2012-260
Comment Letter No. 100

May 18, 2013

Leslie Seidman
Chairman
Financial Accounting Standards
Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Via email: director@fasb.org

RE: File Reference No. 2012-260: *Financial Instruments – Credit Losses*

Dear Chairman Seidman:

Gothenburg State Bank appreciates the opportunity to comment on the Exposure Draft: *Financial Instruments – Credit Losses* (ED). The Gothenburg State Bank is a small town Community Bank in middle Nebraska. We are slightly bigger than $100 million in Assets with loans presently making up nearly 80% of our assets. Agriculture is our main business. We try to support the surrounding 100 miles with 1-4 family home loans and we have a few commercial and industrial credits. Our investment portfolio is conservative and makes up nearly the other 20% of our Assets. We have only one small branch 13miles from our main Bank. With a total staff of less than 30 we spend 2-3 hours per month working on our ALLL calculations.

We support the points in the American Bankers Association comment letter and believe the Banking Industry Model (BIM) will satisfy FASB's objective to recognize credit losses earlier than the current incurred loss model. However, instead of the huge costs that will be incurred to implement a "life of loan" analysis, the BIM requires much less time and cost to implement while maintaining the integrity of the provisioning process.

We agree that credit losses should be recorded when they are expected, but the life-of-loan projection required by the Current Expected Credit Loss (CECL) model in the ED requires bankers to make projections farther into the future than we are capable of making with any level of reliability. I've worked nearly 40 years in this business and in this small town losses come only periodically and as the result of trends that develop due to economic happenings. The time and effort spent to attempt this task is a cost we don't need and will result in higher estimated reserves for needless periods of time. We think this will require us to accrue for losses that are neither reliable nor necessarily "expected" by us.

The ED requires us to begin with historical data, which we believe should not be the base requirement. To give you an example of how this is problematic, we have examined our loss data for all loans in the portfolio to determine whether effective estimates can be based on them. We have found the following:

Over the past twenty years, 30% of the charge-offs in our portfolio were taken in 2002 and were related to loans issued in the late 1990's. Most of this loss centered around the closing of one

business, with the remaining loans experiencing a very low level of losses. Starting from the historical average would likely require a very large downward adjustment to what we really expect. The problem we see is how to support the specific adjustment amount – why would support for a 50 basis point adjustment be any different from a 100 basis point adjustment? With such differences in the underlying data points, we also wonder whether it is legitimate to rely on such data at all.

In one of the examples in the ED, it is suggested that vintage data can be used to estimate the remaining percentage of losses that a vintage should expect. However, over the past twenty years, our data indicates that there has been no predictability of when, during the age of the loan, it will become impaired. In my 40 years as a lender this bank has had two periods of high losses. The 1980's tied to agriculture and the examination response, and the other two large loss years being tied to big credits that failed due to economic changes in certain industries. Predictability of these write-offs may have been seen no more than 12-18 months prior to the losses. Therefore, it appears that this approach using vintage data is not necessarily a valid predictor.

Our loan administration systems for the Gothenburg State Banks loans do not maintain the origination date, as only our latest renewal date is maintained. This would seriously put into question any estimates of the lives of our loans for modeling purposes. We have the same customers for most of their lifetime.

Again, we agree with the comment letter written by the American Bankers Association dated May 14, 2013, and we believe the ED needs to be significantly amended for the reasons noted above as well as in their letter.

Thank you for your attention to these matters. Please feel free to contact me concerning a small bank perspective.

Sincerely,

Michael R. Hilderbrand
1st Vice President