December 15, 2008

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

RE: RIN 3064-AD35
Assessments

Dear Mr. Feldman:

I am the Chairman and CEO of Scituate Federal Savings Bank is a $250 million mutual saving bank located in a suburb south of Boston. In that capacity, I appreciate the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) proposed rule revising deposit insurance assessment rates and changing the risk-based assessment system. The proposed rule would implement the FDIC's restoration plan to recapitalize the Deposit Insurance Fund (DIF).

The proposed rule imposes an additional charge on the assessment rate for institutions that have ratios of secured liabilities to domestic deposits exceeding 15 percent. Secured liabilities include by definition FHLB advances. I believe this approach is deeply flawed and will have a number of unintended consequences.

Under the current formula, secured liabilities do not affect an institution's assessment rate; however, the agency believes that this exclusion can lead to inequities in the system. Specifically, the agency states that under the current rules, substituting secured liabilities for unsecured liabilities increases the FDIC's loss in the event of a failure without providing any increased assessment revenue.

We use FHLB advances for a number of reasons. Most importantly, they are a stable source of liquidity that allows us to manage the overall cost of funding. Without access to advances, we would be forced to rely on higher rate deposits more heavily. Primarily, we use advances from the FHLB to gain liability extension that is difficult to achieve through retail deposits. This allows us more flexibility in pricing our assets and in controlling interest rate risk. At a time when federal policymakers and Members of Congress are calling on banks to increase their lending activity in an effort to improve the nation's economy, increasing the cost of lending for community banks is counterproductive.

The banks that have failed or that add more risk to the Deposit Insurance Fund do not do so as a result of increased FHLB advances or brokered deposits. They fail due to the types and growth of lending that the funding supports such as alt-A and subprime mortgage lending or out-of-market construction and development loans.

For example, the FDIC often cites the resolution cost of Indy Mac as one of the prime reasons for imposing a new fee on FHLB advances. Again, we would assert that it was not the source of funds which caused IndyMac's problems, but how they were using the funds. A higher fee for advances will only serve to require lenders to reach for the higher returns attainable only through higher risk investments.

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The FDIC and the other banking regulators already have risk monitoring processes in place, Safety and Soundness Examinations and CAMELS ratings. The regulators also have the ability to curtail these riskier practices on a bank-specific basis before they become problematic and contribute to bank failures. Instead of penalizing healthy banks that are providing much-needed credit in their communities, the FDIC should be working with the other banking agencies and the FHLB system to develop more effective monitoring systems and reporting mechanisms so that potential issues can be addressed before they cause problems for the DIF.

If the FDIC decides to impose higher premiums on banks that use secured liabilities, we strongly suggest that the proposed 15 percent threshold be increased to at least 45 percent of domestic deposits. This would allow institutions to continue accessing FHLB funding, while discouraging banks from using FHLB advances to support higher-risk lending strategies.

Thank you again for the opportunity to comment on the proposed rule.

Sincerely,

Joseph C. Hayes
Chairman & CEO

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