SENECA FALLS SAVINGS BANK | ROYCE & ROSENKRANS INSURANCE AGENCY

August 16, 2006

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

Attention: Comments

Re: <u>Deposit Insurance Assessments and Federal Home Loan Bank Advances</u>

Dear Mr. Feldman:

I am writing to address the FDIC's request for comment on whether Federal Home Loan Bank ("FHLB") advances should be included in the definition of volatile liabilities, or, alternatively, whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities.

Seneca Falls Savings Bank is a relatively small institution located in the heart of the Finger Lakes Region. We have approximately $20 million in FHLB advances outstanding today and have looked to the FHLB as a reliable source of funding for a number of years. Our FHLB advances are not volatile liabilities. Rather, the FHLB advances have proven to be easily understood and very predictable. In a time when competition for deposits is fierce, due especially to the increased threat posed by unfairly regulated and untaxed credit unions, deposit funding has become more closely aligned with the definition of volatile liabilities.

We have found it necessary to resort to special, short-term promotions in our markets to combat against the outflow of money as depositors seek higher returns from alternative sources. Unlike the many larger institutions that can look to Wall Street for replacement liabilities, we are not able to obtain such long-term, stable sources of funds at a reasonable price.

It seems to me that the FHLB is fulfilling one of its primary purposes of existing through its provision of long-term liquidity to its members. Certainly, there has

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been wide acceptance among small community banks of the various funding products offered through the FHLB. Many of us include specific provisions for borrowing from the FHLB in our business plans because the funds are predictable and provide a lower marginal cost to us. To classify the FHLB borrowings as volatile just doesn't make sense given the stability and reliable availability of the advances.

The approach taken now to determine deposit insurance premiums is based on a risk profile that is applied to each institution. Those banks that expose the fund to a higher risk pay a higher premium. The risk based approach makes sense, but to establish criteria where FHLB advances are considered a volatile funding source seems inconsistent with the treatment accorded customer certificates of deposit, which have proven to be even more unpredictable and costly than the FHLB advances used at our institution.

We use FHLB advances for immediate liquidity, to manage interest rate risk and to fund loan demand. To discourage FHLB borrowings is counterproductive and would actually increase the risk of failure of FDIC-insured institutions. As noted earlier, the competition for deposits is increasing, and in many instances, our deposit funding has been inadequate to meet loan demand. Further, the availability of reliable and predictable funding has been an invaluable tool for prudent financial management. If we had to turn to other sources, these other sources, such as the wholesale funding market, are less predictable, less reliable and more expensive.

I would be remiss if I did not mention that the FHLB's primary mission is to provide low-cost funding to member institutions so that we can meet our community's credit needs, furthering homeownership and community development. Penalizing community banks with an additional expense associated with FHLB borrowings would further erode the community bank's ability to meet the need, which Congress has repeatedly reaffirmed.

Sincerely,

Menzo D. Case
EVP