October 22, 2009

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW.
Washington, DC 20429

Email: comments@fdic.gov

RE: Proposed Guidance on Correspondent Concentration Risks

This letter is in response to the request for comment on the Proposed Interagency Guidance on Correspondent Concentration Risks.

Franklin State Bank and Trust Co. is a community bank comprised of $118,000,000 in assets and is located in Winnsboro, LA. Given our size, we rely on the support and services which we receive from the correspondent banking relationships maintained with bankers banks and commercial banks that provide correspondent services. These correspondent providers are critical to our survival and success as they allow us to compete with larger regional and money center institutions that are in our market.

While we support the establishment of additional regulatory guidance on managing correspondent concentration risks, we are concerned that several points made in the proposal could be harmful to community banks if there is a difference in interpretation between regulatory field examiners and bankers. These concerns include the following:

Loan participations purchased from correspondents considered as a credit exposure

As a matter of business, we have purchased loan participations from bankers' banks and other correspondent banks to enhance and/or diversify our loan portfolio. The proposed guidance implies that the amount of loan participations purchased from correspondents be included when calculating gross credit exposures to those institutions. Given that loan participations are approved and executed between financial institutions on an arms length basis, and that the credit exposure is determined by the borrower involved in the participation and not the correspondent bank, we recommend that this reference be removed or clarified.

Funding exposures of 5% of an institutions total liabilities

The proposed guidance mentions liability concentrations and funding exposures of 5% of an institution's total liabilities having posed elevated risk to recipient institutions. We recommend that the funding concentration limitation reference be excluded from the proposed guidance due to inconsistency and lack of disclosure. The funding concentration limitation lacks sufficient discussion in the guidance. For example, the guidance does not distinguish large depositors from the long-term secured advances from the Federal Home Loan Bank system. Each of these sources has its own strengths and weaknesses that cannot be addressed with a blanket limitation. Funding concentration should be addressed in a guidance that is more appropriate to funding rather than correspondent concentration limits. This could be included in any final guidance on funding and liquidity management.

Concentration limitations as a percentage of capital

We recognize that credit exposures of 25% of capital, to any one correspondent, are generally considered as a concentration by our Regulatory Agencies. However, many community banks that closely monitor the financial condition of their correspondent relationships have Board approved concentration limits that are in excess of this percentage. As Regulation F is currently written, there is no limitation on exposure to any one correspondent if that institution is adequately capitalized. Given that many correspondent banks in the country remain sound, well capitalized, and profitable institutions, we recommend that additional language be included in the final guidance to clarify that the 25% of capital exposure reference is a guideline only.

Additionally, we request that that the Federal Reserve's restriction to one Excess Balance Account Agent per financial institution be eliminated. The allowance for multiple correspondent banks to act as agent would further encourage diversification in correspondent bank relationships and improve risk management practices for reducing concentrations at any one correspondent. All financial institutions should have the option to designate each of their correspondent banks to serve as agent for separate Excess Balance Accounts at the Federal Reserve. This would also enable correspondent banks to better assist their respondent banks with managing concentration or diversification concerns that directly impact both that correspondent and their respondent.

We appreciate the opportunity to respond to the Proposed Interagency Guidance for Correspondent Concentration Risk and thank you for your consideration of our comments.

Sincerely,

William H. Walker III
President and CEO
Franklin State Bank & Trust Co.