Banknorth

April 12, 2006

Office of the Comptroller of the Currency
250 E Streets, SW
Mail Stop 1-5
Washington, DC 20219
Docket Number 06-01

Ms. Jennifer J. Johnson, Secretary
Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Docket Number OP-1248

RE: Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices

Dear Sir/Madam:

TD Banknorth appreciates the opportunity to comment on the proposed guidance on sound risk management practices for concentrations in commercial real estate lending (hereafter "the guidance"). We believe that, for the most part, the principles set out in the guidance are appropriate for any institution with substantial exposure to commercial real estate (CRE) markets. And, we believe that institutions with large credit concentrations should have risk management practices commensurate with the risk represented by those concentrations, whether that risk stems from exposure to commercial real estate loans or to any other type of lending.

Although recognizing that underwriting standards today are "generally stronger" than formerly, the guidance might also appropriately take note of other positive changes in the real estate markets since the difficulties of the late-1980s and early-1990s. Such changes include more rational investors and tax laws, a sophisticated secondary market, and more robust analytics, even at many small financial institutions.

We have only a few additional observations to make on the particulars of the guidance. The first concerns the identification of institutions with CRE concentrations. The guidance includes a catch-all category for institutions with "a sharp increase in CRE lending" or "a significant concentration in CRE loans secured by a particular property type." The lack of specificity in the reach of this catch-all category makes it susceptible to inconsistent and perhaps arbitrary application. Consequently, we believe this category should be more specifically defined. We expect that examiners, as well as banks, would appreciate clarification as to when an institution should be considered to have a significant property type concentration or to have experienced a sharp increase in lending.

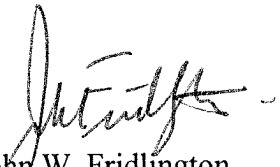
It is also essential that examiners understand – through training and the terms of the guidance itself – that the guidance should not be applied as a lengthy check list of requirements. Not all of the many standards included in the guidance will be appropriate for every institution with a CRE concentration. Moreover, a particularly strong control of one type may effectively mitigate a weak, or entirely absent, control of another type. An institution's set of CRE risk controls should be assessed in its entirety, not as a collection of independent processes.

There is also a lack of specificity in the guidance section on capital adequacy. In light of the evolving Basel II and IA changes to regulatory capital requirements, we can understand why it is difficult to provide more specificity. Nevertheless, we note that the vagueness of this section has caused considerable anxiety among institutions with large exposures to commercial real estate. Since most institutions already have sizeable cushions over "minimum levels of regulatory capital," it is unclear what additional capital, if any, may be deemed necessary by regulators. Further explanation is needed to clarify this general principle and ensure it is applied with reasonable consistency.

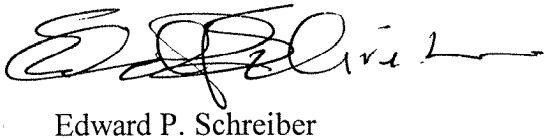
And finally, we note that the guidance includes substantial redundancy – very similar principles are repeated in different sections of the document. The clarity of the guidance would be enhanced by eliminating these repetitions.

Thank you for the opportunity to comment.

Sincerely,



John W. Fridlington
Senior Executive Vice President & Chief Lending Officer



Edward P. Schreiber
Executive Vice President & Chief Risk Officer