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NORTHMARK® BANK

April 11, 2006

Jane C. Walsh
President

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

Dear Mr. Feldman:

I appreciate the opportunity to comment on the proposed guidance entitled Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices.

While the federal regulatory agencies concern with the high concentrations of commercial real estate loans at certain institutions is understandable, I believe the proposed guidance will have a serious adverse impact on community banks and local economies currently served by these banks. Community banks provide the vital capital needed to cultivate and sustain economic development at the local level by providing a ready source of construction and commercial real estate (CRE) loans. The availability of credit from community banks is particularly important to the expansion of small and medium-sized businesses which are often underserved by other sectors of the financial services industry. Any actions taken to reduce the availability of construction and CRE loans could force these businesses to obtain more expensive forms of credit which could adversely affect local development and revitalization efforts.

The guidance proposes a shotgun approach to resolving a number of isolated problems. The "Background" section of the proposal indicates that the federal regulatory agencies "have observed high concentrations in CRE loans at some institutions" and that "the risk management practices and capital levels of some institutions are not keeping pace with their increasing CRE concentrations." The federal regulatory agencies have corrective action alternatives at their disposal to correct these situations as they are encountered. Additional regulatory burden imposed on the entire banking industry is not a commensurate response to these observations.

A particularly troubling aspect of the proposal is the universal application of threshold tests to identify institutions with CRE concentrations. A threshold test cannot reflect the distinct risk profile within each bank's loan portfolio. That risk profile is a function of many intangibles including the institution's risk tolerance, its portfolio diversification, the prevalence of guarantees and/or secondary collateral securing CRE loans, and the

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condition of the regional economy in which the institution operates. While a threshold test may appear to be a convenient regulatory tool, it will impose unnecessary scrutiny and burden on financial institutions that pursue conservative CRE lending practices. I believe that the a regulatory evaluation of each institution's CRE risk is best left to the Agencies regional field examination staff who are in the position to evaluate each institution's risk profile after considering all of the appropriate risk factors.

In evaluating Northmark Bank's loan portfolio against the proposed guidelines, we would have a mere $4.5 million of additional construction loan capacity without triggering the construction loan threshold test (calculations in Attachment A). Similar calculations result in $27 million of commercial real estate capacity before triggering the CRE threshold test. These thresholds will certainly influence the lending decisions of some community banks and would most likely negatively effect the cost and availability of credit for small and medium sized business.

Once an institution exceeds the thresholds, the guidance proposes a series of risk management principles. While many banks may have some of these procedures in place, others will be cost-prohibitive for community banks. The proposed guidance will place a significant regulatory burden on banks that have a market niche in commercial real estate loans, limiting the institution's future growth in this area and possibly forcing some banks out of the market altogether. If institutions are unable to adopt these proposed principles, some may curtail or eliminate their CRE lending activities.

Finally, the guidance imposes additional capital considerations at a time when the agencies are also proposing changes to the capital system through the Basel I-A process. Both proposals could have a significant impact on community banks, and I encourage the agencies to better coordinate their efforts in this area.

Thank you again for the opportunity to comment on the proposed guidance and for considering my views.

Sincerely,

Jane C. Walsh

Jane C. Walsh
President

Attachment A
Northmark Bank
Calculation of Construction and Commercial Real Estate Loan Tests

As of December 31, 2005
($ in thousands)

Construction Loan Test	
Construction, land development and other land loans	$24,302
Total risk-based capital	$28,756
Ratio	85%
Concentration Threshold	100%
Additional loan capacity without triggering Concentration test	**$4,454**

Commercial Real Estate Loan Test	
Total multifamily, nonfarm, nonresidential and construction, land development and other land loans.	$58,905
Total risk-based capital	$28,756
Ratio	205%
Concentration Threshold	300%
Additional loan capacity without triggering Concentration test	**$27,363**