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Sent: Thursday, May 11, 2006 6:01 PM
To: regs.comments@federalreserve.gov; regs.comments@occ.treas.gov; Comments, Regs; comments@fdic.gov
Subject: RE: FMCorp

April 11, 2006

Filed by email

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corp.
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Washington D.C. 20429
Comments@FDIC.gov

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street NW
Washington D.C. 20552
Attention: no. 2005-56
regs.comments@ots.treas.gov

Jennifer J. Johnson, Secretary
Board of Governors of the Federal
Reserve System
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20th St. and Constitution Ave. NW
Washington D.C. 20551
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Office of the Comptroller of the
Currency
250 E Street, SW, Mail Stop
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Re: FDIC (No Docket ID); FRB Docket No. OP-1246; OCC Docket No. 05-21; OTS Docket No. 2006-01; Proposed Interagency Guidance on Concentrations in Commercial Real Estate; 71 Federal Register 2302 (January 13, 2006)

Ladies and Gentlemen:

First Merchants Corporation is a financial holding company headquartered in Muncie, Indiana with subsidiaries including eight wholly owned community banks located in twenty counties in Indiana and Ohio. The Corporation appreciates the opportunity to comment on the impact of the proposed Interagency Guidance on Concentrations in Commercial Real Estate as indicated above.

The First Merchants Corporation on behalf of itself and on behalf of its subsidiary banks joins both the American Bankers Association and the Indiana Bankers Association in expressing our concerns about the impact that the Guidance as proposed would have on our community banking companies.

In addition to the Association comments, it is important to recognize that the proposal provides vague and confusing guidance with respect to the capital requirements that would be inherently associated with a commercial real estate concentration as defined. Particularly, the Guidelines state that banks should hold capital commensurate with the level and nature of risks and that banks with high or inordinate levels of risk are expected to operate "well above" minimum regulatory capital requirements without explanation of the meaning of "minimum regulatory capital" or what "well above" means. Traditional capital terms of minimum regulatory capital, adequately-capitalized or well-capitalized are familiar terms to bank risk managers and examiners alike, but nowhere does this Guidance assist bankers in evaluating the needed capital. Furthermore, existing real estate regulations already address the impact of real estate lending

concentrations on capital, as well as address the need to monitor any types of concentrations.

First Merchants Corporation also believes neither the banking industry nor the regulatory regimen are well served with Guidelines that make no distinction between the risks involved in different types of real estate lending or the risk profile of the banks that make the loans. Under the proposal, banks that exceed the new arbitrary thresholds will be subject to heightened risk management requirements, increased regulatory oversight, and higher capital levels regardless whether their portfolio is made up of all 50% LTV loans as banks with all 100% LTV credits.

If the Guidelines are adopted, one or more of First Merchants Corporation's community banks would be subject to one or the other of the proposed thresholds. The resulting internal burden and capital requirements would negatively alter the existing risk management of the banks and the capital plan of the corporation without a corresponding change in identified risk. The unintended consequence is that some of the most secure loans within the corporation would trigger enhanced risk management. Such a result surely is not the intent of the Agencies nor would it contribute to a more robust or a better managed banking corporation.

Based on the proposal's ambiguity and vagueness, the added burden for community banks, the failure to distinguish among the quality of credit risks or risk management programs and the fact that existing guidance and rules already adequately address CRE, First Merchants Corporation believes that the Agencies should withdraw the proposal on concentration of commercial real estate credit.

Sincerely

Shawn Blackburn
Senior Vice President
First Merchants Corporation