HUDSON CITY BANCORP, INC.
Bank on Better Values℠

December 20, 2010

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

Attention: Comments – RIN 3064-AD66

Re: Assessments, Large Bank Pricing NPR

Dear Mr. Feldman:

On behalf of Hudson City Savings Bank ("Hudson City"), we are submitting the following comments regarding the Federal Deposit Insurance Corporation's (the "FDIC") proposed rule concerning deposit insurance assessments for large banks. We appreciate the opportunity to address this important issue.

Comments Regarding Asset Based Differentiation of Assessments

The FDIC proposes to revise the assessment system for large insured depository institutions ("IDIs") to better differentiate IDIs and take a more forward-looking view of risk; to better take into account the losses that the FDIC may incur if such an IDI fails; and to make technical and other changes to the rules governing the risk-based assessment system. The use of a scorecard system that is different for large banks, which are defined for these purposes as IDIs with assets greater than $10.0 billion, presents unique challenges. For example, large bank failures in the past three years resulted in losses of approximately 7% of assets taken into receivership compared to 13.7% for smaller institutions. Since January 1, 2008, nine large banks with combined assets of $435.7 billion were closed with a loss to the FDIC of $30.3 billion as compared to 301 banks (each with total assets of less than $10.0 billion) with combined assets of $195.6 billion and a loss to the FDIC of $26.9 billion. However, one bank from the large bank group accounted for $12.8 billion of the loss. We believe that a risk-based assessment system should be applied to all IDIs in the same manner. We believe that asset size, taken alone, is not an indicator of the likelihood of failure or of the relative cost to the FDIC upon failure.

We understand the importance of developing an assessment system that captures the risks related to an insured institution. However, the proposed risk-based assessment system does not, to a sufficient degree, incorporate an institution's overall risk profile. The scorecard values and the loss severity ratio used by the FDIC may have some relevance as an industry stress test, but are too broad and lack institution-specific data to be used as a basis for calculating deposit insurance assessments.

We believe the assessment system should be designed to properly reflect the risks inherent in each IDI (both large and small) without using broad-based loss measures. While the Dodd-Frank Act requires that federal agencies not rely on credit ratings, we believe that it was the appropriate intention of the government agencies to objectively assess risk by using such credit ratings. This should continue to be the goal. Since every IDI is subject to examination by their government regulator and a uniform CAMELS rating system is already in place, we believe that the CAMELS rating should be the primary basis for the assessment system. The CAMELS rating already assesses, on a very granular level, the risk inherent in an IDI. While the proposed assessment system uses the CAMELS rating as part of the scorecard value, it then adds further risk adjustments that should already be reflected in the CAMELS. As discussed below, we believe these risk adjustments are used inappropriately to determine an assessment rate. Rather, the risk adjustments should only be used to adjust the assessment calculation for changes in risk profiles between regulatory exams. The risk adjustments should be based on quantitative data obtained from quarterly regulatory reports. This data could include significant changes in regulatory capital, earnings, non-performing loans or market sensitivity.

Comments Regarding Scorecard Measures

Concentration Measure
This measure is based on, among other things, the ratio of non-traditional mortgages to the sum of Tier 1 capital and the allowance for loan and lease losses (ALLL). Non-traditional mortgages are defined by the FDIC as all residential loan products that allow the borrower to defer repayment of principal or interest and include all interest-only products, teaser rate mortgages, and negative amortizing mortgages, with the exception of home equity lines of credit (HELOCs) or reverse mortgages. While loan products carry different risks, these risks are not uniform across different IDIs. For example, Hudson City originates interest-only mortgages. However, the average loan-to-value ratio of these mortgages is between 60 and 65% at origination. As a result, our loss on default is significantly mitigated. We believe that consideration should be given to an IDIs actual loss experience and to collateral valuations at origination. The proposed definition of non-traditional mortgages for purposes of the concentration measure calculation is written much too broadly and has the effect of penalizing institutions with strong underwriting, conservative loan-to-value ratios and loss experience much lower than industry averages. This factor alone would increase our assessment premiums by approximately 45%. As an alternative, the concentration measure should use the loan-to value data reported on quarterly regulatory reports to identify those loans that are more likely to result in a charge-off.

Credit Quality Measure
Similar to the concentration measure, the credit quality measure applies a risk value to criticized and classified items and to underperforming assets without regard to the value of the underlying collateral or the loss experience of the institution. While the level of non-performing and

underperforming assets relative to capital and ALLL is a measure of asset quality, the purpose of the score card in the calculation of the FDIC assessment is to measure the potential loss that the FDIC would incur if an institution fails. As a result, the scorecard should incorporate actual loss experience of each institution. Such an approach would be similar to the approach used by regulators and auditors when evaluating the risk inherent in a loan portfolio. As a practical matter, since each IDI is subject to an examination by their primary regulator that, among other things, assesses the risk in the loan portfolio, the exam findings is the most appropriate source upon which to base assessment rates.

Loss Severity Factor

The FDIC uses the loss severity factor as a "multiplier" that is applied to the scorecard values. We believe this results in double counting the risks that are measured in the scorecard components. The FDIC is attempting to assign risk values in the scorecard based on asset concentrations, asset quality measures, CAMELS ratings and funding sources. We believe that the scorecard is flawed in the quantification of risk, and this is further exacerbated by the application of a loss severity factor to this score which theoretically already measures risk.

The calculation of the loss severity factor follows the same flawed methodology that is proposed to be used in the calculation of the various scorecard components. The loss severity factor is calculated assuming that capital has been reduced to 2% (the current critically undercapitalized level) and then applies a loss rate to remaining assets. The same loss rate is used for all large institutions. We believe that the loss rates should be based on the excess of carrying value over either (i) the current fair value of financial assets for which an active market exists or (ii) the net present value of estimated cash flows. The impact of the loss severity measure proposed by the FDIC is most evident in the loss rate the FDIC is applying to one- to four-family residential first lien closed-end loans. In this example, the FDIC is applying a loss rate of 19.4% to the entire portfolio. This is higher than Hudson City's loss experience on non-performing loans. Using a single loss rate on one- to four-family loans throughout the United States that is based on FDIC loss experience on receivership assets significantly penalizes one- to four-family lenders in the Northeast and particularly in our core market where our loss rates are significantly better than lenders in the Southeast and Southwest. At June 30, 2010, the estimated fair value of our mortgage loans exceeded the carrying value. As previously stated, the loss severity measure used by the FDIC may be appropriate for a stress test, but not for calculating a deposit insurance premium.

The current FDIC proposal is intended to be revenue neutral to the FDIC. However, the proposal will substantially increase the deposit assessment on large IDIs while not providing any increased insurance coverage to consumers. The increased assessments on large IDIs may result in reduced interest rates offered on deposits or increased deposit fees. The increase in the deposit assessment is penalizing banks that did not cause any losses to the FDIC – especially large IDIs such as Hudson City that remained profitable and well-capitalized throughout the recent economic crisis.

We trust that the FDIC will consider our comments in the final rulemaking process. We would be pleased to discuss our thoughts and ideas with the FDIC.

Sincerely,

Ronald E. Hermance, Jr.
Chairman & Chief Executive Officer