

# MALVERN FEDERAL SAVINGS BANK

SINCE 1887

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March 10, 2006

Regulation Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G Street, NW  
Washington, DC 20552  
Docket No. 2006

Re: Proposed Guidance – Concentrations in Commercial Real Estate Lending.

Dear Chief Counsel's Office

As President and CEO of Malvern Federal Savings Bank, I appreciate the opportunity to comment on the Proposed Guidelines – Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices issued by the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of Thrift Supervision.

Commercial Real Estate (CRE) lending is a very important part of lending for community bankers and very important part of Pennsylvania, and more specifically Chester County, the community serviced by our bank. I recognize the risks involved in extending credit for commercial real estate and I believe it is prudent as well as I encourage the Regulatory Agencies to remind us as lenders the elements of responsible lending practices. With this in mind, I believe the Guidance is over simplistic and arbitrary by imposing a requirement based on a multiple of the capital of the bank, which does not differentiate between the quality of the borrower and transaction. It takes a "one size fits all" approach.

The CRE concentration threshold does not address the factors required to determine the integrity and soundness of the CRE portfolio. The Guidance needs to address the overall capital of the institution, historical losses, composition of the CRE portfolio, market demographics, quality of underwriting standards, management controls, and lender's experience rating among other factors. In addition pre-sold residential construction, construction/permanent financing and CRE loans that have established cash flow history are significantly less risky than CRE loans for raw land, land development, and construction spec homes to site a few examples.

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If the guidelines, regulators and examiners want to ensure lenders are practicing safe and sound CRE lending then they should establish examination procedures to judge the risk factors associated with individual loans that make-up the portfolio. The proposed guidelines appear to be mechanical and arbitrary and do not address the risk(s) on its own merits.

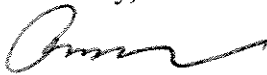
I also want to acknowledge that financial institutions engaged in CRE lending should be adequately capitalized. As a community banker I strongly oppose the assumption in the proposal that the Agencies have the discretion to arbitrarily require a financial institution to increase its capital levels based only on concentration of CRE loans. To determine appropriate capital levels for banks involved in CRE loans, the regulators should consider:

- The inherent risk for each type of CRE loan
- The experience and past performance of the bank in extending specific types of CRE loan
- The health, demographics and economy of the markets being serviced and developed
- The quality of the banks' risk management practices

In summary, the proposed guidelines maybe perceived by bankers and examiners that commercial real estate lending is a great regulatory risk dramatically reducing the type of lending that is essential to many community banks and the health of our marketplace and the United States economy.

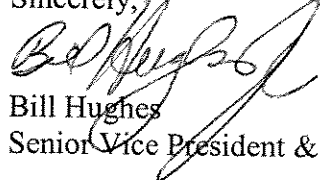
I appreciate the opportunity extended by your agency to comment on the joint proposed guidelines. If you have any questions, please contact Bill Hughes or myself at 610-644-9400.

Sincerely,



Ron Anderson  
President & CEO

Sincerely,



Bill Hughes  
Senior Vice President & CLO

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