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September 22, 2006

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

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

Dear Mr. Feldman:

Please be advised that with respect to the FDIC's proposed notice of rulemaking and comment, we do not believe that Federal Home Loan Bank (FHLBank) advances should be included in the definition of volatile liabilities.

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We are St. Joseph Capital Bank, a $487MM financial institution located in Mishawaka, Indiana that extends mortgage loans to customers across Northern Indiana/Southwestern Michigan. We routinely and reliably borrow from the Federal Home Loan bank of Indianapolis (FHLBI) in order to meet our liquidity needs in all market conditions, and we use the FHLBI to fund our housing and community development lending when supplemental deposits are unavailable at reasonable rates.

FHLBI advances are not volatile liabilities for FHLBank members and have pre-defined, understood, and predictable terms. Since smaller institutions may on a proportionate basis rely more on FHLBank borrowings than those institutions having direct access to Wall Street and the capital markets, we should not disadvantage the small and mid-size banks with higher FDIC premiums simply because they lack capital market access.

As set by Congress, the primary purpose of the FHLBank System is to provide a source of long-term liquidity for FHLBank members. Throughout their 75-year history, the FHLBanks have been 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 would be illogical to include FHLBank advances in the definition of volatile liabilities given the stability of the FHLBanks, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable effects of such funding for the members.

Deposit insurance premiums should be based on an institution's actual risk profile, taking into account an institution's supervisory rating and capital ratios. The professional and capable FDIC examination staff is better suited to determine a bank's risk profile than an inflexible formula imposed on all institutions, regardless of circumstance.

Discouraging the use of FHLBank advances would be counterproductive. Member institutions frequently use FHLBank advances for liquidity purposes as a lower cost alternative to deposits to fund loan growth. Additionally, the use of advances may actually reduce the risk of failure because advances enable an institution to better manage its interest rate risk.

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. Charging higher assessments to those banks utilizing advances would, in effect, use the regulatory process to undermine the FHLBanks' mission as established and repeatedly upheld by the Congress.

The cooperative relationship between the FHLBanks and member financial institutions has worked remarkably well for 75 years. FHLBank advances serve as a critical source of credit for housing and community development purposes, support sound financial management practices, and allow member banks throughout the nation to remain competitive. FHLBank membership has long been viewed as protection for deposit insurance funds by providing FHLBank members alternative access to low-cost liquidity during all economic cycles. Penalizing financial institutions for their cooperative relationship with the FHLBanks would result in the institutions being less competitive, limit credit availability in the communities they serve, and limit their use of a valuable liquidity source – all for no justifiable economic or public policy reason. We urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

We thank the FDIC for the opportunity to submit comments on this important issue.

Sincerely,

Mark E. Secor
Senior Vice President
Chief Financial Officer