TheBankersBank
YOUR CORRESPONDENT BANK

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August 31, 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: Comment on Proposed Interagency Guidance – Funding and Liquidity Management

Dear Ms. Johnson:

The Bankers Bank, an Oklahoma state bank ("TBB"), provides a wide range of correspondent services to over 270 state and national community banks located in Oklahoma, Texas, Tennessee and Missouri. We appreciate this opportunity to comment on the recently-proposed interagency guidance, joined by Board of Governors of the Federal Reserve System ("the Board"), on funding and liquidity risk management.

Our first remarks are addressed to proposed Guidelines 25 – 28, clustered under the heading "Diversified Funding."

1. **Especially Adverse Impact On All Bankers Banks**. TBB does not dispute the wisdom of proposed Guidelines 25 – 28, either in their general exhortations toward liquidity funding diversification, or in their specific directives to weigh particular considerations as a means achieving that salutary objective.

However, due to the special nature of its chartered business, TBB (like all "bankers banks") has its liquidity concentrated in Federal Funds. We, and, we presume, other bankers banks, have periodically analyzed several alternative liquidity funding measures. Bankers banks might, for example, increase their minimum deposit requirements for correspondents. We rejected this as a standard operating measure because it would (i) render bankers banks non-competitive with other correspondent banks, (ii) unnecessarily raise our deposit insurance premiums, and (iii) in turn render our respondent banks marginally less profitable, to the extent of such excess idle funds.

While this measure, and others such as offering 7-day CDs floating with Fed Fund rates, and drawing down on our lines at the Federal Reserve and the FHLBB, are indeed part of TBB's strategy for liquidity squeeze contingencies, our analyses have repeatedly concluded that none of them make economic sense to implement on a daily basis. Consequently, TBB perceives the following proposed instruction to examiners –

> In general, funding concentrations should be avoided. Undue over-reliance on any one source of funding is considered an unsafe and unsound practice (Prop. Gdln. 26, emphasis added)

as a direct threat to bankers banks' continued ability to perform their traditional functions. **We strenuously urge the Board to provide an express exception for bankers banks' liquidity funding in proposed Guidelines 25 – 28.**

2. **Ambiguous Key Terms**. The unifying premise of proposed Guidelines 25 – 28 is that -

> "[a]n institution should establish a funding strategy that provides effective diversification in the sources and tenor of funding." (Prop. Gdln. 25).

We respectfully observe that the highlighted terms are not defined in the proposed Guidelines, a condition which creates potential non-uniformity among banks in their compliance expectations, as well as disparate and thus unfair enforcement and examination criteria among regulators, bearing on this central principle. For example, does the term "sources" envision all U.S. government-related liquidity (i.e., Federal Funds, credit lines at the Federal Reserve, credit lines at the Federal Home Loan Bank, etc.) as a single source? Does the "tenor" of funding invoke a distinction in duration (i.e, short-, intermediate-, or long-term), or between secured and unsecured, or between debt and equity? **Therefore, we urge the Board to define or explain the phrase "*sources* and *tenor* of funding" for purposes of proposed Guidelines 25 – 28. And, if it declines to grant the exception requested above, we urge the Board to define Federal Funds Purchased as a "category" embracing multiple "sources."**

Our final remarks are addressed to the proposed Guidelines as a whole. In this connection, we adopt the substance submitted on July 9, 2009 by Stephen Lange Ranzini, President of University Bank, Ann Arbor, Michigan. As Mr. Ranzini noted:

3. **Requirements Burdensome for Small Banks**. The proposed Guidelines seems to require all banks to document their revisiting of all liquidity risk management issues on a daily basis. Although such continuous formal attention AND updated documentation thereof may well be warranted for larger, more complex institutions, they are certainly not appropriate for all banks. For

smaller institutions of perhaps $10 billion or less, the allocation of resources sufficient to comply with the currently-proposed Guidelines (such as for the formal stress testing indicated by proposed Guideline 35) may divert attention from safety and soundness issues that do bear directly on community banking. **Therefore, we second Mr. Ranzini's request that the Board revise the proposed Guidelines, either to expressly exempt institutions of $10 billion or less from their purview, or to introduce new language that qualifies substantial compliance with such Guidelines in a manner appropriate to a bank's size and complexity.**

4. **Policies vs. Procedures**. The proposed Guidelines counsel banks to position themselves for adaptability to shifting conditions in financial markets. At the same time, proposed Guideline 12 instructs banks to establish liquidity risk management policies which include specific target ratios. **We respectfully submit that to maintain the desired responsiveness in volatile markets, the establishment and revision of target ratios should be matters of procedure, not policy.**

Thank you for your attention.

Sincerely,

/s/ Don Abernathy, Jr.

Don Abernathy, Jr.
President