From: Franklin Mathes [Franklin.Mathes@gscb.com]
Sent: Thursday, February 16, 2006 8:14 AM
To: Comments, Regs
Subject: Proposed Guidance for Commercial Real Estate Lending

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February 16, 2006

William Magrini

Dear William Magrini:

I write because I think it important to comment on the Guidance being proposed with respect to commercial real estate lending. Commercial real estate lending is an extremely important part of the economy in Florida and like wise it is extremely important part of bank lending.

I understand the need for sound lending and sound loan portfolios. I have concerns, however, that the Guidance as announced will have a negative overall effect on my institution and the economy as a whole.

My concerns are not so much with the individual practices set out in the Guidance, but rather with the way the Guidance is imposed. We have had experience in which examiners impose even existing regulations differently than they previously had done. The proposed Guidance contains certain thresholds and a laundry list of practices and requirements. I am concerned that the rules of the game have suddenly changed.

Specifically there are several points we would like for the Guidance to make clear. First, that in looking at concentrations there will not be a one size fits all response. Each of our institutions has a different history, different controls, different portfolios, and different markets. When those in the field determine there is a concentration any response needs to be tailored for the specific circumstances.

Second, we hope the Guidance will make it very clear that if the concentration thresholds are exceeded it does not automatically require a capital increase. Any increase should be in the context of the circumstances of the particular institution.

Third, the Guidance should expressly indicate that its purpose is not to discourage commercial real estate lending.

And Finally, the very fact that a given concentration exists is, in itself, not unusual. Community Banking, by its very definition, dictates that a given institution will serve a small regional market and that within these markets certain concentrations will inevitably occur. In fact, like so many other aspects of our Community Banking system, the concentrations are in actuality a systemic risk. Real Estate concentrations are no different for a Community Bank in Florida than are Farm Loan concentrations to a Community Bank in the Mid-West. Each systemic risk taken separately could represent risk to the system as a whole. However, when combined, these risk actually provide natural offsets to one another and make the system stronger.

If the Guidance is imposed in a mechanical or arbitrary manner or if it is intended to effect a policy shift discouraging commercial real estate lending then I fear grave consequences. Secured real estate lending has been the bread and butter of banks in Florida. If such loans are not available then will we have to look to other types of credits which historically have been more risky?

Perhaps most important, if the message is perceived to be that commercial real estate lending has great regulatory risk, then such loans will significantly diminish. This will lead to a downturn in our economy that will create systemic problems for banks far beyond the risk of commercial real estate loans.

I thank you for your consideration of these concerns and comments and hope that the final Guidance will address them in a meaningful way

Sincerely,

Franklin J. Mathes, Jr.
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