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

Delivery via Federal eRulemaking Portal: http://www.regulations.gov

Re: Prohibition Against Payment of Interest on Demand Deposits; Docket No. R-1413; RIN No. 7100-AD72

Dear Ms. Johnson:

The Independent Bankers Association of Texas (IBAT), a trade association representing approximately 500 independent community banks domiciled in Texas, offers these comments on the proposed repeal of Regulation Q (Reg. Q).

All members of IBAT take corporate deposits and are affected by the repeal. **We urge the Federal Reserve Board to delay the implementation of the repeal of Regulation Q for up to one year while the Federal Reserve studies its real impact on the safety and soundness of our financial institutions and its impact on local economies**. Such a delay would also afford Congress time to revisit the issue and create a viable alternative without the draconian effects of Regulation Q repeal.

Inserted in conference committee in the 11th hour of House and Senate negotiations of the 2010 Dodd-Frank bill, this repeal was never debated or heard by House or Senate committees. Bank regulators, including the Federal Reserve, have cautioned about the potential devastating effects the repeal might have on the safety and soundness of our nation's community banks.

On its surface, it might appear that the repeal of this 77 year old prohibition, scheduled for July 2011, is a positive for small businesses when, in fact, this repeal will stifle credit availability to small business and increase the cost of credit. Such interest bearing accounts would be subject to a 10% reserve requirement by all institutions, thus, freezing important capital that might otherwise be available for lending. Additionally, as rates begin to rise over time, financial institutions will find it necessary to pass along their increased costs in the overall cost of the credit to small business and commercial customers. Such variable funding costs will make it all the more difficult to provide fixed rate commercial loans.

Perhaps most importantly, we believe that a repeal of Regulation Q would have a devastating competitive effect on community banks. The prohibition was put into place for a reason—to provide a stable source of reliable funding for our nation's banks. Too big to fail banks, which have largely funded themselves with off balance sheet sources to avoid FDIC insurance premiums, are likely to look at this as an opportunity to "buy" domestic deposits, robbing local communities of needed capital to fund important rural, suburban and urban projects.

Furthermore, once corporate accounts are converted to interest bearing accounts, these deposits will no longer be covered under the FDIC's Transaction Account Guarantee (TAG) fund that provides unlimited deposit insurance coverage for non-interest bearing transaction accounts. The TAG was established to provide some level of parity for community banks which must compete with too big to fail banks.

Additionally, we are currently working on legislation that would provide for a delay of Regulation Q repeal and provide a long-term solution that would accomplish both bank and business customer objectives. We believe the Federal Reserve can support this idea. Reinstate Regulation Q and amend Regulation D which would allow depository institutions to make available additional opportunities for commercial customers to sweep funds from their non-interest accounts to interest bearing accounts. Currently there is a limitation on the number of sweeps customers can authorize per month (six). We suggest that up to 24 sweeps (one per business day) be authorized.

To reiterate, we respectfully request that efforts to implement the repeal of this long standing prohibition be delayed one year or more while the Federal Reserve studies its real impact on the safety and soundness of our financial institutions, and to allow Congress to hold meaningful hearings and consider alternative solutions.

We appreciate your careful consideration, and the opportunity to comment.

Cordially,

Sincerely,

Christopher L. Williston

Christopher L. Williston, CAE
President and CEO