Frost

Post Office Box 1600
San Antonio, Texas 78296-1600

October 23, 2009

VIA EMAIL: comments@fdic.gov
Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

RE: Proposed Correspondent Concentration Risk Guidance

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-1369

VIA EMAIL: regs.comments@occ.treas.gov
Office of the Comptroller of the Currency
250 East Street, S.W., Mail Stop 2-3
Washington, DC 20219

RE: Docket ID OCC-2009-0013

Frost Bank appreciates the opportunity to offer comments on the Correspondent Concentration Risk Guidance.

Frost Bank has been a provider of correspondent services to the respondent bank market for over 100 years and today maintains relationships with several hundred institutions.

Frost has always embraced the prudent concept of diversification and provided our customers with diversified liquidity management tools, even before Regulation F outlined its importance.

As with any new measure, the impact on the market is unpredictable. For this reason, we believe it is important to understand that these are only guidelines. When intentional concentrations are determined to be safe and acceptable, the focus should be on mitigating factors, rather than holding an institution to an absolute percentage of capital.

Frost

Post Office Box 1600
San Antonio, Texas 78296-1600

There are several possible results of these new guidelines that could have serious disruptive effects on the correspondent and respondent markets if there is overreaction by either party.

The possible perception by respondent banks that there is an alternative "safe harbor" in the Federal Reserve Bank or the Federal Home Loan Bank could severely disrupt the interbank liquidity market and thus limit access to those banks that may need it most. To be fair to the private sector, ALL concentrations should be treated equally. Since the proposed guidance prohibits reliance on "deposit insurance programs," it would be consistent to include ALL entities, including the government, GSEs, or "too big to fail" institutions in correspondent concentration calculations. To this end, the final guidance should focus on the management of risk with reasonable due diligence and recordkeeping requirements with ALL entities and not on the penalties of reasonable, defensible concentrations.

In response to the request for specific comment:

Regarding the appropriateness of aggregating all credit and funding, Frost supports this view, with the exception of excluding readily marketable securities pledged to the transaction.

Regarding the types of factors that should be considered when assessing a correspondent's financial condition, Frost would support a standard set of easily obtained information on earnings, asset quality, liquidity, and capital.

Regarding the need to establish internal limits as well as ranges or tolerances for each factor being monitored, Frost considers this to be a decision of the individual institution. Each institution is well aware of prudent ranges and is capable of establishing its own parameters consistent with its own policies.

Regarding contingency planning and timeframes for implementing action to control concentrations, Frost supports the timeframes generally outlined in Regulation F, unless superseded by this guidance. When the Final Guidance is issued, each institution should be able to identify any imprudent concentrations and develop a contingency plan that could be implemented on a timely basis, but not longer than 120 days.

Regarding the limiting of an institution to one EBA account, Frost has been opposed to this limit since it was first released for comment. Limiting an institution to one EBA account when the need for diversity in credit and funding concentrations is paramount is

Frost

Post Office Box 1600
San Antonio, Texas 78296-1600

an obstruction to interbank liquidity. The possible future need for an institution to be flexible and nimble in managing its concentration risk will necessitate multiple EBA accounts that can aid in diversity and the management of liquidity risk. There appear to be no negative issues associated with managing multiple EBA accounts, as most institutions maintain multiple correspondent relationships already. Frost supports the change to allow multiple EBA accounts for the purpose of expanding the management of and access to liquidity when needed.

Frost Bank respectfully submits these comments in an effort to ensure that respondent banks maintain access to a full array of correspondent services without artificial regulatory limitations when they are not necessary.

Sincerely,

Cliff McCauley
Executive Vice President
Frost Bank