John B. Ward
President

September 11, 2006

FIRST AMERICAN BANK

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:

First American Bank is pleased to provide comments in response to the Federal Deposit Insurance Corporation notice of proposed rulemaking on deposit insurance assessments. Specifically, we write to address the FDIC's request for comment on whether Federal Home Loan Bank (FHLB) 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.

We believe that FHLB advances should not be characterized as "volatile liabilities." FHLB advances are secured extensions of credit to members with pre-defined, understood, and predictable terms. Unlike deposits, advance liabilities do not increase or decrease due to circumstances outside of the control of an FHLB member. Experience has shown that deposits may be lost due to disintermediation arising from a variety of factors: special, short-term promotions in a particular market or the existence of higher returns to depositors on alternative investments. The community banks that comprise the bulk of the membership of the Federal Home Loan Bank System use these advances as a deposit product replacement device, designate the term – and thus the cost – themselves and generally regard them as a replacement for volatile liabilities.

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.

Financial institutions frequently use FHLB advances for liquidity purposes and to manage interest-rate risk, as well as to fund loan growth. You are surely aware that in many markets, the supply of deposit funds is inadequate to meet loan

1650 Louis Avenue, Elk Grove Village, Illinois 60007 jward@firstambank.com (847) 586-2121

John B. Ward
President

demand and prudent financial management needs. Curtailing the use of FHLB advances would force institutions to look to alternative, often more costly and certainly more volatile wholesale funding.

FHLB advances serve as a critical source of credit for housing and community development purposes, support sound financial management practices, allow member banks to remain competitive and provide a reliable source of liquidity. Penalizing financial institutions for their use of this resource would unjustifiably limit their ability to offer competitive pricing and might well limit credit availability in the communities they serve. In sum, raising the price of advances seems to us to be an unfortunate outcome of what is otherwise well-intended legislation.

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,

cc Stephanie Szewczyk, FDIC
Matthew R. Feldman, FHLB

1650 Louis Avenue, Elk Grove Village, Illinois 60007 jward@firstambank.com (847) 586-2121