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April 13, 2006

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 1-5
Washington, DC 20219
ATTN: Docket No. 06-01

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
ATTN: Docket No. OP-1248

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

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

Dear Sirs and Madams:

The Risk Management Association ("RMA")[1] appreciates the opportunity to comment on the proposed guidance on sound risk management practices for concentrations in commercial real estate lending ("Proposed Guidance") issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (together, the "Agencies") on January 10, 2006.

This letter responds to the Agencies' request for public comment on all aspects of the Proposed Guidance. RMA wishes to express its appreciation to the Agencies for

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1 Founded in 1914, RMA is a not-for-profit, member-driven professional association whose sole purpose is to advance the use of sound risk practices in the financial services industry. RMA promotes an enterprise approach to risk management that focuses on credit risk, market risk, and operational risk. RMA's membership consists of more than 3,000 financial services providers, as well as 16,000 risk management professionals who are chapter members in financial centers throughout North America, Europe, and Asia/Pacific.

soliciting broad-based comments and suggestions for addressing the Agencies' concern about increasing concentrations of commercial real estate loans at some institutions, and we have endeavored to respond accordingly.

Like the U.S. banking industry, RMA's membership is diverse, and in responding to the Proposed Guidance, we have attempted to solicit opinion from all sectors of the industry. Appendix A includes the results of a Web-based survey RMA conducted to solicit industry opinion with regard to the Proposed Guidance. You will note that survey respondents represented institutions of all asset classes.

Overall, only 31% of survey respondents believe that the Proposed Guidance should be issued by the Agencies, while 87.7% of the respondents feel that current risk management practices are sufficient to manage the risk of increasing concentrations in real estate portfolios. If the Proposed Guidance were to be adopted by the Agencies, 39.7% of survey respondents believe that real estate lending volume would decline as a result. Finally, 55.5% of respondents do not believe that adoption of the Proposed Guidance would lead to improved risk management practices within their respective institutions.

To further solicit industry opinion of the Proposed Guidance, RMA conducted two teleconference calls to discuss the Proposed Guidance in greater detail. The majority of the participants on both calls believe that the existing regulatory authority allows the Agencies to address any concern that might arise from concentrations in commercial real estate lending. For this reason, participants in the teleconference calls view the Proposed Guidance as unnecessary. Regarding capital requirements in particular, RMA believes that changes to bank capital related to concentrations in commercial real estate should be addressed within the risk-based capital framework. This is certainly appropriate, as an Advanced Notice of Public Rulemaking (ANPR) has been issued by the Agencies, and an additional Notice of Public Rulemaking (NPR) is expected this summer.

Participants on the teleconference calls also feel very strongly that the Proposed Guidance could prevent some regulated institutions from meeting demand within their marketplace, thereby damaging profitability. However, market demand would continue to be met by lenders operating outside of the regulated financial services industry. Such an outcome would be detrimental to the continued strength, and the safety and soundness, of individual institutions and ultimately the financial system as a whole.

RMA has long promoted sound risk management practices within the financial services industry and believes that risk management practices within the industry have improved considerably over the past decade. The Proposed Guidance indicates that the Agencies are very concerned about increasing concentrations of commercial real estate lending at some institutions and RMA understands the Agencies desire to improve risk management of portfolio concentrations.

However, should the Agencies have concerns about the risk management practices of a particular institution, the Agencies currently have the authority to require any institution to both improve risk management practices and increase capital. It is for this reason that RMA, again, believes that the Proposed Guidance is unnecessary.

RMA is also concerned that the Proposed Guidance is overly prescriptive and does not take into consideration the existing risk profile of an institution's unique CRE portfolio. Moreover, the Guidance states that, "the risk management and capital adequacy principles contained in this guidance are broadly prudent for all institutions in CRE lending." This statement would imply that all the recommendations included in the Proposed Guidance would apply to any concentration, even if the 100% and 300% ratios had not been breached.

As the Agencies are well aware, the financial services industry is heavily regulated. The past few years have represented an acute increase in new regulation, from Sarbanes-Oxley requirements and the Bank Secrecy Act to Basel II implementation. Institutions of all sizes report that they are almost overwhelmed by the intensity of the current regulatory environment. RMA is increasingly concerned that valuable time and resources are being redirected to compliance-related functions at the expense of ongoing business and management responsibilities. Now is simply not the time to impose yet another new set of regulatory mandates.

RMA again wishes to express its appreciation for the opportunity to comment on the Proposed Guidance. We would be pleased to provide further assistance in any way we can.

Sincerely,

Attachment

Attachment A

Results of the RMA CRE Concentrations Survey

Acknowledgments

The Federal Regulatory Agencies are concerned with increasing commercial real estate loan concentrations and the vulnerability these concentrations may present an institution. Accordingly, the Agencies have proposed draft guidance with a request for industry comment, and The Risk Management Association invited Senior Associates, as well as other interested Associates from member financial institutions, to submit their responses.

A total of 155 respondents took part in this survey during February 2006. Participants were informed that the information collected in this survey would aid RMA in forming its response to the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, and the Federal Reserve System regarding increasing CRE concentrations.

In the interest of time, the final report's presentation style is oriented toward showing overall aggregate results, emphasizing the communication of facts over analysis. RMA staff members contributing to the study were Pamela Martin, Mark Zmiewski, Suzanne Wharton, and Dorothy Leichner. The writing of the final report was undertaken by RMA.

Conclusion

Overall, only 31% of respondents supported the issuance of additional guidance. Less than 50% of the respondents felt that the guidance would improve risk management, with 87% believing that their current risk management practices are sufficient to manage risk within the commercial real estate portfolio.

DISCLAIMER

[Note: Percent totals may not add up to 100% due to rounding.]

1. What were your institution's assets as of 12/31/2005?

Response	Count	Percent
< $250 million	45	30.8%
$250 - $500 million	25	17.5%
$501 - $750 million	17	12.1%
$751 million - $1 billion	8	5.7%
$1 - $4.9 billion	28	19.6%
$5 - $9.9 billion	3	2.1%
$10 - $24.9 billion	6	3.6%
$25 - $49.9 billion	2	1.4%
$50 - $100 billion	4	2.9%
>$100 billion	6	4.2%

2. What percentage of your institution's assets were C&I and CRE related as of 12/31/05?

Response	C&I	CRE Owner-Occupied	CRE as defined in Proposed Guidance*	CRE as defined in Proposed Guidance* (# of respondents)
0-10%	29.6%	45.1%	25.4%	19
11-20%	42.7%	32.6%	24.7%	22
21-30%	31.8%	33.3%	34.8%	26
31-40%	25.6%	23.3%	51.2%	23
41-50%	24.0%	28.0%	48.0%	12
51-60%	20.0%	25.0%	55.0%	11
61-70%	33.3%	6.7%	60.0%	9
71-80%	0.0%	14.3%	85.7%	6
81-90%	0.0%	33.3%	66.7%	2
>90%	12.5%	0.0%	87.5%	8

*The Agencies' definition includes:
1. CRE where the source of repayment primarily depends upon rental income or the sale, refinancing, or permanent financing of the property.
2. Loans to REITs.
3. Unsecured loans to developers.

3. For purposes of identifying concentrations, the Agencies have earmarked exposures that they believe are particularly vulnerable to cyclical commercial real estate markets. Do you agree that these types of loans should be included as CRE? If not, what modifications would you make?

Response	Agree	Disagree
CRE where the source of repayment primarily depends upon rental income or the sale, refinancing, or permanent financing of the property.	82.4%	17.6%
Loans to REITS.	80.9%	19.1%
Unsecured loans to developers.	75.5%	24.5%

"Comment" responses:

Disagree with modifications

- The issue is how they define "developers." Many of our customers dabble in real estate, and at what point do you fall into the definition as a developer?
- If you are lending unsecured, it typically means that there are other sources of repayment that are stronger than the real estate itself. (7)
- Owner-occupied (50% +) should be excluded.
- Did not add unfunded commitments into calculation.
- I would amend the description of CRE concentrations to eliminate those with leases from companies with public debt ratio.
- CRE concentrations should not include rental-income-producing properties. (6)
- Exclude owner-occupied and one-family residential mortgages.
- Monitor each category separately.
- Our loans are all securitizable in the secondary market.
- Market surveys to assess regional CRE risk should be part of the process.
- REITS are a style of asset ownership, not a concentration or source of repayment. (2)
- Exposure should be better defined based on the sound underwriting of the institution.
- Examiners have been including owner-occupied real estate in the CRE category. We believe this puts a burden on the institutions that have heavy concentrations in owner-occupied properties.
- The word "primarily" lacks definition as used above. I'm assuming primarily equates to more than 50%.
- I think that the description should be modified to remove those properties that have a solid take-out and to give breaks on properties that have long-term tenants (3-5 years).
- CRE exposure depends on the buyer, down payments, LTV, etc.
- We believe loans that have presales of 75% or higher should be eliminated from the first category.
- Definitions are too broad as they group stabilized properties with those under development.
- Should exclude loans where repayment is not dependant upon real estate for repayment, i.e., subscription lines to real estate funds where repayment is

from the fund investors, not the RE. Other example is stock or cash secured. Both of these represent structures where the loan is based on the balance sheet strength of the borrower.

Disagree with modifications

- Loans to consumers and residential presold loans to builders that carry a 50% risk weight under risk-based capital rules should be excluded from the definition.
- Land loans are repaid from outside cash flow.
- Suggested proposal is too broad and general in reporting loan categories without some type of additional determination as to concentrations of certain types of loans.
- Properly underwritten investment properties with leases, confirming tenant's income should not be included.
- CRE source of repayment should be sale, refinancing or permanent financing, NOT rental income.
- Would increase parameters as in DSCR, LTV, and strength of secondary repayment. Unsecured function statement ratios.

4. Please write in any additional exposures you feel should be included in the definition.

Agree with modifications

- Following the thought of unsecured loans to developers dependent upon the cash flow/sale/or refinance of properties, then one, by definition, has to include Commercial/Industrial lines of credit secured.
- Loans to developers secured by residential subdivisions.
- Secured or unsecured loans to publicly traded homebuilders.
- Industrial properties.
- The first category should have subsets to it: condominiums, single family homes, multi-family, all of which have different levels of losses in stressed conditions.
- It should include loans to R/E brokers whose sole source of income is dependent on the real estate market.
- Land held for speculative purposes.
- Lodging - guidance needs clarification on whether it's investment or owner-occupied. Banks may interpret this differently.

Disagree with modifications

- More segregation of portfolio and risk nature of loan assets.
- Land held for speculative purposes.
- Should be on speculative CRE, particularly construction, but also where DSC is < 1.10 due to vacancy; NOT including presold 1-4 family or multifamily.

5. For the following exposure types, has the level of inherent risk within your institution increased, decreased, or stayed relatively the same since 2002?

Response	% Increased	% Decreased	% Stayed the same
CRE where the source of repayment primarily depends upon rental income or the sale, refinancing, or permanent financing of the property.	41.9%	8.1%	44.6%
Loans to REITS.	5.4%	3.4%	63.5%
Unsecured loans to developers.	18.9%	10.1%	55.4%
Other exposures you feel should be included (provided in the previous question).	4.1%	2.0%	33.1%

6. For the following exposure types, has the quality of risk management practices within your institution improved, worsened, or stayed relatively the same since 2002?

Response	% Improved	% Worsened	% Stayed the same
CRE where the source of repayment primarily depends upon rental income or the sale, refinancing, or permanent financing of the property.	68.2%	2.7%	23.6%
Loans to REITS.	11.5%	0.7%	60.1%
Unsecured loans to developers.	30.4%	0.0%	53.4%
Other exposures you feel should be included.	12.2%	0.0%	29.1%

7. Does your institution have a formal policy that addresses CRE concentrations? If you answer yes, what types of concentrations are measured?

Response	Count	Percent
Aggregate overall CRE portfolio.	93	62.8%
Product type.	58	39.2%
Property type.	84	56.8%
Geography.	48	32.4%
Sponsor.	28	18.9%
Guarantor.	46	31.1%
Other.	17	11.5%
No.	21	14.2%

8. The Proposed Guidance states that the Agencies expect institutions with identified CRE concentrations to hold additional capital. As discussed in the Proposed Guidance, how adequate does your institution consider the current levels of capital held against the CRE exposures to be?

Response	Count	Percent
Just right.	95	66.4%
Adequate but will be increased minimally over the next 12 months.	29	20.3%
Adequate but will be increased moderately over the next 12 months.	10	7.0%
Adequate but will be increased significantly over the next 12 months.	2	1.4%
Low and will be increased minimally over the next 12 months.	3	2.1%
Low and will be increased moderately over the next 12 months.	1	0.7%
Low and will be increased significantly over the next 12 months.	0	0.0%
Other.	3	2.1%

"Other" responses:

- Not yet quantified.
- Above adequate.
- Holding Company structure - N/A.

9. For the following loan types, what is your institution's assessment of the likelihood of adverse changes negatively impacting your institution over the next 12 to 18 months?

Response	None to Minimal	Moderate	Significant
CRE where the source of repayment primarily depends upon rental income or the sale, refinancing, or permanent financing of the property.	63.5%	33.1%	0.0%
Loans to REITS.	65.5%	6.1%	0.0%
Unsecured loans to developers.	64.2%	19.6%	2.7%
Other exposures you feel should be included.	33.1%	6.8%	0.0%

10. If you chose a Moderate or Significant adverse impact, please elaborate—e.g., a particular type of product, property, or geographic region is of concern.

- Anticipation of moderate weakening of the general economy. (4)
- Office condos.
- Any unsecured loans to developers should be carefully monitored in changing times.
- Multifamily housing, single-family residential development. (4 and 6, respectively)
- The adverse change is the result of aggressive competition.

- We expect the development business to slow and it will take longer for projects to liquidate compared to the past three years. Some developers may feel the effects of diminished cash flow over the near term.
- Large dollar residential. (7)
- We do NOT make loans to REITS or unsecured loans to developers. We believe there may be some slowing in residential development lot sales that could have a moderately negative impact on these developers.
- Developer transactions historically create elevated risk that needs to be measured and monitored closely; however, not within the CRE assessments. The risk is actually higher!
- Vacancy rates may impact commercial properties such as strip shopping centers and office buildings. Slower demand for housing may impact subdivision development loans. (2)
- The danger of the anticipated action is that it is likely to be self-fulfilling, making it very difficult to finance real estate (potentially impacting values), and provides no allowance for the quality of sponsorship (guarantor), borrower experience, tenure of relationship, etc.
- The local office market was weakened with the downturn in the large telecom industry.
- Unsecured loans to developers by nature have higher risk level and given changing interest rate environment and new developers entering industry, unsecured developer loans are not favored.
- Expect impact will not be moderate due to increase in unemployment in area and continuing rehab projects in urban areas with increasing prime rate.
- Speculative real estate hold times have increased slightly in our market, increasing associated risk.
- Ability of municipal systems to accommodate continued large residential development.
- Rising interest rate environment will have an impact on single-family residential demand. (2)
- Third-party take-out dependent loans may have moderately increased risk in next 12 to 18 months.
- Closely watching the overall market for dramatic shifts; expect soft landing but if things turn, we are preparing for rapid adjustments.
- Overheating of commercial real estate market in general, especially from the valuation side.
- Increased risk in resort-area properties with rising interest rates; homebuilders. (4)
- Condominium developments. (2)
- If cap rates were to rise precipitously for any reason, including a general rise in rates, we would be subject to a general revaluation and therefore a rise in LTV's. (2)

11. The Agencies are proposing two thresholds to determine if a CRE concentration exists and thus warrants the use of heightened risk management practices and additional capital. Do you agree with the Agencies' proposed measures of concentration? If you do not agree with them, please include in the additional comments box the modifications you would make to the proposed thresholds.

Proposed Measures of Concentration	Agree	Disagree
Total reported loans for construction, land development, and other land represent 100% or more of the institution’s total capital.	52.8%	47.2%
Total reported loans secured by multifamily and nonfarm nonresidential properties for construction, land development, and other land represent 300% or more of the institution’s total capital.	49.3%	50.7%

"Comment" responses:

- The broad-brush approach is too simplistic and penalizes financially strong developers and financially strong, viable projects.
- It would appear that the Agencies are intent on lowering the thresholds so as to "discipline" all banks. Wherein 100% of capital may or may not be correct, 300% is equally improper.
- Some financial institutions have very solid underwriting and specialize in a particular niche of lending. Banks with proper expertise shouldn't be penalized for excelling in CRE lending. (5)
- Base it on 50% of capital.
- The regulators need to be very careful with what they are trying to do because it likely could trigger a domino reduction in values if they restrict banks’ lending practices to this market.
- Construction-related lending has always been a high-risk type of product and excessive concentration should be monitored accordingly.
- For outstandings only, the percentage might be OK. If they include unfundeds, percentages should be higher.
- I would increase each by 100%.
- 300% should be raised to 350%.
- These thresholds would put community banks at a major disadvantage over the large money center banks. (5)
- I believe there is significant difference in risk profile between construction loans for presold houses and land development. But the proposed guidance makes no distinction. Also, low LTV's on stabilized income-producing properties pose less risk.
- There needs to be some threshold, 150% for construction, and 375% for real estate.
- While I agree with the thresholds, I have concerns about the proposed requirements for reporting. Currently, we do not track commercial real estate by LTV or DSC and it appears from the Guidance that such a level of tracking will be required.
- Real estate loans’ if underwritten and structured with reasonable guidelines, are less risk adverse by nature. Thresholds do not adjust for varying degrees of risk with specific CRE portfolios and threshold guidelines are arbitrary.

- Both hurdles expressed as a % of capital seem too low. The first hurdle is particularly troubling in that the definition is not limited to CRE loans as defined in the proposal. For example, construction loans for owner-occupied type property should be excluded.
- The proposed measures do not take into account historical loss rates or underwriting guidelines. (6)
- We believe these types of loans have inherently less risk than other categories of loans in a bank's portfolios when properly managed.
- Especially in a De Novo Community Bank model, I'd like to see measurements based upon percentage of assets rather than capital. Concentration limits should be within a written policy.
- Construction to owner-occupied borrowers should be excluded from the first measure.
- Need to ensure consistent treatment of unsecured loans to REITs and developers across institutions.
- Does not take into account niche lending, and small community banks' capital positions, which are generally already much higher than the regulatory requirements. (2)
- The 100% of capital threshold seems very low. It represents less than 10% of assets.
- The percent of capital is too low to represent a concentration when compared to total loan outstandings.
- The initial guidance we heard from the FDIC was 150% for land development and 350% for overall CRE. This seemed reasonable.
- These thresholds will place another undue regulatory burden on small banks with another one-size-fits-all regulatory scheme. The guidance makes no attempt to discern between the real estate markets in which individual banks operate. (2)
- These two thresholds appear to include the same loans. In any case, I am opposed to more reporting requirements.
- Depending on the type of institution, we are a commercial community bank in an urban environment and as such have a high CRE portfolio.
- Banks should be adequately reserved for market cycles if they are reserving as required by FAS 5 and 114.
- Would eliminate construction loans secured by 1-4 families and loans with presold of 75% or more.
- Comment may be called for but to put a number on the institution without detailed review of total exposure is not an adequate assessment.
- Must consider specific loan factors—LTV, marketability, borrower financial strength, etc. Real estate markets in various geographical areas are different. (2)
- We agree, assuming the Agencies provide definition clarity and hold everyone to the same standards with only one level of reporting.
- Recommend a 500% threshold for nonfarm nonresidential.
- The first category should allow consideration for low-risk construction projects, such as those in which a sales contract is already in place for the finished property or projects undertaken by a commercial owner-occupant.
- These limits are not constrictive based on our current level of CRE loans.

- The final thresholds can be debated, but the construction and land development loans are certainly more risky than income-producing properties, particularly income-producing properties that have diverse tenancy (multifamily, local strip centers).
- Construction loans can be well diversified both by type and geography. Diversification of borrowers also occurs in our organization.

12. Based on the Agencies proposed thresholds, what were your institution's ratios as of 12/31/2005?

Response	Count	Percent
Under Threshold 1* – Under Threshold 2**	69	53.5%
Under Threshold 1 – Over Threshold 2	15	11.6%
Over Threshold 1 – Under Threshold 2	17	13.2%
Over Threshold 1 – Over Threshold 2	26	20.2%
Over Threshold 1 – NA response Threshold 2	1	0.8%
NA response Threshold 1 – Under Threshold 2	1	0.8%

*Threshold 1 -Total reported loans for construction, land development, and other land represent 100% or more of the institution's total capital.

**Threshold 2 - Total reported loans secured by multifamily and nonfarm nonresidential properties for construction, land development, and other land represent 300% or more of the institution's total capital.

13. Are the ratios you indicated above expected to increase, decrease, or stay the same over the next 12 to 18 months?

Response	% Increase	% Decrease	% Stay the Same
Total reported loans for construction, land development, and other land represent 100% or more of the institution's total capital.	37.2%	10.1%	47.3%
Total reported loans secured by multifamily and nonfarm non-residential properties for construction, land development, and other land represent 300% or more of the institution's total capital.	49.3%	6.1%	38.5%

"Comment" responses:

- We are in a growth mode, and real estate lending is one of our institutional strengths. (5)
- As a community bank we look for loans on commercial real estate. Construction loans have in the past been a bigger part of our business.
- Perhaps we should consider asset-based lending or unsecured transactions as growth strategies?
- The above percentages represent non-owner-occupied real estate loans only. For concentration analysis, we track owner-occupied real estate under the NAICS code in which the borrower is involved. If we considered all RE, % would be much higher.
- Our institution has excess capital and heightened CRE monitoring policies and practices in place.

- As a de novo institution in 2000, we have had only two charge-offs on commercial loans, none of which were real estate. We entered 2006 with no commercial loans 30 days past due or on non-accrual.
- Acquisition will increase these.
- Construction loans should increase with increased building activity. No losses in our construction portfolio in 20 years.
- While we have the ratios, I'm concerned about disclosing this information pursuant to SEC regulations.
- Should portfolio quality deteriorate, then these ratios will increase.

14. Which of the following statements are true concerning your institution's board and management oversight of CRE?

Response	True	False
The board or a committee thereof explicitly approves the overall CRE lending strategy and policies.	86.5%	8.8%
A written policy exists that establishes appropriate limits and standards for all extensions of credit that are secured by liens on or interests in real estate, including CRE loans.	81.8%	14.2%
The board or a committee thereof periodically reviews and approves the CRE aggregate risk exposure limits and appropriate sublimits.	74.3%	21.6%
The board or a committee thereof ensures that compensation policies are compatible with the institution's strategy and do not create incentives to assume unintended risks.	73.6%	20.3%
The board or a committee thereof reviews on at least a quarterly basis the aggregate amount of loans that exceed the Interagency LTV guidelines.	80.4%	12.8%
The institution has a strategic plan that includes, among other things, growth objectives, potential effects of a downturn, risk mitigation strategies, marketability of portfolio, etc.	53.4%	40.5%
Underwriting standards include standards for maximum loan amount by property type.	63.5%	32.4%
Underwriting standards include standards for loan terms.	93.2%	2.7%
Underwriting standards include standards for pricing structures.	58.8%	36.5%
Underwriting standards include standards for LTV limits by property type.	93.9%	2.0%
Underwriting standards include standards for feasibility studies, sensitivity analysis, or stress testing.	60.1%	35.8%
Underwriting standards include standards for minimum initial investment and maintenance of hard equity by the borrower.	77.7%	18.2%
Underwriting standards include standards for minimum borrower net worth, property cash flow, and debt service coverage for the property.	81.1%	14.2%
Underwriting standards include standards for comparison of property types with those in use in the secondary market.	34.5%	60.1%
Prudent control exists to ensure that loan disbursements do not exceed actual development and construction costs.	91.9%	4.1%
Policy exceptions are documented, management approvals are obtained, trends tracked, and the board or a committee thereof is informed in a timely manner.	81.8%	13.5%

Multiple sources of information are obtained and utilized in the analysis of loans and the portfolio.	82.4%	12.8%
The methodologies used to analyze the institution's capital adequacy are documented.	82.4%	12.8%

15. Do you agree that the board and management oversight practices listed above should be included in any Proposed Guidance? (Please select one.)

Response	Count	Percent
Yes.	102	75.6%
No. (Please elaborate in the comments box.)	33	24.4%

"Comment" responses:

- Most banks do most, if not all, of the above. However, most banks also have the flexibility to adjust or not use one or a number of practices as applied to a particular situation. To put these practices into regulations would take away a bank's flexibility. (8)
- The ALLL level can be influenced based on concentration levels and magnitude of policy exceptions.
- Creating strategies to sell off loans in a period of economic downturn will be a challenge for all banks. This approach will most likely be included in all strategies by banks, so everyone will be selling at the same time.
- Too restrictive and requires unproductive man-hours; banks are already overburdened with regulations. (3)
- As recommendations only, as each institution has different markets and business lines. Compliance cost for lower % of capital banks would be excessive.
- Most are already in our policy. Others do not apply in our size of market. However, any guidance should be sufficiently flexible that it may be risk adjusted for the institution's size and complexity of the portfolio. (10)
- Disagree on requirements for setting limits. Disagree with detailed requirements on underwriting and need to structure policy that forces reporting on policy exceptions.
- The board should not have to approve specific lending policies. We are still developing our detailed response to these guidelines.
- Our bank has a written policy and periodic board review for residential construction loans in the CRE portfolio only, not the overall CRE portfolio, as this segment is where our concentration exists.

16. Does your institution have a risk rating system tailored to the types of CRE exposures underwritten?

Response	Count	Percent
Yes - it incorporates both an assessment of a borrower's creditworthiness (obligor) and an exposure's estimated loss severity (transaction or facility).	69	48.6%
Yes – but it does not incorporate both obligor and obligation.	36	25.4%
No – but will have within 12 months.	9	6.3%
No.	28	19.7%

"Comment" responses:

- Currently use a single grade but migrating to separate obligor and facility grades. (3)
- Single grade, includes both factors. (5)
- Our risk rating system is tailored to commercial borrowers, not specific to loan type. (2)
- Our experience is that the property types do not warrant variances in risk rating, as the performance for the past eight years has been excellent in all property types.

17. The adequacy of the Management Information System (MIS) is critical to the portfolio management of CRE. Is your MIS capable of stratifying the portfolio by:

Response	Yes	No
Property type.	81.8%	14.9%
Geographic area.	76.4%	19.6%
Tenant concentrations.	17.6%	76.4%
Tenant industries.	18.9%	73.0%
Developer concentrations.	70.3%	23.6%
Risk ratings.	92.6%	3.4%
Loan structure.	64.9%	30.4%
Loan type.	90.5%	4.1%
LTV limits.	72.3%	21.6%
Debt service coverage.	36.5%	57.4%
Policy exceptions on newly underwritten loans.	55.4%	38.5%

18. The adequacy of the Management Information System (MIS) is critical to the portfolio management of CRE. Is your MIS capable of the following functions?

Response	Yes	No
Aggregate total exposure to a borrower across all lines of business.	79.7%	16.9%
Store the appraised property value at origination.	81.8%	14.9%
Store subsequent valuations.	59.5%	35.1%

19. Do you agree that the MIS capabilities listed above should be included in any Proposed Guidance? (Please select one.)

Response	Count	Percent
Yes.	103	72.0%
No. (Please elaborate in the comments box.)	40	28.0%

"Comment" responses:

- MIS capabilities should depend on the bank's strategies. (12)
- Incorporating regulatory requirement with MIS capabilities will be unmanageable for the regulators and too expensive for the individual banks. (4)
- Guidance will turn into policy. (2)
- Smaller banks can track these manually or on separate systems; but forcing them to enhance existing MIS probably isn't cost effective or feasible, nor would it result in meaningful information. (7)
- Financial strength of borrower, loan structure and cash flow outside of real estate are only a few of the variables that differentiate loans with same loan to value.
- With reasonable time period to implement functions not available within existing bank MIS system and with strong guidance to MIS providers to ensure capabilities of such information being included as part of applications.
- Again, if an institution is well run, why must many regulations be necessary when it’s obvious what is needed to run a good loan department. With more written regulations, the more likely that examiners will find fault even if minor items in policy are missing.
- Again, the proposed guidance should be risk adjusted for size and complexity of the institution's portfolio. If your portfolio is sufficiently small, you should not be required to build an elaborate system to capture the information. (6)
- Some items are difficult to maintain and will place additional burden on line areas and customers to obtain and keep up to date (e.g., tenant concentrations, loan structure). (2)

20. Has your institution performed a portfolio-level stress test of CRE exposure to quantify the impact of changing economic scenarios on asset quality, earnings, and capital in the past 12 months?

Response	Count	Percent
Yes.	36	25.5%
No.	105	74.5%

"Comment" responses:

- Information exists at the individual project level...not in aggregate.
- A small sample based upon the change in CAP rate. Very limited and crude.
- Not on a portfolio basis, but we stress individual loans. (4)
- Currently we stress test as to interest rate and cap rate at the origination of the loan only.
- Impossible to complete without purchasing and developing a model that would adequately assess.
- We do annual stress tests on CRE loans >$100,000.
- No detailed stress testing yet done. Ratings migration tracked. Development loans tracked.
- Stress testing will be performed in the next few months. (4)
- It would be very manual...an add-up of individual loan stress tests today.
- Every 6 months.

21. What type(s) of portfolio-level stress testing did you perform? (Please select all that apply.)

Response	Count	Percent
Simple aggregation of the results of individual loan tests.	39	26.4%
Ratings migration.	27	18.2%
Historical loss rates.	45	30.4%
Other.	13	8.8%

"Other" responses:

- LTV, DCR, vacancy breakeven, secondary support, property type, land. (2)
- Consultant analyzed the portfolio and risk rated it independent of internal review.
- All variable rate loans are stress tested and underwritten to stress test guidelines. (5)
- Updated financial information is spread and tested against a 3% increase during the life of the loan.
- Quarterly stress testing is done to stress impact if property values drop to historic lows.

"Comment" responses:

- We monitor historical loss rates. (2)
- Multiple variables. Haven't been able to justify expense since we manage the portfolio on a loan-to-loan basis.
- When we did do this, we could do it only for certain segments within the CRE portfolio.
- The analyses were completed in conjunction with an analysis of the loan loss reserve methodology.

22. Do you agree that portfolio-level stress testing should be included in any Proposed Guidance?

Response	Count	Percent
Yes.	82	57.3%
No. (Please elaborate in the comments box.)	61	42.7%

"Comment" responses:

- On selected portfolios. (4)
- Not practical. (6)
- Very difficult for regulators to manage. (2)
- w/instructions and expectations.
- Can lead to false assumptions.
- Unnecessary for an institution our size. (8)
- A lot of good loans will not get made.
- It would create an ALLL nightmare.
- Not unless standardized so everyone knows.
- Management decision. (7)

- Not if other tests are being performed.
- Tests need to be more defined and equitable.
- Once again, one size does not fit all. (3)
- Individual asset level is done today.
- Bad medicine but probably appropriate.
- We do loan-level stress testing.

23. Overall, do you believe that additional guidance should be issued by the Agencies with regard to concentrations in CRE at this time?

Response	Count	Percent
Yes.	48	31.0%
No.	85	54.8%
Undecided.	22	14.2%

"Comment" responses:

Respondent selected YES

- If only to bring some consistency to how the industry approaches management of this risk to keep the playing field level. (2)
- It serves as a timely reminder.
- Concentrations, per se, if managed adequately, do not present undue risk to the banks. (4)
- Should define CRE and remove owner occupied from LTV calculations when not R/E dependant for repayment.
- I need a better understanding of what the consequences of having a high ratio would be, especially if there would be a mandate to reduce to the guidance level and potentially shrink our assets.

Respondent selected NO

- The existing guidelines are in process of implementation by banks; the community banks are struggling to comply, which adds considerably to a very difficult burden of compliance. (2)
- I think individual guidance by our regulators during exams is invaluable, but to make it a "one size fits all" guidance is concerning. (3)
- Setting limits will hurt smaller banks.
- Guidance is redundant with current regulatory authority. (6)
- Market is very strong; a lot of work for a very healthy portfolio. (3)

24. Do you consider your current risk management processes sufficient to adequately manage the risk in your CRE portfolio?

Response	Count	Percent
Yes	136	87.7%
No	19	12.3%

"Comment" responses:

- Inherent system limitations present some problems in monitoring exposures.
- Need to tighten up underwriting standards to include guidance. (2)

- There is always room for improvement. (9)

25. If adopted, what impact will the Proposed Guidance have on CRE lending volume at your institution?

Response	Count	Percent
Increase lending.	4	2.8%
Decrease lending.	56	39.7%
No impact.	63	42.6%
Unsure.	21	14.9%

"Comment" responses:

- We believe our underwriting and risk management of CRE are sound.
- It depends on the strictness of the final regulation and the consequences for exceeding proposed guidelines.
- Could trigger real estate recession. (2)
- Makes us shift focus from secured lending to other unsecured types of lending.
- Ultimately could reduce our ability to serve our community. (4)
- The time costs to implement the guidance will have a negative effect on our bank. (4)
- It will not impact lending, but it will mean an increase in MIS and Loan Administration.
- More paperwork, but will not change overall practices.
- Expect a tightening CRE lending market with improved spreads but lower leverage and returns.
- It will increase costs without providing a meaningful impact on true risk mitigation and credit losses. (3)
- We will do what we always have done.
- Owner occupied should be removed from CRE calculations on the Call Report.

26. If implemented, do you believe the activities outlined in the Proposed Guidance will improve the measurement and management of risk in your institution's CRE portfolio?

Response	Count	Percent
Yes	69	44.5%
No	86	55.5%

27. Please provide any additional comments that you wish to share on the subject.

Respondent agreed with the issuance of additional guidance.

- One item was omitted from the MIS capabilities question—our system presently does not store information as to owner-occupied vs. investor-owned, which is a critical weakness. Regulators need to be careful not to become too rigid when evaluating CRE concentrations; every institution's portfolio is different and the risk management practices need to match the complexity and concentration of the portfolio.

- It will help increase awareness. Things just seem to happen when regulations are mentioned.
- Given the size and complexity of our portfolio, some measures proposed represent regulatory overkill and will not improve overall credit quality. (4)
- In general we believe the proposed guidance will help institutions to better manage portfolios. However, we are concerned that regulators will use these proposed guidelines as a strict rule and not take into account the credit underwriting practices of the institution that may mitigate the institution's balances in excess of the new guidelines. On the other hand, we are concerned that institutions with lesser credit quality standards may not be criticized for poor credit quality of their portfolios because their numbers fall within the proposed guidelines. Additionally, we're concerned that the new guidelines may require our bank to implement new systems and/or procedures that will not provide a benefit that outweighs the cost to implement the practice(s). New regulatory guidelines such as these are very expensive to support and these expenses keep many community banks from being able to compete with credit unions and larger banks who either don't have as many regulations to follow or have the capacity to support additional staff with minimal impact to the bottom line. And finally, if this guidance becomes regulation, we hope to have information provided to all banks that include examples, instructions, and/or reporting and testing expectations for the new requirements.
- At least an institution can prepare itself for a downward trend, and can adapt strategies for future transactions to eliminate unnecessary risk.
- The biggest issue…from the new proposed guidelines deals with market analysis that is being requested. Most banks are not equipped to perform this type of ongoing evaluation. That is why we rely upon third parties (i.e., appraisers) to provide that information, especially if we are venturing into a new market area.
- I believe that the guidelines are intended to avoid the debacle of the early '90s, but envision multi-tenant properties which are the province of large banks who are much more nimble and capable of portfolio diversification than community banks. Community bank exposure is underwritten based on relationship, guarantor strength, and other factors that the guidelines don't incorporate. Asset types are less risky as well, I feel. The implicit message is to move into C&I lending? That's not as risky?????

Respondent disagreed with the issuance of additional guidance.

- The guidance is a shotgun approach to a perceived problem. Instead, the agencies should use a "rifle" approach and focus on those institutions that don't have sound risk management practices for their CRE lending. My only issue with the guidance is the percentage ratios, which seem arbitrary. These ratios are only of major concern to the extent that a bank does not have sound portfolio management practices.
- Safety and soundness are very important to this bank. I don't know what could be changed with this guidance to improve the safety and soundness. It would increase the reporting and testing, but at the end of the day, I don't see that it will make a significant difference in our portfolio or the way we do business.
- We are already overburdened by regulation, and the regulators have more than sufficient tools to identify and deal with the risks faced by our institution. (9)

- Our bank already does much of what is being proposed, and regulations exist to cover CRE lending. (3)
- Today's CRE markets present a completely different risk profile compared to the markets of the mid-1980's. The availability and ease of access to market information serve to render the industry highly transparent. There are, of course, regional and product imbalances from time to time, but armed with timely information, market participants quickly adjust their activities to effectively limit negative consequences. The Agencies have previously issued regulations and guidelines that outline supervisory expectations for a safe and sound commercial real estate lending program. As these guidelines are both comprehensive and effective, it is very much appropriate for the Agencies to periodically emphasize their importance. However, to suggest that more demanding capital standards are necessary for banks with larger CRE concentrations implies that such loans inherently carry a greater risk of loss vis-à-vis other forms of commercial lending. Industry data for the past 15 years simply does not support this conclusion. Today's CRE secured loans offer one of the most secure forms of collateral available in the commercial banking industry.
- Cost will increase to comply, and we are a small institution. If these guidelines are adopted as is, they will cause a lot of small community banks to cease real estate lending. (6)
- I would like to see the CRE category broken down further. There are several different types of loans combined into this category. The different loan types have different sources of repayment and therefore different risks. The concentration analysis would be more informative if the loan categories were more narrowly defined so that all loans in a given category shared a common primary source of repayment. Changing economic conditions in a similar fashion would impact these loans. Stress testing would be much more helpful since you could more directly see the impact of changes on different variables.
- The guidelines are really vague. The guidance talks about exposing institutions to "unacceptable levels of risk." But what is that? How do you quantify? Diversifying out of real estate for the sake of concentration management makes no sense. I think an appropriate answer is that banks with high levels of concentration should have additional capital, which is probably where this is all going.
- The definition of owner occupied is inconsistent with the SBA guidelines that define owner-occupied at 51% square footage. Tying the definition to revenue may be difficult to obtain and can be misleading if the owner is not paying market rates. Square footage would be easier to obtain or estimate and would ensure consistency across the industry.
- We are constantly focused on the risks associated with our CRE portfolio, so increased regulatory oversight will not cause a heightened awareness. It probably, however, leads to better documentation of our oversight. The key weakness we see in the proposed guidance is the lack of differentiation between income property exposures and for-sale housing exposures. They need to be bifurcated and analyzed separately as we believe the risks are quite different in the two types of loans.
- The guidance appears to be specific enough for compliance; yet it is broad enough to allow for each bank to choose elements that apply to its portfolio. This assumes that each institution can apply the provisions that it judges are appropriate and can justify as such. Concern is always that regulators can be

overzealous and too literal in application of each and every phrase of a "guidance" to every potential circumstance at every bank, rather than living within the spirit of flexibility that "guidance" implies, where each bank chooses the provisions that best apply to their circumstances. These thresholds are unacceptable for us if used by regulatory bodies to prohibit or restrict additional investment in CRE assets, particularly as our business plan continues to view CRE as an attractive and safe lending arena when underwritten and monitored correctly.

- If organizations have the risk management in place, there shouldn't be pressure to arbitrarily shrink loans to meet the guidance levels. (3)