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February 24, 2015

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

Re: Proposed Accounting Standards Update, *Financial Instruments—Credit Losses*
(*Subtopic 825-15*)

Dear Mr. Golden:

The Independent Community Bankers of America (ICBA)¹ continues to have concerns about the impact of the Financial Accounting Standards Board's (FASB) proposed accounting standards update, *Financial Instruments—Credit Losses* (Subtopic 825-15) and its impact on the nation's community banks. As you are well aware, community banks are local lenders who provide customized financing solutions for individuals, families, and small businesses in their respective communities across the country. In many communities, the local community bank is the only available resource to provide banking services including both consumer, residential and commercial lending. These banks provide loans that are tailored specifically for customer needs and borrower risk profile. As a result, these loans are generally held in portfolio and not eligible to be sold to the government-sponsored enterprises like Fannie Mae and Freddie Mac.

Community banks have long struggled with applying the impairment provisions of generally accepted accounting principles (GAAP) as they are applied to mortgage loans as multiple sets of guidance have been issued over many years with differing degrees of interpretation by regulators, auditors, and the banks themselves. Their struggles are compounded by the fact that prudential regulators have needed to extrapolate abstract principles in order to provide meaningful regulation for financial institutions of all sizes with very divergent business models. This historical application of impairment guidance

¹ The Independent Community Bankers of America®, the nation's voice for more than 6,500 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.

ICBA members operate 24,000 locations nationwide, employ 300,000 Americans and hold \$1.3 trillion in assets, \$1 trillion in deposits, and \$800 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

The Nation's Voice for Community Banks.®

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by prudential regulators has renewed concerns that the new credit loss guidance will be incorrectly applied by regulators in order to standardize its use across thousands of financial institutions of varying sizes that hold mortgage loans with different risk profiles.

Because of this risk and the overall general uncertainty around applying the proposed accounting standards update to community bank loans that are often atypical and inconsistent with the standardized, customary lending practices of larger regional and money center banks, ICBA is asking for the FASB to include one or more specific application examples in its final accounting standards update that address community bank provisioning for credit losses for nontraditional consumer, residential, and commercial mortgage loans where debt service is sourced from infrequent or irregular cash flow patterns and/or real estate collateral cannot be easily valued by an independent observer.

As discussed repeatedly with FASB board members and staff, many community banks across the country will rely on guidance from FASB on applying expected credit losses to these customized loan products that cannot be evaluated under a standard cash flow and collateral risk model. The examples provided by FASB should assume that the community bank cannot source collateral values from internal or external models and must rely solely on independent appraisals for fair value estimates. The examples should also assume that the loan is originated with the understanding that the primary risk characteristics of the borrower are not based solely upon projected cash flows or underlying financial conditions. Rather, the primary risk characteristics may be primarily or solely based on past payment history and overall customer relationship, which in some cases spans multiple generations. Finally, the examples should stress that when the inputs to a cash flow or expected loss model become too subjective as set forth here, the community bank should rely on historical loss experience for similar loans when projecting future credit losses.

ICBA believes that providing these examples is crucial to the effective application of an expected loss model for most community banks in the United States. Without the specific prescriptive guidance contained in an example format, diversity in practice will occur resulting in continued confusion among preparers, auditors, regulators, and standard setters. Complicating matters further is the current state of community banking, where regulatory burden has reached unprecedented levels straining limited bank resources that cannot easily deploy high levels of capital for complex modeling processes and the personnel needed to support such an endeavor.

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Thank you for considering the nation's community banks and the valuable service they provide to communities across the United States. If you have any questions or would like additional information, please do not hesitate to contact me at james.kendrick@icba.org or (202) 659-8111.

Sincerely,

/s/

James Kendrick
Vice President, Accounting & Capital Policy

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