

C U N A

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March 2, 2009

Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th St & Constitution Ave, NW
Washington, DC 20551

Re: Docket No. R-1350, Proposed Amendments to Regulation D Regarding
Excess Balance Accounts

Dear Ms. Johnson:

The Credit Union National Association (C U N A) appreciates the opportunity to comment on the proposed amendments to Regulation D, Reserve Requirements of Depository Institutions. The proposal, which appeared in the Federal Register on January 30, 2009, would authorize the establishment of limited-purpose "excess balance accounts" (E B A's) at Federal Reserve Banks. By way of background, C U N A is the largest credit union trade organization in this country, representing approximately 90 percent of our nation's 8,100 state and federal credit unions, which serve approximately 93 million members.

Background

The Financial Services Regulatory Relief Act of 2006 authorized Reserve Banks—beginning in 2011—to pay earnings on balances maintained at the Reserve Banks by or on behalf of depository institutions. The Emergency Economic Stabilization Act of 2008 accelerated the effective date of the Reserve Banks' authority to October of 2008.

Last October, the Board published an interim final rule amending Regulation D to direct the Reserve Banks to pay interest on balances they held to satisfy required reserve balances and balances held in excess of required reserve balances. The current interest rate on both of these balances is .25 percent.

Regulation D requires a depository institution to maintain reserves in its vault in the form of cash or in the form of a balance in an account at a Reserve Bank. Many depository institutions use a pass-through correspondent to maintain reserve accounts at a Reserve Bank.

Depository institutions with balances in excess of reserve requirements can direct their correspondent to sell the excess balance in the federal funds market or to hold such excess balances in the correspondent's account at a Reserve Bank. Depository institutions can receive a higher interest rate on funds held at Reserve Banks (.25 percent) than if those funds were sold in the federal funds market (.19 percent). However, the leverage ratio of correspondents holding such funds at Reserve Banks is adversely affected since the correspondent must book the funds as a liability. Conversely, selling such funds in the federal funds market has positive implications for the correspondent's balance sheet. Thus, depository institutions prefer such funds to be held while correspondents prefer they be sold.

Proposed Amendments to Regulation D

C U N A fully supports the Board's proposed amendments to Regulation D, which would authorize eligible depository institutions to establish limited purpose EBAs with correspondents at Reserve Banks. The proposal would have the benefits of allowing eligible institutions to earn higher returns than if excess balances were sold in the federal funds market, and of not disrupting the business relationships those institutions have with their correspondents. As proposed, excess funds held in E B A's with correspondents at Reserve Banks would be booked as liabilities to the depository institutions and not of the correspondents; therefore not adversely affecting the correspondents' leverage ratio. However, we understand that this may present some accounting issues which we encourage the Board to address.

While we support the overall proposal, we are concerned with the proposed limit of one agent per E B A. As proposed, E B A participants would be required to authorize only one institution to manage its E B A (E B A agent). We ask the Board to consider broadening this provision to permit the use of multiple E B A agents if desired by the participating depository institution.

C U N A believes the Board's proposal would benefit depository institutions, correspondents, and the Federal Reserve System. The proposal calls for the Board to reevaluate E B A's when more normal market functioning resumes; at such time C U N A encourages the Board to strongly consider continuation of E B A's if a final rule on this proposal is adopted.

Thank you for the opportunity to express our views on this important proposal. If you have questions about our letter, please do not hesitate to give Senior Vice

President and Deputy General Counsel Mary Dunn or me a call at 2 0 2-5 0 8-6 7 4 3.

Sincerely, signed

Luke Martone
Regulatory Research Counsel