BSV | The Bank *of* Southside Virginia

2012-260
Comment Letter No. 213

May 28, 2013

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

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

Dear Chairman Seidman:

The Bank of Southside Virginia appreciates the opportunity to comment on the Exposure Draft: Financial Instruments – Credit Losses (ED). Our community bank is $550 million in assets, employs approximately 130 people and has 15 branches throughout southeastern Virginia. We pride ourselves in operating a safe and sound institution that our customers can truly depend on and that our shareholders recognize value for their investment.

As we certainly understand the need for both bankers and investors to understand the accounting for credit losses, we also remind you of the need to establish a standard that relies on sound judgment from bank management, is not over bearing or costly to implement and/or to calculate and provides useful information to the reader of the bank's financial statements.

We believe that the U.S. Banking Industry Model (BIM) is an improvement over current GAAP as well as over the many models discussed to date. We also believe that the BIM serves both bankers and investors better than the Current Expected Credit Loss (CECL) model.

The CECL model will not necessarily provide the most useful information to bankers or investors. The following items detail problems with the model:

- Impairment for debt securities as specified in the draft should not included. Current Other Than Temporary Impairment is working and should be retained

- Life of the loan (LOL) allowance recorded at origination can mask credit risk transparency because deterioration that is expected will not result in additional loss provisions

- LOL allowance may delay loss recognition in times of financial distress and increase market volatility

- Historical loss measures will be rendered irrelevant and forward looking measures may be harder to compare

- Operational changes will be burdensome and costly; complete changes to Allowance for Loan and Lease Losses will be required

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- Bankers are not of the mindset to remain in business by making loans in which they believe a write-off will occur. Therefore, the notion of calculating a loss on "Day 1" is in direct conflict to sound credit underwriting and risk management practices. Why would you make a loan and then immediately calculate a loss on it? Just don't make the loan and find alternative methods to gain a positive return on assets.

The BIM represents a compromise between the FASB model and the IASB model. We believe that this model will satisfy the objective to recognize credit losses earlier than the current incurred model. The following points detail support for the BIM:

- Provides appropriate guidance in understanding the loan impairment process, loss events and forward-looking loss events; provides for additional disclosures to assist users in understanding and comparing entities

- Discontinues the probable loss notion; if future risks are identified, they are provided for

- Builds on existing practices among U.S. banks of all sizes, rather than requiring complete system changes; less costly implementation

- Addresses "earnings management" issues through full disclosure to the financial statement reader

- Avoids primary reliance on historical data and clarifies foreseeable future

- Addresses risks building from economic cycle, concentrations, bubbles, etc that are difficult to quantify

In conclusion, we trust that the FASB Board will take prudent steps to avoid wholesale changes that may confuse bankers, regulators and shareholders. We recognize that any impairment model can have economic policy implications but understand that the timing of credit loss recognition can alter the rate of return of lending and the cost of providing that funding of the initial credit. We urge the FASB to continue to study and seek out the most advantageous model which we believe is most strongly aligned to the BIM.

I thank you for the opportunity to comment.

Sincerely,

J. Peter Clements
President and CEO