INDEPENDENT COMMUNITY BANKS
of NORTH DAKOTA

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

Re: Comments on Deposit Insurance Assessments and Federal Home Loan Bank Advances

Dear Mr. Feldman:

I am writing on behalf of the membership of Independent Community Banks of North Dakota to comment on the proposed changes to the classification of advances from the Federal Home Loan Banks to financial institutions. Specifically, I am writing 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. I do want to thank the FDIC for the opportunity to comment on this important issue.

Advances to FHLB members are for fixed, well defined periods and terms. They are not volatile liabilities like deposits which are subject to outside influences beyond the control of a bank. Deposits, our member banks traditional source of providing funding, are subject to the competitive forces a particular bank faces. Some of our members count on the funding provided by FHLB Advances to provide a more stable, predictable source of fund for community lending. These advances are counted on by our members to provide replacement funding for deposits lost through estates, competition or due provide temporary additional funding due to seasonality of the bank's customer's lending needs. I can confidently state that the community banks comprise the bulk of the membership of the Federal Home Loan Bank System.

Such classification would only increase the cost of operation to the FHLBs' resulting in discouraging use of the advances and/or increasing the member banks costs which would potentially lead to increased risks to banks or reduced funding available for community lending. The proposed classification change would potentially force institutions to look at alternative funding sources that are more volatile and this would result in reducing their profitability and increasing their liquidity risk.

Penalizing the use of advances through the imposition of insurance premiums also would conflict with the intent of Congress in establishing the FHLBs, in opening membership in FHLBs to commercial banks in FIRREA, and, more recently, in adopting the Gramm-Leach-Bliley Act, which expanded small banks' access to advances. The FHLBs' 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 using advances would use the regulatory process to undermine the FHLBs' mission as established and reaffirmed by the Congress.

In summary, the relationship between the FHLBs and community member banks has worked remarkably well for our membership. The FHLB advances do serve as a critical source of credit for housing and community development purposes, support sound financial management practices, and allow member banks throughout our state of North Dakota to remain competitive. Penalizing community banks for their cooperative relationship with the FHLBs would result in their being less competitive, limit credit availability in the communities they serve, and limit their use of a valuable liquidity source. I urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

Sincerely,

Donald Forsberg

Donald Forsberg
Executive Vice President