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FINANCIAL SERVICES, FSB

Not Just Any Bank...Your Bank!™

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September 7, 2006

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

Re: Request for Comments
Deposit Insurance Assessments on FHLBank Advances
RIN 3064-AD09

Dear Mr. Feldman:

We are writing to objection to any change in current rules that would result in the inclusion of Federal Home Loan Bank (FHLBank) advances within the definition of volatile liabilities, or which would otherwise have the effect of exposing institutions to higher assessment rates if they have significant amounts of secured FHLBank liabilities.

Citizens Financial Bank is a $1.3 billion federal savings bank located in Munster, Indiana that extends mortgage loans to customers across South Chicagoland and Northwest Indiana. These are regions with some of the most critical economic and housing needs in the country.

In carrying out our housing finance mission, we routinely and reliably borrow from the Federal Home Loan Bank of Indianapolis (FHLBI) in order to meet our liquidity needs in all market conditions, and we use the FHLBI to fund our housing and community development lending when supplemental deposits are unavailable at reasonable rates.

FHLBank advances have served as a useful funding tool for us. Deposits may be lost as a result of disintermediation due to many and various factors. In contrast, FHLBank advances can be counted on and will not evaporate due to circumstances outside our control. Since smaller institutions must rely more on FHLBank borrowings than larger institutions having direct access to capital markets, we do not believe it is wise to disadvantage the small and mid-size banks with higher FDIC premiums simply because of their lack of capital market access.

FHLBanks are cooperatively owned. Moreover, as a government-sponsored enterprise, FHLBanks operate under specific congressional mandates to support liquidity and housing finance and are closely regulated by the Federal Housing Finance Board. As an FHLBank member, we were required to purchase FHLBank stock as a prerequisite to membership, which established an ongoing relationship between us and the FHLBank and creates an incentive for each of us to support the continued vitality of the other.

The FHLBank System was created to provide a source of long-term liquidity for FHLBank members. FHLBanks have been a stable, reliable source of funds for member institutions for 75 years. The availability of such credit has a predictable, beneficial effect on members' business plans.

It would be wholly illogical to include FHLBank advances in the definition of volatile liabilities given the stability of the FHLBanks, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable effects of such funding for their members.

Deposit insurance premiums should be based on an institution's actual risk profile, taking into account an institution's supervisory rating and capital ratios. Banks that are engaged in excessively risky activities should pay a higher premium, regardless of whether those activities are financed by insured deposits or stable FHLBank advances. It may be appropriate to risk-adjust other wholesale funding sources, which can be very unstable, volatile, and outside of the community banks' regular deposit gathering market, but none of these characteristics are true of FHLBank borrowings.

In our opinion, discouraging FHLBank advances could actually increase risks to FHLBank members and the FDIC. Member institutions frequently use FHLBank advances for liquidity purposes and as a lower cost alternative to deposits to fund loan growth. Curtailing the use of FHLBank advances would force institutions to look to alternative, and often more costly, wholesale funding sources that are more volatile; thereby increasing interest rate and liquidity risks.

Penalizing the use of advances through the imposition of insurance premiums conflicts with the intent of Congress in establishing the FHLBanks, in opening membership in the FHLBanks to commercial banks under the 1989 FIRREA legislation, and with the Gramm-Leach-Bliley Act of 1999, which expanded community banks' access to FHLBank advances. The FHLBanks' mission is to provide financial institutions with access to low-cost funding so they may adequately meet communities' credit needs to support homeownership and community development. Charging higher assessments to banks utilizing advances would, in effect, use the regulatory process to undermine the FHLBanks' mission as established by the Congress.

To address the risk of FHLBank advances to the FDIC insurance fund, a regulatory and legal structure already exists to ensure collaboration between the FDIC and the FHLBanks. If an FDIC-insured institution experiences financial difficulties, the FDIC and the relevant FHLBank are required by regulation to ensure the institution has adequate liquidity and minimizes other risks, including losses to the FDIC. In addition, the FHLBanks possess the legal authority to obtain confidential access to exam reports to assist with this analysis.

The cooperative relationship between the FHLBanks and member financial institutions has worked remarkably well for 75 years. FHLBank membership has long been viewed as protection for deposit insurance funds by providing FHLBank members alternative access to low-cost liquidity during all economic cycles. Penalizing financial institutions for their cooperative relationship with the FHLBanks would hinder community bank competitiveness with large banks, limit credit availability in the communities they serve, and limit their use of a valuable liquidity source, with no ascertainable economic or public policy benefit.

We respectfully urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities and thank you for the opportunity to submit comments on this important issue.

Very truly yours,

Brian L. Goins
Senior Vice President - Corporate Counsel

cc: Martin Heger