May 21, 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:

Intermountain Community Bancorp ("IMCB") appreciates the opportunity to comment on the Exposure Draft: *Financial Instruments – Credit Losses* ("ED").

IMCB is the holding company for Panhandle State Bank ("PSB"), a \$950 million community bank with 19 offices in Idaho, Eastern Washington and Eastern Oregon. We currently hold about \$520 million in net loans receivable and \$300 million in debt securities, of which about \$75 million is in municipal securities. In conjunction with an outside provider, we have developed a relatively robust "ALLL" and credit stress testing system and methodology, and have effectively implemented the "OTTI" guidance on debt securities.

After carefully reviewing the exposure draft, we have the following concerns and comments regarding the proposed guidance:

Current Expected Credit Loss ("CECL") Model:

We do not support the implementation of the CECL model. 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 further into the future than we are capable of making with any level of reliability. Even with access to large amounts of data provided by third parties, the reliability of estimates beyond two or three years is highly suspect. History shows repeatedly that longer-term economic forecasts are wrong as often as they are right. For example and directly to the point of correcting issues that came to light in the recent financial crisis, very few individuals predicted a significant economic downturn even in 2006, much less 2004 or 2005. To base an ALLL system on these assumptions creates a sense of predictability that simply is not there.

In addition, the CECL model creates significant operational challenges, including:

• the development, maintenance and ongoing organization of a tremendous amount of additional information on loans, including original origination dates on renewed loans and the specific linkage of chargeoffs and recoveries to various economic or other events.

- The difficulty of developing a life-of-loan prediction process that is both dynamic and auditable. Two specific problems we perceive in this process are: (1) how to support and document a specific adjustment amount for expected losses, i.e. why would a 0.50% adjustment be any more or less supportable than a 1.00% adjustment; and (2) changes in loan loss rates tend to result much more from changing economic or underwriting conditions than other factors, and it is very difficult to predict when and to what extent these are likely to occur over a longer time horizon. As an example, term commercial real estate loans, which comprise a relatively large segment of most community bank portfolios, often have maturity and/or amortization terms that extend 10 to 25 years. This kind of term would likely cross several economic cycles. Assessing an up-front life-of-loan "expected loss" on this type of loan, which essentially would be required under the CECL model, with any predictive reliability would be almost impossible.
- The extreme volatility that could result from changes in long-term economic forecasts, the potential sensitivity of the modeling to these forecasts and the resulting impacts on bank regulatory capital levels.
- The amount of disclosure that would be required to explain management's assumptions, in an area where we already hear many complaints that the current information is overwhelming to the point of being less useful.

In our view, the Banking Industry Model ("BIM") will better satisfy FASB's and the industry's objective to recognize credit losses earlier than the current incurred loss model. The model discontinues the "probable loss" notion, allows for the consideration and inclusion of more current and projected future risks in developing the reserve, and retains impairment accounting, which is a concept widely understood and supported by regulators and investors. Instead of the huge costs that will be incurred to implement a "life of loan" analysis, the BIM also requires much less time and cost to implement while maintaining the integrity of the provisioning process.

Furthermore, the BIM continues the evolution that the banking industry, accountants and regulators have already been working on since the financial crisis, in allowing for greater inclusion of qualitative factors and stress-testing results, without creating the huge uncertainties of a life-of-loan expected loss model.

Comments on Other Proposals Included in the Draft:

- We emphatically disagree with the inclusion of debt securities in the scope of the ED. The current OTTI model is now well established, works well and is understood by both providers and users of financial statements. Adding a reserve component would add little real value, especially given that banks now more than ever, are focused on investing in only higher quality instruments. It would also create the following challenges:
 - o The same challenges as noted above if CECL is adopted;
 - Additional setup, tracking and disclosure requirements for the investment portfolio, which would be completely built from scratch, as it would be an entirely new requirement;
 - The reconciliation of fair value versus the reserve, given that the fair value of "available for sale" and "trading" securities already take into account a credit component. Functionally, how would someone calculate a reasonable additional reserve on a security that is already purchased below par as a result of credit concerns?

- O More complex disclosure, on top of the additional disclosure already required for fair value and the proposed additional disclosure on liquidity and rate risk. At some point the amount of disclosure overwhelms the user and becomes less useful rather than more useful, particularly for typical community banking investors.
- We appreciate and support the standardization of treatment for purchased credit-impaired loans and believe that it should be standardized for all purchased loans.
- We also support the inclusion of the non-accrual principle. Treatment of non-accrual assets has already largely been standardized in the industry for many years and has been particularly refined over the past four years. Codification would further clarify the treatment.
- We continue to view the guidance related to troubled debt restructures ("TDRs") as confusing, and would suggest either eliminating it as separate disclosure or revising it to align more closely with the original objective. Application of the current guidance ensnares many loans that we believe are not necessarily TDRs, and more critically, retains them as TDRs forever, even after the borrowers recover from a stressed condition.
- We urge FASB to carefully consider the amount of disclosure expected to be required regarding loans and the allowance. The loan footnote in our most recent Form 10Q was 11 pages long and we are a relatively small community bank with a simple organizational structure and loan portfolio. As noted above, at some point the amount of information provided becomes overwhelming to users, and as a result, becomes less useful. We question whether users, and particularly community bank users, really desire or support expanding the footnote disclosure further.
- We are deeply concerned about the confluence of new allowance guidance with significant changes in capital requirements proposed by our regulators. We recognize that FASB has no direct control over regulatory capital requirements, but encourage you to at least consider the impact to the industry of having these changes hit concurrently. A combination of higher capital and reserve requirements is very likely under the proposals and will have a negative short-term impact on the industry. In addition, the cost, time and resources required to comply with both will place additional burdens on already limited resources at community banks.
- From a timing and implementation perspective, we believe it will take us two to four years to effectively implement the new guidance, depending on which model is selected and whether investment securities are included. We encourage FASB to provide adequate time and additional, more specific, guidance to allow for reasonable and effective implementation.

Thank you for your attention to these matters. Please feel free to contact me if you would like to discuss our views.

Sincerely,

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