From: "Kent Needham" <kentn@FirstStateKS.com> on 04/12/2006 03:45:04 PM

Subject: Commercial Real Estate Lending

April 11, 2006

Ms. Jennifer J. Johnson, Secretary
Board of Governors, Federal Reserve
System
20th Street & Constitution Ave., NW
Washington, DC 20551
Attention: Docket No. OP-1246
regs.comment@federalreserve.gov

Re: Proposed Interagency Guidance on Concentrations in Commercial Real Estate

First State Bank and Trust appreciates the opportunity to offer comments on this very important proposal that will raise the requirements for risk management for banks and savings associations deemed to have a concentration in commercial real estate as that is defined by the proposal. The purpose of this letter is to provide a brief description of FSB&T and our perspective on the proposed federal regulatory guidance.

First State Bank and Trust is a $300 million bank with 8 locations in six communities in Kansas. This issue is especially important to our bank, as a number of our facilities are currently located in high-growth areas, which means the Guidance would define a significant amount of our current business-development opportunities as coming from various commercial real estate industries. Consequently, we take the considerations and practices discussed in the Guidance very seriously. We currently devote a great deal of our resources to oversee and manage the risks associated with our commercial real estate lending program.

In response to the issuance of the proposal and request for comments, we conducted a detailed review of the guidance, engaged in considerable research and scheduled a series of meetings with our bank's senior lending, risk management, and regulatory management officers. The following comments are based on our review of the Guidance, an assessment of our current risk management practices and an evaluation of the potential impact the proposed guidance might have on our current and future operations.

From our perspective, the new definition of concentration in CRE combines several different
types of CRE lending without proper effort to distinguish the variations in risk, variations due to size, structure, geography and other elements in the composition of our bank's portfolio. This approach finds concentrations where they do not really exist. Too many banks will be deemed to have a high-risk concentration in CRE that in reality does not exist. As a result, we will need to invest significant time, money and effort to counter the assumption that we have an unsafe concentration of real estate loans.

The Guidance strongly suggests that a bank deemed under the new measures to have a concentration in CRE should be required to hold significantly higher levels of capital without a genuine demonstration of higher risk. Similarly, the Guidance suggests that a bank with large portfolios of CRE should have significantly higher reserves for loan losses. Such increases in reserves and

capital should follow only if a portfolio in fact presents a higher level of risk. Additionally, the Guidance's lack of quantified capital and loan loss reserve standards leaves banks, with CRE portfolios in excess of the Guidance's thresholds, in a position of uncertainty regarding their regulators' expectations.

We have the potential to be hit particularly hard by this Guidance. Given our size, we will be facing higher costs than many of our competitors in making commercial real estate loans. This potentially can create a competitive disadvantage, as CRE is a significant and very important part of our business.

As a part of our conservative lending philosophy, we have historically preferred real estate as collateral rather than other forms of depreciable or intangible collateral. Our historical loss history would reinforce that practice. While I would hope that this Guidance would not force us to this, it could result in our refusing real estate collateral for loans in order to reduce CRE concentrations thus actually exposing our portfolio to more risk than it would have if secured by CRE.

An even greater tragedy would be to see this Guidance create an environment that we or any other community bank be disinclined to meet the needs of our community to avoid CRE concentrations and the resulting ramifications. In the communities we currently serve, we would either slow the economic growth or invite large bank competition into our market thus reducing our long-term viability and impacting our franchise value.

As a result of our review of the potential impact of this Guidance on First State Bank and Trust, we respectfully request that the agencies not issue this blanket guidance. We believe each regulator should use their existing supervisory and enforcement tools to address risky asset concentrations at those specific banks where they find them, rather than impose this new program on the entire industry.

Once again, thank you for allowing First State Bank and Trust to offer our comments on this most important matter.

Respectfully,

L. Kent Needham
President & CEO