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One Astoria Federal Plaza
Lake Success, NY 11042-1085
(516) 327-7860



MONTE N. REDMAN
Executive Vice President
and
Chief Financial Officer

February 8, 2001

Manager, Dissemination Branch
Attention: Docket No. 2000-91
OFFICE OF THRIFT SUPERVISION
Information Management & Services Division
1700 G Street, N.W.
Washington, DC 20552

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INFORMATION SERVICES
DIVISION

Re: Savings and Loan Holding Companies Notice of Significant Transactions or
Activities and OTS Review of Capital Adequacy
65 Fed. Reg. 64392 (October 27, 2000)

Dear Sir or Madam:

Astoria Financial Corporation ("Astoria") appreciates the opportunity to comment on the proposed regulations issued by the Office of Thrift Supervision ("OTS"), which would require certain savings and loan holding companies to notify the OTS before engaging in, or committing to engage in, significant debt or asset acquisition transactions, as well as transactions that significantly reduce capital, or transactions for which prior notice otherwise might be required by the OTS in its discretion. Astoria Financial Corporation is a unitary savings and loan holding company for Astoria Federal Savings and Loan Association. We are a publicly traded thrift institution with assets of approximately \$22 billion and operate 86 banking offices in the State of New York.

Proposal Background

The OTS recently has expressed concerns over the nature of the relationship between the financial stability and health of savings and loan holding companies and the financial condition of savings association subsidiaries. First, the OTS notes that they believe there has been a fundamental change in the manner in which savings associations are operated in some holding company structures. This change often involves the outsourcing from the savings association of critical functions, such as asset liability management. As a result, the OTS believes that many savings associations are subject to decisions based on the overall best interests of the organization, and not necessarily with a view toward the best interests of the savings association in particular. The OTS, thus, believes that the independent franchise value of the savings association charter may be compromised through relationships with affiliates.

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Second, the OTS has stated its concerns about the excessive leveraging at the holding company level that has occurred in some organizations. In its view, this may prevent parent holding companies from being able to support savings association subsidiaries in times of need. Next, the OTS cites certain instances where holding companies have engaged in transactions or practices that were likely to cause harm to the subsidiary savings association, and may have violated existing statutes or regulations.

OTS Proposal

Prior Notice Requirements

In response to these concerns and the specific issues occurring in a few transactions, the OTS proposes to require that certain holding companies notify the OTS before engaging in described debt transactions, transactions that reduce capital, some asset acquisitions, and other transactions determined by OTS on a case-by-case basis.

The proposed rules would require that the holding company provide prior notice to the regional OTS office before engaging in, or committing to engage in, any asset acquisition equaling 15% of the holding company's consolidated assets; any issuance, renewal or guarantee of debt resulting in an increase of its consolidated, non-thrift liabilities of 5% or more (or total consolidated non-thrift liabilities representing 50% or more); or any transaction (or series of transactions) during a 12-month period that would reduce its ratio of consolidated tangible capital to consolidated total assets by 10% or more. Currently, the OTS does not analyze proposed major transactions by holding companies before these transactions are consummated.

Astoria believes that the prior notice provisions of the proposed regulation are notably flawed in several ways, including the following:

- The proposed 30-day prior notice time frames could, in fact, result in significantly longer processing periods as complex and varied transactions are reviewed. This will effectively prevent many legitimate deals from being completed in a timely fashion. Many debt issuances and asset acquisitions are developed and consummated within very tight time frames. This regulation effectively prevents such deals because the specter of a prior approval period looms overhead. In 1999, Astoria Financial completed a trust preferred offering in less than 30 days. A significant portion of the proceeds were downstreamed to our association. Under the OTS's proposal, this transaction, at best, would have been delayed, or worse, depending on market conditions, prevented.
- The review process would be unfairly lengthy as the OTS develops the necessary resources to review such a wide variety of potentially covered - and often complex - transactions.

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- The 10% capital trigger represents a capital standard that, in operation, would result in well-run organizations having to seek prior approval for transactions that pose no significant safety and soundness risks.
- The proposal vests too much discretionary authority in regional OTS offices, which will result in disparate treatment and varying standards of review among regions. Astoria is especially concerned with the proposed "catch all" authority of the OTS to require a notice application from any savings and loan holding company in the event such notice is deemed necessary by the regional OTS office acting in its discretion. This potential for ad hoc reviews of business decisions would significantly impact the ability of OTS-regulated holding companies to negotiate and complete any number of legitimate business transactions that are not appropriate for prior regulatory review.

Capital Standards for Holding Companies

In view of the concerns noted by the OTS regarding the ability of savings and loan holding companies to serve as sources of strength for their subsidiary savings associations, the OTS also is considering whether to codify its current practice for reviewing the capital adequacy of savings and loan holding companies and, when necessary, requiring additional capital on a case-by-case basis. The OTS has indicated that it may or may not issue a final capital rule, or may do so following the comments received during this rulemaking process.

Astoria agrees that the OTS has legitimate concerns whenever a savings and loan holding company acts to put its savings association subsidiary at risk. However, we believe the OTS's record of regulating savings associations demonstrates quite effectively that the agency already possesses the requisite supervisory tools to prevent such rare occurrences within a narrow universe of holding companies requiring heightened scrutiny. Astoria also believes that the OTS's ability and practice of engaging in regular, meaningful and ongoing communications with its regulated institutions results in a better understanding and more productive relationship. This practice, in turn, minimizes the opportunity for risky activities to go undetected and uncorrected.

Although the OTS has stated this proposal is not designed to establish minimum capital standards for savings and loan holding companies, Astoria believes that its comments portend such a step. And, with the recent publication of the Basel Committee on Banking Supervision's proposed capital accord, we believe it is vitally important that any capital discussion first be delayed until the full effect of the more comprehensive global effort is analyzed and developed. Regardless, any capital proposal must be developed and subjected to review in accordance with applicable Administrative Procedures Act requirements and regulations.

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Conclusion

The historical value of the savings and loan holding company structure has been its flexibility. Astoria remains a strong proponent of safety and soundness, yet nothing in this proposal adds measurably to improving safety and soundness, and, at the same time it jeopardizes the very existence of a corporate structure that has proven valuable over the years. The proposed regulations do not respond to the OTS's underlying concerns relating to the independent franchise value of savings associations, excessive leveraging by holding companies, and alleged abusive affiliate relationships that may exist in a handful of organizations. Instead, this rule introduces an unnecessary and overly burdensome regulation for hundreds of well-capitalized and well-managed savings and loan holding companies that is without sound regulatory justification.

Astoria strongly opposes this imposition of additional regulations governing transactions by holding companies. Furthermore, Astoria believes that the establishment of defined holding company capital standards would place savings and loan holding companies at a competitive disadvantage in the market place, and will pose a serious risk to the long-term viability and attractiveness of a federal savings association charter.

Astoria appreciates the opportunity to comment on this important matter, and strongly believes that the OTS has more than adequate authority to accomplish its stated goals, including increased communication, through supervisory means.

If you have any questions, please contact me at the number listed above. Thank you.

Sincerely,



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