



THE BENNINGTON STATE BANK

2130 South Ohio / P.O. Box 1280 / Salina, Kansas 67402-1280
Telephone (785) 827-5522 / FAX (785) 827-0257

September 11, 2006

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

Attention: Comments

Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances,
Federal Deposit Insurance Corporation (FDIC), RIN 3064-AD09

Dear Mr. Feldman:

The Bennington State Bank appreciates the opportunity to comment on the FDIC's notice of proposed rulemaking and request for comment regarding deposit insurance assessments. We are particularly concerned about the question of whether or not 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 that have significant amounts of secured liabilities.

First, advances are not volatile liabilities for FHLBank members. Advances offer pre-defined, understood, and agreed upon terms. Unlike customer deposits, advances do not evaporate due to circumstances beyond our control. While some larger members of FHLBank Topeka can look to Wall Street for replacement liabilities, the capital markets are not a realistic option for most community banks including The Bennington State Bank.

Second, the primary purpose of the FHLBank System is to provide a source of long-term liquidity for FHLBank members. We have found that FHLBank Topeka is a stable, reliable source of funds, and the availability of such credit has a predictable, beneficial effect on our business plan. 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. Therefore, we urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

ESTABLISHED 1887



FDIC

CAPITAL, SURPLUS, PROFITS AND RESERVES \$29,000,000.00

OFFICERS: Kent M. Berkley, *President*; Dennis Lull, *Executive Vice President*; Burke Lee Matthews, *Senior Vice President*; David C. Smith, *Vice President*; Mike Benjamin, *Vice President*; Douglas K. Alt, *Vice President*; Jeff Weishaar, *Trust Officer*; Sherry L. Montey, *Assistant Vice President*; Karen Cherry, *Assistant Vice President/Data Processing*; Kory Tinkler, *Vice President*; Andy Adams, *Assistant Vice President*

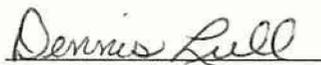
We are aware of concerns that, since FHLBanks are collateral-based lenders, institutions with adequate collateral could undertake risky activities without jeopardizing their access to FHLBank funding. However, all types of protected funding (including most types of insurance) raise such "moral hazard" issues. In banking, the classic instruments for combating such moral hazards are strict supervisory oversight and capital requirements. These tools are far superior to an assessment that discourages the use of FHLBank advances. Another useful tool would be deposit insurance premiums that are based on an institution's actual risk profile, taking into account an institution's supervisory rating and capital ratios. Banks engaged in excessively risky activities certainly should pay a higher premium, regardless of whether those activities are financed by insured deposits, FHLBank advances, or alternative wholesale funding sources. FDIC examinations will more accurately determine a bank's risk profile than an inflexible assessment formula imposed on all insured institutions.

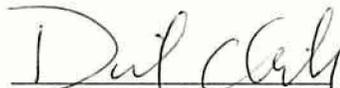
Measures that would discourage borrowing from the FHLBanks would impede rather than assist in achieving the goal of reducing the risk of failure of FDIC-insured institutions. In fact, discouraging the use of FHLBank advances could lead to the unintended consequence of *increasing* risk to our bank. We use FHLBank advances for liquidity purposes and to manage interest rate risk, as well as to fund loan growth. At times the supply of deposit funds is inadequate to meet loan demand. Curtailing the use of FHLBank advances would force our institution to look to alternative wholesale funding sources that are more volatile and often more costly, thereby reducing profitability and increasing liquidity risk.

Penalizing the use of advances through the imposition of insurance premiums would conflict with the intent of Congress in establishing the FHLBanks. The FHLBanks' primary mission and mandate 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 hinder the FHLBanks' mission as established and repeatedly reaffirmed by Congress.

In conclusion, FHLBank advances serve as a critical source of credit for housing and community development purposes, support sound financial management practices, and allow community banks throughout the nation to remain competitive. FHLBank membership has long been viewed as protection for deposit insurance funds because FHLBank members have reliable access to liquidity. Penalizing financial institutions for their cooperative relationship with the FHLBanks would result in community banks being less competitive, would limit credit availability in the communities they serve, and would limit their use of a valuable liquidity source, all for no justifiable economic or public policy reason. Therefore, we urge the FDIC not to include FHLBank advances in the definition of volatile liabilities or to charge higher assessment rates to institutions that have significant amounts of secured liabilities.

Sincerely,


Dennis Lull
Executive Vice President


David C. Smith
Vice President