1st Citizens Bank
"Polson's Only Locally Owned Bank"
"Big enough to serve & small enough to care"

March 1, 2006

To Whom It May Concern:

I am extremely concerned about the proposed guidance entitled "Concentration's in Commercial Real Estate Lending". Mortgage companies and banks give a number of FHA Loans which were created to help increase home ownership with down payments less than three percent, VA Loans require no down payment and the Montana Board of Housing, using tax-exempt bonds to finance the purchase and construction of approximately 36,000 homes in the single family program.

If I'm reading the proposed guidance correctly, the agencies are focusing on concentrations in these types of real estate construction loans.

This proposed guidance will "completely gut" the meaning of home ownership due to the cookie-cutter approach to each organization's unique strategic position.

Residential construction lending in markets where there is very little speculative building, as well as an abundance of well capitalized builders, may not be as large of a concern if the housing boom cools.

Sincerely,

David Doepke, Vice President
First Citizens Bank

DA/ckb

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March 3, 2006

E-mail to:
regs.comments@federalreserv.gov

Re: Comments on Docket Number 06-01

To Whom It May Concern:

In the purpose section of this docket on concentrations of real estate loans it identifies the Agencies concern with concentrations in commercial real estate where repayment is primarily from rental income, sale proceeds, refinancing or permanent financing of the property.

It goes on to say that the strategic planning should include the potential down turn in real estate markets on earnings and capital.

I will focus my comments regarding these two areas.

First, let me give you some background information on our bank market area. We are located in a small community in Western Montana known for its natural beauty and excellent living conditions. As a result, like many communities in Western Montana, people are choosing to build homes for retirement, vacation secondary residences and job relocation. We are very knowledgeable of all our contractors that we participate with in the construction of these homes. We have been involved in construction lending for many years and it has become a major part of this bank's earnings component.

We presently have approximately $4.4 million in residential construction loans on the books all secured by first mortgages and supporting documentation and permanent take out commitments from secondary markets with whom we have established good past historical experience. Our capital is approximately $3 million, so we would be over your proposed first threshold.

Because our historical experience has shown very little risk in this portfolio, as we do have take out commitments on all loans of this nature , we feel that banks such as ours, should not be painted with the broad brush this regulation would impose.

We build historical risk exposure of this lending into our loan loss reserves. For example, we look at a five year average of loan losses in this area, as well as commercial loans and consumer. We then factor that history into our loss reserves using a blended ratio for the entire loan portfolio. In our five year history used for December 31, 2005, we have had zero losses in residential construction lending.

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When you mention the impact of the down turn in the real estate market to our earnings and capital, if you cut back this type of lending through the proposed regulation, it in itself, would create a negative impact in our bank earnings and capital. I am more concerned of the negative impact on us with this regulation than I am with a down turn in the real estate market. True, a downturn in the market would affect our earnings, but not from losses as our take out commitments have been solid. It would affect us in loss of earnings potential, in which we cannot control downturns in the economy. But we can control the enactment of this regulation, which seems counterproductive to increasing earnings, and in turn capital.

I can understand where there are banks dependent upon repayment from rental, spec homes and sale of homes as being higher risk and more loss potential but to include construction loans with take out commitment is taking it too far.

I sincerely hope you take this into consideration before enactment of this regulation.

Thank you.

Sincerely,

Rick E. Skates
President