Massachusetts Bankers Association

June 23, 2008

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

RE: Covered Bond Policy

Dear Mr. Feldman:

On behalf of our 200 commercial, savings and co-operative banks, federal savings banks, and savings and loan associations throughout the Commonwealth and New England, the Massachusetts Bankers Association appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) interim final statement of policy on covered bonds.

While Federal Home Loan Bank (FHLB) advances are not specifically mentioned in the statement of policy, MBA is concerned that the FDIC could include advances in the definition of "secured liability", which would subject them to higher assessment rates for deposit insurance and potentially cap advances to FHLBank members. We believe this would be extremely detrimental to the economy and many of our member institutions that have used advances to create liquidity in the mortgage markets during the current subprime crisis.

If the FDIC decided to charge higher assessment rates for FHLB advances, banks using advances as a wholesale funding source would be subject to higher deposit insurance premiums even though there is no evidence to suggest that advances add to an institution's risk. In contrast, this policy could discourage the use of FHLBank advances, which might increase risk at some institutions. In certain markets, including here in New England, deposit growth is inadequate to meet loan demand. If FDIC policies curtail the use of FHLBank advances, this would force banks to look for alternative, potentially more costly and volatile funding sources that will only increase liquidity and interest rate risks for the institution.

Penalizing the use of advances would also conflict with Congress' intent in establishing the FHLBank system. The mission of the twelve banks is to provide financial institutions with access to low-cost funding so that they can adequately meet their communities' needs for credit to support homeownership and economic development. Charging higher assessments to those insured institutions using advances would impede the system's mission and reduce the availability of credit in communities throughout Massachusetts, New England, and the nation.

Finally, existing regulatory safeguards are already in place to protect the FDIC and the FHLBank system. If an insured depository institution is experiencing financial difficulties, the FDIC and the FHLBank are required to work together to ensure that the institution has adequate liquidity and minimizes

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other risks, including losses to the FDIC. MBA does not believe that any additional regulation is required at this time and we encourage the FDIC to clearly state that FHLBank advances will not be included in the definition of "secured liability."

Thank you again for the opportunity to comment on the interim final statement of policy. If you have any questions or need additional information, please contact me at (617) 523-7595 or via email at jskarin@massbankers.org.

Sincerely,

Jon K. Skarin
Director, Federal Regulatory & Legislative Policy

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