From: Vincent Puccio [vpuccio@smithriverbank.com]
Sent: Saturday, April 15, 2006 4:01 PM
To: Comments, Regs
Subject: CRE Guidance, Docket Numbers: 06-01, OP-1248, 2006-1

Vincent Puccio
P.O. Box 1224
Martinsville, VA 24114-1224

April 15, 2006

Comments to OTS

Dear Comments to OTS:

As a community banker, I would like to share with you my thoughts on the proposed guidance, Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices.

Most community banks are underwriting their CRE loans conservatively. We are competing with the larger regional and national banks on the basis of being close to our customers and knowledge of the area economy and its history. We carefully inspect collateral and monitor loan performance and the borrower's financial condition. Often times, the real estate is our most solid collatteral and is the area in which we have the most expertise.

Community banks have generally increased staff and risk management practices and capital levels since previous downturns in commercial real estate lending and are now better equipped to handle future downturns.

There already exists a body of real estate lending standards, regulations and guidelines. Examiners have the necessary tools to enforce them and address unsafe and unsound practices; the proposed guidance is unnecessary. Regulators should address CRE management problems bank by bank, not by broad brush across the banking industry.

The proposed threshold limits of CRE loans to capital are too restrictive and do not take into account the lending and risk management practices of individual institutions. They also do not recognize that different segments of the CRE markets have different levels of risk. Thus, the thresholds may not give an accurate picture of the risk in an institution.

Community banks already hold capital at levels above minimum standards and should not need to raise additional capital because their CRE loans exceed the proposed thresholds. Regulators should consider the bank's allowance for loan losses and current capital levels along with risk management practices.

The proposed guidance is unfairly burdensome for community banks that do not have opportunities to raise capital or diversify their portfolio to the extent that larger regional banks can. The CRE portfolios of many community banks have grown in response to the needs of their community. If community banks are pressured to lower their CRE exposures, their

ability to generate income and more capital will be constrained and they will lose good loans to larger competitors. If you want the Community Bank to fade, this is a way to do it.

The proposal’s recommendations regarding management information system reports will be particularly costly and burdensome to community banks; the costs will most likely out weigh the benefits for smaller banks.One this is looked at, we will restrict our lending to the community. The Law of Unintended Consequences will take affect.

For these reasons, I urge you not go forward with the guidance as it has been proposed. Instead, regulators should use the regulatory tools already in place to identify and address CRE lending risks where they truly exist and abandon the proposed thresholds that are too restrictive and misleading.

Sincerely,

Vincent Puccio
276-632-3477