



September 14, 2006

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW
Washington D.C. 20429

Attention: Comments

Re: Deposit Insurance Assessments And FHLB Advances (RIN 3064-AD09)

Dear Mr. Feldman:

This is in response to the FDIC notice of proposed rules and request for comment on deposit insurance assessments. Whether or not FHLB advances should be considered "volatile liabilities" or whether higher assessment rates should be charged to institutions with larger amounts of secured liabilities.

FHLB advances should not be considered volatile liabilities for FHLB members. These extensions of credit are secured to members under predefined and predictable terms. These advances, unlike deposits, do not increase or decrease due to circumstances beyond the control FHLB members. Deposits may be lost because of many reasons: short-term special promotions, for instance. Or the offer of higher returns on another product. We know larger institutions can turn to the capital markets for replacement liabilities. The capital markets typically are not long-term, stable providers of wholesale funds to community banks like ours.

According to Congress, the purpose of the FHLB system is to provide a source for this liquidity to its members. This reliable and stable source of funds and availability of this credit enhances our ability to effectively manage our business plan.

We feel deposit insurance should be based upon an institution's actual risk profile – looking at an institution's supervisory rating and capital ratios. Hence, banks that are involved in more risky activities should pay a higher premium, however those activities are funded.

These advances must certainly reduce the failure risk of FDIC-insured institutions. Charging a higher premium to financial institutions using these advances could discourage borrowing from the FHLBs thus increasing risk to its members.

We can use these advances for liquidity purposes and to manage interest-rate risk and fund loan growth. Perhaps deposit funds are inadequate to meet loan demand. Limiting the use of these advances might force us to look elsewhere for funding sources. These sources may actually be volatile which may reduce profitability and increase liquidity risk.

This proposal may actually hurt consumers in the long run by increasing our cost to fund our loan portfolio. Making these advances more costly would probably reduce borrowing and thus income to the FHLBs. This would reduce funding available to the FHLBs Affordable Housing Program and other community investment programs.

Didn't the Gramm-Leach-Bliley Act expand small banks' access to these advances? Doesn't this penalty conflict with the intent of Congress in establishing FHLBs in the first place? Not to mention opening membership to commercial banks in FIRREA? The FHLB's mission is to provide financial institutions with access to low-cost funding so we can meet our community's credit needs and to support home ownership and community development. Higher assessments would, in effect, use the regulatory process to undermine the intent of Congress.

During the past several years congressional committees and principal sponsors of FDIC reform legislation have voiced concerns that the FDIC, in developing a risk-based insurance assessment proposal, not adversely affect advances. This intent has been expressed in both the House and Senate on a bi-partisan basis. The House Budget Committee and the House Financial Services Committee have both voiced such expressions of concern.

There is already a regulatory and legal structure in place to ensure the collaboration of the FHLBs and the FDIC. If an FDIC-insured institution gets into trouble, the FDIC and the FHLB's 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.

For 74 years the relationship between the FHLBs and their member financial institutions has worked. These advances serve as a critical source of credit for housing and community development. These advances support sound financial management and allow member banks throughout the nation to remain competitive. Membership in the FHLB system has always been viewed as protection for deposit insurance funds because FHLB members have reliable access to liquidity.

Penalizing us for our cooperation with the FHLBs would unjustly limit our ability to offer competitive pricing, limit the credit availability in the community we serve and hamper our use of a valuable source of liquidity.

We urge you NOT to include FHLB advances in the definition of "volatile liabilities" or to impose a deposit insurance premium assessment on "secured liabilities".

Sincerely,



Robert F. Eastman, Jr.
CEO