JOHN C. KLINE
PRESIDENT & CEO

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December 11, 2008

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

Re: FDIC – RIN # 3064-AD35 (Notice of Proposed Rulemaking –Assessments)

Dear Mr. Feldman:

On behalf of Union Savings Bank (Union Savings), I write to express our deep concern with the Federal Deposit Insurance Corporation's (FDIC) proposed rule on risk-based insurance assessments. I fully appreciate the pressing need to build reserves in the Deposit Insurance Fund ("DIF") in order to address current and future bank failures. However, for the reasons outlined below, I urge the FDIC to reconsider the proposed rule.

After carefully evaluating the proposal, we have determined that the impact of the new premiums impose a harsh penalty on Union Savings and would be detrimental to our core mission of providing financing to consumers and businesses. More specifically, correlating the volume of "secured liabilities" to greater risk to the DIF and, in turn, making that the primary factor in determining the risk adjustment is both arbitrary and punitive. We believe that the recent failure of the capital markets related to the residential lending industry (and the resultant impact on a few poorly managed institutions) should not be remedied by imposing such draconian fees on healthy institutions that are already struggling to meet the needs of their borrowers. In addition, the proposed rulemaking would unfairly punish institutions like ours who never participated in the risky practices that have brought some banks so much financial pain.

Penalizing Union Savings for our use of secured liabilities would bring about the unintended consequence of restricting home mortgage financing—particularly in the 30-year fixed rate product for our first time home buyer (FTHB) program. This deeply discounted loan program is non-agency conforming and as such is a portfolio product. From an interest rate risk management perspective, these assets are funded with long-duration advances from the Federal Home Loan Bank of Boston. This very successful program (through nine months ended

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September 30, 2008, we originated more than $30 million of such loans) would have to be significantly curtailed if the proposed rule is adopted.

In addition to aiding in funding our FTHB program, we also utilize secured liabilities to fund other longer-duration loans such as agency conforming fixed-rate residential mortgages and commercial mortgages. Here again, the longer maturity terms of secured borrowings used by Union Savings match the average life of a mortgage loan far better than any retail deposit, which enables us to efficiently manage our exposure to interest rate risk. While we understand that secured liabilities encumber assets, increasing our reliance on retail deposits to fund long-term assets would ultimately expose our balance sheet (and the DIF) to greater interest rate and liquidity risk. A huge premium increase[1] based on the use of such funding will significantly alter the cost/benefit equation and penalize an otherwise well managed institution like Union Savings that is safely meeting the needs of the communities we serve.

We appreciate the FDIC's work to revamp the current assessment formula so that an equitable share of the cost to restore and maintain the DIF is assessed on all insured institutions. It is our view that the more appropriate approach to assessing deposit premiums is to determine rates based on an institution's actual risk profile. Institutions engaged in excessively risky activities should pay higher premiums irrespective of whether those assets are funded by deposits or secured liabilities. Advances from the FHLB are a critical and stable source of funding and liquidity—the latter being one of the most significant challenges facing the banking industry at this time.

Sincerely,

John C. Kline

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[1] Under the proposed rule, our assessment rate would increase approximately 33%. This is in addition to the 100% increase to the minimum Initial Base Assessment Rate scheduled to begin on April 1, 2009.