From: Century Bank, Bryan J Chippeaux

Subject: Reg D, Q, & DD

Comments:

Date: Apr 15, 2011

Proposal: Regulation D, Q, and DD - Prohibition Against Payment of Interest on Demand Deposits
Document ID: R-1413
Document Version: 1
Release Date: 04/06/2011
Name: Bryan J Chippeaux
Affiliation: Century Bank
Category of Affiliation: Commercial
Address:
City:
State:
Country: UNITED STATES
Zip:
PostalCode:

Comments:
To Whom It May Concern: Thank you for the opportunity to comment on the Federal Reserve Board's request for public comment regarding proposed amendments that would repeal Regulation Q, Prohibition of Interest on Demand Deposits, effective July 21, 2011. We are a New Mexico community bank serving Santa Fe, Espanola, Albuquerque and Las Cruces. We believe that the repeal of Regulation Q will have a negative impact with respect to our balance sheet, our profitability, and short-term funding markets (and the costs associated with accessing these markets). It will also result in a competitive disadvantage for our bank. Balance Sheet and Profitability The repeal of Regulation Q will result in a change in balance sheet management and reduced profitability for our bank regardless of whether we opt to (or not) pay interest on commercial demand deposit accounts. Commercial demand deposit accounts are a significant component of our core deposit base, which is a significant funding source for our loans. If we opt to pay interest on these deposit accounts, our interest expense will increase. If we do not opt to pay interest on these deposit accounts, we will have the potential to lose a significant amount of these deposits to other financial institutions that do. This will result in a need to access other funding sources that have borrowing costs. In either case, our interest expense will increase. The end result is a compressed net interest margin and lower profits. Additionally, over time, we may be forced to modify the size of our bank to deal with the reduced margin. If we shrink in size, this will result in fewer loans, less employees and a reduced ability to serve the credit needs of our communities. If we increase in size, it will require additional loans to make up for the decreased margin per loan. This will add additional underwriting risks. Short-Term Funding Markets The demand for short-term funding markets, such as the overnight federal funds market or Federal Home Loan Bank borrowings, will likely increase with the repeal of Regulation Q. Increased demand will result in higher costs for those who

access these markets to borrow. Should we have to increase our access to short-term funding markets, we will likely have higher borrowing costs. This will also have a negative impact on our profitability. Competitive Disadvantage Larger financial institutions, by their very structure, are more efficient and have lower operating costs than community banks. They also have more dollars to spend on technology and innovation. As such, larger financial institutions will likely be able to adapt to this change at a lower cost relative to smaller financial institutions. In a time where financial institutions' earnings are already challenged by a fragile economy and regulatory changes that have impacted income (related to overdraft protection services and will likely impact debit card interchange fee income) and expenses (to implement current and forthcoming regulations), we feel the repeal of Regulation Q will add to the profitability challenges for smaller financial institutions and ultimately result in fewer smaller financial institutions. Smaller financial institutions have a solid track record for serving the communities in which they operate; this is not always the case for larger financial institutions. Sincerely,

Bryan "Chip" J. Chippeaux Chairman Century Bank