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OFFICE OF THE CHAIRMAN

April 3, 2006

Mr. Marty Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
550 17th St Nw
Washington, DC 20429

Dear Mr. Gruenberg:

I have been CEO of Alliance Bank; headquarter in Culver City, California, for the past twenty years. The Board and Management of our Bank have serious concerns about the proposed Guidance on Concentrations in Commercial Real Estate.

While the attached position paper prepared by the California Bankers Association (note, I was Chairman of CBA two years ago) sets forth detailed reasons for our concerns, I wanted to add a couple of additional points. An overwhelming majority of our CRE loans are owner occupied mostly by small to moderate sized businesses located in our service area, Southern California.

The job growth in our area is no longer from Fortune 500 type companies, but almost exclusively by small to moderate sized businesses, our bread and butter client. In our case, the loan to value is below 75% and usually well below that. These are not speculative loans in almost every case. The real point is that each credit we extend takes into consideration a long list of credit considerations such as a strength of the business, the creditworthiness of the owner(s), the type of business involved, the experience of management, the debt service coverage, the independent appraiser's opinion and so forth.

In conclusion, we believe that a simplistic set of guidelines not only does a disservice to the credit experience and judgment of bank management, but possibly jeopardizes the extension of credit to those businesses that are most apt to create and preserve jobs in America.

Please let me know if further information is required and thank you for listening.

Very sincerely,

Curtis S. Reis

Curtis S. Reis
Chairman & CEO
Alliance Bank

CSR:mjn

25th ANNIVERSARY

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March 29, 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:

The California Bankers Association appreciates this opportunity to submit this letter in connection with the federal banking agencies' proposed Guidance on Concentrations in Commercial Real Estate ("Guidance"). CBA is a non-profit corporation established in 1891 and represents most of the depository financial institutions in the State of California. Its membership includes depository institutions of all sizes, from *de novo* banks to banks with national scope.

General Comments

CBA and its members are cognizant of the risks associated with any loan concentrations, commercial real estate (CRE) secured loans or otherwise. 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 agree that high levels of CRE loans require heightened risk management. CBA's concerns over the Guidance go not to the need for vigilance but to its approach. That is, it establishes a presumption of risky practices if a bank's CRE portfolio exceeds one of 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 different kinds of CRE loans. Also, the underlying assumption is that CRE lending is more risky than other types of lending, an assumption that has not been substantiated. Are unsecured commercial and industrial loans or credit card loans less risky than loans secured by real estate?

A concentration in itself is only one indicator of risk, and to establish thresholds that fail to incorporate other indicators is to cast too broad a net. The inevitable result will be too many banks being deemed to have a risky CRE portfolio. 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.

The new extensive monitoring requirements, combined with increases in capital and reserves, will place significant burdens mostly on community banks. The Guidance in its current form may limit the availability of commercial loans and thus adversely affect local economies. For the reasons stated below, CBA recommends that the Guidance is not issued in its current form.

Additional Guidance Not Supported

With the introduction of any new regulatory requirements, it is incumbent upon the Agencies to state the reasons why existing regulations and guidance are not adequate. The Agencies also have the responsibility pursuant to the Riegle Community Development and Regulatory Improvement Act of 1994 to articulate demonstrably that the benefits of any new proposal clearly outweigh their costs and burdens on the industry. It does not appear that the Agencies have fulfilled that obligation. As the Agencies note, banks are already subject to existing interagency guidance on real estate lending (referenced in footnote 1 to the Guidance). The Guidance states that it is intended to "reinforce" existing guidance on real estate lending. Yet, no explanation is given why enforcement of the existing guidance is not adequate.

Guidance Likely to Affect Community Banks Most

In California, community banks can thrive even in the presence in the marketplace of the major banks because they focus on meeting the needs of businesses in their communities. Their knowledge of their communities and markets affords community banks an advantage when competing for CRE loans, even as they cede to larger banks much of the retail lending market, such as mortgage and credit card lending. Mostly, community banks conduct their lending in a safe and sound fashion by focusing on one or two major lines of lending, and thus ensuring that they have the expertise on staff to manage the risk in that lending.

Placing onerous monitoring and other restrictions on CRE lending could significantly prevent community banks from growing because it would place barriers in the few remaining markets in which they can thrive. It is not a viable option for many community banks to diversify by developing automobile lending portfolios or to enter the residential mortgage market. Doing so would require substantial investments in systems and talent, and even then, their lack of scale puts them at significant disadvantage with banks having nationwide scope. Indeed, diversifying may be riskier for a bank than growing in the areas in which it has expertise and in which it can compete.

Guidance does not distinguish among different types of CRE lending

CRE lending is defined to include loans secured by various types of land and improvements where at least 50% of the source of repayment comes from a third party, or from the proceeds of the sale, from refinancing, or permanent financing. A concentration of CRE lending that exceeds one of the two thresholds triggers extensive monitoring, and possibly more capital and reserve requirements. This definition fails to distinguish among different kinds of loans, and rather groups all CRE loans, as defined, into the same risk category. And a bank could be subject to the Guidance even if its underwriting criteria were conservative and all of its loans were performing.

For example, the definition does not distinguish between a loan secured by a residential construction project built to sell on the open market, from a project built for a particular owner. The relative risks of these loans vary a great deal. Similarly, there is no differentiation between commercial real estate loans and residential construction loans. By not taking into account the different risks associated with different forms of CRE lending, the Guidance is inappropriately broad and could place significant burdens on banks that exhibit no lending risks other than exceeding the thresholds. One result is that banks will be compelled to invest significant time, money, and effort to counter the assumption that they are engaging in unsafe practices.

Recommendations

If the Agencies do issue additional CRE guidance, then CBA urges that the Guidance be modified. First, the Agencies should articulate the factual justifications for the proposed concentration levels. Many banks currently reach and exceed these levels without exhibiting inappropriate risks. If, as we believe, the proposed thresholds are too low and not closely correlated with heightened risks, the Agencies should reassess the thresholds based on quantitative data, and adjust accordingly. There also should be some effort taken to account for other relevant factors, such as underwriting criteria and the presence of non-performing loans before any new restrictions or requirements are imposed.

Second, as already suggested, any new guidance should focus primarily on those banks that in fact are engaging in high-risk lending practices. If the Agencies believe they do not have sufficient authority under existing regulations and guidance to take effective action, then it should modify that guidance accordingly but only to the extent necessary to act with respect to high-risk banks.

Third, any new guidance should be sufficiently flexible to reduce the management information systems and monitoring requirements as applied to smaller banks and banks with narrowly focused and more conservative forms of CRE portfolios.

Finally, the Guidance suggests the need to increase capital and reserves but provides no details. Any guidance in this regard must be sufficiently specific to assist banks in their capital and reserve planning. As discussed, we believe that the existence of a concentration, by itself, should not trigger increased capital and reserves. If some banks have substantially increased their concentration of CRE loans without revisiting their capital and reserves, then the Agencies should address those banks individually. Increases should be addressed as part of the supervisory examination process rather than based on any fixed concentration thresholds.

Conclusion

For the reasons discussed above, CBA does not support issuance of the Guidance. We agree that inappropriate concentrations of CRE lending is a supervisory concern, but disagree with the approach of the Guidance. If the Guidance will be issued, we urge that the Agencies substantially modify them and re-issue for public comment. If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

Leland Chan
General Counsel