ASTORIA FEDERAL SAVINGS
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January 3, 2011

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

Re: Federal Deposit Insurance Corporation –Assessments, Large Bank Pricing
RIN 3064-AD66

Dear Mr. Feldman:

Astoria Federal Savings and Loan Association (Astoria) appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) deposit insurance assessments - large bank pricing proposal (the Proposal). Astoria 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 $19 billion. We operate 85 banking offices in New York with deposits of approximately $12 billion.

We appreciate the opportunity to comment on the FDIC's proposal to revise the assessment system applicable to large insured depository institutions (IDIs) to better differentiate IDIs; to take a more forward-looking view of risk; and to better take into account the losses that the FDIC may incur if such an IDI fails. We support changes to the assessment calculation that truly reflect the risk of loss to the FDIC.

**The proposed system should fairly distinguish institutions based on risk profile, not asset size.**

The proposed large bank assessments scheme would create completely separate assessment systems for banks under $10 billion in assets and banks over $10 billion in assets. The impact of the proposed Scorecard approach, will, according to the FDIC staff, increase further the share of FDIC funding that is shifted to the largest banks. We do not believe there should be biases in the risk-based formulation that would impose greater costs on any bank based on size alone.

This approach is both unfair and irrelevant to the risks the insurance fund is exposed to. The ability of well capitalized, well managed institutions to promote quality home ownership through mortgage lending should not be penalized or hindered. Astoria and similar institutions have been able to attract and raise capital which allowed safe and careful increases in asset size without adding significant risk to the insurance fund. To now penalize such institutions for size is inherently unfair. Equally so, an "all or nothing" threshold of $10 billion would lead certain

institutions to further contraction of lending as institutions maneuver their operations to remain under $10 billion in assets. This restricts the desire to increase business and support economic expansion and further divides financial institutions into "have and have nots."

More importantly is the lack of any relationship to the potential risk of loss to the insurance fund. No consideration is given to the risk mitigation measures (underwriting, compliance, product selection, asset monitoring systems, geography, etc.) an institution, large or small, incorporates or is deficient in. In fact, it is more likely that an institution of size, due to economies of scale and potential risk, would incorporate stronger and more refined risk management processes and technologies than a smaller institution due to cost constraints. The assessment system should focus on each individual institution's risk profile, not its size. This is further emphasized below.

**The proposed system should more heavily weight an institution's CAMELS rating on the Large Institution Pricing Scorecard as it more appropriately identifies risk exposure.**

The Proposal significantly discounts individual assessments of an institution's risk profile as determined by the institution's primary regulator. The most comprehensive regulatory evaluation of an institution should be its CAMELS rating, which by design incorporates concentration, credit and core earnings exposures. More importantly it represents the regulatory examination team's thorough and detail review of the entity along with the benefit of compensating management and measurement practices which the institution has established to reduce these exposures. This comprehensive, individualized assessment receives only a 30% weighting in the Total Performance Score while the Asset Stress related factors (which are by definition included in the CAMELS) are weighted at 50%. Likewise, an even less critical variable, the Funding Stress is weighted at 20%. This unfairly penalizes institutions who have prudently measured and managed their exposures (reflected in their CAMELS) by applying uniform scores to these other components and more heavily weighting them. We believe there should be more consideration (weighting) given to the CAMELS rating, thereby relating the regulatory team's observations and conclusions with respect to safety, soundness and exposure to an appropriate insurance premium in developing the Performance Score.

**The proposed system should better differentiate between mortgage products and underwriting criteria.**

The Proposal treats all "non-traditional" mortgage products equally. The definition on "non-traditional" mortgages includes "... mortgage products that allow borrowers to defer payment of principal and, sometimes interest, and include "interest-only" mortgages and "payment option" adjustable-rate mortgages." This definition incorrectly equates these mortgage products and the credit exposure they represent to an institution. The credit exposure of a loan with an extended interest-only period is significantly less than a negative amortization loan where the principal balance continues to grow. More importantly the Scoring gives no recognition to the underwriting measures utilized by an institution at origination or risk management measures used during the life of the loan to compensate for these risks. (The effects of which are evaluated in

the regulatory exam and subsequent CAMELS). An institution with a portfolio of full documentation interest-only loans which incorporates conservative underwriting standards would be penalized in the Performance Score compared to an institution with a portfolio of Alt-A (not subprime) amortizing loans which by nature are underwritten more liberally.

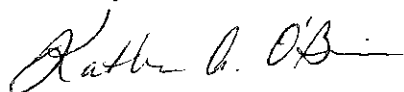
Further, we believe that assessment pricing should not penalize institutions for specializing in one or a few business lines. We have a significant concentration of interest-only loans in our portfolio which, in our experience, have performed similarly to our amortizing loans. Additionally, our interest-only loans are conservatively underwritten and were not originated at "teaser" interest rates. Institutions that specialize in business lines can achieve higher profitability, closer risk management and overall greater soundness by doing so. Thrift institutions are legally obligated by charter to hold a high concentration of mortgage loans. Our portfolio of residential mortgage loan products is determined by the needs and preferences of our customers in the areas we serve. Although our full documentation interest-only loans have shown delinquency trends which are slightly higher than our full documentation amortizing loans, they are significantly below national and state delinquency trends of other "non-traditional" loans (i.e. negative amortization, payment option, etc.). Treating these loan products equally penalizes institutions for well underwritten, performing, quality loans.

**The proposed system should not assess premiums on assets which create no exposure to the system.**

We believe an institution's assessment base should be adjusted for (reduced by) the portfolio of government-sponsored enterprise (GSE) securities it holds. The current assessment base proposal ignores the government guarantee on these investments which pose no risk of loss to the deposit insurance fund (DIF). As part of our risk management philosophy, we invest in high quality GSE mortgage-backed securities. As a result of our preference for the security of GSE securities, we accept a lower yield on these securities, partially due to the guarantee fee paid, as compared to non-GSE securities of similar type. As a result of the Proposal, we will now be further penalized by having to pay additional "risk-based" insurance premiums on an asset which poses no risk to the DIF.

We appreciate the opportunity to comment on the Proposal.

Sincerely,



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