Hillcrest Bank
The Community Bank For Your *Business*!

February 14, 2006

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

Dear Mr. Feldman:

The executive committee of Hillcrest Bank has reviewed the proposed guidance by the federal banking regulators entitled Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices. We have some concerns with the day-to-day operational practicality of the guidance, which we recommend be reworded, removed, or clarified.

Hillcrest Bank is a community banking institution with assets of $1.2 billion. The make-up of our loan portfolio meets both of the real estate lending concentration tests in the guidance, those being loans for construction, land development, and other land representing 100% or more of total capital, and total loans secured by multifamily, nonfarm nonresidential properties, and construction and land development loans representing 300% ore more of total capital.

We agree that these types of lending require responsible oversight by the board and management, and that strategic planning should address concentration levels relative to the institutions overall growth objectives, financial targets and capital levels. We also agree that close monitoring of the portfolio is important, and that consideration of the underwriting standards as outlined in the guidance are important tenets of real estate lending.

Our concern is with some of the MIS section guidance, and more specifically, the requirement that the MIS should provide management with the ability to conduct stress test analysis of the CRE portfolio for varying scenarios. In the last year, our regulators have indicated to us that this guidance was forthcoming, and in an effort to bring MIS capabilities up to these standards, we have made great strides; however, we have been unsuccessful at coming up with a way to "shock" the entire portfolio, or even segments of the portfolio in a way that would have any meaning at all. Even though our portfolio is concentrated in real estate loans, it is comprised of a wide variety of types of real estate, in a wide variety of geographies. We have been unable to get access to any sort of database or any sort of information on which to create a model for any sort of stress test on a portfolio wide basis. We have asked both the Federal Reserve and FDIC for recommendations on where to get this data, or if they themselves had any data available, or whether vendors were available to help provide this service. No one was able to provide us with any information. Similarly, we have spoken with the company that provides different asset/liability forecasting models to our bank to see if they have any information, or if any of their client banks have done this sort of stress testing. They were unable to do so. They are willing to help us develop a model, but any assumptions we provide are totally guesswork. We could make up assumptions, but we have no data to support these assumptions.

It is our experience that different real estate type segments do not necessarily behave uniformly in times of interest rate increases. Many borrowers will have the ability to raise their rents or sale prices. Many will have sufficient cash flow to handle the increased loan payments. Our construction loans typically calculate room for increased rates in the construction budget, and the loans are short-term in nature Our bank typically does not do very many non-reccurse loans, so our projects have some secondary sources of repayment; other banks do a lot of non-recourse lending, but may require greater amounts of equity.

We do stress test each loan that we underwrite individually to make sure it can withstand a certain amount of interest rate shocks. These standards vary with the type of project. We do not believe aggregating these tests would provide much meaningful information, nor would it be very easy to do. In our bank, there is no central database of this information; the analysis is performed at the time of underwriting by each individual loan officer. Currently, much of our portfolio is in construction and development versus permanent loans. It seems difficult to stress test the construction loans. Additionally, interest rate increases affect all types of customers, including commercial and consumer customers, not just real estate customers, and bankers assess the affects of interest rate swings in all sorts of decision making levels, including asset/liability management and overall credit quality.

While we understand the thought process behind the portfolio stress testing, we don't feel it is feasible for our institution. We would encourage you to revisit the portfolio stress test, and if you continue to include it in the guidance, provide additional specific information as to how a bank could accomplish this, where it can obtain the appropriate information, and information about the source of the information and its accuracy. We feel that a bank that focuses on maintaining a strong loan review program, good portfolio monitoring procedures, strong loan loss reserves, and a well capitalized position can be more effective at managing risk than focusing management time, effort, and resources on creating reports and statistics that may not offer much of value.

Thank you for your consideration.

Sincerely,

Thomas J. Davies
Chairman and CEO

Jeff F. Wheeler
President

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