



COMMUNITY BANKERS

B A N K

Resourceful. Responsive. Reliable.

CB Solutions

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Issue 7

CORRESPONDENT CREDIT EXPOSURE

Q: *Are you monitoring Correspondent Credit Exposure?*

A: On April 30th, federal regulatory agencies issued final guidance¹ addressing correspondent concentration risks. The guidance does not eliminate Regulation F, but rather adds additional standards that banks must now follow, highlighting the need to identify, monitor, and manage correspondent concentration risk. The guidance also reinforces the supervisory view that financial institutions should perform appropriate due diligence on all credit exposures to, and funding transactions with, other financial institutions as part of their risk management policies and procedures.

Regulation F suggests that a **Net Credit Exposure** concentration to any one financial institution ("FI") of greater than 25% of Total Risk Based Capital should be avoided if the correspondent is less than "well capitalized" or, should at least prompt a higher level of analysis.

Prudent management of correspondent concentration risks includes establishing and maintaining written policies and procedures to prevent excessive exposure to any correspondent in relation to the correspondent's financial condition. For risk management purposes, institutions' procedures and frequency for monitoring correspondent relationships may be more or less aggressive depending on the nature, size, and risk of the exposure.

During the past several years, we have taken steps that have greatly reduced concentrations at Community Bankers' Bank ("CBB") without limiting or interrupting services for our clients:

- Our continuing participation in the TAG program provides FDIC insurance for the balances in your DDA regardless of the amount.
- Our implementation of the Excess Balance Account Program ("EBA") with the Federal Reserve provides all participating clients a safe place to sell overnight funds.
- Our Agency Fed Funds program diversifies risk with your overnight investments.

Community Bankers' Bank provides a quarterly report, Correspondent Concentration Risks Analysis ("CCRA"), to all account holders, which can assist in documenting compliance with this regulatory guidance.

The most important thing CBB can do is to remain a strong, well-capitalized institution with which to do business. Our Regulation F disclosures, which are on our [website](#), along with the CCRA report can be presented to your risk management group to show that your correspondent is "well capitalized" and is assisting in your monitoring efforts.

¹<http://www.federalreserve.gov/boarddocs/srletters/2010/sr1010.htm#access>

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We obviously are not able to provide information regarding other FIs with which you may have a correspondent or banking relationship. Should you discover that you have a concentration with another FI that you wish to mitigate, we will be pleased to assist in that effort.

If you have any questions or concerns, please contact:

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