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March 23, 2007

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VIA EMAIL (Comments@FDIC.gov)

The Honorable Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Re: Comment Letter to the Proposed Assessment Rate Adjustment Guidelines for Large Institutions and Insured Foreign Branches in Risk Category I; 72 Federal Register 7878; February 21, 2007

Dear Mr. Feldman:

This comment letter is submitted on behalf of the Committee For Sound Lending ("Committee"), a consortium of banks and savings associations of varying asset-sizes that is concerned over the regulatory treatment of prudent commercial real estate lending. The Committee appreciates the opportunity provided by the FDIC to comment on the Proposed Assessment Rate Adjustment Guidelines for Large Institutions and Insured Foreign Branches in Risk Category I ("Guidelines"), which was published in the Federal Register on February 21, 2007.

The Guidelines set forth the process the FDIC will use in determining how adjustments of up to .50 basis points will be made to the quarterly assessment rates of certain "large" insured depository institutions within Risk Category I.

Pursuant to the final rule on Assessments, the assessment rates of large Risk Category I institutions are first determined using either supervisory ratings and long-term debt issuer ratings, or supervisory ratings and financial ratios (for large institutions without debt ratings). The final rule on Assessments also provides that the FDIC may adjust these assessment rates based upon consideration of additional risk factors. Any adjustment is limited to no more than .50 basis points higher or lower than the initial assessment rate, and in no case may it result in the assessment rate exceeding the maximum assessment rate or falling below the minimum assessment rate.

The Guidelines propose a number of risk measures that the FDIC will consider in determining whether to make an adjustment to an institution's initial assessment rate. Included in this list is the following risk measure:

> *Higher risk loans to tier 1 capital:* sum of sub-prime loans, alternative or exotic mortgage products, leveraged lending, and other high risk lending (e.g. speculative construction or commercial real estate financing) divided by PCA tier 1 capital.

The Committee disagrees with the blanket inclusion of commercial real estate loans in this risk measure for a number of reasons. First, it does not take into account the differing risk profiles associated with the various types of commercial real estate loans, and instead lumps all commercial real estate loans into one risk bucket and labels such loans as "high risk." For example, there is no differentiation between a commercial real estate loan that has a loan-to-value ratio of 40% and is secured by an office building that is 80% pre-leased from a commercial real estate loan that has a loan-to-value ratio of 90% and is secured by an office building that is 10% pre-leased. Clearly, one loan has more risk, however, this is not taken into account for purposes of the proposed Guidelines.

Additionally, the commercial real estate market has changed dramatically since the severe downturn of the late 1980's and early 1990's. This issue was discussed in detail at a hearing before the House Subcommittee on Financial Institutions and Consumer Credit held on September 14, 2006. Copies of the testimony from two witnesses at the hearing are attached hereto. In their testimony, they point out that the development of the CMBS market and the REIT industry has significantly enhanced the transparency associated with the commercial real estate market and has increased the information that is available to lenders and developers. The information and data that is now available has helped dampen the volatility associated with commercial real estate cycles and has significantly reduced the risk associated with the commercial real estate market.

Finally, for the past 10 years, commercial real estate has been the best performing asset class in bank loan portfolios based on net charge-off ratios. Since mid-1996, net charge-offs on commercial real estate loans have remained below 20 basis points – a ten-year track record that is better than every other type of loan.[1] The following table reflects the net charge-off ratio for various categories of loans, as of December 31, 2006, based on data compiled by the Federal Reserve on all U.S. banks. As you can see, commercial real estate loans had the lowest ratio of net charge-offs.

1 See, Rising Exposure to Commercial Real Estate in Bank Loan Portfolios – Time Bomb or Fire Cracker, Les Muranyi and Edward Soffer, Dominion Bond Rating Service, May 2006.

Loan Type	Net Charge-off Rate[2]
Commercial Real Estate	*.05*
Residential Real Estate	.12
Consumer Loans	2.14
C&I Loans	.25
Total Loans & Leases	.38

For these reasons, the Committee strongly urges the FDIC to eliminate the inclusion of commercial real estate loans from the risk measure for "high risk loans."

If you have any questions about these comments, please give me a call at (251) 439-7506.

Sincerely,

Palmer C. Hamilton

Attachments

2 See, Federal Reserve Statistical Release on Charge-off and Delinquency Rates on Loans and Leases at Commercial Banks, www.federalreserve.gov/releases/chargeoff/chgallsa.htm.