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September 15, 2006

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

Attention: Comments

Re: Deposit Insurance Assessments and Federal Home Loan Bank Advances

Dear Mr. Feldman:

I am writing in reference to the Federal Deposit Insurance Corporation notice of proposed rulemaking and request for comment on deposit insurance assessments. More specifically, I am writing to address the request for comment on whether Federal Home Loan Bank (FHLB) advances should be included in the definition of volatile liabilities and whether higher assessment rates should be charged to institutions that have significant amounts of secured liabilities. If you look back, you will see that my bank rarely sends comments, but I was compelled to do so on this matter because of its importance to the Roselle Savings Bank.

Advances are not volatile liabilities for members of the FHLB. Advances have pre-defined terms known by the member bank prior to execution of the advance. Unlike deposits, advances do not leave the bank due to circumstances beyond the bank's control. Deposits can easily, and quickly, be lost due to disintermediation arising from a variety of reasons, such as, special, short-term promotions in a particular market area or the existence of higher returns to depositors on alternative assets.

The FDIC should continue to base deposit insurance premiums on a bank's actual risk profile, taking into account the bank's supervisory rating and capital ratios. Banks that engage in excessively risky activities should pay higher premiums, regardless of how those activities are funded.

Our bank uses FHLB advances for a variety of reasons. We use advances prudently, as our Board firmly believes that our main funding source should be deposits from customers. However, under certain market conditions, we find managing advances far



Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
Page 2

easier than managing deposits, which can be quite volatile at times. Curtailing the use of FHLB advances could force us to look to alternative funding sources, which are often more costly and more volatile, and could result in reduced profitability and increased liquidity risk. You may say the FDIC would not be curtailing the use of FHLB advances, but indirectly you would be by placing a "penalty" on their use.

Additionally, penalizing the use of advances through the imposition of insurance premiums conflicts with the intent of Congress in establishing the FHLB system, in opening membership in FHLBs to commercial banks in FIRREA, and in adopting the Gramm-Leach-Bliley Act, which expanded small banks' access to advances.

Our FHLB always reminds us that their mission is to provide financial institutions with access to low-cost funding in order for us to adequately meet our community's credit needs, which includes home ownership, and community development. Charging higher assessments to those banks utilizing advances would, in effect, use the regulatory process to impair the FHLB's mission as established, and repeatedly reaffirmed, by Congress.

During discussions about FDIC deposit insurance reform, concerns were expressed by members of both the Senate and the House in reference to the use of advances as a means of assessing insurance premiums. In brief, there is legislative history that indicates the FDIC should not charge premiums based on an institution's use of advances.

Lastly, there is a regulatory and legal structure in place to ensure cooperation between the FDIC and the FHLBs. If there are concerns about an FDIC-insured institution, the FDIC and the appropriate FHLB are required, by regulation, to communicate in order to ensure the institution has adequate liquidity while minimizing other risks, which could include losses to the FDIC. In addition, the FHLBs are provided the legal authority for confidential access to exam reports to assist in analyzing institutions that pose a risk to the deposit insurance fund.

The cooperative relationship between FHLBs and member financial institutions has worked for many years. Penalizing financial institutions for their cooperative relationship with the FHLBs would result in us losing a competitive edge, and limit our use of a valuable source of liquidity.

In closing, my bank relies on the FHLB to provide a stable, reliable source of funds, when



Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
Page 3

needed. The availability of such credit has a predictable, beneficial effect on our business plan. Including FHLB advances in the definition of volatile liabilities does not seem logical, given the stability of the FHLBs. As such, I respectfully urge the FDIC not to include FHLB advances in the definition of volatile liabilities.

Very truly yours,

A handwritten signature in blue ink, reading "Jill G. Schafhauser", is positioned above the printed name. The signature is fluid and cursive, with a large initial "J" and "S".

Jill G. Schafhauser, President
Chief Executive Officer