CATHAY BANK

April 14, 2006

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

Re: Proposed Guidance on Commercial Real Estate Loan Concentrations

Dear Mr. Feldman:

Cathay Bank ("Cathay") appreciates the opportunity to comment on proposed guidance relating to Commercial Real Estate Loan Concentrations ("Guidance"). Cathay recognizes the need for vigilance in managing loan concentrations of any type, including those relating to commercial real estate ("CRE") lending activities. Moreover, Cathay supports in concept the need to support increased concentrations in CRE loans with enhanced risk management practices. Our bank, however, remains concerned about the manner in which the proposed Guidance establishes thresholds to determine concentrations in CRE loans and the lack of detail regarding potential increases in capital and reserve requirements for those banks that do indeed maintain concentrations in CRE loans.

The Guidance establishes a presumption of high risk and triggers extensive monitoring requirements and, possibly, higher capital and reserve requirements when a bank's CRE portfolio exceeds one of two concentration thresholds. These thresholds, however, do not address the risk profiles of different types of CRE loans, the actual performance of the loans or the standards applied when the loans were underwritten. The proposed approach effectively identifies all CRE loans as equally high risk, a notion that is both contrary to accepted industry wisdom and inconsistent with modern credit risk management practice.

The risk of any loan portfolio is dependent on many factors; the establishment of thresholds that address only the extent of CRE concentration and ignore other indicators will needlessly subject some banks to the onerous monitoring and capital and reserve requirements of the proposed Guidance. Banks that maintain CRE loans that threaten safety and soundness should of course be subject to increased scrutiny and other corrective measures. However, existing interagency guidance and regulations provide the means to address these situations.

We suggest that the regulatory agencies approach CRE concentrations on a case-by-case basis, evaluating not only the absolute level of concentrations but all relevant factors, before concluding that there exists a concentration warranting special attention or additional capital or reserves.

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The Guidance suggests that additional capital and reserves may be necessary to support a CRE concentration but provides no specifics in this regard. We suggest that any guidance regarding CRE concentrations must be sufficiently specific to allow appropriate capital and reserve planning. Moreover, the mere existence of a CRE concentration should not trigger a need for additional capital or reserves. Banks that maintain an exposure to CRE—after considering all relevant factors—that is not adequately supported by existing capital or reserves should be addressed individually by the appropriate regulatory agency.

For reasons summarized above, Cathay does not support issuance of the Guidance in its current form. We agree that CRE concentrations represent an issue of legitimate regulatory concern, but disagree with the approach proposed in the Guidance. We suggest that the regulatory agencies address the concerns of Cathay and other banks that offer comment, modify the Guidance accordingly and then re-issue the Guidance for further public comment.

Sincerely,

Kim R. Bingham

Kim R. Bingham
CATHAY BANK
Executive Vice President
Chief Credit Officer