From: Mark Macomber [mailto:Macomber@litchfieldbancorp.com]
Sent: Tuesday, September 05, 2006 3:54 PM
To: Comments
Subject: Federal Home Loan Bank Advances

Attn: Mr. Robert E. Feldman, Executive Secretary

Dear Sir or Madam:

In the preamble to the FDIC's recently proposed regulation establishing a new risk-based deposit insurance assessment system, the FDIC solicited comments re: whether Federal Home Loan Bank (FHLB) advances should be included in the definition of volatile liabilities, thereby increasing a financial institution's assessment. As president and CEO of a bank that regularly uses FHLB advances to manage its balance sheet and to provide a much needed source of funds for the local housing market, I would answer an emphatic "NO".

FHLB advances are a dependable, relatively low cost source of funds and provide participating banks with the liquidity they need to run their businesses. Properly managed, advances are less volatile than deposits, especially CDs, which, of course, can and do move with rates, often before maturity.

Unquestionably the best approach to assessing deposit insurance premiums is to base the rates on a bank's actually risk profile, i.e., the current practice based on extensive and regular examinations by FDIC or other competent regulatory personnel. There is no empirical evidence that advances add to an institution's risk and the case can certainly be made that advances enhance a bank's asset-liability management options and thereby lower risk. For small banks FHLB advances offer the only realistic alternative to paying unreasonable rates on deposits to fund loan (and attendant economic) growth in markets with slow deposit growth. In the instance of longer-term, match funded loans advances greatly reduce interest rate risk by providing a funding source not otherwise available.

In the case of troubled banks FHLBs and the FDIC have a regulatory mandate to work together to insure these institutions have adequate liquidity thus minimizing loss exposure to the FDIC. Historically advances have been available to troubled institutions when other sources have dried up.

The system in place today continues to work well and the 12 FHLB Banks are committed to helping their members, your insured banks, in managing their balance sheets and serving the public. Their efforts include regular educational opportunities for member banks to better understand and utilize various advance products to reduce organizational risk.

The FHLB system is a critical and uniquely valuable partner to the US banking industry. To increase the costs of access, which the issue at hand would assuredly accomplish, would serve no useful purpose and would materially impact small banks, which have no other wholesale funding source, and make them less competitive.

The FDIC's current practice of assessing premiums in proportion to risk, especially credit risk which is clearly the primary cause of bank failure, is sound and proven. It is my institution's fervent hope that this unjustified and potentially harmful issue be laid to rest.

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