842

BEVERLY
COOPERATIVE
BANK

254 Cabot Street
Beverly, MA 01915
978.922.0857.Telephone
978.922.9060.Fax

April 12, 2006

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

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

Dear Mr. Feldman:

Beverly Cooperative Bank appreciates the opportunity to comment on the Proposed Guidance – Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices ("Proposed Guidance") issued by the Federal Deposit Insurance Corporation (FDIC) and other agencies.

Beverly Cooperative Bank is a $235 million community bank with offices in Beverly and Salem. Commercial real estate lending is an extremely important part of our lending into the communities that we serve; 45% of our outstanding loans are commercial loans. Beverly Cooperative Bank currently exceeds the proposed thresholds and the proposed arbitrary restrictions would have significant adverse ramifications for the Bank. The bank and its Board of Directors are extremely concerned about this proposal and its impact on the bank and the communities that we serve.

The bank made a strategic decision years ago that to remain a strong profitable relevant community bank, it was necessary to focus on commercial lending. Today, much of our loan income (48%) is from commercial lending. With the current interest rate environment and competitive nature of residential lending (88% of residential loans are made by non Massachusetts banks), the bank must prudently invest in commercial real estate lending to remain viable.

The proposed guidance introduces rigid and inappropriate threshold tests for assessing whether a bank has a commercial real estate concentration that triggers heightened risk management practices and regulatory scrutiny. We believe that the thresholds proposed by the Agencies are arbitrary and will not accomplish the goal of identifying institutions that might be adversely affected by their commercial real estate portfolio in an economic downturn. We believe that these thresholds should be eliminated.

Also, the proposal calls for banks with concentrations of CRE loans to increase their capital levels above the bank regulatory minimum. Beverly Cooperative Bank strongly opposes the Agencies' use of discretion arbitrarily to require an increase in capital levels based only on bank concentration of CRA loans. The tests, as proposed, are arbitrary and ignore important differences in the compositions and characteristics of different banks' portfolios.

The suitability and soundness of a CRE portfolio depends on individual characteristics of the portfolio and the bank's CRE underwriting capabilities and experience. Accordingly, each bank should be evaluated on its own. This evaluation should include the overall capital structure of historical losses, composition of CRE portfolio, demographics of the market served, the quality of the underwriting and the management controls in place at each bank. The proposed guidance outlines what constitutes a sound commercial real estate lending program. Most of these risk management principles have been in effect for some time and are prudent standards that have been practiced by banks including Beverly Cooperative Bank in our CRE lending.

The bank currently has in place systems to identify, report and manage its commercial real estate portfolio. Characteristics of Beverly Cooperative Bank's management of its commercial loan portfolio include:

- Functions based on a detailed loan policy and strategic plan.
- Consists of 32 different categories.
- Commercial real estate loans are made in 34 different communities.
- Over 10% of the portfolio is participated to other banks.
- Risk management is further practiced with SBA 504 guaranties.
- Asset quality for the last two regulatory exams was rated a "1".
- The bank has active and regular reporting to the Board of Directors, including concentrations, delinquencies, exceptions and market conditions.
- Loan underwriting and reviews are part of a very active and detailed analysis and risk assessment process.
- At December 31, 2005, there were no commercial real estate delinquencies over 30 days.
- Potential loan losses are covered by an allowance for loan losses greater that our peers.

The requirement, however, that institutions routinely stress test their entire CRE portfolio is new. Stress testing (assess risks) each CRE loan is a part of a normal loan approval and renewal process. Community Banks do not, however, have the financial software and sophisticated data bases to periodically stress test the entire CRE loan portfolios nor is this type of testing particularly useful. It is also disappointing that these requirements are heavily focused on mega bank systems and capabilities at the expense of community banks.

Individual loan or loan type reviews provide much more meaningful analysis and results.

Banks engaged in CRE lending should be capitalized adequately and capital levels should be based on the inherent levels of risk being taken in various loan portfolios.

To determine the appropriate capital level for a bank engaged in making CRE loans, regulators should take into consideration the following factors:

- The experience and past performance in making specific types of CRE loans;
- The inherent risk of each (type of) CRE loan;
- The dynamics of the markets being served;
- The quality of the risk management practices.

Beverly Cooperative Bank strongly opposes the Agencies discretion to arbitrarily require an institution to increase its capital levels based only on the fact that the bank may have a concentration of CRE loans. If additional capital is needed, it should be based on a well thought out analysis of the factors mentioned above.

Commercial real estate is critical to the lending programs of Beverly Cooperative Bank and other community banks. It is also essential to the health of the economy. Any guidance that imposes additional requirements in an arbitrary manner could lead to policy shifts in lending practices that discourage CRE lending. Diminished CRE lending will have a significant negative impact on our bank.

Beverly Cooperative Bank recommends that the Agencies avoid imposing rigid, arbitrary threshold tests that ignore the actual risk factors associated with a particular loan or portfolio.

The Agencies also should not require a bank to increase its capital levels simply because the bank has a concentration of CRE loans. Appropriate capital levels should be determined based on a thorough analysis of the bank not by this proposed guidance.

If you have any questions, please contact me at 978-922-8938 or at bhoward@beverlycoop.com .

Sincerely,

William F. Howard
President

WFH/jk