First State Bank
banking outside the box

September 21, 2006

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

Re: RIN 3064 – AD09; Proposal to Amend Regulations for Risk-Based Premiums; 71 Federal Register 41910; July 24, 2006

Dear Mr. Feldman:

The Federal Deposit Insurance Corporation (FDIC) has issued a Notice of Proposed Rulemaking to amend its regulations on risk-based premiums. The proposed rule would create different risk scoring frameworks for smaller and larger banks that are well capitalized and well managed. This letter addresses one specific element of the frameworks for both large and small banks: the use of Federal Home Loan Bank (FHLB) advances in the definition of volatile liabilities, or, alternatively, determining higher assessment rates for banks that have significant amounts of secured liabilities (question 4.e. on page 41929).

The state bankers associations appreciate the opportunity to comment on this important matter. We feel strongly that FHLB advances should not be included in the definition of volatile liabilities. Furthermore, taking advantage of this secure funding source should not cause a bank to pay higher FDIC assessments.

FHLB advances are clearly not volatile liabilities. The FHLBs are a stable and reliable source of funds for their member banks. Advances are readily available for member banks with available collateral, and have pre-defined and predictable terms. In fact, advances can be as stable as core deposits, and are not vulnerable to short-term promotions in the local market or surging returns on alternative assets. Even in the case where a bank is experiencing financial difficulties, the FHLB making the advances is required by regulation to coordinate with the FDIC to ensure that the bank has adequate liquidity while minimizing other risks, including losses to the FDIC. The FHLBs have legal authority for confidential access to examination reports to assist with this analysis. Therefore, it would be illogical to include advances in the definition of volatile liabilities.

914 Lake Avenue • P.O. Box 79 • Gothenburg, Nebraska 69138 • Phone: 308-537-3684 • FAX 308-537-2292 • www.1stStateBank.com

Moreover, the use of FHLB advances does not increase the risk of a bank failing, and therefore does not warrant higher FDIC assessments. The availability of such funding has a predictable, beneficial effect on a bank's business plans. Advances are designed to be matched to the maturities of home loans and other term credits, helping a bank manage its interest rate risk exposure. Banks also use advances for liquidity purposes to fund loan growth. In markets where the supply of deposit funds is insufficient to meet loan demand, a FHLB member bank can rely on advances to meet customer needs. Without this funding, the bank would be forced to turn to alternative, more costly wholesale funding sources that are demonstrably more volatile. This, in turn, will reduce profitability, increase liquidity risk, and provide less stability for the bank. Therefore, the use of FHLB advances more likely justifies lower risk to the FDIC fund, and thus lower, not higher, FDIC assessments.

The cooperative relationship between the FHLBs and their member banks ahs worked remarkably well for 75 years and in so doing has helped protect the FDIC deposit insurance funds. FHLB advances serve as a critical source of funding for housing and community development purposes, support sound financial management practices, and allow more than 8,220 banks throughout the nation to have guaranteed access to liquidity. There is no justification for treating advances as volatile liabilities or as a determinant of higher FDIC assessments. We urge the FDIC not to consider advances in this way.

Sincerely,

Karl Randecker, President
First State Bank

KR/rc