September 13, 2006

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

Re: Comment on Deposit Insurance Assessments and Federal Home Loan Bank Advances as Volatile Liabilities

Dear Mr. Feldman:

On behalf of Rainier Pacific Bank, 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, or, alternatively, whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities.

Rainier Pacific Bank strongly opposes the characterization of FHLBank advances as volatile liabilities. Advances are not volatile liabilities for FHLBank members. FHLBank advances have predefined, understood, and predictable terms. Unlike deposits, advances do not evaporate due to circumstances outside of the control of an FHLBank member. 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 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. Experience has shown that deposits may be lost due to disintermediation arising from a variety of factors, special, short-term promotions in a particular market or the existence of higher returns to depositors on alternative assets. While some institutions can look to Wall Street for replacement liabilities, the money and capital markets have not functioned well as long-term, stable providers of wholesale funds to the community banks that comprise the bulk of the membership of the Federal Home Loan Bank System.

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 performed this mission successfully. The FHLBanks are a stable, reliable source of funds for member institutions, and the availability of such credit has a predictable, beneficial effect on members' business plans. 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. It would be illogical to include the FHLBank advances in the definition of volatile liabilities given the reliable availability of FHLBank advances as a source of wholesale funding, and the beneficial and stabilizing effect of such funding on members' lending capacity and financial position.

Deposit insurance premiums should be based primarily on an institution's actual risk profile, taking into account an institution's supervisory rating and capital ratios. 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 primarily upon an institution's actual risk profile. Discouraging borrowing from FHLBanks would be counterproductive to reducing the risk of failure of FDIC-insured institutions. In fact, discouraging the use of FHLBank advances could lead to 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 look to alternative, often more costly, wholesale funding sources that are demonstrably more volatile, thereby reducing profitability and increasing liquidity risk.

Moreover, the Proposed Rule is contradictory to the essential mission of the FHLBank, 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. Charging higher assessments to those banks utilizing advances would, in effect, use the regulatory process to curtail the FHLBanks' mission as established.

Finally, I believe a regulatory and legal structure is already in place to ensure collaboration between the FDIC and the FHLBanks. If an FDIC-insured institution is experiencing financial difficulties, the FDIC and the relevant FHLBank are expected to engage in a dialogue to ensure the institution has adequate liquidity while minimizing other risks, including losses to the FDIC.

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. I urge you to strongly reconsider these proposed regulations and not include the Federal Home Loan Bank advances in the definition of volatile liabilities in order to allow community banks, like Rainier Pacific Bank, to continue to have the FHLBank available to meet our liquidity and financial management needs.

Sincerely,

John A. Hall
President/CEO