INDEPENDENT COMMUNITY BANKERS of AMERICA

CUNA Credit Union National Association

March 17, 2016

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

Re: Allowance for Loan Losses and the Current Expected Credit Loss Model

Dear Mr. Golden:

Our associations represent the key institutions that drive economic growth in the United States as we continue to recover from recessionary conditions. Our members create jobs, build and grow communities, start and cultivate families, launch small businesses, facilitate local commerce, and provide liquidity in financial markets across urban, rural, and underserved communities across the country. When accounting standard setters implement well formulated, sensible and effective generally accepted accounting principles (GAAP), our members are able to thrive under a recognition and measurement framework that promotes accurate and transparent financial reporting for all organizations. However, when proposed GAAP puts our diverse economic models at risk, families, communities, and the entire nation begin to suffer. We believe that without simple, straightforward, but significant amendments, the Financial Accounting Standards Board's (FASB) current expected credit loss model (CECL) will amplify these risks and could result in significant economic suffering.

As you are now well aware, regulatory agencies have been quite vocal in stating that adoption of CECL as now proposed will materially increase the allowance for loan losses for community financial institutions engaged in local lending. These agencies have also begun advocating for these institutions to track, store, and manipulate large volumes of historical loan loss data. Third party service providers have seized upon this posturing as an opportunity to promote the use of complex multi-path modeling techniques that could result in an array of expected outcomes depending upon the sophistication of the model and the inputs provided. Dramatic increases in loan loss allowances with no credible evidence of heightened risk and forceful adoption of modeling techniques is a sure path to stunt economic growth as community financial institutions are forced to severely limit or curtail a multitude of lending opportunities that promote economic growth. The end result is a significant reduction in credit extended, fewer homes being purchased, fewer small businesses being cultivated, fewer families being able to send a child to college, and overall economic malaise. The effects are more greatly felt in rural and underserved communities, where local financial institutions are a pillar of strength when it comes to providing and expanding economic opportunity.

Our organizations come to you today with a simple ask. We ask you to consider communities across the nation as you finalize CECL to ensure that you do not bring harm to the country. We believe that a more sensible approach to projecting credit losses is the remedy. The final accounting standards update (ASU) should specifically mandate the avoidance of day one loss recognition at transition and on newly originated loans by community financial institutions. Additionally, the use of modeling tools that deviate from the community financial institution's current techniques used in provisioning for credit losses should not be required. In that regard, the final ASU should also include an example promoting the use of spreadsheet tools for non-complex financial institutions to bring transparency to the need for simplicity in the adoption of CECL by these community financial institutions.

Our associations believe that these accommodations are crucial to avoid great economic damage to the nation. We also believe that these amendments are simple, straightforward, and require little effort for FASB. The time has arrived for FASB to heed our concerns and take action to avoid strife where possible.

Thank you for allowing these institutions to share their grave concerns on this matter. Please do not hesitate to contact us with any questions or concerns.

Sincerely,

Camden R. Fine
President and CEO
Independent Community Bankers of America

Jim Nussle
President and CEO
Credit Union National Association

CC: Janet L. Yellen, Board of Governors of the Federal Reserve System
Debbie Matz, National Credit Union Administration
Thomas J. Curry, Office of the Comptroller of the Currency
Martin J. Gruenberg, Federal Deposit Insurance Corporation