ICBA
INDEPENDENT COMMUNITY
BANKERS of AMERICA®

December 15, 2015

Mr. Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: Remarks at the AICPA Conference on Current SEC & PCAOB Developments—December 10, 2015

Dear Mr. Golden:

We, the undersigned members of the Executive Committee of the Independent Community Bankers of America (ICBA)[1], are deeply concerned about public statements you have made regarding the impact of the current expected credit loss model (CECL) on community banks. We believe your statements reflect a broad misunderstanding that the Financial Accounting Standards Board (FASB) continues to maintain about the community banking industry, the impact of CECL on community bank balance sheets, and the performance of community banks during the recent financial crisis. Not only do your comments reflect a clear lack of understanding of the community bank business model, they show a disregard for the importance of community banks in the areas they serve across the United States. In addition, you maintain a selective historical view of the financial crisis.

To say that community banks were a "major part of the problem" is a direct slander on hardworking Americans who devote their professional and, in many cases, personal energies to providing for their communities in both good times and bad. You are promoting a Wall Street view of the recent economic crisis that, as the head of an independent standard-setting body, damages not only your reputation but the integrity of FASB as an impartial Board. As the Chairman of FASB, you should understand that it was the reckless lending activities of the too-big-to-fail (TBTF) institutions and the unregulated "shadow" banking industry that caused the financial crisis and forced the federal government to pump nearly $10 trillion in capital, loans, and commitments to large complex financial institutions whose balance sheets

[1]The Independent Community Bankers of America®, the nation's voice for more than 6,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

With 52,000 locations nationwide, community banks employ 700,000 Americans, hold $3.6 trillion in assets, $2.9 trillion in deposits, and $2.4 trillion in loans to consumers, small businesses, and the agricultural community. For more information, visit ICBA's website at www.icba.org.

were over-leveraged and lacked adequate liquidity to offset the risks they had recklessly taken.

Contrary to FASB's view, community banks do not maintain homogeneous pools of commoditized loan products in one-size-fits-all arrangements that can be evaluated for credit impairment. Each loan is originated based on an individually cultivated relationship that can span decades, even generations. Every loan involves a story, a small business, a consumer, a municipality, or a not-for-profit entity; but more importantly, every loan is a piece of the fabric that makes up the community. This is precisely why community banks fared well during the financial crisis. The overwhelming majority of community banks continued business as usual providing liquidity to their communities, allowing small businesses to form and expand, opening the door to home ownership for young families, sending kids to college, and promoting job growth in areas where the big banks could not be found. A recent academic study confirms that during the financial crisis, community banks were able to provide sources of financing for small businesses at a time when larger banks that depended on the asset-backed commercial paper markets could not provide such liquidity.[2]

Contrast this activity with the TBTF banks in the country, which repeatedly engaged in the delivery of reckless securitization vehicles that promoted harmful lending regimes by placing consumers in loans that they could not afford. When their schemes eventually seized up capital markets, key international liquidity was immediately removed from the global financial system. Only emergency rescue programs by sovereign governments, including unprecedented intervention in the U.S. financial system, saved these institutions from collapse. They were classically categorized "too-big-to-fail" for a reason. Do not mistake the fact that without a government bailout they were insolvent, and had indeed failed.

In your speech, you endorse the concept of removing complex modeling from CECL. Yet FASB has repeatedly failed to formally adopt that position in its standard. Without extensive and precise reflection of your position codified in generally accepted accounting principles, federal bank regulators will seize the opportunity to force community banks to adopt the regulators' own interpretation of CECL with the tools that the regulators feel are most appropriate, regardless of the level of intensity and complexity surrounding the forecasting solution. As you may be aware, regulators are currently hosting webinars to educate bankers about what analysis and data systems they need today in order to be in compliance with CECL five years from now. If what you are saying is true, that you are "not asking banks to change their methods of estimating losses," then clearly there is a disconnect between FASB and the regulatory agencies that must be addressed before the standard is finalized.

This is exactly why ICBA has long advocated for a community bank forward-looking loss estimate application that utilizes actual observed historical losses—a tangible and definitive metric. Without your formal endorsement and adoption of this approach, community banks will be forced to not only purchase and maintain complex models, but they will be expected to calibrate their models to ensure that reserves have increased by at least the 30-50 percent levels that regulators have already estimated in their own analysis of CECL. Communities will suffer as community banks will be forced to take less risk, tighten underwriting

[2] See *Small Bank Comparative Advantage in Alleviating Financial Constraints and Providing Liquidity Insurance Over Time,* Berger, Allen N. et al, June 2015

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standards, increase the scarcity of bank regulatory capital, and, most importantly, avoid tailored loan products to creditworthy customers because of the adverse regulatory capital impact of a modeled loan-loss provision.

FASB's continued inability to comprehend the community bank business model has resulted in flawed accounting that will harm all aspects of bank lending in this country, costing thousands of jobs and financing options that keep small communities thriving. ICBA has repeatedly advocated common sense alternatives for community banks that achieve FASB's objectives of moving credit losses forward in the credit cycle but avoid day one losses and the complex modeling needed to simulate a crystal ball. While ICBA appreciates the open door that FASB has provided since the standard was first proposed, no changes have been made to the CECL proposal that recognize the business model of community banks. If FASB continues to ignore our common sense approach and continue with CECL, the resulting damage to the domestic economy will be permanent and will forever change the landscape of community bank lending to the detriment of our nation and its Main Street communities.

Sincerely,

Executive Committee of the Independent Community Bankers of America

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cc: The Honorable Mitch McConnell, Majority Leader, United States Senate

The Honorable Harry Reid, Minority Leader, United States Senate

The Honorable Paul Ryan, Speaker, U.S. House of Representatives

The Honorable Nancy Pelosi, Democratic Leader, U.S. House of Representatives

The Honorable Richard Shelby, Chairman, Senate Committee on Banking, Housing and Urban Affairs

The Honorable Sherrod Brown, Ranking Member, Senate Committee on Banking, Housing and Urban Affairs

The Honorable Jeb Hensarling, Chairman, House Committee on Financial Services

The Honorable Maxine Waters, Ranking Member, House Committee on Financial Services

The Honorable Janet L. Yellen, Chair, Board of Governors of the Federal Reserve System

The Honorable Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation

The Honorable Thomas J. Curry, Comptroller of the Currency, Office of the Comptroller of the Currency

The Honorable Mary Jo White, Chair, Securities and Exchange Commission

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