The Lowell Co-operative Bank

Member FDIC
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EQUAL HOUSING LENDER

April 13, 2006

Mr. Robert E. Feldman, Executive Secretary
Attn: Comments, Federal Deposit Insurance Corporation
550 17th Street, NW
Washington DC 20429
e-mailed to: Comments@FDIC.gov

Re: FDIC 2006-01, OCC Docket No. 06-01, Federal Reserve Docket No. OP-1248, OTS No. 2006-1

Dear Mr. Feldman:

The purpose of this letter is to comment on the proposed guidance entitled Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (Guidance). As a community banker, I appreciate the opportunity to comment on this subject. I can appreciate that the federal regulatory agencies have expressed concern with the high concentrations of commercial real estate loans at some institutions. However, I believe the proposed guidance will have a serious impact on community banks and local economies in general due to the "one-size-fits-all" nature of the proposed guidance.

Commercial real estate (CRE) lending and more specifically single family residential construction lending is an important business line for my institution and many other banks in Massachusetts. My institution has carved out a niche in this area which we handle in a prudent and careful manner. We are able to assist our local economic growth by providing credit to small and medium-sized businesses for construction and land development. In the last two years we have added numerous business borrowers who previously dealt with an institution that was involved in a consolidation and the successor institution considered that borrower to be too small to deal with. The proposed guidance will place a significant regulatory burden on banks that have a specialty in this area and possibly limit the future growth of our institution in this specialty.

My particular concern is that all institutions are automatically classified as having a "CRE concentration" simply if they exceed the thresholds. We are regulated by the Commissioner of Banks in Massachusetts who also examines us, insured by the Federal Deposit Insurance Corporation who also examines us, and our excess deposits are insured by the Share Insurance Fund of The Co-operative Central Bank who also monitors us. In addition we have a full external audit and receive a clean opinion on our financial statements, utilize the services of an outside firm to conduct internal audits on all areas of our institution, and also utilize the services of a Loan Review firm to review our underwriting and risk ratings assigned to our commercial real estate portfolio. All of these examinations, audits, and reviews give us a passing grade in all that we do.

As of September 30, 2005 we have $29,077,000 in construction loans and land development loans on our books along with $6,679,000 secured by multifamily residential properties and $4,353,000 secured by nonfarm nonresidential properties. We are a secured lender and all of the aforementioned loans are written with the Bank in a first lien position. It is our understanding based upon an analysis of September 30, 2005 FDIC call report date that our institution would fall short of the new capital standards by $19.1 million (100% test) and $10.2 million (300% test). We consider these capital levels to be excessive and uncalled for based on our current capital structure.

As of September 30, 2005 we have total equity capital of $8,720,000 net of the tax effected adjustment for the valuation allowance on all securities. This equates to a tier one capital ratio as a percentage of assets of 8.0%, and a tier one capital ratio as a percentage of risk-based assets of 11.3%. In addition we have a loan loss reserve of $847,000 which gives us a Tier I and II capital ratio as a percentage of risk-based assets of 12.4%. Our loan loss reserve when measured against our loan portfolio equals 1.10% and when measured against assets equals 0.71%. This exceeds both our local peer group and industry averages. This demonstrates that we believe that we have adequate capital to justify our risk exposure. You have suggested that institutions with "CRE concentrations should have both heightened risk management practices and levels of capital that are higher than the regulatory minimums and appropriate to the risk in their CRE lending portfolios." We believe that we have satisfied this requirement. I will discuss our risk management practices later in this letter.

I would also like to stress that based on our capital we are limited to a maximum loan of 20% of capital which equates to $1,744,000 as of September 30, 2005. Our construction loans of $29,077,000 divided by 89 individual builder/developer related residential construction loans equates to an average loan of $327,000 which is not a level of unreasonable exposure. Also of interest is that in the last five fiscal years ended March 31, 2006 we have incurred one loss on a construction loan in the amount of $12,631 and that was just in the last month of March 2006.

I would also call to your attention that our institution is a mutual institution. Mutual institutions represent 70 percent of the banks in Massachusetts who rely on earnings as their sole source of new capital. Accordingly these institutions would be forced to either reduce levels of a strong earning asset in commercial real estate during a period of significantly reduced margins or explore the feasibility of converting to a mutual holding company to allow them to issue trust-preferred securities to increase capital. Neither option is included in our Strategic Plan.

We consider our risk management practices to be more than adequate to assist us in managing our residential construction loan portfolio. Some of the more significant practices are enumerated below:

- The Bank has a loan analyst who underwrites and analyzes all construction and investment style loans;
- As part of the underwriting procedures a sensitivity analysis is performed to illustrate an "adjustment" of collateral value by 10%, 15%, and 20%. This is done in lieu of a full blown stress test on the entire residential construction loan portfolio;
- Speculative properties are limited to two single family homes per borrower or in the case of condominium development the Bank will allow up to two buildings with a maximum of six living units be built on a speculative basis. (i.e. Two condex units {4 total units} or two tri-plex units {6 total units}) subject to Loan Committee approval;
- Speculative loans are generally rated higher risk which requires the need for additional loan loss reserves;

- Escrow accounts or hold backs for interest reserves have been established on larger loans, new borrowers, or cash flow coverage deficient borrowers. These accounts have been set up in the event payments become stagnant past 90-days or in the event of loan default;
- Inspections of the progress of the project are performed on a regular basis;
- Market activity is monitored daily, (i.e. properties under agreements, price changes, new listings, and sales);
- Additional collateral is taken in the form of a second mortgage to mitigate any credit weaknesses (i.e. personal cash flow coverage, credit history, 100% acquisition financing, etc.);
- The board of Directors approves the Bank's Strategic Plan which includes the overall CRE strategy and also approves all policies of the institution;
- All exceptions to loan policy are reviewed by a loan committee made up of members of the Board of Directors and are presented and ratified by the full Board of Directors.

It is my understanding that the proposed guidance comes at a time when the agencies are also proposing changes to the capital system through the Basel I-A process. Both proposals could have a significant impact on community banks, and I encourage the agencies to consider the implications of any changes that may be placed upon our industry.

Thank you again for the opportunity to comment on the proposed guidance and for considering my views.

Very truly yours,

Richard P. Coughlin

Richard P. Coughlin
President & CEO

cc: Daniel J. Forte, President, Massachusetts Bankers Association