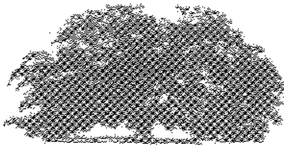

LOS PADRES BANK

April 5, 2006

Office of the Comptroller of the Currency
250 E Street, SW., Mail Stop I-5
Public Information Room
Washington, DC 20219
Attn: Docket No. 06-01

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551
Attn: Docket No. OP-1248

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

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attn: No. 2006-01

Re: Interagency Proposal on Concentrations in Commercial Real Estate Lending

Dear Sir / Madam:

Los Padres Bank appreciates the opportunity to comment on the Interagency proposed guidance on Concentrations in Commercial Real Estate Lending.

The Board of Directors and Management at Los Padres Bank share in the Agencies concerns regarding the risks associated with all types of loans. We agree that high levels of concentrations may require additional risk management monitoring. However, we respectfully disagree with the approach that the proposed CRE guidance outlines for the following reasons:

1. The proposed guidance assumes that all banks have relaxed loan underwriting standards and therefore are engaged in high risk lending practices. The purpose of periodic regulatory review is to ascertain if any deficient lending practices exist

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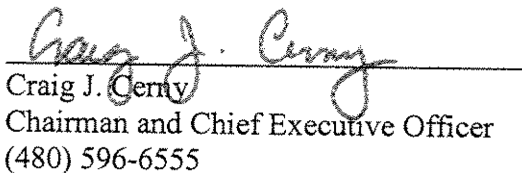
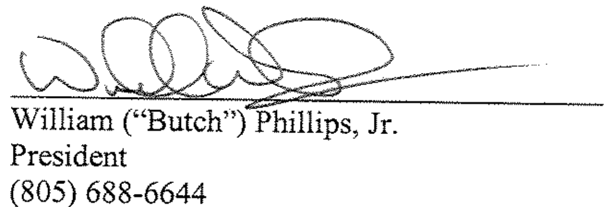
7. The timing of the proposed guidance couldn't be worse for an industry that is currently overwhelmed with an abundance of compliance related issues, from Sarbanes-Oxley to Bank Secrecy Act, etc. The time and expense currently related to compliance activities has become an exorbitant line item for many community bank budgets and the additional audit expense to comply with this unnecessary guidance would have a significant negative impact on earnings.

In summary, Los Padres Bank does not support the issuance of the CRE Concentrations guidance and urges the Agencies to wholly discard the proposed guidance for the reasons cited above. If the Agencies feel they lack sufficient authority under existing regulations and guidance, we respectfully suggest that the Agencies go back to the "drawing board" and substantially modify and clearly define the proposed guidance further. We also request that any modified or additional changes to the guidance be re-issued for comment prior to adoption.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,





Craig J. Cerny
Chairman and Chief Executive Officer
(480) 596-6555

William ("Butch") Phillips, Jr.
President
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and require those financial institutions to correct said deficiencies. To place additional regulatory guidance on the majority of financial institutions that operate under safe and sound lending practices would be burdensome.

2. The proposed guidance assumes a high CRE concentration in itself is the sole indicator of risk and therefore requires additional risk capital. This statement is too broad in its assumption. The proposed guidance does not take into consideration a bank's underwriting criteria, actual loan performance, loan loss history, Loan-to-Value ratios (LTV), guarantor capacity, etc.

3. The proposed guidance further combines all non-owner occupied loans into the same risk category which casts too broad a net. The definition, as outlined in the guidance, fails to distinguish between the various levels of risk among the different types of "CRE" loans (i.e., construction of an owner occupied property versus speculative land development carry the same degree of risk.) Further, the guidance fails to define what minimum standards must be met to constitute an owner occupied loan and therefore excluded from the total capital calculation, for concentration purposes.

4. The proposed guidance in its current form would place additional risk monitoring burdens and other restrictions on CRE lending without consideration for existing systems which may already be in place to assess concentrations or risk. This will be a financial burden for numerous small, community-based financial institutions that lack the personnel necessary to meet the additional risk management and monitoring requirements of the proposed guidance.

5. The proposed guidance would hamper community banks' ability to compete with larger financial institutions. Small community based banks may be forced to cease lending activities in profitable CRE loans because the guidance equates high CRE concentrations with higher risk which in turn requires additional capital, the amount of which is unknown but still required under the proposed guidance. The additional capital constraints may price smaller financial institutions out of the markets they best serve and their ability to compete.

6. The proposed guidance states that banks with high CRE concentrations need to increase capital and reserves but provides no details within the guidance to assist banks in their capital and reserve planning. There need to be clearly defined benchmarks for additional capital requirements, but only if high risk lending practices are detected through the periodic regulatory review process. In addition, as proposed, the open-ended language regarding capital gives field examiners the ability to arbitrarily assess additional capital requirements solely due to high concentrations. A "one size fits all" regulation is not fair to those financial institutions that practice safe, sound lending standards and have on-going risk management and monitoring systems in place.