mba
Michigan Bankers Association

507 S. Grand Ave.
Lansing, MI 48933
www.mibankers.com

517-485-3600
517-485-3672 Fax

March 14, 2006

Office of the Comptroller of the Currency
250 E Street, SW
Public Reference Room
Mail Stop 1-5
Washington, DC 20219
Docket No. 06-01
Email: regs.comments@occ.treas.go

Regulations Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Docket No. 2006-01
Email: regs.comments@ots.treas.gov

Robert E. Feldman
Executive Secretary
Attn: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Email: comments@fdic.gov

Jennifer Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Ave, NW
Washington, DC 20551
Docket No. OP-1248
Email: regs.comments@federalreserve.gov

RE: Proposed Guidance-Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices
71 FR 2302 (January 13, 2006)

Dear Sir or Madam:

Michigan Bankers Association (MBA) appreciates the opportunity to comment on the Proposed Guidance-Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices ("Proposed Guidance") issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision ("Agencies"). The Proposed Guidance will impose additional regulation on financial institutions in a mechanical manner.

The MBA represents the interests of the overwhelming majority of banks in the state of Michigan, including commercial real estate lenders. This proposed guidance is generating tremendous concern among banks involved in commercial real estate lending.

The proposed guidance adds additional scrutiny to banks with high concentrations in commercial real estate loans with regard to their underwriting standards, risk management practices, and capital levels. Under the proposed guidance, financial institutions are deemed to have a concentration in commercial real estate loans if one or both of the following tests are met:

- Total reported loans for construction, land development, and other land represent one hundred percent or more of the institution's total capital, or
- Total reported loans secured by multi-family and nonfarm nonresidential properties and loans for construction, land development, and other land represent three hundred percent or more of the institution's total capital.

The proposed guidance would allow the banking regulators to require banks to increase their capital levels simply because there is a concentration of commercial real estate loans.

Michigan Bankers Association

507 S. Grand Ave.
Lansing, MI 48933
www.mibankers.com

517-485-3600
517-485-3672 Fax

The MBA and its members believe that commercial real estate is vitally important to the lending programs of our bankers, to revitalize urban communities and to strengthen the Michigan economy. Any guidance that imposes additional requirements in a mechanical or arbitrary manner could lead to policy shifts in the lending practices of our banks that could discourage commercial real estate lending and encourage more risky types of lending.

The agencies should not impose rigid, arbitrary threshold tests that ignore the actual risk factors associated with a particular loan. Thresholds are not appropriate for the reason that different types of commercial real estate have very different risk profiles. There are huge differences in risk levels between loans for land development, raw land, spec home construction, and commercial construction. These risk factors should be evaluated individually, and not under a mechanical set of guidelines that fail to account for the uniqueness of the project.

The proposed guidance allows the agencies to require banks to increase their capital because of a concentration in commercial real estate loans. The agencies should not have the discretion to arbitrarily require a bank to increase its capital levels under these circumstances. Appropriate capital levels should be determined based on a thorough analysis of the individual bank. All factors should be included when making a determination that a bank has sufficient capital, including the risk associated with the bank's lending practices, not just an arbitrary standard.

MBA appreciates the opportunity to comment on, and firmly opposes, the Proposed Guidance-Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices. If you have any questions, please contact Dennis Koons, MBA President & CEO, at (517) 342-9056.

Sincerely,

Dennis Koons
President & CEO
Michigan Bankers Association

James Conboy
Chairman
Michigan Bankers Association