TOWN & COUNTRY
BANK

RECEIVED
APR 19 2006
By

933

April 11, 2006

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

Re: Proposed Interagency Guidance on Concentrations in Commercial Real Estate Lending.

Ladies and Gentlemen:

This proposal is simply not needed, is poorly crafted in a number of areas, and will place a significant new regulatory burden on many community banks.

As presented, the proposal implies there are no new requirements included and that the intent is to reinforce existing policy statements. If existing statements cover everything included in this proposal then it simply is not needed. The proposal states "some" banks with a concentration of commercial real estate loans operate near minimum capital levels and need to improve risk measurement and mitigation along with retaining more capital due to their loan concentration. This would imply that many banks with similar loan concentrations retain capital above, and some likely well above, regulatory minimums and yet would be subject to all of the requirements of this proposal. Many banks are already maintaining adequate capital along with appropriate measurement and risk mitigation without implementation of all the requirements of this proposal. The benefit for many banks and to regulators will not off set the additional time, effort or cost if this proposal is adopted. Also, the additional risk to an institution posed by a concentration of a particular type of loan cannot be universally measured or addressed due to regional economic factors and to differences in loan underwriting. Local economic conditions play a major part in the determination of risk. A high concentration of commercial real estate loans in an economy which is vibrant and expanding might pose less risk than a modest concentration in an area with a weak economy.

8620 West Tropicana Ave.
Las Vegas, Nevada 89147
(702) 252-8777

As an analogy lets presume this proposed guidance was issued for concentrations of residential instead of commercial real estate loans. Bank A has a concentration of residential real estate loans which represent 800% of capital, entirely made up of Class A loans with 75% loan to values, borrowers with strong credit scores and payment histories and is located in a very strong local market for housing. Bank B also has 800 per cent of capital in residential loans, all sub prime, with little or no down payments and is located in an area with a very soft housing market. These two banks both have a similar concentration in a certain loan type but totally different risk profiles. To issue a policy statement which would require both of these banks to adhere to the same risk mitigation requirements would be inappropriate.

This proposal is very similar to the above example as it does not take into consideration loan underwriting, local economic conditions, levels of bank capital, or existing mitigation in place at specific banks. Bank regulators already have all the tools they need to require banks to retain additional capital, improve loan underwriting, and improve risk mitigation techniques. Again, this proposal would seem to add nothing but regulatory burden.

Our bank has a concentration of commercial real estate loans using the criteria outlined in this proposal. We also currently follow many of the recommendations outlined in the proposal in an effort to measure and mitigate the risk to the bank due to that concentration. However, the bank has not implemented all of the requirements contained in this proposal, nor is it warranted. Due to conservative underwriting and also a strong economy our portfolio of commercial real estate loans is very strong with no troubled or past due loans.

The proposal states banks should underwrite loans according to secondary market standards. This would imply there is one standard set of terms used by the secondary market and that all secondary market loans are underwritten using these guidelines. Please let me know where that information can be found as I am not familiar with it. Also, it would be difficult to compare the typical loan made by community banks to loans specifically underwritten for the secondary market.

I would encourage regulators to withdraw this proposal and instead regulate banks individually to determine on a case by case basis when a bank, due to a concentration of any type of loan, needs to retain additional capital or take other appropriate action to protect the bank from the risk posed by that concentration.

Thank you.

Philip M. Burns
President