



TIME FEDERAL SAVINGS BANK

141 S. Wisconsin Ave., P.O. Box 239 Medford, Wisconsin 54451
• Phone (715) 748-2231 • Fax (715) 748-2679

September 19, 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
RIN 3064-AD09

Dear Mr. Feldman:

We believe that FHLB advances should not be characterized as "volatile liabilities" for FHLB members. FHLB advances are secured extensions of credit to members with pre-defined, understood, and predictable terms. Unlike deposits, advances liabilities do not increase or decrease due to circumstances outside of the control of an FHLB member. Experience has shown that deposits may be lost due to disintermediation arising from a variety of factors: special, short-term promotions in a particular market or the existence of higher returns to depositors on alternative investments. While certain large institutions can look to the Wall Street capital markets for replacement liabilities, the capital markets are not typically long-term, stable providers of wholesale funds to the community banks that comprise the bulk of the membership of the Federal Home Loan Bank System.

As established by Congress, the primary purpose of the FHLB System is to provide a source of liquidity for FHLB members. Throughout their 74-year history, the FHLB's have performed this mission successfully. The FHLB's are a stable, reliable source of funds for member institutions, and the availability of such credit has a predictable, beneficial effect on members' business plans. Given the value of such a stable source of funding, it is not surprising that more than 8,100 financial institutions are members of the FHLB System. It would be illogical to include FHLB advances in the definition of volatile liabilities given the stability of the FHLB's, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable effect of such funding on members' business plans.

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, FHLB advances, or alternative wholesale funding sources.

Convenient One Stop Banking

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The continued availability of FHLB advances reduces the risk of failure of FDIC-insured institutions. Charging a higher deposit insurance premium to financial institutions that use advances could discourage borrowing from the FHLB's and lead to the unintended effect of increasing risks to FHLB members. Financial institutions frequently use FHLB 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. Curtailing the use of FHLB advances would force institutions to look to alternative, often more costly wholesale funding sources that are actually volatile, thereby reducing profitability and increasing liquidity risk.

In addition, the proposal would hurt consumers by increasing the cost of funding mortgage portfolios. Making FHLB advances more costly would likely result in a reduction of borrowing and thus income to the FHLB's. This, in turn, would reduce the funding available to the FHLB's Affordable Housing Program and other community investment programs. In 2005, the FHLB's provided \$280 million in direct grants for affordable housing across the nation.

A regulatory and legal structure is already in place to ensure collaboration between the FDIC and the FHLB's. If an FDIC-insured institution is experiencing financial difficulties, the FDIC and the relevant FHLB 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.

The cooperative relationship between the FHLB's and member financial institutions has worked well for 74 years. FHLB 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. FHLB membership has long been viewed as protection for deposit insurance funds because FHLB members have reliable access to liquidity. Penalizing financial institutions for their cooperative relationship with the FHLB's would unjustifiably limit their ability to offer competitive pricing, limit credit availability in the communities they serve, and limit the members' use of a valuable liquidity source.

We urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities or to impose a deposit insurance premium assessment on "secured liabilities."

Sincerely,


Thomas A. Lindow
President
Time Federal Savings Bank