November 12, 2008

TO: Robert Feldman
Executive Secretary
Federal Deposit Insurance Corporation

FROM: John V. Thomas John V Thomas
Acting General Counsel
Federal Deposit Insurance Corporation

SUBJECT: Meeting with Bankers' Bank Council

Please include this memorandum in the public file for the Interim Rule with Request for Comments regarding the Temporary Liquidity Guarantee Program, 73 Fed. Reg. 64179 (October 29, 2008).

On October 30, 2008, representatives of The Bankers' Bank Council met with representatives of the FDIC to discuss certain aspects of the FDIC's Interim Rule with Request for Comments regarding the Temporary Liquidity Guarantee Program. The discussion focused on whether Fed Funds should be included in the debt guarantee program, and, if Fed Funds are included in the debt guarantee program, whether it would be appropriate to impose less than a 75 basis point (annualized) fee for FDIC's guarantee.

The discussion in that meeting largely tracked the comments in the attached October 29, 2008 letter.

Attachment

THE BANKERS' BANK COUNCIL

October 29, 2008

Ms. Sheila C. Bair
Chairman, FDIC
550 17th St., NW
Washington, DC 20429

Ms. Bair,

I want to personally thank you for the time you have allowed your staff to afford the nation's Bankers' Banks during our teleconferences and updates over the last two weeks. The discussions have been helpful on many counts. However, given the fact that Bankers' Banks operate in a fashion that is so dissimilar to that of commercial banks, I felt compelled to request your direct assistance.

The nation's Bankers' Banks serve more than 7,000 of America's community banks and play a vital role in helping them to remain competitive in their markets. We do this by providing them with critical correspondent services from lending assistance to operational advances to overnight fed funds transactions. It is this latter issue that has been seriously and negatively impacted by the recent actions undertaken by the FDIC.

If left in its current form, The TLG Program put forth by the FDIC could be detrimental to the continuing viability of Bankers' Banks. This is largely due to the fact that, for Bankers' Banks, overnight fed funds represent a primary funding source, unlike commercial banks. Bankers' Banks do not conduct retail business, thus have no checking or savings accounts from which to draw funding. As a result, the guarantee fee charged under the TLGB of 75 basis points is cost prohibitive for what amounts to approximately 70% of a bankers' bank's funding. In fact, the guarantee fee, when applied to the current level of fed funds purchased, would represent about one-third to one-half of the projected 2009 earnings for most Bankers' Banks.

I have attached a set of concise bullet points outlining the impacts that either could or will be directly dealt to Bankers' Banks and, in turn, the community banks we serve, as a direct result of the TLG Program. We urgently request your immediate attention and forbearance.

Sincerely,

L.D. McDonald
President/CEO
Midwest Independent Bancshares, Inc.
&
Chairman
Bankers Bank Council

COMMENTARY ON TLGP
October 30, 2008

EXECUTIVE SUMMARY

More than 7,000 community banks across America rely on Bankers' Banks every day for liquidity, funding and lending assistance. Any disruption to that process has a significant and negative impact on community banks. In turn, by their very nature and mission, Bankers' Banks rely primarily on the overnight funds of community banks. Thus, Bankers' Banks have no traditional retail demand deposit or savings accounts from which to draw funding. As a result, the overnight fed funds sold to Bankers' Banks are their primary source of funding and, in essence, serve as their core deposits.

CONSIDERATIONS

- **Unintended Consequences:**
  - Program designed to increase interbank funding, but the proposed assessment rate actually restricts this process at the community bank level
  - Places Bankers' Banks and their customers at a competitive disadvantage to the Fed and mega banks

- **Confidence**
  - 20 Bankers' Banks serving 7,000+ community/main street banks
  - Bankers' Banks provide liquidity, funding and lending to the community banks that serve main street

OPTIONS & POSSIBLE SOLUTIONS

- **Allow:**
  - Bankers' Banks to "Split" Fed Funds Purchased between Guaranteed and Non-guaranteed

- **Provide:**
  - Separate treatment and pricing for Fed Funds Purchased from the category of Senior Unsecured Debt

- **Reduce:**
  - Assessment for coverage under the FDIC's TLGP; and,
  - Institute a risk-weighted approach to the pricing model

- **Treat:**
  - Overnight fed fund transactions as Qualified Financial Contracts