First Mutual Bank

Roger A. Mandery
Executive Vice President/CFO

September 13, 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 regard to the Federal Deposit Insurance Corporation notice of proposed rulemaking and request for comment on deposit insurance assessments.

Our view is that advances are not volatile liabilities for FHLBank members. FHLBank advances have pre-defined, understood, and predictable terms. Unlike deposits, advances are not subject to competitive market forces outside of the control of an FHLBank member. Our experience is that deposits may be lost due to disintermediation arising from a variety of factors such as 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, our institution is too small to access that market.

We believe that deposit insurance premiums should be based on an institution's actual risk profile, taking into account an institution's supervisory rating. Banks that are engaged in excessively risky activities should pay a higher premium, regardless of whether those activities are financed by insured deposits, FHLBank advances, or alternative wholesale funding sources. The professional and capable FDIC examination staff is better suited to determining a bank's risk profile than an inflexible formula imposed on all insured institutions, regardless of circumstance.

We are of the opinion that discouraging borrowing from the FHLBanks would be counterproductive to reducing the risk of failure of FDIC-insured institutions. Borrowers frequently use FHLBank 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 FHLBank 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. The FHLBanks' 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 the regulatory process to vitiate the FHLBanks' mission as established and repeatedly reaffirmed by the Congress.

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. FHLBank membership has long been viewed as protection for deposit insurance funds because FHLBank members have access to guaranteed liquidity. Penalizing financial institutions for their cooperative relationship with the FHLBanks would result in their being less competitive, limit credit availability in the communities they serve, and limit their use of a valuable liquidity source. I urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

Sincerely,

Roger A. Mandery

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