THE BANKERS' BANK COUNCIL

September 4, 2009

VIA EMAIL: comments@fdic.gov
Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

RE: Proposed Interagency Guidance – Funding and Liquidity Management

VIA EMAIL: regs.comments@federalreserve.gov
Jennifer J. Johnson, Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

RE: Docket No. OP-1362

VIA EMAIL: regs.comments@occ.treas.gov
Office of the Comptroller of the Currency
250 East Street, SW., Mail Stop 2-3
Washington, DC 20219

RE: Docket ID OCC-2009-0009

The Bankers Bank Council (BBC) is fully committed to funding diversity as a safe and sound banking practice. The BBC, however, respectfully requests modification and/or clarification of two items contained in the aforementioned interagency proposal. As currently proposed, the two statements, if applied literally by the regulators, now or in the future, could result in adverse unintended consequences for correspondent bank providers that rely upon core respondent bank customer funds for a portion of their funding.

We believe the issues and mitigating circumstances are compelling. Please see Appendix A for more information. You may reach me at 972.650.6025 or morourke@mybankersbank.com for any further clarification.

Sincerely,

Michael O'Rourke

Bankers' Bank Council by
Michael O'Rourke
President and CEO
TIB-The Independent BankersBank

THE BANKERS' BANK COUNCIL

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First National Bankers Bank, Alabama
Vic Nichol, President/CEO
Homewood, AL

Arkansas Bankers' Bank
James Thomason, President/CEO
Little Rock, AR

Pacific Coast Bankers' Bank
Steve Brown, President/CEO
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Bankers' Bank of the West
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Community Bankers' Bank
William H. McFaddin, President/CEO
Midlothian, VA

Bankers' Bank
Ron Slater, President/CEO
Madison, WI

Appendix A

At Issue:

Items #25 and #26 in the interagency proposal essentially state:

- Funding concentrations shall be avoided; and
- Funding shall be diversified in terms of sources and tenor.

Potential Adverse Unintended Consequential Treatment:

- Many correspondent banking providers fund a portion of their balance sheets with overnight fed funds purchased from respondent bank customers.
- Under the literal interpretation of the proposal, the purchase of fed funds from respondent bank customers could potentially result in a funding concentration that could, according to the proposal, be considered lacking in diversity of "sources" and "tenor".
- This treatment assumes fed funds purchased are the result of trading funding activities in the national fed funds market and have characteristics that are volatile, overnight and unreliable. However, these types of fed funds purchased are not the primary source of fed funds for many correspondent providers – particularly, bankers' banks.
- Correspondent and bankers' banks play important roles in providing respondent bank lines of credit for liquidity funding purposes, which would become impaired if bankers' bank funding becomes impaired.

Mitigating Circumstances:

- Fed funds purchased at bankers' banks are the result of respondent bank customer accounts with activity during the day that are swept to fed funds purchased for payment of interest instead of account analysis credit.
- As a result, these fed funds purchased behave more like commercial deposits at a commercial/traditional bank, than any other type of instrument.
- Moreover, respondent banks have strong, established relationships at bankers' banks because of other services provided, which are similar to the strong relationships commercial deposit customers have with traditional/commercial banks.
- Additionally, two independent core deposit studies conducted at one of the largest bankers' banks indicate respondent fed funds purchased balances have average lives of 5 to 7 years, and produce high balances, which are stable, predictable and persistent, more analogous to core funding than non-core.

Requested Modification / Clarification:

- Given the nature of these deposits, fed funds purchased from respondent bank customers should be treated as a "Category" of funding, perhaps similar to the treatment and consideration of demand deposit accounts or money market accounts of commercial customers at traditional/commercial banks.
- In turn, "Sources" of funding for determining concentrations should be a sub-set of the "Category" and potentially consist of groupings such as: Length of Relationship, Number of Services Used, Geographic Diversification, etc.

- Fed funds purchased from respondent bank customers should be treated as long-term, variable-rate funding, as opposed to overnight, volatile funding such as those obtained in the national fed funds market.