From: James M Meyer

Subject: Reg D, Q, & DD

Comments:

Date: May 05, 2011

Proposal: Regulation D, Q, and DD - Prohibition Against Payment of Interest on Demand Deposits
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Name: James M Meyer
Affiliation:
Category of Affiliation:
Address:
City:
State:
Country:
Zip
PostalCode:

Comments:
From: The Farmers State Bank, James M Meyer, Pres/CEO Subject: Reg D, Q, & DD Comments: To: 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. R-1413 On April 6, 2011, the Federal Reserve requested comment on the proposed rule to repeal Regulation Q, which is the applicable law prohibiting the payment of interest on demand deposits. I strongly oppose the repeal of Regulation Q, which will have dire effects on community banking. This repeal alone is guaranteed to increase the cost of funds; couple that with the inevitable rise in rates and a bank's viability becomes a huge concern. It seems we never learn that this restriction was put in place after the Great Depression of 1929 where banks were paying interest on these types of deposits and this was thought at the time as one of many contributions to the Great Depression why would we want to repeal a Regulation such as Q after having the Great Recession of 2008. So far we have closed over 200 banks since the start of the Great Recession of 2008; how many community banks are you willing to close in the future? One of the greatest franchise builders for community banks is their demand deposit base. Additionally, paying interest on demand deposits will increase the level of expenses and further erode bank margins and profitability. The fact of the matter is that this gives "Too Big to Fail Banks" another competitive edge over community banks. This will allow them to take our deposits from our business customers if we don't play the game of one upping them on the rate we pay. How will we be able to cope paying more for deposits but also contribute to our communities by loans to main street businesses within our communities; with deposits we no longer have. The potential changes with regards to the interchange fee, and the increased regulation placed on banks with regards to NSF check charges will impact greatly the services being provided by community banks. Paying interest on commercial checking will add additional pressures to banks trying to provide services to our local communities. The repeal of Regulation Q will contribute

to a larger round of closed banks in the future because as we all should know by now Big Banks and Wall Street Investment Banks will bring us once again to the edge of the abyss just as they did in 1929, 2008, and now with the money going into the commodity markets increasing the amount we pay at the pump, grocery store, and manufactured goods will they bring us to the edge once again when they crash the commodity markets in the future with their unwanted and unneeded speculation. Let us not forget when they (The money market fund brokers) broke the buck; and the FDIC had to take under their wing and provide insurance to those individuals that had their money in money market funds. I distinctly remember the warning that these money market funds disclosed: that they were not guaranteed, are an investment, and that past performance was not indicative of future performance, which meant that the money in those funds should have been lost but were saved by the FDIC by insurance premiums paid into the fund by this bank for over 50 years and ever other long standing community bank. Ladies and gentlemen, in closing certain regulations are in place, such as Regulation Q, to prevent catastrophes that were caused in the past. I believe that if Regulation Q is repealed that the next wave of bank closings will be devastating to the country as a whole. Just as the repeal of Glass Steagall helped cause the Great Recession of 2008, I believe that the repeal of Reg. Q will cause even greater harm to the country as small community banks go head to head with "Too Big To Fail Banks" for commercial deposits. Those who will not learn from history are doomed to repeat it!