FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-34-2008
April 30, 2008

COVERED BONDS

FDIC Policy Statement on Covered Bonds

Summary: The FDIC has issued the attached final interim policy statement on the treatment of "covered bonds" in the event that the issuing insured depository institution is placed into FDIC receivership or conservatorship. The policy statement provides regulatory relief by giving expedited access to covered bond collateral if the issuing institution fails or is placed in conservatorship and meets certain criteria. The FDIC guidance is intended to reduce market uncertainty and allow for evaluation of the benefits and questions about covered bonds as the market develops in the United States. Comments on the policy statement are due by June 23, 2008.

Distribution:
FDIC-Insured Institutions

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
Chief Lending Officer
Board of Directors

Attachment:
Final Interim Policy Statement

Contact:
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Note:
FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2008/index.html.

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Highlights:

- A covered bond is defined as a recourse debt obligation of an insured depository institution (IDI) with a term greater than one year and no more than ten years that is secured directly or indirectly by a pool of mortgage loans or AAA-rated mortgage bonds.
- Generally, a bond holder of a failed IDI could be required to wait up to 90 days to execute on the collateral or for payment from an FDIC receiver, or up to 45 days from an FDIC conservator. The policy statement provides that the covered bond holder may obtain access to the collateral if the FDIC remains in monetary default on the IDI's obligation on the covered bond for ten business days after receiving notice of default, or if the FDIC does not pay statutory damages within ten business days after the effective date of repudiation.
- The policy statement applies only to covered bond issuances that meet the following criteria:
  - The covered bond issuances must be made with the consent of the IDI's primary federal regulator.
  - The IDI's total covered bond obligations at issuance comprise no more than four percent of the IDI's total liabilities.
  - The collateral for the covered bonds is secured by perfected security interests under applicable state and federal law on performing mortgage loans on one- to four-family residential properties, underwritten at the fully indexed rate and relying on documented income in accordance with existing supervisory guidance governing the underwriting of residential mortgages.
  - Up to ten percent of the collateral may consist of AAA-rated mortgage–backed securities backed solely by mortgage loans that are made in compliance with the policy statement.
- The FDIC is also seeking comments on whether issuances of covered bonds should increase an IDI's assessment rates or be included in its assessment base and, more generally, whether an institution's percentage of secured liabilities to total liabilities should be factored into an institution's insurance assessment rate or whether the total secured liabilities should be included in the assessment base.