



The Bankers' Bank of Kentucky

P.O. Box 713, Frankfort, KY 40602-0713

The Correspondent

<i>Inside....</i>	
▶ "STOP THE PRESSES!" NEWS	2
▶ NEW RELATIONSHIPS.....	2
▶ STANDARD BEARERS EVENT.....	3

Correspondent Concentration Risk Management

Managing your correspondent relationships is nothing new. What *is* new is the regulators' desire to see a financial institution's complete analysis of its exposure to a correspondent. The final guidance on Correspondent Concentration Risk (the Guidance) outlines specific items for attention. It is not an amendment to Regulation F, but merely an agreed-upon set of criteria that examiners will look for in upcoming exam cycles, clarifying the extra steps beyond Reg F that financial institutions need to address in their program to identify, monitor, and mitigate correspondent concentration risk.

Based on the number of telephone calls we have received, there are a lot of questions, a lot of confusion and a lot of angst over correspondent exposure. From the sample calculations that have been published in and with the Guidance, many fear that they may have to move significant portions of their Fed Funds and/or settlement between multiple correspondent banks. For BBKY customers, *this could not be further from the truth!* Most of the sample items in the credit monitoring section of the Guidance do not apply since BBKY does not offer products such as principle Fed Funds, repurchase agreements, high due-from DDA balances, and balances or investments with affiliates.

We are currently working on a Correspondent Concentration Report that will be delivered daily to our customer banks on Dataline. This report will include your Fed Funds balance, its pro-rata percentage at agent Fed Funds banks, your DDA "due from BBKY" balance, and spaces for calculation of your overall concentration percentage based on the Guidance-recommended level of less than 25% of Tier 1 capital. Also, we have placed a copy of the Guidance, a sample policy, and instructions on how to use our new report on the members' side of our bbky.com website under "Important BBKY Info".

In the Guidance example, the respondent figures and the correspondent's business model resulted in a net exposure of close to 90% of Tier 1 capital for the respondent. We ran a calculation using one of our respondent banks who had Fed Funds investment and was a Standard Bearer stockholder (80 or more shares). The resulting percentage of the bank's concentration at BBKY was only 5%! The primary factors in this difference were: lower DDA "due-from" balances, agent Fed Funds as opposed to principle Fed Funds, and the absence of exotic investment instruments.

It is our hope that this daily report will provide each of our respondents a high level of comfort with their exposure to BBKY and also a tool to use in their overall correspondent risk management. While it is not a complete risk management program, this report is a major component of such a program and should give your auditors support in building the structure that is Correspondent Concentration Risk Management.

IN THE NEWS...

Important Alert On Canadian Checks

The Canadian Payments Association has adopted a rule where any check drawn on a Canadian Bank that is presented for payment cannot be post-dated. If a post-dated item is presented, it will be returned "Item Dishonoured" and cannot be re-cleared under *any* circumstances. The depositor will have to obtain a new check and re-deposit.

It is imperative that you verify that Canadian checks are not post-dated before you send them to BBKY, or your designated foreign service, for collection or cash-letter clearing. Remember that returned checks from Canada often carry fees up to \$70.



Prepaid VISA® Gift Cards and Travel Cards Now Available

We are proud to announce a new program to allow your customers to purchase VISA®-branded cards for use as gift cards, incentive programs, or for travel. Offering the gift card program gives your bank a desired product that takes the place of store-branded gift cards or provides your business customers with an easy way to enhance employee incentive programs. The travel card program can provide your customers with a safe alternative to cash or their existing bank credit/debit card, yet still carry the world-wide acceptance of the VISA® brand in a card that is reloadable on a daily basis during their trip. Both programs provide fee income for the bank from each card load and reload (travel cards).

These two new programs are available today. Sign up and set up are easy! For complete information on the benefits of each program, both to your bank and to your customer, contact your BBKY Correspondent Officer or Lynn Ellis.

New Relationships for April-June

Bond Accounting/Safekeeping:

Bank of Edmonson County, Brownsville, KY
The Bank of Harlan, Harlan, KY
Casey County Bank, Liberty, KY
Sebree Deposit Bank, Sebree, KY
Farmers & Merchants Bank, Hutsonville, IL

Edmonton State Bank, Glasgow, KY
Citizens Bank, Hartford, KY
Jackson County Bank, McKee, KY
Cumberland Security Bank, Somerset, KY
Consolidated Bank & Trust, Richmond, VA

Dataline/Cash Letter Clearing:

Community Bank, Lexington, TN

Sallie Mae Student Loan Program:

Town Square Bank, Ashland, KY
Citizens National Bank, Paintsville, KY

RapidClear Image Cash Letter:

Farmers Bank, Milton, KY
Town & Country Bank, Bardstown, KY

New DDA/FF Relationship

Commercial Bank, West Liberty, KY



The Bankers' Bank of Kentucky

2010

Standard Bearers Event

Thursday, September 16

&

Friday, September 17

Belterra Resort & Spa

777 Belterra Drive

Florence, Indiana 47020

Website

www.beltterracasino.com

Invitations will be delivered soon.



Not a Standard Bearer?

Contact your BBKY Correspondent Officer for information on the many benefits of the Standard Bearer stock ownership level.

Helpful Fax Numbers

Operations: 502-695-0638

Wire Room: 502-848-5739

Loan Dept.: 502-695-8273

Administration: 502-695-0221

BBKY Birthdays and Anniversaries For April-June

Happy Birthday...

Ashley Ronca
Dan Hughes

Velta Riddle
Lynn Ellis

Happy Anniversary...

Jeanne Hellard	2 years of service
Sara Hughes	3 years of service
Thomas McCrosky	4 years of service
Beth Miller	4 years of service
Darlene Tipton	5 years of service
Todd Beers	6 years of service
Janice Smoot	12 years of service
Velta Riddle	13 years of service
Dede Johnson	16 years of service
Lynn Ellis	21 years of service
Bill Fallon	22 years of service

