FIRST FEDERAL BANK
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James P. Giraldin, President and Chief Operating Officer

August 17, 2006

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, D.C. 29429
Attention: Comments - RIN 3064-AD09

Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances

Dear Mr. Feldman:

On behalf of First Federal Bank of California, I am writing with regard to the Federal Deposit Insurance Corporation notice of proposed rulemaking and request for comment on deposit insurance assessments (the "Proposed Rule"). I appreciate the opportunity to comment on the Proposed Rule, and in particular, on whether Federal Home Loan Bank (FHLBank) advances should be included in the definition of volatile liabilities.

First Fed strongly opposes the characterization of FHLBank advances as volatile liabilities. The risk of volatility is not present in these advances, which have express, predictable terms and which have been utilized by member institutions to beneficial effect for many years. These advances are essentially different from the deposits which properly are deemed to be volatile liabilities. An FHLBank member who obtains advances to meet liquidity requirements of its business plan and to fund asset growth has control over their existence and duration. This is distinguishable from deposits which may be reduced or eliminated by depositors due to a number of factors which are outside of the member's control. These factors include the availability of promotional rates offered by a competitor or the existence of higher returns to depositors on other kinds of investments in a particular environment. For community banks that comprise the majority of members of the Federal Home Loan Bank System, FHLBank advances function as a long-term, stable source of funds for institutions that may not have the size or resources to turn to Wall Street for replacement liabilities when deposits are reduced.

Throughout their 75-year history, the FHLBanks have been a stable source of funds for community bank members. The availability of such credit is a necessary component of members' ability to achieve their goal of providing credit, particularly residential lending credit, to their communities. There is no historic basis for defining FHLBank advances as "volatile liabilities" given the stability of the FHLBanks, the ready availability of advances as a source of wholesale funding for community bank FHLB members, and the beneficial and stabilizing effect of such funding on members' lending capacity and financial position.

The effect of including these advances in the category of "volatile liabilities" would be to unfairly increase deposit insurance premiums on a basis other than an institution's actual risk profile. In fact, discouraging borrowing from the FHLBanks by defining FHLB advances in this adverse manner would have the undesired effect of decreasing liquidity, making it more difficult to manage interest rate risk, constraining the ability of member banks to meet loan demand in their communities, and forcing institutions to seek out other, more costly wholesale funding sources that are truly volatile. Thus, the Proposed Rule is not an enhancement to a risk-based insurance assessment

Moreover, the Proposed Rule is contradictory to the essential mission of the FHLBanks, which is to provide financial institutions with access to stable sources of low-cost funding so they may adequately meet communities' credit needs to support homeownership and community development. A collaborative process between the FDIC and the FHLBanks is already in place, which ensures supervision over a troubled institution, and provides a balance between liquidity needs and other financial risks.

In summary, this aspect of the Proposed Rule is unnecessary as a risk management tool, and will have a destabilizing effect on member institutions' liquidity and ability to meet the lending needs of their communities. I urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

Sincerely,

James P. Giraldin