



# THE NORTHERN TRUST COMPANY

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TREASURY DEPARTMENT

September 24, 1999

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

Dear Ms. Johnson:

This letter is The Northern Trust Company's response to a letter we received from the Federal Reserve Bank of Chicago, dated August 9, 1999, regarding the "Proposed Amendment to Treasury Tax and Loan Rate of Interest.

The radical change in the rate of interest TT&L depositaries currently pay to the proposed rate structure (a soon to be published overnight repurchase agreement rate), expected to be on average 23 basis points higher, would force Northern Trust to drastically alter our participation in the program. Your proposed amendment compares the TT&L deposits to repurchase agreement transactions, which as a matter of principle is valid. However, from a practical standpoint as a depositary the margin requirements on the collateral would make taking these deposits a third or fourth option for us going forward. We (Northern Trust) would be more inclined to utilize the open market where the rates and tenor on repurchase agreement transactions are more negotiable, and the margin requirements are more "friendly." At this moment it is hard to say exactly how much the proposed changes would decrease our involvement in the TT&L program. It would not be out of the question for us to terminate our participation in the program altogether.

The methodology of the proposed rate structure appears to have been well thought out. However, Northern Trust's interest in remaining a depositary institution is rooted in the current spread of 25 basis points below the reported Effective Fed Funds rate for the day.

As a matter of course, we (Northern Trust) are always interested in term funding opportunities. We would be very interested in guaranteed term TT&L deposits (should they become available) if the rates were conducive to our term funding strategies.

Sincerely,

Charles Banks  
Second Vice President