Audubon Savings Bank

Established 1904

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August 17, 2006

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, DC 29429

Attention: Comments

Re: Federal Home Loan Bank Advances and Deposit Insurance Assessments

Dear Mr. Feldman:

Thank you for the opportunity to comment on whether Federal Home Loan Bank ("FHLB") advances should be included in the definition of volatile liabilities and/or whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities.

My bank's position is that FHLB advances should not be considered volatile liabilities and assessment rates should not be higher based solely on a bank's use of this wholesale funding source

We contend that FHLB advances are often a more stable source of funding and are a better interest rate risk management tool than are deposits. My $170 million mutual institution does business in a highly competitive market where many large and super-regional banks operate. The competition for deposits is fierce and, as such, we cannot always rely on deposit generation alone to meet all of our funding needs. Disintermediation also occurs, especially in a rising rate environment, such as we have been experiencing, when depositors have other alternatives for their assets. And, as a true mutual, we have no access to the capital markets to raise funds. On the other hand, FHLB advances are a stable, reliable source of funds. Advances have predictable terms, which helps us meet our loan funding needs.

The mission of the FHLB System, as mandated by Congress, is to provide financial institutions with access to low-cost funding so they can adequately meet the credit needs of their communities, such as supporting homeownership, local businesses, and via community development. Penalizing the use of advances through higher assessment premiums would, therefore, conflict with the clear intent of Congress. The pending FDIC reform legislation was not intended to result in higher insurance premiums simply because an institution holds FHLB advances During the FDIC reform legislation process over the past few years, members of both

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the House and Senate have affirmed this clear Congressional intent. In fact, one of the purposes of the Gramm-Leach-Bliley Act is to broaden access to advances.

The deposit insurance premiums that banks pay should be based solely on their actual risk profiles as measured by their supervisory ratings from examinations. Banks that are engaged in excessively risky activities should pay higher premiums. However, the use of FHLB advances and/or other wholesale funding sources should not in and of itself be the reason why an institution is determined to be riskier.

Again, our position is that FHLB advances are a critical, stable, and predictable source of funding We urge the FDIC not to include FHLB advances in the definition of volatile liabilities or to allow higher insurance premiums to be assessed based solely on their usage

Sincerely,

Robert A. Dorsey

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