



June 23, 2008

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

Re: Covered Bond Policy Statement

Dear Mr. Feldman:

Reference is made to the Federal Deposit Insurance Corporation's ("FDIC") interim final policy statement (the "Policy Statement") on the treatment of covered bonds in a conservatorship or receivership, which was published on April 23, 2008. This letter highlights several topics that Barclays Capital believes the FDIC should consider before issuing its revised policy statement.

1. Payment of par plus accrued interest

We believe this to be the most critical for future market development. Under the Federal Deposit Insurance Act, the FDIC, as sole conservator or receiver of an FDIC-insured federal depository institution ("IDI"), has the power to repudiate contracts – a power that includes the ability to accelerate debt obligations. In such a scenario, the FDIC will pay “actual, direct, compensatory damages” to debt holders, creating uncertainty as to whether or not investors will receive par plus accrued interest and creating a risk to investors that their fixed-rate bullet bonds could be accelerated at a loss – a risk that is largely unacceptable to the existing investor base. To address this risk, we (along with one of our issuing bank clients) designed the current covered bond architecture with an intermediate trust to help protect investors. However, the trust issuance architecture has several features that warrant further consideration from a structuring perspective, most notably the fact that issuance trusts are very difficult to register with the Securities and Exchange Commission, thus reducing the potential investor base and liquidity of the product domestically. Although this issue is not addressed in the Policy Statement, if the FDIC states that it will pay par plus accrued (subject to having a principal balance in excess of par), the uncertainty would be erased, the trust structure could be removed, and banks could issue covered bonds directly to investors.

2. Collateral constraints on mortgages

We believe that the mortgage eligibility criteria are too narrow and would render large portions of existing domestic cover pools ineligible. Specifically, the Policy Statement describes the mortgage eligibility criteria as “underwritten at the fully indexed rate and relying on documented income in accordance with FDIC and interagency guidance.” Rather than imposing such constraints on issuers, we believe the FDIC should remain silent on this issue and allow each issuer to determine the best mix of mortgages since the mortgages will be held on the balance sheet of the issuing bank and will lead to investor discrimination based on asset quality.

3. Inability to include other asset types

Consistent with our view of allowing the market to differentiate among mortgage collateral, we believe issuers should be able to include other types of collateral in covered pools, be it public sector assets as in Europe (in the US we believe this would include, among others, FFELP student loans and SBA loans) or other asset types such as credit cards and auto loans.

4. Issuance limited to 4% of liabilities

The Policy Statement limits covered bond obligations of an IDI to no more than 4% of the IDI’s total liabilities. We believe that this limitation essentially renders the product out of reach for the majority of banks and thrifts given their smaller scale.

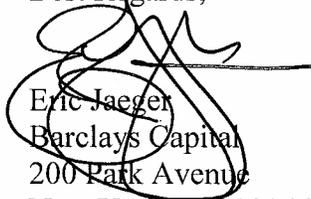
5. Term limited to ten years

The Policy Statement defines “covered bond” as a recourse debt obligation of an IDI with a term greater than one year and no more than ten years. We believe that maturity should not be limited by regulation, but rather should be determined by market appetite, among other things, and please note that limiting the term to ten years is not consistent with the existing European framework. To this point, we believe that flexibility around tenor is in the best interest of US banks.

* * * *

Thank you for considering our concerns. We look forward to discussing these issues with you in greater detail at your convenience. Please do not hesitate to contact me with any questions or comments about this letter.

Best Regards,


Eric Jaeger
Barclays Capital
200 Park Avenue
New York, NY 10166
212-412-4000