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Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Via email: director@fasb.org

File Reference: No. 2011-150 Supplementary Document – *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities - Impairment* 

## Dear Technical Director:

ViewPoint Bank appreciates the opportunity to comment on the Supplementary Document – Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities - Impairment. ViewPoint Bank is a community bank with \$2.94 billion in assets serving the Dallas/Fort Worth area. ViewPoint Bank understands the concerns and complexity involved in determining when credit losses should be recognized on certain loans and other financial assets. While we believe the fundamental principles of the existing incurred loss model remain sound, some thoughtful and tailored changes are necessary to incorporate the cyclical behavior of financial instruments and lack of transparency around inherent losses prior to the deterioration of the credit environment. We recognize that no impairment model can completely address the cyclical nature of credit risk inherent in financial instruments and there will always be some level of volatility involved in the credit cycle. However, we believe it is possible to modify and enhance the existing incurred loss model to consider the cyclical behavior of financial instruments and lack of transparency around inherent losses in certain periods of the credit cycle in the determination of credit impairment.

In our opinion, we could more effectively estimate inherent credit losses by eliminating the probability threshold, incorporating expected events into the loss forecast and extending the loss emergence period. Inherent credit losses should be estimated using a two-step approach: a base component that represents the estimate of expected inherent losses in the portfolio that are reasonably predictable and a credit risk adjustment component that represents additional credit losses that are not yet reflected in current credit risk metrics used to estimate the base component but expected to emerge with more transparency as the credit cycle unfolds. Although described in two steps, these components are interrelated and are each necessary to estimate losses inherent in the portfolio.

Many critics have concluded that the existing model for credit impairment may not be capable of capturing the portion of losses that have been incurred, but for which, there is no current observable evidence of credit loss. We believe the credit risk adjustment component concept more effectively addresses this weakness and enhances the existing incurred loss model from both a balance sheet perspective (by more completely capturing estimates of expected inherent losses), and an income statement perspective (by appropriately accelerating the recognition of credit losses into the periods in which they are inherent but not readily observable, and not concentrating loss recognition into the later



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stages of a credit cycle when losses are observable and can be specifically identified). We believe that a credit impairment methodology that estimates credit losses inherent in the portfolio, comprising both a base component and a credit risk adjustment component, will address many of the concerns with the existing impairment model, and is superior to all other models proposed to date. In our opinion, this methodology has a solid foundation in existing accounting principles and credit risk management practices in our industry, and is similar to concepts and practices in analogous circumstances to estimate inherent losses in other industries.

We believe that the time-proportional approach outlined in the Supplementary Document would be difficult to implement and to explain to investors as it would require us to use estimates for the weighted-average life of the portfolio and the expected losses for the remaining life of the portfolio. These complex estimates and the time-proportional amount calculation would be difficult to document and to explain to users of financial statements. An inherent problem with the time-proportional approach relates specifically to open-ended loans, such as lines of credit, that do not have a set maturity date. With these types of loans, it would be impossible to closely estimate the average life of the portfolio. Also, evaluating the average life of a loan portfolio using origination and duration data is not meaningful when determining when credit losses should be recognized. We support the approach of estimating expected losses in the foreseeable future and feel that the two-step model described above would best accomplish this task.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me at Patti.McKee@viewpointbank.com if you would like to discuss our views.

Sincerely,

Patti McKee

EVP/Chief Financial Officer

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ViewPoint Bank