

September 7, 2006

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

Attention: Comments

Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances
RIN 3064-AD09

Dear Mr. Feldman:

Peoples State Bank ("Peoples") is pleased to provide comments in response to the Federal Deposit Insurance Corporation notice of proposed rulemaking and request for comment on deposit insurance assessments. Specifically, we write 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.

We believe that FHLB advances should not be characterized as "volatile liabilities" for FHLB members. FHLB advances are secured extensions of credit to members with pre-defined, understood, and predictable terms. Unlike deposits, advances liabilities do not increase or decrease due to circumstances outside of the control of Peoples. 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 investments. While certain large institutions can look to the Wall Street capital markets for replacement liabilities, such as repurchase agreements, the capital markets are not typically long-term, stable providers of wholesale funds to the community banks, such as Peoples, that comprise the bulk of the membership of the Federal Home Loan Bank System.

As established by Congress, the primary purpose of the FHLB System is to provide a source of liquidity for FHLB members. The FHLBs are a stable, reliable source of funds for member institutions, and the availability of such credit has a predictable, beneficial effect on Peoples' business plan. It would be illogical to include FHLB advances in the definition of volatile liabilities, given the stability of the FHLBs, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable affect of such funding on Peoples' business plan.

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, FHLB advances, or alternative wholesale funding sources.

The continued availability of FHLB advances reduces the risk of failure of FDIC-insured institutions. Charging a higher deposit insurance premium to financial institutions that use advances could discourage borrowing from the FHLBs and lead to the unintended effect of increasing risks to FHLB members. Financial institutions frequently use FHLB advances for liquidity purposes and to manage interest-rate risk, as well as to fund loan growth. In many markets, the supply of deposit funds is inadequate to meet loan demand and prudent financial management needs. Curtailing the use of FHLB advances would force institutions to look to alternative, often more costly wholesale funding sources that are actually volatile, thereby reducing profitability and increasing liquidity risk.

In addition, the proposal would hurt consumers by increasing the cost of funding mortgage portfolios. Making FHLB advances more costly would likely result in a reduction of borrowing and thus income to the FHLBs. This, in turn, would reduce the funding available to the FHLBs' Affordable Housing Program and other community investment programs. We understand that in 2005, the FHLBs provided \$280 million in direct grants for affordable housing across the nation.

Penalizing the use of advances through the imposition of insurance premiums also would conflict with the intent of Congress in establishing the FHLBs, in opening membership in FHLBs to commercial banks in FIRREA, and, more recently, in adopting the Gramm-Leach-Bliley Act, which expanded small banks' access to advances. The FHLBs' 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 advance would, in effect, use the regulatory process to vitiate the FHLBs' mission, as established and repeatedly reaffirmed by the Congress.

During the consideration of FDIC reform legislation in the past several years, Congressional Committees and principal sponsors of such legislation expressed specific concerns that the FDIC, in developing a risk-based insurance assessment proposal, not adversely affect advances. The Congressional intent has been expressed in both the House and Senate on a bi-partisan basis. Both the House Budget Committee report on reconciliation (November 7, 2005) and the House Financial Services Committee report on deposit insurance reform (April 29, 2005) contained such expressions of concern.

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Finally, a regulatory and legal structure is already in place to ensure collaboration between the FDIC and the FHLBs. If an FDIC-insured institution is experiencing financial difficulties, the FDIC and the relevant FHLB are required by regulation 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 FHLBs and member financial institutions has worked well for 74 years. FHLB 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. FHLB membership has long been viewed as protection for deposit insurance funds because FHLB members have reliable access to liquidity. Penalizing Peoples for our cooperative relationship with the FHLBs would unjustifiably limit our ability to offer competitive pricing, limit credit availability in our communities, and limit Peoples' use of a valuable liquidity source.

We urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities or to impose a deposit insurance premium assessment on "secured liabilities."

Sincerely,



Scott M. Cattana, CPA
Senior Vice President/Chief Financial Officer
Peoples State Bank, Wausau, WI

cc: Peter W. Knitt, President and CEO