TT&L
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S I N C E 1 8 7 1

September 28, 1999

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

Dear Ms. Johnson:

The following letter is a response to the proposal published in the Federal Register, July 30, 1999, regarding changes to the Treasury, Tax & Loan, Direct and Special Direct Investment Programs. The Bank has been a strong proponent of these programs in the past and we are interested in providing our feedback as you are looking at making changes to these programs. The Bank is not currently a participant in any of the above programs.

A financial analysis conducted earlier this year indicated that the Bank was actually losing money by being involved in this program. The information gained from this analysis will form the basis of our recommendations for your new program. We regret that this letter may be brief and is coming to you at the 11th hour, however, we still feel compelled to submit our recommendations. Since the letter will be brief, I expect that you may wish additional information or have questions. Please feel free to contact me, via e-mail at rbaron@ncounty.net or by phone at 508.528.7000, ext. 341.

Comments about the Treasury Investment Programs

The primary flaw that the Benjamin Franklin Savings Bank discovered in performing its financial analysis of the Treasury, Tax & Loan (TT&L), and Special Direct Investment (SDI) Programs was the source used to determine the interest rate to be charged to the participating banks. The existing programs (and the new proposed program) use the New York Money Center Bank Rates to determine what interest rate will be assessed to all banks around the country. This is where the problem lies for banks that are outside of New York City area.

From my previous work experience for a bank that solicited savings deposits from across the country, it is normal for interest rates to vary anywhere from zero to 30 or 50 basis points from a "base region". This particular institution was located in Rhode Island and we considered the entire state to be our "base region". When the Rate Setting Committee met (to set weekly certificate of deposit rates) we found interest rates differences for the various markets we were in to be 20 to 50 (or more) basis points below our "base region". However, we also know that some regions of the country consistently had higher rates than our "base region".

What the Treasury is proposing is to use only New York Money Center rates for the Treasury's investment programs. Therefore, this may be of benefit to banks with "regional" interest rates that mirror or are higher the New York "base region": It is unlikely that banks who monitor their local investment rates will want to participate in the Treasury's programs if they know the New York area rates are typically higher than their own. This is especially true where the Treasury's programs offer only a 25 basis point spread.

In the April-May 1999 time frame, the Benjamin Franklin Savings Bank received Special Direct Investment Funds of approximately $18 million. The interest rate that we were assessed for this interest period versus the earnings we realized (from overnight investments with Boston-area financial institutions resulted in a slight loss for the Bank. Not only did the Bank not realize a 25 basis point spread but we lost money because of the regional interest rate differentials (Boston-area vs. New York Money Center). As a result of the above, Benjamin Franklin Savings Bank decided to terminate its participation in the TT&L and the Special Direct Investment programs as of the close of business, June 30, 1999.

Recommendation for the New Treasury Programs

The Benjamin Franklin Savings Bank would consider become active participants in the programs, if we could obtain assurances that the Treasury Department has made significant changes to the programs with respect to how interest is calculated to take into account regional interest rate differences.

Our simplified recommendation would be for the interest calculation to be based upon the average overnight federal funds investment rate charged by banks within each of the 12 Federal Reserve Bank Districts less 25 or 30 basis points. For example, Benjamin Franklin Savings Bank (a Boston District bank) would be charged an interest rate based upon the average overnight federal funds rate charged by banks within the Boston District less the margin (25 or 30 BP). The same would hold true for a bank in the Dallas, Chicago, or San Francisco District, etc.

We realize that the Treasury would have to maintain 12 interest rate-data gathering operations versus one under the current proposal. With today's electronic data gathering technology, this could be easily achieved. Then, you may find that more institutions would be attracted to participate in the programs.

Thank you for the opportunity to offer these comments and recommendations. If you have any questions, please contact me at the e-mail address and phone number, mentioned above.

Sincerely,

Ronald E. Baron
Assistant Vice President
And Controller