FIRST FEDERAL LAKEWOOD

November 5, 2008

Via Email comments@FDIC.gov

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

Comment on Interim Rule, RIN#3064-AD35
12 CFR Part 327

Dear Mr. Feldman:

We would like to take this opportunity to comment on the FDIC's proposal to raise premiums in order to recapitalize the insurance fund and to change the risk-based premiums classification system. Our concerns relate specifically to two issues: 1) what appears to be a discriminatory penalty toward institutions organized as mutuals and all institutions that are dependant on FHLB advances as a means to control interest rate risk; and 2) the proposal will increase expenses to a point that impairs the ability of a mutual to raise capital.

I believe that the proposal is particularly punitive to banks that use Federal Home Loan Bank advances. FHLB advances are a stable source of funding for many banks and often at lower cost than local deposits. This has been especially true in our region as of late with liquidity starved regional banks headquartered here. Lower cost funds will improve net margin and overall earnings. Additionally, FHLB advances are a good tool for managing interest rate risk when used to match fund longer term loans. This type of funding is not available elsewhere.

The FDIC should not inhibit good, stable sources of funding such as FHLB advances. Rather, the focus should be on the risk of the assets that the bank has funded, regardless of the source of funds and any concerns should be raised as part of the examination process – which is included in the premium calculation.

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While we recognize the Federal Deposit Insurance Reform Act requires the FDIC to rebuild the fund to 1.15% in five years, the proposal rebuilds it to 1.25% in five years. The Act allows the FDIC to take longer to rebuild the fund under extraordinary circumstances. There is no question that these are extraordinary circumstances and rebuilding the fund over a longer period of time would reduce the expense burden on financial institutions as they work to rebuild balance sheets and improve profitability.

As of this writing, there is no indication from the Treasury Department as to how a mutual or other non-publically traded institution can participate in the Capital Purchase Program. The current times are trying and making a profit is difficult. We project the deposit premium for 2009 will be approximately 35% of our before tax earnings. This significantly impairs our income which is currently our only source of capital.

Thank you for the opportunity to comment on the proposal.

Sincerely,

Robert N. Malehorn

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