INDEPENDENT COMMUNITY
BANKERS of AMERICA

June 12, 2009

Ms. Jennifer J. Johnson, Secretary
Board of Governors
of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Submitted via email

Re: Federal Reserve Bank Services Private Sector Adjustment Factor,
Docket No. OP-1354

Dear Ms. Johnson:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on proposed modifications by the Board of Governors of the Federal Reserve System (the Board) to its methodology for calculating the private-sector adjustment factor (PSAF).

As required by the Monetary Control Act of 1980 (MCA), Federal Reserve Banks must price their services "to recover, over the long run, all direct and indirect costs actually incurred in providing these services [known as priced services] as well as the imputed costs that would have been incurred had the services been provided by a private-sector firm."[2] Currently, the Board calculates the imputed costs or PSAF using a model based on the top 50 bank holding companies ranked by deposit balances. This correspondent bank model is driven primarily by the level of banks' clearing balances held at Reserve Banks. Clearing balances drive nearly all imputed priced services components, including

[1] The Independent Community Bankers of America represents nearly 5,000 community financial institutions of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community financial institutions compete in an ever-changing marketplace.

With nearly 5,000 members, representing more than 20,000 locations nationwide and employing over 300,000 Americans, ICBA members hold $1 trillion in assets, $800 billion in deposits, and $700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

[2] 12 U.S.C. 248a(c)(3)

financing costs, the cost of equity, and net income from clearing balances (NICB) and, therefore, effect the PSAF, NICB, and cost recovery.

The Federal Reserve is seeking comments on a proposed new model for calculating the PSAF based on data from all publicly-traded firms. A significant decline in clearing balances triggered by the payment of interest on required reserves and excess balances, coupled, with a change in the payments services marketplace are the impetuses for this proposed methodology change.

ICBA continues to appreciate the Board's periodic review of its PSAF methodology given the importance of the PSAF in ensuring Reserve Banks' priced services are competitively priced as intended by the MCA. We believe that the Board's proposal to calculate the PSAF based on data from all publicly-traded firms is premature given that the proposed changes are primarily driven by the decline in clearing balances. This decline is largely attributed to the payment of interest on required reserves and excess balances, effective October 9, 2008. We believe a period of time greater than six months is needed to ascertain whether it is appropriate to replace the correspondent bank model, particularly in light of the turbulent and stressed financial markets. ICBA urges the Board to delay changing the existing PSAF methodology until the Board conducts additional dialogue with the industry and analyzes the issues over a longer period of time.

Thank you for the opportunity to comment on potential modifications to the PSAF methodology. For questions regarding our position, please contact me by email at viveca.ware@icba.org or telephone at (202) 659-8111.

Sincerely,
/s/
Viveca Y. Ware
Senior Vice President
Payments and Technology Policy