**Jill Spencer**
Executive Vice President
General Counsel and
Chief Strategy Officer

October 28, 2008

BY FEDERAL EXPRESS AND EMAIL

Robert E. Feldman, Executive Director
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
Attention: Comments/RIN 3064-AD35

**RE: Notice of Proposed Rulemaking and Request for Comment Revision of Deposit Insurance Assessment Rates**

Dear Mr. Feldman:

The Federal Deposit Insurance Corporation (FDIC) has issued a notice of proposed rulemaking and request for comments with respect to the revision of the deposit insurance assessment rate system (the Proposed Rule). This letter sets forth the comments of the Federal Home Loan Bank of Atlanta (FHLBank Atlanta) on the Proposed Rule. We thank you for the opportunity to be heard on this important matter.

We write today to express our serious concerns about the Proposed Rule and the unintended consequences that may result from it, at a critical juncture for the U.S. financial system.

Both market developments in the current credit crisis and responses from the federal government to those developments have been occurring at a breakneck speed over the last few weeks. Among other things, those responses have included the following matters potentially affecting the Deposit Insurance Fund (DIF):

- Increase of Insured Deposit Limit to $250,000. On October 3, 2008, the Emergency Economic Stabilization Act (EESA) became law and immediately raised deposit insurance coverage limits from $100,000 to $250,000. The increase in coverage is scheduled to expire on December 31, 2009.

- Temporary Liquidity Guarantee Program. Treasury Secretary Paulson, in consultation with President Bush and upon the recommendation of the boards of the FDIC and the Federal Reserve, invoked the FDIC's systemic risk authority under the FDIC Improvement Act of 1991. Relying on this emergency authority, the FDIC on October 14, 2008 announced its Temporary Liquidity Guarantee Program, pursuant to which FDIC would:

1475 Peachtree St. NE | Atlanta, GA 30309 | Tel: 404.888.8520 | ispencer@fhlbatl.com | Fax: 404.897.1846

- lift the limit on deposit insurance for non-interest bearing transaction deposit accounts, until December 31, 2009, and

- guarantee certain unsecured debt of participating financial institutions issued after October 8, 2008 and before June 30, 2009.

The analysis and models on which FDIC based the Proposed Rule did not contemplate any of these three massive new policy programs designed to reduce the risk of depository institution failures. To say that the Proposed Rule has been overtaken by events understates the issue. Simply put, the proposal was designed for a deposit insurance world that no longer exists.[1]

This, of course, is through no fault of the FDIC. The Proposed Rule was approved a week prior to the emergency establishment of the Temporary Liquidity Guarantee Program. In addition, the EESA legislation itself expressly prohibited FDIC from raising assessments in response to the deposit insurance limit increase.

We strongly urge the FDIC to withdraw the Proposed Rule and to delay increasing assessment rates and overhauling the assessment system until the end of 2009, after the ultimate fates of these three temporary programs are decided. This would permit Congress and other policymakers to consider changes to premiums within the context of a comprehensive review of the deposit insurance system. In addition, such a delay would help avoid a countercyclical increase in depository institution operating costs during the immediate crisis, consistent with both the implicit message of Congress set forth in the EESA legislation[2] and the current discussions regarding an additional economic stimulus package.

In the event that the FDIC declines to withdraw the Proposed Rule, FHLBank Atlanta recommends the following revisions to the proposal:

- Extend Period for Restoration Plan to Ten Years. In light of the invocation of systemic risk authority noted above, the current crisis obviously constitutes "extraordinary circumstances" permitting FDIC to extend the length of the DIF restoration plan beyond five years. We would recommend a ten-year period.

- Withdraw Adjustment for Secured Liabilities. We believe that penalizing institutions that rely on secured debt[3] for part of their funding would disrupt the current business practices of many healthy institutions, at a most inopportune time. Recent events have proven how much more stable and reliable FHLBank advances and certain other forms of secured debt

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[1] For instance, the rationale for the downward assessment rate adjustment for unsecured debt -- that in a receivership such debt cannot create a loss for FDIC -- does not easily apply to unsecured debt guaranteed by FDIC pursuant to the Temporary Liquidity Guarantee Program. The premium adjustment set forth in the Proposed Rule would effectively lower the guarantee fee paid by depository institutions under that program from 75 basis points annually on the amount guaranteed to 55 basis points.

[2] As noted above, Section 136 of EESA bars FDIC from considering the temporary increase in the deposit insurance limit to raise the premiums paid by insured depositories.

[3] We assume that all forms of secured borrowings would be included in the definition of "secured liabilities," including collateralized borrowings from the Federal Reserve Discount Window and covered bond transactions.

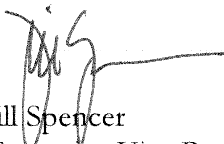
are relative to retail deposit funding, which has been characterized by extreme volatility. In addition, by penalizing on-balance sheet secured debt financing, the Proposed Rule would inadvertently subsidize the resurgence of the "originate-and-sell" model of mortgage finance. Many observers, including from time to time the Chairman of the FDIC, have noted how this model breaks the traditional role of a mortgage lender into separate components, thereby encouraging riskier underwriting at origination and complicating credit workout strategies on the back end. The Proposed Rule did not consider the potential effect this shift would have on systemic risk and the likelihood of depository institution failures. For these reasons, if the current rulemaking continues, we ask that the final rule remove the proposed upward adjustment in assessment rates for institutions that rely on secured liabilities.

- No Penalty for FHLBank Advances. If the FDIC does proceed with an upward rate adjustment for secured liabilities, we believe that FHLBank advances should be treated more favorably than certain other forms of secured liabilities. The FHLBanks are unique providers of secured funding, cooperatives devoted to serving the needs of their stockholder-customers, and as a result, advances typically are priced with very narrow spreads over the FHLBanks' cost of funds. In addition, their unique structure ensures that most of the earnings from the making of advances are promptly returned to the banking and housing systems, in the form of dividends and required contributions to each FHLBank's affordable housing program. Finally, we believe that the reliability of advances as both a source of liquidity to and an effective asset-liability risk management tool[4] for depository institutions has been proven over the last 15 months. We firmly believe that the number of institution failures would have been much higher (and costlier to the DIF) in the absence of the FHLBank system.

The FHLBanks are fulfilling the liquidity and housing finance mission originally intended (and, in the Housing and Economic Recovery Act of 2008, recently reaffirmed) by Congress, and we urge FDIC not to impose new barriers to this project through the deposit insurance assessment process.

Thank you for your consideration of our comments.

Sincerely,



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[4] The FHLBanks have the ability to structure advances to fit a borrower's risk management needs. This is another way in which advances promote the safety and soundness of depository institutions.