SECURITY PACIFIC BANK

April 12, 2006

Office of Thrift Supervision
Chief Counsel's Office
Regulation Comments, No. 2005-56
1700 G Street, NW
Washington, D.C. 20552

RE: Commercial Real Estate Loan Concentration Guidance

Dear Sir/Madam:

As the Chief Credit Officer of a California community bank, my priority is always the safety and soundness of the lending operation and the Bank's loan portfolio. I have been a banker for over thirty years and have always focused on meeting the needs of the businesses in our community and managing the associated lending risks. Until recently, I have found the various guidelines and regulations a valuable tool, assisting management in the overall operations of the bank. However, the proposed <u>Guidance on Concentration in Commercial Real Estate</u> ("Guidance") needs to be more clearly defined and re-issued for public comment so it is not a barrier or hindrance that would restrict the growth and lending practices of community banks.

I recently attended the California Bankers Association Annual Lender's Conference and the CRE Concentrations Guidance was a hot topic for discussion. Our concerns ranged from monitoring the portfolio to providing additional reserves on CRE portfolios that are properly underwritten and performing. I am sure that you will be receiving many letters from the bankers who attended the conference.

Security Pacific Bank is well aware of the risk associated with any loan concentrations within the loan portfolio. These loans require the Bank to effectively monitor the loan portfolio and since we know our lending market, we have the expertise on staff to manage the risk. The proposed "Guidance" does not distinguish among the different types of commercial real estate lending and groups all CRE loans into the same risk category. There is a distinct difference between commercial real estate loans and residential construction loans, and a residential construction project built to sell on the open market from a project built for a particular owner. The proposed "Guidance" places these loans in the same category because it fails to distinguish among the different kinds of loans.

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A concentration in and of itself is only one indicator or risk, and to establish thresholds that fail to incorporate other indicators is casting too broad of a net. Should any bank have inadequate underwriting standards, some type of guidance should be put in place on a case-by-case basis to address the problems in those banks that are engaging in CRE lending in an unsafe manner. Part of the Guidance suggests that there will be a need to increase capital and reserves, but it provides no details or formula. Any guidance in this regard must be sufficiently specific to assist banks in their capital and loan loss reserve planning.

Banks are already subject to existing interagency guidance on real estate lending. Perhaps development of a new guidance could be sufficiently flexible to reinforce the current guidance without placing a hardship on community banks.

While I agree that inappropriate concentrations of CRE lending are both a bank and a supervisory concern, the proposed "Guidance" does not provide a logical and reasonable solution to eliminate the concerns.

Respectfully,

William E. Sinn

William E. Sinn
SVP & CCO
Security Pacific Bank

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