

METUCHEN SAVINGS BANK



November 24, 2008

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

Re: Comments/Legal ESS
FDIC RIN# 3064-AD34
Treatment of Certain Claims On or Guaranteed
by Fannie Mae and Freddie Mac

Dear Mr. Feldman:

I am writing to you again today regarding another hurdle, in which I am very concerned, wherein the FDIC is requesting to implement a change that will reduce the effectiveness of the Federal Home Loan Bank System. You would think that the GSE is the worst organization out of the three but nothing can be further from the truth. The Federal Home Loan Bank is the only GSE that has kept to its original mission statement. Their mission statement is as follows: "To support member banks in their residential-mortgage and economic-development activities". In a time when cash deposits in community banks are dwindling, the funds provided by the Federal Home Loan Banks guarantee a stable source of funds for mortgages and community lending. In light of the preceding statement, Metuchen Savings Bank has significant concerns about your proposal to reduce the risk weights to ten percent on Fannie Mae and Freddie Mac bonds while leaving the Federal Home Loan Bank Risk weight at twenty percent.

1. Your proposal suggests that agencies of the US Government do not support the FHLBanks mission as equally as they support that of Fannie Mae and Freddie Mac. I have to wonder if anyone knows their mission statement. The perception that they are not equal does not make sense for the following reasons: Firstly, Congress created a new regulator to oversee all of the housing GSEs. Secondly, when the new regulator took control of Fannie Mae and Freddie Mac, their Director remarked that the FHLBanks are performing remarkably well and are well capitalized. Thirdly, the Treasury is providing the same temporary backstop funding facility to all the GSEs through the GSE Credit Facility. Finally, the New York Fed is providing support for the FHLBanks, as well as Fannie Mae and Freddie Mac, by purchasing their discount notes in recent open markets.

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Despite these actions, investors are demonstrating a preference for Fannie Mae and Freddie Mac obligations. Since these entities were placed in conservatorship by the Federal Housing Finance Agency, the FHLBanks cost of issuing senior debt has actually increased by 20 to 30 basis points in comparison with comparable bonds issued by Fannie Mae and Freddie Mac.

2. The above issues affect the pricing of Federal Home Loan Bank Bonds. The increase in borrowing rates due to the higher coupon rates that FHLBanks must pay on their debt offerings makes it difficult for us to use this credit facility. Without these funds, we are unable to present to our customers an acceptable rate when they apply for a loan. The question you might ask yourself is why Metuchen Savings Bank depends on Federal Home Loan Bank borrowings rather than raise the funding through deposits. The answer is simple. Community Banks that are mutually formed do not have the same access to the capital infusion programs that Wachovia, Citibank, and JPMorgan Chase were privileged to use. Since there are no oversight controls over the use of those funds, these banks are now using them to increase rates on their CD's. These rates are outside what Metuchen Savings Bank can offer to pay if it wants to remain a well-capitalized bank. In all the newspapers and news reports that are presented through electronic media, Ms. Bair makes the statement that she is looking to banks to help troubled borrowers. It would seem that this proposal is in direct conflict with the public statements of your Chairman.

We strongly urge the FDIC and its fellow regulators to treat comparably the debt securities of all housing GSEs with regard to the risk-based capital rules. We believe this to be the course of action that achieves the most favorable outcome for all stakeholders of the housing GSE's during this extraordinary time of financial crisis.

Yours truly,



Edward Mc Govern
Chief Financial Officer

cc: Katherine Lisenko/ President Metuchen Savings Bank
Shelia Bair/ Chairman FDIC