September 20, 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,
Federal Deposit Insurance Corporation (FDIC), RIN 3064-AD09

Dear Mr. Feldman:

Representing the Thayer County Bank of Hebron, Nebraska, I appreciate the opportunity to comment on the FDIC's notice of proposed rulemaking and request for comment regarding deposit insurance assessments. I am writing specifically in regard to the issue of whether Federal Home Loan Bank (FHLBank) advances should be included in the definition of volatile liabilities or, alternatively, whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities.

First, advances are not volatile liabilities for FHLBank members. Most advances offer pre-defined, well-understood, and predictable terms. The only exception to any of these points may be "well-understood" in the case of some of the more exotic callable and convertible advances. Even in those cases however there is not a volatility issue from a liquidity standpoint but only perhaps from an interest rate sensitivity standpoint in some rate environments. Unlike customer deposits, advances do not evaporate due to circumstances beyond our control. Experience has shown that deposits may be lost due to disintermediation arising from a variety of factors such as special promotions in a particular market or the existence of higher returns to depositors on alternative assets. Our bank and many other community banks have found that brokered CDs are actually less volatile than large consumer deposits both from a liquidity perspective and interest rate sensitivity perspective. Unfortunately, brokered CDs do not provide funding opportunities to hedge certain long-term residential projects that we desire to manage our interest rate risk on. While some larger members of FHLBank Topeka can look to Wall Street for replacement liabilities, the capital markets are not a realistic option for the majority of the community banks that comprise the bulk of FHLBank Topeka's membership.

Second, as established by Congress, the primary purpose of the FHLBank System is to provide a source of long-term liquidity for FHLBank members. We have found that FHLBank Topeka is a stable, reliable source of funds, and the availability of such credit has a predictable, beneficial effect on our business plan. We have utilized the many advance programs at FHLB Topeka to provide long-term fixed rate financing to many low to moderate income projects which have very little credit risk. We believe these types of advances and loan arrangements serve substantial public benefit. Since there is little margin (and little risk with arbitraged advances from FHLB) additional assessments on these sort of advances would probably take us out of this business. The majority of our advances from FHLB are for this sort of project financing.

We are aware of concerns that, since FHLBanks are collateral-based lenders, institutions with adequate collateral could undertake risky activities without jeopardizing their access to FHLBank funding. However, all types of protected funding (including most types of insurance) raise such "moral hazard" issues. In banking, the classic instruments for combating such moral hazards are strict supervisory oversight and capital requirements. These tools are far superior to an assessment that discourages the use of FHLBank advances. Another useful tool would be deposit insurance premiums that are based on an institution's actual risk profile, taking into account an institution's supervisory rating and capital ratios. Banks engaged in excessively risky activities certainly should pay a higher premium, regardless of whether those activities are financed by insured deposits, FHLBank advances, or alternative wholesale funding sources. FDIC examinations will more accurately determine a bank's risk profile than an inflexible assessment formula imposed on all insured institutions.

Measures that would discourage borrowing from the FHLBanks would impede rather than assist in achieving the goal of reducing the risk of failure of FDIC-insured institutions. In fact, discouraging the use of FHLBank advances could lead to the unintended consequence of *increasing* risk to our bank. We use FHLBank advances for liquidity purposes and to manage interest rate risk, as well as to fund loan growth. At times the supply of deposit funds is inadequate to meet loan demand and prudent financial management needs. Curtailing the use of FHLBank advances would force our institution to look to alternative wholesale funding sources that are demonstrably more volatile and often more costly, thereby reducing profitability and increasing liquidity risk. If this source of funding is unavailable the creativity of independent bankers will prevail and funding will come from additional brokered deposits of other forms for short-term funding needs. Therefore one must ask, is it the source of funding (brokered CDs vs FHLB Advances) that is the problem or the use of the funding? I would fall on the side of the question that it is the usage of expanded funds that is the cause of increased risk and not necessarily the source of the funding. With that being said, forcing banks through different assessment schemes to lean away from good hedging alternatives for long-term funding such as those provided by FHLB would be increasing system risk rather than decreasing it.

I believe that in rural America a far greater risk to the system exists in the inability of banks to grow and maintain sufficient operating volume with varied products, funding, and services than from the traditional risks of asset quality, operation integrity and interest rate margin management. Without products from which to grow, our smaller rural institutions will disappear and the markets of rural America will not be well served by those institutions that can assess the capital markets of our great Nation. I believe that increased assessments on FHLB Advances is simply another chink in the competitive funding sources that community banks have access to. The FHLB advance system is somewhat self-policing in that if one does not utilize its funding for additional real estate related assets the collateral pool which you have to secure such advances diminishes. Given some of the lower risk based capital percentages used in the risk based calculations on 1-4 Family loans, it would seem that the FDIC's assessment model may already incorporate the true risk associated with the use of funds.

We urge the FDIC not to include FHLBank advances in the definition of volatile liabilities or to charge higher assessment rates to institutions that have significant amounts of secured liabilities.

Sincerely,

Patrick W. Kenner

President, Thayer County Bank
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