



DEPARTMENT OF FINANCIAL INSTITUTIONS

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December 20, 2002

Mr. Kevin P. Murray
Vice President-Institutional Products
Bankers Financial Services Corp.
8800 N.W. 62nd Ave.
Johnston, Iowa 50131-6240

Dear Mr. Murray:

The primary question you asked the Department is: "Are the OTC options contracts, as a non-speculative risk management tool, a permissible investment under the laws and regulatory standards of the State of Utah and/or the Department of Financial Institutions?" The Law is silent on the subject. From a regulatory perspective I am sure that at a minimum, we would require any bank involved with hedging, options, swaps or other like instruments to have appropriate policies and procedures and at least one person on staff with a sound knowledge of such instruments.

In addition, there are several aspects of the program as presented that raise question as to the desirability your product for the average bank customer. Some of these aspects include the following:

- The bullet nature of the instrument.
- Complexity in the derivation of the index.
- Accounting standards of the options.
- Counter party credit risk.
- The selection of the participation rate.
- Early withdrawal.
- Potential of no return on the investment.
- Index substitution.
- Tax considerations

Because of these and other issues your Indexed Certificate of Deposit appears to be appropriate for only those customers that would qualify as "*sophisticated investors.*"

Sincerely,

A handwritten signature in cursive script, reading "James K. Thomas".

James K. Thomas
Supervisor of Banks