



June 13, 2008

By Electronic Mail

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

Skywalk Level
801 Walnut Street, Suite 200
Des Moines, IA 50309-3513
515.281.1000
800.544.3452
www.fhlbdm.com

Re: Covered Bond Policy Statement

Dear Mr. Feldman:

The Federal Home Loan Bank of Des Moines (Bank) 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: whether an institution's percentage of secured liabilities to total liabilities should be factored into an institution's insurance assessment base; whether total secured liabilities should be included in the assessment base; and/or whether there should be an overall cap for secured liabilities. While the Policy Statement did not specifically refer to Federal Home Loan Bank (FHLB) advances, we are concerned that the term "secured liabilities" encompasses such loans.

We believe that penalizing the use of FHLB 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.

The primary purpose of the Bank since it was chartered by Congress in 1932 is to provide a source of liquidity for its members. The Bank does this primarily by making advances, which the FHLB Act requires to be fully secured, to their members. Entities eligible for membership in an FHLB include federally insured commercial banks, savings banks, savings and loan associations, and credit unions, as well as insurance companies.

FHLB advances serve as a consistent, reliable source of liquidity for all members. During the turmoil in the credit markets over the past several months, the Bank has served as an important

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source of liquidity for its members, with advances increasing from \$21.9 billion at December 31, 2006, to \$40.4 billion at December 31, 2007, to \$47.1 billion at March 31, 2008. This increase is attributable in part to short-term lending to one large member institution, but also to increased advances usage by small- and mid-sized members across our five-state district.

A policy that discourages FHLB borrowing would be counterproductive to reducing the risk of failure of FDIC-insured institutions and could increase risks to FHLB members. FHLB advances are commonly used for liquidity purposes and help FHLB 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 FHLB advances is discouraged, FHLB 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 FHLB advances by imposing higher deposit insurance premiums on institutions based on their use of FHLB advances, or that limits the amount of advances that they can use is contrary to the intent of Congress in establishing the FHLBs, in opening membership in FHLBs to commercial banks in FIRREA, and, more recently, in adopting the Gramm-Leach-Bliley Act, which expanded the access for small banks to advances. An FDIC policy that discourages the use FHLB advances would undermine the mission of the FHLBs 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 FHLB advances. Congress made it clear that the FDIC should not adopt a risk-based proposal that discourages the use of FHLB 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 assess deposit insurance premiums on FHLB advances. There is no reason to believe that the views of Congress or the commenters regarding FHLB advances have changed now that the focus is on covered bonds rather than deposit insurance reform.

For seventy-six years, the FHLBs, their member financial institutions, and the communities they serve nationwide have benefited from FHLB advances. FHLB 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. FHLB membership has long been viewed as protection for deposit insurance funds because FHLB members have access to a reliable source of liquidity. The FHLBs also have worked with banking regulators and the FDIC to provide continued funding for institutions under FDIC resolution watch. In considering a final Policy Statement on covered bonds, or in taking any other administrative action, the FHLB Des Moines strongly urges the FDIC not to

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penalize member institutions based on their use of FHLB advances, or to limit the amount of such liabilities that they can use for their funding needs.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael L. Wilson".

Michael L. Wilson
Executive Vice President and
Chief Business Officer