September 4, 2009

Jennifer J. Johnson
Secretary
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Re: Docket No. OP-1362

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

Office of the Comptroller of the
Currency
250 E Street, SW
Mail Stop 2-3
Washington, DC 20219
RE: Docket ID OCC-2009-0009

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: ID OTS-2009-0011

Dear Sir or Madam:

The Independent Community Bankers of America[1] (ICBA) welcomes the opportunity to comment on the proposed Interagency Guidance—Funding and Liquidity Risk Management. The Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation and Office of Thrift Supervision in conjunction with the Conference of State Bank Supervisors have proposed guidance on funding and liquidity risk management. The proposed Guidance summarizes the principles of sound liquidity risk management that the banking agencies have issued in the past and where appropriate, brings them into conformance with the "Principles for Sound Liquidity Risk Management and Supervision" issued by the Basel Committee on Banking Supervision (BCBS) in September 2008. While the BCBS liquidity principles primarily focuses on large internationally active financial institutions, the proposed guidance emphasizes supervisory expectations for all domestic financial institutions including banks, thrifts and credit unions. In proposing the Guidance, the banking agencies point to the recent turmoil

[1] *The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.*

With nearly 5,000 members, representing more than 20,000 locations nationwide and employing over 300,000 Americans, ICBA members hold $1 trillion in assets, $800 billion in deposits, and $700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

in the financial markets which highlights the importance of good liquidity risk management to the safety and soundness of financial institutions.

ICBA Views
ICBA supports the proposed Guidance but asks for some additional clarification as described below. Recent events have demonstrated the importance of robust liquidity and funding planning and management as previously reliable funding sources disappeared overnight and the market for certain traditionally liquid securities shut down. Community banks have already have taken additional steps to enhance their liquidity and funding sources, policies, and procedures. While most community banks are already implementing many of the prudent practices called for by the proposed Guidance, some have told ICBA that they will need to develop more written policies, procedures and reports. Some smaller community banks have told ICBA that they will need to rely on outside providers to comply with the requirement of creating robust cash flow analysis as their current systems do not supply this information and they do not have the staff resources to develop it. ICBA urges the banking agencies to recognize that the staff and resource limitations of smaller, less complex financial institutions may make it challenging for them to comply with significant new reporting burdens.

Diversified Funding
The proposed guidance states that an institution should establish a funding strategy that provides effective diversification in the sources and tenor of funding. Institutions should diversify available funding sources in the short-, medium-and long-term and in general, funding concentrations should be avoided. The guidance states that undue over-reliance on any one source of funding is considered an unsafe and unsound practice.

ICBA members that are bankers' banks have raised significant concerns about the potential for adverse unintended consequences of the guidance on their operations. Many correspondent banking providers fund their balance sheets with overnight fed funds purchased from respondent bank customers in amounts ranging from 25 percent to 75 percent of assets. 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 always 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. 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 of having purchased fed funds from a significantly more stable source, for a correspondent provider, such as a bankers' bank, these funds behave more like commercial deposits customers at a traditional commercial bank than any other type of instrument. 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 banks. Independent core deposit studies conducted at one of the larger 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.

ICBA urges the banking agencies that, given the nature of these deposits, fed funds purchased from respondent bank customers should be treated as a "category" of funding. In turn, "sources" of funding for determining concentrations should be a sub-set of the "category" and potentially consist of groupings such as: length/time span of relationship, shareholder/non-shareholder, primary/strongest relationships, 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.

Contingency Funding Plan

The proposed Guidance states that all financial institutions, regardless of size and complexity, should have a formal Contingency Funding Plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. A CFP should delineate policies to manage a range of stress environments, establish clear lines of responsibility, and articulate clear implementation and escalation procedures. It should be regularly tested and updated to ensure that it is operationally sound.

ICBA supports such contingency planning as contained in the proposal. However, some community banks have raised concerns about what actions they may need to take to comply with the guidance regarding the identification of potential funding sources and testing of funding sources. The guidance stresses the need for diversity in funding across a full range of retail as well as secured and unsecured wholesale sources of funds, consistent with the institutions' sophistication and complexity. Some community banks that are Federal Home Loan Bank (FHLB) members do not actively use advances but test this funding source periodically. Should banks that have not to date seen a need to become a FHLB member need to begin the process of becoming one? Does a community bank that does not currently use brokered CDs need to enter that market and periodically sell brokered CDs simply because it is another funding source? Also, what would be the appropriate way to address in the plan and its testing a decline in lending that would need to occur in extreme liquidity stress? We ask the banking agencies to provide some additional clarification on what steps are appropriate—or unnecessary—to take to comply with the guidance, particularly in the case of smaller, less complex community banks.

Timeliness of Reports

Some community banks have raised concerns about the frequency of liquidity reports, viewing that, quarterly rather than monthly reports for both management and the board are more appropriate to their normal non-complex operations. However, they do recognize that there may be times that even monthly reports to management would not be frequent enough, such as when liquidity is unusually constrained or there is a sudden growth in business.

Paper Work Reduction Act

The banking agencies ask if their estimate of 80 hours for small respondents for the reporting burden of the proposal is accurate. Some community banks (less than $10 billion in assets) reported to ICBA that this is an accurate assessment. Others reported that it would take them significantly longer, particularly in the first year of implementation.

Summary
In summary, sound liquidity risk management has become increasingly important and community banks have taken steps to enhance their liquidity and funding sources, policies and practices in light of the recent financial turmoil. ICBA generally supports the proposed guidance but asks for further clarification of certain areas in the guidance that relate to diversified funding, contingency planning and reporting.

We appreciate the opportunity to comment on the proposed Guidance. If you wish to discuss our comments further, please contact the undersigned at 202-659-8111 or email at ann.grochala@icba.org.

Sincerely,

/s/

Ann M. Grochala
Vice President
Lending and Accounting Policy