Provident Bank

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Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, D.C. 20429

Re: FDIC Proposed Restoration Plan

Dear Mr. Feldman:

Provident Bank, a federally-chartered savings association headquartered in Montebello, New York, appreciates the opportunity to comment on the proposal to raise premiums in order to recapitalize the insurance fund and to change the risk-based premiums classification system.

Provident Bank understands and supports the importance of a strong insurance fund in maintaining depositor confidence. We also support a risk-based approach for determining the rate a bank will pay for FDIC insurance. However, we oppose the proposed blanket add-on to the assessment rate for an institution if its ratio of secured liabilities (including advances from the Federal Home Loan Bank) to domestic deposits exceeds 15%. We have used Federal Home Loan Bank (FHLB) advances as an important complement to deposit funding in a safe and sound manner for many years.

Provident Bank believes that the FDIC should take into account the asset side of the balance sheet of those institutions with higher levels of secured liabilities. Institutions may use FHLB advances to purchase investment quality securities for their investment portfolio and to limit interest rate risk inherent in reliance only on deposit flows. To the extent investment grade securities exceed FHLB advances with no more than moderate interest rate risk, a risk-based add-on should not be assessed since the institution's use of FHLB advances for this purpose does not result in the same risk of failure and potential losses to the FDIC as an institution that uses secured liabilities primarily to fund new loans.

In addition, it should be noted that the FHLB provides advances in a consistent, reliable, and safe manner for their members. FHLB advances are especially important to community banks that represent the vast majority of the FHLB system's 8,100 members. These smaller institutions seldom have reliable access to other sources of cost-effective funding. Thus, FHLB advances play a vital role in alleviating the current shortage of liquidity in the mortgage markets. Penalizing the use of FHLB funding is contrary to the current efforts by the Administration, Congress, and the Federal Reserve to restore liquidity and bolster confidence in the financial system.

Institutions such as ours also use FHLB advances to match-fund longer term loans. This allows our bank to effectively manage our interest rate risk. This type of funding is not available elsewhere. Under the proposal, financial institutions that use FHLB advances will be faced with several undesirable outcomes. First, operating costs will go up as a result of increased premiums. Second, FHLB members will increase their focus on attracting less stable retail deposits by bidding up these accounts, with a likely increase in a less than apparent marginal cost as a result. Third, institutions may choose to decrease lending in their communities. During the current economic crisis, it would be harmful to implement a policy that would further restrict lending.

Further, the past several weeks have produced a climate that is not reflected in the deposit insurance assessment plan. The Emergency Economic Stabilization Act raised deposit insurance levels to $250,000 through 12-31-09. The proposed rule does not include the impact of this increase in the calculation of the deposit insurance fund (DIF) ratio. Further, on October 14th, the FDIC invoked its systemic risk authority and temporarily extended deposit insurance coverage to all non-interest bearing deposit transaction accounts. Again, the impact of the premiums relating to this coverage is not included in the DIF ratio.

The FDIC is statutorily permitted to extend the period to restore the reserves of the DIF during extraordinary circumstances. Considering that the FDIC has already cited its statutory authority to prevent systemic risk in its earlier actions, it is appropriate that these circumstances be applied to DIF restoration. The actions cited above will expire on 12-31-09, suggesting that there may be a comprehensive review of the nation's deposit insurance system at that time. In light of these factors, the FDIC should consider suspending its current rulemaking related to FHLB advances for twelve months to permit some degree of normality to return to the credit markets.

If the FDIC proceeds with this rulemaking and its new approach to risk-based premiums, then the final rule should treat FHLB advances differently than other forms of secured borrowing. Advances are more reliable, flexible, and better priced than other sources of funding. As unique providers of secured funding, the FHLB prices advances with very narrow spreads over the FHLB's cost of funds.

FHLB advances function as a critical source of credit for housing and community development purposes, sustain prudent financial management practices, and enable small community member banks throughout the nation to remain competitive. The FHLB contributes 10% of their prior year's income to fund the Affordable Housing Program (AHP), which is the largest source of private funds available to serve the affordable housing needs throughout the country. An unintended consequence of the FDIC's proposed treatment of advances will be a reduction in the availability of AHP funds as FHLB income declines. In addition, the FHLB's Community Investment funding provides access to the lowest cost advances to finance lending activities, while simultaneously strengthening CRA performance and fostering local relationships through community involvement. The proposed rule, however, will only encourage members to avoid accessing advances for these types of community reinvestment programs.

We would also like to comment on the proposal to add use of brokered deposits, in combination with rapid growth, as a factor with other financial ratios. The proposal includes Certificate of Deposit Account Registry Service (CDARS) deposits in the brokered deposits ratio. This reciprocal CDARS component allows our bank to retain customers and keep funding local. We believe that reciprocal CDARS activity, by its very nature, has characteristics that are more typical of core deposits. As such, we do not believe it is appropriate to include CDARS reciprocal deposits in with other, more volatile, forms of brokered deposits.

For the reasons stated above, we urge that the FDIC re-consider its rule with respect to wholesale funding, in particular FHLB advances, and CDARS reciprocal deposits. We further suggest that the impact of the rule change is difficult to understand, and that the FDIC will be better positioned to consider this matter in the context of a more comprehensive review of the insurance program.

Provident Bank appreciates the opportunity to comment on the proposal.

Sincerely,

George Strayton

George Strayton
President, Chief Executive Officer

cc: Senior Management