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October 22, 2009

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

Via Email: regs.comments@federalreserve.gov
Via Fax: (202) 452-3819

RE: Docket No. OP–1369
RE: Proposed Interagency Guidance – Correspondent Concentration Risks

This letter is in response to the request for comment on the Proposed Interagency Guidance – Correspondent Concentration Risk.

First National Bankers Bankshares, Inc. and its subsidiary banks, which include Arkansas Bankers' Bank in Little Rock, Arkansas, First National Bankers Bank in Baton Rouge, Louisiana, First National Bankers Bank, Alabama in Birmingham, Alabama, and Mississippi National Banker's Bank in Ridgeland, Mississippi, are fully committed to ensuring that our respective practices for identifying, monitoring, and managing correspondent concentration risk with financial institutions are appropriate. We believe that additional guidance from the federal regulatory agencies in this area is timely given the uncertain economic environment all financial institutions are experiencing. That being said, the proposed guidance, while well intentioned, appears to be potentially much more specific and restrictive than Regulation F which provides flexibility to financial institutions in establishing and maintaining risk management programs for their correspondent banking relationships.

As currently proposed, the guidance suggests that loan participations and syndications be included in monitoring of credit exposures to correspondents. We believe this to be inappropriate given that loan participations are approved and executed between financial institutions on an arms length basis and that the credit exposure is to the borrower involved and not the correspondent bank. While monitoring the number and aggregate amount of loan participations purchased or sold to any one correspondent may be a prudent practice, suggesting that a certain dollar figure of participations purchased or sold be added to the aggregate dollar amount of credit exposure appears unreasonable. We recommend that this reference be removed or clarified.

The proposed guidance also mentions liability concentrations and funding exposures of 5% of an institution's total liabilities having posed elevated risk to recipient institutions. This reference is vague and could lead to wide variations of interpretation of its applicability between bankers and regulators. We recommend that this reference be removed or clarified.

Additionally, funding concentrations limitations should be excluded from the proposed guidance due to inconsistency and lack of disclosure. The funding concentration limitation lacks sufficient discussion on relevant issues. For example, the guidance does not distinguish large depositors form the long-term secured advances from the Federal Home Loan Bank system. Each of these sources has its own strengths and weaknesses that cannot be addressed with a one-size-fits-all limitation. Funding concentration should be addressed in a guidance that is more appropriate to funding rather than correspondent concentration limits.

Certain information is specifically requested for comment in the proposed guidance. Our comments to those requested subjects are listed below:

Factors institutions should consider when assessing correspondents' financial condition:

Recommend that the guidance limit commentary on factors institutions should consider when assessing correspondents' financial condition to a broad reference of Capital, Asset Quality, Earnings, and Liquidity. Specific ratios and other indicators related to those factors considered should be determined at the discretion of management.

Need to establish internal limits as well as ranges or tolerances for each factor being monitored:

Recommend that the guidance simply prescribe that each financial institution should consider ranges or tolerances for factors being monitored on individual correspondents. Mandates for set internal limits on any one factor could make monitoring too restrictive on correspondents/respondents and make it difficult for some financial institutions to find a correspondent bank that can service them.

Operational issues the Agencies should consider when finalizing the proposed guidance:

Recommend that the Federal Reserve's limitation to one Excess Balance Account Agent per financial institution be eliminated as it does not encourage diversification in having multiple correspondent bank relationships. All financial institutions should have the option to designate each of their correspondent banks to serve as agent for a separate Excess Balance Account at the Federal Reserve. This would enable correspondent banks to better assist their respondent banks with managing concentration or diversification concerns that directly impact both that correspondent and their respondent. Currently, this limitation to one agent impedes the ability of correspondent banks to assist their banks in drawing down excessive balances being maintained with those respective institutions.

In conclusion, we feel that the magnitude and lack of clarity of this proposed guidance requires additional time for commentary. Therefore, we respectfully request an extension of the previously allotted comment period. There would be many issues and benefits resulting from additional study and comments.

We appreciate the opportunity to respond to the Proposed Interagency Guidance for Correspondent Concentration Risk and thank you for your consideration of our comments.

Sincerely,

Joseph F. Quinlan, Jr.
Chairman, President, and Chief Executive Officer