Norwood
COOPERATIVE BANK
Your Community Banking Leader

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April 10, 2006

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

Re: FDIC 2006-01, OCC Docket No. 06-01, Federal Reserve Docket No. OP-1248, OTS No. 2006-1

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

Commercial real estate (CRE) lending and specifically residential construction lending, has been an important business line for my institution and many other banks in Massachusetts. Community banks 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 like ours that have a market niche in commercial real estate loans, limiting our future growth in this area and possibly forcing some banks out of the market altogether.

I am particularly concerned with 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. My institution has a well managed and diversified construction portfolio yet this proposed guidance does not take that 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, especially strong, well-capitalized institutions like mine, than generic thresholds broadly applied to all banks.

The guidance encourages institutions to adopt a series of the proposed risk management principles if a CRE concentration exists. While banks like mine already have many of these procedures in place, other community banks may find that adopting these new procedures will be cost-prohibitive and may force them to 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,

John Galvani
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Sr. Lending Officer
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