From: "Ed Arbut" <ed.arbut@firstcb.com> on 02/23/2006 02:05:05 PM

Subject: Commercial Real Estate Lending

Ladies and Gentlemen:

This correspondence is to comment on the proposed Inter-Agency Guidance on Concentrations in Commercial Real Estate Lending.

First Community Bank is a 100 year old community bank in Northern Michigan. Our market is generally rural, with an economy that is greatly dependent on service industries, tourism, and seasonal residents. While the local economy does have its swings, it is much more stable than more urban areas and parts of the country that have seen rapid increases in real estate values and in speculation. Manufacturing and other business types that are typically the source of C & I lending opportunities for commercial banks are few and far between here. When the bank has ventured into lending supported by non-real estate business assets, the experience has been that the business equipment, fixtures, A/R, inventory and other assets either disappear or are worth pennies on the dollar in the case of liquidation or forced sale of the business.

As a result of the characteristics of our market and our experience with C & I lending, the bank concentrates its loan portfolio in residential and commercial real estate loans, on both owner occupied and non-owner occupied properties. We make relatively small loans in markets we understand very well to solid borrowers. We have managed this business without the assistance of any additional regulatory guidance in a prudent manner that has limited losses and has resulted in superior bank performance. If increased capital requirements are imposed on the bank, our community will suffer from a change in our lending practices with respect to commercial real estate. The bank’s performance will also suffer both from the reduced amount of lending activity and the additional burden of expanding the portfolio monitoring and governance requirements beyond what has already been put in place (and found to be very adequate) by the bank.

My point here is that every bank has a story. Imposition of formulas and other strict guidelines across the board will unnecessarily penalize many banks, particularly community banks, and will negatively impact the communities that they serve.

As a side note, we would recommend placing more regulator scrutiny on the very aggressive home equity lenders. A contraction of home values in some parts of the country could have severe impacts on the banks and other credit providers that have been loosely underwriting and offering high loan to values on homes in which borrowers often have no cash equity.

Thank you for the opportunity to comment on the proposed new guidelines.

Sincerely,

Edward J. Arbut
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