From: ArkansasBankers Bank, Jim Franks

Subject: Correspondent Concentration Risks

Comments:

Via e-mail: regs.comments@federalreserve.gov

1020 West 2nd Street
Little Rock, Arkansas72201
October 16, 2009

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Room 6028
Washington, D.C.20551

RE: Docket No. OP-1369 - Proposed Guidance of Correspondent Concentration Risks

Dear Ms. Johnson:

Thank you for allowing Arkansas Bankers'' Bank to comment on the Federal Reserve Board's request for comment on the Agencies proposed guidance on correspondent banks' concentration risks.

Arkansas Bankers'' Bank (ABB), a wholly owned subsidiary of First National Bankshares, Inc. (FNBBI), is one of twenty "bankers' banks" in the country, founded in 1990. Some 83 Arkansascommunity banks are stockholders of FNBBI, and there are over 300 total bank stockholders in FNBBI. ABB serves approximately 120 of the approximately 140 commercial banks in Arkansas. The services ABB provides its customer banks include such things as cash letter settlement, investment purchases/sales, safekeeping, and cash/liquidity management to specifically include a managed "agency" Fed Funds pool.

ABB is, and always has been, mindful of helping our respondent customer banks manage their respective concentration risks with ABB. ABB provides its customer banks with various information and reports concerning the Agency Fed Funds Pool that is used for our customer banks' excess funds. Some reports consist of the financial condition of ABB itself. However, these are most difficult times we are in, and as a result, ABB is prepared to provide additional reports to our customer banks as warranted by the final guidance. ABB wants our customer banks to be informed about ABB. With this information, and other information available to banks, concentration risk management should be left to the respective bank, and be flexible enough so as to allow the respondent bank to make its decision to do what business it elects with a well capitalized correspondent. So long as Regulation F is not being made moot, and the proposed "guidance" is just that, a "guidance," and not a bright line mandate, then Arkansas Bankers'' Bank believes the proposal fits well with other rules that take into consideration the "nature and complexity" of the bank.

(The proposed guidance states several times that regulators currently "generally consider" a concentration exists when assets of more than 25% of a bank's tier one capital are held at one institution. ABB interprets "generally consider" to be evidence that the proposed guidance is not in fact a bright line rule when it comes to the 25% ratio, but rather should heighten the awareness and monitoring of a bank should this occur. Clarification of this point is paramount for banks to know what will be required of them.) However, if the proposed guidance simply piles on more record keeping, more paperwork, more number crunching on top of what community banks already have to do on a daily basis, then ABB objects. Regulation F already requires banks to be mindful of its concentrations and the inherent risks associated therewith.

The proposed guidance states that respondent banks should establish limits on, or consider the amount of loan participations with its correspondent when monitoring credit exposures. This aspect of the proposed guidance is not completely understood, both for instances of loan participations sold to the correspondent and participations bought from the correspondent. Since loan transactions are independent transactions with separate due diligence, how would this be a risk to the respondent more than any other loan? ABB believes this should be removed.

The Federal Reserve's recent creation of the Excess Balance Account earlier this year was a very good idea in an attempt to resolve the issue at hand. However, it has quickly been determined by many community banks that the EBA has safety benefits as well. An expansion of the EBA would go hand-in-hand with the proposed guidance's goal of spreading, reducing or eliminating risk. A simple and easy solution would be to simply allow a respondent bank to have multiple EBAs. ABB can attest to its customer banks having received the EBA very well.

Arkansas Bankers'' Bank sincerely appreciates the opportunity to provide input on this proposed guidance.

Sincerely,

Jim Franks

ArkansasBankers'Bank