FHLBank
PITTSBURGH

John R. Price
President,
Chief Executive Officer

September 19, 2006

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Attention: Comments

Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances
RIN 3064-AD09

Dear Mr. Feldman:

Thank you for the opportunity to comment on the Federal Deposit Insurance Corporation ("FDIC") notice of proposed rulemaking and request for comment on deposit insurance assessments. Please observe that we will limit our comments to the FDIC's specific request for comment on whether Federal Home Loan Bank (FHLBank) advances should be included in the definition of volatile liabilities.

I cannot emphasize enough that FHLBank advances are not volatile liabilities for FHLBank members. The FHLBanks 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. This has been affirmed by the more than 8,200 financial institutions that continue to be voluntary members of the FHLBank System. It would be inconsistent to include FHLBank advances in the definition of volatile liabilities given the stability of the FHLBanks, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable effect of such funding on members' business plans. Therefore, the FDIC should not include FHLBank advances in the definition of volatile liabilities.

It is also important to note that discouraging borrowing from the FHLBanks would be counterproductive to reducing the risk of failure of FDIC-insured institutions. In fact, discouraging the use of FHLBank advances could lead to the perverse effect of increasing risks to FHLBank members. Borrowers frequently use FHLBank 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 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.

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

Finally, a structure is already in place to ensure collaboration between the FDIC and the FHLBanks. If an FDIC-insured institution is experiencing financial difficulties, the FDIC and the relevant FHLBank are required to engage in a dialogue to ensure the institution has adequate liquidity while minimizing other risks, including losses to the FDIC.

Thank you again for the opportunity to comment on your proposed rule.

Sincerely,

John R Price