Community Bankers Association of Illinois®

May 16, 2011

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

Re: Fed Docket No. R-1413 and RIN 7100-AD60

Dear Ms. Johnson:

On behalf of the Community Bankers Association of Illinois, which proudly represents 420 Illinois community banks, **we strongly urge the Federal Reserve to indefinitely postpone the rescission of Regulation Q until the Federal Reserve can study the impact on community banks, their customers and communities, and to evaluate alternative solutions**.

Inserted in the conference committee in the 11th hour of House and Senate negotiations of the 2010 Dodd-Frank Wall Street Reform Act, this repeal was not debated or heard by House and Senate Committees. We are concerned that a repeal of Regulation Q could have devastating effects on the safety and soundness of community banks.

On the surface it may appear that such a move would be positive for small businesses; but to the contrary, if this 77 year-old prohibition expires, it will actually stifle credit availability to small businesses and increase the cost of credit. Such interest bearing accounts would be subject to a 10% reserve requirement by all institutions, thereby freezing important capital that might otherwise be available for lending. Additionally, as rates begin to rise over time, financial institutions will find it necessary to pass along their increased costs in the overall cost of credit to small businesses and commercial customers.

Perhaps most importantly, we believe a repeal of Regulation Q would have an adverse competitive effect on community banks. The prohibition was originally enacted to provide a stable source of reliable funding for our nation's banks. Large too-big-to-fail banks, which have primarily funded themselves with off-balance sheet sources to avoid FDIC insurance premiums, are likely to view the repeal of Regulation Q as an opportunity to "buy" domestic deposits, thus robbing local community banks of needed funds and capital to support loan growth. Also, any further increase in the concentration of banking assets will only exacerbate the dangers of too-big-to-fail banks to our financial system.

Furthermore, once corporate accounts are converted to interest bearing accounts, these deposits will no longer be covered under the FDIC’s Transaction Account Guarantee (TAG) that provides unlimited deposit insurance coverage for non-interest bearing transaction accounts. The TAG was established to provide parity for community banks which must compete with too-big-to-fail banks.

In lieu of repealing Regulation Q, the Federal Reserve should review again the idea of amending Regulation D to exempt from the definition of “demand deposits” a money market deposit account (MMDA) allowing up to 24 transactions a month for entities not eligible for NOW accounts. This will allow community banks to sweep daily balance between business checking accounts and a MMDA. An expanded MMDA would not be as volatile as an interest bearing demand deposit account and would not pose as much risk to the banking system.

In conclusion, we strongly urge the Federal Reserve to indefinitely delay the repeal of this long-standing prohibition to study the safety and soundness consequences on community banks and local communities and to evaluate alternative solutions.

Thank you for the opportunity to comment on these issues of importance to community banks. If you have any questions, please feel free to contact me by telephone at (847) 909-8341 or by e-mail at davids@cbai.com.

Sincerely,

/s/

David G. Schroeder
Vice President of Federal Governmental Relations