May 21, 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 on Covered Bonds, and solicited public comment on various issues relating to the FDIC's treatment of covered bonds in a receivership and conservatorship context. In addition, the FDIC solicited public comments on other issues: 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."

We appreciate the opportunity to address the important issues raised by the request for comments noted above.

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 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, 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 all FHLBank members. The availability of FHLBank advances as a means of 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 mortgage markets. Limiting or penalizing the use of the FHLBank funding is inimical to 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 markets 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, FHLBank members would be forced to seek alternative, often more costly and volatile sources of wholesale funding, thereby reducing profitability and increasing liquidity risk.

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 is contrary to the intent of Congress in establishing the FHLBanks, in opening membership in FHLBanks to commercial banks in FIRREA, and, more recently, in adopting the Gramm-Leach-Bliley Act, which expanded small banks' access to advances. The FHLBanks' mission is to provide financial institutions with access to low-cost funding so they may adequately meet communities' credit needs to support homeownership and community development. Congress has also recognized that the FHLBanks have a special position as a "lender of last resort". [1] An FDIC policy that discourages the use FHLBank advances would undermine the mission of the FHLBanks as established and repeatedly reaffirmed by Congress.

When the FDIC initiated its risk-based deposit insurance assessment rulemaking, a similar question arose as to the treatment of FHLBank advances. Congress made it clear that the FDIC should not adopt a risk-based proposal that discourages the use of FHLBank advances. This Congressional intent was expressed in both the House and Senate on a bi-partisan basis. For example, the House Budget Committee report on reconciliation (November 7, 2005) and the House Financial Services Committee report on deposit insurance reform (April 29, 2005) contained such expressions of concern. In addition, similar statements were expressed in separate Congressional Record statements by principal sponsors of FDIC reform. The FDIC received 569 comments on the issue and all but one argued that the FDIC should not address FHLBank advances. There is no reason to believe that the views of Congress or the commenters on this matter have changed now that the vehicle is covered bonds rather than deposit insurance reform.

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.

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[1] S. Report No. 100-19, 100th Cong. 1st Sess. at 54.

Sincerely,

Scott C. Jennings

Scott C. Jennings
Chief Operating Officer and Senior Vice
President, Summit Financial Group, Inc.