ASTORIA FEDERAL SAVINGS
Putting people first.

CORPORATE HEADQUARTERS
One Astoria Federal Plaza
Lake Success, NY 11042
516-327-3000
www.astoriafederal.com

December 17, 2008

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

Re: Federal Deposit Insurance Corporation – Deposit Insurance Assessments
RIN 3064-AD35

Dear Mr. Feldman:

Astoria Federal Savings and Loan Association (AFS) appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) deposit insurance assessment proposal (the Proposal). AFS is a subsidiary of Astoria Financial Corporation which is a unitary savings and loan association holding company. We are a publicly traded thrift institution (NYSE:AF) with assets of approximately $22 billion. We operate 85 banking offices in New York with deposits of approximately $13 billion.

We appreciate the opportunity to comment on the FDIC's proposal to raise premiums in order to recapitalize the insurance fund. A strong FDIC insurance fund is important to maintaining depositor confidence and we support changes to the premium calculation that truly reflect the risk of loss to the FDIC. However, as a healthy bank that had nothing to do with the current problems, we believe that the aggressive recapitalization proposed would be counterproductive and would limit our ability to meet local credit needs.

The proposal would significantly raise premium assessments to aggressively recapitalize the insurance fund in five years to over 1.25 percent of insured deposits. The Federal Deposit Insurance Reform Act requires the FDIC 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 these are extraordinary circumstances and excessively high premiums only reduce the resources that we have available to lend in our community. It is also counter to other efforts by Congress and the Treasury to stimulate lending. Premium rates should be substantially less than what is proposed.

In addition, we believe that the proposal is particularly punitive to banks that use Federal Home Loan Bank (FHLB) advances greater than 15 percent of deposits. We have relied on FHLB advances for many years as an important complement to deposit funding and have used these advances in a safe and sound manner.

We use advances for several reasons. Most importantly, it's a stable source of liquidity that allows us to manage the overall cost of funding. In this volatile environment, there are often weaker institutions that have bid up the cost of local retail deposits. FHLB advances often provide a lower cost of funding than local deposits. Without advances, we would be forced to rely on these deposits more heavily during these periods. In fact, the availability of advances was particularly useful during the last six months. If the FDIC added a significant penalty, this would do nothing more than raise the cost of funding – with no change in the risk of the assets that we fund – and end up reducing our profitability. Thus, raising the cost of funding by the FDIC is not consistent with safe and sound banking.

Second, we use advances to match-fund longer term loans. This allows community banks like AFS to effectively manage our interest rate risk. This type of funding is not available elsewhere. Seasoned members of the Federal Home Loan Banks, like AFS, naturally maintain advance balances higher than the industry average. The 15 percent threshold is capturing normal use of advances and unduly penalizes banks that have used advances in a safe and sound manner for many years. If the FDIC adopts a threshold approach, it must determine the threshold relative to the normal advance levels maintained by FHLB members that routinely use advances to maintain flexible liquidity and to lower enterprise risk.

The FDIC should not inhibit good, stable sources of funding. Rather, the focus should be on the risk of the assets that the bank has funded, regardless of the source of funds. Moreover, the Federal Home Loan Banks themselves monitor the use of advances so that the exposure does not become excessive. The FDIC should remove the use of FHLB advances from the rule or, at a minimum, adjust the threshold to consider normal use of advances by seasoned FHLB members.

We appreciate the opportunity to comment on the Proposal.

Sincerely,

Katherine A. O'Brien

Katherine A. O'Brien
First Vice President and Director of Financial Reporting