

Marcus & Millichap

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October 15, 2013

Mr. Russell G. Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update: Financial Instruments—Credit Losses

Dear Mr. Golden:

My name is Richard A. Hawthorne and I am Director of Marcus & Millichap, Note Advisory Services division. I am writing to you today **ENDORSE** the proposed accounting standards update on impairment for loans and securities currently under deliberation by the FASB. Thousands of Community Banks throughout the United States are relationship-based institutions that serve the local community through customized lending and are tailored to specific customer needs. Community Banks lend based on relationships they have built with customers over many years. The proposed credit loss model, with its reliance on realistic complex modeling techniques and front loading impact on loan loss (ALLL) provisioning, is absolutely the right approach to properly provide for future credit losses. Proper reserves (ALLL) are essential to the financial health of Community Banks.

I support the need to overhaul the current incurred loss events to reduce credit losses. Had community banks been able to provide for reasonable and expected credit losses sooner in the credit cycle, many of the recent strains placed on community banks would have been easily avoided. They did not. This is why I am asking you today to adopt your Proposed Accounting Standard and completely disregard the proposal of the Independent Community Bankers of America.

The proposal set forth by ICBA **IS NOT** realistic for building a proper loan loss reserve. It is self-serving as loans and securities become impaired where a loss is probable, institutions are already allowed to further increase the reserve based on a specific measurement of impairment considering the value of all relevant loss mitigation alternatives. ICBA's alternative proposal **DOES NOT** properly build the necessary allowance in a ratable metric that matches the credit risks inherent in the financial instrument with its risks. Additionally, reserves, often inadequate, are recognized sooner in the credit cycle, which rarely meets FASB's objective in reforming the shortfalls exposed during the recent credit crisis. Most importantly, the alternative proposal

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removes the day-one-loss concept from the equation, a provision that would greatly help the financial stability of community banks nationwide.

Thank you for taking the time to consider my concerns. If you have any questions or would like additional information, please do not hesitate to contact me at (949) 419-3207 or richard.hawthorne@marcusmillichap.com.

Sincerely,
MARCUS & MILLICHAP, Note Advisory Services



Richard A. Hawthorne
Director