ASTORIA FEDERAL SAVINGS
Putting people first.

CORPORATE HEADQUARTERS
One Astoria Federal Plaza
Lake Success, NY 11042
516-327-3000
www.astoriafederal.com

September 21, 2006

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

Re: Federal Deposit Insurance Corporation – Deposit Insurance Assessments
RIN 3064-AD09
71 FR 41910 (July 24, 2006)

Dear Mr. Feldman:

Astoria Federal Savings and Loan Association (AFS) appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC) deposit insurance assessment proposal (the Proposal). AFS 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 $22 billion. We operate 86 banking offices in New York with deposits of approximately $13 billion.

We have reservations about certain portions of the Proposal as written. Specifically, our concerns relate to 1) the two different methods proposed for risk differentiation of small and large institutions within Risk Category I; 2) the proposed base assessment rate floor for Risk Category I; and 3) the potential inclusion of Federal Home Loan Bank advances in the calculation of volatile liabilities. Our comments are discussed further below.

Risk Differentiation Within Risk Category I

Within Risk Category I, the FDIC is proposing one method of risk differentiation for small institutions and another for large institutions. Both methods consider CAMELS component ratings, however each method combines these measures with different sources of information on risk in determining assessment rates. The small institution method considers six different financial ratios in addition to the CAMELS composite ratings. In addition, the small institution methodology allows for assessment rates between the floor and ceiling to adjust on a continuous basis. The large institution method combines CAMELS component ratings with long term debt issuer ratings for institutions with assets of greater than $30 billion. For institutions with assets between $10 and $30 billion, the large institution method considers CAMELS component ratings with both long term debt issuer ratings and a financial ratio factor, which is calculated using the institution's estimated probability of a downgrade in CAMELS rating and minimum and maximum FDIC determined assessment rate cutoff values. The large institution methodology then calculates an insurance score, based on the aforementioned factors, which is utilized in conjunction with "other relevant risk information," including internal stress testing and financial performance and condition measures, to determine an assessment rate subcategory. These assessment rate subcategories result in a stair step assessment approach, rather than the continuous assessment approach employed under the small institution methodology.

We question the need for such significant differences in the assessment methodologies used for small and large institutions. We believe that small and large institution methodologies should be more closely aligned. We feel the format of the small institution methodology, the CAMEL component ratings plus the financial ratios, is simpler, more objective, allows for greater transparency and is applicable to larger institutions. In addition, the continuous scale methodology for small institutions, where small changes in an institution's risk profile result in small changes in their overall premium assessment, should be applicable to large institutions as well.

We do agree that market data such as long term debt issuer ratings, when available, should be considered in determining premium assessments. However, we do not believe that market data should be used to the exclusion of other data, such as financial ratios, as is currently proposed in the large institution methodology for institutions with assets greater than $30 billion.

Base Assessment Rates

Within Risk Category I, the FDIC is proposing a minimum annual base assessment rate of two basis points and a maximum annual base assessment rate of four basis points. We do not support the current proposal to set the Risk Category I base rate floor at two basis points. The FDIC has proposed to set the Risk Category I assessment range at levels where approximately forty-five percent of all Risk Category I institutions fall below the floor based on their risk profile, five percent fall above the ceiling, and the remaining within the spread. We question why the percentage of institutions falling below the floor is so high. We feel that a floor of one basis point is more appropriate, assuming that it will result in a significant reduction in the percentage of institutions falling below the floor. A reduction in the floor to one basis point will allow more institutions to fall within the continuous scale for premium assessments, rather than allowing forty-five percent to fall below the floor. In addition, we feel that the proposed ceiling of four basis points should be maintained, thus increasing the spread between the ceiling and the floor to three basis points and allowing for greater differentiation among institutions within Risk Category I.

Federal Home Loan Bank (FHLB) Advances

With regard to the FDIC's request for comment as to whether FHLB 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, we strongly oppose the inclusion of FHLB advances as a factor in assessing FDIC insurance premiums. FHLB advances are not volatile liabilities. FHLB advances are a stable, reliable source of funds with pre-defined, understood and predictable terms. It would be illogical to include FHLB advances in the definition of volatile liabilities given the stability of the FHLBs, the reliable availability of advances as a source of wholesale funding, and the beneficial and predictable effect of such funding on FHLB members' business plans.

FDIC insurance premiums should be based on an institution's actual risk profile, taking into account an institution's supervisory rating. Banks that are engaged in excessively risky activities should pay a higher premium, regardless of whether those activities are financed by insured deposits, FHLB advances, or alternative wholesale funding sources. Discouraging borrowing from FHLBs would be counterproductive to the goal of reducing the risk of failure of FDIC-insured institutions. Borrowers frequently use FHLB advances for liquidity purposes and to manage interest rate risk, as well as fund loan growth. In many markets, the supply of deposit funds is inadequate to meet loan demand and prudent financial management needs. Curtailing the use of FHLB advances would force institutions to look to alternative, and potentially more costly, wholesale funding sources that are demonstrably more volatile, thereby reducing profitability and increasing liquidity risk. Penalizing FHLB member institutions for using FHLB advances would not only limit their use of a valuable liquidity source, but also make them less competitive and limit credit availability in the communities they serve. We see no justifiable economic or public policy reason to include FHLB advances in the definition of volatile liabilities.

We appreciate the opportunity to comment on the Proposal and appreciate the efforts of the FDIC to improve the risk-based assessment system in an effort to achieve an assessment system which is more sensitive to risk, as well as fairer by limiting the subsidizing of riskier institutions by safer ones.

Sincerely,

Katherine A. O'Brien

Katherine A. O'Brien
First Vice President and Director of Financial Reporting