



March 28, 2006

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Attention: Ms. Jennifer J. Johnson, Secretary
Sent by E-mail to: regs.comments@federalreserve.gov
Re: Docket No. OP-1248

Dear Ms. Johnson:

ShoreBank, the country's first and leading community development and environmental banking company, appreciates the opportunity to comment on the proposed interagency guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices," issued on January 13, 2006, 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").

Like most of our colleagues, ShoreBank is concerned that the measures being proposed to address a perceived weakness in prudent commercial real estate loan oversight are excessive. The Agencies fully acknowledge that banks' underwriting standards today generally are stronger than those employed during previous commercial real estate cycles. Moreover, according to the recently published Federal Reserve Board Beige Book, Seventh District, dated January 18, 2006: "***Commercial credit quality was in good shape***, with a smaller share of non-accruing loans and charge-offs than earlier in the year. Contacts noted that competitive pressures in commercial lending persisted, but ***they did not report a further easing in standards and terms*** or a narrowing of interest rate spreads."

Nevertheless, the Agencies are proposing sweeping changes in the commercial real estate loan risk management practices and capital levels of banks. The new approach to loan portfolio management that has been called for will no doubt have the affect of pricing many community banks in Illinois out of the commercial real estate loan market. Such an outcome would be harmful not only to Illinois' community banks, but also to the communities in which they serve. For ShoreBank, that means the already underserved neighborhoods on the South, Mid-South and West Sides of Chicago.

We believe that the proposed interagency guidance is based on a flawed analysis of risk associated with commercial real estate loan portfolios. The Agencies' analysis of commercial real estate loan portfolios under the proposed interagency guidance is flawed in two respects: (1) loans representing different types of credit risk are accorded the same treatment, and (2) the Agencies are given too much discretion in labeling a bank's commercial real estate loan portfolio a "concentration."

As to the first point, the proposed guidance incorrectly calls for the aggregation of all business loans secured by real estate mortgages for the purpose of determining whether a bank has a commercial loan concentration that warrants heightened monitoring. For example, a building improvement loan secured by a mortgage on a one-story, fully occupied office building would be aggregated with a loan secured by a golf course as well as a construction loan for a housing subdivision. Regardless of the varying levels of credit risk represented by these loans, the proposed guidance would require their aggregation and the resulting non-risk-weighted sum would determine the need for additional scrutiny of a bank's entire commercial real estate loan portfolio.

Secondly, the Agencies state that they may apply the proposed guidance "on a case-by-case basis to any institution that has had a sharp increase in [commercial real estate] lending over a short period of time or has a significant concentration in [commercial real estate] loans secured by a particular property type." The failure to define terms such as "sharp increase," "short period of time," and "significant concentration" leaves the door wide open for the Agencies to indiscriminately require banks to comply with the new and costly risk management guidelines outlined in the proposed guidance.

Finally, the proposed interagency guidance imposes unduly burdensome and costly risk management practices and regulatory capital requirements. The proposed guidance sets out an extensive list of risk management principles that apply to institutions with commercial real estate loan concentrations. The Agencies' proposal also goes far beyond their existing guidelines, and ShoreBank is especially concerned with its call for increased levels of regulatory capital, as well as its introduction of new commercial loan monitoring techniques requiring the creation of a "management information system" and "portfolio stress testing."

Again, thank you for the opportunity to share our concerns with you. If you have any questions, I can be reached at fran_grossman@sbk.com or 773-420-4903.

Sincerely,

Fran Grossman
Executive Vice President