VALLEY BANK
Of Maryland

Docket No. 8228

March 23, 2006

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552

To Whom It May Concern:

On January 13th, the federal banking agencies published a proposal in the *Federal Register* that highlights the agencies concern regarding the concentrations in commercial real estate loans that are increasingly showing up on financial institution call reports. The agencies fear that banks with high concentration in commercial real estate loans will be more likely to experience rapid declines in asset quality and earnings when the economy takes its cyclical downturn.

The proposed guidance suggests that banks with high concentrations in commercial real estate loans should receive increased regulatory scrutiny with regards to their underwriting standards, risk management practices and capital levels. Commercial real estate (CRE) loans that would be subject to the guidance are those where the "…repayment is primarily dependent on rental income or from the proceeds of the sale, refinancing or permanent financing of the property." Examples of commercial real estate loans that would come under increased scrutiny include: loans that are secured by raw land, one to four family residential development and construction loans, multi-family property loans and non-farm residential property loans.

Under the proposed guidance, financial institutions are deemed to have a concentration in commercial real estate loans if one or both of the following tests are met:

- "Total reported loans for construction, land development and other land represent one hundred percent (100%) or more of the institution's total capital, or
- Total reported loans secured by multi-family and non-farm nonresidential properties and loans for construction, land development, and other land represent three hundred percent (300%) or more of the institution's total capital."

Valley Bank of Maryland believes that the proposed guidance is unwarranted, appears to impose additional regulation in a mechanical and arbitrary manner and may have negative consequences for many institutions. Currently, Valley Bank of Maryland is an active CRE lender with virtually no problem assets and no slow or delinquent CRE. During the past seven years, Valley Bank of Maryland has experienced no losses on CRE loans, and currently does not anticipate any losses. When properly underwritten, CRE loans provide a secure source of income for financial institutions including, Valley Bank of Maryland.

Please reconsider this arbitrary proposed guidance. CRE lending is vitally important to the lending programs of numerous community banks and help revitalize communities and strengthen the U.S. economy. Any guidance such as this could lead to policy shifts in lending practices at community banks that could discourage CRE lending and encourage more risky types of lending.

The Agencies should avoid imposing rigid, arbitrary threshold tests that ignore the actual risk factors associated with a particular loan or mortgage portfolio and does not consider the various strengths of local real estate markets.

Appropriate capital levels should be determined based on a thorough analysis of the individual institution. Any requirements for an institution to hold extra capital should be imposed by regulation in the "risk based capital" rules currently applicable and not by this proposed Agency guidance.

Thank you for this opportunity to provide my comments. Valley Bank of Maryland strongly urges that the proposed guidance **NOT** become final.

Sincerely,

Joseph M. Solomon

Joseph M. Solomon
PRESIDENT/CEO

JMS:jnm