Sovereign Bank℠

September 6, 2006

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

Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances

Dear Mr. Feldman:

Thank you for the opportunity to comment on the Federal Deposit Insurance Corporation notice of proposed rulemaking on deposit insurance assessments with respect to whether Federal Home Loan Bank (FHLBank) advances should be included in the definition of volatile liabilities or, alternatively, whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities.

Like many financial institutions, FHLB advances have been a reliable and predictable funding source for Sovereign for many years. FHLB advances are a component of our overall asset funding strategy and are typically used when other funding sources like core deposits may not be available or when we are using the long term and predictable nature of these advances to manage our overall interest rate risk. We believe FHLB advances are more dependable and convenient than other funding sources such as jumbo CDs. Also, since advances come in a variety of maturities, from overnight to over 20 years, they provide companies with multiple options to effectively manage interest rate risk. We do not believe FHLB advances are volatile liabilities due to the fact that the advances have predefined, well understood and predictable terms.

As set by Congress, the primary purpose of the FHLBank System is to provide a source of long term liquidity for FHLBank members. Throughout their 75-year history, the FHLBanks have performed this mission successfully. The FHLBanks are a stable, reliable source of funds for member institutions, and the availability of such credit has a predictable, beneficial effect on members' businesses. Given the value of such a stable source of funding, it is not surprising that more than 8,200 financial institutions are members of the FHLBank System. We believe it would not be appropriate to include FHLBank advances in the definition of volatile liabilities given the stability of the FHLBanks, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable effect of such funding on members' businesses.

We believe that Deposit insurance premiums should be based on an institution's risk profile, taking into account an institution's supervisory rating and capital ratios. Given our past usage of these advances, we have an in-depth knowledge of the advance products offered by the FHLB and ensure we understand, document, and communicate the risks and enterprise-wide implications of any advances with the FHLB, ensuring risks are always appropriately managed.

We believe that banks that are engaged in excessively risky activities should pay a higher premium, regardless of whether those activities are financed by insured deposits, FHLBank advances, or alternative wholesale funding sources. The oversight provided by FDIC examination staff and other banking regulators is a better determinant of a bank's risk profile than an inflexible formula imposed on all insured institutions, regardless of circumstance.

Discouraging borrowing from the FHLBanks would be counterproductive to reducing the risk of failure of FDIC-insured institutions. In fact, discouraging the use of FHLBank advances could lead to the adverse effect of increasing risks to FHLBank members. Borrowers frequently use FHLBank advances for liquidity purposes and to manage interest-rate risk, as well as to fund 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 institutions to look to alternative, often more costly wholesale funding sources that are demonstrably more volatile, thereby reducing profitability and increasing liquidity and interest rate risk.

Including FHLBank advances in the definition of volatile liabilities would raise the cost of advances, thereby creating a barrier to their usage. Such an outcome would conflict with the intent of Congress in establishing the FHLBanks, in opening membership in FHLBanks to commercial banks in FIRREA, and, more recently, in adopting the Gramm-Leach-Bliley Act, which expanded small banks' access to advances. The FHLBanks' mission is to provide financial institutions with access to low-cost funding so they may adequately meet communities' credit needs with respect to homeownership and community development. Charging higher assessments to those banks utilizing advances would, in effect, use the regulatory process to weaken the FHLBanks' mission as established and repeatedly reaffirmed by Congress.

We respectfully request that you fully consider the above points and do not conclude Federal Home Loan Bank (FHLBank) advances should be included in the definition of volatile liabilities or, alternatively, whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities.

Sincerely,

Mark R. McCollom

Mark R McCollom
Chief Financial Officer

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