

May 8, 2012

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

Re: Cost-Benefit Analysis Related to Potential Exclusion for Small Financial Institutions from Financial Entity Definition [End-User Exception to Mandatory Clearing of Swaps (17 CFR Part 39; RIN 3038-AD10)]

Dear Mr. Stawick:

Chatham Financial (“Chatham”) is pleased to offer information to the Commodity Futures Trading Commission (“the Commission”) regarding the estimated costs that may be incurred by certain financial institutions related to their compliance with the mandatory clearing requirement under Title VII of the Dodd-Frank Act (“Title VII”).

Chatham is a consulting firm serving more than 1,000 end users from virtually all business sectors which use derivatives primarily to hedge risk. We assist our clients with all aspects of the hedging process, from risk analysis, trade structuring and execution to valuation, accounting and regulatory compliance. Chatham works with more than 80 community and regional banks across the country. These banks generally use interest rate derivatives to hedge balance sheet risk and, in many cases, offer swaps to variable-rate borrowers in connection with loans they have originated with those borrowers. These financial institutions would each be classified as a so-called “financial entity” under Title VII, unless the Commission decides to exclude them from the financial entity definition pursuant to the authority granted in Section 723 of Title VII.

Under the mandatory clearing requirement in Title VII, all financial entities would be required to submit certain derivative trades entered into with other financial entities for central clearing at a regulated derivatives clearing organization (“DCO”). This would require these financial institutions to enter into new business relationships with at least one regulated futures commission merchant (“FCM”), a firm that would act as agent for the financial institution and serve as an intermediary throughout the process of clearing their derivative trades. Over the past two years, Chatham has been in regular contact with several FCMs regarding the services they would provide to these clients and the estimated

costs related to those services. Based on what we have learned throughout this process, we submit the following cost estimates for the Commission's consideration:

- We estimate that a small financial institution would spend a minimum of between \$75,000 and \$125,000 annually on fees paid to each FCM with which it seeks to enter into a clearing relationship.
- We estimate that a small financial institution would spend between \$2,500 and \$25,000 in legal fees related to reviewing and negotiating clearing-related documentation.

We note that these are not the only costs that would be incurred by such financial institutions related to compliance with the mandatory clearing requirement under Title VII. They would have to pay additional fees that are charged by the DCOs and passed on by the FCMs. Also, management and staff at these financial institutions would have to spend time preparing for the central clearing requirement, including evaluating clearing members, managing the daily margin call process and/or enhancing systems or hiring advisors to assist in doing so. We encourage the Commission to solicit feedback from small financial institutions regarding cost estimates related to the central clearing requirement.

Chatham supports an exemption for small financial institutions similar to that which was included in the text of H.R. 3336, the Small Business Credit Availability Act, which passed the U.S. House of Representatives on April 25, 2012. Requiring small financial institutions to clear would pose a cost to the system that exceeds the potential benefits gained by subjecting small financial institutions to the clearing mandate. Conversely, the benefits of an exemption for small financial institutions, if drafted appropriately, would outweigh the potential costs associated with such an exemption. For more information regarding the merits of a small bank exemption, we direct the Commission to the comment letter submitted by several of Chatham's clients on February 22, 2011 (see comment no. 27975).

We appreciate the steps taken by the Commission to consider the costs and benefits associated with the mandatory clearing requirement and the permissive exclusion for small financial institutions from the financial entity definition. We thank the Commission for the opportunity to submit this information and we would be happy to answer any questions.

Respectfully submitted,



Sam Peterson
Chatham Financial