From: Tom Hale [THale@communitysouthbankandtrust.com]
Sent: Tuesday, March 07, 2006 5:34 PM
To: Comments
Subject: 2006-01 - Commercial Real Estate Lending, Sound Risk Mgt Practices--01/13/06

The basic intent of the proposed regulation appears reasonable and prudent on the surface. Then after computing how our bank would look if the regulation were in effect today, I was discouraged to learn that we would trigger both the 100% and 300% thresholds. Our $150 million asset bank has been open for less than 2 years and real estate is the bread and butter that have allowed us to grow a safe and secure portfolio in such a short period. Various existing regulations, as well as the proper supervision of the FDIC and State Bank Examiners, already ensures that we compute our concentration risks based on portfolio mix, industry mix, limit our advance ratios, and test our allowance in one form or another.

The large regional or national banks based on their size, are much more diversified. They do not normally have as high a concentration in real estate. They offer many more products and have the staff to support more complex types of lending. Most are geographically dispersed and have the branch networks to draw retail business. Being competitive in the real estate lending arena has been one reason community banks have been so successful building relationships with customers we know. We often do not have the capital to expand a branch network. We often do not have the operating profit to add the staff to offer the more complex loans needed to be more diversified. If we are required to establish further limitations to stay within the proposed thresholds we will be at an unfair disadvantage with the larger banks. In addition, with our staffing levels being so low, it adds further burden to develop the extensive "heightened risk management practices and policies to define and manage these loan classifications. At least with real estate, our collateral stays in one place, does not require regular monitoring –other than for payments – and has been an outstanding investment over the past 10 to 20 years.

I recommend that the community banks less than $500 million be exempted from this regulation.

I further recommend that residential construction loans be exempted from the 100% threshold on the basis that the bank has just had the opportunity to underwrite the strength of the borrower and in many cases may already have a take out commitment to sell the loan upon completion in the secondary market. I believe it is reasonable to include residential speculative construction loans in the 100% threshold.

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

Cordially,

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