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Subject: Interagency Concentrations in Commercial Real Estate Lending

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Proposal:	Interagency Guidance on Commercial Real Estate Lending
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Comments:
We are writing to voice our concerns as it relates to the proposed guidance entitled "Concentrations in Commercial Real Estate Lending."

In your background comments it is stated that weak CRE underwriting and depressed CRE markets have contributed to significant Bank failures and instability in the banking industry. Based on examinations that we have received, it appears that the regulatory staff is effectively addressing underwriting standards. It should be noted that general economic conditions and trends are what affect the banking industry, and not the collateral that is a secondary source of repayment for the loans. CRE as defined in the current guidance memorandum lumps all types of Real Estate loans with varying degrees of risk into one ratio. It also does not take into account the individual financial strength of the borrowers or whether the loan represents a 30% LTV or 75% LTV. This ratio assumes the risk on an individual's construction loan for their personal residence is the same as a strip center or a high rise building that may or may not have any tenants. It does not differentiate the risk between an owner operator's commercial building and one that is rented to a third party. In community banks, many times real estate is used as collateral to support a loan that will be used for business expansion or working capital purposes. The guidance adds CRE exposure where the source of repayment primarily depends upon rental income or the sale, refinancing, or permanent financing of the property. This sounds simple enough, but Call Report data that is being used for calculations is not laid out in this manner. If a business owner constructs a commercial property for his business and then leases the facility to the business it would be considered CRE under the guidance. This is also true for an individual loan to construct their primary residence that is repaid by a long-term mortgage loan. These types of loans do not have the same risk as spec retail center, however they are all considered equally under the proposed guidance. If implemented in the form presented, CRE lending at the community bank level could be drastically reduced. It could possible lower credit availability for purposes such as business expansion or other operating needs as the banking community may be reluctant to use CRE as collateral to provide secondary support to credit requests. It would appear that there might be a significant risk to the countries overall economy, especially small business, in trying to eliminate a perceived risk. Existing regulations and examination processes are currently in place that are effectively working in the financial community. We would recommend enhancing and refining existing risk evaluation processes rather than implementing an additional layer of regulation. Thank you for your time and consideration.

SANTA LUCIA BANK

Larry H. Putnam, President & CEO