**From:** "Maria Urdi" <murdi@sladesferry.com> on 04/21/2006 03:40:03 PM

**Subject:** Interagency Concentrations in Commercial Real Estate Lending

Maria Urdi
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April 21, 2006

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

Dear Ms. Johnson:

As a community banker, I appreciate the opportunity to comment on the proposed guidance entitled Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (Guidance).

While we understand that the federal regulatory agencies have expressed concern with the high concentrations of commercial real estate loans at some institutions, we believe the proposed guidance will have a serious impact on our local economies in general.

We play an essential role in creating local economic growth by providing credit to small and medium-sized businesses for construction and land development. The proposed guidance will place a significant regulatory burden on banks that have a market niche in commercial real estate loans, limiting our institution’s future growth in this area and possibly forcing us out of the market altogether.

We are particularly concerned with the following proposals within the guidance:

1) The “one-size-fits-all” nature of the proposed guidance. Institutions are automatically classified as having a “CRE concentration” simply if they exceed the thresholds.

Portfolio diversification or other risk mitigation procedures are not taken into consideration. Because real estate markets vary greatly from region to region, and even within a particular state, the agencies should focus more attention on local market conditions and the overall condition of the individual institution than generic thresholds broadly applied to all banks. Smaller banks should not be treated in the same manner of risk as large banks.

2) In our demographic, we have many multi-family houses that are owner occupied, with other family members living within the same building. We feel that this type of property, although considered in the Call Report as CRE, pose less risk than other CRE loans and should be excluded from the scope of the guidance.

3) Our 1-4 family construction-permanent loans are also included in the Call Report under CRE. These loans are residential property and pose less

risk than other CRE, and should be excluded from the scope of the guidance.

4) Much of the guidance provides vague direction. As we read through the various provisions, they are not all specific enough to enable a bank of $500 million to accomplish, whereas a larger institution may have the resources to adequately accomplish.

There should be flexibility in the guidance that takes into account the risk management of the institution, and how that relates to its overall CRE.

5) For a bank our size to adhere to each of the bullets within the guidance, it would require us to add resources and spend money to have certain things accomplished. Again, there should be flexibility in the guidance that takes into account the risk management of the institution, and how that relates to its overall CRE.

6) Regarding Capital Adequacy, if our controls are strong and underwriting standards produce high asset quality, then why should the guidance be based on volume rather than quality? It would appear that this penalizes smaller banks to keep higher capital levels when adequate due diligence has already been done.

7) In general, the proposal as stated will result in additional costs for a small bank to implement.

The guidance encourages institutions to adopt a series of the proposed risk management principles if a CRE concentration exists. While many banks may have some of these procedures in place, others will be cost-prohibitive for community banks. For instance, there are few effective stress tests available to smaller institutions. If institutions are unable to adopt these principles, some may leave the CRE market altogether. This will disproportionately affect urban areas, since the guidance exempts many of the loans made in rural areas from the threshold calculations. Many times, community banks are the only source of credit available to small business owners in these distressed areas. Forcing banks to reduce or abandon CRE lending in these neighborhoods could inhibit revitalization efforts and leave business owners with no choice but to turn to more expensive forms of credit.

In addition, the guidance recommends increased capital levels for banks with CRE concentrations. This requirement will place a serious burden on mutual institutions, which represent 70 percent of the banks in Massachusetts and who rely on earnings as their sole source of new capital. Therefore, these institutions would be forced to reduce levels of a strong earning asset in commercial real estate during a period of significantly reduced margins.

Finally, the proposed guidance comes at a time when the agencies are also proposing changes to the capital system through the Basel I-A process. Both proposals could have a significant impact on community banks, and I encourage the agencies to better coordinate their efforts in this area.

Thank you again for the opportunity to comment on the proposed guidance and for considering my views.

Sincerely,

Maria L. Urdi