

## **Federal Deposit Insurance Corporation**

550 17th Street NW, Washington, D.C. 20429-9990

# Financial Institution Letter FIL-73-2008 August 4, 2008

## COVERED BONDS

# **FDIC Policy Statement on Covered Bonds**

**Summary:** The FDIC has issued the attached final policy statement on the treatment of "covered bonds" if the issuing insured depository institution (IDI) is placed into FDIC receivership or conservatorship. The policy statement provides regulatory clarity by granting expedited access to covered bond collateral if the issuing institution fails and is placed into conservatorship or receivership and meets certain criteria. The FDIC guidance is intended to reduce market uncertainty on the treatment of covered bonds in a receivership or conservatorship, while allowing prudent development of the U.S. covered bond market.

#### Distribution:

**FDIC-Insured Institutions** 

### **Suggested Routing:**

Chief Executive Officer Chief Financial Officer Chief Lending Officer Board of Directors

### **Attachment:**

Covered Bond Policy Statement

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#### Note:

FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at

www.fdic.gov/news/news/financial/2008/index.html.

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Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

## **Highlights:**

A "covered bond" is defined as a nondeposit, recourse debt obligation of an IDI with a term greater than one year and less than 30 years that is secured, directly or indirectly, by perfected security interests under applicable state and federal law on assets held and owned by the IDI consisting of eligible mortgages or, not exceeding 10 percent of the collateral for any covered bond issuance or series, AAA-rated mortgage-backed securities secured by eligible mortgages.

Generally, the FDIC's consent is required for access or liquidation of pledged collateral for the first 90 days after the FDIC is appointed receiver or the first 45 days after the FDIC is appointed as conservator. The policy statement provides expedited access to collateral for covered bonds if the FDIC remains in monetary default on the covered bond for 10 business days after receiving notice of default, or if the FDIC does not pay statutory damages within 10 business days after the effective date of repudiation.

The policy statement applies only to covered bond issuances that meet the following criteria:

- The covered bond issuances must be made with the consent of the IDI's primary federal regulator.
- The IDI's total covered bonds at issuance comprise no more than four percent of the IDI's total liabilities.
- Covered bond issuances must be secured by perfected security interests under applicable state and federal law on performing eligible mortgages on one- to four-family residential properties, underwritten at the fully indexed rate, relying on documented income, and complying with applicable supervisory guidance governing the underwriting of residential mortgages. Issuances may also be secured by AAA-rated mortgage securities not exceeding 10 percent of the collateral. Substitution collateral may consist of cash and treasury and agency securities.

Under the policy statement, any liability of a conservator or receiver on covered bonds will be limited to the par value of the bonds issued, plus contract interest accrued up to the date of appointment of the conservator or receiver.