

SCHWARTZ & BALLEN LLP

1990 M STREET, N.W. • SUITE 500

WASHINGTON, DC 20036-3465

(202) 776-0700

FACSIMILE
(202) 776-0720

www.schwartzandballen.com

M E M O R A N D U M

April 24, 2008

To Our Clients and Friends

Re: FDIC Policy on Covered Bonds

The Federal Deposit Insurance Corporation (“FDIC”) has issued an interim policy statement on the treatment of covered bonds in a receivership or conservatorship. The policy statement provides guidance to creditors as to the circumstances under which the FDIC will grant creditors access to pledged bond collateral. The policy is effective immediately. However, the FDIC is also asking for public comment on the policy by June 23, 2008.

BACKGROUND

In covered bond transactions recently initiated in the U.S., a depository institution sells mortgage bonds, secured by mortgages, to a special purpose vehicle (“SPV”) such as a trust. The SPV sells covered bonds, secured by the mortgage bonds, to investors. The pledged mortgages remain on the depository institution’s balance sheet, securing the institution’s obligation to make payments on the debt. In the event of a default by the depository institution, the mortgage bond trustee takes possession of the pledged mortgages and continues to make payments to the SPV to service the covered bonds. The FDIC’s policy statement clarifies the circumstances and the specific covered bond transactions for which it will grant consent to access pledged covered bond collateral before the expiration of the forty-five day period after appointment of a conservator or the ninety day period after appointment of a receiver for the depository institution that has pledged the assets.

The FDIC’s policy will apply only to recourse debt of a depository institution with a term of more than a year but no more than ten years. The covered bonds must be secured by a pool of residential mortgage loans, or by AAA-rated mortgage bonds in an amount not to exceed 10 percent of the collateral. The institution must have received consent from its primary federal regulator to issue the covered bonds, and the total amount of bonds issued may not exceed 4 percent of the institution’s total liabilities.

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The policy provides that FDIC consent is given to covered bond holders to exercise their contractual rights over collateral for covered bond transactions conforming to the policy no sooner than ten days after a monetary default on a depository institution's obligation to the covered bond holder or ten days after the effective date of repudiation of the transaction by the conservator or receiver. In order to obtain the FDIC's consent, a holder of covered bonds must file a written request to the FDIC providing the basis for its request as well as supporting documentation.

A copy of the FDIC policy statement can be found on our website at http://www.schwartzandballen.com/whats_new.html.

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox or Heidi Wicker at (202) 776-0700.