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FIRST
PIEDMONT
BANK

A GREAT COMMUNITY DESERVES A GREAT COMMUNITY BANK

April 5, 2006

Robert E. Feldman
Executive Secretary
Attention: Comments
FDIC
550 17th Street, NW
Washington, DC 20429

Dear Mr. Feldman:

I am writing you concerning the proposed Real Estate Lending Guidance. I realize that all the regulators are concerned with the amount of growth in our acquisition development and construction lending, especially in the Atlanta area. We are a $90,000,000 bank about 50 miles from downtown Atlanta. There is an article that was printed in the Atlanta Business Chronicle (copy enclosed) which gives more information. While our bank is not at the top of the list, we certainly are above 300% of capital.

Most of the community bankers that I know in our area attempt to underwrite their CRE loans conservatively. Some do a better job of monitoring and inspecting than others. We found this out when we have bought participations from other banks. We also had comments from banks that we have sold participations to, complimenting us on the job we do on trying to monitor and inspect our collateral. We feel that we know our market much better than a larger bank would. We also have a better understanding of our local economy.

We have increased staff significantly in the last 5 years to handle these loan concentrations. Our capital is at about 11.33% as of 3-31-06. We feel comfortable with this level. Even though this bank has only been here for approximately 8 years, I have been in this market for over 30 years. Back in the 90's we handled the downturns quite successfully.

At present, we have a body of real estate lending standards, regulations and guidelines. We feel your examiners have the necessary tools now to address unsafe and unsound practices. We believe that proposed guidance is not really necessary. There is no broad brush approach. This should be done on a bank by bank and market by market analysis.

We believe the proposed thresholds are restrictive and do not take into account lending and risk management practices of individual institutions. We should not be held responsible if our neighbor in another county or in a neighboring market, does not fulfill their obligations. We feel we should be graded on what we do, that banks should not all be grouped the same.

Most community banks already hold levels above minimum standards. Regulators should consider the individual bank's allowance for loan loses, current capital levels, loan risk management practices, and the documented loses on real estate lending in that particular bank.

We feel that additional guidance is burdensome. We feel that it would take time away from what we do best, servicing our customers. In a small community bank, we do not have the luxuries as a larger regional bank. We cannot have specialized staff for every facet of a bank. If we lower our real estate exposure, that income will just be taken in by larger banks. We know from experience that some of the larger banks tend to get the smaller customers in trouble by giving them larger loan lines than we do. This appears to be totally counter productive. Finally if we end up with guidance that is too restrictive, it could virtually kill our local economy. Our area is predicted to continue to add population over the next 20 to 30 years. Our county could double within the next two years. Even though our 3-31-06 numbers were a little over 300%, we feel that someone has to help to provide the housing for the people that want to live in this area. It is always good to be diligent and aware of what is going on. I think though, we can do an overkill that will set our economy back for many years and create massive unemployment.

I cannot stress enough that we have the tools now. Banks should be judged by a bank by bank and market by market situation. After all, our investors have a lot to lose, and management would be subject to losing their jobs if we do not have the proper controls in place to know what we are doing. It is always good to have things like the heavy growth in ADC loans as compared to capital. I think the fact that this situation is being talked about should be enough for most bankers. Unfortunately, we cannot make a profit unless we do take some risks. I just ask that you judge us as individual banks and not as a group when you look further into this situation.

Sincerely,

W. H. Whitley

W.H. Whitley
President/CEO

STRATEGIES
SECTION B

CHRONICLE

Arby's preps for landmark campaign aroun

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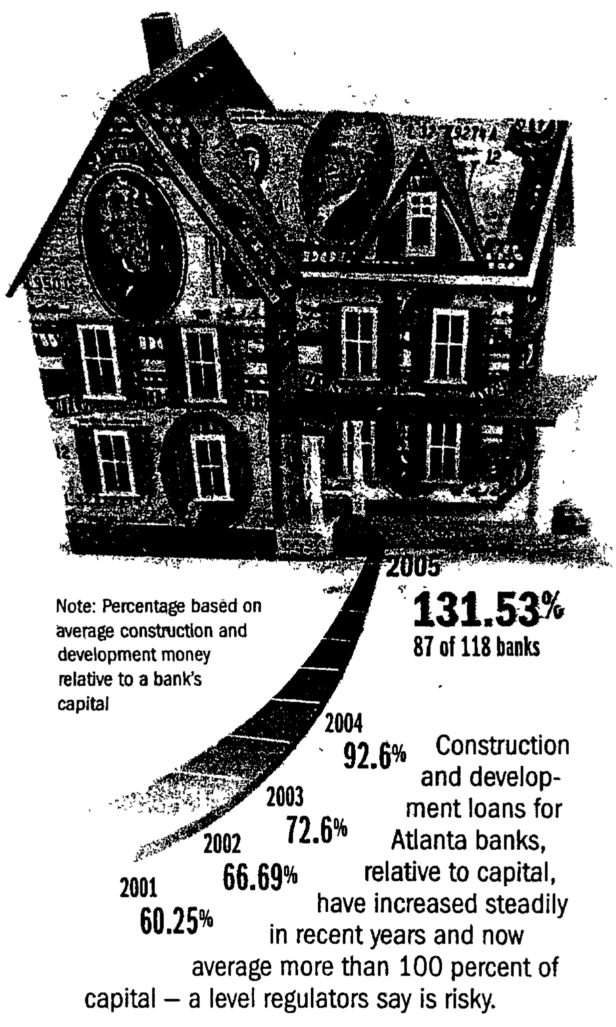
BANKS AT RISK



Source: FDIC

PHOTO ILLUSTRATION/JAMES C WATTS

Construction lending at troubling levels, FDIC says

By Jill Lerner
STAFF WRITER

Nearly three out of four of Atlanta-based banks are heavily weighted in construction and development loans and could face trouble if the housing market continues to cool.

Eighty-seven of the 118 banks with headquarters in Atlanta have high concentrations of construction and development (C&D) loans — the vast majority for residential projects — according to the **Federal Deposit Insurance Corp.**

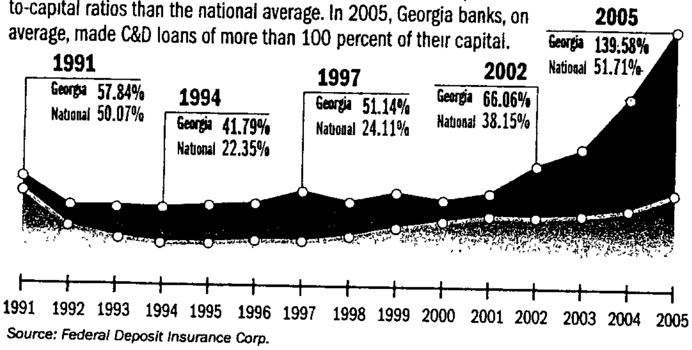
The FDIC, along with three other regulating agencies, has proposed new guidelines amid concerns over real estate lending concentrations nationally. The agencies recommend that banks should have robust risk management practices if more than 100 percent of their capital is exposed to construction and development projects.

Banks use deposits and borrowed money from other sources to make loans, allowing them to lend well in excess of their capital.

➤ See **BANKS, 28A**

Georgia C&D lending above average

Georgia banks have long had greater construction and development loan-to-capital ratios than the national average. In 2005, Georgia banks, on average, made C&D loans of more than 100 percent of their capital.



Source: Federal Deposit Insurance Corp.

Banking on C&D

Some Atlanta-based banks have C&D loans that are more than six times their capital. Federal regulators recommend that these banks conduct extensive monitoring.*

Bank	CD / Capital	Bank	CD / Capital
FIRST CITY BANK	682.11%	QUANTUM NATIONAL BANK	254.51%
[illegible]	[illegible]	[illegible]	[illegible]
COMMUNITY BANK	626.75	SECURITY EXCHANGE BANK	245.64
[illegible]	[illegible]	[illegible]	[illegible]
FIRST NATION BANK	597.25	CORNERSTONE BANK	239.92
[illegible]	[illegible]	[illegible]	[illegible]
CITIZENS & MERCHANTS STB	571.53	CHEROKEE BANK NATIONAL ASSN	227.27
[illegible]	[illegible]	[illegible]	[illegible]
INTEGRITY BANK	541.07	GEORGIA COMMERCE BANK	217.10
[illegible]	[illegible]	[illegible]	[illegible]
GWINNETT BANKING CO	517.73	BANKERS BANK	215.57
[illegible]	[illegible]	[illegible]	[illegible]
FIRST NB OF GWINNETT	494.67	COMMUNITY BK OF PICKENS CNTY	211.04
[illegible]	[illegible]	[illegible]	[illegible]
BANK OF COWETA	484.59	FIRST COWETA BANK	200.97
[illegible]	[illegible]	[illegible]	[illegible]
CRESCENT BANK & TRUST CO	475.12	BARTOW COUNTY BANK	182.72
[illegible]	[illegible]	[illegible]	[illegible]
HOME TOWN BANK OF VILLA RICA	462.72	PEACHTREE NATIONAL BANK	178.87
[illegible]	[illegible]	[illegible]	[illegible]
FIRST GEORGIA COMMUNITY BANK	447.45	JASPER BANKING CO	158.10
[illegible]	[illegible]	[illegible]	[illegible]
FIRST BANK OF HENRY COUNTY	427.69	MAIN STREET BANK	136.51
[illegible]	[illegible]	[illegible]	[illegible]
PEOPLES BANK	422.98	UNITED BANK	125.22
[illegible]	[illegible]	[illegible]	[illegible]
FIRST STATE BANK	418.97	AMERICAN UNITED BANK	116.20
[illegible]	[illegible]	[illegible]	[illegible]
COMMUNITY TRUST BANK	412.08	HIGHLAND COMMERCIAL BANK	99.99
[illegible]	[illegible]	[illegible]	[illegible]
BUCKHEAD COMMUNITY BANK	407.86	SUNTRUST BANK	94.32
[illegible]	[illegible]	[illegible]	[illegible]
COMMUNITY CAPITAL BANK	396.45	CENTURY BANK OF BARTOW CNTY	73.20
[illegible]	[illegible]	[illegible]	[illegible]
FLAG BANK	382.99	PEOPLES COMMUNITY NB	60.05
[illegible]	[illegible]	[illegible]	[illegible]
FIRST NB OF BARNESVILLE	381.62	FIRST BANK OF PIKE	50.79
[illegible]	[illegible]	[illegible]	[illegible]
FIRST BANK OF THE SOUTH	366.73	FIRST INTERCONTINENTAL BANK	49.35
[illegible]	[illegible]	[illegible]	[illegible]
EBANK	363.88	SUMMIT NATIONAL BANK	41.78
[illegible]	[illegible]	[illegible]	[illegible]
MCINTOSH COMMERCIAL BANK	345.39	TALBOT STATE BANK	38.90
[illegible]	[illegible]	[illegible]	[illegible]
BRAND BANKING CO	337.69	WOODBURY BANKING CO	30.18
[illegible]	[illegible]	[illegible]	[illegible]
OMNI NATIONAL BANK	334.38	GLOBAL COMMERCE BANK	25.75
[illegible]	[illegible]	[illegible]	[illegible]
CITIZENS B & T OF WEST GEORGIA	324.71	SIGNATURE BANK OF GEORGIA	18.86
[illegible]	[illegible]	[illegible]	[illegible]
COMMUNITY BANK OF WEST GA	319.67	CAPITOL CITY BANK & TRUST CO	6.04
[illegible]	[illegible]	[illegible]	[illegible]
GEORGIA STATE BANK	316.62	BANK OF AMERICA GEORGIA NA	0.18
[illegible]	[illegible]	[illegible]	[illegible]
LANIER COMMUNITY BANK	315.19	INFIBANK NATIONAL ASSN	0.00
[illegible]	[illegible]	[illegible]	[illegible]
FIRST NB OF FORSYTH COUNTY	279.49	CENTURA CARD BANK	0.00
[illegible]	[illegible]	[illegible]	[illegible]
CHESTATEE STATE BANK	276.83	AMVESCAP NATIONAL TRUST CO	0.00

Source: Federal Deposit Insurance Corp

** Figures are as of Dec. 31, 2005*

BANKS AT RISK

Continued from 1A

Atlanta banks are significantly more invested in real estate than they were during the last real estate downturn. In 1991, only 29 percent of Atlanta banks, versus 74 percent today, had C&D loans totaling more than 100 percent of their capital.

In fact, the metro area's banks have the greatest median C&D loan-to-capital ratio among the nation's top 10 residential construction markets. Las Vegas, No. 2 on the list, has a median C&D loan-to-capital ratio of just 180 percent, versus Atlanta's 265 percent.

The FDIC will publish a report on April 4 detailing its concerns about C&D lending in Atlanta.

To name just a few local banks heavily invested in construction and development loans: Stockbridge-based FirstCity Bank, Suwanee-based Homestead Bank, Loganville-based Community Bank and Norcross-based First Security National Bank have C&D loans at more than six times capital.

The proposed federal recommendations are just that, and banks cannot be penalized solely for being overly weighted in construction and development loans. (The comment period on the guidelines ends April 13.)

However, such allocations could be at risk should the housing market slow — making it more difficult for builders to sell their developments and pay back banks.

"When you're approaching these levels ... financial institutions need to consider [the] heightened risk," said Gale Simons-Poole, acting deputy regional director for supervision and risk management at the FDIC.

Observers say Atlanta banks' reliance on C&D lending is a function of demand in one of the hottest housing markets in the United States.

In 2005, Atlanta again led the country's metro areas in single-family permitting, with 60,214 permits, according to the FDIC.

Existing home sales in Georgia grew 2 percent during the year.

Atlanta banks saw C&D loans grow 3 percent during 2005.

> In 2005, Atlanta again led the country's metro areas in single-family permitting, with 60,214 permits, according to the FDIC.

> Local bankers say C&D lending remains a good and abundantly available bet. And, they say they have risk management controls in place to make sure those bets don't go bad if the housing market continues to cool.

However, the FDIC reports that existing home sales in Georgia slowed in the fourth quarter, and that inventories of unsold homes continued to rise in the first few months of the year.

Nonetheless, local bankers say C&D lending remains a good and abundantly available bet. And, they say they have risk management controls in place to make sure those bets don't go bad if the housing market continues to cool. At Decatur-based Haven Trust Bank, bankers monitor their C&D portfolio monthly by subdivision, county and builder, among other categories, said President Charles Yorke.

The bank, whose C&D loans were more than five times capital as of Dec. 31, 2005, also closely monitors how many of a developer's houses are under contract.

When considering a loan, bankers also look at builder's cash reserves.

Area banks say their levels of C&D lending are a function of the market.

"That is a huge product available to banks and it's a very profitable product," said Gary Nix, senior executive vice president with Alpharetta-based Georgian Bank.

As of Dec. 31, Georgian Bank had C&D loans equal to more than four and a half times its capital.

Nix said Georgian wants to be thought of as more than a "real estate lender" and notes the bank also offers lines of credit for such things as corporate growth and accounts receivable.

Still, C&D lending is huge for the bank. Nix said Georgian's bankers know their largest borrowers well and have banked those customers through good times and bad.

He said the bank also has strict controls in place to monitor the housing market, including culling information from many third-party sources and putting each loan to a "stress test" to see how it will perform in a rising rate environment.

While housing sales may be slowing Georgia, Georgian's borrowers don't seem to be taking a hit.

Not a single C&D loan has a "red flag" attached to it, Nix said, and added that builder sales and payoffs have been brisk since the beginning of the year.

Brian Schmitt, president and CEO of Buckhead-based Piedmont Bank of Georgia, whose C&D loans were nearly four and a half times its capital as of Dec. 31, also has confidence in his bank's loans. Schmitt and his two top lenders, Jody Wirtz and Mark Hancock, have been construction lenders in Atlanta for the last 20 years.

Schmitt said his confidence stems from Piedmont Bank lending only to well-capitalized builders and not mom-and-pops.

Heyward Horton, president and CEO of Suwanee-based Homestead Bank, which as of Dec. 31, 2005 had the second-highest ratio of C&D loans to capital among Atlanta banks, at more than six times capital, said he does not think there is a housing bubble in Atlanta.

He said his bank regularly monitors developments by price points, counties and absorption rates, among other factors, and said he has confidence in the developers to whom he loans.

"They're not gunslingers looking for the next deal."

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