# Bankers' Bank Northeast

## Comment Letter to the FDIC
## Concerning Deposit Insurance Premium Assessments as related to Bankers' Banks
## December 24, 2010

### Background Information

Our Nation's nineteen bankers' banks share a unique charter. The charter includes two primary restrictions: 1) Bankers' Banks must be owned by depository institutions and 2) Bankers' Banks can offer services only to other financial institutions. These mandates significantly limit our business model and activities. However, the restrictions are welcomed by our client banks because they know that we will not and cannot compete with them and that we are totally focused on their needs.

This is the most trying time for banks since the Great Depression of the early 1930's. Financial institutions are operating in an unprecedented economic environment. Although different regions of the Nation display different stress levels, times are difficult for all community banks. To date this year 159 banks have failed and the FDIC reports that the number of troubled banks continues to grow.

It is appropriate to note that nineteen bankers' banks are in place to assist community banks to compete with the largest banks in the nation. Community banks, unlike the largest "too big to fail" banks, are subject to closure if they fail to meet regulatory requirements. The vast majority of community banks remain in strict compliance with the letter and spirit of safety and soundness mandates. Bankers' banks assist their clients to comply with regulatory demands. They help community banks to control costs, improve revenues, comply with regulations (via consulting services), diversify loan portfolios, purchase and sell a variety of safe investments and maximize capital levels.

For example Bankers' banks offer economies of scale for: check clearings and settlement, coin and currency services for branches and commercial customers and offer cost effective execution of a variety of payments services. To assist client banks to attract and retain fee income bankers' banks offer: international payment services, merchant processing, credit card services and lockbox services. Compliance services include: compliance consulting, bank to bank settlement services, safekeeping services, biometric security systems and letters of credit. Loan participation services help clients to meet credit needs of their customers. Bankers' banks can and do provide basic operating services to community banks at lower costs than those banks would incur if they maintained those services "in house".

Many bankers' banks have helped community banks to raise capital. Additionally, bankers' banks offer overnight fed funds liquidity lines to assist community banks with short term liquidity needs.

While the 105 largest banks in the country (those whose footings exceed $10 billion) account for 78% of banking assets, the 8,000 community banks which operate within local neighborhoods do so in a manner that allows them to confidently identify reasonable risk. Community banks are therefore likely to provide the small business loans that will move the economy forward. Community banks are the primary source of lending for small businesses and farms. The ICBA recently reported that even though they comprise just over 22% of the banking industry by assets, community banks with less than $10B in assets made 56% of outstanding bank loans to small businesses. Community banks stay close to their customers and will be the catalyst for growth.

As a preface to our subsequent comments, it should also be noted that because of our unique charter, bankers' banks are totally funded by their clients. Every dollar on deposit at our bank comes from another depository institution. Therefore ***every dollar on deposit at a bankers' bank has previously been assessed a deposit insurance premium at the "bank of first deposit". Bankers' banks accordingly should be provided some level of relief from this instance of "double taxation".*** Keeping the costs of operation low at bankers' banks assists them to help community banks. Relief from excessive premium assessments would help bankers' banks to control their costs. Lower cost at the "wholesale" bankers' bank level in turn is beneficial to their client banks.

Bankers' banks compete with the Federal Reserve Bank System and with the nation's largest banks that offer correspondent banks services. Bankers' banks must maintain deposit insurance to enable client banks to safely deposit funds with a trusted partner. It is apparent to our client banks that they have no risk in keeping deposits at the Central Bank and little risk at banks that are perceived to be "too big to fail". Bankers' banks need to keep deposit insurance costs as low as possible. **Deposit insurance is integral to our business model.**

## Suggested Bankers' Banks' Assessment Base Exclusions

The FDIC has already recognized three exclusions to the assessment base as related to the bankers' banks: Fed Funds Sold, Pass-through Reserves and Direct Reserves. The unique charters and special functions of bankers' banks warrant two additional exclusions:

1) In concert with the current exclusion for Fed Funds Sold, it is logical to also include those **assets maintained as Excess Reserves at the Fed and any funds invested in the Fed's new Term Deposit Facility**. These relatively new alternatives are synonymous in nature to overnight Fed Funds. It should also be noted that there is no risk to the insurance fund associated with these assets held at the Central Bank.

2) Bankers' Banks must maintain higher [than non-bankers' banks] levels of liquidity because they settle large amounts of bank to bank funds movements. Cash letter clearings, international and domestic wire activity, ACH cash flow and other activities add up to unique levels of required liquidity. Bankers' banks handle funds movements much larger than their asset size would indicate. Accordingly, **due-from-bank balances should be excluded from the assessment base**.

   Bankers' banks process an extraordinarily high dollar volume of cash letter activity because of their unique ability to aggregate such volumes to achieve economies of scale. The dollar amount of items-in-process-of-collection is very high at bankers' banks because of the aggregation of cash letter volumes. Of note, such items do not subject the insurance fund to additional risk precisely because these items would (in the case of a failed bank) be paid to the "receiver" the very next day. Since there is no measure of items-in-process-of-collection on the call report, we suggest that "Due From Banks" be used as the proxy. Although the "Due From Banks" account measures only a fraction of items in process of collection, the level of Due From Balances is directly related to the volume for items in process of collection; i.e. the greater level of cash letter activity, the higher the amount of items in process of collection. Bankers' banks must keep large balances at private sector correspondents and at the Federal Reserve because a sizable amount of the Due From Bank balance is comprised of uncollected funds due to the nature of cash letter processing. Large clearing banks do not allow bankers' banks to draw against uncollected. Accordingly bankers' banks must maintain extraordinarily high levels of Due From Bank Balances. Of note is the fact that the upstream correspondent passes through the cost of FDIC insurance to the bankers' bank that aggregates such deposits. **In summary, we seek this specialized exclusion for bankers' banks because as aggregators we carry a very high level of Due From because of our unique business model.**

A review of call report data indicates that our bankers' bank maintains much higher levels of liquidity than [non bankers 'bank] banks. For example, on 12/31/2009 Bankers' Bank Northeast's Cash and Due From Banks/Total Assets was 31% vis-à-vis a 6% average at other [non-bankers' bank] banks in Connecticut.

To put the number in perspective, Bankers' Bank Northeast's "Cash and Due From Banks" averaged $25,000,000 in the month of November 2010 when we reported $102,000,000 of total assets. (Please note that Excess Reserves and Fed's Term Deposit accounts are included in the $25,000,000 Due From Bank Account (i.e. it would not be in addition to those amounts). [redacted]

The new Dodd–Frank Wall Street Reform and Consumer Protection Act has recognized the need to differentiate bankers' banks because of their special role in support of community banks. As bankers' banks that assist the safety and soundness of community banks we believe in summary that **"Due From Bank" balances as well as both "Excess Reserves" and investments in the new "Term Deposit Facility" should be excluded from the assessment base for FDIC insurance.**

We hope that the above is helpful. Thank you for the opportunity to comment. Please contact me with any questions and/or comments that you may have.

Sincerely,

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