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September 19, 2006

Irwin Union Bank

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:

As Chairman of Irwin Union Bank and Trust (IUBT), a cooperative member owner of the Federal Home Loan Bank of Indianapolis (FHLBI), I appreciate the opportunity to provide the FDIC comment on the questions of whether FHLBank advances should be included in the definition of volatile liabilities and whether higher assessment rates should be charged to institutions that have significant amounts of secured FHLBank liabilities. I submit that FHLBank advances should not be included in the definition of "volatile liabilities." In addition, I do not support levying higher assessment rates on institutions that have higher levels of FHLBank secured liabilities.

The FHLBanks' track record of providing consistently available credit at competitive rates confirms that advances are not volatile liabilities for FHLBank members. FHLBank advances have pre-defined, understood, predictable terms. While larger institutions can look to Wall Street for replacement liabilities, the FHLBanks serve as long-term, stable providers of wholesale funds to the community banks that often do not have easy access to the capital markets. These community banks comprise the bulk of the FHLBank membership. 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 effect of such funding on members' business plans.

While I understand that the degree of reliance upon nondeposit funding sources within a bank's liability structure affects the FDIC's exposure to bank failure, deposit insurance premiums should be based on the institution's overall risk profile. The professional and capable FDIC examination staff is better suited to determine a bank's risk profile than an inflexible formula imposed on all insured institutions, regardless of circumstance.

Discouraging the use of FHLBank advances would be counterproductive and could perversely increase risks to FHLBank members and the FDIC. IUBT frequently uses FHLBank advances for liquidity purposes as a lower cost alternative as compared to other wholesale funding sources.

We believe the use of advances reduces the risk of failure by providing a reliable funding source that we can access in ways that help us better manage interest rate risk. Rigorous collateralization requirements limit our level of reliance on the FHLBank.

Charging a premium on FHLBank advances used to fund home loans represents a hidden tax on the homebuyer. Assessing insurance premiums on the basis of deposits is more logical because depositors benefit from having their funds protected by FDIC insurance. Assessing premiums on the basis of advances, however, provides no benefits to the homeowner, the institution, or the FHLBank. Thus, it is inappropriate and inequitable that the borrowing homeowner incurs this additional charge.

Penalizing the use of advances through the imposition of insurance premiums conflicts with the intent of Congress in establishing the FHLBanks, in opening membership in the FHLBanks to commercial banks under the 1989 FIRREA legislation, and with the Gramm-Leach-Bliley Act of 1999 which expanded community 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. 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.

For over 16 years, IUBT has had a great relationship with FHLBI. FHLBank advances serve as an important and reliable source of funds for housing and community development purposes that support sound financial management practices and provide important liquidity support in an environment where bank deposit growth is often difficult to achieve in a consistent fashion. Penalizing financial institutions like ours for utilizing our cooperative relationship with FHLBanks would hurt our competitiveness and tax the use and availability of a liquidity source that is instrumental to many institutions, not just in funding loans, but in managing excess liquidity that is necessary to help prevent a liquidity crisis.

I urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

Sincerely,

Thomas D. Washburn, Chairman
Irwin Union Bank and Trust Co.