



# CAPITOL BANK



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:

Capitol Bank is pleased to provide comments in response to the Federal Deposit Insurance Corporation notice of proposed rulemaking and request for comment on deposit insurance assessments. Specifically, we write to address the FDIC's request for comment on whether Federal Home Loan Bank (FHLB) 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.

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.

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.

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,

Kenneth D. Thompson  
President & CEO

KDT/pf

710 N. High Point Road • Madison, Wisconsin 53717 • (608) 836-1616 • Fax: (608) 836-1615  
108 E. Verona Avenue • Verona, Wisconsin 53593 • (608) 845-0108 • Fax: (608) 845-0109

www.capitolbank.com  
Member FDIC