Commercial Real Estate Loan Concentrations Proposed Guidance commentsFrom: Tom Sherman [TSherman@founderscommunitybank.com]
Sent: Friday, April 14, 2006 7:40 PM
To: Comments@FDIC.gov
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Subject: Commercial Real Estate Loan Concentrations Proposed Guidance comments

April 11, 2006

Robert E. Feldman

Executive Secretary

Attention: Comments

Federal Deposit Insurance Corporation

550 17th Street, NW

Washington, DC 20429

Re: Commercial Real Estate Loan Concentrations Guidance

Dear Sir:

Thank you for the opportunity to submit this letter in connection with the federal banking agencies' proposed Guidance on Concentrations in Commercial Real Estate ("Guidance").

Founders Community Bank is a de novo community bank headquartered in San Luis Obispo, California. We have been open for less than one year. Despite our young age, we are staffed by a group of local, experienced bankers. We are well aware of the risks associated with any type of loan concentrations, whether secured by commercial real estate (CRE) or otherwise. We also recognize that higher levels of CRE require heightened risk management. However, the underlying assumption that CRE lending is inherently more risky than other types of lending is an assumption that has not been substantiated. In fact, CRE lending has been in high demand in our market for many years and community banks are the primary choice among applicants. I fear that the proposed guidance could cause area bankers to accept a fundamental shift in our current loan portfolio risk assessment methodology. The result would be the acceptance of riskier credit transactions (in which we lack the underwriting expertise) simply to adhere to the proposed guidance.

In San Luis Obispo County, community bankers have found that real estate lending has been the linchpin to our business model. We

excel in this area because we are more closely connected to the communities we serve. This fact is supported by the historically low loan loss ratios among local community banks for this type of lending. Unfortunately, the proposed guidance would effectively shut down the primary lending activity of San Luis Obispo County community banks.

To illustrate my point, a recent survey of CRE lending activity by community banks in San Luis Obispo County produced the following data:

LOAN CONCENTRATIONS

(as a % of Tier 1 Capital)

Source: December 31, 2005 Call Report data Construction, Land & Land Development Non-Farm

Non-Residential Combined

Ratio			
Founders Community Bank	34.37%	115.19%	149.56%
Coast National Bank	157.69%	384.63%	542.32%
Heritage Oaks Bank	174.85%	425.26%	600.11%
Mission Community Bank	223.24%	417.82%	641.07%
Santa Lucia Bank	322.28%	363.29%	685.57%

Obviously, most of the local community banks far exceed the proposed guidance limitations. In order to comply with the guidance, these banks will either need to drastically reduce the CRE loans in their portfolio or substantially increase their capital. Neither action is practical solution. Only Founders Community Bank is below the proposed thresholds simply because we are less than one year old. However, we are seeing our ratios rise quickly as well. The demand for CRE lending is clearly present in our market and will not evaporate simply because the proposed guidance takes effect. Rather, the guidance will have the undesirable effect of allowing new forms of competition to enter our market to take up the slack. I do not believe that the intent of the guidance is to foster additional competition, but our local community banks would find this to be an unwelcome side effect.

Another thought to ponder should the proposed guidance move forward is that small community banks may need to consider highly competitive alternative lending options. Those options include such things as indirect automobile lending, credit card lending or residential mortgage lending as an alternative to CRE lending. These are areas in which community bankers clearly lack either a competitive advantage or a satisfactory level of expertise, or both. In short, the proposed guidance would likely result in the future origination of credit transactions that would represent a far greater risk for community banks than the CRE loans under current scrutiny.

For the reasons discussed herein, I would recommend rejection of the proposed guidance. Should alternative guidance move forward in the future, I feel that it should be a more appropriate version that better suits all banks, with proper consideration given to their age,

asset size, experience level of staff and geographic distribution. A one-size-fits-all approach will simply not work.

Respectfully submitted,

Thomas J. Sherman

President/CEO

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(The original of this letter will follow via first class mail.)

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