

From: "Jim Franks" <jfranks@arbankersbank.com> on 06/10/2008 12:05:01 PM

Subject: Payments System Risk Policy

June 10, 2008

VIA: e-mail - regs.comments@federalreserve.gov

Reference: Docket No. OP-1309, Proposed changes in the Payments Systems Risk Policy

First, please accept the sincerest thanks from Arkansas Bankers' Bank ("ABB"), and its more than 100 community banks it serves for allowing us to comment on the proposed changes in the PSR policy (Docket No. OP-1309).

My first thought is a very simplistic one, but it seems to have served me well in my thirty or so years of banking – if it "ain't" broke, why fix it? (Do forgive my bad English!)

On behalf of Arkansas Banker's Bank ("ABB") I write regarding the proposed change to the daylight overdraft posting rules under the Payments Systems Risk (PSR) policy that would change the debit posting time for ACH files to 8:30am (CT) from its present 11:00am time. ABB is one of 20-plus bankers' banks in the United States. Bankers' banks are unique, and I believe occupy a very important place in the nation's banking system. The proposed change would, in my opinion, create significant liquidity challenges to say the least, and additionally negatively impact earnings. There is the additional potential to negatively and adversely affect the overall competitiveness of ABB, and other bankers' banks as well, and this adverse affect could very well be a detriment of the entire national banking system.

ABB was organized, as other bankers' banks were as well, to do business solely with other financial institutions. Arkansas Bankers' Bank is owned exclusively by over half of the financial institutions located in the state of Arkansas, some eighty-plus in number. ABB offers a variety of correspondent and settlement services to its customer banks through respondent relationships tied to ABB's master account at the Federal Reserve Bank of St. Louis. ABB has a third-party agent relationship with its customer banks at the Federal Reserve that allows ABB to originate, receive and settle client bank ACH activity. On a single day, the total ACH debits and credits will be in the tens and tens of millions of dollars.

There is absolutely no question that your proposed change would significantly and adversely impact availability of funds to ABB client banks! I simply cannot stress this point enough. ABB would be forced to require its member banks to keep funds on deposit to provide liquidity to fill the early morning void created by posting debits and credits simultaneously at 8:30 AM because ABB can't retrieve invested overnight funds that early in the morning. These additional funds that would need to be kept by our customer banks (for protection against daylight overdrafts) would in turn reduce availability to them. These banks would then have fewer funds available to their customers. This would require ABB to maintain a non-interest bearing account at the Fed that would inflate ABB's balance sheet (requiring additional capital) and depresses its profitability. It is a classic domino theory in which all of the dominos are falling the wrong way!

There are other similarly related liquidity issues that ABB is most concerned with. For example, our customer banks may well need to draw down their funds earlier in the day to meet their own obligations.

In addition, ABB operates an as agent fed funds program with daily activity of approximately \$500- to \$600 million. An increase in client bank requests for funds to cover their ACH debits would put further pressure on ABB to increase the size and availability of its Fed Funds pool in order to accommodate the proposed change.

As you are aware, ABB is not permitted to incur a daylight overdraft at any time. This has not been an issue as the daylight overdraft posting rules currently employed by the Fed posts credits in advance of debits. However, with the proposed change of simultaneous posting of ACH debits and credits, daylight overdrafts will most certainly be created, unless ABB's clearing balance is substantially increased or ABB chooses to maintain additional reserves to be eligible for a higher net debit cap. Each of these options not only will negatively impact ABB's liquidity and earnings, but will also adversely affect our respondent/customer banks as discussed above. Likewise, the adverse result of the proposed change is inconsistent with the Fed's regulation of not requiring cash reserves from bankers' banks.

During May 2008, ACH debits at ABB exceeded credits 67% of the time. For the month, credits actually exceeded debits by an average of some \$2.5 million per day – but, when debits exceeded credits, the average was over \$40 million per day! There were four days (19% of the time) where debits exceeded credits by over \$60 million. There is simply no way to predict a net debit position. Nevertheless, ABB's role as an aggregator for community banks requires significant levels of liquidity to guard against daylight overdraft exposures.

Do not hesitate to call me, or ABB President Jimmy Thomason, with any questions or concerns. Again, please accept my thanks, and the thanks of our member and stockholder banks, for being allowed to comment on your proposal.

Sincerely,

Jim Franks
Vice President