

From: Melvin Taylor [mailto:MTaylor@fmbmilligan.com]
Sent: Thursday, September 21, 2006 8:45 AM
To: Comments
Subject: RIN 3064-AD09 Assessments

To the Board of Directors, FDIC:

Regarding the proposal to impose higher assessments on banks that use Federal Home Loan Bank advances, I submit the following comments.

First of all, FHLB advances provide a valuable source of funds in rural areas. Funding from traditional sources has dwindled in recent years as older, large deposit customers pass on and the heirs take their money to urban areas. Therefore, without the FHLB funds, we would be unable to meet the needs of our borrowing customers, thereby creating a drag on the rural economy. At this point in time, the rural economy does not need any further hindrances.

The mission of the FDIC is safety and soundness. As bankers, we are graded based on the CAMELS rating. We use the FHLB advances to strengthen several of the ratings. First, we use longer term, fixed rate advances to fund longer term, fixed rate loans. This is a service to our rural customers and the funding source assures that it will not have a negative impact on our interest rate risk - the S in CAMELS. Secondly, FHLB advances are the most important source of liquidity in our banks(L in the ratings). There is no profit margin in taking deposits and investing in government backed securities. Therefore, use of securities as a traditional source of liquidity has a negative impact on earnings and furthermore capital growth (E and C in the ratings). Use of FHLB advances furthermore enhances earnings by allowing growth in loan volume and management of interest rate spread (additional pluses for E and C). Judicious use of advances also reflects positively on management (M in the ratings). Therefore, use of FHLB advances has a direct, positive impact on all of the ratings except A (asset quality), there is likely some positive impact on asset quality as well through better loan structure and terms that are more easily serviced by our borrowers.

Based on the above facts, why would FDIC create assessments that would discourage the use of a service that strengthens the objectives of the FDIC?

I encourage the Board to consider carefully any change in assessments that would discourage banks from utilization of the services provided by the Federal Home Loan Banks.

I appreciate your attention to the issues addressed above.

Sincerely,
Mel Taylor, President
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Milligan, NE