FHLB Chicago
Federal Home Loan Bank of Chicago

December 17, 2008

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW
Washington, DC 20429

Re: RIN No. 3064-AD35
Notice of Proposed Rulemaking – Deposit Insurance Assessments

Dear Mr. Feldman:

The Federal Home Loan Bank of Chicago ("Bank") is writing to comment on the Federal Deposit Insurance Corporation's proposed rulemaking published on October 16, 2008, regarding deposit insurance assessments. In part, the rule proposes to impose higher risk-based premiums for federally insured depositories that use secured liabilities, including advances from the Federal Home Loan Banks, in excess of 15 percent of domestic deposits. While we appreciate the need to return the ratio in the Deposit Insurance Fund to its statutory target, the Bank is concerned that this proposal would increase the cost of funding unnecessarily for our member financial institutions and discourage the prudent use of advances as a reliable source of funding to supplement their core deposits. We strongly urge the FDIC to revise this aspect of the proposal.

FHLB advances have been a critical source of liquidity for financial institutions across the country for over 75 years. Due to their reliability and easy accessibility, FHLB advances are especially important to smaller community banks which often lack alternative sources of cost-effective funding. These institutions, which comprise the vast majority of the FHLB System's 8,100 members, depend on advances to fill the funding gap between their core deposits and their loan demand. FHLB advances allow these lenders to ensure that credit remains available to worthy borrowers on affordable terms, a vital role in the economic well-being of the local communities they serve.

In times of economic crisis such as these, the readily available and easily accessible liquidity provided by the FHLBs is particularly important to financial institutions and the communities they serve. Since the current liquidity crisis began last year, there has been a significant surge in the demand for advances from FHLB members. The outstanding amount of all FHLB advances increased 37 percent during 2007 to $875 billion. That figure had risen to $1.012 trillion as of September 30, 2008. FHLB advances are clearly playing a crucial role in providing the liquidity necessary to allow local credit markets to continue functioning, which is exactly the role Congress envisioned the FHLBs would perform in such situations.

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We are concerned the FDIC's proposal would inadvertently contract this crucial source of liquidity at a time when it is most needed. If a new deposit insurance premium for FHLB advance usage is imposed on financial institutions that regularly use the FHLBs for their liquidity needs, they may either decrease their local lending activities or seek out less reliable, more expensive sources of alternative funding such as brokered deposits. Either way, the cost of funding for borrowers will increase. Such a result would contradict recent efforts by the Treasury Department, Congress and the Federal Reserve to promote liquidity, encourage lending and bolster confidence in the U.S. banking system.

In our view, the proposal unfairly characterizes the potential risks of FHLB advance usage to the Deposit Insurance Fund. Access to FHLB funding has long been viewed as a source of strength and stability for financial institutions, making them less likely to fall into receivership. In this way, FHLB funds help to protect the deposit insurance fund,

Another unintended consequence of the proposed rule might be the reduction of the amount of funding available to support affordable housing and community development activities. By law, a percentage of each FHLB's earnings are contributed for programs such as downpayment and closing cost assistance, affordable housing projects, and foreclosure prevention. Last year, a total of $318 million was allotted in the FHLB System for such programs. If the proposed rule discourages FHLB members from using advances, FHLB profits could shrink, thereby decreasing our contributions to affordable housing programs. Considering the current housing crisis, any proposal that might decrease funding available to help American families stay in their homes should be reconsidered.

We therefore urge the FDIC to revise the proposed rule to maintain the current methodology which does not include FHLB advances in the deposit insurance assessment base. Congress created the FHLBs to provide low-cost, reliable funding for financial institutions. FHLB member institutions should not be penalized or discouraged from prudently utilizing this source of liquidity, particularly now as the economy is slowing and alternative sources of funding are more difficult, if not impossible, to access.

Should the FDIC decide to retain an additional premium for FHLB advances in the proposed rule, we would alternatively urge the FDIC to suspend implementation of the proposal in light of two recent actions. Congress recently raised the deposit insurance coverage to $250,000 per account. Shortly thereafter, the Treasury Department, FDIC, and Federal Reserve extended deposit insurance coverage to all non-interest bearing transaction deposit accounts. Both actions are scheduled to expire on December 31, 2009. Congress is therefore likely to reconsider the issue of deposit insurance next year to determine whether these actions should be extended, modified or terminated. Until that happens, an accurate assessment of the demands placed on the deposit insurance fund cannot be known. At a minimum, we urge the FDIC to delay any proposal affecting FHLB advances until Congress has acted.

Thank you for your consideration of our views.

Sincerely yours,

Peter E. Gutzmer
Executive Vice President,
General Counsel &
Corporate Secretary

PEG:sck