VILLAGE
BANK

Thomas W. Winfree
President & CEO

February 28, 2006

Robert E. Feldman, Executive Secretary
Attention: Comments, Federal Deposit
Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Comments Concerning Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices

Dear Mr. Feldman:

I am the President and CEO of Village Bank, a community bank headquartered in Midlothian, Virginia. Our state chartered bank is regulated by the FDIC and the Commonwealth of Virginia Bureau of Financial Institutions. I am writing this letter in response to your request for public comment on the proposed guidance referenced above.

I have discussed this issue at length with our Board of Directors, Senior Management and my fellow community bank presidents. We are concerned that the Agencies are overreaching via this proposed regulatory guidance in an attempt to "cure" a perceived problem in banks' concentrations of certain types of commercial real estate loans. I say "perceived" because it seems that the Agencies are reacting to the notion that there is a nationwide real estate "bubble" that is on the verge of bursting, thus creating a credit crisis which could threaten the viability of many financial institutions and put a severe strain on the entire banking system. The presumption being that this would be the result of massive loan defaults of certain types of commercial credits.

I have been in banking for more than thirty years. My experience has been and I believe that recent banking history will provide support for the contention that absent extremely high and volatile interest rates, a domestic credit crisis affecting large numbers of community financial institutions is unlikely to occur. Unlikely, that is, unless the Agencies decide to create a self-fulfilling prophecy by promulgating a regulatory based domestic credit crisis. In my opinion, and that of many of my colleagues, FIRREA was just such an example. Many formerly sound financial institutions were regulated into insolvency practically overnight.

1231 Alverser Drive, Midlothian, Virginia 23113 *Tel* (804) 897-3900 *Fax* (804) 897-4750
www.villagebankva.com

In 12 CFR, part 364—*Standards for Safety and Soundness* and Appendix A to part 364—*Interagency Guidelines for Establishing Standards for Safety and Soundness* the Agencies establish three types of standards: (1) operational and managerial standards; (2) compensation standards; and (3) standards relating to asset quality, earnings, and stock valuation. The operational and managerial standards, in particular, set forth very comprehensive guidelines covering many areas including internal controls and information systems, internal audit system, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits.

IN 12 CFR, part 365—*Real Estate Lending Standards* and Appendix A to part 365—*Interagency Guidelines for Real Estate Lending Policies* the Agencies prescribe standards for real estate lending to be used by financial institutions in adopting internal real estate lending policies. This regulation requires each institution to adopt and maintain policies that set appropriate limits and standards for extensions of credit that are secured by real estate. Further, this regulation prescribes in quite specific detail guidelines that cover loan portfolio management considerations, underwriting standards, loan administration, supervisory loan-to-value limits, loans in excess of those loan-to-value limits, excluded transactions, exceptions to an institution's General Lending Policy and supervisory review of real estate lending policies and practices. Included are definitions of the types of real estate lending conducted by those financial institutions.

Parts 364, 365 and their appendices do not just serve as a primer for banks to consult while conducting their lending activities. They are, and have been for more than a decade, the definitive source for all of the integral prescriptions that are the basis of each bank's lending policies. It appears to us that, rather than having its' examiners work individually with financial institutions to better understand the particular nuances of their local economies and to determine if their existing lending standards and policies are appropriate to the risk exposure in their portfolios, while adhering to Parts 364 and 365, the Agencies would instead prefer to decree, maintain and enforce new rigid guidelines that will serve the purpose of making the financial institution examination process easier for the examiners. Do you really expect the community banking industry to agree that the proposed Guidance merely "reinforces" the Agencies' existing guidelines? Rather, it appears to us that the Agencies are intent on severely limiting the industry's ability to thrive through the cautious and market-wise conduct of the lending activities that are the essence of community banking; thereby, perhaps, pressuring some of our member institutions into other more risky types of lending that are not addressed in the proposed Guidance.

It is our belief that the vast majority of financial institutions are managed with the degree of safety and soundness required by their regulators and in conformance with the Agencies' existing real estate lending regulations and guidelines. Those that are not will, and should, come under increased scrutiny by the appropriate supervisory agencies. We do not feel that new rules and regulations that change