WEST GATE BANK

6003 Old Cheney Road
P.O. Box 82603 • Lincoln, Nebraska 68501-2603
(402) 434-3456 • FAX (402) 323-8999
www.westgatebank.com

Hwy 2 & Old Cheney Road
1204 West "O" Street
27th & Old Cheney
17th & South
70th & "A" Clocktower
84th & Holdrege
27th & Cornhusker

September 7, 2006

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

Re: ***Comment On Deposit Insurance Assessments and Federal Home Loan Bank Advances, FDIC RIN 3064-AD09***

Dear Mr. Feldman:

I am the Chairman, President and owner of West Gate Bank in Lincoln, Nebraska. I am an attorney and worked as a legislative assistant to Representative Doug Bereuter (R-Neb.) on the House Banking Committee in the mid-1980's. I am very familiar with bank regulatory issues and serve on the Nebraska Bankers Association Government Relations Committee and take an active role in reviewing new initiatives that affect the banking industry. West Gate Bank is a state chartered $270 million community bank with seven branches in Lincoln. We have received a CRA rating of "Outstanding" from the FDIC in each of our last two exams. West Gate enjoys strong loan demand in Lincoln with a loan-to-deposit ratio average of 100% for most of the past 10 years. We rely on FHLBank funding to meet loan demand and to manage our liquidity and ALM/gap . It is from this background that I am writing to address whether FHLBank advances should be included in the definition of volatile liabilities or whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities.

It is axiomatic that FHLBank advances are not volatile liabilities. Advances offer pre-defined, understood, and predictable terms. Unlike customer deposits, advances do not evaporate due to circumstances beyond our control. Our local deposits are frequently lost due to disintermediation arising from a variety of factors such as special promotions in the Lincoln area or the existence of higher returns to depositors on alternative assets. 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 like West Gate Bank that comprise the bulk of FHLBank Topeka's membership.

Congress created the FHLBank System to provide a source of long-term liquidity for FHLBank members. West Gate Bank has 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. It would be illogical to include FHLBank advances in the definition of volatile liabilities given the stability of the FHLBanks, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable effect of such funding on members' business plans. Therefore, we urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

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 West Gate Bank. We use FHLBank advances for liquidity purposes and to manage interest rate risk, as well as to fund loan growth. The supply of deposit funds in Lincoln, Nebraska is inadequate to meet loan demand and prudent financial management needs. Curtailing the use of FHLBank advances would force West Gate Bank to look to alternative wholesale funding sources that are demonstrably more volatile and often more costly, thereby reducing profitability and increasing liquidity risk.

Penalizing the use of advances through the imposition of insurance premiums also would conflict with the intent of Congress in establishing the FHLBanks, in extending membership in the System to commercial banks under FIRREA, and in adopting the Gramm-Leach-Bliley Act, which expanded small banks' access to advances. The FHLBanks' primary mission and mandate 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 FHLBanks' mission as established and repeatedly reaffirmed by Congress.

The cooperative relationship between the FHLBanks and member financial institutions has worked remarkably well for 75 years. FHLBank advances serve as a critical source of credit for our housing and community development purposes, supports our sound financial management practices, and allowed West Gate Bank and other community banks throughout the nation to remain competitive. FHLBank membership has long been viewed as protection for deposit insurance funds because FHLBank members have reliable access to liquidity. Penalizing financial institutions for their cooperative relationship with the FHLBanks would result in community banks being less competitive, would limit credit availability in the communities they serve, and would limit their use of a valuable liquidity source, all for no justifiable economic or public policy reason.

Based on the above, we strongly 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,

Carl J. Sjulin
Chairman, President and CEO
West Gate Bank
Lincoln, Nebraska
csjulin@westgatebank.com
402-434-3450 (direct)

cc: Rep. Jeff Fortenberry
Sen. Chuck Hagel
Sen. Ben Nelson
John Munn, Nebraska Dep. Of Banking and Finance
Kurt Yost, Nebraska Independent Community Bankers
George Beattie, Nebraska Bankers Association
Bob Caldwell, Vice-Chairman, Topeka FHLB
West Gate Bank Executive Committee and Board of Directors
John Jenkins, FDIC Kansas City
Mark Woita, FHLB Topeka

fdic-lt/word/my docs/cjs