

From: Bankers Bank Northeast , Peter J. Sposito
Subject: Correspondent Concentration Risks

Comments:

Jennifer J. Johnson, Secretary

Board of Governors of the Federal Reserve System

Relative to the proposed correspondent concentration risk guidance, Bankers' Bank Northeast supports the need for clear procedures for measuring, monitoring and controlling risk when utilizing bank-to-bank services. Such controls are vital to the community banking industry and to its individual institutions. Bankers' Bank Northeast, however, has some concerns regarding the proposed guidance:

- 1) We are concerned that strict adherence to the proposed guidelines will result in confusion or conflict with Regulation F. In our opinion changes to Regulation F should be considered as opposed to issuing guidance that may be viewed as the new standard for correspondent concentrations even if the correspondent bank is well capitalized and well managed.
- 2) The Bankers' Bank Northeast is also concerned that the proposed guidance may impact bankers' banks more significantly than large, national banks that offer correspondent banking services. It is important in our opinion that any final guidance be uniformly applied to all financial institutions including the largest banks. A respondent bank will likely reference the "too-big-to-fail" concept when choosing a correspondent. The proposed guidance should allow for a respondent to select a correspondent bank that meets the mandates for Regulation F. It should be noted that the correspondent banking arena has very few participants in modern day banking. The largest banks have consolidated over the years to a point where the competitive environment has been decimated. True bankers' banks; i.e. correspondent banks that are owned by community banks are well positioned to service their client banks without creating systemic risk.
- 3) Loan participations that are initiated by a respondent bank and sold "upstream" to the correspondent carry a reasonable level of risk. Loan participations that are originated in large amounts by the correspondent bank and sold "downstream" cause a significantly larger systemic risk. Regulations should differentiate between the two categories of risk.
- 4) Correspondent concentration risk is an important aspect of bank to bank services. To avoid potential unintended consequences a longer comment period should be allowed and new guidance should be tempered with a sunset provision so that unforeseen negative impacts to respondents and/or correspondents can be addressed without having to start the guidance codification all over again.

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