

From: Bankers Bank of the West, James H. Echtermeyer
Subject: Reserve Requirements

Comments:

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

Subject: Establishment of limited-purpose accounts at the Federal Reserve for the maintenance of excess balances as defined in Regulation D.

Bankers' Bank of the West (BBW) appreciates the opportunity to comment on the Federal Reserve's (Fed) proposal to establish excess balance accounts (EBAs) that allow eligible institutions to authorize another institution (EBA Agent) to manage excess balances on their behalf. BBW is one of 20 commercial bankers' banks and provides a wide range of correspondent banking services to nearly 400 community banks. BBW supports the proposed changes to Regulation D to establish EBAs. When the fed funds market is trading below target rates, EBAs will provide community banks that have excess funds an efficient and low-risk option for obtaining rates that are at a minimum equal to the "floor" rate established by the Fed's interest on reserve program. Also, EBAs will preserve agent fed funds pools as a funding source for all banks.

BBW acts as a fed funds agent for roughly 300 community banks. By aggregating the excess funds of its respondent bank customers, BBW gains efficiencies, obtains better rates for its respondent banks, and helps its customers diversify the sales of fed funds to large upstream banks thereby reducing credit risk. In addition, the support of bankers' banks also allows community banks to compete with the large complex banking organizations. The establishment of EBAs would stabilize fed funds pools as funding sources for correspondent banks and provide a safe, competitive alternative for respondent banks' excess funds. These outcomes provide support for community banks and healthy competition within the industry.

While the Notice of proposed rulemaking request for comment (Notice) details the EBA program, it also raises questions that should be addressed before the program's release:

- 1) Does each EBA participant have to open an account or simply designate an EBA Agent?
- 2) The Notice states a participant may only authorize one institution as an EBA agent. Many banks utilize more than one correspondent to purchase and sell federal funds in order to obtain better rates, diversify risk exposure, and for liquidity contingency planning purposes. For these reasons, EBA participants should be allowed to use more than one EBA agent.
- 3) What record keeping and reporting will be required of the EBA agent to track and/or report the activity of EBA participants?
- 4) Will there be restrictions around what time of day an EBA agent will be required or allowed to remove excess balances from an EBA?

5) Will the Federal Reserve provide standard agreement(s) within its operating circulars for electing participation in the EBA program and appointing EBA agents?

6) If more normal market conditions resume prior to finalizing the proposed rule changes, will the EBA program be continued in preparation for (or anticipation of) future abnormal market conditions?

BBW supports the Fed's proposed changes to Regulation D on the belief that the proposed change will enhance the tools available to the Fed for conducting monetary policy, establish confidence in the banking industry, and support community banks. If you have questions, I can be reached at 303-291-3700.

Sincerely,
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