NCBANKERS
1897 NORTH CAROLINA BANKERS ASSOCIATION

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June 23, 2008 DELIVERED VIA E-MAIL

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

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

Dear Mr. Feldman:

In April, the FDIC adopted an interim "Covered Bond Policy Statement" (Policy Statement) and solicited comment on the treatment of secured liabilities of depository institutions. 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, and the FDIC asked whether there should be an overall cap for secured liabilities.

The North Carolina Bankers Association (NCBA) appreciates the opportunity to address the issues raised by this request for comment. The NCBA membership includes all 144 banks and savings institutions headquartered or doing business in North Carolina, and it includes six trust companies.

While the Policy Statement did not specifically refer to Federal Home Loan Bank (FHLBank) advances, the NCBA shares the concern raised by other commenters that the term "secured liabilities" could be interpreted to encompass such secured loans. FHLBank advances serve as a consistent, reliable source of liquidity for FHLBank member financial institutions. Limiting or penalizing the use of FHLBank funding would be inconsistent with current government efforts 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 such risks. FHLBank advances help FHLBank members manage interest-rate risk and fund loan growth. If the use of FHLBank advances is discouraged, FHLBank members may be forced to seek alternative, often more costly and volatile sources of funding, thereby reducing profitability and increasing liquidity risk.

The NCBA asks that the FDIC consider the potential unintended consequences if the amount of FHLBank advances available to insured depository institutions were capped. A policy that discourages the use of FHLBank advances by imposing higher deposit insurance premiums on institutions based on their use of FHLBank advances, or that limits the amount of advances that they can use, would be contrary to the intent of Congress in establishing the FHLBanks, in opening FHLBank membership to commercial banks as part of FIRREA, and more recently, in adopting the Gramm-Leach-Bliley Act, which expanded small banks' access to advances.

The NCBA urges the FDIC not to penalize insured depository institutions based on their use of FHLBank advances, or to limit the amount of such liabilities that they can use for their funding needs.

Sincerely,

Thad Woodard

Thad Woodard
President & CEO