September 4, 2009

VIA EMAIL: regs.comments@federalreserve.gov

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

RE: Docket No. OP-1362

VIA EMAIL: comments@fdic.gov

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

**RE: Proposed Interagency Guidance –
Funding and Liquidity Management Risk**

Dear Secretaries to the Boards:

TIB – The Independent BankersBank, Irving, Texas, is fully committed to funding diversity as a safe and sound banking practice. We, however, respectfully request modification and/or clarification of two items contained in the aforementioned interagency proposal. As currently proposed, the two statements, if applied literally by regulators, now or in the future, could result in adverse unintended consequences for correspondent bank providers that rely upon core respondent bank customer funds for a portion of funding.

We believe the issues and mitigating circumstances are compelling. Please see Appendix A for more information. You may reach me at 972.650.6025 or morourke@mybankersbank.com for any further clarification.

Sincerely,

Michael O'Rourke
President and CEO

Appendix A

Issue:

Items #25 and #26 in the interagency proposal essentially state:

- Funding concentrations shall be avoided; and
- Funding shall be diversified in terms of sources and tenor.

Potential Adverse Unintended Consequential Treatment:

- Many correspondent banking providers fund their balance sheets with overnight fed funds purchased from respondent bank customers in amounts ranging from 25% to 75% of assets.
- Under the literal interpretation of the proposal, the purchase of fed funds from respondent bank customers could potentially result in a funding concentration that could, according to the proposal, be considered lacking in diversity of “sources” and “tenor”.
- This treatment assumes fed funds purchased are always the result of trading funding activities in the national fed funds market and have characteristics that are volatile, overnight and unreliable. However, these types of fed funds purchased are not the primary or even secondary source of fed funds for many correspondent providers – particularly, bankers’ banks.
- Correspondent and bankers’ banks play important roles in providing respondent bank lines of credit for liquidity funding purposes, which would become impaired if banker’s bank funding becomes impaired.

Mitigating Circumstances:

- Fed funds purchased at correspondent and bankers’ banks are the result of respondent bank customer accounts with daily core activity that are swept to fed funds purchased for payment of interest instead of account analysis credit.
- As a result, these fed funds purchased behave more like commercial deposits customers at a commercial bank than any other type of instrument.
- Moreover, respondent banks have strong, established relationships at bankers’ banks because of other services provided, which are similar to the strong relationships commercial deposit customers have with commercial banks.
- Additionally, two recent third-party and independently conducted “core deposit studies” on our bank concluded that respondent fed funds purchased balances have average lives of 5 to 7 years, and produce high balances, which are stable, predictable and persistent, more analogous to core funding than non-core. **See attached conclusions by McGuire Performance Solutions for more information and details supporting the above positions.**

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Appendix A (Continued)

Requested Modification / Clarification:

- Given the nature of these deposits, fed funds purchased from respondent bank customers should be treated as a "Category" of funding, perhaps similar to the treatment and consideration of demand deposit accounts or money market accounts of commercial customers at commercial banks.
- In turn, "Sources" of funding for determining concentrations should be a sub-set of the "Category" and potentially consist of groupings like such as: Length/Time Span of Relationship, Shareholder/Non-Shareholder, Diversification, etc.
- Fed funds purchased from respondent bank customers should be treated as long-term, variable-rate funding, as opposed to overnight, volatile funding such as those obtained in the national fed funds market.

Supplemental Conclusions
By
William J. McGuire, Ph.D.
of
McGuire Performance Solutions

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The following document presents an unbiased, objective third-party opinion by a provider with a national professional standing.

William J. McGuire, Ph.D.
President and CEO
McGuire Performance Solutions, Inc.

Conceptual Background

McGuire Performance Solutions, Inc. (MPS) has statistically analyzed and forecast the supply, repricing, and retention/runoff behaviors of core deposits for over 14 years. MPS behavior forecasts have been successfully back tested over long periods of time, across widely varying interest rates, economic cycles, and financial conditions. This has proven the financial model inputs and other information provided by those analyses.

A dominant theme of the MPS analyses is that the effective behavior of core deposits are in many cases significantly different from the contractual terms of the funds. That is, while a core deposit category's contract allows administered repricing at any time and places minimal if any restrictions on immediate withdrawals of funds, in fact repricing is infrequent and deposits are often reliably supplied for long periods of time even if unfavorably low rates are paid.

In exploring the roots of the supply outcomes, motivations by depositors based on the nature of the deposit relationship come to the fore. Our main conclusion is that when transaction and temporary safe harbor uses dominate then core deposits can have favorable supply behaviors (from the financial institution's perspective) that translate into reliable short and long term liquidity positions.

MPS has observed these reliable ongoing supply characteristics in many types of core deposits, including floating rate sweep balances associated with an underlying DDA or brokerage relationship. Individual depositors are focused on the transaction related aspects of the relationship and the sweep balances are seen as a convenient way to park funds that are compensated at market rates in each period. As long as the relationship underpinning the relationship exists, and compensation floats at market rates, the supply of funds is driven by long term determinants of behaviors, not day-to-day decisions.

An example of contractually overnight funds that are in fact a reliable short and long term liquidity source are member deposit balances held by independent bankers banks. A recent study by MPS for TIB (TIB – The Independent BankersBank) clearly demonstrated the relevance of the theory above, in the favorable liquidity dimensions of TIB sweep balances. Findings of that study are reviewed below.

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Statement of Opinion

While the contractual term of the TIB (the Bank) Fed Funds sweep balances category is overnight, the replicating nature of their underlying DDA based supply relationships and floating, market rate pricing makes them effectively long term funding with favorable short and long term liquidity dimensions.

Summary of Support for Opinion

The Fed Funds position at TIB does not represent volatile funding. Rather, it is a uniquely favorable source of liquidity to the Bank because the transactional nature of its origins in DDA relationships takes the supply of these funds outside of the behavior realm of normal overnight markets. This is proven out in the recent historic behaviors of the Bank's Fed Funds position, which are clear in demonstrating both short term supply reliability and long term supply stability. Evidence of effectively long term funding is seen in simple graphical reviews and advanced statistical analyses of expected behavior across multiple stress test interest rate levels.

Empirical Evidence Demonstrating Favorable Liquidity Behaviors

The Bank's Fed Funds category is a favorable liquidity source from both short and long term supply perspectives. It is further a stable and reliable funding source across interest rate levels and financial shocks such as those observed in the last several years.

These claims are documented in the following evidence, drawn from the MPS *Express Deposit Analysis Report* provided to the Bank on July 20, 2009. Information is provided for the Bank's DDA category as that is the source for the Fed Funds position.

<u>Reliable Short Term Liquidity Source</u>: Behavior of Total Balances Supplied

The upper charts in Exhibits HS-1 and HS-2 (exhibits follow the text) depict essentially flat total balances supplied from 01/31/06 to 06/30/09 (surge balances are factors from fourth quarter 2008 on). The period reviewed included the last of a long rising interest rate cycle, periods with an inverted yield curve and then sharply declining interest rates, two periods of unprecedented liquidity crisis, and a general banking sector melt down.

The graphical record is clear: Across charted and uncharted waters the Bank's Fed Funds position was reliable short term funding, i.e. it consistently delivered ongoing liquidity.

The expected future behavior of the Bank's Fed Funds, as quantified from historic data using an advanced statistical methodology and forecast at Base Case (no future changes in interest rates) and for alternate rate shock scenarios, confirms the qualitative evidence.

Forecasted Core Deposit Behavior	**DDA**		**Fed Funds**	
	12 Mo Base Case Momentum	+100 bp Interest Rate Sensitivity	12 Mo Base Case Momentum	+100 bp Interest Rate Sensitivity
Supply of Funds	1.4% Decline	1.89% Increase	0.8% Decline	0.81% Decrease

Assuming no interest rate changes, projected 12 months forward Fed Funds total balances supplied are minimally less than the current position

Assuming a +100 bp rate shock, projected 12 months forward Fed Funds total balances supplied are minimally less than the projected Base Case position.

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Reliable Long Term Liquidity Source: Behavior of Retained Balances/Average Lives

The middle charts in Exhibits HS-1 and HS-2 depict essentially full retention of existing balances in fixed pools of starting period accounts (surge balances are factors from fourth quarter 2008 on). Again, the period reviewed included a veritable litany of unusually stressful financial conditions and banking sector shocks.

The graphical record is again clear: Across highly unusual times the Bank's Fed Funds position provided reliable long term funding, i.e. it consistently underpinned the Bank's short term liquidity position.

The expected future retention of the Bank's Fed Funds, as quantified from historic data using an advanced statistical methodology and forecast at Base Case (no future changes in interest rates) and for alternate rate shock scenarios, confirms the qualitative evidence. Retention is measured indirectly as average life, the weighted average time that existing balances run off (mature) from their starting balances (runoff is ballooned at 9.5 years for DDA and 7.5 years for Fed Funds to acknowledge forecast risk).

Forecasted Core Deposit Behavior	DDA		Fed Funds	
	12 Mo Base Case Outcome	+100 bp Interest Rate Sensitivity	12 Mo Base Case Outcome	+100 bp Interest Rate Sensitivity
Average Life	7.93 Years	2.09% Increase	5.32 Years	1.81% Decrease

Assuming no interest rate changes, Fed Funds average life is over 5 years.

Assuming a +100 bp rate shock, Fed Funds average life contracts by a minimal amount.

Concluding Notes

New liquidity guidance places great emphasis on properly categorizing liquidity sources based on their effective supply behaviors rather than notional definitions. The Bank has done this for its Fed Funds category (and supporting DDA category) at an industry best practice level of advanced statistical precision.

The Bank's Fed Funds position is demonstrated to have recently performed as expected in light of its transactional base and it is expected to continue those behaviors into the future, via forecasts of expected outcomes. All assessments confirm that the Fed Funds position represents effectively stable short term liquidity and reliable long term liquidity.

Not allowing the Bank to truthfully treat its Fed Funds position as a favorable liquidity source in its liquidity modeling is inconsistent with the new liquidity guidance. Such action also creates model risk, which could lead to sub-optimal Bank decision making in regards to liquidity and in other balance sheet management areas.

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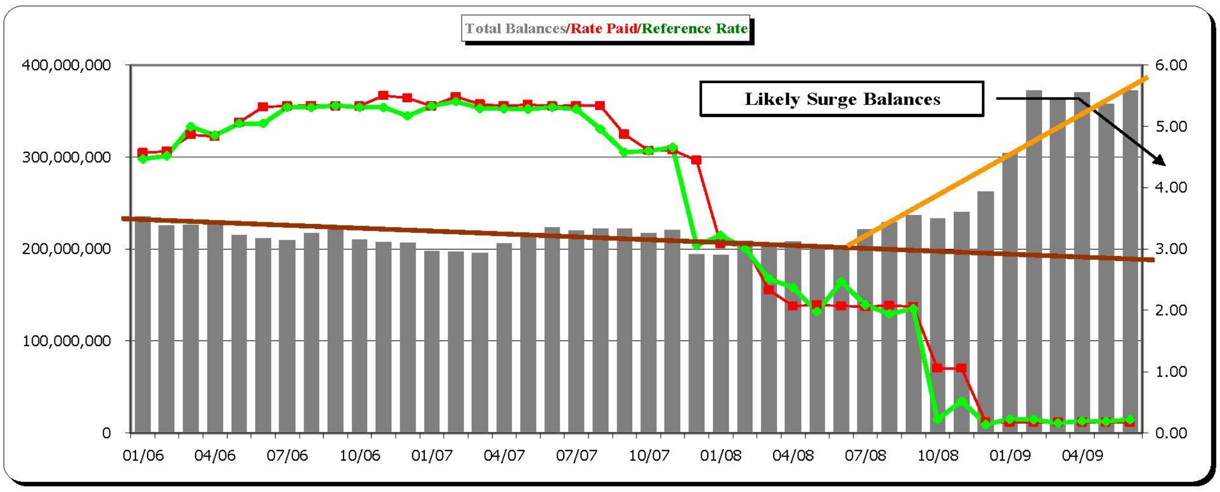
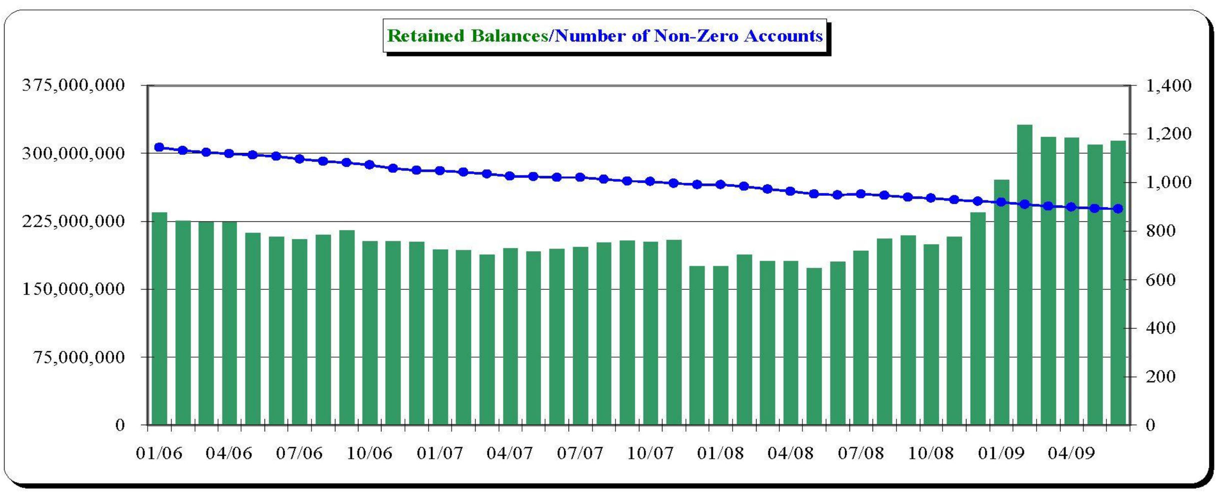
Exhibit HS -1
Historic Time Series Data

The Independent BankersBank DDA





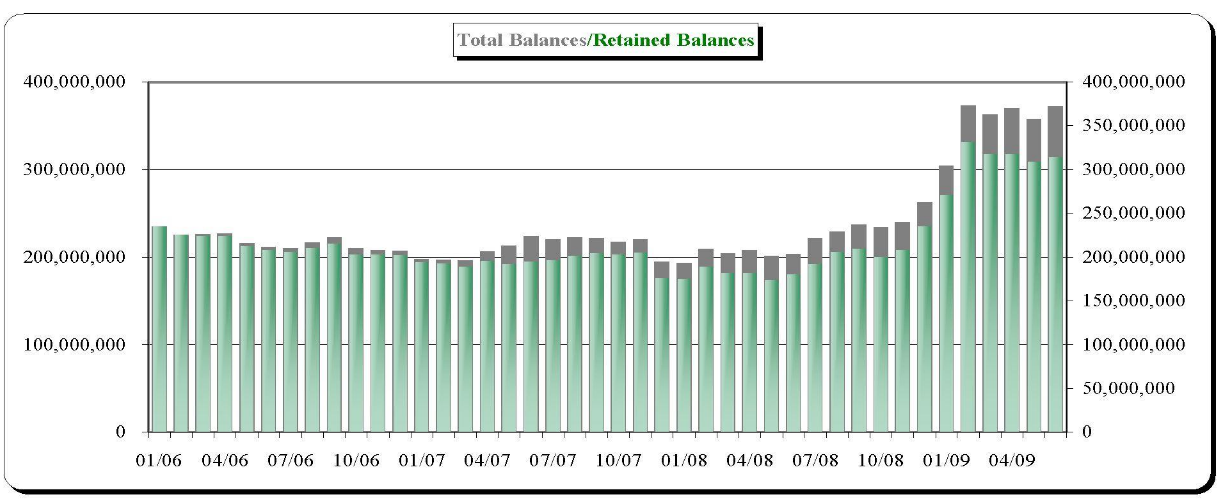


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Exhibit HS -2
Historic Time Series Data

The Independent BankersBank Fed Funds