Lone Summit Bank
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Mr. 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

Dear Mr. Feldman:

I write with regard to the Federal Deposit Insurance Corporation notice of proposed rulemaking and request for comment on deposit insurance assessments. Specifically, I write to address the FDIC's request for comment on whether Federal Home Loan Bank (FHL Bank) 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. I appreciate the opportunity to comment on this important matter.

Advances are not volatile liabilities for FHL Bank members. FHL Bank advances have pre-defined, understood, and predictable terms. Unlike deposits, advances do not evaporate due to circumstances outside of the control of FHL Bank member. 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 lone-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 FHL Bank System is to provide a source of long-term liquidity for FHL Bank members. Throughout their 75 -year history, the FHL Banks have performed this mission successfully. The FHL Banks 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. Given the value of such a stable source of funding, it is not surprising that more than 8,200 financial institutions are members of the FHL Bank System. It would be illogical to include FHL Bank advances in the definition of volatile liabilities given the stability of the FHL Banks, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable effect of funding on members' business plans. I urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

Discouraging borrowing from the FHL Banks would be counterproductive to reducing the risk of failure of FDIC-insured institutions. In fact, discouraging the use of FHL Bank advances could lead to perverse effect of increasing risks to FHL Bank members. Borrowers frequently use FHL Bank advances for liquidity purposes and to manage interest-rate risk, as well as 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 FHL Bank advances would force institutions to look to alternative, often more costly wholesale funding sources that are demonstrably more volatile, thereby reducing profitability and increasing liquidity risk.

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

The cooperative relationship between the FHL Banks and member financial institutions has worked remarkably well for 75 years. FHL Bank 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. FHL Bank membership has long been viewed as protection for deposit insurance funds because FHL Bank members have access to guaranteed liquidity. Penalizing financial institutions for their cooperative relationship with the FHL Banks would result in their 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. I urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

Sincerely,

Wm. Joe Woywod
President/CEO