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DEVELOPMENT
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May 13, 2008

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

Re: Interim Final Policy Statement on Covered Bonds – Request for Comments

Dear Mr. Feldman:

I am writing on behalf of the Housing Development Corporation of Lancaster County. We are a non-profit organization that develops and manages affordable housing. We have benefited from the Federal Home Loan Bank's Affordable Housing Program.

We understand that on April 15, 2008 the Federal Deposit Insurance Corporation adopted an Interim Final Policy Statement on Covered Bonds, and solicited public comment on various issues relating to their treatment. In addition, the FDIC solicited public comments on the FDIC's treatment of secured liabilities for assessment and other purposes. In particular, the FDIC asked: "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 also seeks comments on "Whether ... there should be an overall cap for secured liabilities."

While we understand that the Policy Statement did not specifically refer to Federal Home Loan Bank (FHLBank) advances, we are concerned that the term "secured liabilities" encompasses such loans. We believe that penalizing the use of FHLBank advances or placing an arbitrary cap on their use is not consistent with sound public policy or Congressional intent, especially during a time when FHLBank liquidity and funding for community and affordable housing development is needed most.

FHLBank advances serve as a consistent, reliable source of liquidity for all FHLBank members and the communities they serve. The availability of this wholesale funding is especially important to the community banks that represent a large majority of the FHLBank System's 8,100 plus members. These smaller institutions do not have reliable access to other sources of cost-effective wholesale funding and rely on the availability of FHLBank advances as a critical tool for managing their balance sheets and implementing their business plans. In fact, in 2007 FHLBank advances increased 36.6 percent to $875 billion - indicating that the FHLBanks are playing a vital role in alleviating the current shortage of liquidity in the housing markets. Limiting or penalizing the use of the FHLBank funding is inconsistent with the current efforts by the Administration, Congress, and the Federal Reserve to restore liquidity and bolster confidence in the mortgage sector.

A policy that discourages borrowing from the FHLBanks would be counterproductive to reducing the risk of failure of FDIC-insured institutions and could, in fact, increase risks to FHLBank members. FHLBank advances are commonly used for liquidity purposes, and help FHLBank members manage interest-rate risk and fund loan growth, especially in communities in which the supply of deposit funds is inadequate to meet loan demand. If the use of FHLBank advances is discouraged, FHLBank members would be forced to seek alternative, often more costly and volatile sources of wholesale funding or abandon these communities altogether.

In addition, a reduction in the use of FHLBank advances would seriously impact housing and community development by decreasing the availability of such funding and therefore increasing its cost. Secondly, the FHLBanks Affordable Housing Program funded by a statutory contribution of 10% of FHLBank profits would decrease in size as the use of advances declines. Therefore altering the attractiveness of FHLBank advances would have the unfortunate consequence of reducing funds available for affordable housing at the same time that local, state and Federal governments are struggling to increase these resources.

For seventy-five years, the FHLBanks, their member financial institutions, and the communities they serve nationwide have benefited from FHLBank advances. 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. FHLBank membership has long been viewed as protection for deposit insurance funds because FHLBank members have access to a reliable source of liquidity. In considering a final Policy Statement on covered bonds, or in taking any other administrative action, our financial institution strongly urges the FDIC not to penalize institutions based on their use of Federal Home Loan Bank advances, or to limit the amount of such liabilities that they can use for their funding needs.

Sincerely,

Michael R, Carper
President & CEO

H. David Loughery
Director of Fund Development