



*FEDERAL HOME LOAN BANK
OF CINCINNATI*

*David H. Hebman
President*

December 2, 2008

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW
Washington, DC 20429

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 of Cincinnati (FHLBank) serving Kentucky, Ohio and Tennessee, I am submitting the following comments regarding the Federal Deposit Insurance Corporation's proposed rule concerning deposit insurance assessments. I appreciate the opportunity to address this important issue.

As designed by Congress, the FHLBank is playing a vital role in alleviating the current shortage of liquidity in the mortgage markets. Penalizing the use of FHLBank 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.

FHLBank Advances serve as a consistent, reliable source of liquidity for all FHLBank members. The availability of FHLBank Advances as a means of wholesale funding is especially important to the community banks that represent the majority of our 725 members. These smaller institutions do not have reliable access to other sources of cost-effective funding and rely on the availability of FHLBank Advances as a critical tool for managing their balance sheets and implementing their business plans. In fact, in 2007, FHLBank Advance principal balances increased 26 percent to \$53 billion over the previous year end, and increased further to over \$62 billion by the end of the third quarter 2008.

Under this proposal, financial institutions that use FHLBank Advances will be faced with several undesirable outcomes. First, operating costs will go up as a result of increased premiums. Second, FHLBank 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.

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Additionally, 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 and 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. These actions will expire on December 31, 2009, suggesting a comprehensive review of the nation's deposit insurance system at that time. Accordingly, the FDIC should suspend its current rulemaking that appears to convolute these newly-established actions.

If, however, the FDIC proceeds with 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 a unique provider of secured funding, the FHLBank is a cooperative that serves its member/customers and prices Advances with very narrow spreads over the FHLBank's cost of funds. In addition, the use of Advances serves to strengthen depository institutions and their communities since income earned by the FHLBank is largely returned to members in the form of dividends and contributions to the Affordable Housing Program.

For more than seventy-five years, the FHLBank, its member financial institutions, and the communities they serve have benefited from FHLBank Advances. FHLBank 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. FHLBank membership has long been viewed as protection for deposit insurance funds because FHLBank members have access to a stable source of balance sheet funding supporting both liquidity needs and long term assets. 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 FHLBank Advances.

Sincerely,



David H. Hehman