



November 12, 2008

Mr. Robert E. Feldman  
Executive Secretary  
Federal Deposit Insurance Corporation  
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Washington, DC 20429

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

Dear Mr. Feldman:

On behalf of the Federal Home Loan Bank (FHLB) Des Moines, I am submitting the following comments regarding the Federal Deposit Insurance Corporation's (FDIC's) proposed rule concerning deposit insurance assessments. I appreciate the opportunity to address this important issue.

FHLB advances serve as a consistent, reliable source of liquidity for all of our members. The availability of FHLB advances as a means of wholesale funding is especially important to the community banks that represent a large majority of the FHLB Des Moines' 1,200 members. These smaller institutions do not have reliable access to other sources of cost-effective funding and rely on the availability of FHLB advances as a critical tool for managing their balance sheets and implementing their business plans. In fact, in 2007, FHLB Des Moines advances increased 83.2% to over \$40 billion, and increased further to over \$60 billion during the third quarter of 2008 – indicating that the FHLB Des Moines is playing a vital role in alleviating the current shortage of liquidity in the mortgage markets. Penalizing the use of FHLB funding is contrary to the current efforts by the Administration, Congress and the Federal Reserve to restore liquidity and bolster confidence in the financial system.

Under this proposal, financial institutions that use FHLB advances will be faced with several undesirable outcomes. First, operating costs will go up as a result of increased premiums. Second, FHLB members may increase their focus on attracting less stable retail deposits by bidding up these accounts. As banks throughout the country turn to this method, it may well drive up the cost of funds as they attempt to not only attract new deposits, but to retain their existing deposit base. Third, institutions may choose to decrease lending in their communities. During this current economic crisis, it would be harmful to implement a policy that would further restrict lending.

Further, the past several weeks have produced a climate which is not reflected in the deposit insurance assessment plan. The Emergency Economic Stabilization Act signed into law on October

3 raised deposit insurance levels to \$250,000. The proposed rule does not include this increase in the calculation of the deposit insurance fund (DIF) ratio. Additionally, on October 14, the FDIC, the Treasury and the Federal Reserve, in consultation with the President, invoked its systemic risk authority and extended deposit insurance coverage to all non-interest bearing transaction deposit accounts while also leaving this increased coverage out of DIF ratio.

The FDIC is statutorily permitted to extend the period to restore the reserves of the DIF during extraordinary circumstances. Considering that the FDIC has already cited its statutory authority to prevent systemic risk in its earlier actions, it is only fitting that these circumstances be applied to DIF restoration. The actions cited above will expire on December 31, 2009, suggesting a comprehensive review of the nation's deposit insurance system at that time. In light of these factors, the FDIC should suspend its current rulemaking proceeding.

If the FDIC proceeds with this rulemaking and its new approach to risk-based premiums, then the final rule should treat advances differently than other forms of secured lending. Advances are more reliable, flexible, and better priced than other sources of funding. As unique providers of secured funding, the FHLBs are cooperatives that serve their member/customers and price advances with very narrow spreads over the FHLBs' cost of funds. In addition, the use of advances serves to strengthen depository institutions since income earned by the FHLBs is largely paid to members in the form of dividends. In 2007, 83% of FHLB Des Moines net income was paid out as dividends; the comparable ratio through the first half of 2008 was 66%. The reduced payout of dividends in 2008 allowed the FHLB Des Moines to strengthen its capital base allowing the Bank to remain a strong partner and source of liquidity for its members.

For over seventy-five years, the FHLBs, their member financial institutions, and the communities they serve nationwide have benefited from FHLB advances. FHLB advances function as a critical source of credit for housing and community development purposes, sustain prudent financial management practices, and enable small community member banks throughout the nation to remain competitive. FHLB membership has long been viewed as protection for deposit insurance funds because FHLB members have access to guaranteed liquidity. In considering a final rule concerning deposit insurance assessments, if the FDIC proceeds to a final rule, I strongly urge you not to adopt a policy that would penalize institutions based on their use of FHLB advances.

Sincerely,



Michael K. Guttau  
Chairman of the Board