

**The Federal Reserve Board of Governors
20th Street and Constitution Ave. N.W.
Washington D.C. 20551**

Dear Sirs:

My name is Robert C. Glover and I serve as Senior Vice President of The First Bank and Trust Co. I am writing in strong opposition to the proposed regulations regarding commercial real estate lending (Docket No. OP-1248 Commercial Real Estate Proposal).

While some of the concerns expressed by the Agencies are understandable, others seem unwarranted and actually punishing to banks that are well managed. The application of blanket regulation as a management tool has rarely worked in the past and, if enacted now, would not produce the desired results. Well managed banks with a history of appropriate loan-loss management should be given the benefit of their experience.

The evolution of the banking industry has naturally lead community banks to pursue commercial real estate loans. The banking industry has gradually been squeezed out of the “point-of-sale” financing opportunities found in retail banking. From auto loans, to credit cards, to mortgage lending, community banks have faced increased, and sometimes unfair, competition from many fronts. Retail banking opportunities have taken on a “consumer-goods” posture dominated by those companies with the largest mass media and processing capabilities, or they are getting absorbed by the growing credit union movement that uses its unfair tax-exempt status to price the products below what community banks can afford. Collateralized loans naturally add a level of protection for the bank and real estate is still one of the best forms of collateral. So, the migration to commercial real estate loans makes sense for community banks.

What doesn't make sense is to lump all these loans into one single type of loan “risk category.” Commercial loans secured by real estate can, and do, have a wide diversity of circumstances that determine the “risk” of each. This diversification can range from geography, to loan type, to repayment sources and each loan, while classified “commercial real estate,” in effect stands alone on its own merits.

This lumping of commercial real estate into one risk category is not the only reason to oppose this regulation - others include:

- This regulatory overkill will dampen real estate lending, if not creating, certainly enhancing a real estate recession.**
- To punish the whole industry in an attempt to control those making “risky” loans is like cutting off one's head to cure a headache. Regulate the guilty banks and we'll all be better for it.**

- **The regulation would force another unfair posture on community banks. While initially the effect would be seen in pricing disadvantages for community banks, ultimately it would lead to a rash of community bank acquisitions by larger banks. As these mergers increase in frequency, supply and demand pressures would reduce the value of such acquisitions and cause an artificial (regulatory induced) suppression of share holder value.**
- **In an attempt to generate business (to appease investors) community banks would seek other means to make loans – namely unsecured credit. This movement to unsecured credit would only deepen the risk to the financial industry and even more jeopardize industry capital.**

We strongly disagree with many of the premises of this regulation. In fact, many of premises are flawed. The answer to this issue does not lie in “blanket regulation,” but rather in direct oversight of those banks and free-lancers that do not practice prudent underwriting and credit standards.

Thank you for your consideration of our opinions.

Sincerely,

**Robert C. Glover
Sr. Vice President**