FHLBBoston

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June 4, 2008

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 – 17th Street, N.W.
Washington, D.C. 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 Federal Home Loan Bank of Boston (the Bank) is deeply concerned, as are our 11 sister Federal Home Loan Banks (FHLBanks) that "secured liabilities" would include FHLBank advances. The FDIC also seeks comment on whether there should be a cap on secured liabilities. Factoring advances into the assessment rate or base, or capping advances to members, would be contrary to good public policy and counterproductive to the interests of the FDIC.

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 empirical 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. 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.

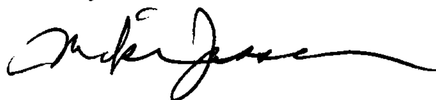
Discouraging borrowing from the FHLBanks could lead to the perverse effect of increasing risk among FHLBank members. Borrowers frequently use FHLBank advances for liquidity purposes and to manage interest-rate risk, as well as funding loan growth. In many markets, the supply of deposit funds is inadequate 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 use of advances also would conflict with the intent of Congress in establishing the FHLBanks, opening membership to commercial banks, and more recently, in adopting the Gramm-Leach-Bliley Act, which expanded small banks' access to advances. The FHLBanks' very mission is to provide financial institutions with access to low-cost funding so they may adequately meet communities' needs for credit to support homeownership and community development. Charging higher assessments to those banks utilizing advances would, in effect, use the regulatory process to impede the FHLBanks' mission as established and reaffirmed by Congress.

Finally, a regulatory and legal structure is already in place to ensure collaboration between the FDIC and FHLBanks. If an FDIC-insured institution is experiencing financial difficulties, the FDIC and FHLBanks are required by regulation to engage in a dialogue to ensure the institution has adequate liquidity while minimizing other risks, including losses to the FDIC. In addition, the FHLBanks are provided the legal authority for confidential access to exam reports to assist with this analysis.

The partnership between the FHLBanks and member financial institutions envisioned by Congress when they created the FHLBanks in 1932 has worked remarkably well. FHLBank membership allows countless banks throughout the nation to remain competitive, serves as a critical source of credit for housing and community development purposes, and supports sound financial management. 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,



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