Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
Washington DC 20551
Regs.comments@federalreserve.gov

Re: Proposed Guidance- Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices - 71 FR 2302 (January 13, 2006)

Dear Ms. Johnson:

This letter is in response to the Agencies' request for public comment on the proposed guidance with respect to concentrations in commercial real estate. We have reviewed the proposed guidance and are very concerned with the additional reporting and oversight requirements.

I am the President of Irwin Union Bank & Trust Co. headquartered in Columbus, Indiana. We are a state-chartered bank owned by a holding company and regulated by the Federal Reserve and the Indiana Department of Financial Institutions. Our bank is approximately $6.6 billion in total assets. Our loan and deposit reports, which include detailed concentration reports, are regularly reviewed at the board and senior management level.

Irwin Union Bank is, and has been, aware of risks associated with CRE lending, and we feel that our knowledge of our customers and economic conditions in our market areas, as well as our underwriting expertise, existing loan policies and procedures, and ongoing monitoring of projects, allow us to adequately mitigate the risks associated with CRE loans. By adding to restrictions already set forth in real estate policy limits and exceptions, the additional regulations would have the effect of micro-managing core banking business in a manner that does not add value from a risk management perspective.

This is an area where smaller banks can provide service and value to their customers on a cost effective basis. As the number of community banks decreases, the Agencies should be assisting in creating an environment in which independent banks can thrive and survive, not imposing additional costs that are not justified, in our opinion, by their benefits. By increasing the level of capital required and the number of regulatory reporting requirements imposed on community banks involved in commercial real estate lending, the proposed measures will have the effect of restricting competition and penalizing the very core business in which community banks thrive.

Additional reporting and/or oversight is unnecessary for the following reasons:

- The regulators already have an adequate level of rules and regulations to provide sufficient oversight of CRE levels without adding additional regulations to enforce. Irwin Union Bank tracks concentrations in CRE and all other loan types. These concentrations, as well as underwriting exceptions, policy exceptions, supervisory limit exceptions and the ALL adequacy review are reported to and reviewed by a committee of our board. Additional review and reporting would be an unnecessary burden to our staff. Additional reporting translates into additional cost for our borrowers, our shareholders, and government as a whole, as staff will be needed to review the reports.

- Commercial real estate risk should not be measured as total loans – it should be measured as exposure in the loans not properly underwritten. A more practical approach would be to review the quality of the loan portfolio and amount of loan loss reserve carried. A generic approach requiring greater capital requirements penalizes community banks that underwrite sound loans. It does not address the issue of poor underwriting, which will always result in loan losses, irrespective of the level of capital required or the number of regulations imposed. As a result, a more specific and targeted methodology would be more effective in limiting commercial real estate loan losses than would a shot gun approach of the type seen in the proposed Guidance. The regulators should consider the bank's historical losses, demographics of the market served, and the quality of the underwriting in addition to the overall capital level of the bank. This is what examiners do when they review the portfolios of the banks they regulate. Ultimately, it should be an institution's board and management, in consultation with the institution's regulatory body, that determine if there is undue risk.

- <u>Many of the suggested tools and monitoring reports are not practical or relevant to our size of company</u>. For example, the use of secondary market sales as a method of "managing concentration levels" of CRE is in direct opposition to the relationship banking model of our organization. This is but one example where the proposed oversight measures would be misapplied in our case, as they are not sensitive to either our market strategies or the type of client development we undertake

Although heightened reporting may serve an informational purpose, we are concerned about the potential for adverse regulatory action to be based solely on an abstract report in cases where the bank's overall performance is sound. We are also concerned that determining levels for increased monitoring or due diligence is too subjective and may not be examined consistently among banks and across regions.

For the above reasons, we respectfully request that the Guidance be withdrawn. We do not believe it is necessary and may have negative consequences for our stakeholders.

Sincerely yours,

Brad Kime, President
Irwin Union Bank & Trust Co.