

Michigan Bankers Association  
September 21, 2006

Concentrations in Commercial Real Estate Lending  
Docket No. OP-1248

Risk-Based Capital Standards: Advanced Capital Adequacy Framework  
Docket No. R-1266

On September 21, 2006, representatives of the Michigan Bankers Association met with Governor Bies to discuss, among other things, proposed guidance on sound risk management practices for concentrations in commercial real estate lending and proposed Basel II risk-based capital requirements for large banking organizations.

The bankers expressed concern that the commercial real estate proposal, although intended as guidance, likely will be treated as a regulation by bank examiners in the field. The bankers also urged the Board to reissue the proposal for comment a second time to gain additional input that would be useful in clarifying and refining the guidance.

The bankers said that, taken together, the commercial real estate proposal and the Basel II proposals are likely to force community banks to maintain higher capital levels than large banks competing in their markets for the same types of loans. In their view, this would leave community banks at a competitive disadvantage.

It was noted that the intent of the guidance is not to restrict commercial real estate lending but to ensure that financial institutions identify and manage credit-concentration risks appropriately. In addition, bank examiner training programs are being revised to support this objective. It also was noted that many community banks have capital well in excess of regulatory capital minimums and that bank regulators are sensitive to competitive issues related to the Basel capital proposals.