FHLBANKS
A NATION OF LOCAL LENDERS

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, D.C. 20429

September 15, 2006

Attention: Comments – RIN No. 3064-AD09

Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances

Dear Mr. Feldman:

On behalf of the Council of Federal Home Loan Banks, I am submitting the following comments concerning the Federal Deposit Insurance Corporation's July 24, 2006 proposed rule concerning deposit insurance assessments. In the proposed rule the FDIC specifically requested comments on whether Federal Home Loan Bank (FHLBank) 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. The Council appreciates the opportunity to address this important matter.

FHLBank advances should not be included within the definition of volatile liabilities since they are not volatile liabilities for FHLBank members. Instead, FHLBank advances serve as a consistent, reliable source of liquidity for all FHLBank members. The availability of FHLBank advances as a means of wholesale funding is especially important to the community banks that represent a large majority of the FHLBank System's 8,200 plus members. These smaller institutions do not have reliable access to other sources of cost-effective wholesale funding and rely on the availability of FHLBank advances as a critical tool for managing their balance sheets and implementing their business plans.

If the FDIC were to include FHLBank advances within the definition of volatile liabilities, or charge higher assessment rates to institutions that have significant amounts of secured liabilities, this would have the direct effect of penalizing institutions based on their use of FHLBank advances. A policy that discourages borrowing from the FHLBanks would be counterproductive to reducing the risk of failure of FDIC-insured institutions and could, in fact, increase risks to FHLBank members. FHLBank advances are commonly used for liquidity purposes, and help FHLBank members manage interest-rate risk and fund loan growth. There are many markets in which the supply of deposit funds is inadequate to meet loan demand and prudent financial management needs. If the use of FHLBank advances is discouraged, FHLBank members would be forced to seek alternative, often more costly and volatile sources of wholesale funding, thereby reducing profitability and increasing liquidity risk.

A policy that discouraged the use of FHLBank advances by imposing higher deposit insurance premiums on institutions based on their use of FHLBank advances is contrary to 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 banks' 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. If the FDIC were to adopt a policy charging higher assessments to institutions using FHLBank advances, this would have the effect of undermining the mission of the FHLBanks as established and repeatedly reaffirmed by Congress.

The Congressional intent is unambiguous that the FDIC, in developing regulations to implement the deposit insurance reform legislation, should not adopt a risk-based insurance assessment proposal that discourages the use of FHLBank advances. The Congressional intent has been expressed in both the House and Senate on a bi-partisan basis. Both the House Budget Committee report on reconciliation (November 7, 2005) and the House Financial Services Committee report on deposit insurance reform (April 29, 2005) contained such expressions of concern. In addition, similar statements of concern have been expressed in separate Congressional Record statements by principal sponsors of FDIC reform. In short, the legislative history clearly indicates that the FDIC should not charge premiums based on an institution's use of advances.

For seventy-five years, the FHLBanks, their member financial institutions, and the communities they serve nationwide have benefited from FHLBank advances. FHLBank advances function as a critical source of credit for housing and community development purposes, sustain prudent financial management practices, and enable small community 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. In considering a final rule concerning deposit insurance assessments, the Council strongly urges the FDIC not to adopt a policy that would penalize institutions based on their use of Federal Home Loan Bank advances.

Sincerely,

Timothy R Chrisman

Timothy Chrisman
Chairman
Council of Federal Home Loan Banks