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| Subject: | Daylight Overdraft Posting Rules |

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Comments:

June 4, 2008 Ms. Jennifer J. Johnson Secretary Board of Governors of the Federal Reserve System 20th Street and Constitution Ave. NW Washington, DC 20551 Re: Docket No. OP-1310 Policy on Payments Systems Risk; Daylight Overdraft Posting Rules Dear Ms. Johnson: As a Bankers Bank, Great Lakes Bankers Bank provides correspondent banking services to over 170 community banks, primarily in Ohio and Michigan. The Federal Reserve settlement activity of our respondents posts to our Federal Reserve account. We anticipate that the settlement of ACH debits at 8:30 a.m. would have a significant adverse impact on the amount required to fund our account and would have a negative impact on our daily operations and our ability to support the needs of our client respondent banks. The proposal states that “the Board recognizes that this proposed change to the posting rules could prompt some depository institutions to maintain higher account balances overnight, incur (greater) daylight overdrafts, or bring staff in earlier to manage their Reserve Bank account balances.” We have considered the options for how the changes would impact our operations. On an average day, the proposed change in settlement would mean that we would need to increase the funding in our account by approximately $30 million before 8:30 a.m. While we could keep higher balances overnight, the financial impact of not investing $30 million on any given day would be substantial and could result in over $600,000 in lost revenue opportunity. We could incur greater daylight overdrafts. Although we are a Banker's Bank, we do hold reserves at the Federal Reserve and therefore we would not fall under the category of the 35 institutions who are not eligible to incur daylight overdrafts. However the net debit cap available to us is substantially smaller than the amount of the overdraft we would incur. We would have to seek alternatives to pledge collateral. Finally, any additional use of daylight overdraft would result in a significant increase in fees charged to our bank. We have also considered the option of bringing staff in earlier to manage our account balances. The credit funding for our account is largely comprised of wire transfers from upstream banks that have purchased funds the prior day. Since the advent of the payment system risk initiative and the focus on daylight overdrafts, purchasing banks in the Federal Funds market perceive their transactions to be for twenty-four hours. Therefore, in the majority of cases, the purchasing bank holds the return wire in a "liquidity queue", to avoid daylight overdrafts, until the time that they are required to release the wire. As a result, there would be no benefit gained by bringing in early staff members. In addition to the negative impact on our institution, we have considered potential impact on our client banks. A bankers' bank or other correspondent bank has a customer base comprised of respondents, some of which have established tri-party relationships with the correspondent and some that have not. Those respondents that have established tri-party relationships with the correspondent will face the possibility of a negative net settlement which will occur in the reserve/clearing account of the correspondent. Those respondents that have not established tri-party relationships with the correspondent fund activity in the reserve/clearing account of the correspondent but do their settlement elsewhere. Therefore, a negative net settlement will result in a wire request which will negatively impact the funds available in the reserve/clearing account of the correspondent. These combined factors create a likely daily scenario under which at the opening bell we would have a minimum amount of available funds in our account because none of the prior day's Federal Funds trades have been returned, nor are they likely to be for several hours. The demand for funds by our client respondent banks at the opening bell would increase dramatically if ACH debits post at 8:30 a.m. Respondents with tri-party arrangements will have to fund negative ACH net settlements which will draw down the available liquidity in the correspondent's reserve/clearing account, while respondents that do their settlement elsewhere will be relying on the return of the prior day's Federal Funds trade to fund the settlement which will require early wires out of the correspondent's reserve/clearing account. We appreciate the opportunity to provide comment on the proposal. Upon consideration of the impact on our institution and our respondents, we do not support the proposed changes that would benefit only five percent of FedACH participants. Sincerely, Elizabeth Woodruff, AAP Vice President, Operations