December 16, 2008

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

Re: **RIN 3064–AD35**
Proposed April 1 FDIC Risk-Based Premium Changes
MAGYAR BANK – FDIC Certificate No. 30704

Dear Mr. Feldman:

Thank you for the 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. My response will address three principal concerns, namely, period of fund recapitalization, additional risk-based premiums for CDARS deposits, and additional risk-based premiums on Federal Home Loan Bank advances.

There is no argument that a strong FDIC insurance fund is important to maintaining depositor confidence. That fact has been demonstrated many times over since this current period of economic uncertainty and 'banking crisis' first began. Accordingly, I support changes to the premium calculation that truly reflect the risk of loss to the FDIC insurance fund, but which also reflect the realities faced by community banks.

Recapitalization Period

I believe that the proposed aggressive recapitalization would not only be counterproductive, it could impair our bank's ability to meet local credit needs. The proposal would significantly raise premiums assessments to aggressively recapitalize the insurance fund in five years to over 1.25 percent of insured deposits. This recapitalization effort greatly exceeds the requirements of the Federal Deposit Insurance Reform Act in which the FDIC is mandated to rebuild the fund to 1.15 percent in five years and to take longer when there are "extraordinary circumstances."

There is no question that the current economic crisis meets the definition of "extraordinary circumstances," and I believe the FDIC should take advantage of the ability to recapitalize over a longer period of time in light of the current situation.

Further, the proposed premiums would counter efforts by Congress and the Treasury to stimulate lending. At a time when credit availability has tightened throughout our nation, the proposed excessively high premiums will serve only to reduce the resources our bank has available to lend in the communities we serve.

In short, FDIC insurance premium rates should be substantially less than what is proposed.

Risk-based premiums, CDARS deposits

I believe that the proposal should remove the Certificate of Deposit Account Registry Service (CDARS) 'Reciprocal Deposits' from inclusion in the brokered deposits ratio. Our bank utilizes CDARS reciprocal deposits to retain large dollar local deposits in amounts above FDIC insurance coverage limits. In many cases, the source of these local 'CDARS Reciprocal' deposits are elderly customers without family, local municipal deposits, local business' operating accounts, and local nonprofit organizational deposits. These bank customer classes are often limited as to their aggregate FDIC insurance options and therefore would be required to spread their funds throughout multiple banks to avail themselves of full FDIC insurance coverage on their deposits. Without the availability of the CDARS Reciprocal program, our bank cannot provide the convenience of 'one-stop' banking for these local customer classes.

Equally important, these very same CDARS deposits provide a valuable source of local, low-cost deposit funding for our bank. While I too am troubled that some recent failed or troubled banks have used brokered deposits to grow rapidly and fund risky assets, it is unfair to classify local CDARS reciprocal deposits in with other, more volatile, forms of brokered deposits. CDARS Reciprocal deposits are local deposits of local customers, managed and retained by local community banks. They are not brokered deposits. Assessing a higher 'risk' premium for CDARS reciprocal deposits just does not make sense. The proposal should recognize this fact, and remove this class of deposits from any additional risk premium.

Risk-based premiums, FHLB Advances

I also take issue with the proposed 'risk assessment' associated for Federal Home Loan Bank advances, and believe this proposal is particularly punitive in that regard. FHLB advances are stable source of funding for many banks that is often at lower cost than local deposits. In addition, FHLB advances can be used to match-fund longer term loans, mitigating interest rate risk. Our experience has shown that consumers, businesses, and nonprofits are unwilling and/or unable to commit to long-term deposits (3 year terms or longer), or that such funds can only be obtained at irrationally higher interest rates. Accordingly, long-term funding, such as that available in the form of FHLB advances, is not readily available elsewhere to community banks.

FHLB advances are a critical component of our bank's interest rate risk management process and the bank should not be penalized for availing ourselves of this option.

Additionally, the FDIC should recognize that many community banks take advantage of low and/or below-market FHLB 'community investment' advances to fund community development initiatives. As a bank with an 'Outstanding' CRA performance rating, the availability of this type of FHLB advance is a critical part of our bank's Community Reinvestment Act compliance program, and the bank should not be penalized for using FHLB advances for this purpose.

In summary, the FDIC should not inhibit banks from utilizing good, stable sources of funding such as CDARS Reciprocal deposits or 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. It is patently unfair to penalize banks that use these stable sources of funding.

Conclusion

Please accept my appreciation for taking the time to consider the concerns expressed in this comment letter. I wish the FDIC success in addressing the issue of recapitalizing the FDIC insurance fund in a manner that achieves that goal, while mitigating undesirable impact on the banking industry – particularly on community banks.

Sincerely,

Elizabeth E. Hance
President and Chief Executive Officer
Magyar Bank
New Brunswick NJ