

From: Bankers Bank of the West, William A. Mitchell Jr.  
Subject: Funding & Liquidity Risk Management

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Comments:

September 4, 2009

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

Re: Docket No. OP-1362

Comments on Proposed Interagency Guidance Funding and Liquidity Risk Management

Dear Ms. Johnson:

Thank you for the opportunity to comment on the proposed guidance referenced above.

The guidance appears to place significant weight on diversified funding. A funding source that should be further outlined in the guidance is fed funds. Fed funds purchased and sold have for many years played a vital role in providing liquidity to banks of all sizes and should be properly discussed within the guidance. In particular, clarification should be provided that distinguishes between individual banks that purchase or sell fed funds and banks that act as a fed funds agent and make a market for fed funds.

Banks that provide correspondent banking services often act as a fed funds agent and pool the excess funds of many banks in order to provide liquidity/funding for themselves and other banks. These individual fed funds pools are composed of excess funds from hundreds of large and small banks of varying characteristics. Banks that sell fed funds to an agent fed funds pool are diversified in many ways, including geographic location, local industry, customer base, area of specialty, etc. These excess funds also have a history of stability, which can be attributed to longstanding correspondent banking relationships and services provided by correspondent banks. Accordingly, the guidance should point out that fed funds pools should not automatically be considered a single source of funding and may provide a diversified source of funding.

In addition, correspondent banks often purchase large amounts of fed funds from agent fed funds pools or individually from numerous banks. These fed funds purchases should not be looked as being purchased from a single source, but from a diversified source of funding. In fact, because of their diversity, historical performance, and stability, this funding sources characteristics are very similar to traditional deposits.

In summary, proper consideration and analysis should be performed before correspondent banks are criticized for utilizing fed funds purchased as a source of funding.

Sincerely,

William A. Mitchell Jr.  
Bankers' Bank of the West