March 14, 2006

To Whom it May Concern:

RE: Proposed guidance on sound risk management practices for concentrations in commercial real estate lending.

Premier Bank Minnesota is pleased to have the opportunity to comment on the proposed guidance on sound risk management practices for Premier Bank Minnesota concentrations in commercial real estate lending. Premier Bank Minnesota is a 185 million dollar bank* located in Farmington, Minnesota.

Premier Bank Minnesota 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.

Premier Bank Minnesota 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. The Farm Credit System uses government subsidized dollars to take over the agricultural loan and rural mortgage loan market. Now with the Horizons Project, Farm Credit plans to take over the entire rural loan market, including commercial loans. 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 advance 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 for commercial real estate, the MBA believes 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. Premier Bank Minnesota does not believe that all commercial real estate loans should be lumped together, 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 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. It seems incongruous that regulators express concern about the regulatory burden on community banks, knowing that it is a significant factor in putting community banks out of business, and then introduce guidance targeted at community banks that will increase their burden even more.

On top of all the new risk-management techniques community banks will be required to employ, 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 threaten the survival of community banks by increasing their costs to make loans. How can community banks be expected to compete in a playing field that was already uneven against credit unions, the Farm Credit System, and large banks that don't have to comply with such requirements?

Premier Bank Minnesota asks the agencies to consider whether the risk of concentrations of commercial loans secured by mortgages justifies the additional regulatory burden and additional risks to the viability of the community bank system. We thank you for your consideration.

Sincerely,

Patrick Novitzki
President and CEO
Premier Bank Minnesota

* Total Assets as of December 31, 2005