

From: Brian K. Carter [bcarter@bpop.com]
Sent: Thursday, February 16, 2006 2:54 PM
To: Comments, Regs
Subject: Proposed Guidance for Commercial Real Estate Lending

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February 16, 2006

William Magrini

Dear William Magrini:

Over the last 30 years of my banking career, the economy and the real estate market have been adversely affected by abrupt changes in tax laws and banking regulations. The result in several notable instances has been a chaotic decline in the real estate market, eroding real market price support, property valuations, collateral margins and bank earnings. In each instance, OREO expanded dramatically, and mark to market and regulatory requirements for OREO liquidation accelerated the downward spiral.

With advance knowledge of the outcome, another such cycle is both unnecessary and avoidable.

Given a market supported price level, project viability is largely determined by the cost of the underlying land and the cost of construction. New projects will naturally decline in number when the costs/value ratio becomes excessive, as it is now in many of the metropolitan markets. This is happening with increasing frequency and can be expected to have a naturally moderating influence on on market prices and product supply.

If the intent of the Supervisory Agencies is to prevent excess, its a little late, and the imposition of well publicized and restrictive controls at this point can do little to close the "barn door", but could easily result in pyric destruction.

The news media has done an exemplary job of dampening the real estate expansion with prognostications of doom. In fact, a recent slow-down in absorption is signaling the demise of the speculative fever in the real estate market, and exposing the true user-driven demand. It would be wise to allow the market forces and the news media to to deal with the existing excess without artificially sabotaging a fundamentlly healthy market.

Sincerely,

Brian K. Carter
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