



June 23, 2008

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

Attn: Comments Regarding Interim Final Policy Statement on Covered Bonds

Dear Mr. Feldman:

Thank you for the opportunity to respond to the Federal Deposit Insurance Corporation's (FDIC) request for comments on its interim final policy statement regarding covered bonds<sup>1</sup> (Interim Policy Statement). The Mortgage Bankers Association (MBA)<sup>2</sup> appreciates the FDIC's openness toward evaluating new and different liquidity channels for financial institutions. MBA also commends the FDIC for issuing advance guidance to delineate the relative priority of covered bond transactions in the event the FDIC becomes a conservator or receiver of a failed institution. Undoubtedly, a more thoughtful solution will emerge as a result of this notice and comment process than would occur in the midst of winding down the affairs of a financial institution.

In the Interim Policy Statement, the FDIC also seeks comments on whether covered bonds and other secured liabilities should be capped or factored into a financial institution's deposit insurance premiums.<sup>3</sup>

MBA requests that prior to finalizing the Interim Policy Statement the FDIC provide more clarity with respect to the term "secured liability." MBA is concerned that without additional definitional precision, the term could have negative unintended consequences if it is used in setting a limit or deposit insurance assessment. In particular, it is not clear from the Interim Policy Statement whether the FDIC intends to treat Federal Home Loan Bank (FHLBank) advances as secured liabilities. Because advances are well-

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<sup>1</sup> 73 Fed. Reg. 79, 21949 – 21952; (Apr. 23, 2008).

<sup>2</sup> The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 370,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: [www.mortgagebankers.org](http://www.mortgagebankers.org).

<sup>3</sup> 73 Fed. Reg. 79, 21951; (Apr. 23, 2008).

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collateralized loans made by FHLBanks to fund their member institution's housing finance activities, MBA requests advances be specifically excluded from the definition of secured liabilities. Otherwise, the Interim Policy Statement would impose a penalty or place an arbitrary cap on their use.

The FHLBank System was created by Congress to be a consistent, reliable source of liquidity to support the housing finance activities of local community banks. FHLBank advances are an important means of wholesale funding to community banks and other smaller financial institutions that do not have reliable access to other cost-effective funding resources. Imposing higher deposit insurance premiums on institutions based on their use of FHLBank advances, or limiting the amount of advances that they can use is tantamount to discouraging their use. It is also contrary to the intent of Congress and undermines the housing finance mission of the FHLBanks.

FHLBank advances function as a critical source of credit for housing and community development purposes, sustain prudent financial management practices, and enable small community member banks throughout the nation to remain competitive. MBA therefore requests the FDIC to specifically exclude FHLBank advances from the definition of "secured liabilities" prior to finalizing the Interim Policy Statement.

MBA appreciates the FDIC's consideration of our feedback. Please contact Michael Carrier, Associate Vice President of Secondary and Capital Markets, to further engage MBA on these issues. Mr. Carrier can be reached by phone at 202-557-2870 or email at [mcarrier@mortgagebankers.org](mailto:mcarrier@mortgagebankers.org).

Sincerely,

A handwritten signature in black ink that reads "Stephen A. O'Connor". The signature is written in a cursive, flowing style with a long horizontal line extending to the right.

Stephen A. O'Connor  
Senior Vice President of Government Affairs