From: First National Bankers Bank, Joseph F. Quinlan, III

Subject: Federal Reserve Bank Services Private Sector Adjustment Factor

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Comments:

We appreciate the opportunity comment on the PSAF issue. The Federal Reserve''s request for comment was fairly specific to whether clearing balance levels would likely continue to decrease over time given the higher level of interest paid on excess balances than the rate on earnings credits for clearing balances. We think it should be expected that bank financial managers are going to continue to make decisions related to how they manage clearing balance levels based on the financial benefit provided. If the interest rates paid by the Fed on excess reserve balances are to remain higher than earnings credit rates on clearing balances, then it would be logical that clearing balances may continue to decrease over time in favor of maintaining higher excess balances for the higher rate of return on interest paid.

We believe that consideration should be given by the Federal Reserve to paying a higher earnings credit rate on clearing balances than the interest rate paid on excess reserve balances as this would help to remedy the flight of funding levels away from required clearing balances. The payment of interest on reserves (at a higher rate than on earnings credits) only encourages financial institutions to reduce required clearing balances and increase funds in excess balances to attain a higher yield. Given the report of the significant decrease ($3.1B) in clearing balances held at the Federal Reserve between October 2008 and February 2009, we think it would be important to analyze how many FIs actually changed their required clearing balances during this period as the swing may have been caused by a smaller number of the larger money center institutions in the country as opposed to the significantly higher number of community banks in the country that make up much of the Fderal Reserve System''s priced services customer base (which would be the institutions most impacted by a change in methodology). Furthermore, additional steps to counteract this flight of funds away from clearing balances might be worthy of consideration before a change in methodology to the PSAF is considered.

Given the lack of responses submitted via the Federal Reserve website to date on the PSAF issue, we respectfully request that the comment period be extended an additional 60 days and that the notice and request for public comment include more specific information, specifically the expected estimated pricing that would result from the proposed change in the PSAF formula components. (The currently provided information does not enable the reader to determine if the proposed changes will increase or decrease the Federal Reserve's price schedule).

Thank you again for allowing us the opportunity to comment on this very important issue that will directly affect many financial institutions across the United States.

Sincerely,

Joseph F. Quinlan, III
First National Bankers Bank