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Subject: Commercial Real Estate Lending

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April 12, 2006

Comments to Federal Reserve

Dear Comments to Federal Reserve:

As a community banker with a primary focus on commercial lending, I would like to share with you my thoughts on the proposed guidance, Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices.

Most community banks are underwriting their CRE loans conservatively. They carefully inspect collateral and monitor loan performance and the borrower’s financial condition. Community bankers lend in their communities and are close to their customers. Thus they are in an excellent position to know the condition of their local economy and their borrowers. In fact, knowing our customers is the cornerstone of community banking, the linchpin that seperates us from the larger institutions.

Community banks have generally increased staff and risk management practices and capital levels since previous downturns in commercial real estate lending and are now better equipped to handle future downturns. Well managed community banks have learned the lessons of the past and should not be penalized by an arbitrary statitical measure which does not accurately or effectively assess the risk profile of an individual community bank.

There already exists a body of real estate lending standards, regulations and guidelines. Examiners have the necessary tools to enforce them and address unsafe and unsound practices; the proposed guidance is unnecessary and counterproductive. Regulators should address CRE management problems bank by bank, not by broad brush across the banking industry. This point is inherent in regulations and regulatory supervison, as well managed and high performing institutions have expanded powers and more flexibiliy than weaker institutions because they are evaluated on an individual basis.

Many community banks have an expertise in CRE lending that can't be analyzed by this proposal. CRE lending is a highly profitable line of business and a powerful engine for earnings growth. Community banks have to balance the risk/return formula, especially as many are public institutions. Increased profitability translates into increased capital, which then provides a greater security net for depositors and the banking system as a whole. Limiting CRE lending because of a specious statistical measure is akin to telling MicroSoft that they need to stop making software products, regardless of their ability and performance.

The proposed threshold limits of CRE loans to capital are too restrictive and do not take into account the lending and risk management practices of

individual institutions. They also do not recognize that different segments of the CRE markets have different levels of risk. Thus, the thresholds may not give an accurate picture of the risk in an institution. There is no direct correlation between the level of capital and the aggregate dollars in a segment of a loan portfolio. The potential for losses in an institution is tied to its management and its practices.

Community banks already hold capital at levels above minimum standards and should not need to raise additional capital because their CRE loans exceed the proposed thresholds. Regulators should consider the bank's allowance for loan losses and current capital levels along with risk management practices. This CRE proposal can also be viewed as a back door attempt to apply BASEL II capital standards to smaller institutions.

The proposed guidance is unfairly burdensome for community banks that do not have opportunities to raise capital or diversify their portfolio to the extent that larger regional banks can. The CRE portfolios of many community banks have grown in response to the needs of their community. If community banks are pressured to lower their CRE exposures, their ability to generate income and more capital will be constrained and they will lose good loans to larger competitors.

The proposal's recommendations regarding management information system reports will be particularly costly and burdensome to community banks; the costs will most likely out weigh the benefits for smaller banks. Most importantly, this proposal will not provide community banks with any more substantive information for evaluating their CRE risk profile then they currently have.

For these reasons, I urge you not go forward with the guidance as it has been proposed. Instead, regulators should use the regulatory tools already in place to identify and address CRE lending risks where they truly exist and abandon the proposed thresholds that are too restrictive, misleading, unnecessary and basically ineffectual.

Sincerely,

Raffaele M. Branca, EVP