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September 13, 2006

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

Re: Reserve Requirements of Depository Institutions
Regulation D – Docket No. R-1262
The Bankers' Bank Exemption from Reserve Requirements

Dear Ms. Johnson:

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to comment on the Federal Reserve's proposal to authorize the Board to determine, on a case-by-case basis, whether certain entities might become customers of a bankers' bank to a limited extent without jeopardizing the bank's exemption from reserve requirements.

Background

Bankers' banks were created as unique entities to provide community banks a non-competing institution to offer correspondent and other financial services. Currently, there are 21 bankers' banks across the country serving the interests of community banks, providing correspondent banking services to and on behalf of community banks. Numerous federal and state banking statutes have been enacted or amended to support the bankers' bank mission. While section 19 of the Federal Reserve Act imposes reserve requirements on all depository institutions, section 19(b)(9) exempts bankers' banks from reserve requirements if the bank satisfies three criteria outlined in the statute.

¹ The Independent Community Bankers of America represents the largest constituency of community banks of all sizes and charter types in the nation, and is dedicated exclusively to representing the interests of the community banking industry. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.

With nearly 5,000 members, representing more than 18,000 locations nationwide and employing over 265,000 Americans, ICBA members hold more than \$876 billion in assets \$692 billion in deposits, and more than \$589 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

First, a bankers' bank must be organized solely to do business with other financial institutions. Second, it must be owned primarily by the financial institutions with which it does business. In 1980, the Federal Reserve determined that a bankers' bank would be deemed organized solely to do business with other financial institutions if, as an incidental part of its activities, it does business with entities other than depository institutions to a limited extent. Second, the bank would be considered owned primarily by financial institutions if 75% or more of the bankers' bank capital is owned by other depository institutions.

A third – and critical – statutory criterion for the exemption from reserve requirements bars bankers' bank from doing business with the general public. It is this third element that is the subject of the current proposal. Under the Federal Reserve's 1980 interpretation, two requirements must be met to satisfy this requirement. First, the bank must restrict its customers to: (a) depository institutions; (b) subsidiaries or organizations owned by depository institutions; (c) directors, officers or employees of the same or other depository institutions; (d) individuals whose accounts are required by the institution's supervisor due to a pending or actual depository institution failure; (e) share insurance funds; and (f) depository institutions' trade associations. Second, loans or investments in those customers (other than depository institutions) cannot exceed 10% of total assets.

The Proposal

The Federal Reserve proposes to update the 1980 interpretation by expanding the range of customers with which a bankers' bank may do business yet still meet the statutory requirements to be exempt from reserve requirements. Under the proposal, the Federal Reserve could determine on a case-by-case basis whether to allow a bankers' bank to do business with another type of customer. While the proposal would not outline what standards would be necessary to make this determination, the Federal Reserve anticipates a bankers' bank would submit a request only if it would facilitate the bank's business and still be within the spirit of the statutory exemption.

ICBA Position

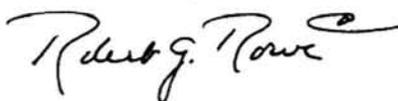
ICBA welcomes the Federal Reserve's proposal to recognize the changing nature of banking. Since bankers' banks were initially established, the banking industry has changed substantially. It is important that community banks, and the bankers' banks that serve them, have the necessary tools to compete in today's financial environment. However, the ICBA believes that the current proposal must be revised before it can be finalized.

While it is necessary for regulators to have the flexibility to give bankers' bank the ability to provide community banks the competitive tools they need, ICBA is concerned that the proposal does not articulate the standards needed to determine which customers a bankers' bank could serve. Because bankers' banks play a unique role in providing essential financial service to community banks, and because the exemption from reserve requirements is fundamental to providing those services, ICBA urges the Federal Reserve to clearly establish what standards will be used. This is especially

important because bankers' banks were established to offer services for community banks without becoming competitors. Expanding the customers that a bankers' bank can serve runs the risk of violating the non-competitive nature of bankers' banks and could undermine their unique status. More significantly, without clearly articulated standards, there is the danger that case-by-case decisions could be arbitrary and capricious. Therefore, ICBA recommends that the Federal Reserve publish for additional comment on a set of standards that would provide the basis for case-by-case decisions before moving forward.

Thank you for the opportunity to comment. If you have any questions or would like any additional information, please contact me by telephone at 202-659-8111 or by e-mail at robert.rowe@icba.org.

Sincerely,

A handwritten signature in black ink that reads "Robert G. Rowe" with a stylized flourish at the end.

Robert G. Rowe, III
Regulatory Counsel