



January 15, 2004

Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, D.C. 20551

RE: Docket No. OP-1164  
Federal Reserve Bank Currency Recirculation Policy

Dear Ms. Johnson:

National Commerce Financial Corporation (NCF) is a bank holding company that has three primary banking subsidiaries. These financial institutions are Central Carolina Bank, National Bank of Commerce and First Market Bank; located throughout eight southeastern states. The Cash Services area, which is responsible for ordering currency and coin from the Federal Reserve Banks for NCF reports directly to me, therefore, allowing me the opportunity to comment to the Board of Governors of the Federal Reserve System on the Currency Recirculation Policy (Docket No. OP-1164).

Overall NCF does a fairly good job of not cross-shipping currency as is evidenced by the Quarterly Order/Deposit/Cross-Shipping Summary Report provided by the Federal Reserve dated June 27, 2003. NCF orders from six (6) Reserve Banks and distributes those inventories among twelve (12) third-party facilities. With the new policy being implemented NCF will have to alter procedures on ordering and shipping at each Reserve Bank to comply.

The drawback to this policy for large banks such as NCF, servicing large geographic areas with a large branch network, will potentially be increased costs in some form. This could be from the increase in lost investment opportunities of not being able to ship to the Federal Reserve Bank; increase in Federal Reserve Bank fees (the new Recirculation Fee) to be imposed on cross-shipping; the increase in fees accessed by third-party vendors for maintaining the Custodial Inventory; the increase in equipment expense if new high speed sorters are needed; and a potential increase in employee time to more closely monitor denomination levels by manually sorting notes at the branch level to administration of inventory levels at the Cash Services area.

The Custodial Inventory Program may prove to be beneficial on those weeks when a higher demand is placed by our branches and customers. The accessibility of funds on a short notice will improve our service commitment to meet unexpected customer demand. This will enable NCF to save on "special armored runs" to the Federal Reserve at higher transportation costs.

A concern on the Custodial Inventory Program will be how exactly the program will work in the form of procedural issues. How is the Inventory Cap going to be determined and who will monitor this? Will there be training on the Federal Reserve Bank provided, Internet-based accounting and inventory tracking system? If an institution violates the Custodial Inventory Program guidelines will it be immediately lose eligibility to participate in the program? Will there be a notification process for the bank violating the policy? Can there be an opportunity for the bank to correct the cross-shipping before being removed from the Custodial Inventory Program?

The De minimis Exemption of 1,000 bundles of cross-shipped currency from the Recirculation Fee does not equally treat large financial institutions fairly versus the smaller financial institutions. Larger banks will have to carry larger inventories or pay similar fees as small institutions. There should be a staggered fee scheduled based on bank size and geographical territory for servicing a larger branch network. Thought should be given to a larger De minimis Exemption for financial institutions over a certain dollar size, asset size or who maintain certain cash inventories.

Lastly, excluding the one-dollar note from the recirculation policy is a good idea. The inventory levels maintained and the short life span of a one-dollar bill makes a recirculation fee on this note cost prohibitive to banks to accept them.

NCF is committed to reducing cross-shipping, the expense associated with excess inventories and following safe and sound policies for administrating cash inventories at all its branch and third-party moneyroom locations. This may be a challenging undertaking for which we will monitor closely. Above all, we do not want to negatively impact the service to our customers.

Thank you for allowing the opportunity to comment on the Currency Recirculation Policy. If there are any questions or comments, please do not hesitate to contact me.

Sincerely,

Michael W. Davis  
First Vice President  
Corporate Security

CC: Jim Koontz, Chief Information Officer, NCF