

Mellon Bank

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September 23, 1999

Paul H. Dimmick
Executive Vice President
Mellon Bank, N.A.

Ms. Cynthia L. Johnson, Director
Department of the Treasury
Cash Management Policy and Planning Division
Financial Management Service
401 14th Street, SW – Room 420
Washington, DC 20227

Re: Proposed Changes to the Interest Rate Charges on TT&L Note Balances

Dear Ms. Johnson:

Mellon Bank, N.A. welcomes this opportunity to submit comments on the Department of the Treasury, Financial Management Service's proposed revisions to its regulations governing the Treasury Tax and Loan ("TT&L") program and specifically a change to the interest rate the Treasury charges on TT&L note balances, including funds loaned through the direct investment and special direct investment programs.

Mellon Bank believes the current rate of interest, Fed Funds Effective less .25 basis points, payable on TT&L note balances appropriately reflects the economic value of overnight collateralized borrowings that are borrowed and lent on demand. We believe that likening the banking industry's participation in the TT&L program to participation in the repo market, which appears to be the implication of the proposal, is a bit of a misconception. In the repo market, transaction initiation and selection of tenor is under the control of the bank. With the TT&L program, the Treasury has control as to the timing, tenor, and amount of the deposit (subject to a ceiling, of course). Therefore, we believe the current concession rate is appropriate compensation for this call feature.

Without a concession rate or the right of refusal to accept the deposit on demand, Mellon Bank would foresee reducing its TT&L participation dramatically, since the increase in funding costs would make these balances a less attractive funding source against the necessity of maintaining an eligible collateral pool. It would be more

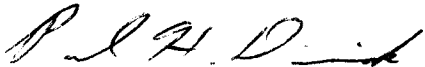
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efficient for Mellon Bank to directly manage its liquidity position via repo agreements with dealers or other market participants to fund the collateral or, alternatively, decrease its holdings of eligible collateral.

As to entertaining fixed rate term deposits, Mellon Bank would find the proposal acceptable assuming such funding were priced at market rates comparable to other collateralized term deposits and that the bank's right of refusal was clearly maintained.

Again, we appreciate the opportunity to comment on the proposal and if you have any questions regarding anything contained herein, please feel free to contact me at (412)234-8006 or Roy Hartman, head of our Bank Treasury unit at (412)234-0373.

Yours sincerely,



Paul H. Dimmick
Executive Vice President
Capital Markets

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