



STATE OF MAINE  
 DEPARTMENT OF PROFESSIONAL  
 AND FINANCIAL REGULATION  
 BUREAU OF FINANCIAL INSTITUTIONS  
 36 STATE HOUSE STATION  
 AUGUSTA, MAINE  
 04333-0036

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 GOVERNOR

LLOYD P. LAFOUNTAIN III  
 SUPERINTENDENT

June 20, 2005

Robert E. Feldman, Executive Secretary  
 Federal Deposit Insurance Corporation  
 Attention: Comments  
 550 17<sup>th</sup> Street, N.W.  
 Washington, D.C. 20429

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

**Re: State of Maine Comment on the Interagency Proposal on the Classification of  
 Commercial Credit Exposures, FRS Docket No. OP-1227**

Dear Mr. Feldman and Ms. Johnson:

The Maine Bureau of Financial Institutions (BFI) is the chartering authority for 22 state non-member banks and 4 state member banks. These banks range in size from \$44 million to \$1.8 billion with all but one bank being less than \$1 billion, a typically used definition of a community bank. BFI coordinates its supervision of these institutions, primarily on an alternating, independent basis, with the Boston Area Office of the Federal Deposit Insurance Corporation and the Federal Reserve Bank of Boston. BFI welcomes the opportunity to comment on the Interagency Proposal on the Classification of Commercial Credit Exposures.

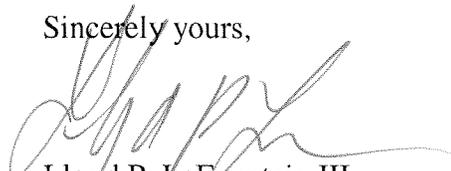
The federal banking agencies (Office of the Comptroller of the Currency, Office of Thrift Supervision, Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation) propose to amend the Uniform Agreement on the Classification of Assets and the Appraisal of Securities Held by Banks (Classification System) to substitute a two dimensional framework for the current Special Mention, Substandard, Doubtful, and Loss regime for evaluating commercial credit exposures. The primary reason advanced in support of this change is the contention that the current Classification System focuses primarily on borrower weaknesses without specifying how factors that mitigate loss, such as collateral and guarantees, should be considered in assigning classifications. According to the proposal, this has led to differing applications of the current Classification System by institutions and the federal banking agencies. This contention is inconsistent with BFI's experience.

Most of BFI's supervised institutions employ a 7 grade risk rating system for commercial and commercial real estate credits. Grades 1-3 constitute the Pass grades, while grades 4-7 generally correspond to the regulatory classifications of Special Mention, Substandard, Doubtful, and Loss. In BFI's experience, differences between examiners and institutions about the appropriate classification of commercial credits are insignificant from an analytical perspective. Differences in classifications are rarely so great that conclusions regarding the quality of the loan portfolio are materially dissimilar. The current Classification System requires that human judgment and experience be applied to arrive at a classification. Consequently, differences between examiners and institutions will invariably occur; however, as long as these differences remain insignificant in most cases, it is reasonable to conclude that the current Classification System remains valid and useful. The proposed Classification System will continue to require human judgment and experience; therefore, it is unlikely that implementation of the proposed Classification System will materially reduce the already low incidence of differences between examiners and institutions.

BFI also questions the contention that the present system focuses primarily on borrower weaknesses. The definition of Substandard clearly indicates that the capacity of the borrower and collateral should be considered in determining whether or not to classify a loan Substandard. BFI encourages both its examiners and institutions alike to determine as precise an estimate of potential loss as possible on Substandard and Doubtful credits, as opposed to applying a common risk weighting, for determining an appropriate Allowance for Loan and Lease Losses. In our experience, federal examiners take the same approach.

Therefore, BFI believes that the proposal to modify the Classification System is unnecessary, and urges the federal banking agencies to withdraw the proposal. The regulatory burden upon the industry, particularly for community banks, is high, and BFI believes that it is inappropriate to increase that burden, no matter how marginally, unless clear and irrefutable benefits accrue to supervisory process, institutions, and/or the public. In BFI's judgment, the proposed modification to the Classification System will do little, if anything, to improve the quality of bank supervision or credit risk identification in regulated institutions.

Sincerely yours,



Lloyd P. LaFountain III  
Superintendent