FHLBBoston

MICHAEL A. JESSEE
President and Chief Executive Officer
michael.jessee@fhlbboston.com

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Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 – 17th Street, N.W.
Washington, D.C. 20429

RE: Notice of Proposed Rulemaking – Deposit Insurance Assessments

I write regarding the Federal Deposit Insurance Corporation (FDIC) proposed rules on deposit insurance assessments. I fully appreciate the need to build the reserves of the FDIC in order to address current and future bank failures. However, for the reasons detailed below, I urge you to suspend the current rulemaking process.

The appropriate approach to assessing deposit insurance premiums is to determine rates based on a bank's actual risk profile. There is no empirical evidence that Federal Home Loan Bank (FHLBank) advances add to an institution's risk. Banks engaged in excessively risky activities should pay higher premiums regardless of whether those activities are financed by deposits, advances, or alternative wholesale funding sources. The professional and capable examination staff of the supervisory agencies is best suited to determine a bank's risk profile, rather than an inflexible formula.

Further, the proposed assessment formula is shortsighted from both economic and public policy perspectives. Policymakers are looking to encourage financial institutions to provide credit to facilitate economic growth. The FHLBanks' very mission, as established and reaffirmed by Congress, is to provide financial institutions with access to low-cost funding so they may adequately meet communities' needs for credit.

Discouraging borrowing from the FHLBanks would also lead to the perverse effect of increasing risk among FHLBank members. Borrowers frequently use FHLBank advances for liquidity, to manage interest-rate risk, and to fund loan growth. In many markets, the supply of deposit funds is inadequate to meet loan demand and prudent financial management needs.

Charging higher assessments to banks utilizing advances would, in effect, use the regulatory process to impede the FHLBanks' mission as established and reaffirmed by Congress. The new premiums will be higher for those institutions using "secured liabilities" — including advances — in excess of 15 percent of domestic deposits. The new premiums pose a harsh penalty for many FHLBank members and provide a strong disincentive to use advances as a funding source. Institutions would be forced to compete more aggressively by pricing deposits at above-market

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levels, thus driving up the cost of funds, increasing the cost of credit to their customers, and threatening the viability of the nation's strong community banking system.

Financial institutions should not be penalized for their use of advances that can be obtained for longer terms and at lower marginal costs than retail deposits. The proposed premiums would be particularly crippling to institutions that are already tested by the housing downturn and weak economy in their communities. This would only add to the disadvantage faced by community banks competing for deposits with the nation's largest financial institutions now backed by the government.

The FDIC should extend the period in which reserves of the deposit insurance fund are restored. The current extraordinary economic challenges we face strongly suggest that a delay in implementing a new method of assessing deposit insurance premiums would be prudent. In a span of only a few months, the government has intervened with Fannie Mae and Freddie Mac; Congress granted the Department of the Treasury extremely broad powers to address the crisis in the credit markets and raised deposit insurance levels to $250,000; and deposit insurance was extended to all non-interest-bearing transaction deposit accounts. For many of these actions, all of the consequences are unknown. Policymakers would be well-advised to review all of these actions in a comprehensive manner, rather than creating additional uncertainty by imposing the proposed premiums.

The partnership between the FHLBanks and member financial institutions envisioned by Congress has worked remarkably well. FHLBank membership allows more than 8,000 banks throughout the nation to remain competitive, serves as a critical source of credit for housing and community development, and supports sound financial management. Penalizing financial institutions for their partnership with the FHLBanks would make them less competitive, limit credit available in the communities they serve, and limit their use of a valuable liquidity source, all for no justifiable economic or public policy purpose.

The FHLBanks have been an island of stability through the financial storm. I urge you not to adopt a policy that penalizes institutions based on their use of FHLBank advances.

Sincerely,

Michael A. Jessee
President and Chief Executive Officer