FEDERAL HOME LOAN BANK OF DALLAS

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May 22, 2008

*By Electronic Mail*

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

Re: Covered Bond Policy Statement

Dear Mr. Feldman:

The Federal Home Loan Bank of Dallas ("FHLB Dallas") appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's interim final policy statement on the treatment of covered bonds in a conservatorship or receivership (the "Policy Statement"), which was published in the Federal Register on April 23, 2008. In the Policy Statement, the FDIC requested comment on, among other things, whether an institution's total secured liabilities should be capped. This letter, which does not necessarily reflect the views of the rest of the Federal Home Loan Bank System, addresses that issue.

FHLB Dallas is one of twelve Federal Home Loan Banks (each, individually, an "FHLBank" and collectively, the "FHLBanks") that Congress created in 1932 with the Federal Home Loan Bank Act (the "FHLB Act"). The primary purpose of the FHLBank System is to provide a source of long-term liquidity for FHLBank members. The FHLBanks do this primarily by making advances (loans), which the FHLB Act requires to be fully secured, to their members. Entities eligible for membership in an FHLBank include federally-insured commercial banks, savings banks, savings and loan associations, and credit unions, as well as insurance companies.

During the turmoil in the credit markets over the past several months, the FHLBanks have served as an important source of liquidity for their members, with advances at all FHLBanks higher during 2007 and the first quarter of 2008 than they were in 2006. At FHLB Dallas, advances increased approximately $7.2 billion or 15.62% during the first three months of 2008. While this increase is attributable in large part to increases in advances to two borrowers, FHLB Dallas's advances to small and mid-sized borrowers also grew during this period.

FHLB Dallas believes that the increase in advances to its small and mid-sized borrowers is largely due to the continued unsettled nature of the credit markets, which may have caused some of FHLB Dallas's members to increase their borrowings from FHLB Dallas in order to increase their liquidity, to take advantage of investment opportunities, and or to lengthen the maturity of their liabilities at a relatively low cost. FHLB Dallas also believes that, because of prevailing conditions in the credit markets, many of its members did not have any viable alternatives to accomplish these goals as markets for other products froze or became prohibitively expensive. FHLB Dallas, however, was able to achieve its congressionally-mandated mission to provide a stable and reliable source of liquidity for its members during a period of stress in the credit markets.

Because the FHLB Act requires that the FHLBanks' advances to members be fully secured, a cap on the total amount of secured liabilities that insured depository institutions could incur would limit those institutions' ability to reap the full benefits of their membership in an FHLBank. A limit on the amount of an institution's secured liabilities would limit the institution's borrowings from the FHLBanks and could therefore force insured depository institutions to resort to more volatile and expensive sources of liquidity that would undermine sound financial management practices.

Throughout their history, the FHLBanks have served as a critical source of credit for their member institutions. For this reason, FHLB Dallas urges the FDIC not to impose a cap on the total amount of secured liabilities that an insured depository institution may occur.

Sincerely,

Terry Smith
President and CEO