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By 558

September 13, 2006

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

Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances, Federal Deposit Insurance Corporation (FDIC), RIN 3064-AD09

Dear Mr. Feldman:

F&C Bank appreciates the opportunity to comment on the Proposed Rule regarding Deposit Insurance Assessments. This letter is written in response to your request for comments regarding section 4, subsection e. This text is shown below:

4. Whether any variation on its proposal or on the alternative would be preferable, such as:
   e. Including Federal Home Loan Bank advances in the definition of volatile liabilities or, alternatively, charging higher assessment rates to institutions that have significant amounts of secured liabilities.

We don't believe any aspect of this alternative would be appropriate. In fact, we believe defining Federal Home Loan Bank (FHLB) advances as volatile liabilities would be inconsistent with the spirit of risk based assessment pricing and may create higher levels of risk in the banking system. FHLB advances are not volatile liabilities. Advances offer pre-defined, understood, and predictable terms. Our constant goal is to manage interest rate and liquidity risk. FHLB advances allow us the ability to manage and control these risks. If FHLB advances were included in the FDIC's volatile liability calculation it may create a potential disincentive to minimize these risks. We don't believe this is the FDIC's intent since liquidity and interest rate risks are two important components of the CAMELS safety and soundness rating evaluation system.

As with many banks, we have experienced an increase of our balance sheet allocations to real estate loans in recent years (many of which are fixed rate). As you are aware, these loans have the potential to carry significant interest rate risk. FHLB advances offer banks a means to hedge this interest rate risk at a reasonable cost that may not be available through retail deposits.

We also have greater dependence on non-core funding as we've counted on FHLB advances to support balance sheet growth. This is simply the nature of the market our bank competes in. The FHLB was formed to promote home ownership and community development. Banks have experienced a significant decrease in retail funding as a percentage of total assets in recent years. This trend is expected to continue in future years and FHLB advances are an important source of funding. In our opinion the increased reliance on non-retail funding has not created any additional risk to the banking system. In fact it could be argued that the banking system has never been in better financial condition than it is today.

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In summary, creating barriers to utilizing FHLB advances would be counterproductive to consumers and the health of the banking sector. Curtailing the use of FHLB advances would force banks such as ours to look to alternative wholesale funding sources that are possibly more volatile and often more costly, thereby reducing profitability and increasing liquidity risk. We agree that banks undertaking excessive risk should not be subsidized by well managed banks and should pay higher deposit insurance premiums. However, we believe FHLB advances reduce liquidity and interest rate risk and are not volatile liabilities. Therefore, we urge the FDIC to exclude FHLB advances in the definition of volatile liabilities.

Sincerely,

Robert E. Mickey
President

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