TheBankersBank
YOUR CORRESPONDENT BANK

Don Abernathy, Jr., President

February 23, 2009

Jennifer J. Johnson, Secretary
Board of Governors
Federal Reserve System
20th Street & Constitution Avenue, NW
Washington D.C. 20551

SUBJECT: **Proposed Amendments to Regulation D, Docket No. R-1350**
Establishment of Limited Purpose Accounts

Dear Ms. Johnson:

The Bankers Bank, an Oklahoma state bank ("TBB"), appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System (the Board) proposal to amend Regulation D, authorizing establishment of limited purpose accounts referred to in the proposed rule as "Excess Balance Accounts" (EBAs). These EBAs would allow eligible institutions to earn interest without disrupting established business relationships with their correspondents.

TBB provides a wide range of correspondent services to over 270 state and national community banks located in Oklahoma, Texas and Missouri. TBB is grateful of the Board's attention to the unintended consequences associated with the acceleration of the payment of interest at short-term market rates on required and excess reserves.

Currently under Regulation D, the balance in a pass-through account at a Reserve Bank of a bank that has correspondent relationships with other banks is deemed to be the property of the pass-through correspondent exclusively. Such account balance represents a liability of the Reserve Bank solely to the pass-through correspondent, regardless of whether the funds represent the required reserve balances of another institution which were passed through the correspondent. As a result, the pass-through correspondent must show the entire balance in its Reserve Bank account on its own balance sheet as an asset, even if the balance consists in whole or in part of amounts that are passed through on behalf of its respondents. This causes the correspondent to hold more assets on its balance sheet, which in turn lowers its leverage ratio for capital adequacy purposes.

While many if not most respondent banks have chosen federal funds as their preferred excess balance investment vehicle in the past, disturbances of late have reduced the appeal of this option for correspondents and their customer banks. Since the inception of interest payments on excess balances in October 2008, the actual federal funds rate has averaged significantly below the interest rate paid by the Reserve Banks on excess balances. While such volatility and relative rate conditions persist, respondents are incentivized to shift investment of their surplus funds away from federal funds sales (through their correspondents as agents), and to direct correspondents to hold increasing portions of respondents' liquidity in excess balances with the Reserve Banks. These conditions strain established correspondent-respondent relationships due to the greater capital cost imposed on correspondents.

Under the *proposed rule*, the excess balances of EBA participants in EBAs would be the liability of the Reserve Banks directly to the EBA participants, thus permitting the economic effect of Reserve Bank account ownership to pass "through", instead of "to," the correspondent. This arrangement cannot be objectionable to respondents, mitigates the leverage ratio pressures at for correspondents and in certain respects advances the monetary policy objectives of the Board.

Therefore, TBB fully supports the proposed rule establishing Excess Balance Accounts, as an additional tool for banks to manage their risks during federal fund market dislocations, without hamstringing correspondent banks' efforts to continue serving the crucial liquidity needs of their respondent bank customers.

Respectfully,

Don Abernathy

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