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BY ELECTRONIC & OVERNIGHT DELIVERY

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Board of Governors of the Federal Reserve System
Ms. Jennifer J. Johnson, Secretary
20th Street & Constitution Avenue N.W.
Washington, DC 20551
E-mail: regs.comments@federalreserve.gov
Fax: 202.452.3819 or 202.454.3102

Re: Federal Reserve Bank Currency Recirculation Policy, DOCKET No. OP-1164

Dear Messrs. and Mmes:

Bank of America Corporation ("Bank of America") appreciates the opportunity to comment on the Federal Reserve Bank Currency Recirculation Policy ("the Proposal"). The world's 7th most profitable company, Bank of America is committed to making banking work for customers and clients like it never has before. Through innovative technologies and the ingenuity of its people, Bank of America provides individuals, small businesses and commercial, corporate and institutional clients across the United States and around the world new and better ways to manage their financial lives. The company enables customers to do their banking and investing whenever, wherever and however they choose through the nation's largest financial services network, including approximately 4,400 domestic offices and more than 13,200 ATMs, as well as 31 international offices serving clients in more than 150 countries, and an Internet Web site that provides online banking access to 7 million active users, more than any other bank. The company's Web site is www.bankofamerica.com.

At Bank of America, the ideas of continuous growth and exceeding past accomplishments reflect our core values and the culture of our company. The goal of higher standards defines all that Bank of America is. It is apparent in the work of our associates and the contributions they make to the bank's success. Higher standards are what our customers demand daily in the products and services we provide. Our customers have enthusiastically voiced their demands for the highest quality currency. For this reason, Bank of America is opposed to the enforcement of the Currency Recirculation Policy as it is currently proposed, but remains committed to working with the Fed and the Customer Advisory Council to create a fair and equitable recirculation policy.

It is our goal to provide the highest quality currency to our customers. This is the primary reason Bank of America cross ships currency to the Federal Reserve Banks (FRB). In Question #4 of the Board's Request for Comment we are asked to address "*under what circumstances would it be reasonable and practical for depository institutions to adopt lower-cost alternatives to the recirculation fee, such as having tellers manually sort currency at the point of receipt, paying out currency to customers without fitness sorting when a range in the quality of notes is acceptable to customers…*"

The Proposal assumes having tellers manually sort currency at the point of receipt is (1) acceptable to our customers and (2) is a lower-cost alternative that will increase recirculation efforts. Specifically, the Proposal assumes our customers are willing to tolerate longer servicing and wait times, in order to shift the burden of currency sorting and fitness checks from the FRB to financial institutions. The Proposal provides no evidence that an "acceptable range in the quality of notes" is acceptable to our customers. Bank of America does currently recirculate a significant portion of the currency we receive without fitness sorting. All denominations, with the exception of $50's and $100's, are strapped verified. When possible the same straps are used for change orders, and excess straps are shipped back to the Federal Reserve Banks (FRB). The continued recirculation of inferior quality currency has resulted in customer complaints.

The Proposal also assumes that sorting currency at the point of receipt is also a lower-cost alternative to recirculation fees. Requiring banking center tellers to manually sort currency at the point of receipt is not a practical economic alternative. It would require additional staff and equipment in our banking centers in order to avoid increasing customer servicing and wait times. Duplicating the currency processing services provided by our centralized cash services operations in approximately 4,400 banking centers is not a cost effective alternative and does not yield economies of scale.

Because of the high cost to fitness sort $1's, the inferior quality of this denomination, and the low incidence of counterfeits, we believe $1's should perpetually be excluded from all cross shipping penalties. High-speed deposit processing equipment represents a significant capital expenditure and is only deployed to cash vault sites where the volumes and customer base support the expenditure. Inferior quality currency causes significant wear and tear on high-speed equipment and results in unusually high reject rates and rework. For these reasons, $1's are not processed on high-speed equipment. Additionally, the low incidence of counterfeit $1's does not make it economically feasible to piece verify this denomination. Financial institutions do not have the same luxury as the FRB, of waiting thirty days to process incoming deposits of $1's. We therefore suggest the FRB adopt low cost alternatives for processing $1's such as weighing this denomination or destroying it, as opposed to processing it on high-speed equipment.

Societal Impact

In its proposed enforcement of cross-shipping penalties, the Proposal estimates that the societal benefits of implementing the recirculation fee would outweigh the societal costs by up to $15 million. This estimate can only be based on an incorrect assumption that the market and customer demand for access to currency have remained unchanged since the enactment of the Federal Reserve Operating Circular 2, January 2, 1998. Since 1998, consumer demand for, and access to currency has changed dramatically. No longer are consumers relegated to a weekly trip to their local branch to withdraw currency.

Since the enactment of the Federal Reserve Operating Circular 2, January 2, 1998, the number of ATMs in the US has increased 76% from 200,000 in 1997 to 352,000 at year-end 2003 (ATM Financial Services and Self-Service Touchpoints, NCR). Midwest Research of Cleveland estimates that by the year 2005, that number has the potential to reach 600,000. Further, consumers have access to currency at almost every point of sale in the retail stream. This increase has fundamentally changed the way that banks must operate to meet customer demands. Banks must turn inventory faster while continuing to control or even reduce operational expenses. Finally, in order to manage inventories, monitor cross-shipping of currency and meet customer demand, financial institutions will have to invest in cash management and forecasting technology. Based on our industry analysis, this cost could range between $2MM to $5MM dollars, determined by the financial institution's internal infrastructure.

The Proposal states "depository institutions have reorganized their businesses to distribute currency to ATMs separately from currency distributed to large retail customers and banking centers". At Bank of America, we utilize currency recirculated by our cash vaults for the vast majority of 13, 000+ ATM's. All of Bank of America's approximately 5,000 banking center ATMs are serviced with currency provided from our cash vaults. The remaining, 9,000+ ATMs are serviced by contracted armored carriers, with 50% of the currency provided by our cash vaults and the remaining 50% provided by the FRB. When cash is ordered from the FRB for vendor serviced ATMs, it is generally due to geographic considerations and the length of time it takes to move cash to those markets.

There has also been an increase in the number of ATM Independent Service Operators (ISO's). ISO's support the nationwide distribution of currency to consumers through generic ATMs found in retail outlets such as convenience stores and malls. ISO's do not have relationships with the FRB. Rather, they place their orders for currency with financial institutions. This line of business demands new and Fed fit currency to support their operations.

The Proposal further suggests that financial institutions may see a decrease in the cost of transportation as a result of fewer shipments to the FRB. Conversely, we believe transportation expenses will at best remain flat, but more likely will increase for three reasons.

First, the number of transportation runs to the FRB will probably not decrease because we still have to ship/order $50's and $100's despite the exemption of these notes from the Proposal. The FRB requests financial institutions return these denominations as frequently as possible due to their desire to check these denominations for authentication. Therefore, the movement of these denominations back to the FRB is much more frequent than any other denominations, hence, the quality of these currencies are of the highest fitness standards. Even if we were able to reduce the number of runs to the FRB, we will likely incur increased insurance liability charges due to larger overall shipments of $50's and $100's. And, our transportation network would still need to be supported by similar transportation runs to move these denominations.

Second, recirculating currency between our cash vaults and banking centers is not currently a part of our transportation network. Moving this currency between cash vaults to avoid cross shipping penalties will require new routes and schedules; i.e., additional costs outside our current transportation contracts with armored carriers.

Finally, the alternatives to acquiring cost effective, secure transportation of currency are severely limited in our current market. If history is a predictor, we expect that armored transportation companies will take advantage of the shipping requirements dictated by the Proposal and increase service rates. Therefore, the transportation savings predicted in the Proposal are not realistic; we expect the contrary -- increased transportation costs for all large financial institutions.

Once cross-shipping penalties are imposed, if financial institutions have to hold higher currency balances, their lost opportunity related to holding these additional balances clearly outweighs the proposed savings by the Board. The acceptance by customers of continuously recirculated currency, without a periodic supply of new and Fed fit currency, will depend on the individual customer's requirements. Smaller financial institutions exempt from cross-shipping penalties will have a competitive advantage by being able to offer new and/or Fed fit currency. The precise societal impact is dependent on the need for banks to charge customers for: (1) the increased costs associated with recirculation penalties; (2) increases in operating expenses as a result of the new policy; and (3) any differential pricing for new or Fed fit currency. We believe that greater societal impacts can be achieved by improving the efficiency of the Federal Reserve Bank's cash processing operations and adopting lower-cost alternatives within its own operations, as all financial institutions have been forced to do the same in order to remain economically viable.

While we oppose this policy, we understand that the Federal Reserve Bank has the right to enforce the specific components of the Proposal in accordance with its charter and purpose. We believe the enforcement, as proposed, will discriminates against large, national retail and commercial banks in favor of smaller financial institutions. Specifically, (1) the proposed "de minimis" exemption, (2) the flawed data analysis provided by the Cash Product Office and (3) the proposed guidelines for participating in programs such as "Custodial Inventory" would force financial institutions to invest significant sums of capital to solve a problem that could be resolved more easily by optimizing the currency operations of the Federal Reserve Bank.

De Minimis Exemption

The proposed de minimis exemption of 1,000 bundles creates a competitive advantage for smaller financial institutions that currently may not be cross shipping. Smaller financial institutions could possibly, and consistently, provide Fed fit currency to their customer base and at the same time lower their cash operating expenses. Large financial institutions will, therefore, be penalized under the proposed de minimis exemption. We believe the de minimis exemption should be proportional to the financial institution's external customer demand for currency. This is the truest measurement of the financial institution's requirement of fit currency.

Additionally, the recirculation policy proposes to apply the de minimis exemption on a quarterly basis. Seasonality dictates cash demanded by the public. Swings in seasonality are significant from month to month, from week to week, even from day to day. Therefore, a quarterly de minimis exemption may again provide advantages to smaller financial institutions that may not hit their de minimis exemption until late in the quarter. Larger financial institutions will likely hit the de minimis exemption in the first week of the first month of each quarter.

Cross-Shipping Reports

To fully access the internal cost of compliance with the new Cross Shipping Policy, we need to compare internal costs to the estimated cross-shipping penalties. We are not able to complete that analysis until we are able to review accurate and reliable cross shipping reports and review sample billing statements (which are not currently distributed). We have found a number of inaccuracies in the current Cross Shipping Reports issued by the Cash Product Office, which remain uncorrected.

First, the fitness rates used to determine the percentages of volumes cross-shipped are aggregated at the zone (or sub-zone level) for all the financial institutions ordering and depositing at that local FRB. Until we are able to understand the fitness percentages directly associated with Bank of America, we cannot compare the costs of compliance to the potential cross shipment penalties. Further, to support the fitness rates assumed on the reports, the Fed should immediately begin working with equipment vendors and financial institutions to recalibrate the financial institutions' equipment with the same equipment calibrations used by the FRB.

Additionally, the cross shipping reports do not currently exclude the proposed de minimis exemptions at the zone or sub-zone levels. Sample billing reports need to be distributed in order to understand the impact of the de minimis exemptions. Also, we continue to have difficulty reconciling the cross shipping reports with our internal reporting. Specifically, there are discrepancies in the amounts deposited, amounts ordered and ABA numbers as reported by Fed compared to our internal reports.

Finally, the policy proposes to apply cross shipping penalties on a quarterly basis, based on the previous quarter's fitness data. As stated above in the "de minimis" section, seasonality significantly impacts the amount of currency demanded by the public and therefore what is ordered from the FRB. Our analysis indicates that we have greater than a 16% swing in the volume of certain denominations in certain quarters. The proposed billing structure is complicated and does not adequately account for the swings in demand. It further complicates the analysis of the true costs of the policy. Therefore, we believe that implementation of any cross shipping penalties should be delayed until more accurate, reliable, consistent cross shipping reports and sample billing statements are received and verified by financial institutions for at least a 12-month period.

Custodial Inventory

Bank of America believes that programs, such as the Custodial Inventory (CI) program, would be a viable approach to increasing the recirculation initiatives provided this program is not cost prohibitive to financial institutions. Of particular concern to Bank of America are the following:

The proposed "minimum security requirements" for the program include an unspecified number of cameras, access restrictions, protection staffing and custody practices. We need to understand fully these requirements along with a thorough understanding of the times of day we will have access to the CI inventory. We also need to understand the implications of the requirements for additional sorting and other handling of CI notes. If any or all of these requirements are significantly different from our current internal requirements, the cost to implement may outweigh the benefits of the program. Additionally, if these "minimum security requirements" prove to be as expensive as the costs for compliance to the Fed's Extended Custodial Inventory program, Bank of America would not participate in the domestic CI program.

Prior to making a decision to participate in the CI program, we will need to understand any other additional costs and requirements not mentioned in the proposal. For example, additional insurance costs if we have to indemnify the Fed for custodial inventories or assignments of collateral. These costs and requirements will likely make the program unattractive to Bank of America.

Administration of the proposed CI program will be extremely difficult. The Proposal indicates there will be two different baselines that the proposed cap could be applied against. In both instances, because the baselines are rolling baselines, records will have to be constantly updated and submitted to the Fed for calculation of the next period's cap. Therefore, monitoring and administering the cap baselines will require increased staff time.

We believe that the Board of Governors should consider increasing the number of proof of concept sites beyond the 15 sites proposed and/or should increase the number of financial institutions allowed to participate in those proposed sites (i.e., at least three financial institutions per city selected). Also, the list of sites does not include geographic areas that could prove beneficial to this study. There are significant volumes of currency processed by all financial institutions in the Tampa/Orlando, Florida area and in the Las Vegas, Nevada area. We suggest these sites be included in the proof of concept sites. We also believe that geographically challenged proof of concepts sites should be included, such as Midland, Amarillo and El Paso, Texas.

We believe this cap is far too restrictive. To encourage effective utilization of the CI program, financial institutions should be allowed to transfer all denominations to the CI in order to achieve some small transportation savings. Further, the cap, at minimum, should be 35%, as quoted by the Board. The cap should also be increased above the minimum, proportional to the financial institution's external customer demand and for sites further away from a local FRB. Finally, the CI program should permit the movement of currency from one CI location to another CI location. This will further facilitate internal recirculation efforts at the financial institution level.

We would be happy to discuss our views in greater detail, or to discuss any new ideas that the regulatory authorities wish to pursue. In that regard, please contact Karen Fukumura, SVP, Business Executive Nationwide Cash Vault Services, at 415.436.2737.

Sincerely,

Karen Fukumura
Bank of America
SVP Transaction Services
Business Executive Nationwide Cash Services