need to maintain large “due from” balances to facilitate account clearing activities. However, correspondent concentrations represent a lack of diversification, which adds a dimension of risk that management should consider when formulating strategic plans and internal risk limits.

The Agencies have generally considered credit exposures greater than 25 percent of total capital⁴ as concentrations. While the Agencies have not established a liability concentration threshold,

¹ This guidance applies to all banks and their subsidiaries, bank holding companies and their nonbank subsidiaries, savings associations and their subsidiaries, and savings and loan holding companies and their subsidiaries.

² Unless the context indicates otherwise, references to “correspondent” include the correspondent’s holding company, subsidiaries, and affiliates. A correspondent relationship results when a financial organization provides another financial organization a variety of deposit, lending, or other services.

³ The Agencies consist of the Federal Deposit Insurance Corporation (FDIC), Board of Governors of the Federal Reserve System (Board), Office of the Comptroller of the Currency, Treasury (OCC), and Office of Thrift Supervision, Treasury (OTS) (collectively, the Agencies).

⁴ For purposes of this guidance, the term “total capital” means the total risk-based capital as reported for commercial banks and thrifts in the Report of Condition and the Thrift Financial Report, respectively.

the Agencies have seen instances where funding exposures as low as 5 percent of an institution's total liabilities have posed an elevated liquidity risk to the recipient institution.

These levels of credit and funding exposures are not firm limits, but indicate an institution has concentration risk with a correspondent. Such relationships warrant robust risk management practices, particularly when aggregated with other similarly sized funding concentrations, in addition to meeting the minimum regulatory requirements specified in applicable regulations. Financial institutions should identify, monitor, and manage both asset and liability correspondent concentrations and implement procedures to perform appropriate due diligence on all credit exposures to and funding transactions with correspondents, as part of their overall risk management policies and procedures.

This guidance does not supplant or amend applicable regulations such as the Board's *Limitations on Interbank Liabilities* (Regulation F).⁵ This guidance clarifies that financial institutions should consider taking actions beyond the minimum requirements established in Regulation F to identify, monitor, and manage correspondent concentration risks, especially when there are rapid changes in market conditions or in a correspondent's financial condition, in order to maintain risk management practices consistent with safe and sound operations.

Identifying Correspondent Concentrations

⁵ 12 CFR 206. All depository institutions insured by the FDIC are subject to Regulation F.

Institutions should implement procedures for identifying correspondent concentrations. For prudent risk management purposes, these procedures should encompass the totality of the institutions' aggregate credit and funding concentrations to each correspondent on a standalone basis, as well as taking into account exposures to each correspondent organization as a whole.⁶ In addition, the institution should be aware of exposures of its affiliates to the correspondent and its affiliates.

Credit Concentrations

Credit concentrations can arise from a variety of assets and activities. For example, an institution could have due from bank accounts, Federal funds sold on a principal basis, and direct or indirect loans to or investments in a correspondent. In identifying credit concentrations for risk management purposes, institutions should aggregate all exposures, including, but not limited to:

- Due from bank accounts (demand deposit accounts (DDA) and certificates of deposit (CD)),
- Federal funds sold on a principal basis,
- The over-collateralized amount on repurchase agreements,
- The under-collateralized portion of reverse repurchase agreements,
- Net current credit exposure on derivatives contracts,
- Unrealized gains on unsettled securities transactions,

⁶ Financial institutions should identify and monitor all direct or indirect relationships with their correspondents. Institutions should take into account exposures of their affiliates to correspondents, and how those relationships may affect the institution's exposure. While each financial institution is responsible for monitoring its own credit and funding exposures, institution holding companies, if any, should manage the organization's concentration risk on a consolidated basis.

- Direct or indirect loans to or for the benefit of the correspondent,⁷ and
- Investments, such as trust preferred securities, subordinated debt, and stock purchases, in the correspondent.

Funding Concentrations

Depending on its size and characteristics, a concentration of credit for a financial institution may be a funding exposure for the correspondent. The primary risk of a funding concentration is that an institution will have to replace those advances on short notice. This risk may be more pronounced if the funds are credit sensitive, or if the financial condition of the party advancing the funds has deteriorated.

The percentage of liabilities or other measurements that may constitute a concentration of funding is likely to vary depending on the type and maturity of the funding, and the structure of the recipient's sources of funds. For example, a concentration in overnight unsecured funding from one source might raise different concentration issues and concerns than unsecured term funding, assuming compliance with covenants and diversification with short and long-term maturities. Similarly, concerns arising from concentrations in long-term unsecured funding typically increase as these instruments near maturity.

Calculating Credit and Funding Concentrations

⁷ Exclude loan participations purchased without recourse from a correspondent, its holding company, or an affiliate.

When identifying credit and funding concentrations for risk management purposes, institutions should calculate both gross and net exposures to the correspondent on a standalone basis and on a correspondent organization-wide basis as part of their prudent risk management practices.

Exposures are reduced to net positions to the extent that the transactions are secured by the net realizable proceeds from readily marketable collateral or are covered by valid and enforceable netting agreements. Appendix A, *Calculating Correspondent Exposures*, contains examples, which are provided for illustrative purposes only.

Monitoring Correspondent Relationships

Prudent management of correspondent concentration risks includes establishing and maintaining written policies and procedures to prevent excessive exposure to any correspondent in relation to the correspondent's financial condition. For risk management purposes, institutions' procedures and frequency for monitoring correspondent relationships may be more or less aggressive depending on the nature, size, and risk of the exposure.

In monitoring correspondent relationships for risk-management purposes, institutions should specify internal parameters relative to what information, ratios, or trends will be reviewed for each correspondent on an ongoing basis. In addition to a correspondent's capital, level of problem loans, and earnings, institutions may want to monitor other factors, which could include, but are not limited to:

- Deteriorating trends in capital or asset quality.

- Reaching certain target ratios established by management, *e.g.*, aggregate of nonaccrual and past due loans and leases as a percentage of gross loans and leases.
- Increasing level of other real estate owned.
- Attaining internally specified levels of volatile funding sources such as large CDs or brokered deposits.
- Experiencing a downgrade in its credit rating, if publicly traded.
- Being placed under a public enforcement action.

For prudent risk management purposes, institutions should implement procedures that ensure ongoing, timely reviews of correspondent relationships. Institutions should use these reviews to conduct comprehensive assessments that consider their internal parameters and are commensurate with the nature, size, and risk of their exposure. Institutions should increase the frequency of their internal reviews when appropriate, as even well capitalized institutions can experience rapid deterioration in their financial condition, especially in economic downturns.

Institutions' procedures also should establish documentation requirements for the reviews conducted. In addition, the procedures should specify when relationships that meet or exceed internal criteria are to be brought to the attention of the board of directors or the appropriate management committee.

Managing Correspondent Concentrations

Institutions should establish prudent internal concentration limits, as well as ranges or tolerances for each factor being monitored for each correspondent. Institutions should develop plans for managing risk when these internal limits, ranges or tolerances are met or exceeded, either on an individual or collective basis. Contingency plans should provide a variety of actions that can be considered relative to changes in the correspondent's financial condition. However, contingency plans should not rely on temporary deposit insurance programs for mitigating concentration risk.

Prudent risk management of correspondent concentration risks should include procedures that provide for orderly reductions of correspondent concentrations that exceed internal parameters over a reasonable timeframe that is commensurate with the size, type, and volatility of the risk in the exposure. Such actions could include, but are not limited to:

- Reducing the volume of uncollateralized/uninsured funds.
- Transferring excess funds to other correspondents after conducting appropriate reviews of their financial condition.
- Requiring the correspondent to serve as agent rather than as principal for Federal funds sold.
- Establishing limits on asset and liability purchases from and investments in correspondents.
- Specifying reasonable timeframes to meet targeted reduction goals for different types of exposures.

Examiners will review correspondent relationships during examinations to ascertain whether an institution's policies and procedures appropriately identify and monitor correspondent

concentrations. Examiners also will review the adequacy and reasonableness of institutions' contingency plans to manage correspondent concentrations.

Performing Appropriate Due Diligence

Financial institutions that maintain credit exposures in or provide funding to other financial institutions should have effective risk management programs for these activities. For this purpose, credit or funding exposures may include, but are not limited to, due from bank accounts, Federal funds sold as principal, direct or indirect loans (including participations and syndications), and trust preferred securities, subordinated debt, and stock purchases of the correspondent.

An institution that maintains or contemplates entering into any credit or funding transactions with another financial institution should have written investment, lending, and funding policies and procedures, including appropriate limits, that govern these activities. In addition, these procedures should ensure the institution conducts an independent analysis of credit transactions prior to committing to engage in the transactions. The terms for all such credit and funding transactions should strictly be on an arm's length basis, conform to sound investment, lending, and funding practices, and avoid potential conflicts of interest.

Appendix A

Calculating Respondent Credit Exposures on an Organization-Wide Basis

Respondent Bank's Gross Credit Exposure to a Correspondent, its Holding Company and Affiliates

50,000,000	Due from DDA with correspondent
1,000,000	Due from DDA with correspondent's two affiliated insured depository institutions (IDIs)
1,000,000	CDs issued by correspondent bank
500,000	CDs issued by one of correspondent's two affiliated IDIs
51,500,000	Federal funds sold to correspondent on a principal basis
2,500,000	Federal funds sold to correspondent's affiliated IDIs on a principal basis
3,750,000	Reverse Repurchase agreements
250,000	Net current credit exposure on derivatives ¹
4,500,000	Direct and indirect loans to or for benefit of a correspondent, its holding company, or affiliates
<u>2,500,000</u>	Investments in the correspondent, its holding company, or affiliates
117,500,000	Gross Credit Exposure
100,000,000	Total Capital
118%	Gross Credit Concentration

Respondent Bank's Net Credit Exposure to a Correspondent, its Holding Company and Affiliates

17,850,000	Due from DDA (less checks/cash not available for withdrawal & federal deposit insurance (FDI)) ²
500,000	Due from DDA with correspondent's two affiliated IDIs (less FDI) ²
750,000	CDs issued by correspondent bank (less FDI)
250,000	CDs issued by one of correspondent's two affiliated IDIs (less FDI)
51,500,000	Federal funds sold on a principal basis
2,500,000	Federal funds sold to correspondent's affiliated IDIs on a principal basis
100,000	Under-collateralized amount on reverse repurchase agreements (less the current market value of government securities or readily marketable collateral pledged) ³
50,000	Uncollateralized net current derivative position ¹
4,500,000	Direct and indirect loans to or for benefit of a correspondent, its holding company, or affiliates
<u>2,500,000</u>	Investments in the correspondent, its holding company, or affiliates
80,500,000	Net Credit Exposure
100,000,000	Total Capital
81%	Net Credit Concentration

NOTE: Respondent Bank has \$1 billion in Total Assets, 10% Total Capital, and 90% Total Liabilities and Correspondent Bank has \$1.5 billion in Total Assets, 10% Total Capital, and 90% Total Liabilities

Calculating Correspondent Funding Exposures on an Organization-Wide Basis

Correspondent Bank's *Gross Funding Exposure* to a Respondent Bank

50,000,000	Due to DDA with respondent
1,000,000	Correspondent's two affiliated IDIs' Due to DDA with respondent
1,000,000	CDs sold to respondent bank
500,000	CDs sold to respondent from one of correspondent's two affiliated IDIs
51,500,000	Federal funds purchased from respondent on a principal basis
2,500,000	Federal funds sold to correspondent's affiliated IDIs on a principal basis
<u>1,000,000</u>	Repurchase Agreements
107,500,000	Gross Funding Exposure
1,350,000,000	Total Liabilities
7.96%	Gross Funding Concentration

Correspondent Bank's *Net Funding Exposure* to a Respondent, its Holding Company and Affiliates

17,850,000	Due to DDA with respondent (less checks and cash not available for withdrawal and FDI) ²
500,000	Correspondent's two affiliated IDIs' Due to DDA with respondent (less FDI) ²
750,000	CDs sold to correspondent (less FDI)
250,000	One of correspondent's two affiliated IDIs' CDs sold to respondent (less FDI) ²
51,500,000	Federal funds purchased from respondent on a principal basis
2,500,000	Federal funds sold to correspondent's affiliated IDIs on a principal basis
<u>150,000</u>	Under-collateralized amount of repurchase agreements relative to the current market value of government securities or readily marketable collateral pledged ³
73,500,000	Net Funding Exposure
1,350,000,000	Total Liabilities
5.44%	Net Funding Concentration

¹ There are 5 derivative contracts with a mark-to-market fair value position as follows: Contract 1 (100), Contract 2 +400, Contract 3 (50), Contract 4 +150, and Contract 5 (150). Collateral is 200, resulting in an uncollateralized position of 50.

² While temporary deposit insurance programs may provide certain transaction accounts higher levels of federal deposit insurance coverage, institutions should not rely on such programs for mitigating concentration risk.

³ Government securities means obligations of, or obligations fully guaranteed as to principal and interest by, the U.S. government or any department, agency, bureau, board, commission, or establishment of the United States, or any corporation wholly owned, directly or indirectly, by the United States.

Appendix B

Calculating Respondent Credit Exposures on a Correspondent Only Basis

Respondent Bank's Gross Credit Exposure to a Correspondent

50,000,000	Due from DDA with correspondent
0	Due from DDA with correspondent's two affiliated insured depository institutions (IDIs)
1,000,000	CDs issued by correspondent bank
0	CDs issued by one of correspondent's two affiliated IDIs
51,500,000	Federal funds sold to correspondent on a principal basis
0	Federal funds sold to correspondent's affiliated IDIs on a principal basis
3,750,000	Reverse Repurchase agreements
250,000	Net current credit exposure on derivatives ¹
4,500,000	Direct and indirect loans to or for benefit of a correspondent, its holding company, or affiliates
<u>2,500,000</u>	Investments in the correspondent, its holding company, or affiliates
113,500,000	Gross Credit Exposure
100,000,000	Total Capital
114%	Gross Credit Concentration

Respondent Bank's Net Credit Exposure to a Correspondent

17,850,000	Due from DDA (less checks/cash not available for withdrawal & federal deposit insurance (FDI)) ²
0	Due from DDA with correspondent's two affiliated IDIs (less FDI) ²
750,000	CDs issued by correspondent bank (less FDI)
0	CDs issued by one of correspondent's two affiliated IDIs (less FDI)
51,500,000	Federal funds sold on a principal basis
0	Federal funds sold to correspondent's affiliated IDIs on a principal basis
100,000	Under-collateralized amount on reverse repurchase agreements (less the current market value of government securities or readily marketable collateral pledged) ³
50,000	Uncollateralized net current derivative position ¹
4,500,000	Direct and indirect loans to or for benefit of a correspondent, its holding company, or affiliates
<u>2,500,000</u>	Investments in the correspondent, its holding company, or affiliates
77,250,000	Net Credit Exposure
100,000,000	Total Capital
77%	Net Credit Concentration

NOTE: Respondent Bank has \$1 billion in Total Assets, 10% Total Capital, and 90% Total Liabilities and Correspondent Bank has \$1.5 billion in Total Assets, 10% Total Capital, and 90% Total Liabilities

Calculating Respondent Funding Exposures on a Correspondent Only Basis

Correspondent Bank's Gross Funding Exposure to a Respondent

50,000,000	Due to DDA with respondent
0	Correspondent's two affiliated IDIs' Due to DDA with respondent
1,000,000	CDs sold to respondent bank
0	CDs sold to respondent from one of correspondent's two affiliated IDIs
51,500,000	Federal funds purchased from respondent on a principal basis
0	Federal funds sold to correspondent's affiliated IDIs on a principal basis
<u>1,000,000</u>	Repurchase agreements
103,500,000	Gross Funding Exposure
1,350,000,000	Total Liabilities
7.67%	Gross Funding Concentration

Correspondent Bank's Net Funding Exposure to a Respondent

17,850,000	Due to DDA with respondent (less checks and cash not available for withdrawal and FDI) ²
0	Correspondent's two affiliated IDIs' Due to DDA with respondent (less FDI) ²
750,000	CDs sold to correspondent (less FDI)
0	One of correspondent's two affiliated IDIs' CDs sold to respondent (less FDI) ²
51,500,000	Federal funds purchased from respondent on a principal basis
0	Federal funds sold to correspondent's affiliated IDIs on a principal basis
<u>100,000</u>	Under-collateralized amount on repurchase agreements (less the current market value of government securities or readily marketable collateral pledged) ³
70,200,000	Net Funding Exposure
1,350,000,000	Total Liabilities
5.20%	Net Funding Concentration

¹ There are 5 derivative contracts with a mark-to-market fair value position as follows: Contract 1 (100), Contract 2 +400, Contract 3 (50), Contract 4 +150, and Contract 5 (150). Collateral is 200, resulting in an uncollateralized position of 50.

² While temporary deposit insurance programs may provide certain transaction accounts higher levels of federal deposit insurance coverage, institutions should not rely on such programs for mitigating concentration risk.

³ Government securities means obligations of, or obligations fully guaranteed as to principal and interest by, the U.S. government or any department, agency, bureau, board, commission, or establishment of the United States, or any corporation wholly owned, directly or indirectly, by the United States.

[THIS SIGNATURE PAGE PERTAINS TO THE FINAL GUIDANCE ON
“CORRESPONDENT CONCENTRATION RISKS.”]

Dated at Washington, D.C., the day of , 2010.

By order of the Federal Deposit Insurance Corporation.

/s/
Robert E. Feldman,
Executive Secretary.

[THIS SIGNATURE PAGE PERTAINS TO THE FINAL GUIDANCE ON
“CORRESPONDENT CONCENTRATION RISKS.”]

By order of the Board of Governors of the Federal Reserve System, [date].

/s/
Jennifer J. Johnson,
Secretary of the Board.

[THIS SIGNATURE PAGE PERTAINS TO THE FINAL GUIDANCE ON
“CORRESPONDENT CONCENTRATION RISKS.”]

Dated:

/s/

John C. Dugan,

Comptroller of the Currency.

[THIS SIGNATURE PAGE PERTAINS TO THE FINAL GUIDANCE ON
“CORRESPONDENT CONCENTRATION RISKS.”]

Dated:

By the Office of Thrift Supervision.

/s/
John E. Bowman,
Acting Director.

[FDIC-6714-01-P 25%]

[BOARD-6210-01-P 25%]

[OCC-4810-33-P 20%]

[OTS-6720-01-P 25%]