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June 23, 2008

Mr. Robert E. Feldman
Executive Secretary Federal Deposit Insurance Corporation
550 -17th Street, N.W.
Washington, DC 20429

Re: Covered Bonds – Request for Comments

I write regarding the Federal Deposit Insurance Corporation (FDIC) solicitation of comments on the treatment of secured liabilities for assessment purposes.

The FDIC's charging higher assessments for secured liabilities would pose a harsh penalty for FHLBank members and provide a strong disincentive for use of advances as a funding source. All FDIC-insured institutions utilizing FHLBank advances would be subject to higher assessments regardless of their risk profile. The degree to which institutions would be penalized for FHLBank membership would depend on the levels of advances utilization by an institution and whatever formula was adopted in a final regulation.

The appropriate manner to assess deposit insurance premiums is to base rates on a bank's actual risk profile. There is no evidence that advances add to an institution's risk. Banks that are engaged in excessively risky activities should pay a higher premium regardless of whether those activities are financed by deposits, FHLBank advances, or alternative wholesale funding sources. FHLB advances are an alternative source of funding which minimizes the risk to the fund if managed properly. The professional and capable examination staff of the supervisory agencies is best suited to determining a bank's risk profile, rather than an inflexible formula imposed on all insured institutions, regardless of circumstance.

Discouraging borrowing from the FHLBanks could lead to the perverse effect of increasing risk among FHLBank members. Borrowers frequently use FHLBank advances for liquidity purposes and to manage interest-rate risk, as well as funding loan growth. In many markets, the supply of deposit funds is inadequate to meet loan demand and prudent financial management needs. Curtailing the use of FHLBank advances would force banks to look to alternative, typically costlier wholesale funding sources that are often volatile, thereby reducing profitability and increasing liquidity risk.

Penalizing financial institutions for their partnership with the FHLBanks would result in them being less competitive, limit credit available in the communities they serve, and limit their use of a valuable liquidity source, all for no justifiable economic or public policy reason.

Sincerely,

Julieann M. Thurlow
President & CEO