FHLBank
San Francisco

Dean Schultz
President and
Chief Executive Officer

June 23, 2008

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

VIA E-Mail:Comments@FDIC.gov

Re: Covered Bond Policy Statement

Dear Mr. Feldman:

The Federal Home Loan Bank of San Francisco appreciates the opportunity to respond to the Federal Deposit Insurance Corporation ("FDIC") request for comments on certain issues relating to the FDIC's interim final Covered Bond Policy Statement ("Policy Statement') issued on April 15, 2008. Specifically, the FDIC solicited comments on the FDIC's treatment of secured liabilities for assessment and other purposes, asking "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." In addition, the FDIC requested comments on "whether ... there should also be an overall cap for secured liabilities."

The interim final Policy Statement does not specifically identify the classes of "secured liabilities" that the FDIC might decide to cap or include in its assessment formula. We are concerned that the term "secured liabilities," if left undefined, could include Federal Home Loan Bank ("FHLBank") extensions of credit and that the FDIC's final Policy Statement might, therefore, have the unintended effect of imposing limits on the volume of advances an insured depository institution may obtain from its FHLBank. In addition, we are concerned that if the final Policy Statement increases FDIC assessments based on an institution's percentage of secured liabilities to total liabilities without defining "secured liabilities" to exclude FHLBank extensions of credit, the final Policy Statement would generally discourage the use of FHLBank advances.

Given the significant concerns previously expressed by members of both the United States House of Representatives and Senate when limits on FHLBank advances were explicitly raised by the FDIC, we do not believe that the FDIC now should be considering imposing an implicit disincentive or cap on the volume of advances an insured depository institution may obtain from its FHLBank. If the FDIC wants to raise the issue of FHLBank advances as a matter of policy, it should do so explicitly and separately from consideration of covered bonds to allow members of Congress and affected parties an opportunity to express their views. As you may be aware, when the FDIC initiated its risk-based deposit insurance assessment rulemaking, it expressly requested comments on the treatment of FHLBank advances. On a bi-partisan basis, both the United States House of Representatives and Senate expressed strong concerns that the FDIC's development and implementation of a risk-based insurance assessment system would negatively impact the cost of homeownership or community credit by charging higher premiums for the use of FHLBank advances. (See the House Budget Committee report on the Deficit Reduction Act of 2005 (November 7, 2005) and the House Financial Services Committee report on deposit insurance reform (April 29, 2005).) Such concern was also expressed in separate Congressional Record statements by principal sponsors of FDIC reform.

Particularly in light of the current demand for liquidity in the credit markets and ongoing issues associated with the mortgage securitization market, we believe that if the FDIC seeks to limit access to FHLBank advances or to create disincentives for obtaining FHLBank advances, such actions should be explicit and open to comment. Also, if the FDIC imposes any cap on the percentage of secured liabilities an institution may have or increases assessments based on the ratio of an institution's secured liabilities to total liabilities, for the avoidance of all doubt, we ask that the FDIC expressly exclude FHLBank advances from any such limitation or increase.

Thank you for considering our comments.

Sincerely,

Dean Schultz
President and Chief Executive Officer