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October 26, 2009

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System

Re: Proposed Correspondent Concentration Risk
Docket No. OP-1369

Dear Ms. Johnson,

The Independent Bankers' Bank of Florida (IBB) appreciates the opportunity to comment on the Proposed Guidance on Correspondent Concentration Risk as set forth by the Agencies (FDIC, Board of Governors, OCC, and OTS). Our bank is headquartered in Lake Mary, Florida and provides correspondent services to 325 community banks in Alabama, Florida, and Georgia.

We believe that the general thrust of the proposed guidance is soundly grounded in the longstanding requirements of Regulation F (part 206) which clearly require prudent standards of exposure to any correspondent bank as exposures reach 25% of the bank's capital accounts. We believe, however, that the standards as defined in this guidance represent significantly greater constriction of prudent policies. These constraints, termed as "concentrations", suggest regulatory emphasis will become restrictive on banks even if they appropriately follow prudent policies of due diligence under Regulation F and exceed 25% of their capital in exposure to a correspondent. The obvious recent example of CRE "guidelines" now becoming regulatory examination "limits" on many banks is a case in point. The imposition of "limits" in the still fragile economic and banking environment existing today has a greater probability to produce the unintended consequence of restricting liquidity for community banks as compared to the perceived benefit of enhancing safety and soundness.

We believe that the proposed guidance also biased in its "course of least resistance", prompting community banks to analyze very large banks (currently Too Big To Fail) as a safer conduit for correspondent services. The proposed guidance proclaims "not to rely on temporary deposit insurance programs" however the reality of today's banking environment is that the large correspondent banks gained specific FDIC coverage for debt issuance which will remain guaranteed for several years. These very large banks also benefit from the FDIC insurance on transaction accounts, a product shared by smaller correspondents. The FDIC insurance is in existence, it is being paid by the correspondents involved in issuing those liabilities, and the insurance is a most effective risk mitigant for all investors or depositors. Proclaiming that the temporary insurance programs don't mitigate the risk is inappropriate.

We are also concerned that the proposed concentration guidelines overreach in both the degree that exposures are calculated and the decided avoidance of discussion of the tenor/maturity of the accounts involved. It is inappropriate to value the "'haircut' of collateral valuation" to be an exposure when the securities are owned by a bank, confirmed to the bank, and returned to the bank at the transactions maturity. Even in the event of a failed counterparty the "owner" of the security succeeds in regaining procession of the security. This same issue prevails in excluding the market value of unsettled securities transactions where the owner is proclaimed at trade date, and continues to be the owner of the security should the correspondent fail. Additionally, the issue of an indirect loan is troubling. Since it could be construed that any loan participation provides a benefit for the correspondent, all loan participations which are "controlled" apart from the correspondent and which are not for the direct benefit of the correspondent or its affiliates should clearly be excluded from concentration guidelines.

The omission of a discussion of the maturity of possible credit concentrations eliminates the very tool which community banks regularly employ for managing the safety of their liquidity. The fact that a DDA with a correspondent exists at high balance volumes for many years is far different than the purchase of a 24 or 36 month maturity of an instrument issued by the correspondent. The fact that Fed Funds are sold to the correspondent, generally on an overnight basis, and rolled at high balance volumes is far different than the purchase of trust preferred or subordinated debt issued by the correspondent. When the bank has the capacity to move balances or Fed Funds within a short time frame the issue of excessive concentration is decidedly mitigated and should not become further limited by this proposed guidance.

We believe that the major factor of credit quality of any bank is capital. Regulation F provides for the capacity of bankers to assess credit quality but to use prudent standards to manage their concentration of exposure as long as the correspondent is adequately capitalized. Credit quality monitoring should also involve the ALLL coverage ratio to non-accrual loans, the degree of liquidity of the bank, and the degree of concentration of funding from funding sources that may be precluded from use by regulators. The guiding principal of Regulation F provides community banks with a broad band of operational choice while still providing of the maintenance of risk control, and an intrusive mix of additional monitoring factors should be carefully avoided.

If the fundamental premise of this proposed guidance is to enhance the safety and soundness of operating risks of community banks, with input from the very banks affected, then the Agencies should pause in their rush to accomplish this change. A 30 day comment period is very quick, and a 30 day period that encompasses quarter-end reporting and the generation of call reports is inappropriately timed. We request that the comment period be expanded for this guidance by at least an additional 30 days. This comment period expansion is especially important given the yet to be defined "Interagency Guidance – Funding and Liquidity Risk Management (OP-1326)". Bankers are subjected to the probability of significant changes to Regulation F is this current proposed guidance, changes that have bearing on their funding sources and liquidity capacities. These very issues may also be affected by Docket No. OP-1362. All bankers deserve the opportunity to know the Interagency guidance on Liquidity before final response on this current issue is due.

We thank you for the opportunity to respond.

Sincerely,

James H. McKillop, III
President and CEO