"Your Path To Success"

November 20, 2009

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

RE: Federal Reserve System Docket No. Op-1369

Dear Ms. Johnson:

Nebraska Bankers' Bank (NBB)[1] appreciates the opportunity to comment on the Board of Governors (the Board) proposed correspondent concentration risk guidance. NBB is fully committed to the concept(s) and application of identifying, analyzing and controlling risks of all types including those that may be associated with correspondent banking relationships. We further believe, as recent financial markets events have validated, that regulatory requirements should be tailored to include consideration of an institution's size and complexity.

NEBRASKA BANKERS' BANK POSITION

NBB is deeply concerned that the proposed guidance significantly alters the regulatory framework that has traditionally been applied to a respondent/correspondent relationship as defined by Regulation F. The proposed guidance has the potential to materially impact the long standing business model these partnerships have become so reliant on. The adverse impact would be especially burdensome for smaller institutions that are reluctant to enter into correspondent relationships with traditional large bank providers who frequently maintain a retail banking presence in the same market. In today's highly complex economy, community banks generally prefer not to enter into a correspondent relationship with a bank that competes directly or indirectly with them.

[1] Nebraska Bankers' Bank is a Bankers' Bank chartered in Lincoln Nebraska with its holding company of Midwest Independent Bancshares, Inc. headquartered in Jefferson City Missouri, that provides correspondent services to over 400 respondent community banks of all sizes and charter types throughout the Midwest.

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We respectfully recommend that the Board carefully consider our comments and resist the urge to implement the proposal as defined in the draft guidance.

Too-Big-To-Fail (TBTF) & Government Sponsored Entities

NBB believes that the proposed guidance will create an "implicit" endorsement of those service providers that are characterized as TBTF and even more troubling, those market participants that operate with Government Sponsored Entity (GSE) status. This implied endorsement would create any undeniable market advantage for TBTF providers, Federal Reserve Bank Operations, the Federal Home Loan Bank and certain other public providers. It is our position that this condition would result in a direct conflict with provisions of the Monetary Control Act of 1980 that require the Reserve Bank to recover the costs associated with certain payment system services collectively referred to as the "private sector adjustment factor" (PSAF). It would be impractical if not impossible for the Reserve Bank to empirically establish a fair value element for the presence of this endorsement as required by the PSAF. While speculative at this point, it would be disingenuous to project that Reserve Bank account executives would not use this implied endorsement as a selling tool when competing for correspondent relationships with private sector providers.

Private sector correspondent providers possess no comparable attribute to offset the endorsement benefit that implementation of the guidance bestows upon the TBTF and GSE providers.

Regulation F Considerations

Financial institutions must currently comply with the requirements of Regulation F when they enter into correspondent banking relationships. The Regulation specifically addresses the standards a financial institution must consider when evaluating exposure to any given correspondent. In 206.4 the regulation assigns limitations on credit exposure of 25% of the respondent bank's capital, "unless the bank can demonstrate that its correspondent is at least adequately capitalized". It has always been understood that banks have the ability, and in certain circumstances, the obligation to establish internal concentration limits based on the financial condition of the correspondent.

While the proposed guidance does speak to a 25% of capital concentration limitation, it is vague in the manner in which it addresses a deteriorating financial cycle at the correspondent. NBB feels it is appropriate for guidance in this area to be consistent with, or mirror, the longstanding requirements of Regulation F. We further suggest that a higher concentration limit of 50% of tier-1 leverage capital be deemed permissible "if" both parties to the relationship are "well capitalized" as defined in Regulation F. It has always been the regulatory obligation of the respondent bank to reassess the scope of their "collective" exposure to a weakened correspondent and limit or reduce risk as is deemed appropriate.

Additionally we request that any final guidance specifically exempt cash letters deposited for further collection by respondents at their correspondent bank from the concentration equation. Regulation F, Part 206.4 (d) (2) provides that "the proceeds of checks and other cash items deposited in an account at a correspondent that are not yet available for withdrawal" are not considered credit exposure at the respondent bank. Unless this aspect of Regulation F is modified, cash letters in the process of collection should not be included as a credit risk element.

Credit and Related Instruments

Under the proposed guidance, credit exposures are defined to include due from accounts, principal fed funds sold, over/under collateralized portions of repurchase and reverse repurchase agreements, derivatives contracts, gains on unsettled securities transactions, direct or indirect loans to the benefit of banks or bank holding companies, trust preferred securities, subordinated debt and stock purchases in a correspondent or its parent. NBB will limit its credit instrument comments to due from accounts, principal fed funds, direct and indirect lending and stock purchases in a correspondent or its parent.

Due From Accounts

As previously stated in the Regulation F section of our comment NBB strongly urges the Board to exclude cash letter deposits in the process of collection from the due from account balance. We reiterate our interpretation that the existing exclusions in Regulations F should be specifically extended to the proposed guidance.

Principal Fed Funds

NBB agrees that principal fed funds represent the presence of credit exposure by the respondent to the correspondent. We recognize that it is the responsibility of the respondent bank to continuously evaluate and monitor the level of principle funding that may be extended to a correspondent. The level of exposure should be measured against the capital base of the respondent and should be managed by both parties in such a manner that avoids material concentrations. NBB believes that it is not appropriate to aggregate these credit instruments with loan participations, agent fed funds, EBA account balances, deposit account balances protected by FDIC insurance coverage and stock investments in the correspondent. We do acknowledge that principal fed funds and deposits in excess of insurance levels should be subject to an appropriate concentration threshold. We further indicate that our institution commonly and frequently competes with TBTF correspondent providers that have a standard practice of purchasing respondent excess liquidity on a principal basis "only" and do not offer diversified (as agent) fed fund alternatives. Our institution offers both principal and agent options to our respondents as a credit risk mitigation tool. Should the guidance be implemented we strongly encourage the creation of some mechanism that neutralizes TBTF behaviors that are a direct consequence of their implicit endorsement.

Direct/Indirect Lending – Loan Participations

The proposed guidance included background language that suggested, but did not specifically state, that "credit exposures may include direct and indirect loans (including participations and syndications)." We are troubled by the apparent lack of clarity concerning what we consider to be a critical topic. NBB requests that you clarify your position on this element and recommend that the clarification include an acknowledgement that loan participations would not be included as a credit obligation by the respondent to the correspondent. We have concerns about the potential inclusion of loan participations in a credit exposure calculation. Loan participations must be underwritten and independently approved by the purchaser. They must be sold without recourse in order to satisfy regulatory and accounting rules relating to the transfer of credit risk associated with the asset. While it is reasonable to expect that a purchaser of a participation would desire to have a comfort level with the underwriting and/or loan administrative capabilities of the correspondent, we do not believe it is reasonable or appropriate to represent this pass-through transaction as credit exposure to an

intermediary seller of an indirect loan participation. We urge the Board to specifically exclude loan participations from the aggregate credit exposure calculation and any related monitoring requirements where the credit risk is to a borrowing entity that is not the correspondent bank.

Concentration Calculations and Thresholds

The proposed guidance requires respondent banks to establish processes for identifying aggregate (credit and funding exposure) concentrations at a correspondent as well as accounting for any similar exposures to an affiliate of the correspondent. We are deeply concerned that the proposed guidance will result in yet another regulatory layer of unnecessarily complex and excessive data gathering burdens that will be frequently misunderstood and unevenly applied by all stakeholders.

With regard to threshold the guidance states that regulators would generally consider aggregate credit exposures greater than 25% of a respondent bank's tier-1 leverage capital to represent a concentration. There is however, no industry established measure for estimating a funding related concentration. NBB believes that liability related elements differ structurally from credit based exposures making it unreasonable and functionally inappropriate to arbitrarily comingle them into the credit risk equation.

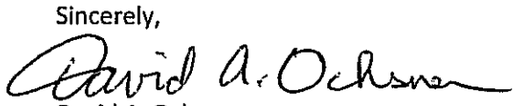
NBB is supportive of language in the guidance that "reaffirms" the respondent's obligation to insure that "prudent correspondent concentration limits, as well as ranges or tolerances for each factor are being monitored". We are pleased to note that the proposal addresses these measures as "guiding principles" and not as quantitative caps. Our organization is however, alert to the probability that these measures could migrate from guiding principles into standard enforcement requirements at the sole discretion of any given examination body or team. This would result in additional uneven application of the guidance. We strongly recommend that the Board clarify in any final guidance how these measures will be applied with respect to the examination process. We strongly urge you to formally define these as potential indicators of increased risk and not as "bright line" caps on risk.

CONCLUDING COMMENTS

NBB is very concerned by and aware of the serious financial system difficulties that are currently present in the industry. We concur that "sound and effective" risk management practices, whether they be credit related or focused on some other relevant element is an important part of our business operations. It is important to remember however that very recent history has proven that excessive reliance on unproven and ultimately ineffective "quantitative" risk measurement mechanisms can be an invitation to disaster. We recommend and encourage a "balanced approach" to correspondent credit risk management that values intuitive knowledge and experience as opposed to an over-weighted reliance on rigid and burdensome quantitative tools.

NBB appreciates your prompt attention to this request. If you have any questions, please contact me by telephone at 402-476-1131 or email at davido@nebraskabankersbank.com.

Sincerely,



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