TT&L
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SOUTHEASTERN BANK

Darien, Georgia 31305
Phone
(912) 437-4141
Post Office Box
455

August 23, 1999

CLJ 8/31/99

Cynthia L. Johnson
Director, Cash Management Policy
& Planning Division
Financial Management Service
Room 420
401 14th Street, SW
Washington, D.C. 20227

Dear Ms. Johnson:

Last week, we received notice that the Department of Treasury, Financial Management Service, is proposing to revise its regulations governing the TT&L program, in particular, the interest rate charged by Treasury on TT&L note balances. As stated in the Notice of Proposed Rulemaking, Treasury is proposing to change the basis for computing the TT&L rate of interest to an overnight repurchase agreement rate in order to better approximate the market interest rate for collateralized lending. Under the current rule, the TT&L rate of interest approximates the target federal funds rate less 25 basis points.

Banks, including Southeastern Bank, and other financial institutions collect federal tax payments on a daily basis via paper transmittals or EFTPS; banks, with the exception of certain small banks, receive no compensation from the Department of Treasury for handling these payments. The overhead costs, particularly personnel, involved with the TT&L program are substantial. Tellers, bookkeepers, internal auditors, and compliance officers as well as edp and Fedline personnel are all necessarily, for internal control or other reasons, involved in the TT&L program. Banks like us have readily participated in the Note Option program because cost of funds for the Note Option program was marginally lower than cost of funds for certain alternatives; this slight differential theoretically mitigated, in part, the overhead costs associated with our involvement in collecting and processing federal tax payments. If the Department of Treasury implements the new, more expensive rate structure, we would have to reconsider and possibly terminate our participation in the Note Option program. Simply stated, the proposed rate structure severely diminishes our incentive for participating in the Note Option program. Furthermore, as you know, Note Option funds are not held for fixed terms and are callable at virtually any time; hence, these funds have been unreliable as a source of funds for any duration. The funding alternatives to the Note Option program, although more expensive historically, have better defined holding periods and would become more attractive relative to the proposed Treasury rate structure. If TT&L funds become available for a guaranteed term of reasonable duration, we would be more favorably inclined towards the new rate structure; otherwise, we are unequivocally opposed.

We appreciate the opportunity to comment on the proposed rule. If you have any questions or need additional information, please let me know.

Sincerely,

Alyson Gray
Controller

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