

DIRK KEMPTHORNE
GOVERNOR



GAVIN M. GEE
DIRECTOR

STATE OF IDAHO
DEPARTMENT OF FINANCE
700 W. STATE STREET, 2ND FLOOR
P.O. BOX 83720
BOISE, IDAHO 83720-0031
Website: finance.state.id.us

November 1, 2002

Mr. Kevin P. Murray
Institutional Products Manager
Bankers Financial Services Corp.
P.O. Box 6240
Johnston, Iowa 50131-6240

Via Facsimile and U.S. Mail

Re: Indexed Certificates of Deposit Program for Idaho Community Banks

Dear Mr. Murray:

This is in response to your letter dated May 1, 2002, requesting a formal response to questions about the permissibility of a certificate of deposit product indexed to the Dow Jones Industrial Average and the related OTC option contracts as investments for Idaho banks under state law. Your questions, and the Department's responses, follow.

1. Are OTC options contracts as a risk management tool, a permissible investment under the Idaho Bank Act?

The Idaho Bank Act is silent on the permissibility of specific investment instruments. The Department would expect a bank to perform a satisfactory due diligence assessment of any investment product or issue.

2. Would there be a limitation as to total value of OTC Options that would support a notional volume of Indexed Certificates of Deposit?

Again, state law is silent, but the Department would strongly urge Idaho banks to exercise prudence in the diversification of its investment portfolio.

3. May Idaho corporate fiduciaries purchase CDs when acting as a trustee pursuant to the Idaho Trust Company Act and as guardian of a ward's estate?

The applicable standard is set forth in Idaho's Uniform Prudent Investor Act, Idaho Code § 68-501 *et seq.* The Act requires that a trustee consider the risk of any investment; the speculative nature of the Indexed Certificates of Deposit may present concerns for a fiduciary.

4. What would be the key concerns and/or issues that examiners will consider as part of their review of an ICD program with respect to safety and soundness standards?

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Kevin P. Murray
November 1, 2002
Page 2

The Department's examiners would consider whether an Idaho bank had performed a satisfactory due diligence review such that it is able to demonstrate an understanding of the risks associated with indexed certificates of deposit (including counter-party, operational, legal, and reputational risks), adopt appropriate policy guidelines, and implement procedures to adequately manage and control those risks.

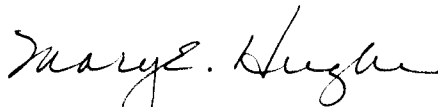
The examiners would also examine for adequate disclosure. In a letter to you dated February 27, 2002, the FDIC concluded that the Disclosure Statement as drafted at that time did not comply with Regulation DD of the Board of Governors of the Federal Reserve System. You provided a copy of that letter to us. The FDIC apparently again concluded, in a letter dated May 3, 2002, that a modified Disclosure Statement did not comply with Regulation DD. That letter has not been provided. You copied to the Department a letter addressed to Senior Counsel for the Federal Reserve Board of Governors, dated October 16, 2002, that indicates the Disclosure Statement has again been modified to incorporate suggestions made by her office.

The Department appreciates your efforts to resolve the Regulation DD issues raised by the FDIC. We assume that you will again submit the modified Disclosure Statement to the FDIC to ensure that the FDIC's concerns are satisfied. Please provide the Department with a copy of correspondence from the FDIC indicating approval of the disclosure, or correspondence from the Federal Reserve containing its determination.

Please be aware that the responses and representations in this letter are for information purposes only. The Idaho Department of Finance does not recommend or otherwise endorse this investment product.

If you have any questions or we can be of further assistance, please contact us.

Sincerely,



Mary E. Hughes
Acting Financial Institutions Bureau Chief

MEH/GB