250 Piedmont Avenue
Suite 220
Atlanta, Georgia 30308
Tel 404-588-7557

**Greg Smith**
Senior Vice President

SUNTRUST

January 14, 2004

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

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

Dear Ms. Johnson:

*SunTrust Banks, Inc appreciates this opportunity to comment on the proposed changes to the Federal Reserve Bank Currency Recirculation Policy.*

*SunTrust Banks, Inc., headquartered in Atlanta, Georgia, is one of the nation's largest commercial banking organizations. As of September 30, 2003, SunTrust had total assets of $126.7 billion and total deposits of $80.5 billion. The company operates through an extensive distribution network primarily in Florida, Georgia, Maryland, Tennessee, Virginia and the District of Columbia. Its primary businesses include deposit, credit, and trust and investment services. SunTrust retail branch network consists of 1200 retail branch offices and 2,229 SunTrust ATMs.*

*The changes proposed by the Federal Reserve Board seek to revise the current cash services policy by adding two elements: (1) a custodial inventory program that is engineered to compel depository institutions to hold currency in their vaults to meet customers' demand; and (2) introduces the assessment of a fee to depository institutions that deposit fit currency to, and order currency from, Reserve Banks within the same week. This proposal has an adverse impact on SunTrust.*

The request for comment asked for a response to specific questions. Detailed below are the questions as stated in the request for comment are bolded and italics followed by SunTrust's response. These are as follows:

1) ***How effective will the proposed custodial inventory program and the recirculation fee be in reducing or eliminating cross shipping? What are the major benefits and drawbacks of custodial inventories and the recirculation fee?***

   SunTrust Comment

   The proposed programs will not be effective in reducing or eliminating cross shipping. Several factors play into the effectiveness of the programs: cost of the penalties, cost of funds, cost of transportation, and cost of processing infrastructure. As these factors fluctuate, so will the effectiveness of the policies.

   Drawbacks would include the limited number of CI sites and the added daily, monthly, quarterly and annually administrative tasks associated to holding this inventory and complying with all the necessary rules and regulations.

   There is no benefit to the recirculation fee, only financial penalties. Drawbacks would include the cost of restructuring the operations to avoid the penalty fees, the cost of the penalty fees, monitoring by Fed zone and not by DI end point and the cost of time to study the impact to the organization of the proposed changes.

2) ***Are there effective alternate approaches that the Board should consider to increase depository institutions' recirculation of currency?***

   SunTrust Comment

   The Federal Reserve should consider approaching cash processing in a similar fashion to check clearing and some electronic payments types by helping to create a processing utility among the banks and armored carriers (otherwise known as consortium processing) that would act as an intermediary between the DIs and the Federal Reserve. The processing utility would be charged with the processing of the currency and the Federal Reserve will be charged with the destruction of the old and mutilated as well as the distribution of new currency. This is a concept that continues to be discussed across the industry, but has yet to find traction.

3) ***Are there factors not described in this notice that would affect a depository institution's decision to pay a recirculation fee or undertake greater recirculation of currency within its organization? What are the benefits and drawbacks of allowing a de minimis exemption of 1,000 bundles of currency per depository institution per quarter for a zone or sub-zone? Is there an alternative approach to administering the de minimis exemption that would address identified drawbacks and still achieve the intended objectives of reducing the burden of complying on depository institutions with small currency operations while ensuring that most cross-shipping activity is governed by the policy?***

   SunTrust Comment

   While the Board identified many of the key factors that the DI would consider when implementing this policy, there was no mention of the factors as follows:

- The additional cost of armored carrier costs of moving the funds from individual vault to individual vault within the designated zones. As the fees are based on cross-shipping between the DI and the Federal Reserve Bank (FRB) within specified zones or sub-zones, if a DI has multiple sites within those zones, the DI could incur additional cost in transporting the money to a central location so that shipments to the FRB could be controlled and monitored better for cross-shipping.
- There will be additional costs associated with the extra administration needed to manage the flow of currency.

A de minimis exemption would be more effective if managed on an end point basis rather than a zone basis. This would help to eliminate the potential of extra carrier costs and administrative cost to the DI. The de minimis exemption can vary by end point and institution based on historical trends.

4) ***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 currency to customers without fitness sorting when a range in quality of notes is acceptable to customers, or obtaining currency processing services from other local institutions or armored carriers able to offer prices that reflect economies of scale?***

SunTrust Comment

This decision would be influenced by the financial impact of each alternative along with understanding the impact each decision would have to SunTrust customers.

5) ***Are there alternative approaches that could be used to improve the efficiency of handling one-dollar notes other than applying the cross-shipping fee? What savings would an institution expect to realize from these alternative approaches?***

SunTrust Comment

Two potential alternative approaches that could be considered include the elimination of the dollar note in exchange for the dollar coin or changing the current methodology of one-dollar note processing to automatically destroying all incoming deposits.

If the dollar coin replaced the dollar note, savings realized by the DI would be none. The reduction in processing expenses associated with processing the one-dollar denomination would be offset by the increased expenses in coin processing. Savings by the Federal Reserve would be a steady reduction and ultimately elimination in the processing of the one-dollar denomination. This would reduce approximately ⅓ to ½ of all incoming processing volumes and thus should reduce operating expenses at the Federal Reserve and produce a dramatic societal benefit. The loss in seniorage by the BEP would be offset by the increase in seniorage by the Mint. Theoretically, society at large would actually benefit due to the fact that the average life of a coin is 30 years versus 18 months, the average life of one-dollar bill. This means that fewer coins would have to be minted versus the number of bills; therefore the variable cost to the government should decrease and thus society should recognize a savings.

If the Federal Reserve decided to change the current methodology of one-dollar note processing to automatically destroy all incoming deposits, potential savings realized by the DI would include cost avoidance of infrastructure investments or cost avoidance of penalty fees. Savings realized by the Federal Reserve would include greater processing efficiencies. Please note that if the Federal Reserve decides to implement a cross-shipping fee to the one-dollar denomination, we feel they should revisit the policy of charging back all differences found in the one-dollar deposits.

6) ***What costs would a depository institution anticipate incurring for operating a custodial inventory? How should Reserve Banks calculate the cap on the amount of currency that a Depository Institution may deposit in a custodial inventory? How many bundles of currency should Reserve Banks require a DI to recirculate per week to qualify for a custodial inventory?***

SunTrust Comment

As previously noted in the proposal, costs would include administrative fees, costs to re-arrange the vault to segregate the CI money, and costs to upgrade video surveillance. The formula to calculate the vault cap as well as the recirculation minimum that has been proposed appears to be fair. The proof-of-concept will help to determine the overall effectiveness of the formula. In addition, many DIs may have vault capacity issues, which would prevent this concept from working. At this point in time, it is difficult to determine if a custodial inventory site should be required to recirculate a certain amount per week to qualify. Again, the proof-of-concept should help to answer this question.

7) ***What would be the effects of the program, if any, on depository institutions' customers, on armored carriers, or on other parties?***

SunTrust Comment

We feel that the proposal will have a major impact on all parties involved. First, the DI's customers could be affected in the form of increased pricing due to the penalty fees or the increase in operational expenses because of the new policy. Second, there could be an impact to the level of quality of notes that are circulated back to the customer. Third, some DIs may decide to no longer process currency, thus forcing clients to change relationships.

Armored carriers and other parties will be impacted in several ways. First, they too will have to review their cash-processing infrastructure to see how they will be impacted by this proposal. There is a window of opportunity for them to bring several DIs together to create a cash-processing consortium that would help to share the burden of investing in new technology and/or minimizing the penalty fee. Second, the proposal may create new business in demands for new armored runs to and from the DI's end points with in a specific zone.

Overall, this policy appears to simply shift the cost of processing from the Federal Reserve to the DIs and our customers versus generating true societal benefits. The proposed change questions whether a better solution may be to optimize the usage of the fixed infrastructures in both our organizations to minimize the cost of cash processing, thus lessening the burden on society as a whole. Finally, it would be helpful to understand the policy and its role within the total long-term cash processing strategy of the Federal Reserve.

SunTrust is eligible to participate in the proof of concept in Miami and Nashville and plan to complete and submit the application for consideration. We will be happy to provide feedback as requested on that process.

Thank you for the opportunity to comment on the proposed changes. Hopefully this feedback will be useful in determining the true value of the proposal and the true impact to society at large. If you have any questions please do not hesitate to call Brent Yamaato at (404) 230-1807.

Sincerely,

(via e-mail)

Greg Smith