AMERICAN BANK of MONTANA

Leon Royer
President

February 14, 2006

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th and Constitution, NW
Washington, D.C. 20551

Re: Docket No. OP-1248

Dear Ms. Johnson:

I am writing to voice my concerns regarding the proposed guidance entitled Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices. While I respect the Board's responsibility to monitor bank loan portfolio evolution, I do not share the view that additional regulation / guidance is the vehicle to achieve the desired goals of the proposal under consideration.

This is the first time in my career that I have commented on pending regulatory issues but it seems that the time has come. As a banker for the past 34 years, I have seen the economic tide ebb and flow. I first hand witnessed the rise and fall of the Oklahoma and Texas economies during the 1980s. No amount of regulation would have prevented the debacle that ensued from those runaway days of the 1980s.

It seems that often new guidance and regulation are promulgated as a knee jerk reaction to evolutionary banking transitions. Individuals in positions of regulatory authority rightfully notice changes in the trend of the deployment of bank resources and ponder "how will this impact the economy?" As a result, often the answer is "when in doubt, regulate". The thought being, at least the regulator is proactively doing something – although that something may result in adverse unintended consequences such as the throttling of a regional economy.

The problem is that "one size fits all" regulation seldom, if ever, works. In our bank, virtually all of the construction lending and lot financing that is occurring is in response to wealthy individuals seeking to acquire second, third or fourth homes. The Baby Boomer generation controls a great deal of money. According to a Boston College report ("Why the $41 Trillion Wealth Transfer is Still Valid: A Review of Challenges and Questions" was published in The National Committee on Planned Giving's The Journal of Gift Planning. Vol. 7, no. 1, 1st Quarter 2003. pp. 11-15, 47-50.) $41,000,000,000,000 is

P.O. Box 1970 • 1632 West Main Street • Bozeman, MT 59771-1970
406.522.3529 • Fax 406.585.7574 • lroyer@americanbankmontana.com

going to be transferred inter-generationally in the next four decades. I believe that it is entirely reasonable, with proper loan underwriting, to assume that there will be money available to service debt for the type of loans that we underwrite. Even if $41 trillion is too high and will only be $20 trillion, I am not overly concerned.

What new regulation does always accomplish is to whip bankers into a frenzy. We all spring into action and attempt to comply with the latest edict from Washington – the foundation for which may be or may not be valid. Seminars will be held on how the examiners will approach this new "hot button" issue. But why do bankers behave that way? It is not because we necessarily believe in the premise of the regulation; it is because we are forced to comply or deal with the adverse consequences that will come our way if we do not.

Regulation of the type under consideration is often self-justifying whenever a new regulatory emphasis is announced. Regulators will be encouraged by supervisory authorities to apply disproportionate focus on one small part of the bank loan portfolio. If one looks hard enough, a "problem" can always be found. The results of this intense scrutiny may very well isolate the issue without giving consideration to the concentric circles emanating from that point, much is lost and little is gained.

In a macabre sort of way, I am amused by the fact that our competitors in the credit union industry would once again not be covered by the guidance. The largest financial institution in Flathead County, Montana is the Whitefish Credit Union. This entity has about $700 million in assets. They are a direct competitor in one of our principal markets. They are free to pursue loans of the type covered by the guidance without fear of censure. If the goal is global effect then all of the bases need to be touched.

Rather than producing additional burdensome, needless regulation, I ask that you consider two other important points:

1. The power of the unfettered free market is often overlooked as a self regulating instrument. What bank owner / shareholder seeks to see their investment diminished or destroyed?
2. The examiners employed by the Fed are generally very bright and dedicated individuals. Why not give them some credit and encourage them to exercise prudent situational judgment to assess each bank's portfolio on its merits. By introducing arbitrary ratios into the equation, they are forced to dwell on "another box to check" without the encouragement to see the information as a whole. I have faith in them and I hope that you will as well.

Thank you for this opportunity to comment. Please contact me if you would like additional input.

Very truly yours,

President