Southern Community
BANK AND TRUST

March 10, 2006

Delivered Via Email

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Docket No. 06-01
regs.comment@occ.treas.gov

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve

20th Street and Constitution Avenue NW
Washington, DC 20551

Docket No. OP-1248
regs.comment@federalreserve.gov

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

comments@fdic.gov

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street NW
Washington, DC 20552

Attention: No. 2006-01
regs.comments@ots.treas.gov

Re: Concentrations in Commercial Real Estate Lending: Sound Risk Management Practices
71 Fed. Reg. 9,2302 (January 13, 2006)

Ladies and Gentlemen:

Southern Community Bank and Trust appreciates the opportunity to submit these comments in response to the proposed guidance entitled Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices. Based upon our review of the proposed guidance we must express our deep concern for the proposed guidance.

The guidance sets thresholds for determining whether a financial institution has a commercial real estate (CRE) concentration. The two thresholds are: (1) total reported loans for construction, land development, and other land represent 100% or more of the institution's capital; or (2) total reported loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land represent 300% or more of the institution's total capital. Under the proposal, institutions exceeding threshold (1) should have heightened risk management practices appropriate to the degree of CRE concentration risk. Institutions exceeding threshold (2) should quantify the dollar amount of those loans that meet the definition of a CRE loan and should have heightened risk management practices in place.

CRE loans are defined as exposures secured by raw land, land development and construction (including 1-4 family residential construction), multi-family property, and non-farm nonresidential property where the primary or a significant source of the repayment is derived from rental income associated with the property or the proceeds of the sale, refinancing, or permanent financing of the property. Loans to REITs and unsecured loans to developers that closely correlate to the inherent risk in CRE markets would also be considered CRE loans.

Southern Community Bank and Trust's first concern is the broad scope of the guidance. The stated objectives of the proposed guidance can be accomplished through existing guidelines already in place. These allow the various agencies to direct corrective action if required. Thus, if it is determined that a specific bank needs to implement additional risk management practices or correct concentrations, this could be dealt with on a case-by-case basis as it should be done.

Community banks are a critical source of CRE lending, particularly for small business and individual loans. The proposed legislation could create a shortage of credit for many businesses and communities. This could lead to an economic slowdown accentuated by falling valuations.

The definition of commercial real estate (CRE) proposed includes 1-4 family residential construction and well as land development loans for the 1-4 family residences. These two categories carry different risk characteristics than do typical CRE loans. The differences in risk are such that they should not be included in the calculations proposed in the guidance. Community banks are often leaders in their market in supporting small builders and providing construction loans to individuals. The economic impact of losing funding solutions for this group are of grave concern. We would propose that the new guidance, should it move forward, that it should be amended as stated below.

Last year, in SR Letter 05-11, loans relating to 1-4 family development and construction were shifted from the non-1-4 family calculation in terms of LTV exceptions under Reg H. Therefore, it seems appropriate that the proposed guidance would follow the segregation established under the LTV requirements of Reg. H. Construction and development loans for the purpose of 1-4 family should be excluded from both tests of CRE to Capital. Factors such as marketing time, market scope, market cycle all support the argument of removing these categories form the proposed guidance.

The proposed guidance leaves a great deal to interpretation. This creates questions regarding implementation, particularly with respect to evaluation of risk management activities and capital adequacy in the examination process.

Credit risk management principles have always maintained that each loan is to be looked at on its own merits. We believe that the same should be done in the management of our country's banks. We must also carefully balance between our concerns for the safety and soundness of the financial system and the measures used to ensure the same. Sometimes the very medicine we take to prevent one illness causes an even more serious illness to appear. For these reasons we ask that you consider either the withdrawal of the proposal or substantial amendments to the proposed guidance. If you have any questions please contact either me or our Bank's CEO, Scott Bauer.

Sincerely,

Paul E. Neil, III
Chief Credit Officer

CC: Senator Richard Burr
US Rep. Virginia Fox
Thad Woodard