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Via Email: [Comments@FDIC.gov](mailto:Comments@FDIC.gov)  
and U.S. Mail

November 5, 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:

On behalf of First Bank & Trust, s.b., I am writing to comment on the Federal Deposit Insurance Corporation's proposed rulemaking regarding deposit insurance assessments, published in the Federal Register on October 16, 2008. 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 I appreciate the need to restore the Deposit Insurance Fund, I am concerned that the proposal regarding FHLB advances would increase the cost of funding unnecessarily for my financial institution and discourage the prudent use of advances as a reliable source of funding to supplement core deposits. For these and other reasons explained below, I strongly urge the FDIC to revise or delay implementing the proposal.

FHLB advances are a critical source of liquidity for financial institutions such as mine and have been used safely and effectively for over 75 years. Due to their reliability and easy accessibility, FHLB advances are especially important to smaller community banks that often lack alternative sources of cost-effective funding. These institutions, which comprise the vast bulk 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.

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In times of economic crisis such as these, the liquidity provided by the FHLBs is particularly important to community financial institutions, as demonstrated by the unprecedented surge in the demand for advances from FHLB members. Last year, as the crisis began to emerge, the outstanding amount of FHLB advances increased 37 percent to \$875 billion. By June of this year, that figure had jumped to more than \$913 billion. Recently, it exceeded \$1 trillion. Clearly, FHLB advances are helping to alleviate the current liquidity shortage, which is exactly the role Congress envisioned the FHLBs would perform in such a situation.

I am greatly concerned that the FDIC's proposal threatens to substantially contract this crucial source of liquidity at a time when it is most needed. Imposing an additional premium for advance usage will penalize financial institutions that regularly use the FHLBs for their liquidity needs. It will encourage them to either decrease their lending activities in their communities 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 is completely contrary to the 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.

The rule, as proposed, also threatens to decrease 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 contributed by the FHLBs for such programs. If FHLB members are discouraged from using advances, FHLB profits will shrink, as will their contributions to these worthwhile activities. Considering the current housing crisis, any proposal that would decrease funding intended to help American families become homeowners and keep their homes, is ill-timed and should be reconsidered.


In my view, the proposal unfairly characterizes the potential risks of 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 deposit insurance funds, not threaten them.

I therefore urge the FDIC to revise the proposed rule to exclude FHLB advances from 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 for utilizing this source of liquidity as Congress intended, particularly now as the economy is slowing and alternative sources of funding are more difficult to access.

Nonetheless, if the FDIC decides to retain an additional premium for FHLB advances in the proposed rule, the proposal should be suspended in light of two recent actions placing added demands on the deposit insurance system. As you know, 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, the FDIC should delay any proposal to recapitalize the deposit insurance fund until Congress has acted.

Thank you for your consideration of my views.

Sincerely,

A handwritten signature in black ink, appearing to read "Terry J. Howard". The signature is fluid and cursive, with the first name "Terry" and last name "Howard" clearly distinguishable.

Terry J. Howard  
President & CEO  
First Bank & Trust, s.b.