Valley National Bank

Eric W. Gould
First Senior Vice President-Chief Investment Officer

November 5, 2008

Mr. Robert Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW
Washington DC, 20427

Attention: Comments – RIN 3064-AD35

Re: Notice of Proposed Rulemaking – Deposit Insurance Assessments

Dear Mr. Feldman

On behalf of Valley National Bank, I am submitting the following comments regarding the FDIC's proposed rule concerning deposit insurance assessments.

As you are aware, over the past decade commercial banks such as Valley have become more reliant on wholesale funds such as FHLB advances, repurchase agreements and brokered CD's for a myriad of reasons. These include primarily asset/liability management, fierce competition for deposits and liquidity management. Over the past decade, commercial banks such as Valley National Bank have been forced, largely due to competition, to lengthen their loan maturities on both the consumer and commercial side. At the same time, core deposit funding sources have continued to demand shorter maturities. Consequently, banks have been faced with lending longer and funding shorter, causing a much greater asset/liability mismatch during a period in which pricing has become increasingly competitive.

In response to this situation, Valley National Bank began to develop alternative sources of longer term funding. We have found that the FHLB is and has been the best source of providing long term funding to its member banks. Valley National Bank has been able to secure long term funding from them in order to protect its interest spreads and net interest margin. This funding is available with long term maturities (usually in the three to five year range), is extremely secure (advances can only be called if Valley were to default), readily available, and usually considerably cheaper than core deposit funding. Furthermore, we have found that by using this source we have been able to slow or prevent a migration of low cost deposits into more expensive alternatives.

Valley National Bank has and continues to use other funding sources coming from Wall Street and other financial institutions. Although these sources do not usually offer terms as good as the FHLB, they are usually very close and generally offer lower rates than would be necessary

1455 Valley Road Wayne, New Jersey 07470 phone 973.305.4016 fax 973.305.0024 email egould@valleynationalbank.com

to attract core deposit funding. Currently, we have total unused Fed Funds lines equaling approximately $1 billion and we have approximately $300 million in borrowing capacity from the FHLB on unencumbered assets available as collateral and we are in the process of expanding our capacity with the Fed's Discount Window based on our eligible auto and HELOC loans that should provide an additional $1 billion. Valley has not traditionally utilized brokered CD's in a meaningful way, as they tend to be a more expensive alternative.

As a result of the increased use of long term FHLB funding, Valley National Bank has been able to slow the erosion of its net interest margin, hold down its overall cost of funds, and maintain its profitability better than most of the banks in its market area.

Under the FDIC's 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. If banks throughout the country turn to this method, it will drive up the cost of funds as they attempt to not only attract new deposits, but to retain their existing deposit base. Third, institutions may choose to decrease lending in their communities. During this current economic crisis, it would be harmful to implement a policy that would further restrict lending.

In summary, through the use of wholesale funding such as the FHLB, Valley National Bank's management is strengthening this institution by matching its funding to its interest rate maturities; protecting the banks interest rate spreads; slowing the deterioration of the bank's net interest margin; meeting its financial obligations in a timely manner; optimizing profitability in the current interest rate environment while fulfilling the legitimate banking needs of its community. At the same time we have insured our liquidity needs by backing up our liabilities with both short term and long term credit lines far in excess of our short and long term demands and positioning our loan portfolio to produce maximum liquidity.

FHLB membership has long been viewed as protection for deposit insurance funds because FHLB members have access to a reliable and consistently available source of liquidity. If the FDIC decided to proceed to a final rule concerning deposit insurance assessments, I strongly urge you not to adopt a policy that would penalize institutions based on their use of FHLB advances.

Very truly yours,

Eric Gould
First Senior Vice President