VIA ELECTRONIC MAIL (director@fasb.org)

August 24, 2009

Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Attention: Mr. Russell Golden, Technical Director

Re: File Reference No. 1700-100: Exposure Draft of a Proposed Statement of Accounting Standards - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

Dear Mr. Golden:

Texas Capital Bancshares, Inc. ("TCB") appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB") Exposure Draft of a Proposed Statement of Financial Accounting Standards – *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, dated June 24, 2009 (the "ED"). TCB is a financial services company headquartered in Dallas, Texas. As of June 30, 2009 we reported consolidated assets of \$5.3 billion, total loans of \$4.8 billion, deposits of \$3.6 billion and stockholders equity of \$464 million.

In general, TCB supports clarity and transparency in the reporting of the allowance for credit losses and the credit quality of financing receivables. However, we do not support the ED as it is currently proposed by the FASB. We are concerned with the timing of the ED, as well as the usefulness/relevance and consistency/comparability of the disclosures proposed in the ED. We also believe that further clarification is needed on several of the ED's proposed requirements. TCB currently provides a significant amount of credit quality information to investors in its publicly available regulatory filings, so we believe that a proposal to standardize disclosure is unnecessary. Moreover, such standardized disclosure proposals may cause confusion in comparing the credit quality experiences of different companies.

Based on our concerns, we recommend that a new open process be initiated by the FASB, which would include specific outreach to banks that regularly field analyst/investor questions on credit quality during earnings announcement calls and routinely handle follow-up inquiries on credit quality disclosures in the quarterly SEC filings. If, as a result of this process, the FASB determines that a new accounting standard with new required disclosures is necessary, we believe that feedback from such banks would be beneficial in developing a new accounting

standard that would provide useful and relevant disclosures with a reasonable implementation period.

A summary of TCB's concerns is provided below:

A. Effective Date of the Exposure Draft is Too Early

The ED proposes an effective date for TCB of the year ending December 31, 2009. TCB does not believe this can be effectively done in a controlled environment that would be acceptable for the Sarbanes-Oxley Act of 2002 ("SOX") financial reporting requirements until at least year end 2010 for the following reasons:

- 1. Current systems currently cannot provide the information required by the ED in an acceptably efficient and reliable manner. Some of the required information is not tracked at this time and, thus, is unavailable. To begin formulating the required disclosures, TCB would need to employ significant system and procedural changes, which would require a significant and costly time commitment. And, due to the proposed timing of the effective date of the ED, we would need to employ some manually intensive procedures in order to develop the required disclosures until the system changes could be fully implemented and operational. All of these system and procedural changes would need to meet the internal control over financial reporting requirements set forth in SOX Section 404. While some of the required information is available and currently reviewed by our management, much of that information is often derived through cumbersome manual processes that would require significant revisions to comply with SOX requirements if the information was included in our financial statement footnotes.
- 2. It would be extremely difficult to recreate the proposed rollforward of allowance for credit losses and related financing receivables activity for the period January 1, 2009 through December 31, 2009 and other disclosures proposed by the ED. In some cases, it may not be possible to accurately recreate and develop related disclosures within the proposed timeframe.

B. Use of Information/Relevance

We understand the desire for more information on credit quality; however, we question the relevance of the proposed disclosures for the following reasons:

- Many of the proposed disclosures are already required and included in our publicly available regulatory filings (i.e. FR Y-9C and Call Report), but in different levels of detail and/or categorization than proposed in the ED (i.e., past due loans and restructured loans). We believe the information currently provided in the regulatory filings is sufficient and do not believe including the information in the financial statement footnotes at another level of detail is necessary.
- 2. The effects of ASC Topic 805, *Business Combinations*, and ASC Subtopic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, are making the detail tracking of credit loss reserves a moving target that is very confusing to users of financial statements. Since both of these accounting standards require previously recorded reserves to be eliminated (in essence, the loans are recorded at fair value as of the date of the transaction), users will be confused over how the disclosures under the ED and ASC

Topic 805/Subtopic 310-30 will relate to each other, as well as how they compare from year to year. For example, loans having the very same credit profile will likely have significantly different reserves attached to them, depending on when or how they were acquired. ASC Subtopic 310-30 also puts into question the consistency between terms, such as "nonaccrual", "delinquent", and "impaired", since these terms may take on "accounting" meanings that vary from their "regulatory" or "contractual" connotation. While this would be explained, it does not make the tables any clearer for the financial statement user. If the increase in banking mergers expected over the next few years by some industry observers occurs (and resulting application of ASC Topic 805 and ASC Subtopic 310-30), such confusion will only increase, and the information required by these proposed disclosures will be increasingly irrelevant.

- 3. The FASB's current financial instruments project is expected to significantly change the scope as to which instruments will utilize allowances, as well as how credit losses are calculated. Therefore, it is likely these proposed disclosures will soon be outdated and require revision soon after implementation. Given the changes anticipated and the confusion noted above, along with the current estimate of the systems modifications and related procedural changes required to adopt the ED, the benefits of requiring such information clearly do not outweigh the costs.
- 4. Details noted in the ED are overly prescriptive. We are concerned that the tabular disclosures included in the ED, while only shown as examples, will become a required standardized format. Such standardized formats will often represent insufficient or irrelevant information as to how a company determines its allowances. An example is the requirement to list the carrying amount of receivables that are past due 90 days or more, but are not impaired and interest is still accruing. If management feels that the economic environment warrants that number of days to be 60 or 120, the 90 day amount would be reported as required but is rendered meaningless.
- 5. Fair value disclosures are irrelevant to the allowance for credit losses. These disclosures are not normally used by management, and fair values often contain liquidity discounts that do not reflect the actual losses expected and, therefore, do not equate to credit quality. Fair value of the loan portfolio is currently disclosed in the estimated fair value footnote disclosures, as well as the fair value of certain impaired loans where collateral value is relied upon, which we believe to be sufficient.
- 6. We also do not believe there is significant value in disclosing further disaggregation between individually impaired and collectively impaired. We believe disclosure of total impaired loans, which is already disclosed in the financial statement footnotes, is relevant and useful, but further disaggregation is not deemed necessary, as management does not analyze information at this level and the benefits do not appear to outweigh the costs and efforts required to build disclosures at this level.
- 7. The ED requires that the activity in the allowance for credit losses and in the financing receivables related to the allowance be disclosed by portfolio segment and then further disaggregated into those that are evaluated collectively for impairment and those that are evaluated individually for impairment. We believe that the objective of measuring loan loss reserves under either the collective or individual evaluation is the same and we fail to understand how this level of detail is relevant to a reader of the financial statements. This type of differentiation could lead to misinterpretation of the financial information

disclosed and misguided decisions by readers. Moreover, our systems and approaches to computing allowances for credit losses were not constructed in a way that easily permits such segregation.

- 8. In addition, FAS 114 allows impaired loans with common risk characteristics to be aggregated in calculating the required loan loss allowance. It is unclear whether those aggregated loans and their related allowance for loan losses would be classified as loans that are collectively evaluated for impairment or individually evaluated for impairment in the reporting required by the ED. As a result, we would expect that there will be diversity in practice in this area.
- 9. Disclosure of the loan balances evaluated under FAS 114, as well as the related FAS 114 allowance, is already required in the financial statements. In addition, for bank holding companies, Guide 3 requires detailed information on loan balances and their related allowance for loan loss activity including provisions, recoveries and charge-offs. We do not support a presentation of loan and related allowance for loan loss information that is based on the methodologies that are used to calculate the loan loss reserves, as the ED would require. Instead, we recommend a presentation that considers the classification guidance provided by Guide 3.
- 10. We have general concerns regarding the level of granularity of the credit quality disclosures as proposed. Specifically, we have the following reservations: Paragraph 13 (b) of the ED requires disclosure by credit quality indicator for financing receivables carried at amortized cost that "are neither past due as determined by management's policy nor impaired as defined by Statement 114" we assume that this population would consist solely of accruing receivables deemed to be current in their contractual payments. We do not believe that such information is relevant or meaningful to a reader of the financial statements.
- 11. Paragraph 13(c) requires quantitative information about the credit quality of "financing receivables carried at a measurement other than amortized cost (fair value, the lower of cost or market, or present value of amounts to be received) that are neither past due as determined by management's policy nor impaired as defined by Statement 114," disclosed separately by measurement attribute. Note that the comments above regarding paragraph 13 (b) are also applicable here.
- 12. Information regarding credit grades for pass, special mention and substandard is sensitive and confidential. Lending at TCB is almost entirely focused on businesses and business interests of private clients, for which credit grades are maintained for substantially all loans.
- 13. For TCB and a large number of community banks, monthly loan loss provisions are not booked based on changes in specific activity and requirements for FAS 114 or FAS 5 reserves. Typically these requirements are calculated quarterly and the level of the required reserves are assessed. Excess or unallocated reserves may also be maintained and would somehow have to be accounted for. For recoveries, banks will have to research whether the original loan that was charged-off was a FAS 114 or FAS 5 classified loan.

14. Consider something like this: While allocation of the allowance for loan losses is a useful way to describe credit exposure, the allowance for loan losses is a general reserve and is available to cover loss exposure in the entire portfolio. Rollforward of allocations of a general reserve could produce significant inconsistencies and result in misinterpretation of the information provided.

C. Consistency/Comparability of Information

We are concerned the consistency/comparability of information from company to company resulting from varying degrees of interpretation of disclosure requirements will cause great disparity in the application by reporting entities. We also believe consistency/comparability of an individual reporting entity's information from period to period will be difficult to achieve when there are methodology changes.

We also have significant concerns over the consistency/comparability of disclosures by credit quality indicator between among banks with different business profiles, sizes and geographies. There are significant inconsistencies in the way banks grade loans, which could make comparisons difficult, misleading or impossible. This is especially true when lending at commercial and community banks is not generally to borrowers with public or private credit ratings, and standard rating approaches applicable to consumer loans do not apply.

We thank you for the opportunity to express our considerable concerns regarding this proposal, and respectfully request that the FASB Staff consider our concerns. Should you require further information or have any questions, please do not hesitate to contact me (telephone no. (214) 932-6600; email address Peter.Bartholow@TexasCapitalBank.com.

Sincerely,

/s/ Peter B. Bartholow Chief Financial Officer

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