

From: "Joseph Youd" <josephyoud@bankofpensacola.com> on 02/16/2006 09:27:38 AM

Subject: Interagency Concentrations in Commercial Real Estate Lending

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February 16, 2006

Jennifer Johnson

Dear Jennifer Johnson:

I write because I think it important to comment on the Guidance being proposed with respect to commercial real estate lending. Commercial real estate lending is an extremely important part of the economy in Bank of Pensacola's market area and like wise it is extremely important part of bank lending.

I understand the need for sound lending and sound loan portfolios. I have concerns, however, that the Guidance as announced will have a negative overall effect on my institution and the economy as a whole.

My concerns are not so much with the individual practices set out in the Guidance, but rather with the way the Guidance is imposed. We have had experience in which examiners impose even existing regulations differently than they previously had done. The proposed Guidance contains certain thresholds and a laundry list of practices and requirements. I am concerned that the rules of the game have suddenly changed.

Specifically there are several points we would like for the Guidance to make clear. First, that in looking at concentrations there will not be a one size fits all response. Each of our institutions has a different history, different controls, different portfolios, and different markets. Bank of Pensacola has a strong underwriting area and our history of losses on CRE loans is very low. When those in the field determine there is a concentration any response needs to be tailored for the specific circumstances.

Second, we hope the Guidance will make it very clear that if the concentration thresholds are exceeded it does not automatically require a capital increase. Any increase should be in the context of the circumstances of the particular institution.

Third, the Guidance should expressly indicate that its purpose is not to discourage commercial real estate lending.

If the Guidance is imposed in a mechanical or arbitrary manner or if it is intended to effect a policy shift discouraging commercial real estate lending then I fear grave consequences. Secured real estate lending has been the bread and butter of banks in our market area. If such loans are not available then will we have to look to other types of credits which historically have been more risky?

Perhaps most important, if the message is perceived to be that commercial real estate lending has great regulatory risk, then such loans will significantly diminish. This will lead to a downturn in our economy that will create systemic problems for banks far beyond the risk of commercial real estate loans. Let's leave the control of the economy and certain areas of investment, that seem to have had bubble type growth, to the market place and the FOMC.

I thank you for your consideration of these concerns and comments and hope that the final Guidance will address them in a meaningful way

Sincerely,

Joseph Youd