

September 8, 2006

Mr. Robert E. Feldman  
Executive Secretary  
Federal Deposit Insurance Corporation  
550 Seventeenth Street, N.W.  
Washington, D.C. 29429

Attention: Comments

**Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances**

Dear Mr. Feldman:

We appreciate the opportunity to comment on the Federal Deposit Insurance Corporation ("FDIC") notice of proposed rulemaking and request for comment on deposit insurance assessments. Specifically we would like to address the FDIC's request for comment on whether Federal Home Loan Bank ("FHLBank") advances should be included in the definition of volatile liabilities or, alternatively, whether higher assessment rates should be charged to institutions with significant amounts of secured liabilities.

Advances are not volatile liabilities for FHLBank members. FHLBank advances have pre-defined, understood, and predictable terms. Unlike deposits, advances do not leave due to circumstances outside of the control of an FHLBank member. Experience has shown that deposits may be lost due to economic conditions or disintermediation arising from a variety of factors, such as the existence of higher returns to depositors on alternative investments.

The primary congressionally defined purpose of the FHLBank System is to provide a source of long-term liquidity for FHLBank members. Throughout their 75-year history, the FHLBanks have performed this mission successfully. The FHLBanks are a stable, reliable source of funds for member institutions, and the availability of such credit has a predictable, beneficial effect on their business plans. Given the value of such a stable source of funding, it is not surprising that more than 8,000 financial institutions have elected to become members of the FHLBank System. It would be illogical to include FHLBank advances in the definition of volatile liabilities given the stability of the FHLBanks, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable effect of such funding on members' business plans. We urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

Deposit insurance premiums should be based on an institution's actual risk profile, taking into account an institution's supervisory rating and capital ratios. Banks that are engaged in excessively risky activities should pay a higher premium, regardless of whether those activities are financed by insured deposits, FHLBank advances, or alternative wholesale funding sources. The professional and capable examination staff's of the financial institutions regulator are better suited to determining a bank's risk profile than an inflexible formula imposed on all insured institutions, regardless of circumstance.

Discouraging borrowing from the FHLBanks would be counterproductive to reducing the risk of failure of FDIC-insured institutions. In fact, discouraging the use of FHLBank advances could lead to the perverse effect of increasing risks to FHLBank insured institutions. Borrowers frequently use FHLBank advances for liquidity purposes and to manage interest-rate risk, as well as to fund loan growth. In many markets, the supply of deposit funds is inadequate to meet loan demand and prudent financial management needs. Further, FHLBank advances can be prepaid any time at economic value and thus are a predictable tool to manage the size of an institution. Curtailing the use of FHLBank advances would force institutions to look to alternative, often more costly wholesale funding sources that are demonstrably more volatile, thereby reducing profitability and increasing liquidity risk.

Penalizing the use of advances through the imposition of insurance premiums also would conflict with the intent of Congress in establishing the FHLBanks, in opening FHLBank membership to commercial banks in FIRREA, and, more recently, in adopting the Gramm-Leach-Bliley Act ("GLB"), which expanded small banks' access to advances. The FHLBanks' mission is to provide financial institutions with access to low-cost funding so they may adequately meet communities' credit needs to support homeownership and community development. Charging higher assessments to those banks utilizing advances would, in effect, use the regulatory process to vitiate the FHLBanks' mission as established and repeatedly reaffirmed by the Congress.

During the debate on FDIC reform legislation in the past several years, Congressional Committees and principal sponsors of FDIC reform expressed specific concerns that the FDIC, in developing a risk-based insurance assessment proposal, not adversely affect advances. The Congressional intent has been expressed in both the House and Senate on a bi-partisan basis. Both the House Budget Committee report on reconciliation (November 7, 2005) and the House Financial Services Committee report on deposit insurance reform (April 29, 2005) contained such expressions of concern. In addition, Senator Tim Johnson (D-SD), in a Senate Floor statement on November 3, 2005, stated that FDIC reform legislation was not intended to result in increased insurance premiums simply because an institution holds advances. Congressman Spencer Bachus (R-AL) gave a similar statement on the House Floor on December 19, 2005. Congressman Richard Baker (R-LA) also made statements on the House Floor, on April 7, 2003 and June 5, 2002, expressing strong concern that the FDIC might classify institutions with certain amounts or percentages of advances as more risky and, therefore, charge them higher premiums. Congressman Baker said that such actions would contradict Congress' clear intent to broaden access to

advances under GLB. In brief, the legislative history indicates that the FDIC should not charge premiums based on an institution's use of advances.

A regulatory and legal structure is already in place to ensure collaboration between the FDIC and the FHLBanks. If an FDIC-insured institution is experiencing financial difficulties, the FDIC and the relevant FHLBank are required by regulation to engage in a dialogue to ensure the institution has adequate liquidity while minimizing other risks, including losses to the FDIC. In addition, the FHLBanks are provided the legal authority for confidential access to exam reports to assist with this analysis.

Finally, making advances less attractive to FHLBank members through the imposition of insurance premiums would almost certainly reduce the amount of advances outstanding. This would in turn negatively impact FHLBank profitability and thereby reduce the amount of funds available for the FHLBank's Affordable Housing Programs.

The cooperative relationship between the FHLBanks and member financial institutions has worked remarkably well for 75 years. FHLBank advances serve as a critical source of credit for housing and community development purposes, support sound financial management practices, and allow member banks throughout the nation to remain competitive. FHLBank membership has long been viewed as protection for deposit insurance funds because FHLBank members have access to guaranteed liquidity. Penalizing financial institutions for their cooperative relationship with the FHLBanks would result in their being less competitive, limit credit availability in the communities they serve, and limit their use of a valuable liquidity source, all for no justifiable economic or public policy reason. We urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities, nor to charge higher assessments to institutions with a significant amount of advances.

Sincerely,

Mike C. Daly  
Chairman of the Board

James E. Gilleran  
President and Chief Executive Officer

Richard M. Riccobono  
Executive Vice President and Chief Operating Officer