

From: "Larry Roselle" <lroselle@sunrisebank.com> on 02/16/2006 02:50:05 PM

Subject: Commercial Real Estate Lending

Larry Roselle
5675 N. Atlantic Ave. Suite 118
Cocoa Beach, FL 32931-5605

February 16, 2006

Jennifer Johnson

Dear Jennifer Johnson:

Plato said that "Those who do not study history are doomed to repeat it".

The real estate crisis and resulting bank and S&L failures in the late 80's and early 90's had many causes, including the tax reform act. However, it can also be linked to the knee jerk reaction by bankers and regulators casting out real estate loans in order to "right size" loan portfolios.

I can certainly understand the three regulatory agencies feelings on CRE concentrations. And, I agree that the oversight and guidance is appropriate. However, I can tell you factually that in our recent state exam, the EIC is already talking enforcement. Much like the early stages of BSA, where examiners were in some cases over exuberant about compliance, bad decisions were made and banks and customers were hurt. I am afraid that this is where we are going here.

Too, on a fully leveraged balance sheet, 300% of capital basically equates to 1/3rd of a loan portfolio. If commercial real estate were limited to that percentage, what would we invest the rest of our portfolio in that has less risk; equipment loans, car loans, credit cards, accounts receivable, residential mortgages???

Real estate, over time, at least holds its value. The bust in the 90's was a result of so many financial institutions dumping properties on the market. Not a result deflation in value.

While Board and regulator oversight, and assurance that the CRE portfolio itself is diversified, and assuring that the types of credit being underwritten are commensurate with the experience of the lending staff, which I believe is the interagency mantra, is warranted, I urge you to be sure that the field examiners are in fact singing out of the same hymnbook as Washington leadership.

Otherwise, I am afraid that history will indeed repeat itself!

Sincerely,

Larry Roselle

