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

September 18, 2006

Attention: Comments

Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances

Dear Mr. Feldman:

The purpose of this letter is to address the FDIC's request for comment 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. First of all, I'd like to thank you for this opportunity to comment on the matter.

FHLBank advances are not volatile liabilities. Advances have been growing fast as a chosen tool of FHLBank members, because they are easy to use, affordable, and they have a long track record of benefiting institutions and the communities they serve. Unlike deposits, they neither seasonally fluctuate nor evaporate due to the circumstances out of the control of an FHLBank member. Wholesale funds such as money and capital markets have not functioned well as stable sources of funds to the community banks, either. FHLBank advances are an excellent alternate funding source to offset the temporary deposit outflow as well as a reliable wholesale funding source as evidenced throughout their three-decade long successful history. I urge the FDIC not to include FHLBank advances in the definition of volatile liabilities.

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Deposit insurance premiums should be based on the degree of risk for an institution, taking into account its supervisory rating and capital adequacy. It wouldn't be prudent if the premiums are imposed according to the types of funding sources that financed the institution's activities rather than the riskiness of those activities that an institution undertakes. If banks are engaged in excessively risky activities as a result of FHLB advances, then these conditions will be reflected in the bank's CAMELS rating, capital adequacy ratios, and potentially its premium level. Higher premiums charged for advances would force FHLBank members to look to alternative, often more costly funding sources that are more volatile, thereby increasing liquidity risk and reducing profitability.

FHLBank advances serve as our critical source of credit for housing and community development purposes, support sound financial management practices, and allow member banks to remain competitive. I urge the FDIC to reconsider their idea of treating Federal Home Loan Bank advances as volatile liabilities.

Sincerely,

Jeffrey J. Lee
President and C.E.O.

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