



Bureau of Banks and Trust Companies

January 29, 2003

Mr. Kevin P. Murray
Institutional Products Manager
Bankers Financial Services Corp.
8800 N.W. 62nd Avenue
P.O. Box 6240
Johnston, Iowa 50131-6240

Re: Dow Jones Indexed CDs

Dear Mr. Murray:

In a letter dated August 5, 2002, the Office of Banks and Real Estate (the "Agency") indicated that it would not object to the participation by Illinois state-chartered banks in the Dow Jones Industrial Average Indexed Certificate of Deposit Program (the "BFS Program") developed and administered by Bankers Financial Services Corp. ("BFS") provided that BFS achieved a favorable resolution of Regulation DD¹ issues initially raised by the Federal Deposit Insurance Corporation ("FDIC"). For the reasons discussed below, the Agency now regards the Regulation DD issues as satisfactorily resolved.

In connection with the BFS Program, a state-chartered bank may sell certificates of deposit ("CD" or "CDs") with returns indexed to the performance of the Dow Jones Industrial Average. Although the CDs are designed to be held for a term of five years, an early withdrawal option is available. Persons who hold the CDs until maturity are guaranteed a return of at least their purchase price regardless of the performance of the Dow Jones Industrial Average. Those who do not hold the CDs until maturity are not guaranteed a full return of their purchase price. As more fully explained in the August 5, 2002 letter, this is due primarily to the use of matched term over-the-counter options used to hedge the interest rate risk associated with the CDs and the need to "unwind" an option used to hedge several CDs to permit the early withdrawal. The option seller determines the early withdrawal amount based on financial models that incorporate market conditions at the time of the early withdrawal. Thus, neither BFS nor a participating bank is able to quantify an early withdrawal amount when a CD is purchased.

¹ Regulation DD of the Board of Governors of the Federal Reserve System, 12 C.F.R. 230.1 *et seq.*

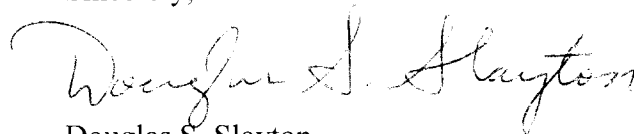
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The inability to quantify an early withdrawal amount at the time a CD is purchased, coupled with the possibility that the amount received upon an early withdrawal may be less than the purchase price, led the FDIC to conclude that a fee or an early withdrawal penalty could result.² The FDIC further concluded that the Disclosure Statement to be used in connection with offering the CDs violated Section 230.4(b)(4) of Regulation DD if a fee resulted or Section 230.4(b)(6)(i) of Regulation DD if an early withdrawal penalty resulted.³ BFS disagreed with these conclusions. Both the Agency and the FDIC suggested to BFS that it submit its Disclosure Statement to the Board of Governors of the Federal Reserve System (the "Federal Reserve") for review.

Subsequently, BFS revised its Disclosure Statement after discussions with the Federal Reserve. BFS submitted the revised Disclosure Statement⁴ to the Federal Reserve as an enclosure to a letter dated October 16, 2002 to Jane Ahrens, Senior Counsel for the Federal Reserve in its Division of Consumer and Community Affairs. BFS provided a copy of the letter and the revised Disclosure Statement to the Agency. On November 4, 2002 and November 7, 2002, the Agency discussed the revised Disclosure Statement with Ms. Ahrens. On November 7, 2002, Ms. Ahrens advised the Agency that the Federal Reserve had completed its review of the revised Disclosure Statement and concluded that it complied with Regulation DD. Given this determination, the Agency is satisfied that BFS has taken sufficient steps to address the Regulation DD issues related to the CDs.

Should you have any questions related to this letter, please do not hesitate to contact the Agency.

Sincerely,



Douglas S. Slayton
Legal Counsel

² See, February 27, 2002 and May 3, 2002 letters from FDIC Senior Regional Attorney Joseph A. Genova, Jr. to BFS.

³ 12 C.F.R. 230.4(b)(4) and 230 C.F.R. 230.4(b)(6)(i).

⁴ Product Issue 11.02, revision date October 14, 2002.