Provident Bank

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Mr. Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, D.C. 20429

Re: FDIC RIN# 3064-AD34 Treatment of Certain Claims On, or Guaranteed By, Fannie Mae and Freddie Mac

Office of the Comptroller of the Currency
250 E Street, S.W. - Mail Stop 1-5
Washington, D.C. 20219

Re: Docket No. OCC-2008-0016

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W. Washington, D.C. 20551

Re: Docket No. R-1335

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision 1700 G Street, N.W.
Washington, D.C. 20552

Re: AU: OTS-2008-0014

Ladies and Gentlemen:

Provident Bank, a federally-chartered savings association headquartered in Montebello, New York, appreciates the opportunity to comment on the federal banking agencies' proposed rule to allow a banking organization to assign a ten (10) percent risk weight to claims on, and portions of claims guaranteed by, Fannie Mae and Freddie Mac.

Our institution has several concerns with the proposal. While a reduction in the capital requirement for holding obligations of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") is welcome, the exclusion of the Federal Home Loan Banks ("FHLBanks") from the proposed rule is a significant and unfortunate oversight. This rule, if enacted in its current form, would severely disadvantage the FHLBanks and may have unintended adverse consequences for the banking system during this time of economic stress.

This concern is exacerbated by the fact that the FHLBanks, despite their AAA ratings, are already at a disadvantage when compared to Fannie Mae and Freddie Mac that have U.S. Treasury direct guarantee versus an implied guarantee.

Further, the proposal suggests that the FHLBanks and their mission do not receive the same level of support as Fannie Mae and Freddie Mac, which does not seem appropriate for several reasons.

First, Congress created a new regulator to oversee all of the housing GSEs.

Second, when the new regulator took control of Fannie Mae and Freddie Mac, the Director of the new regulator remarked that the FHLBanks are performing remarkably well and are well capitalized.

Third, the Treasury is providing the same temporary backstop funding facility to all of the housing GSEs through the GSE Credit Facility.

Finally, the New York Fed is providing support for the FHLBanks, as well as Fannie Mae and Freddie Mac, by purchasing their discount notes in recent open market operations.

Despite these actions, investors are demonstrating a preference for Fannie Mae and Freddie Mac obligations. Since these entities were placed into conservatorship by the Federal Housing Finance Agency, the FHLBanks' cost of issuing senior debt has actually increased by 20 to 30 basis points in comparison with comparable bonds issued by Fannie Mae and Freddie Mac.

Of particular concern is that the proposal will result in further increases in the cost of advances available from the FHLBanks. Thousands of community banks depend upon access to low-cost liquidity from the FHLBanks, which allows us to lower home ownership costs in our communities. If investors continue to believe that the obligations of the FHLBanks are somehow less creditworthy than those of Fannie Mae and Freddie Mac, they will demand higher yields to purchase FHLBank bonds. This would result in higher advance rates during a period when the banking industry is faced with the challenge of supporting housing finance and economic growth in their local communities under difficult circumstances in the credit markets.

We strongly urge the federal banking and thrift agencies to treat debt securities of all housing GSEs as comparable with regard to risk-based capital rules. We further urge the agencies not to make the AAA-rated GSE (FHLB) a stepchild to the failed GSEs (Fannie Mae and Freddie Mac). We believe this to be the course of action that achieves the most favorable outcome for all stakeholders in the housing GSEs during this extraordinary time of financial crisis.

Sincerely,

George Strayton
President, Chief Executive Officer

Cc: Senior Management