

September 19, 2006

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

Attention: Comments

Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances  
RIN 3064-AD09

Dear Mr. Feldman:

MB Financial Bank, N.A. is pleased to provide comments in response to the Federal Deposit Insurance Corporation notice of proposed rulemaking and request for comment on deposit insurance assessments.

MB Financial Bank, N. A. is concerned about the inclusion of Federal Home Loan Bank advances in the proposed definition of volatile liabilities or, alternatively, whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities.

We do not believe that the inclusion of the advances as "volatile liabilities" for FHLB members is an appropriate category for these vital financial tools. FHLB advances are secured extensions of credit to members with pre-defined, understood, and predictable terms. Unlike customer deposits the FHLB advances values do not increase or decrease due to circumstances outside of the control of our bank. Contrary to the predictability and stability of the advances our deposits from customers are more volatile, subject to the vagaries of the marketplace and impacted by government policy. Our competitive market is driven by large wholesale banks who tap in to the capital markets to fund transactions and comparable liabilities (brokered deposits). These 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 and the access to the Federal Home Loan Bank System provides local financial institutions with an efficient system for funding housing and community development finance.

As established by Congress, the FHLB System is to provide a source of liquidity for FHLB members. 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. The addition of the Community Investment Program (CIP) to the menu of advances from the system resources has aided the member/users to provide long-term stable funding for critical needs in the financing of affordable rental properties and the development of affordable home ownership programs. It would be illogical to include FHLB advances in the definition of volatile liabilities given the stability of the FHLB's, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable effect of such funding on members' business plans.

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.

The continued availability of FHLB advances reduces the risk of failure of FDIC-insured institutions. Charging a higher deposit insurance premium to financial institutions that use advances could discourage borrowing from the FHLB's and lead to the unintended effect of increasing risks to FHLB members. Financial institutions frequently use FHLB advances for liquidity purposes and to manage interest-rate risk, as well as to fund loan growth. In many markets, the supply of deposit funds is inadequate to meet loan demand and prudent financial management needs. Curtailing the use of FHLB advances would force institutions to look to alternative, often more costly wholesale funding sources that are actually volatile, thereby reducing profitability and increasing liquidity risk.

In addition, the proposal would hurt consumers by increasing the cost of funding mortgage portfolios. Making 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 funding 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. The FHLB's 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 vitiate the FHLB's mission as established and repeatedly reaffirmed by the Congress.

During the consideration of FDIC reform legislation in the past several years, Congressional Committees and principal sponsors of such legislation expressed specific concerns that the FDIC, in developing a risk-based insurance assessment proposal, not adversely affect advances. The Congressional intent has been expressed in both the House and Senate on a bi-partisan basis.

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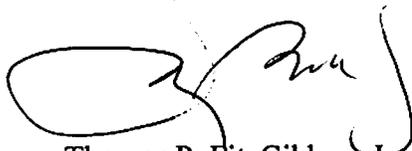
Both the House Budget Committee report on reconciliation (November 7, 2005) and the House Financial Services Committee report on deposit insurance reform (April 29, 2005) contained such expressions of concern.

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.

The FHLB 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. FHLB membership has long been viewed as protection for deposit insurance funds because FHLB members have reliable access to liquidity. Penalizing financial institutions for their cooperative relationship with the FHLB's would unjustifiably limit their ability to offer competitive pricing, limit credit availability in the communities they serve, and limit the members' use of a valuable liquidity source.

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."

Sincerely,



Thomas P. FitzGibbon, Jr.  
Executive Vice President  
MB Financial Bank  
President  
MB Financial Bank Community Development Corporation