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By 573

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

Dear Mr. Feldman:

As a director of a 200 million dollar mutual thrift (Beverly Cooperative Bank) and a former community bank CEO, I appreciate the opportunity to comment on the proposed guidance entitled Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (Guidance). While I understand that the federal regulatory agencies have expressed concern with the high concentrations of commercial real estate loans at some institutions, I believe the proposed guidance will have a serious impact on community banks and local economies in general.

Commercial real estate lending (CRE) has, since 1993, been an important business line for my institution as I am sure it has been for many other community banks in Massachusetts. Community banks play an essential role in creating local economic growth by providing credit to small and medium-sized businesses for construction and land development. The proposed guidance will, if implemented, place a significant regulatory burden on our bank as well as other community banks that have a market niche in commercial real estate lending, limiting our collective future growth in this area and possibly forcing some banks out of the market altogether.

I am particularly concerned with the "one size fits all" nature of the proposed guidance. Institutions will automatically be classified as having a "CRE concentration" simply if they exceed the thresholds. Portfolio diversification or other risk mitigation procedures are not taken into consideration. Because real estate markets vary greatly from region to region, and even within a particular state, I feel that the agencies should focus more attention on local market conditions and the overall condition of the individual institution, considering individual bank performance, loss experience and efforts to control and mitigate risk.

The guidance encourages institutions to adopt a series of the proposed risk management principles if a CRE concentration exists. While many banks may have some of these principles in place, others will be cost-prohibitive for community banks. For example, there are few effective stress tests available to smaller institutions. If institutions are not able, for business reasons, to adopt these principles, some may leave the CRE market altogether. This will disproportionately affect urban areas, since the guidance exempts many of the loans made in rural areas from the threshold calculations. Many times, community banks are the only source of credit available to small business owners in distressed urban areas. Forcing banks to reduce or abandon CRE lending in these areas could inhibit revitalization efforts and leave business owners with no choice but to turn to more expensive forms of credit.

In addition, the guidance recommends increased capital levels for banks with CRE concentrations. This requirement will place a serious burden on mutual institutions that represent 70 percent of the number of banks in Massachusetts and who rely on earnings as their sole source of new capital. Therefore, these institutions would be forced to reduce levels of a strong earning asset, CRE loans, during a period of high short term interest rates and the resultant significantly reduced margins.

Finally, the proposed guidance comes at a time when the agencies are also proposing changes to the capital system through the Basel I-A process. Both proposals could have a significant impact on community banks; accordingly, I encourage the agencies to better coordinate their efforts in this area.

Thank you again for the opportunity to comment on the proposed guidance and for considering my views.

Sincerely,

Peter A. Hersee

Peter A. Hersee, Director
Beverly Cooperative Bank