



FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Building Partnerships. Serving Communities.

August 23, 2006

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, D.C. 20429

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

Dear Mr. Feldman:

On behalf of the Federal Home Loan Bank of Indianapolis, we appreciate that the FDIC is requesting public comment on the question of whether FHLBank advances should be included in the definition of volatile liabilities, or whether higher assessment rates should be charged to institutions that have significant amounts of secured FHLBank liabilities.

Our track record of providing consistently available credit at competitive rates confirms that advances are not volatile liabilities for FHLBank members. FHLBank advances have pre-defined, understood, and predictable terms. Experience has shown that deposits may be lost due to disintermediation arising from a variety of factors, such as special, short-term promotions in a particular market or the existence of higher returns to depositors on alternative assets. Conversely, advances have been a stable source of liquidity for insured depositories. For example, the FHLBanks were ready and able to provide funds to members during both the Y2K transition in 2000 and during the tragic days following September 11, 2001. While larger institutions can look to Wall Street for replacement liabilities, the FHLBanks serve as long-term, stable providers of wholesale funds to the community banks that often do not have easy access to the capital markets. These community banks comprise the bulk of the FHLBank membership.

The stability of FHLBank advances is illustrated by the fact that members are cooperative owners of the FHLBank, and as a government-sponsored enterprise, the FHLBank operates under specific congressional mandates to support liquidity and housing finance and is closely regulated by the Federal Housing Finance Board. Under this regulatory regime, a prospective member is required to purchase FHLBank stock as a prerequisite to membership. This transaction establishes an ongoing relationship between the FHLBank and the member in which each party's compliance with the terms of the advance ensures the continued vitality of the other.

As set by Congress, the primary purpose of the FHLBank System is to provide a source of long-term liquidity for FHLBank members. Throughout their 75-year history, the FHLBanks have been a stable, reliable source of funds for member institutions. Currently, the FHLBank System provides funding for more than 8,200 member financial institutions. It would be 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 effect of such funding on members' business plans.

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 are unstable, volatile, and outside of the community banks' regular deposit gathering market – all attributes that are not found with FHLBank borrowings. The professional and capable FDIC examination staff is better suited to determine a bank's risk profile than an inflexible formula imposed on all insured institutions, regardless of circumstance.

Discouraging the use of FHLBank advances would be counterproductive and could perversely increase risks to FHLBank members and the FDIC. In many markets, the supply of deposit funds is inadequate to meet loan demand and prudent financial management needs. Member institutions frequently use FHLBank advances for liquidity purposes as a lower cost alternative to deposits to fund loan growth. Additionally, the use of advances by a member institution may actually reduce the risk of failure, because advances enable an institution to better manage its interest rate risk. FHLBanks monitor closely the financial strength of member institutions and take appropriate actions based on the members' performance. The FHLBanks have rigorous collateral requirements. The higher the level of a member's use of advances, the more high-quality assets it must maintain to collateralize those advances. For example, the FHLBanks do not take construction, acquisition-development, or predatory loans. Therefore, with these collateral standards, a high advance usage level self-regulates a member's credit risk taking behavior.

Furthermore, charging a premium on FHLBank advances used to fund home loans represents a hidden tax on the homebuyer. Assessing insurance premiums on the basis of deposits is logical because depositors benefit from having their funds protected by FDIC insurance. However, assessing premiums on the basis of advances provide no benefits to the homeowner, the institution or the FHLBank. Thus, it is inappropriate and inequitable that the borrowing homeowner incurs this additional charge. Curtailing the use of FHLBank advances would force institutions to look to alternative, and often more costly, wholesale funding sources that are demonstrably more volatile, thereby reducing profitability and increasing liquidity risk.

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 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 those banks utilizing advances would, in effect, use the regulatory process to undermine the FHLBanks' mission as established and repeatedly upheld 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.

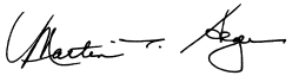
During the pendency of FDIC reform legislation in the past several years, Congressional Committees and principal sponsors of FDIC reform expressed specifically that the FDIC, in developing a risk-based insurance assessment proposal, should not adversely affect advances. The Congressional intent has been expressed on a bi-partisan basis in both the House and Senate. The House Budget Committee report on reconciliation (November 7, 2005) and the House Financial Services Committee report on deposit insurance reform (April 29, 2005) expressed such concern. In addition, Senator Tim Johnson (D-SD), in a Senate Floor statement on November 3, 2005, stated that FDIC reform legislation was not intended to result in increased insurance premiums simply because an institution holds advances. Congressman Spencer Bachus (R-AL) gave a similar statement on the House Floor on December 19, 2005. Congressman Richard Baker (R-LA) also made

statements on the House Floor, on April 7, 2003 and June 5, 2002, expressing strong concern that the FDIC might classify institutions with certain amounts or percentages of advances as more risky and, therefore, charge them higher premiums. Congressman Baker said that such actions would contradict Congress' clear intent to broaden access to advances under the Gramm-Leach-Bliley Act. Thus, legislative history indicates that the FDIC should not charge premiums based solely on an institution's use of advances.

The cooperative relationship between the FHLBanks and member financial institutions has worked remarkably well for 75 years. FHLBank advances serve as a critical source of credit for housing and community development purposes, support sound financial management practices, and allow member banks throughout the nation to remain competitive. 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 result in the institutions being less competitive, limit credit availability in the communities they serve, and limit their use of a valuable liquidity source, all for no justifiable economic or public policy reason. We urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

We thank the FDIC for the opportunity to submit comments on this important issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Martin L. Heger". The signature is fluid and cursive, with a large initial "M" and a stylized "H".

Martin L. Heger
President-CEO