Provident BANK

April 13, 2006

Robert E. Feldman, Executive Secretary
Attn: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices *Federal Register, Vol. 71, No. 9, January 13, 2006*

Dear Mr. Feldman:

Provident Bank of Maryland ("Provident") is pleased to provide this comment letter to the Federal Deposit Insurance Corporation (FDIC) in response to the inter-agency proposed guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (the "Proposed Guidance").

Provident is a state-chartered, one bank holding company with headquarters in Maryland. With $6.4 billion in assets, Provident serves individuals and businesses in the key areas of Greater Baltimore, Greater Washington and Central Virginia through a network of 152 offices in Maryland, Virginia and southern York County, Pennsylvania.

Comments:

1. The Proposed Guidance appears to use a "one size fits all" approach to the perceived issue related to concentrations in commercial real estate ("CRE"), and fails to recognize that an institution, depending on its market place and other factors unique to the institution, may be adequately diversifying its risks through different categories of CRE loans. Furthermore, the Proposed Guidance fails to take into account multiple subjective and judgmental factors such as the nuanced mix of DSC, LTV, guarantors, appraisals, property type, secondary markets, etc. which constitute sound commercial underwriting principles. Additionally, there is the role that risk ratings and loan loss allowance formulas play as well.

For example, The Proposed Guidance has aggregated and lumped together, for purposes of determining the proposed thresholds, all loans for "construction, land development and other land…." This approach fails to recognize that, depending upon local market conditions and demand characteristics, loans for residential and different commercial uses (i.e., office building, retail, and hotel) may very well provide adequate diversification within various submarkets so as to alleviate any CRE concern.

2. Further, and as a related matter, the Proposed Guidance does not distinguish between speculative 1-4 family construction loans from pre-sold homebuilder construction loans

and construction/permanent loans to home buyers. Loans in this latter category carry significantly less risk than loans in the former category. In a similar vein, the Proposed Guidance also does not distinguish between speculative commercial constructions loans and loans secured by commercial properties with significant levels of pre-leasing. Therefore, we believe the Agencies should revise the Proposed Guidance to remove from the definition of CRE both (i) pre-sold residential construction and construction permanent financing, and (ii) any real estate secured loan where the project has achieved significant pre-leasing. Alternatively, these loans could be given a different weighting in calculating an overall concentration level. We note that with respect to item (i) this change to the Proposed Guidance would be justified by the same rationale that the Agencies used to exclude from the definition of CRE loans secured by owner-occupied properties.

3. We note that the proposed thresholds appear to be very mechanical and arbitrary. Therefore, we would urge the Agencies to augment the thresholds with a more flexible alternative that would be reflective of an institution's specific risk profile. This would enable institutions to adopt alternative criteria for determining the existence of a CRE concentration, which would be subject to regulatory oversight under the existing examination process.

4. Finally, the Guidance should be revised to clarify that if an institution exceeds a concentration threshold, it should not automatically require a capital increase. Any increase should be in the context of the circumstances of the particular institution and its risk profile, which would encompass internal controls, the composition and nature of the overall loan portfolio, management expertise, historical performance of the loan portfolio and local market conditions.

Conclusion:

Secured real estate lending has been the primary growth engine for both Maryland banks and the communities they serve. We urge the FDIC to carefully consider whether the Proposed Guidance could result in an arbitrary examination process, which could have the unintended consequence of discouraging CRE lending. Any diminishment in the availability of CRE loans could very well exacerbate any downturn in the economy, something that could create systemic problems for banks far beyond any risk inherent in CRE lending.

Thank you for the opportunity to express our views with respect to the Proposed Guidance.

Sincerely,

H. Les Patrick
Provident Bank of Maryland
Executive Vice President
Real Estate Group