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October 16, 2009

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

Re: Proposed Guidance on Correspondent Concentration Risks

Mr. Feldman:

This letter is in response to the request for comment on the Proposed Interagency Guidance on Correspondent Concentration Risks. We appreciate the opportunity to comment on this very important subject.

Our bank has managed its correspondent concentration risks under Regulation F for many years and we find it to be a reasonable source of guidance. We are concerned about the proposed guidance when it suggests exposure limits much lower than we are currently accustom. We believe that such would create a significant hardship on our bank. The proposed guidance seems to suggest that an exposure of as much as 5 percent of our capital may be a limit. Because of the amount of overnight funds that we sell each night, such a low limit would require several correspondent relationships, which we believe might actual increase our potential exposure.

The proposed guidance also indicates that prudent risk management of correspondent concentrations should include procedures for reducing concentrations under certain circumstances, but we already have the capability of doing just that through our current correspondent relationship. This is accomplished by our correspondent in acting as "agent" for us in selling Fed Funds to multiple banks, as well as through the use of the "excess balance account" with the Federal Reserve.

One glaring deficiency in the proposed guidance is that there appears to be no distinction made concerning the various credit funding exposures, when in fact there are great differences. Fed funds sold and common or preferred stock should hardly be considered

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as being similar as it pertains to risk exposures. One transaction is for a day, and the other is for some undetermined, but long time period. One is very liquid and the other is not. One is a source of income, the other a source of equity growth. The guidance should make sure that if a change from Regulation F is imposed, that change should respect these differences. A more reasonable guidance might indicate certain limits or range of limits for exposures based on the nature of the risks. It makes no sense to treat all risks the same.

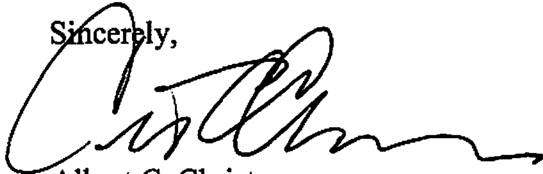
The guidance suggests that a bank should consider a number of factors when assessing a correspondent's financial condition. It would seem more appropriate for that assessment to be limited to capital, asset quality, liquidity, and possibly earnings, even though earnings is more of a short-term issue, while asset quality would be most difficult to determine without a detailed, on-site review. Better still, it might be more appropriate for REGULATORS to provide assessments, particularly of such factors as "asset quality" since they should be in a much better position to do so. It might be somewhat presumptuous to assume that a community banker might have the tools and expertise to adequate assess the condition of a much larger, more complex financial institution such as is the case with most correspondent banking entities, let alone to be required to conduct a similar assessment on a number of such entities. One might assume that highly trained regulators would be more prepared to conduct such assessments, but recent events strongly suggest that even those who are trained to assess the condition of banks do not always get it right.

Finally, it is our belief that Regulation F provides a very reasonable guidance regarding correspondent risk exposures, and if additional guidance is considered appropriate it should also be reasonable in purpose and in execution. To be reasonable in purpose the guidance should add some value to the process that Regulation F does not, which does not appear to be the case with the proposed guidance. In this regard Regulation F is very adequate if banks follow the guidance provided and regulators do their job in limiting the risks that banks take when they are also acting as correspondent to other banks. As for being reasonable in execution, the proposed guidance suggests that a single, small community bank should be able to adequately assess the condition of a larger, more complex correspondent bank. In reality a community bank is limited in this regard and recent history verifies such. Consider the recent failure of Silverton Bank, which served

as a primary correspondent for hundreds of community banks yet few if any actually understood the depths of that bank's problems until they were finally closed by the regulators. And even though the regulators knew well in advance of Silverton's bank's failure that serious problems existed, no one passed that assessment along to the hundreds of banks that had large risks exposure in the event of a failure. So what of the assessment? The purpose was lost somewhere in the process and the execution of no value to anyone involved.

Again, we appreciate the opportunity to comment of the proposed guidance and we look forward to hearing that meaningful changes have been made.

Sincerely,



Albert C. Christman
President and
Chief Executive Officer