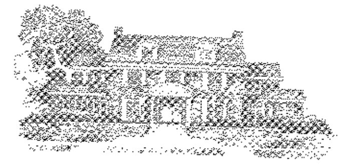
Cardunal Savings®



"A Fox Valley Tradition"

March 9, 2006

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

Docket No. 2006-01

Re: Commercial Real Estate Concentrations

Cardunal Savings Bank, FSB strongly objects to the proposed guidance relative to "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices." The Commercial Real Estate Guidance, in its proposed form, imposes additional regulation in a mechanical and arbitrary manner giving regulators authority to require higher capital levels solely on the basis of a commercial real estate concentration.

Risk assessment by standardized and absolute threshold tests ignores the actual risk factors associated with, considered by, and evaluation of individual loans within a commercial real estate portfolio. Threshold testing relative to commercial real estate portfolios is inappropriate because different types of commercial real estate have very different risk profiles. Risk levels for investment in raw land, land development, contractor speculative home construction, and commercial construction are far different than commercial properties with either firm takeouts or established cash flows that provide adequate debt coverage. If the Agencies deem it necessary to impose threshold testing, they should exclude from the test: multi-family residential loans, pre-sold residential construction and non-speculative commercial real estate loans that either have firm takeout commitments in place or established cash flow patterns that sustain adequate debt coverage.

Community Bankers need the ability to shift investment patterns as more and more of our core business is being diluted by competing entities such as mortgage brokers/bankers, credit unions, insurance agencies, small loan companies, grocery stores, discount stores, and others who are less regulated. Prudent investment in local commercial real estate should not be summarily labeled as risky without individual consideration. This is an unreasoned approach that suggests a despotic reaction to a change in investment patterns within an industry already plagued by over regulation. An increase in investment in commercial real estate loans does not, in itself, connote a greater risk. It is a natural

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progression in the industry's quest to ameliorate interest rate risk, allowing for shorter re-pricing opportunities and higher rates of return. The proposed guidance intimates that safety and soundness is ignored in favor of building a CRE portfolio.

Commercial real estate lending is vitally important to lending programs, particularly to smaller community based bankers. Investment by community bankers in the revitalization of urban and suburban communities contributes to the general strength of the American economy, and should not be curtailed by uncompromising regulatory constraint. Imposition of mechanical investment thresholds could lead to policy shifts in lending practices that could discourage investment in commercial real estate.

It would seem more reasonable for the Agencies to address any requirement for a banking institution to hold extra "regulatory" capital should be considered through the "risk based capital" rules that are currently being considered, and not by a threshold based on arbitrary threshold levels. Risk factors could be assigned to the various types of commercial real estate investments commensurate with the actual risk factors associated with a particular type of loan.

We also wonder what purpose the Allowance for Loan and Lease Loss requirements are if not to protect the institution from possible losses. Why wouldn't the Agencies consider an adjustment to factors for loan loss reserves pertinent to the types of actual risk involved with specific commercial real estate investments? If there is concern that excessive concentrations in commercial real estate loans may pose a threat, then why not mitigate the risk using an existing facility whose primary purpose has already been defined. Why pile more regulations on an industry that already suffers from over regulation?

We urge the Agencies to reconsider the proposed guidance that seems to ignore the actual risk factors associated with various types of commercial lending, and imposes additional regulatory constraints in a mechanical and arbitrary manner.

Sincerely,

Sincerely,

Cardinal Savings Bank, FSB

William R. Geister
Senior Vice President