829

220 MAIN AVENUE NORTH • P.O BOX 516 • MAGEE, MISSISSIPPI 39111-0516
PHONE (601) 849-3311 • FAX (601) 849-6439 • www.priorityonebank.com

PriorityOne Bank
Member FDIC

Our One Priority Is You.

April 5, 2006

Dear Mr. Feldman:

I am writing to express my opposition to the proposed Interagency Guidance on Concentrations in Commercial Real Estate ("Guidance") that raises the requirements for risk management by banks and savings associations that are deemed to have a concentration in commercial real estate ("CRE"). In support of my position I offer the following concerns:

1. The new definition of concentration in CRE combines several different types of CRE lending without proper effort to distinguish the variations in risk—variations due to size, structure, geography, and other elements in the composition of a bank's portfolio. This approach finds concentrations where they do not really exist. Too many banks will be deemed to have a high risk concentration in CRE.

2. Bankers will need to invest significant time, money, and effort to counter the assumption that they have an unsafe "concentration" of real estate loans.

3. The Guidance strongly suggests that a bank deemed under the new measures to have a concentration in CRE should be required to hold significantly higher levels of capital without a genuine demonstration of higher risk.

4. Similarly, the Guidance suggests that banks with large portfolios of CRE should have significantly higher reserves for loan losses. Such increased reserves should follow only if a portfolio *in fact* presents a higher level of risk.

5. Community banks will be particularly hard hit by this Guidance, facing higher costs than their competitors in making commercial real estate loans, an important part of the business of community banks.

6. Perversely, the Guidance could result in banks in some cases refusing real estate collateral for loans in order to reduce CRE concentrations.

7. The inevitable consequence of the Guidance would be to reduce community banks' ability to fund CRE in their communities.

Accordingly, I recommend that the agencies not issue this blanket guidance. The regulators should use their existing supervisory and enforcement tools to address risky asset concentrations at those specific banks where they find them, rather than impose this new program on the entire industry.

Sincerely,

Robert J. Barnes, CCO