



The *F*airfield
NATIONAL BANK

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 RIN 3064-AD09**

Dear Mr. Feldman:

The Fairfield National Bank 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 an FHLB member. While certain large institutions can look to the Wall Street capital markets for replacement liabilities, the capital markets are not typically long-term, stable providers of wholesale funds to the community banks that comprise the bulk of the membership of the Federal Home Loan Bank System.

The FHLB's 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. It would be illogical to include FHLB advances in the definition of volatile liabilities given the stability of the FHLB's, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable effect of such funding on members' business plans.

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.

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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 FHLB's 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.

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 advances would, in effect, use the regulatory process to vitiate the FHLB's mission as established and repeatedly reaffirmed by the Congress.

Finally, a regulatory and legal structure is already in place to ensure collaboration between the FDIC and the FHLB's. 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.

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,

A handwritten signature in black ink, appearing to read "Colleen Whyte", written in a cursive style.

Colleen Whyte
Branch Manager
Tri-County Banking Center