Somerset Trust COMPANY

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September 19, 2006

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

Attention: Comments

Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances

Dear Mr. Feldman:

I am writing in response to the Federal Deposit Insurance Corporation's proposal to classify Federal Home Loan Bank advances as volatile liabilities and potentially charge advance users higher deposit insurance premiums. Somerset Trust Company opposes this proposal since FHLBanks are highly stable institutions and its advances are verifiably low-risk. If the FDIC were to enact this rule it would be counter productive to the banking industry and FDIC by increasing their risk and exposure to rate and liquidity volatility.

FHLBank advances are not a volatile liability for members and provide access to the financial markets that are not afforded to small banks in a cost effective manner. They are a key component of liquidity for institutions like ours. They come with set, predictable terms allowing efficient balance sheet management. Unlike deposits, advances do not diminish when market forces or consumer habits change.

Discouraging banks from borrowing from FHLBanks would be counterproductive to reducing risks for the FDIC. FHLBank advances ensure available, cost-effective liquidity, manage interest-rate risk, as well as fund loan growth. In today's market, it is difficult for small institutions to generate long-term funding in our local markets. These advances can prove to be an integral part of an institution's interest rate risk management by providing a cost effective and stable form of long-term liabilities. Penalizing advance use will force institutions to look for other, alternative sources that are not as dependable and are far more volatile then the FHLBanks. This would result in fewer loans, reduced profits and higher liquidity and interest-rate risk.

The FDIC should continue to determine rates using an institutions actual risk profile, reflected in comprehensive supervisory ratings. Those institutions engaged in risky activity should have higher premiums then their more conservative counterparts regardless of whether the funding comes through advances, deposits or other sources.

When Congress created the FHLBank System in 1932 its goal was a steady stream of mortgage credit through advances. Congress reiterated its support of advances by expanding small banks access to this funding in the Gramm-Leach-Bliley Act. This proposal, which seeks to penalize the judicious use of advances runs contrary to the actions and intent of Congress.

Sincerely;

David J Hudak
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