Central Bancompany

RECEIVED
APR 19 2006
By

949

April 10, 2006

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

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

Jennifer J. Johnson, Secretary
Board of Governors of the Federal
Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov

Office of the Comptroller of the
Currency
250 E Street, SW., Mail Stop 1-5
Washington, DC 20219
regs.comments@occ.treas.gov

Re: **FDIC** (No docket ID); **FRB** Docket No. OP-1246; **OCC** Docket No. 05- 21; **OTS** Docket No. 2006-01; **Proposed Interagency Guidance on Concentrations in Commercial Real Estate**; 71 Federal Register 2302; January 13, 2006

Ladies and Gentlemen:

The federal banking agencies have proposed an Interagency Guidance on Concentrations of Commercial Real Estate that raises the requirements for risk management practices in commercial banks. We urge the agencies to withdraw this proposed guidance.

Central Bancompany, Inc. is a multi-bank holding company with thirteen community bank subsidiaries. Our affiliates have total assets of between $125 million and $1,500 million. Since our banks are community banks, the majority of their lending is to local businesses and core retail customers. We routinely take the commercial real estate as collateral because we believe it is a sound lending practice. Over the past several years we have incorporated several regulatory directives dealing with real estate lending into our loan policies, for example, appraisal guidelines, home equity lending, and loan to value limitations. These regulatory directives have been effective in reducing many of the abuses that lead to the real estate problems of the 80's and 90's.

Several of our banks make loans for residential development and construction lending so we have a consolidated concentration of around 90% of equity in this industry sector. However, the primary markets are vastly different for this type of lending. In St. Louis, most of the home building is done by a few very large builders while in Kansas City there are many small builders who build 10 to 15 houses a year. The Lake of the Ozarks region is a resort area where we loan on second homes and condominiums.

Central Bancompany, Jefferson City, Missouri 65101
573 634-1234

The Central Missouri area is very stable with the economy supported by state government and the University of Missouri. Springfield is in Southwest Missouri and the economy is supported by Missouri State University.

The economy and real estate markets are distinctly different in each of the geographic areas mentioned above. We have diversity among builders, developments, geographic area and general economic activity. Therefore, the nature of the credit risk in each market varies significantly.

With regard to residential construction projects, we believe there is higher risk in the land acquisition and development projects, followed by speculative construction loans and, pre-sold construction loans. About 24% of our residential construction loans are pre-sold homes meaning that the homes have been sold to qualified borrowers prior to the start of the construction financing. The required down payment varies by builder, but we experience very little fall out with this type of financing.

This proposed guidance throws all types of commercial real estate lending into one bucket (except owner occupied) and does not allow for the diversification of such factors as mentioned above. In addition, some "hot" markets have a distinctive speculative nature to real estate values while other markets tend to be more stable and consistent. We believe we operate in a more stable real estate market but this proposal does not make such a distinction.

We have had few losses over the many years we have been lending on commercial real estate and we believe this sector is one of the least risky parts of our loan portfolio. Most of our losses have been on Commercial and Industrial loans secured by receivables, inventory or equipment.

The proposed guidance will place a great deal of additional regulatory burden of each of our banks. Our current loan systems do not contain the information to track our portfolio in the ways discussed in the guidance. It is concerning to us that the proposal, in the Management Information Systems section states "---institutions are encouraged on either an automated or manual basis, to stratify the portfolio by----". Our banks would have to add staff to comply with the requirements of this section in order to keep numerous spread sheets to track different characteristics of our portfolio.

The regulatory burden noted above is significant and would add to the tremendous burden already imposed on our banks with the Bank Secrecy Act and Information Security compliance. Our company has had tremendous regulatory burden added in the last two years. We do not see the benefit sufficient to offset the cost imposed by the guidance. We recommend that those banks that are involved in high risk lending be dealt with individually during the routine examination process and that regulators not punish all banks for the indiscretions of the few.

In summary, there are meaningful differences in the credit risks of various types of commercial real estate as well as economic conditions and the geographic areas in which we make loans. This proposal tends to throw all types of risk into one big pool. Because of this, the concentration limits are too low. Over half of our affiliate banks would exceed one or both of the concentration limits. However, when we look at our Bank Holding company Uniform Bank Holding Company Performance Report, we are at or near the 50^{th} percentile for most all categories of real estate lending. This leads me to believe that there will be many banks that fall into the high concentration category, not just a few.

Finally, we believe this proposed guidance is over reaching and will result in significant compliance cost to our banks without meaningful improvement in our ability to manage the risk in our portfolios. We do agree that some of the risk management practices are worthwhile and that we should work toward incorporating them in our risk management systems over time. However, to be in full compliance with this guidance will take a lot of work, new computer systems, considerable cost and time to implement.

For the purpose of brevity, we reference the comment letter from the American Bankers Association dated March 30, 2006. We agree with the comments and conclusions made by our bankers' association in that letter.

Thank you for the opportunity to comment on this proposal.

Sincerely,

Kenneth Littlefield
Executive Vice President