PHFA
PENNSYLVANIA HOUSING FINANCE AGENCY

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Executive Director & CEO

June 10, 2008

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, DC 20429

Subject: Interim Final Policy Statement on Covered Bonds

Dear Mr. Feldman:

The Pennsylvania Housing Finance Agency appreciates the opportunity to provide comments to the Federal Deposit Insurance Corporation's Interim Final Policy Statement on covered bonds adopted April 15th, 2008, comments about FDIC's treatment of secured liabilities for assessment and other purposes, and comments about an overall cap for secured liabilities.

My perspective on these matters reflects both my position as Executive Director and Chief Executive Officer of the Pennsylvania Housing Finance Agency, the Commonwealth's largest provider of capital for affordable homes and apartments, and my membership on the Board of the Federal Home Loan Bank of Pittsburgh. Each organization has the responsibility of ensuring that older adults, families of modest means, and persons with disabilities have access to funding for good places to live.

As to FDIC's question about an institution's secured liabilities being included as part of its insurance assessment rate or assessment base, I am concerned that, as used in the Policy Statement, "secured liabilities" may adversely affect Federal Home Loan Banks advances by considering them "secured liabilities" as defined. At a time when liquidity and funding for community and affordable housing development are needed most, penalizing FHLBank advances or placing an arbitrary cap on their use is neither consistent with sound public policy nor with Congressional intent.

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There are more than 8,100 member institutions in the FHLBank system, the large majority of which are smaller community banks that operate without assured access to other sources of reasonably-priced wholesale funding. These members count on Federal Home Loan Bank advances as a consistent, reliable supplier of liquidity for the areas they serve; FHLBank advances help them manage their assets and execute their business plans.

As a gauge of their widespread acceptance in helping eliminate the current shortage of liquidity in the housing markets, last year FHLBank advances were $875 billion, an increase of nearly 37 percent from 2006. Diminishing or penalizing the use of the FHLBank funding is contrary to efforts by the Administration, Congress, and the Federal Reserve to restore liquidity and bolster confidence in the mortgage sector.

Members' deposit insurance funds are protected because they have access to FHLBank liquidity. Therefore, policies that discourage borrowing from FHLBanks can actually increase the risk of failure by FDIC-insured institutions, especially in communities where deposits are inadequate to meet loan demand. My experience has shown that such is often the case in exactly the areas that where lenders could be forced to secure more costly, less reliable funding, or completely abandon those communities. Neither choice seems as good as the FHLBank advance option.

Congressional intent in establishing the Federal Home Loan Bank system, in the expansion of small bank access to FHLBank advances allowed by the Gramm-Leach-Bliley Act, and in opening FHLBank membership to commercial banks under FIRREA, has been to encourage the use of FHLB advances, not to impose higher deposit insurance premiums on institutions based on those advances. Congress also recognized that in order to meet community credit needs for homeownership and community development efforts, the FHLBanks hold special positions as lenders of last resort. Any policy that discourages the use of FHLBank advances undermines Congress's stated, and frequently affirmed, intent.

Curtailing the use of FHLB advances adversely affects those efforts because there is less available funding, with correspondingly higher costs. Considering that the Affordable Housing Program offered by Federal Home Loan Banks (and used extensively in Pennsylvania to complement the Pennsylvania Housing Finance Agency's efforts) is funded because, by statute, ten percent of FHLBank profits must be committed to the program, anything that makes advances less attractive would reduce affordable housing funds at the very time governmental, nonprofit, and housing industry organizations are working tirelessly to husband their resources.

The matter of risk-based deposit insurance assessment has been considered by the FDIC in the recent past, and Congress made it clear that it did not favor any policy that discouraged FHLBank advances. I respectfully request that FDIC retain a similar spirit in this instance.

Federal Home Loan Bank advances have served the nation through member institutions well for 75 years, and will continue to help member institutions remain competitive as they meet the needs of their clients. I ask that, as you consider the final Policy Statement on covered bonds and any other administrative action, to please be careful to avoid actions that would limit the use by member institutions of FHLBank advances or otherwise work to the detriment of institutions using advances to meet their funding needs.

Thank you for the opportunity to address these important issues.

Sincerely,

Brian A. Hudson, Sr.
Executive Director and CEO
Pennsylvania Housing Finance Agency