



March 8, 2006

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

Attention: No. 2006-01

Dear Mr. John Bowman:

Inter Savings Bank, fsb. is pleased to have the opportunity to comment on the proposed guidance on sound risk management practices for concentrations in commercial real estate lending. Inter Savings Bank is an \$875 million bank located in the Twin Cities metropolitan area in Minnesota.

Inter Savings Bank wishes to express its concerns with the proposed guidance and requests that the regulatory agencies consider whether such guidelines are justified considering the detrimental impact they will have on the community banking system.

Inter Savings Bank appreciates the fact that community banks are making more commercial real estate loans than ever before. This is because many types of loans historically made by banks are now made almost exclusively by other types of financial institutions. For example, captive finance companies and realty companies are able to capture auto loan business and mortgage loan business at the point of sale, making it difficult for banks to compete, since banks are not allowed to own car dealerships or real estate brokerages. Credit unions use their tax- and regulatory-advantaged status to make all types of loans, including commercial loans, at a lower cost. It is significant that credit unions are not subject to the proposed guidance, which is yet another regulatory advantage for them. With their opportunities to make loans dwindling, community banks have focused on commercial real estate loans as an area where they can be competitive and still make safe and sound loans.

It is interesting that the agencies have chosen to single out commercial real estate loans as an area of concentrated risk, rather than focusing on other types of loans that present greater risk, such as commercial loans not secured by mortgages. Considering the comparatively low loan-to-value guidelines most community banks utilize for commercial real estate, we believe that commercial real estate loans present a lesser risk of loss than most other loans. It is also curious that all types of commercial real estate loans are lumped together as if they all present the same types of risk when the risk inherent in commercial real estate loans may vary widely depending on the collateral, the source of repayment, and other factors. Inter Savings Bank does not believe that all commercial real estate loans should be lumped together, specifically multi-family lending should be differentiated from other commercial real estate lending, but if they must be, then

regulators should recognize that they do not create a greater risk of loss than other types of lending.

It is also our position that the vast majority of bankers are well aware of any concentrations in their portfolio and the risks they may create and that all banks should not be painted with the same broad brush. Bank owners and management know their communities, their customers, the value of commercial real estate in their areas and the risks present in their portfolios. Those few that don't should receive additional regulatory attention, but it isn't necessary for the agencies to burden the entire community banking system. It would be sufficient for the agencies to point out to banks that concentrations exist in their portfolio and point out the risks inherent in that concentration. One might respond that the guidance is intended to do just that. However, if past experience with "guidance" is any indication, field examiners will expect complete adherence to all aspects of such guidance, just as if it were a regulation. And complete adherence in this case will end up costing community banks a significant amount of time and money, further impairing their ability to compete.

The regulatory burden that would result from this guidance is significant. Obviously, banks should have systems for monitoring their portfolios. However, the guidance goes far beyond what is necessary for most banks to manage their risks by requiring things such as new policies and procedures, reports on market conditions, strategic planning, stress testing, sensitivity analyses, and the list goes on. Thus, introducing guidance targeted at community banks will increase their regulatory burden even more.

On top of all the new risk-management techniques community banks will be required to deploy, community banks with perceived concentrations will also be expected to have an increased level of capital and loan loss reserves. Those two requirements alone will further impair a community bank's ability to compete by increasing their costs to make loans. Community banks already compete in a playing field that is uneven against credit unions, finance companies, and large banks that don't have to comply with such requirements.

Inter Savings Bank asks the Agencies to consider, at a minimum, to better differentiate the various types of commercial real estate lending to reflect the various inherent risk factors associated with those loans and not aggregate all commercial real estate into a single bucket. Further we ask the Agencies to consider whether the risk of concentrations of commercial loans secured by mortgages justifies the additional regulatory burden that further erodes a community bank's ability to compete in the marketplace. We thank you for your consideration.

Sincerely,

Bryan C. Haines  
Vice President, Commercial Lending  
Inter Savings Bank, fsb