FRONTIER BANK
PARK CITY'S COMMUNITY BANK

March 6, 2006

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attn: Docket No. 2005-56

Re: Proposed Guidance- Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices
71 FR 2302 (January 13, 2006)

Dear Sir or Madam:

Frontier Bank appreciates the opportunity to comment on the Proposed Guidance – Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices[1] ("Proposed Guidance") issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (collectively, the "Agencies").

The proposed guidance, however, introduces rigid threshold tests for assessing whether an institution has a commercial real estate concentration that triggers heightened risk management practices and heightened regulatory scrutiny. We believe that the thresholds proposed by the Agencies are arbitrary and will not accomplish the Agencies' goal of identifying institutions that might be adversely affected by their commercial real estate portfolio in an economic downturn.

The proposal also calls for lenders with concentrations of CRE loans to increase their capital levels above regulatory minimums. We oppose the Agencies' use of discretion arbitrarily to require an institution to increase its capital levels based only on the fact that the institution has a concentration of CRE loans. Any requirement that an institution must raise extra capital, should be imposed by regulation through the "risk based capital" rules currently being considered by the Agencies.

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Frontier Bank believes that the CRE concentration thresholds are inappropriate and that the actual proposed test formulas are flawed. The tests, as proposed, seem to be arbitrary and they ignore important differences in the compositions and characteristics of individual lenders' CRE portfolios.

The suitability and soundness of an institution's CRE portfolio depends on individual characteristics of the portfolio and the institution's CRE underwriting capabilities and experience. Accordingly, each institution should be evaluated on a case-by-case basis. This evaluation should be based on the overall capital structure of the institution, historical losses, composition of CRE portfolio, loan to values, demographics of the market served, the quality of the underwriting and the management controls in place.

Further, it is a mistake to lump all types of CRE loans into a single risk classification for purposes of setting thresholds. Different types of commercial real estate have very different risk profiles. For example, it is important to differentiate speculative CRE loans for raw land, land development, contractor spec home construction, and commercial construction and development from non-speculative CRE loans that either have firm takeouts or established cash flow patterns.

Home construction and multifamily mortgages with firm takeouts or established rent rolls, for example, are less speculative than CRE loans that have no firm takeout or established cash flow history.

Multifamily mortgages historically have had much lower loss ratios than certain other loan classifications included in the tests. In an economic downturn, multifamily loan performance tends to run counter-cyclically to other types of real estate, such as single-family mortgages.

If the agencies deem it necessary to impose threshold tests, Frontier believes that multifamily loans, presold residential construction, residential lot loans, and construction/permanent financing with either firm takeouts or established cash flows that provide sufficient debt service coverage should be excluded from the definition of CRE loans. This change will allow the Guidance to focus on those types of speculative loans that are most susceptible to economic downturns.

In order for the final guidance to exclude the aforementioned types of CRE loans or to make the tests correspond to distinct loan risk profiles, certain refinements would be required in the Call Reports to enable an accurate breakout of different loan classifications.

Conclusion

Not only is commercial real estate critical to the lending programs of many community bankers, it is essential for the growth of our communities. Any guidance that imposes additional requirements in a mechanical or arbitrary manner could lead to policy shifts in the lending practices of community banks that could discourage CRE lending. It could lead to a shift away from secured real estate lending to other types of investments that are more risky historically. Diminished CRE lending could also have a negative impact on our economy in general and precipitate an economic downturn.

Frontier Bank appreciates the opportunity to comment on this important matter. If you have any questions, please contact the undersigned at 435-615-2265

Sincerely,

Chris Wold
Chief Credit Officer
Frontier Bank