PLUMAS BANK

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By

April 6, 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 & Constitution Avenue, NW
Washington, DC 20551

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: No. 2005-56

Office of the Comptroller of the Currency
250 E Street, SW, Mail Stop 1-5
Washington, DC 20219

Re: Commercial Real Estate Loan Concentrations Guidance

Dear Sir/Madam:

Plumas Bank appreciates this opportunity to submit this letter in connection with the federal banking agencies' proposed Guidance on Concentrations in Commercial Real Estate ("Guidance"). Plumas Bank was established in 1980 and is currently a $470MM institution that serves twelve (12) rural communities in northeastern California. The total population of the bank's serving area is less than 70,000 and, for the most part, provides limited opportunities to do traditional commercial lending.

Recently, several of our communities have enjoyed growth and development, primarily as resort areas. This has given the bank numerous opportunities to provide commercial real estate loans to qualified borrowers in order to complete the infrastructure required for these areas. In addition, we find an increasing number of retired people moving into our service area. While this demographic group is a great provider of deposits, it generally borrows very little. In order to effectively employ these deposits, the bank has developed a program to buy loan participations from other community banks. Most of these loans tend to be commercial real estate in one form or another. In order to insure that these loans are underwritten in a proper way, the bank has hired several highly qualified and experienced loan officers. In 2005, the bank had the opportunity to buy $174MM in loan participations but only selected $35MM from this group. As part of our risk diversification strategy, we are careful to ensure that loan participations are purchased from a variety of well-managed, well-capitalized banks in various regions throughout California. This approach has been validated by both regulatory safety and soundness examinations and evaluations of our credit practices by experienced outside consultants.

Plumas Bank is cognizant of the risks associated with any loan concentrations. The Agencies have been concerned with the cyclical nature of the CRE market, and their effort in this Guidance to highlight the risks of inappropriate concentrations is an effort that we concur with in concept. We fully understand that high levels of CRE loans require additional risk management. We disagree with the approach that presumes that it is a risky practice to have CRE in excess of one of the two newly-established thresholds, but without regard to the actual performance of the loans, and without consideration of the differences in the nature and risks associated with the different kinds of CRE loans. For example, we certainly feel that there is a major difference between a residential construction loan being provided to a borrower that will occupy it as opposed to a residential construction loan for a speculative home to be sold on the open market. The new guidance makes no distinction between the two. In addition, it appears that the guidance has the underlying assumption that CRE lending is more risky than other types of lending. However, this assumption has not been substantiated. Plumas Bank certainly feels more comfortable with CRE securing well underwritten loans and participations rather than providing unsecured credit or loans secured by business assets. The Agencies should revise its definition of CRE to reflect the distinctions mentioned above prior to issuing any regulatory guidance in this matter.

A concentration in itself is only one indicator of risk, and to establish thresholds that fail to incorporate other indicators is too broad based. We suggest that the Agencies apply existing guidance on a case-by-case basis to address any problems in those banks that are in fact engaging in CRE lending in an unsafe manner. Plumas Bank considers itself to have a good working relationship with bank regulators and outside loan review. We use their recommendations as a basis to improve our lending practices. We have taken their recommendations on the monitoring of CRE and now have in place a system that is sufficient to allow management and the board to evaluate the concentration risk in the portfolio.

The new extensive monitoring requirements, combined with the increases in capital and reserves, may place a significant burden on banks like Plumas Bank. The guidance in its current form may limit our ability to do CRE loans in our local communities and could adversely impact their economies. Safe and sound CRE underwriting practices allow Plumas Bank to actively compete with the major banks in our own communities. This is one of the last areas where a community bank can gain a competitive edge as it can meet the needs of the businesses in those communities. In fact, as a community bank, we often can provide products that are more flexible but retain their safety through quality underwriting and local knowledge.

Plumas Bank recommends that the Guidance not be issued in its present form. We advise that in the interest of achieving its mission, the Agencies modify the guidance to focus on those who have exhibited less than satisfactory risk management practices in this area. The regulatory burden contemplated by the proposed guidance should not be borne by those who continue to demonstrate sound credit management practices and portfolio quality. If after a regulatory exam it is determined that the CRE portfolio has more than normal risk, then institute a higher level of monitoring. Banks exhibiting quality lending practices should be allowed to continue to operate and continued to be reviewed as they are now. Any new guidance should be sufficiently flexible to reduce the management information systems and monitoring requirements as applied to smaller banks.

Finally, the Guidance suggests the need to increase capital and reserves but provides no details. We feel that any guidance in this regard must be sufficiently specific to assist banks in their capital and reserve planning. Also, this requirement should be empirically justified prior to establishing such a mandate. As stated above, no such evidence has been presented to support any proposed increase in capital merely due to increased levels of this type of lending. Increases in capital and reserves should be part of the supervisory examination process and not based on any fixed concentration thresholds.

If you have any questions please feel free to contact me. We look forward to the modification of the suggested Guidance and are hopeful that it will better serve community banks like Plumas Bank, whose primary goal is to provide high quality lending products to support the economic well-being of the rural markets it serves.

Sincerely,

Doug Biddle

Douglas N. Biddle
President & CEO
Plumas Bank

cc: Hon. John Doolittle, United States House of Representatives
Hon. Diane Feinstein, United States Senate
Hon. Barbara Boxer, United States Senate
John F. Carter, Regional Director – SF, FDIC
Janet Lamkin, President – California Bankers Association
Plumas Bank Board of Directors Loan Committee