



November 12, 2008

Robert E. Feldman  
Executive Secretary  
FDIC  
550 - 17th St N.W.  
Washington, DC 20429

Re: RIN 3064-AD35 - Notice of Proposed Rulemaking on Risk-Based Assessments

Dear Mr. Feldman:

The Community Bankers Association of Illinois (CBAI) is pleased to submit our comments on the Federal Deposit Insurance Corporation's (FDIC) proposed changes to deposit insurance assessments. In particular, CBAI would like to address two parts of this rulemaking. First is the proposal to impose higher risk-based premiums for federally insured depositories that use secured liabilities, including advances from the Federal Home Loan Banks (FHLB), in excess of 15 percent of domestic deposits. For reasons explained below, we would like to urge the FDIC to reconsider this proposal. Additionally, CBAI would like to address the inclusion of reciprocal deposit placement services – such as Certificate of Deposit Account Registry Service (CDARS) – in the definition of brokered deposits for the purposes of the proposal. As we discuss below, CDARS deposits should not be defined as brokered deposits.

CBAI is a not-for-profit trade association comprised of 475 member financial institutions. Our members include both state-chartered and federally-chartered commercial banks, savings banks and savings and loan associations. CBAI member banks can be found in Chicago, in the smallest towns in Illinois, and everywhere in between including manufacturing, agricultural and educational centers throughout our state.

FHLB advances are a critical source of liquidity for CBAI member banks and have been used safely and effectively for over 75 years. Due to their reliability and easy accessibility, FHLB advances are especially important to smaller community banks that often lack alternative sources of cost-effective funding. These institutions, which comprise the majority of the FHLB System's 8,100 members, depend on advances to fill the funding gap between their core deposits and their loan demand. FHLB advances allow these lenders to ensure that credit remains available to worthy borrowers on

affordable terms, a vital role in the economic well-being of the local communities they serve.

CBAI is greatly concerned that the FDIC's proposal threatens to substantially contract this crucial source of liquidity at a time when it is most needed. Imposing an additional premium for advance usage will penalize financial institutions that regularly use the FHLBs for their liquidity needs. It will encourage them to either decrease their lending activities in their communities or seek less reliable, more expensive sources of alternative funding such as brokered deposits. Either way, the cost of funding for borrowers will increase. Such a result is completely contrary to the recent efforts by the Treasury Department, Congress and the Federal Reserve to promote liquidity, encourage lending and bolster confidence in the U.S. banking system.

The rule, as proposed, also threatens to decrease the amount of funding available to support affordable housing and community development activities. By law, a percentage of each FHLB's earnings are contributed for programs such as down payment and closing cost assistance, affordable housing projects, and foreclosure prevention. Last year, a total of \$318 million was contributed by the FHLBs for such programs. If FHLB members are discouraged from using advances, FHLB profits will shrink, as will their contributions to these worthwhile activities. Considering the current housing crisis, any proposal that would decrease funding intended to help American families become homeowners and keep their homes, is ill-timed and should be reconsidered.

CBAI also believes the proposal unfairly characterizes the potential risks of advance usage to the Deposit Insurance Fund. Access to FHLB funding has long been viewed as a source of strength and stability for financial institutions, making them less likely to fall into receivership. In this way, FHLB funds help to protect deposit insurance funds, not threaten them.

Therefore, CBAI urges the FDIC to revise the proposed rule to exclude FHLB advances from the deposit insurance assessment base. Congress created the FHLBs to provide low-cost reliable funding for financial institutions, and FHLB member institutions should not be penalized for utilizing this source of liquidity.

CBAI would also like to urge the FDIC to exclude CDARS deposits from the definition of brokered deposit. Defining CDARS Reciprocal deposits as brokered deposits is illogical. In these transactions, no one is standing between banks and their customers, and these deposits do not behave like traditional brokered deposits. CDARS Reciprocal deposits have all the characteristics of classic core deposits -- the funds come from local customers who generally reinvest their funds when their CDs mature. These certainly are not out-of-market deposits or in any sense "hot money." In fact, the overwhelming majority (93%) of the deposits originate from customers located within twenty-five miles

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of our members' offices. Since CDARS deposits act like core deposits, they should be treated as core deposits, not brokered deposits.

Traditional brokered deposits, in contrast to CDARS Reciprocal funds, originate from third parties whose customers are seeking to place funds at the highest rates available. It is a national market and banks must "pay up" to play. This is not the case with CDARS deposits. Bank customers use CDARS so that they can continue their relationship with their bank. In the absence of CDARS, customers of small banks might well turn to deposit brokers or internet rate boards, which could damage the valuable customer relationship they have worked so hard to maintain and increase the level of volatile, high interest rate deposits.

CDARS deposits should be excluded from the Notice's definition of brokered deposit. Moreover, CBAI can see no reason why CDARS deposits should be considered as brokered in the first place. CBAI respectfully asks the FDIC to support legislation to exclude CDARS Reciprocal deposits from the definition of "brokered deposits" in the next Congress. We believe doing so would clarify any uncertainty that would remain in the wake of an FDIC exemption in the risk-based assessment rule.

Thank you for this opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read "Kraig Lounsberry". The signature is fluid and cursive, with a long horizontal stroke at the end.

Kraig Lounsberry,  
Senior Vice President Governmental Relations