LYNNVILLE NATIONAL BANK

September 18, 2006

RECEIVED
SEP 22 2006
By 516

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 29429

Re: Request for Comments – Deposit Insurance Assessments on FHLB Advances – RIN 3064 – AD09

Dear Mr. Feldman:

We wish to make our opinion known on the possible inclusion of Federal Home Loan Bank Advances in the definition of volatile liabilities. I represent Lynnville National Bank, a $95 million financial institution headquarted in Lynnville, Indiana. We originate mortgage loans to customers primarily the surrounding five county area. It is our practice to utilize advances from the Federal Home Loan Bank of Indianapolis to meet liquidity needs when core and supplemental deposits are not available at reasonable rates.

FHLB advances are structured such that the terms are pre-defined, understood and predictable. Traditional deposits may be lost due to short term promotions in a given market or the opportunity for higher returns to customers on alternative assets. Conversely, advances do not dissipate due to circumstances outside the control of a FHLB member bank and the FDIC from a safety-soundness perspective.

The use of FHLB advances, in and of itself, does not increase the probability that an institution will fail or that the losses to the FDIC fund will increase. Rather, given the cooperative Federal Home Loan Bank structure, these advances are far safer and more reliable than brokered deposits. Additionally, these advances serve as beneficial tools to members for managing and reducing overall funding costs and interest rate risk.

As set forth by Congress, the primary purpose of the FHLB System is to provide a source of long term liquidity for FHLB members. The stability of the FHLB

P.O. Box 126 • Lynnville, Indiana 47619-0126 • Phone (812) 922-3231 • Fax (812) 922-3233

System has been proven by their 75 year history of providing a reliable source of funding for member banks. Given the stability of the FHLB System, the reliable accessibility of advances as a source for wholesale funding, and the understood and predictable effects of funding for member banks, it would be unreasonable to include FHLB advances in the definition of volatile liabilities.

Premiums on deposit insurance should be based on the supervisory reviews and resulting ratings and capital ratios. I do agree that institutions should pay higher premiums for engaging in extremely risky activities regardless of the funding sources used. However, risk adjustments based on funding sources alone should be made commensurate with attributes such as instability, volatility, and unpredictability, none of which can be used to describe FHLB advances.

Higher deposit insurance premiums charged based on the use of FHLB advances to fund mortgage loans would mean higher costs to homeowners. Curtailing the use of FHLB advances would force institutions to look to alternative, likely more costly, wholesale funding sources that are demonstrably more volatile, thereby reducing profitability, increasing liquidity risk and increasing costs to our customers.

The inclusion of FHLB advances in the definition of volatile liabilities would impede our ability to compete in our market area, limit credit availability in the communities we serve and limit our use of a valuable liquidity source – all for no justifiable economic or public policy reason. Accordingly, we urge the FDIC not to include FHLB advances in the definition of volatile liabilities.

Thank you for the opportunity to comment on this important issue.

Sincerely,

Bradley K. Pemberton

Bradley K. Pemberton
President