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MID-SIZE BANK COALITION OF AMERICA

February 15, 2011

David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, NW
Washington, DC 20581

Regarding: RIN 3038-AD10; End-User Exception to Mandatory Clearing of Swaps

Dear Secretary Stawick,

This comment letter is being submitted pursuant to RIN 3038-AD10: End-User Exception to Mandatory Clearing of Swaps ("Proposed Rule"). We appreciate the opportunity to comment on the Proposed Rule and have several suggestions which we believe deserve consideration.

The Midsize Bank Coalition of America (MBCA) is a group of 22 US banks formed for the purpose of providing the perspectives of midsize banks on financial regulatory reform to regulators and legislators. The 22 institutions that comprise the MBCA operate more than 3,300 branches in 41 states, Washington D.C. and three U.S. territories. Our combined assets exceed $322 billion (ranging in size from $7 to $25 billion) and, together, we employ approximately 60,000 people. Member institutions hold nearly $241 billion in deposits and total loans of more than $195 billion.

1. <u>Consideration of a Clearing Exception for Small Banks, Savings Associations, Farm Credit System Institutions and Credit Unions</u>

The Dodd-Frank Act requires the Commodity Futures Trading Commission ("CFTC") to consider whether to except small banks, savings associations, Farm Credit System institutions and credit unions ("Small Financial Institutions") from the definition of "financial entity." This exception would permit Small Financial Institutions to rely upon the end-user exception from the mandatory

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phone: (310) 888-6080

clearing requirement for swaps. We strongly urge the CFTC to grant this exception.

Small Financial Institutions participate in the swaps markets for purposes of hedging interest rate risk on their balance sheets and offering swaps in connection with loans as a means to deliver long-term fixed rate financing to commercial borrowers. Swaps represent important tools for all banks since they enable institutions to accommodate unique customer preferences and hedge risks on products that they would not otherwise be able offer due to interest rate risk management constraints.

Proper credit risk management of swap positions is essential for ensuring the stability of the financial markets and controlling systemic risk. In that regard, it is important to recognize that many smaller financial institutions currently employ mutual collateral margining arrangements for credit risk mitigation. This practice effectively accomplishes the same objective as central clearing.

The requirement by Congress for the CFTC to consider making an exception for Small Financial Institutions suggests that legislators recognized the challenges that these institutions will face in a mandatory clearing environment. Central clearing will make the hedging process unnecessarily complex and expensive for Small Financial Institutions. These institutions enter into swaps that are based on smaller notional amounts and with less frequency than larger banks. Clearing services are priced on a volume basis. The time and expense required to set up a clearing relationship, coupled with smaller transaction volume, will make clearing very expensive and discourage Small Financial Institutions from using swaps to hedge their risks. This will lead to unintended consequences for the overall economy as Small Financial Institutions will be forced to limit their product offerings and restrict certain lending activities.

The Dodd-Frank Act states that the CFTC will decide whether to except Small Financial Institutions from the definition of "financial entity." We strongly urge the CFTC to grant this exception thereby enabling these institutions to use the end-user exception from the mandatory clearing requirement for swaps. Furthermore, we believe the appropriate threshold for qualifying for this exception should be institutions with total assets of $50 billion or less.[1]

We further recommend that Small Financial Institutions continue to use mutual collateral margining arrangements with their swap counterparties as a more cost-efficient approach for mitigating credit risk of swap transactions. As mentioned earlier, these arrangements are used effectively today by many market participants.

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[1] We note that the Dodd-Frank Act applies a $50 billion asset threshold for, among other things, determining which institutions are systemically important and should be subject to enhanced prudential standards.

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We believe that our recommended approach reflects appropriate safety and soundness standards while avoiding the adverse consequences for job creation and overall economic activity that would likely result if Small Financial Institutions with total assets of $50 billion or less were not excepted from the mandatory clearing requirements.

We thank you again for the opportunity to comment on the Proposed Rule and appreciate your willingness to consider our suggestions.

Yours Truly,

Russell Goldsmith
Chairman, Midsize Bank Coalition of America
Chairman and CEO, City National Bank

cc: Mr. Jack Barnes, People's United Bank
Mr. William Cooper, TCF Financial Corp.
Mr. Raymond Davis, Umpqua Bank
Mr. Dick Evans, Frost National Bank
Mr. Philip Flynn, Associated Bank
Mr. Paul Greig, FirstMerit Corp.
Mr. Richard Hickson, Trustmark Corp.
Mr. Peter Ho, Bank of Hawaii
Mr. John Hope, Whitney Holding Corp.
Mr. Don Horner, First Hawaii Bank
Mr. John Ikard, FirstBank Holding Company
Mr. Bob Jones, Old National
Mr. Bryan Jordan, First Horizon National Corp.
Mr. David Kemper, Commerce Bancshares, Inc.
Mr. Mariner Kemper, UMB Financial Corp.
Mr. Gerald Lipkin, Valley National Bank
Mr. Steven Raney, Raymond James Bank
Mr. Larry Richman, The Private Bank
Mr. James Smith, Webster Bank
Mr. Scott Smith, Fulton Financial Corp.
Mr. Ken Wilcox, Silicon Valley Bank
Mr. Michael Cahill, Esq., City National Bank
Mr. Brent Tjarks, City National Bank

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701 8th Street, N.W. Suite 700 | Washington, D.C. | 20001
phone: (310) 888-6080

Mr. Kevin Cops, City National Bank

Mr. Mark Siegel, Locke Lord Bissell & Liddell
Richard Alexander, Esq., Arnold & Porter LLP
Andrew Shipe, Esq., Arnold & Porter LLP