PACIFIC COAST BANKERS' BANK

November 17, 2008

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th and Constitution Way, NW
Washington, DC 20551
Email: regs.comments@federalreserve.gov

Re: Docket No. R-1334; Interim Final Rule on Regulation D

Dear Ms. Johnson:

Pacific Coast Bankers' Bank ("PCBB") appreciates the opportunity to comment on the Interim Final Rule on the amendments to Regulation D, Reserve Requirements of Depository Institutions, directing Federal Reserve Banks to pay interest on balances held at Reserve Banks.

On October 6, 2008 the Federal Reserve Bank announced the paying of interest on excess reserve balances held on deposit effective October 8, 2008. As a bankers' bank and correspondent bank to over 500 community banks mainly in the 12 District of the Federal Reserve Bank, PCBB provides its respondents the ability to pass through all Federal Reserve Bank activity including Required Reserves for non member banks. In order to maintain our business continuity and practice, PCBB acted quickly to include the pass through of Excess Reserves. While we have been able to be proactive in seamlessly assisting the Federal Reserve Bank system to take corrective market actions at little to no action from the many community banks we serve by passing through off balance sheet Excess Reserves, we have since been required to report these balances as our balances held at the Federal Reserve Bank and to treat these same balances as demand deposits.

We respectfully submit our comments to Docket No. R-1334; Interim Final Rule on Regulation D as follows:

Comment:
Pass Through – Required Reserves

[illegible] Bankers' Bank
[illegible] Street Suite [illegible]
San Francisco, CA [illegible]
[illegible]

To allow Federal Reserve Bank Members to pass through Required Reserves to a correspondent bank (currently excluded).

Required Reserves currently are reported on the correspondent's balance sheet and identified on the call report.

Pass Through – Excess Reserves
The current reporting requirements of Excess Reserves is to treat these reserves in the same manner as Required Reserves, there are many mitigating factors where this treatment is neither feasible nor applicable. These reasons include, avoiding the imposition of additional reporting or accounting burdens, impact to regulatory capital, maintaining reserve requirements for excess reserve balances, FDIC insurance *assessments coupled with an imposed limit of account coverage, and Daylight overdraft* exposure. Further discussion on these factors are as follows:

Impact on Regulatory Capital – Forcing excess reserves on balance sheet for correspondents this would require the correspondent to maintain certain regulatory capital levels to offset the pass through of excess reserves, thus forcing the correspondent to use capital only to support these excess balances. While the excess reserves are zero risk weighted on risk assessment, they are included for total assets and leverage capital. This treatment under utilizes capital of the correspondent and could jeopardize the regulatory levels of the correspondents capital as excess reserves are unplanned balances that change daily and that cannot not be managed under a specific maintenance period.

Reserve Requirements – The interim final rule indicate that excess reserve balances would become demand deposits on the correspondent balances sheet, this treatment would then force the correspondent to report balances as demand deposit balances thus forcing correspondent to maintain required reserves on excess reserve balances actually held at the Federal Reserve Bank for benefit of its respondents.

FDIC Insurance Coverage – The required maintenance of excess reserves on the balance sheet for a correspondent, negates the FDIC insurance coverage of the respondent DDA account from a non interest bearing transaction account to an interest bearing transaction as the correspondent passes through the interest on excess reserves to the respondent. This action will now limits the FDIC coverage to the respondent banks from unlimited to $250,000.00. The very nature of the respondent balances typically exceed the $250,000.00 balance thus creating an unfair treatment and or penalty to correspondent banks

Daylight Overdraft Exposure – With the issues identified above and the lack of consideration for change to Excess Reserves under the interim rules, a correspondent would also be forced to push these excess liquidity balances to the respondents for them to maintain their own Federal Reserve Bank account. This action would create a threat for the correspondents as the exposure of Daylight Overdraft would occur as the correspondent would be settling the respondents Federal Reserve activity without the benefit of the respondents liquidity. This creates a potential for the correspondents core business to be threatened by the Federal Reserve Bank actions under the interim final rules of Regulation D

Comment:
The final rule should deem all or part of pass through excess balances held in the account of a pass – through correspondent to be held on behalf of its respondents. Accordingly, all or part of interest received in excess balances by a pass-through correspondent should be attributable to the excess balances of its respondents and reported as such off balance sheet. These balances can be monitored by the Federal Reserve Bank using the FR2900 Memorandum creating "F2 - Pass Through Excess Reserves". This allows the Federal Reserve Bank to account separately for these balances within the system. There may be a requirement for a correspondent to reflect specifically which institutions these balances are held for, for this purpose we have attached a sample report to be considered. PCBB has these reports available throughout the day and end of day.

Further it could be considered under this ruling that through a tri-party agreement, correspondent, Federal Reserve Bank, and respondent agree that the respondent would be obligated to report balances held on its behalf by the correspondent. This would simplify the implementation of this new option and allow the process to happen again seamlessly.

I am available to discuss any detail of theses comments at any time.

Sincerely,

Tracy Holcomb
Executive Vice President
Chief Operating Officer

[illegible] Bankers' Bank
[illegible] Street, Suite [illegible]
[illegible]
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