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Regulation Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G. Street, NW  
Washington, DC 20552  
Attention: No. 2006-01

Re: **Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices – OTS Document No. 2006-01**

Gentlemen:

Astoria Federal Savings and Loan Association ("Astoria Federal") is pleased to have the opportunity to comment on the interagency proposed guidance entitled "*Concentrations in Commercial Real Estate, Sound Risk Management Practices*" ("OTS Document 2006-01"), issued January 13, 2006, regarding concentrations in real estate loans that may make an institution more vulnerable to cyclical commercial real estate markets. Astoria Financial Corporation (the "Company" or "we"), the holding company for Astoria Federal, with assets of \$22.4 billion is the largest thrift depository headquartered in New York with deposits of \$12.8 billion and the sixth largest thrift institution in the United States. The Company operates 86 banking offices in New York. Astoria Federal also originates mortgage loans through its banking offices and loan production offices in New York, an extensive broker network covering twenty-four states, located primarily along the East Coast, and the District of Columbia, and through correspondent relationships in forty-four states and the District of Columbia.

Astoria Federal agrees that certain commercial real estate loans or concentrations of loans possess risk profiles that may make them more vulnerable to the cyclical commercial real estate market and generally supports previously issued regulatory guidelines for a sound commercial real estate lending program. We nevertheless strongly disagree with the definition of commercial real estate loans as it is presently used in OTS Document 2006-01, since we believe that the blanket inclusion of all multi-family loans within the definition of commercial real estate may limit or, at the very least, constrain our ability to serve this market segment without undue regulatory burden. We further believe that

empirical evidence over the last ten years supports our position that such loans do not possess the same risk characteristics as other commercial real estate.

We strongly believe that it is appropriate to question the Agencies' logic for including less risky multi-family loans within the definition of commercial real estate, while excluding owner-occupied properties which are predominantly riskier commercial real estate properties from the definition of commercial real estate as used in this Guidance

### ***Multi-family Residential Mortgages***

Multi-family loans are generally perceived as having a greater degree of credit risk than one-to-four family loans because they typically have larger balances and may be more affected by adverse changes in the economy. This perception has become so embedded that in practice many industry participants tend to group this loan type with commercial real estate and construction loans when evaluating portfolio risks and setting reserves. A thorough and extended analysis (September, 1995 – September, 2005) of non-current loan statistics shows that multi-family residential mortgages substantially outperformed one-to-four family loans, consumer loans, commercial real estate loans, construction and land loans and C&I loans over the last ten years (Exhibit A). This finding was consistent both nationally and across Office of Thrift Supervision ("OTS") regions throughout the time horizon of the analysis. An analysis of quarterly net charge-off experience for all OTS regions shows that the average net loss for multi-family and one-to-four family loans was three and two basis points respectively over the same period (Exhibit B).

On an institutional level, it has been Astoria Federal's observation and actual experience over many years that multi-family loan exposures, especially those that are secured by properties that are either rent controlled or rent stabilized, have not tracked the cyclicity of the overall commercial real estate cycle. Since the value of rent controlled or rent stabilized collateral has been markedly stable and the average net loss attributable to this asset class has been negligible over time; your guidance for identifying institutions with commercial real estate loan concentrations that may be subject to greater supervisory scrutiny should provide some mechanism for excluding all or a portion of such loans when calculating an institution's commercial real estate concentration.

### ***Acquisition Development and Construction ("ADC") Loans***

Although ADC loans do not represent a significant portion of either our total capital or assets, we believe that it would be appropriate to differentiate those ADC loans that are supported by substantial (30% or greater) borrower equity. We suggest that any final directive include some mechanism to facilitate the exclusion of ADC loans with low LTV ratios when calculating concentration thresholds. In order to encourage community lending and properly evaluate the inherent risk of individual CRE credits, we suggest that the Agencies also consider setting standards for leases and credit tenants, especially when the tenant exhibits substantial financial strength. Lastly, the Agencies should consider

the percentage of pre-sold or pre-leased units within projects and recognize that mixed-use projects typically exhibit a lower risk profile than that of single-use projects.

We appreciate the opportunity to comment on the issues contained in OTS Document 2006-01 and urge the Agencies to be sensitive to the nuances of an individual financial institution's lending program and risk profile.

Respectively submitted,

A handwritten signature in cursive script, appearing to read "Peter M. Finn". The signature is written in black ink and is positioned above the printed name and title.

Peter M. Finn  
First Vice President

### OTS Quarterly Non-current Loans to Total Assets for All Regions

Quarter Ended	a All Loan Types	b Construction	c CRE	d MF	e SF	d-e Difference
Jun-95	0.87	1.50	3.04	1.64	1.16	0.48
Sep-95	0.84	1.39	2.25	1.53	1.18	0.35
Dec-95	0.88	1.33	2.03	1.62	1.28	0.34
Mar-96	0.92	1.24	2.07	1.55	1.35	0.20
Jun-96	0.86	1.03	1.80	1.44	1.25	0.19
Sep-96	0.87	0.97	1.88	1.49	1.24	0.25
Dec-96	0.85	0.92	1.69	1.45	1.21	0.24
Mar-97	0.88	1.34	1.75	1.34	1.26	0.08
Jun-97	0.81	1.12	1.66	1.15	1.16	-0.01
Sep-97	0.83	1.10	1.80	0.88	1.20	-0.32
Dec-97	0.76	1.23	1.62	0.74	1.11	-0.37
Mar-98	0.71	1.11	1.66	0.77	1.02	-0.25
Jun-98	0.67	1.07	1.45	0.63	0.98	-0.35
Sep-98	0.61	1.08	1.36	0.56	0.90	-0.34
Dec-98	0.59	1.10	1.25	0.49	0.87	-0.38
Mar-99	0.56	0.91	1.19	0.43	0.84	-0.41
Jun-99	0.51	0.73	1.07	0.39	0.78	-0.39
Sep-99	0.52	0.66	1.07	0.38	0.77	-0.39
Dec-99	0.50	0.61	0.86	0.30	0.77	-0.47
Mar-00	0.49	0.70	0.91	0.24	0.73	-0.49
Jun-00	0.47	0.76	0.90	0.20	0.65	-0.45
Sep-00	0.48	0.77	0.94	0.18	0.65	-0.47
Dec-00	0.50	1.13	0.96	0.15	0.67	-0.52
Mar-01	0.53	1.26	1.22	0.18	0.69	-0.51
Jun-01	0.54	1.39	1.19	0.16	0.72	-0.56
Sep-01	0.58	1.68	1.43	0.16	0.77	-0.61
Dec-01	0.60	1.57	1.46	0.16	0.81	-0.65
Mar-02	0.62	1.82	1.45	0.17	0.87	-0.70
Jun-02	0.60	1.66	1.35	0.21	0.82	-0.61
Sep-02	0.60	1.63	1.28	0.18	0.79	-0.61
Dec-02	0.65	1.60	1.24	0.13	0.93	-0.80
Mar-03	0.63	1.55	1.26	0.15	0.86	-0.71
Jun-03	0.60	1.16	1.14	0.19	0.84	-0.65
Sep-03	0.59	1.14	1.03	0.16	0.85	-0.69
Dec-03	0.58	0.85	0.87	0.13	0.84	-0.71
Mar-04	0.48	0.94	0.93	0.21	0.63	-0.42
Jun-04	0.43	0.75	0.77	0.12	0.54	-0.42
Sep-04	0.43	0.77	0.81	0.15	0.52	-0.37
Dec-04	0.43	0.71	0.79	0.13	0.52	-0.39
Mar-05	0.41	0.75	0.68	0.08	0.49	-0.41
Jun-05	0.37	0.49	0.64	0.09	0.44	-0.35
Sep-05	0.41	0.51	0.53	0.14	0.80	-0.66
<b>Avg.</b>	<b>0.62</b>	<b>1.10</b>	<b>1.32</b>	<b>0.53</b>	<b>0.88</b>	<b>-0.34</b>

**SUMMARY:** During the period from 06/95 to 03/97, Multi-family non-current loans to total assets experience exceeded that of 1-4 Family loans.

During the period from 06/97 to 09/05, Multi-family non-current loans to total assets experience was less than that of 1-4 Family loans.

**NOTE:** OTS non-current loans are a percentage of total assets.

## OTS Quarterly Net Charge-off Percentages for All Regions

Quarter Ended	a All Loan Types	b Construction	c CRE	d MF	e SF	d-e Difference
Jun-95	0.09	0.10	0.31	0.20	0.05	0.15
Sep-95	0.07	0.11	0.21	0.15	0.04	0.11
Dec-95	0.07	0.08	0.09	0.16	0.05	0.11
Mar-96	0.07	0.02	0.10	0.15	0.05	0.10
Jun-96	0.07	0.03	0.12	0.13	0.05	0.08
Sep-96	0.07	0.02	0.08	0.15	0.05	0.10
Dec-96	0.08	0.03	0.09	0.10	0.06	0.04
Mar-97	0.05	0.03	0.04	0.06	0.03	0.03
Jun-97	0.06	0.03	0.03	0.08	0.04	0.04
Sep-97	0.07	0.01	0.05	0.04	0.05	-0.01
Dec-97	0.06	0.06	-0.03	0.01	0.03	-0.02
Mar-98	0.05	0.01	0.01	0.03	0.02	0.01
Jun-98	0.05	0.02	0.03	0.02	0.02	0.00
Sep-98	0.05	0.02	0.01	0.02	0.02	0.00
Dec-98	0.05	0.02	0.04	0.00	0.04	-0.04
Mar-99	0.04	0.01	-0.01	-0.06	0.02	-0.08
Jun-99	0.04	0.01	0.01	0.03	0.02	0.01
Sep-99	0.04	0.00	0.03	-0.02	0.01	-0.03
Dec-99	0.04	0.02	0.01	-0.01	0.01	-0.02
Mar-00	0.05	0.02	0.00	-0.02	0.01	-0.03
Jun-00	0.05	0.01	0.00	0.00	0.01	-0.01
Sep-00	0.04	0.02	0.01	-0.01	0.01	-0.02
Dec-00	0.05	0.02	0.02	0.00	0.01	-0.01
Mar-01	0.05	0.01	0.02	0.00	0.01	-0.01
Jun-01	0.05	0.05	0.06	0.00	0.02	-0.02
Sep-01	0.06	0.04	0.07	0.00	0.01	-0.01
Dec-01	0.07	0.03	0.03	0.00	0.01	-0.01
Mar-02	0.05	0.03	0.01	0.00	0.02	-0.02
Jun-02	0.05	0.02	0.04	0.00	0.01	-0.01
Sep-02	0.06	0.03	0.01	0.00	0.01	-0.01
Dec-02	0.09	0.02	0.02	0.00	0.03	-0.03
Mar-03	0.07	0.04	0.02	0.00	0.01	-0.01
Jun-03	0.07	0.05	0.03	0.00	0.01	-0.01
Sep-03	0.06	0.03	0.01	0.00	0.01	-0.01
Dec-03	0.06	0.03	0.01	0.00	0.01	-0.01
Mar-04	0.06	0.01	0.05	0.00	0.01	-0.01
Jun-04	0.06	0.01	0.02	0.01	0.01	0.00
Sep-04	0.05	0.02	0.03	0.00	0.01	-0.01
Dec-04	0.06	0.02	0.01	0.00	0.01	-0.01
Mar-05	0.05	0.01	0.00	0.00	0.01	-0.01
Jun-05	0.05	0.02	0.00	0.00	0.01	-0.01
Sep-05	0.04	-0.01	0.00	-0.01	0.01	-0.02
Avg.	0.06	0.03	0.04	0.03	0.02	0.01

**SUMMARY:** Every quarter from 06/95 to 06/97, Multi-family net charge-offs exceeded 1-4 Family net charge-offs.

From 09/97 to 09/05:

On 2 occasions, Multi-family net charge-offs exceeded 1-4 Family net charge-offs.

On 4 occasions, Multi-family net charge-offs equaled 1-4 Family net charge-offs.

On 27 occasions, Multi-family net charge-offs were less than 1-4 Family net charge-offs.

**NOTE:** OTS net charge-offs are a percentage of total assets