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August 1, 2002

Mr. Kevin P. Murray
Institutional Products Manager
Bankers Financial Corp.
8800 NW 62nd Drive
P.O. Box 6240
Johnston, Iowa 50131-6240

Re: Indexed CD Product Proposal by Bankers Financial Services, Corp.

Dear Mr. Murray:

We have reviewed your letters of May 8, 2002 and July 17, 2002, and the materials that you submitted to the Missouri Division of Finance requesting an opinion as to the authority of Missouri state-chartered banks to offer "Dow Jones Indexed Certificates of Deposit." We understand based upon a February 2002 letter to you from the FDIC that the principal of these deposits will be insured.

In November 2001 the Division issued a letter to Risk Analytics Inc., stating that FDIC insured indexed CDs utilizing a hedge mechanism offered through the Federal Home Loan Bank would be lawful for Missouri state-chartered banks as long as the bank had appropriate and comprehensive policies and procedures. Thus, indexed CD's are a permissible product offering for Missouri state-chartered banks.

Your product proposal presents two significant differences that require further consideration. First, early withdrawal is permitted subject to determination of an early withdrawal price. This price may return less than the full principal amount to the depositor and may or may not include interest. The Division concurs with the FDIC's February 2002 letter that this results in a fee or early withdrawal penalty. Compliance with the Truth in Savings Act, 12 USC § 4301 et seq. and regulation DD, 12 CFR §230 is essential. All fees, service charges, and penalties must be fully and appropriately disclosed. Failure to comply exposes a bank to civil claims including claims brought under a class action.

The second difference with your proposal is that the hedge counter-party is not the Federal Home Loan Bank. We do not see that this presents a legal issue, however, this difference suggests that a participating bank will need to exercise greater diligence in evaluating its counter-party credit risk.

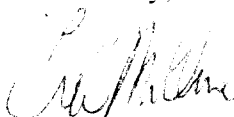


With respect to your additional questions, the over the counter option contracts used for the indexed CD program would not be a permissible stand alone investment for the bank. Purchasing the options as a non-speculative hedge for the indexed CD program would be incidental to banking powers. The option contracts would be subject to credit concentration limits. A key concern of bank examiners for this program would be that banks have comprehensive and functional risk management systems fully capable of assessing and managing the risks associated with the indexed CD program. The risk management systems should be consistent with provisions in the Comptroller's Handbook "*Risk Management of Financial Derivatives*" (January 1997) and OCC Banking Circular 277.

You also asked whether corporate fiduciaries acting as a trustee or guardian could purchase indexed CDs for a trust or guardianship estate. The applicable standard is established under the Prudent Investor Act, Sections 456.900-913, RSMo 2000. Several factors would have to be considered and these include the terms and circumstances of the particular trust. The derivative and speculative nature of an indexed CD will present special concerns for a fiduciary.

Please be aware that the Missouri Division of Finance does not recommend or endorse particular products, including the proposed "Dow Jones Indexed Certificates of Deposit" program for banks or for banks' customers. While indexed CD programs are legally permissible, the final terms and conditions of any such program must comply with applicable state and federal laws, including the Truth in Savings Act.

Sincerely,



D. Eric McClure
Acting Commissioner

DEM:pn

cc: FDIC
Federal Reserve Bank of St. Louis
Federal Reserve Bank of Kansas City
Mr. Joseph Genova - FDIC