

December 16, 2013

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

Re: Proposed Accounting Standards Update: Financial Instruments—Credit Losses

Dear Mr. Golden:

The undersigned state banking associations strongly oppose the Financial Accounting Standards Board's proposal on implementation of the expected credit loss model for loans and investment securities currently under deliberation. The nation's community banks are small, relationship-based institutions that serve their local communities through customized lending that is tailored to specific customer needs. Community banks assess credit risk based on relationships built with their customers over many years and multiple generations.

The proposed expected credit loss model harms community banks, their customers, and local economies by front loading credit losses at inception without considering the evolution of realized losses throughout the credit cycle. The Office of the Comptroller of the Currency estimates that loan loss reserves on average will increase by 30 – 50% with adoption of the proposed expected credit loss model with the impact on some banks much greater. Additionally, the proposed expected credit loss model relies on complex modeling techniques that are difficult and expensive for community banks to adopt. The proposal exposed for comment is simply the wrong approach to properly provide for future credit losses incurred by community banks that lend on Main Street, USA.

Unlike the largest banks that have pools of thousands of similar loans that can be modeled together to determine expected losses under different economic scenarios, community banks underwrite loans individually based upon an entire borrower relationship. They are subject to bank examinations every 12-18 months where the majority of their assets are individually scrutinized for credit quality. Also unlike the largest banks, community banks primarily maintain their investment portfolios for liquidity and to pledge as collateral on deposits by their local municipalities. Community bank investment portfolios are generally of exceptionally strong credit quality and few, if any losses are ever realized on this segment of their invested assets.

We encourage the board to consider an alternative approach that relies on historical losses as the primary driver for building and maintaining the loan loss reserve. As loans and securities become individually impaired, the reserve would be increased based on a specific measurement of impairment. This alternative proposal properly builds the necessary allowance in a ratable fashion that matches the credit risks inherent in the financial instrument with its earning potential. Reserves are recognized sooner in the credit cycle, which meets FASB's objective in reforming the shortfalls exposed during the recent credit crisis. This approach is easy to

understand, easy to implement, and provides a sound loss recognition framework without greatly harming community banks nationwide.

Thank you for taking the time to consider our concerns with the proposed expected credit loss model.

Sincerely,

/s/

Independent Community Bankers of America
Alabama Bankers Association
Arkansas Community Bankers, Inc.
California Independent Bankers
Independent Bankers of Colorado
Connecticut Community Bankers Association
Florida Bankers Association
Community Bankers Association of Georgia
Community Bankers of Iowa
Community Bankers Association of Illinois
Indiana Bankers Association
Community Bankers Association of Kansas
Bluegrass Bankers Association
Louisiana Bankers Association
Massachusetts Bankers Association, Inc.
Maine Bankers Association
Independent Community Bankers Association of Maine
Community Bankers of Michigan
Independent Community Bankers of Minnesota
Missouri Independent Bankers Association
Montana Independent Bankers
Independent Community Banks of North Dakota
Nebraska Independent Community Bankers
New Hampshire Bankers Association
Community Bankers Association of New Jersey
Northern New Jersey Community Bankers Association
Independent Community Bankers Association of New Mexico
Independent Bankers Association of New York State
Community Bankers Association of Ohio
Community Bankers Association of Oklahoma
Independent Community Bankers of Oregon
Pennsylvania Association of Community Bankers
Independent Banks of South Carolina
Independent Community Bankers of South Dakota
Tennessee Bankers Association
Independent Bankers Association of Texas

Virginia Association of Community Banks
Vermont Bankers Association
Community Bankers of Washington
Community Bankers of Wisconsin
Community Bankers of West Virginia
Wyoming Bankers Association

cc: Steven P. Merriett
Deputy Associate Director and Chief Accountant
Board of Governors of the Federal Reserve System

Kathy K. Murphy
Chief Accountant
Office of the Comptroller of the Currency

Robert F. Storch
Chief Accountant
Federal Deposit Insurance Corporation