FEDERAL HOME LOAN BANK OF DALLAS

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By Electronic Mail to:comments@fdic.gov

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: FDIC RIN # 3064-AD35 (Assessments)

Dear Mr. Feldman:

The Federal Home Loan Bank of Dallas (FHLB Dallas) appreciates the opportunity to comment on the FDIC's proposed rule that would, among other things, modify the risk-based deposit insurance assessment system and deposit insurance assessment rates. This letter provides FHLB Dallas's views on selected parts of the proposed rule, with a particular focus on the treatment of Federal Home Loan Bank advances in the proposed assessment system.

FHLB Dallas understands and appreciates the FDIC's desire to better align deposit insurance assessments with risks posed by individual insured institutions to the Deposit Insurance Fund (DIF). However, FHLB Dallas is very concerned that incentives created by the proposed treatment of FHLB advances may be counterproductive to the overall health of the industry.

The proposed rule would raise an institution's base assessment rate based on its ratio of secured liabilities to domestic deposits if the ratio of secured liabilities to domestic deposits is greater than 15 percent. The proposed rule would include Federal Home Loan Bank advances in the calculation of secured liabilities, along with other types of secured liabilities such as securities sold under repurchase agreements, secured Federal funds purchased and "other secured borrowings."

The published discussion of the proposed rule states that “the exclusion of secured liabilities can lead to inequity” because “an institution with secured liabilities in place of another’s deposits pays a smaller deposit insurance assessment, even if both pose the same risk of failure.” While this statement may be true as far as it goes, FHLB Dallas believes that there are important public policy reasons why FHLBank advances should be treated differently from other types of secured liabilities, and we encourage the FDIC to reconsider its proposal to treat FHLBank advances the same as other types of secured liabilities.

While both the FHLBanks and the FDIC have their own distinct functions, both entities also have public policy missions designed to promote the financial health and safety and soundness of insured institutions and to support those institutions’ efforts to provide credit and facilitate economic growth in the communities they serve all across the country. FHLB Dallas believes that increasing deposit insurance assessment rates based on utilization of FHLBank advances could create incentives that will not only work at cross purposes with the FHLBanks’ mission but also be counterproductive to the FDIC’s public policy objectives.

The FHLBanks were created by Congress to provide liquidity and long term funding primarily to federally insured depository institution members. The FHLBanks are cooperative institutions owned by those member institutions, which at September 30, 2008 included more than 7,000 banks and thrifts insured by the FDIC (about 83 percent of all FDIC-insured institutions). The FHLBanks’ primary business activity is making fully collateralized loans (called advances) to their member financial institutions. Those member institutions, predominantly community banks, rely on access to FHLBank advances not only for short term liquidity but also for longer term liabilities that can provide funding for longer term loans and reduce interest rate risk.

FHLBank advances are fundamentally different from other types of secured liabilities. They are designed to provide member institutions a stable source of both short term and long term funding across a wide range of economic and market conditions. Earnings from the FHLBanks’ lending to their members are generally returned to those members in the form of modest dividends. The FHLBanks’ basic business incentives encourage them to maintain lending relationships with member institutions consistent with conservative risk management practices.

To accomplish their purpose, the FHLBanks are required by statute and regulation to ensure that all extensions of credit to member institutions are fully secured by specified types of assets pledged as collateral. The FHLBanks have in turn established credit risk and collateral management programs that allow them to provide relatively low cost funding to member institutions across a wide variety of economic and financial market cycles. Combined with the FHLBanks’ access to the capital markets and their ability to issue relatively low-cost debt, the FHLBanks’ credit risk and collateral management practices have enabled them to provide low-cost advances to their member banks and thrifts throughout the period of financial market disruption that began in the third quarter of 2007.

The consistent access to liquidity and longer term funding that the FHLBanks have made available to their members during the recent market difficulties has allowed those institutions to continue to serve their local communities. The proposed treatment of FHLBank advances in the deposit insurance assessment system will increase the cost of borrowing from the FHLBanks for many institutions and will create incentives for those institutions to seek out alternative sources of funds which are likely to be less stable, less reliable and more costly than FHLBank advances in times of stress. Disruptions in the availability (not to mention the cost) of funds from those alternative sources in times of financial stress (such as the period that began in the third quarter of 2007) would likely have a negative impact on both housing finance and economic growth in member institutions' communities.

FHLBank advances contribute to the safety and soundness of insured depository institutions. Advances are available with a wide variety of terms and for a wide range of maturities that support member institutions' asset / liability management. The ready availability of the funding provided by FHLBank advances contributes to member institutions' ability to support economic growth in the communities they serve. The FHLBanks' access to the capital markets for funding in times of market stress provides members a stable and reliable source of funding even during periods of financial market disruption. And the nature of the FHLBanks' secured lending relationships with their member institutions generally allows the FHLBanks to maintain the stability of their funding for individual member institutions during times when those members are under financial stress.

For the reasons stated above, FHLB Dallas believes that modifying the deposit insurance assessment system in a way that creates incentives for insured institutions to limit or curtail their use of FHLBank advances could have unintended negative consequence both for the safety and soundness of individual institutions and for the health of the depository institutions industry. We strongly encourage the FDIC to modify the proposed rule to exclude FHLBank advances from any calculation that could raise insured institutions' deposit insurance assessment rates.

Sincerely,

Terry Smith
President and CEO