PROVIDENT BANK

October 11, 2012

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

Robert E. Feldman,
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: Basel III Capital Proposals

Dear Ms. Johnson and Mr. Feldman:

I appreciate this opportunity to comment on the Basel III proposals referenced in the Notices of Public Rulemaking ("NPR") issued in June 2012. I will limit my comments to the structure and requirements of the NPR, and not the impact on the economy or future lending constraints that may emanate from the proposals.

I am in complete support of the banking industry having a stable and strong capital position. I know that is the ultimate goal of the Basel III proposals. Our bank, which was established in 1839, has strong core capital positions and has continuously operated in a prudent manner with limited leverage. Our assets at June 30, 2012, total $7.1 billion, and our Tier 1, Tier 1 risk based and Total risk-based capital levels are 7.78%, 11.53% and 12.78%, respectively. We did not take TARP and all our capital is core. However, I do have several concerns about the proposals and specifically their impact on community banks, and the likelihood that the cost of measurement and compliance will outweigh their benefits.

Specifically, the following items are the areas of concern:

1. **Requirement that gains and losses on available-for-sale securities must flow through to regulatory capital.**

   The volatility of interest rates and market values are already being reflected but not necessarily recognized thru the P & L. This proposal would introduce such instability that many institutions

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would move securities to held to maturity, thereby masking the impact and defeating the purpose of being able to manage the investment portfolio appropriately. When and if rates rise in the future, the result would be reflected in less lending. While nothing will have changed in a bank's equity position, their regulatory capital ratios could change dramatically, thereby undermining an economic recovery as they concentrate on reducing their balance sheet to assure capital compliance. We need the tools available to manage our interest rate and market value risks without additional handcuffs.

Our bank is a purchaser of a variety of instruments, primarily mortgage-backed securities and some agency debt paper. We would be forced to shorten up the duration substantially to mitigate the price risk and severely affect our yield and returns. Further concerns relating to the possible downgrade of the credit rating of the United States will also affect the pricing on the available for sale portfolio. The other concern is the non-recognition of the "tax effect" of both gains and losses as they relate to capital.

Finally, we find it incredulous that sovereign country debt is afforded a zero risk rating, notwithstanding the fact that they have more risk than many of our loans to commercial and consumer customers.

2. **Increased risk weighting for residential mortgage loans.**

   Besides the incongruity of the risk weighting of residential mortgages being higher in many cases than other loan types, which will reduce the availability of credit to those that need it most, the change from assigning "risk weightings to asset classes" to assigning "risk weightings to individual loans" will be an administrative nightmare. Also, as we have experienced since the recession began, what relevance does the original loan-to-value ("LTV") hold when the market went down upwards of 50% in some areas, yet the amount of capital held would remain unchanged despite the valuation conundrum? I cannot over emphasize how the administrative burden and system/personnel costs needed to evaluate this at the loan level would affect a community bank.

3. **Requirement to hold capital for credit enhancing representations and warranties on 1-4 family residential home loans sold into the secondary market.**

   We fail to see the rationale for our bank setting aside capital on loans we have sold, and for maintaining same for an undetermined period. If these sold loans remain in existence for an elongated period of time, we would have to hold capital possibly for over 10 years, with no evidence of recourse or basis for any liability. This rule alone will force us to reconsider the 30 year mortgage business as we would not hold capital for a loan we no longer own or control, and I am sure many other financial institutions would withdraw from the market as well.

4. **Proposal to increase risk weights on delinquent loans.**

   Our principal concern with this rule is that we already have set aside reserves for loans that are past due, and which, in most cases, have been written down to fair value. Why would we increase our capital reserve a second time based solely on the loan's past due status? We believe that the risk related to problem loans should continue to be managed through the loan loss reserve guidance and not by adding a duplicative additional capital requirement. Perhaps if the regulators and the accountants could have found a common ground for evaluating the adequacy of loan loss reserves in good times and bad, we would have minimized some of the issues we have today.

In summary, the NPR as currently written will greatly impact our bank, altering the way we serve our customers and communities. The SIFI institutions were the primary cause of the problems and should be held to a much different standard than community banks. While I reiterate our support a strong capital position for our banking system, the cumulative effect of the items reflected in this letter will undoubtedly have a significant impact on most community banks.

Thank you for your consideration.

Respectfully submitted,

Christopher Martin
Chairman, President & CEO

Cc: Senator Robert Menendez
Senator Frank Lautenberg
Representative Scott Garrett
Representative Frank Pallone
Representative Albio Sires