Peoples Exchange Bank

June 24, 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:

On April 15, 2008, the Federal Deposit Insurance Corporation adopted an interim final policy statement titled "Covered Bond Policy Statement" (Policy Statement) and solicited public comment on various issues including 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 requested comments on whether there should also be an overall cap for secured liabilities.

Peoples Exchange Bank appreciates the opportunity to address the important issues raised by this request for comments.

While the Policy Statement did not specifically refer to Federal Home Loan Bank (FHLBank) advances, we are concerned that the term "secured liabilities" encompasses such advances. We believe that penalizing the use of FHLBank advances, or placing an arbitrary cap on their use, is not consistent with sound public policy, especially in light of the current demand for enhanced liquidity in the credit markets, and is not consistent with Congressional intent.

FHLBank advances serve as a consistent, reliable source of liquidity for our bank and other FHLBank members who rely on the availability of FHLBank advances as a critical tool for managing our balance sheet and funding loan demand in our rural communities. In 2007, Peoples Exchange Bank's FHLBank advances increased approximately 61 percent indicating that the FHLBank is playing a vital role in providing liquidity for our institution.

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 rural markets such as ours in which the supply of deposit funds is inadequate to meet loan demand and prudent financial management needs. If the use of FHLBank advances is discouraged, our bank and other FHLBank members would be forced to seek alternative, often more costly and volatile sources of wholesale funding, thereby reducing profitability and increasing liquidity risk.

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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.

In considering a final Policy Statement on covered bonds, or in taking any other administrative action, we strongly urge the FDIC not to penalize our bank and other institutions based on their use of FHLBank advances, or to limit the amount of such liabilities that we can use for our funding needs.

Sincerely,

James M. Koch

James M. Koch
President