PEOPLES FIRST PROPERTIES
& Affiliated Companies

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INFORMATION SERVICES
DIVISION

Manager, Dissemination Branch
Information Management and Services Division
Office of Thrift Supervision
1700 G Street, N.W.
Washington, DC 20552

Attention Docket No. 2000-91

RE: Savings and Loan Holding Companies
Notice of Significant Transactions or Activities
and OTS Review of Capital Adequacy

Dear Sir or Madam:

On behalf of Peoples First Properties, Inc. ("PFP"), I am very pleased to have the opportunity to comment on the regulations proposed by the Office of Thrift Supervision ("OTS") to require savings and loan holding companies to notify OTS before engaging in, or committing to engage in, various transactions. We believe that the proposal if adopted in its current form could have serious ramifications for our company and are eager to make our views known.

Peoples First Properties, Inc.

PFP is the holding company for Peoples First Community Bank ("Peoples First"), a federal savings bank headquartered in Panama City, Florida with approximately $1.2 billion in assets. Through its network of 27 branches, Peoples First provides banking services throughout the Florida panhandle and the Orlando and Jacksonville markets. Peoples First was founded in 1983 by a group of investors led by Mr. Joseph F. Chapman, III, who became the principal stockholder in the institution. Mr. Chapman had been successfully engaged in the development of affordable housing in Florida for over 15 years prior to that time and saw an opportunity for a new residential lender in the rapidly growing Panama City area. Mr. Chapman was particularly attracted to the thrift charter because of his real estate background and because deregulation at the federal and the state level had significantly enhanced the operating flexibility of thrifts.

In addition to being the holding company for Peoples First, PFP is the holding company for four other subsidiaries that are engaged in various real estate activities. Royal American Construction Company ("Royal American Construction") is a licensed general contractor that is primarily engaged in construction of multi-family and commercial properties. Royal American Development, Inc. ("Royal American Development") engages in real estate development (primarily apartment complexes and subdivisions) and continues to act as general and/or limited partner in the partnerships which own the various properties. PFP Holdings, Inc. has six wholly owned subsidiaries that are engaged in a variety of activities including the ownership of affordable housing complexes, the ownership/operation of hospitality facilities and the development of a golf course community. Finally, P.F. Banking Facilities, Inc. leases branch facilities to Peoples First. Through its various non-thrift subsidiaries, PFP is the general partner and majority owner in 12 limited partnerships which primarily own and operate subsidized or affordable multi-family housing.

Peoples First was operated separately from Mr. Chapman's other business interests until 1991. By that time Peoples First had grown so large that Mr. Chapman determined that the only way for him to effectively oversee all of his enterprises was to consolidate their management into one entity. Accordingly, Mr. Chapman contributed his holdings (consisting of Royal American Construction and Development and their affiliates) to the new holding company in which the Bank's stockholders also became stockholders.

Although PFP Companies perform certain services for Peoples First such as developing, holding and managing branch office properties, Peoples First continues to operate separately from its affiliates. Except for certain affordable housing investments, the PFP Companies do not rely on Peoples First for financing of on-going real estate activities.

PFP believes that its current structure has accomplished important business objectives that have benefited all the members of the PFP corporate family. Management believes that the organization operates more efficiently with this structure. In particular, the consolidation of management has improved oversight and reduced overall costs. The structure has also opened up operating options such as consolidating property management in a holding company affiliate and using an affiliate for site selection and development which have especially benefited Peoples First. Management believes that the continued growth and profitability of Peoples First offers proof of the success of the corporate structure.

The Proposed Rule

The proposed regulation would require savings and loan holding companies which have consolidated tangible equity of less than 10% and whose thrift assets represent more than 20% of

consolidated assets to give 30 days' notice to the OTS before they or their non-thrift subsidiaries engage or commit to engage in any of the following transactions:

- Issue, renew or guarantee debt if the debt would increase non-thrift liabilities by 5% or more unless consolidated non-thrift liabilities would be less than 50% of consolidated tangible capital after the transaction;
- Acquire assets (other than cash, cash equivalents and U.S. government guaranteed obligations) if the proposed acquisition would exceed 15% of consolidated assets; or
- Engage in any transaction that would reduce the ratio of consolidated tangible capital to consolidated tangible assets by 10% or more.

As we understand the rule, the notice requirement will be triggered if any individual transaction when combined with all other transactions of the same type over the preceding 12 months would cross the applicable threshold. Holding companies with negative consolidated tangible equity would apparently be required to provide notice of any capital reduction transaction. The proposed rule includes a catch-all provision that allows the OTS Regional Director to require notice of other transactions or activities if the OTS has concerns relating to a holding company's financial condition or the safety or soundness of the thrift subsidiary. The OTS will disapprove or "condition" a notice if the proposed transaction or activity will pose a material risk to the financial safety, soundness or stability of the subsidiary thrift institution.

We fear that the proposed rule would have serious and negative implications for PFP's real estate development activities. If adopted in its current form, the proposed rule would compromise our ability to negotiate transactions and could place the PFP Companies at a competitive disadvantage to other real estate companies. Not only do we have serious reservations about the ability of the staff to promptly analyze complex transactions that are out of their area of expertise, but we also believe that the rule will prove burdensome and unworkable in the best of circumstances. We do not believe that the OTS has made an adequate case for the rule and believe that we are being unfairly penalized to satisfy the agency's concerns about holding companies with far different operating strategies. Further, we believe that the rule is not only at odds with the intent of the governing statutes but runs counter to the clear trend in federal banking regulation. Finally, the rule may force us to restructure our company for no reason other than to avoid its coverage.

Applicability of the Proposed Rule on PFP

The proposed rule would apply to PFP since not only do the assets of Peoples First ($1.2 billion) represent over 20% of consolidated assets ($1.3 billion) but our consolidated tangible equity (approximately $73 million) is less than 10% of consolidated assets. Moreover, we can already see that we would be required to involve the OTS in a variety of transactions.

Debt Transactions. If the proposed rule is adopted, we anticipate that we will be most affected by the requirement of notice for new debt issuances. At December 31, 2000, we estimate that our non-thrift liabilities (consolidated liabilities less the liabilities of Peoples First) came to approximately $99 million which was more than 50% of consolidated tangible equity for PFP. Accordingly, if the PFP Companies incur debt of less than $5 million (whether in a single transaction or in a series of transactions over any 12-month period), we understand the rule to require a notice filing. Since, like most real estate developers, the PFP Companies rely on outside financing for their projects, we anticipate that our debt transactions will trigger the notice requirement during the course of a year.

Asset Acquisitions. At December 31, 2000, 15% of PFP's consolidated assets would have equaled approximately $190 million. While the PFP Companies have not historically engaged in acquisitions of this size, there is no guarantee that total asset acquisitions over a 12-month period will not exceed this threshold.

Capital Reductions. While we would hope not to have to file a notice for such a transaction, we are not entirely sure when this requirement is triggered. The proposed regulation does not define a capital reduction transaction. Does the term just mean dividends or does it take in other events that reduce capital, such as write-downs of assets? If we acquire an intangible asset, will that be considered a reduction of tangible capital? If we do an acquisition that increases our assets sufficiently to reduce our tangible capital ratio by 10%, have we engaged in a capital reduction transaction? If so, it appears that asset acquisitions that would not cross the 15% threshold could nonetheless trigger a capital reduction notice.

The Proposed Rule will be Burdensome and Unworkable

For a variety of reasons, we anticipate that the proposed rule will result in a serious disruption of our real estate operations. In our typical real estate transaction, a PFP Company will form a limited partnership in which it is the general partner to acquire a parcel of property. The partnership will construct a multi-family apartment complex on the property. On completion of construction, limited partnership interests are sold to investors and the PFP Company continues to act as the general partner thereafter. Depending on the circumstances, the PFP Company may also retain a majority ownership position in the limited partnership. Debt is used to finance both the initial acquisition of the property and the construction of the complex. When a PFP Company is both the general partner and the majority owner, any partnership debt will remain on PFP's consolidated balance sheet.

The requirement of any regulatory clearance for our real estate activities is a significant departure from the way we do business and creates an uncertainty that is likely to work to our

competitive disadvantage. We are concerned not only that the notice process may slow down projects but that the additional scrutiny may cause some of our partners to avoid our deals. A contingency of regulatory clearance may lead a property seller to elect to deal with another buyer. We are also very concerned that we may be required to submit additional notices after we have started a project if we experience unanticipated cost increases.

The problems are exacerbated by the fact that the rule requires notice before we commit to engage in a transaction. When does that occur? Can we sign a letter of intent? Can we enter into contracts that are contingent on OTS non-objection to our notice? Do we need to obtain clearance for the entire project before we sign a contract to acquire a property?

We recognize that the proposed rule ostensibly only requires 30 days' advance notice. It has been our experience, however, that staff comments and requests for additional information can extend the review period far beyond that stated in the regulation. Since many of our transactions involve low-income tax credits and other tax-driven considerations, it often takes a high level of expertise to appreciate the economics of a transaction and we expect that we will be required to provide a great deal of information on individual transactions to make the staff comfortable. Moreover, this educational effort will be expended for a transaction that does not involve Peoples First in any way.

We are also concerned that the 12-month look-back provisions of the proposed rule as currently drafted could result in a variety of burdensome filing requirements. Our greatest fear is that once we cross the applicable threshold, we will be expected to clear every new borrowing or asset acquisition because when added to similar transactions over the preceding 12 months that new transaction will increase debt by 5% or assets by 15%. We believe that at a minimum, holding companies should get a fresh start after each notice. We are also concerned that over the 12-month period, we will not be given credit for debt and asset reductions. For example, if we incur debt over a 12-month period but also pay off debt, is our filing obligation based on the new debt or just the net increase. Finally, it is foreseeable that while a particular acquisition or financing might exceed the threshold based on assets or capital at the beginning of the 12-month period, the transaction is no longer significant due to asset or capital growth during the period. We recommend that the rule measure the significance of transactions by the greater of assets or capital at the date in question or at the start of the period.

Although the proposed rule provides a procedure for clearing a schedule of transactions over a 12-month period, we question whether this so-called shelf procedure offers any real benefit. We note that the proposed rule also provides that the OTS Regional Director can require a new notice if he determines that there has been a material change in circumstances. In our business, circumstances can change quite a bit during a year. Even if we have made every good

faith effort to provide the OTS with the most accurate information available, we could still have the rug pulled out from under us.

Finally, we are extremely concerned with the provision of the proposed rule authorizing the Regional Director to require notice of virtually any holding company activity if he has concerns about the holding company's financial condition or the safety and soundness of its savings association subsidiary. There appear to be no limits on the Regional Director's authority under this provision. We recall the post-FIRREA period when real estate developers were viewed by the banking regulators with suspicion and fear that a provision like this could be unfairly applied.

The Proposed Rule is Unjustified

We do not believe that the OTS has made a case that the burden imposed by the rule is justified. We believe that the rule will apply to more than a limited group of holding companies and, as we believe our letter illustrates, will impose a larger burden than the OTS appreciates. Moreover, we question whether the concerns cited by the OTS justify this burden and whether the rule will effectively address the OTS' concerns.

In the preamble, the OTS states that it is proposing the rule out of concern that the operations of some holding company subsidiaries are becoming so integrated into the overall corporate structure that critical decisions are being made at the holding company level rather than the thrift itself. The OTS also expresses concern about excessive debt at the holding company level and particular concern with the practice of "double-leveraging" where a holding company borrows money to make a capital contribution to its subsidiary thrift. In addition, the preamble states that rapid growth or losses from risky activities at the holding company level could also have an adverse impact on thrift subsidiaries. The preamble states that the OTS is proposing the review process "for a limited group of savings and loan holding companies engaging in a limited group of activities."

In the cases of excess debt, rapid growth and risky activities at the holding company level, the OTS' concern appears to be that thrift subsidiaries will be forced to undertake riskier activities in order to offset losses or debt service at the holding company level. While we have no doubt that this can occur, we cannot believe that the OTS does not have sufficient tools at its disposal to address problems at the thrift level. Peoples First is required to file quarterly reports with the OTS, undergo regular examinations, meet capital and other requirements and submit applications or notices for acquisitions and subsidiary activities. We would have thought that the OTS had a pretty good handle on our financial situation with ample opportunity to head off problems. If the OTS cannot predict losses at the thrift level with all these tools at its disposal, we do not see how it expects to be any more successful at the holding company level.

While the OTS may or may not have some valid concerns with regard to highly integrated thrifts, we believe that the burden imposed by the rule on relatively conventional holding companies like ourselves is far out of proportion to any benefit it gives to OTS. Moreover, since Peoples First represents an independent franchise, we do not believe that we raise these concerns. In addition, we are not certain whether the proposed rule even addresses the problem. First, the rule exempts holding companies in which thrift assets are less than 20% of consolidated assets. We would have thought, however, that holding companies in which the thrift subsidiary is only a small piece of the enterprise would be the holding companies where the OTS would have the greatest concern. In addition, if the problem with these organizations is that management decisions are being made outside of the thrift, we wonder how effective the rule will be. It seems to us that a holding company's decision to enter into a marketing alliance that will bring in a lot of sub-prime borrowers will probably have a greater impact on the thrift than an issuance of debt.

The Proposed Rule is Inconsistent with the Statutes

It is particularly surprising that the OTS would undertake this radical change in the rules in the absence of direction from Congress. The proposed rule does not comport with OTS' historic role in regulating savings and loan holding companies and is at odds with the clear trend in federal banking statutes over the past several decades.

When PFP became the holding company for Peoples First, there were virtually no restrictions on activities at the holding company level thanks to the exemption for unitary holding companies. Our counsel advises us that a few years prior to our holding company formation, Congress had even deleted a statutory requirement for notice of proposed debt issuances similar to the one OTS is now seeking to impose by regulation. Although PFP has been subject to examination and reporting requirements, it has not been subject to extensive operating restrictions. This relative operating freedom was a significant consideration in our decision to form a holding company.

Neither we nor our counsel are aware of any change in the statutes that would support changing the rules applicable to us. When Congress deleted the exemption for new unitary holding companies in the Gramm-Leach-Bliley Act, it specifically grandfathered existing holding companies like PFP. Notwithstanding this clear indication that Congress intended to preserve the status quo for grandfathered unitary holding companies, OTS now seeks to impose a comprehensive regulatory regime on all holding companies.

The path the OTS has chosen is even more surprising when one considers the approach that Congress has taken in regulating financial holding companies which may also engage in

diverse activities. Our counsel advises us that these entities generally need only after-the-fact notice of their new activities and the role of the Federal Reserve Board in regulation and examination of financial holding company affiliates is limited to the extent feasible. The preamble notes this differing treatment but explains the OTS' approach as being necessary because thrift holding companies are not subject to capital requirements like bank holding companies. We do not believe that the fact that OTS has refrained from one unjustified action in any way justifies another unjustified action.

The Proposed Rule May Force an Unnecessary and Counter-Productive Restructuring of PFP

We believe that, if adopted in its current form, the proposed rule may ultimately require us to change our operating structure. We do not believe that PFP is the type of holding company system that the OTS is concerned about, yet PFP will be required to file notices for a variety of debt transactions that will have no impact on Peoples First. While we believe that we may have options for ameliorating the impact of the proposed rule, we see no valid justification for requiring us to undertake these changes and believe that they would have negative impact on both PFP and Peoples First.

It appears that we are covered by the rule primarily because our tangible capital ratio is less than 10%. While one way for us to avoid coverage by the rule would be to increase consolidated capital, we do not believe that this would make good business sense to increase capital in the PFP Companies. Real estate companies have historically operated on a highly leveraged basis. The returns our partners require cannot be attained without leverage. Since Peoples First only needs about 5% tangible capital to qualify as well capitalized, we do not believe it to be prudent to double its capital to 10% solely in order to increase consolidated capital to a level that avoids the limits of the proposed rule. Our other option would be to spin off Peoples First to PFP's stockholders but this would require us to sacrifice the operating efficiencies that led us to set up a holding company in the first place. Ultimately, we believe that this option would increase expenses both for Peoples First and for our other companies.

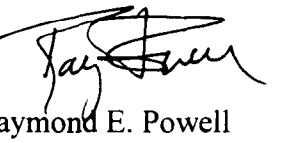
Conclusion and Recommendations

We believe that the proposed rule is not justified and will impose an unacceptable burden on savings and loan holding companies. Accordingly, we strongly urge the OTS to withdraw its proposal. If the OTS elects to go forward with the proposal, we believe that it should be substantially reworked to minimize the burden on companies like ours and reissued for additional comment. Among other matters, we believe that the rule should focus on the highly integrated thrift holding companies. In this regard, we do not believe the rule should be applied to non-diversified holding companies or other holding companies where the thrift is clearly the dominant entity in the organization. Because we believe that it is inappropriate for the OTS to

judge the business merits of transactions outside its expertise, the rule should require at the most an after-the-fact notice. In addition, we believe the 5% trigger for debt notices is too low. At a minimum, this trigger should be set at no less than 15%. Finally, we do not believe that the rule should apply to grandfathered unitaries like PFP since Congress has clearly indicated a desire to preserve the historic regulatory status of these organizations.

We greatly appreciate the opportunity to offer our input on the proposed regulation. Please feel free to contact the undersigned if you have any questions or we can be of further assistance.

Very truly yours,



Raymond E. Powell
Executive Vice President