



April 13, 2006

Regulation Comments

Chief Counsel's Office  
Office of Thrift Supervision  
Attention: No. 2006-01  
1700 G Street, N.W.  
Washington, D.C. 20552

Dear Sirs:

Re: Proposed Guidance on Commercial Real Estate Lending

Home Federal Bank is taking this opportunity to express its views on the proposed *Guidance on Commercial Real Estate Lending*.

In understanding the context of our comments, you may need to know that Home Federal Bank is a \$930 million thrift institution, with 36 branch offices, located in South Dakota and southwestern Minnesota. Our bank is a community-oriented organization that has operated for over 75 years in a conservative manner with safe and sound business policies and practices. We offer the traditional banking services allowed by law and regulation and our vision is to "seek every opportunity to solve our customer's needs by identifying and presenting the right products and services".

As a community bank, commercial lending is an extremely important part of our business and is vital to the communities we serve. Extending credit is fundamental to our business. Our Board of Directors has adopted a comprehensive loan policy that embraces strong, conservative underwriting philosophies to ensure credit risk is managed, regulations are complied with, and stockholders receive a return on their investment. Our credit cultural allows for reasonable risk that will allow Home Federal Bank to support individuals and business in the communities we serve. Our philosophy has been to provide for the dispersion of risk and avoidance of concentrations of credit through sound credit evaluation and management of the total loan portfolio.

With that being said, we would like to focus on the regulatory burden of this guidance and ask that the guidance not be issued. We would like to offer the following comments on the proposed *Guidance on Commercial Real Estate Lending*:

The adoption of these guidelines will result in a huge regulatory burden for Home Federal Bank and community banks like us. Most community banks already have strong loan portfolio risk management processes in place that encompasses commercial real estate. Issuing guidance to reinforce guidance appears contradictory and will not provide value to our organization. In addition, the guidance appears to penalize all banks for the wrongdoing of a few and will be costly for community banks to prove compliance.

Simply stated, we do not believe that community banks need additional guidance to effectively manage commercial real estate lending. The proposed guidance assumes that all financial institutions do not have strong credit practices, do not manage credit risk and do not comply with laws, regulations, and guidance. In reality, this is not true. Community banks already have in place strong loan portfolio management practices that incorporate the Agencies' other real estate lending standards, regulations, and guidelines. By proposing new guidance for commercial real estate, additional regulatory burden is being added by segmenting out one section of loan portfolio management. Home Federal Bank does not look at commercial real estate in and of itself. We have developed policies and procedures that effectively manage credit risk (including commercial real estate risk) within our entire loan portfolio, including complying with laws, regulation and guidance. This includes effectively monitoring and managing our concentrations in all types of credit, and the various risks they impose to our bank, including capital considerations.

It should stand on its own that issuing guidance to "reinforce" guidance would be a regulatory burden. By issuing guidance to reinforce guidance you are penalizing those banks that complied with the original guidance and are effectively managing their loan portfolios. Banks, such as Home Federal, have implemented credit risk management policies and processes that allow management to effectively manage credit risk and maintain minimal total loan losses. With the proposed guidance, banks that have effective programs will now be held to a higher standard with little to no value for the time, money, and effort to prove compliance. Wouldn't it make sense to "enforce" previously issued guidance with those institutions not complying? Enforcement of previous guidance during the supervisory process would ensure that the cost of complying will be shouldered by those not engaging in responsible commercial real estate lending.

The proposed guidance adds no value to our organization but will negatively impact the bottom line. Adoption of the guidance will not change our credit philosophy nor do we see that it will strengthen our commercial real estate loan portfolio. As a result, this one size fits all approach will cause us to spend time, money and effort proving to our examination team that the commercial real estate lending we do is not high risk. In addition, the guidance calls for banks with a concentration of commercial real estate to ensure that their "heightened risk management

practices are consistent with the guidance”. While we agree that high levels of commercial real estate require heightened risk management, we believe as risk managers we already have risk management practices in place and changing the processes will take time and money.

In addition to the regulatory burden, the unintended consequences of the proposed guidance will have an impact to banks and the communities they serve. As a community bank, we see that the proposed guidance may interfere with our ability to compete and meet the credit needs of our communities. The implications of increases in capital and loan loss reserves along with additional demands of lending personnel for analysis and loan management may lead banks to curtail their commercial real estate lending. The lack of profitability will effect a banks willingness to support business expansion in the community.

Thank you for your consideration of our comments. If you have any questions, please do not hesitate to contact me at (605) 333-7556.

Sincerely,

*/s/ Curtis L. Hage*

Curtis L. Hage  
Chairman & CEO  
Home Federal Bank