

To: Comments

Subject: FDIC RIN 3064-AD35

Dear Mr. Feldman:

I respectfully submit the following comments regarding the FDIC's proposed rule on assessing deposit insurance on Federal Home Loan Bank (FHLBank) advances.

FHLBank advances are a critical and reliable source of wholesale funding for FHLBank members, particularly for the community financial institutions that represent the vast majority of the Federal Home Loan Bank System's 8,100 members. Many of these institutions do not have reliable access to other sources of cost-effective funding, and they rely on FHLBank advances as critical tools for managing their balance sheets and implementing their business plans. FHLBank advances are playing a vital role in alleviating the current liquidity crisis, and penalizing their use seems contrary to the efforts to restore liquidity and confidence in our financial system.

Under this proposal, financial institutions that use FHLBank advances will face several undesirable outcomes. First, their operating costs will increase as a result of increased premiums. Second, in their efforts to grow their (less stable) retail deposit base, they will also increase their cost of funds. Ultimately, they may choose to decrease their lending in their communities. During our current economic crisis, it would be harmful to implement a policy that would further restrict lending.

Over the past several weeks, we have seen new initiatives that were not considered in the proposed plan. The Emergency Economic Stabilization Act of 2008, signed into law on October 3, raised the deposit insurance level to \$250,000. On October 14, the FDIC extended the availability of deposit insurance coverage to all non-interest bearing transaction deposit accounts. These actions will expire on December 31, 2009, suggesting the need for a comprehensive review of the nation's deposit insurance system at that time. In light of these factors, we encourage the FDIC to suspend its current rulemaking proceeding.

If the FDIC proceeds with this proposal, the final rule should treat advances differently than other forms of secured lending. Advances are more reliable, flexible, and typically more competitively priced than other sources of funding. Because the FHLBanks are cooperatives, they price their advances with very narrow spreads over their cost of funds. The use of advances also serves to strengthen member institutions because the income earned by the FHLBanks is largely returned to members in the form of dividends and in grants and reduced-rate loans for affordable housing.

For over 75 years, the FHLBanks, their member financial institutions, and the communities they serve have benefited from FHLBank advances. FHLBank advances provide a critical source of credit for housing and community development, sustain prudent financial management practices, and enable community 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 proven source of reliable, low-cost liquidity.

If the FDIC proceeds to a final rule concerning deposit insurance assessments, I strongly urge you not to adopt a policy that would penalize institutions based on their use of FHLBank advances.