The following people have submitted the same comment letter as the one shown.

CAROL FEHRLE	QUAIL CREEK BANK
ELLEN ROBISON	QUAIL CREEK BANK
DOUG FULLER	QUAIL CREEK BANK
TONI YORK	QUAIL CREEK BANK
CAROLE JOHNSON	QUAIL CREEK BANK

October 17, 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:

The undersigned state banking associations strongly oppose the Financial Accounting Standards Board's proposal on implementation of the expected credit loss model for loans and investment securities currently under deliberation. The nation's community banks are small, relationship-based institutions that serve their local communities through customized lending that is tailored to specific customer needs. Community banks assess credit risk based on relationships built with their customers over many years and multiple generations.

The proposed expected credit loss model harms community banks, their customers, and local economies by front loading credit losses at inception without considering the evolution of realized losses throughout the credit cycle. The Office of the Comptroller of the Currency estimates that loan loss reserves on average will increase by 30 – 50% with adoption of the proposed expected credit loss model with the impact on some banks much greater. Additionally, the proposed expected credit loss model relies on complex modeling techniques that are difficult and expensive for community banks to adopt. The proposal exposed for comment is simply the wrong approach to properly provide for future credit losses incurred by community banks that lend on Main Street, USA.

Unlike the largest banks that have pools of thousands of similar loans that can be modeled together to determine expected losses under different economic scenarios, community banks underwrite loans individually based upon an entire borrower relationship. They are subject to bank examinations every 12-18 months where the majority of their assets are individually scrutinized for credit quality. Also unlike the largest banks, community banks primarily maintain their investment portfolios for liquidity and to pledge as collateral on deposits by their local municipalities. Community bank investment portfolios, which in some cases represent up to 50% of total assets, are generally of exceptionally strong credit quality and few, if any losses are ever realized on this segment of their invested assets.

We encourage the board to consider an alternative approach that relies on historical losses as the primary driver for building and maintaining the loan loss reserve. As loans and securities become individually impaired, the reserve would be increased based on a specific measurement

Quail Creek Bank

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of impairment. This alternative proposal properly builds the necessary allowance in a ratable fashion that matches the credit risks inherent in the financial instrument with its earning potential. Reserves are recognized sooner in the credit cycle, which meets FASB's objective in reforming the shortfalls exposed during the recent credit crisis. This approach is easy to understand, easy to implement, and provides a sound loss recognition framework without greatly harming community banks nationwide.

Thank you for taking the time to consider our concerns with the proposed expected credit loss model.

Sincerely,

Carol Fehrle

Carol Fehrle
Senior Vice President

cc: Steven P. Merriett
Deputy Associate Director and Chief Accountant
Board of Governors of the Federal Reserve System

Kathy K. Murphy
Chief Accountant
Office of the Comptroller of the Currency

Robert F. Storch
Chief Accountant
Federal Deposit Insurance Corporation