NAUGATUCK
SAVINGS BANK

September 11, 2006

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments, Federal Deposit Insurance Corporation
550 – 17th Street, N.W.
Washington, D.C.29429

RE: Deposit insurance assessments and Federal Home Loan Bank advances

Dear Mr. Feldman,

I am writing regarding the Federal Deposit Insurance Corporation (FDIC) notice of proposed rulemaking and request for comment on deposit insurance assessments. Specifically, I would like to address the FDIC's request for comment on whether Federal Home Loan Bank (FHLBank) advances should be included in the definition of volatile liabilities, or alternatively whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities.

Including FHLBank advances in the definition of volatile liabilities would be a gross mischaracterization. Advances have predictable, defined terms. Unlike deposits, they are a constant and reliable source of liquidity. While large institutions may have funding alternatives, Wall Street has not proven to be a reliable wholesale funding source for the smaller community banks, like Naugatuck Savings Bank (NSB), that comprise the vast majority of FHLBank members.

The FDIC's inclusion of FHLBank advances in its definition of volatile liabilities, or alternatively charging higher amounts for secured liabilities, would pose a harsh penalty for NSB and provide a strong disincentive for use of advances of a funding source. All FDIC-insured institutions utilizing FHLBank advances would be subject to higher assessments regardless of their risk profile. The degree to which institutions would be penalized for FHLBank membership would depend on the level of advances utilization by an institution and whatever formula was adopted in a final regulation.

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The appropriate manner to assess deposit insurance premiums is to base rates on a bank's actual risk profile. There is no empirical evidence that advances add to an institution's risk. Banks that are engaged in excessively risky activities should pay a higher premium regardless of whether those activities are financed by deposits, FHLBank advances, or alternative wholesale funding sources. The professional and capable examination staff of the supervisory agencies is best suited to determining a bank's risk profile, rather than an inflexible formula imposed on all insured institutions, regardless of circumstance.

Discouraging NSB from borrowing from the FHLBank of Boston could lead to the perverse effect of increasing risk for the bank. NSB frequently uses advances for liquidity purposes and to manage interest-rate risk, as well as funding loan growth. In our market, the supply of deposit funds is inadequate to meet loan demand and prudent financial management needs. Curtailing the use of advances would force NSB to look to alternative, typically costlier wholesale funding sources that are often volatile, thereby reducing profitability and increasing liquidity risk.

The partnership between the FHLBanks and member financial institutions envisioned by Congress when they created the FHLBanks in 1932 has worked remarkably well. FHLBank membership allows NSB to remain competitive, serves as a critical source of credit for housing and community development purposes, and supports sound financial management. Penalizing NSB for their partnership with FHLBank of Boston would result in us being less competitive, limit credit available in the communities we serve, and limit our use of a valuable liquidity source, all for no justifiable economic or public policy reason.

Sincerely,

Mark C. Yanarella
President and Chief Executive Officer

MCY/jj