QUANTUM[SM]
NATIONAL BANK

April 13, 2006

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

Attention: No. 2006-01

Ladies and Gentlemen:

Quantum National Bank (QNB) appreciates the opportunity to comment on the Agencies' Proposed Guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" (the "Guidance"), published in the January 13, 2006, issue of the Federal Register.

Summary of our Comments:

We welcome that portion of the Guidance that addresses the importance of maintaining effective internal controls and risk management practices to safeguard financial institutions from excessive credit exposure to the commercial real-estate ("CRE") sector. We respectfully suggest, however, in light of the matters more fully discussed below, that the financial-services industry would be better served if this Guidance were substantially condensed and then distributed in the form of an Advisory Letter setting forth recommended "Best Practices" in respect to commercial real-estate lending.

Based upon QNB's experience, we are not persuaded there is sufficient evidence to justify the Agencies imposing a requirement that we maintain additional capital to support concentrations of commercial real-estate loans. We therefore urge that formal rule-making on CRE exposures be deferred, pending the Agencies' conduct of a joint study of institutions' historical experience with problem credits and credit losses in the CRE sector.

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The proposed Guidance oversimplifies CRE lending by treating it as a single, monolithic market sector, rather than the diverse collection of submarkets that are represented in the range of loans denominated as "commercial real estate" loans. Those submarkets are subject to, and are directly affected by, a broad range of differing economic influences that make it wholly inappropriate to treat all CRE credits identically.

In our particular situation, we are diversified in our CRE portfolio with 35% to 45% of our commercial real estate loans are owner occupied, thus lower risk. Additionally, if you look at QNB's performance with commercial real estate lending, you will understand why we oppose all banks being treated the same.

We are meeting most of the underwriting requirements at present, and our OCC exams point to the fact that we have a good track record in commercial real estate lending. What we are most opposed to are the additional capital requirements being proposed for banks with a high concentration of CRE loans without any regard to past successes.

As stated at the outset, we believe that some of the matters concerned in the Guidance would be beneficial as the subject matter of an Advisory Letter, but, for all of the reasons discussed herein, we strongly believe that more formal or more extensive regulatory measures are neither necessary nor appropriate to address any issues that may arise from financial institutions' lending exposures to the commercial real-estate sector.

Sincerely,

Douglas E. Wren
President & CEO