

March 10, 2006

In regards to: Commercial Real Estate (CRE) Lending Proposed Interagency Guidance [Docket No. OP-1248]

Mrs. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW.
Washington, DC 20551

Dear Mrs. Johnson:

These comments are in response to the proposed interagency guidance addressing sound risk-management practices for concentration in CRE lending. This guidance, in its current form, is open to wide-ranging interpretations by both bankers and examiners. Additionally, this guidance will further increase the regulatory burden of community banks and may lead to an unnecessary curtailment of real estate lending. The Agencies have already adopted a comprehensive uniform rule on real estate lending which addresses the need for adequate loan policies, Board approved concentration limits, and effective risk management practices. In the end, each bank should be evaluated on its own merit after considering management ability, quality of risk management practices, portfolio composition, credit quality trends, and local market, economic, and competitive characteristics. Our specific concerns are addressed below:

CRE Definition

The proposed CRE definition is broad and does not consider exclusions for such loans as residential construction-perm loans or loans secured by mortgages taken as an abundance of caution. Furthermore, no consideration is given to consumer credits such as land loans held for long-term investment and repayment is dependent on borrowers' personal cash flow. Also, questions arise whether loans secured by second homes that are in a rental pool would be included as CRE, especially if such loans were underwritten based on non-real estate cash flow.

CRE Thresholds

With respect to the proposed CRE thresholds, we believe the Board and bank management are in the best position to determine appropriate real estate concentration thresholds, just as for other risk areas of the bank. Also, the section stating that the guidance will be applied on a case-by-case basis to any bank having a sharp increase in CRE lending over a short period of time or a significant concentration in CRE loans secured by a particular property type is ambiguous.

Capital

The guidance states banks should hold capital commensurate with the level and nature of risks to which they are exposed and that banks with high or inordinate levels of risk are expected to operate well above regulatory capital requirements. This is very subjective. At what point is risk considered too high and what criteria will be used to determine the sufficient level of capital? If a bank exceeds the CRE thresholds, will this automatically result in additional capital requirements? Also, it appears more appropriate to account for CRE concentrations in the loan loss reserve determination rather than through augmentation of capital, unless lower quality assets expose the bank to loss exposure meaningful enough to impair the bank's capital structure.

Allowance for Loan Losses

The guidance states banks should consider CRE concentrations in their assessment of the adequacy of the allowance for loan and lease losses (ALLL). Banks are already required to do this, but does this now mean that there is an expectation that we should allocate more towards our ALLL? Will examiners automatically require additional provisions to the ALLL if a bank is over the regulatory thresholds? Does the existence of CRE concentrations increase the probability of loss and need for additional provisions to the ALLL if risk management systems are strong, good underwriting practices are in place, and there is little loss history? If so, will the regulators and external auditors that oversee public reporting for publicly traded companies concur?

We appreciate the opportunity to provide comments for your consideration on this very important matter.

Sincerely,

Samy El-Ferly
SVP - Credit Administration