ABC Bank

Sam Scott
Chief Executive Officer
Chairman - Board of Directors

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By 532

September 15, 2006

Robert E. Feldman, Executive Secretary
FEDERAL DEPOSIT INSURANCE CORPORATION
550 Seventeenth Street N. W.
Washington, D.C. 20429

ATTENTION: COMMENTS

Dear Mr. Feldman:

RE: DEPOSIT INSURANCE ASSESSMENTS AND
FEDERAL HOME LOAN BANK ADVANCES
RIN 3064-AD09

This letter will address the FDIC's request for comment on whether Federal Home Loan Bank (FHLB) advances should be included in the definition of volatile liability or, alternatively, whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities.

FHLB advances are secured extensions of credit to members with pre-defined, understood and predictable terms. Our position is that FHLB advances should not be treated as "volatile liabilities" for FHLB members. Unlike deposits, advances liabilities do not increase or decrease due to circumstances outside of the control of an FHLB member. While certain large institutions can look to the Wall Street capital markets for replacement liabilities, the capital markets are not typically long-term, stable providers of wholesale funds to the community banks that comprise the bulk of the membership of the Federal Home Loan Bank System.

As you very well know, the primary purpose of the FHLB System is to provide a source of liquidity for FHLB members. We believe that throughout their 74-year history the FHLB's have performed this mission successfully. The FHLB's 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. It is not in keeping with our understanding of what constitutes volatile liabilities to include FHLB advances in this definition.

1301 West Taylor Street, Chicago, Illinois 60607-4706
(312) 604-1100
www.abcbank.net

Deposit insurance premiums should be based on an institution's actual risk profile, taking into account an institution's supervisory rating and capital ratios. Banks that are engaged in excessively risky activities should pay a higher premium, regardless of whether those activities are financed by insured deposits, FHLB advances or alternative wholesale funding sources

In addition, the proposal would hurt consumers by increasing the cost of funding mortgage portfolios. Making hg FHLB advances more costly would likely result in a reduction of borrowing and thus income to the FHLB's. This, in turn would reduce the funds available to the FHLB's Affordable Housing Program and other community investment programs. In 2005, the FHLB's provided $280 million in direct grants for affordable housing across the nation.

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

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

We urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities or to impose a deposit insurance premium assessment on "secured liabilities."

Yours truly,

AUSTIN BANK OF CHICAGO

SAM SCOTT
CEO

SS:h