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February 14, 2006

Mr. Robert E. Feldman, Executive Secretary
ATTENTION: COMMENTS – CRE LOAN CONCENTRATIONS
Federal Deposit Insurance Corporation
550 17th Street
Washington, D.C. 20429

Dear Mr Feldman:

We appreciate this opportunity to comment on the Interagency draft paper on Concentrations in Commercial Real Estate Lending.

The issue of concentrations of credit is as old as the banking industry itself and has received the attention of bankers and examiners for decades. As you know, concentrations take many forms and pose risks that range from largely insignificant to substantial. As noted in the FDIC Examination Manual, concentrations are not inherently bad and, in some instances, are largely unavoidable.

We take no issue with the general premise that concentrations should be accompanied by heightened risk management techniques and are a factor to be considered in the analysis of capital and reserves. This is appropriate whether the concentration is one of collateral dependence, is industry specific, or based on other factors such as country risk. Moreover, we believe the commentary under the heading "Risk Management Practices" is very important and these principles should generally be followed although there should be some consideration given to the issue of burden on small banks.

Our major concern lies with the singling out of a very broad and potentially diverse segment of loans (Commercial Real Estate) which is one of the bread and butter asset categories of the nation's banking system and painting that category with a "one size fits all" brush.

FDIC's State Banking Profiles indicate that, in many states, commercial real estate levels exceed or closely approach the concentration limits set forth in this proposal on a statewide basis. Moreover, this condition is nothing new and has existed for many years. Commercial banks are well suited to commercial real estate lending since, in most instances, these loans are predicated more on financial considerations than on collateral values. As a result, for concentration purposes, many commercial real estate credits are more industry dependent than they are collateral dependent. Commercial real estate loans are largely "business loans" and are predicated on much the same financial analysis

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whether the collateral is a subdivision under construction, warehouse inventory, manufacturing equipment, or a factory.

Since the nation's banks are presently so heavily involved in commercial real estate lending, the effect of this proposal may be to freeze or lower the level of this lending in the banking system. While this may be appropriate in some areas and for some banks, it may be detrimental to others. As a for instance, the 2005 hurricanes along the Gulf Coast caused extensive damage to housing and commercial properties. For banks serving these areas, it is certainly in their long range interest to see that the infrastructure is replaced and displaced individuals return to their homes and businesses. This could involve a rather substantial commitment to commercial real estate lending.

We should also note here that this may have a far greater impact on small banks than on larger banks. Small banks tend to be located in smaller towns or in growing suburbs of cities. Real estate development and real estate collateral are very important to these banks and concentrations are largely unavoidable for many. Stringent percentage restrictions on this primary business activity coupled with overly burdensome requirements for monitoring concentrations may be detrimental to the small bank's ability to grow profitably and also to the communities which they serve.

This paper also fails to recognize the wide diversity of risk that exists in commercial real estate. For most commodities, price changes and economic factors tend to impact all areas of the nation fairly evenly. This is not so with real estate which tends to be very localized in response to price and economic changes. This was very noticeable in the 1980's and early 1990's. Speculative land values in the Midwest caused agricultural loan problems in that region that were much more pronounced than other agricultural areas. The energy boom in the southwest caused a severe collapse in real estate in energy dependent states. A little later the overbuilding in east and west coast markets created many problems for banks in those areas. At the same time many sections of the country felt little or no effect from these problems. It should also be noted that, with the exception of the Midwest agricultural problem, smaller banks tended to fare better than larger banks during this period and were responsible for only a very small fraction of the losses sustained by FDIC.

Currently, the real estate boom (or bubble) is much more pronounced in some areas than in others. Statistics such as real estate value increases or percent of income devoted to housing point to more speculative conditions along the east and west coasts. Midwest and Midsouth areas reveal much different characteristics and would seem to have much lower risk profiles A few other factors substantially affecting risk in a bank's commercial real estate portfolio are. a) financing of speculative or presold construction, b) financing of high end or low end housing which have significantly different populations of potential buyers, and c) industry diversity that exists in nonfarm nonresidential properties. These and many other factors are extremely important in

analyzing the risk in a given portfolio and would be good guidance for bankers and examiners who are performing a risk analysis.

In summary we would make the following observations:

A. The guidance on applying heightened risk management practices where concentrations exist is helpful and appropriate but some consideration should be given to the burden on small banks.

B. The definition of loan categories to be included in a concentration is much too broad, particularly when arbitrary limits of 100% and 300% are being applied.

C. The paper adopts a "one size fits all" approach that could have detrimental effects in some areas of the country and on smaller banks in particular.

D. The paper fails to highlight those geographic regions and those situations where risk levels are very dissimilar. Inclusion of these risk factors should be a valuable aid to banks and to examiners in evaluating the true risks that exist in their commercial real estate exposures.

Again, thank you for the opportunity to comment on this draft.

Sincerely,

L. Hunt Campbell
President/CEO
First Alliance Bank