K BANK

February 21, 2006

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

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Proposed Guidance – Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices – 71 FR 2302 (January 13, 2006)

Dear Sir or Madam:

I appreciate the opportunity to comment on the Proposed Guidance on Concentrations in Commercial Real Estate Lending. Commercial Real Estate Lending, particularly residential acquisition, development and construction lending is a critical component of our business. The American Banker reported this week that the FDIC estimates that commercial real estate loans equal an average of 258% of capital for the 8,235 insured institutions with assets less than $1 billion so this is a bread and butter issue for many of us.

Issuance of this guidance is very inter-related with two other current regulatory initiatives – the proposed Guidance on Risk Based Capital and upcoming changes to the Call Report, which would break out 1-4 family construction loans from other construction and all land development loans, effective March 31, 2007. I will come back to the Risk Based Capital issue later, but with real estate concentration being such a pressing issue, the Call Report changes should be implemented now, at least on a voluntary basis for those with the systems capability to do so. In addition, 1-4 family construction loans should be further segmented to break out speculative construction loans from presold homebuilder construction loans and construction/permanent loans to home buyers, which carry only a 50% risk weight. Presold residential construction and construction/permanent financing should then be excluded from the definition of construction in your proposed Guidance on concentrations which correctly should focus only on speculative 1-4 family construction, land development and other land loans. In our discussions with the regulators, they have been looking for more granularity in our internal reporting and risk monitoring. More granularity in the Call Report seems like it should be an important regulatory objective when you consider that over half of our lending business is defined in just one line of a forty page Call Report.

You have asked for input on the appropriateness of the thresholds for increased risk management practices and I have to tell you that some further guidance on how you came up with the thresholds in the proposed guidance would be helpful. The proposed guidance takes seemingly economically uncorrelated asset classes with vastly different historical loss experiences and lumps them together as if they were one and the same. There is no distinction made between commercial and residential construction lending and no explanation for the 100% threshold for ADC loans as a CRE concentration versus the additional 200% threshold for other types of commercial real estate lending – office buildings, strip centers, multi-family, hotels, etc. – that seemingly have higher loss exposures. Some further elaboration of the regulatory thought process is in order.

Lastly, in order to achieve consistent application of this guidance by examiners, more guidance needs to be provided to both the industry and examiners on the appropriate levels of capital to be maintained by institutions found to have a particular concentration. This should be accomplished through the Risk Based Capital rules. For discussion purposes, let's say a 250% real estate concentration is the norm for banks with less than $1 billion in assets. This should carry a 100% risk weight, but concentrations in excess of 250% should carry increasing risk weights as the concentrations increase. For example, the risk weight of an asset could increase to 150% for that portion of the concentration between 250% and 350% and to 200% risk weight for the portion of the concentration over 350%. If a bank has sufficient capital and acceptable risk management practices, the concentration itself should not be a problem. In order to provide for some examiner discretion, a range of risk weights could be established with the final decision resting with the examiners based on their evaluation of an institution's risk management practices. Inconsistent and arbitrary application of this guidance is our biggest concern.

Very truly yours,

David H. Wells, Jr.
President