METUCHEN
SAVINGS BANK
ESTABLISHED 1897

September 12, 2006

Mr. Robert Feldman
Executive Secretary
FDIC
550 Seventeenth St. N.W.
Washington, D.C.

Subject: Response to request for comment on the characterization of FHLB Advances and the need to adjust deposit insurance rates for those banks hold advances.

Dear Mr. Feldman,

I am writing to in response to the request for comment on whether FHLBank advances should be included in the definition of volatile liabilities or, alternatively, whether higher assessment rates should be levied on institutions that have a significant amount of secured liabilities.

Advances are not volatile liabilities for the members of the Bank. Advances have predefined, predicable, and easily understood terms. Borrowings from the Bank represent an option that its member banks can control. Metuchen Savings Bank in the past 12 months has experienced disintermediation for a number of reasons: to fund new loan growth, new competition in the area, new internet banks, and funds returning to both the stock market and mutual funds. While one source of borrowings we could consider is the capital markets of Wall Street, we believe the most dependable and reliable and the least costly source of funds for is the advance offerings from the Federal Home Loan Bank of New York.

The primary mission of the FHLBank system is to provide a source of long-term liability liquidity for its members. Over its life, the Bank has performed this mission successfully. This credit facility gives member banks the opportunity to create a business plan that is not fully reliant on deposits, and therefore removes some of the uncertainty from its projections. In light of my past comments, I urge the FDIC not to include Federal Home Loan Bank advances in the definition of volatile liabilities.

A bank's deposit premium should be more reliant on its risk profile, supervisory rating, and capital ratios. When a bank is involved in highly speculative activities, that risk should be a factor is assessing a bank's insurance premium. How a bank finances those activities does not mitigate its risk in those activities. Currently, there is no adjustment for a bank's premium based on its current risk profile.

429 Main Street, P.O. Box 431 • Metuchen, New Jersey 08840-0431 • 732-548-7400 • Fax 732-548-9787
Retail Division 732-549-2111 • Fax 732-549-0109
Mortgage Division 732-549-4452 • Fax 732-548-2099
www.metuchensavingsbank.com

Curtailing the use of FHLBank advances would deprive banks of a tool frequently used to manage liquidity, to fund new loan growth, manage interest rate risk, and control net interest income. If banks were forced to use other credit facilities, there may be an increase cost for borrowing from them thereby, reducing the amount of net income being added to retained earnings. This is especially important in the case of mutually owned banks where net income is the sole source of capital growth.

If the current proposal were to be adopted it would contradict the established intent of Congress in creating the FHLBank system 75 years ago. That primary mission statement was to provide a reliable source of liquidity for members of the FHLBank system. Congress in its adoption of the GLBA Act clearly intended for a broadening of the access to the advances of the FHLBank system rather than diminishing it.

Advances serve as a tool for the funding of affordable housing in light of the cutbacks in Urban Development Grants and HUD funding.

The increase cost on FHLBank advances, if imposed, would no longer make them a viable credit facility for member banks. The immediate affect would be an increase cost in borrowing for all sectors of the economy due to the increase in competition for those funds. This increase in interest cost could result in slowing the growth of the overall economy and increase in the cost of goods for both the sectors of the economy thereby increasing the risk of inflation.

Thank you for the opportunity to comment on this matter, we believe if this proposal were enacted, it would have a negative impact on the FHLB system and all its members.

Yours truly,

Edward Mc Govern, CFO
Metuchen Savings Bank