TheBankersBank
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MEMBER FEDERAL RESERVE SYSTEM • MEMBER F.D.I.C.

February 1, 2010

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

SUBJECT: Docket No. R-1381 – Comment on Proposed Amendment to Regulation D to Authorize Establishment of Term Deposits

Dear Ms. Johnson:

The Bankers Bank ("TBB") is an Oklahoma state chartered institution. Our main office is in Oklahoma City. TBB is owned by nearly 100 community banks, and our only business is serving over 300 community banks across Oklahoma, Texas, Tennessee and Missouri. In turn, our customers' business is to serve families and individuals, and the small businesses they own and work for.

Our customer community banks operate the "old fashioned" way: by taking deposits and collections, and making loans. But, increasingly of late, community banks also labor under a growing regulatory burden that is insensitive to the disparate operational realities between smaller institutions and large investment banks. TBB (like its colleague bankers' banks) supports its customer community banks by, in gist, assembling inventories of "excess capacity," be they liquidity sources, or services and technology useful to efficient, regulatorily compliant bank operations, and then making them available to community banks according to their needs, but at lower cost than each could obtain on its own. This allows community banks to achieve the economies of scale, and access to the advanced products and services that would otherwise be reserved to money-center institutions and investment banks, from a correspondent that is not also a market competitor. In short, bankers' banks help to level the competitive playing field.

TBB appreciates the opportunity to comment on the referenced Federal Reserve Board ("FRB") proposal, the stated purpose of which is to assist in managing aggregate reserve balances within the conduct of FRB monetary policy, by permitting institutions eligible to receive earnings on their account balances at Federal Reserve Banks to hold term deposits at a rate not exceeding the general level of short-term interest rates ("the Proposal"). While the intent is undoubtedly salutary, TBB strenuously objects to the Proposal in its present form, for the reasons explained below.

I. OBJECTIONABLE FEATURES OF THE CURRENT PROPOSAL.

A. Disproportionate Advantage to Largest Banks. Ostensibly to stage a controlled run-off of excess deposit balances, FRB's Proposal would offer a term deposit, at higher interest rates than currently offered on immediately-withdrawable funds in Excess Balance Accounts ("EBAs"). Leaving aside for now the questionable logic that offering a higher rate on fixed-term deposits will encourage the reduction of deposit balances, the public is aware that the largest excess deposits at Federal Reserve Banks are held for the nation's mega-sized investment banks. These institutions already have the advantage of TBTF, and preferential TARP funding.[1] The Proposal offers no reason to grant the further favor of allowing them to hoard that cash at higher interest rates in the contemplated term deposits.

B. Procedural Foreclosure to Smaller Banks. As now proposed, a bank desiring to participate in the term deposit auction must act for itself. Thus, for example, a bankers' bank or other correspondent may not serve as agent to aggregate and place its respondents' funds in term deposits at Federal Reserve Banks. We respectfully note an inconsistency between that restriction, and FRB's ruling pursuant to existing Reg. D that a correspondent may act as agent for placing its respondents' funds in EBAs.[2] Though TBB whole-heartedly embraces the premise that any eligible bank should be allowed to participate directly in such auctions if it so chooses, we see no legitimate basis on which to preclude correspondents' participation as agents for respondents, at the latter's option. It is TBB's experience that community banks keep their staffs relatively lean, and the smaller-but-steady returns on their traditional lending encourage keeping their capital loaned out, consequently their excess balances are relatively low. These factors combine to offer little economic justification for community banks to devote the time and resources necessary for meaningful, informed participation in the auction process. By contrast, large investment banks have both the in-house capabilities, and the motivating glut of excess reserves, to dominate every auction.

C. Adverse to Economic Recovery. Under the Proposal, funds invested in term deposits would no longer be classified as reserves. While it is true that such recharacterization would present the appearance that reserve balances are declining, FRB has not explained how its proposed new instrument will produce an actual reduction in excess reserves. Indeed, logic suggests to the contrary: that the proposed term deposit,

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1 Some have also received public funds indirectly, as counterparties to AIG-insured transactions.

2 We renew Point 4 stated in our prior comment dated October 23, 2009 on Docket No. OP-1369, as to the Federal Reserve Bank's unduly restrictive procedural requirement that a respondent may appoint only one correspondent as its agent for placing its funds in EBAs. For the reasons stated there, this unnecessary restriction encourages respondents to concentrate their deposit relationships with a single correspondent.

which will freeze a bank's idle cash for periods of 30 – 365 days, and return the applicable term's market interest rate with the added fillip of being default-riskless, seems to incentivize institutions to hold more funds idle, rather than make new loans.

D. Regulator as Market Competitor. TBB acknowledges the tremendous pressure on FRB (at all times but especially in the present environment of financial upheaval) to perform its market stabilizing duties, and its need for as many tools as possible to conduct monetary policy. Nevertheless, as now proposed, 30-356 term deposits are not fairly described as mere monetary policy tools: they would be investment alternatives that compete directly with those offered by private-sector banks (such as certificates of deposit, federal fund pools, and commercial paper), not to mention by would-be borrowers.

II. RECOMMENDATIONS.

Lawmakers will soon consider imposing a new tax on the largest investment banks, to restore some part of what they have lately cost the Treasury, and the American people as a whole. With all due respect, the instant Proposal will take some of the sting out of any such tax, by once again having only the largest banks enjoy a publicly-funded rate subsidy, all 100% backed by Government's full faith and credit. However, if FRB is intent on moving forward with the Proposal, TBB respectfully offers the following recommendations to mitigate the presumably unintentional negative consequences outlined above:

1. Facilitate Full Participation by Any Eligible Bank. Allow bankers banks and other correspondents to act as agents for their eligible respondents, so they may aggregate their relatively small excess deposits for placement in term deposits. This would not only mitigate the current Proposal's inherent bias in favor of larger institutions, but promote FRB's stated objective to transition more excess deposits into the term deposit vehicle.

2. Limit Maximum Term of Deposits to 180 Days. To the extent FRB believes that the establishment of non-withdrawable term deposits will effect a run-off of excess deposits, setting a maximum term of 180 days will mitigate the adverse impact of keeping those funds out of productive use in the economy, as well as reduce the unfairly competitive aspect associated with the agency's exclusive ability to offer a cost-free, default-riskless, interest-bearing investment.

3. Pricing. Consistent with the preceding recommendation, and in recognition of the plain truth that the proposed term deposit is a financial product that competes with private sector offerings, PSAF rules should be applied to its pricing within the envisioned auction procedure.

4. Provide an Express Program Sunset Date. For the reasons discussed in Section I above, TBB respectfully opposes the Proposal in its entirety. However, if FRB's objective in creating this monetary tool was to drain the liquidity which was an unintended consequence of recent massive efforts to stabilize the economy, the program should end as soon as the economic environment is no longer critical.

Thank you for your attention.

Sincerely,

/s/ Don R. Abernathy, Jr.

Don R. Abernathy, Jr.
President