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

MICKEY B. FALCONER	LEGEND BANK
JAY BEARDEN	LEGEND BANK

INDEPENDENT BANKERS ASSOCIATION OF TEXAS

AFI-UNS
Comment Letter No. 42

INDEPENDENT BANKERS
ASSOCIATION OF TEXAS

1700 RIO GRANDE STREET
SUITE 100
AUSTIN, TEXAS 78701
P: 512.474.6889
F: 512.322.9004
WWW.IBAT.ORG

JAY M. GOBER
IBAT CHAIRMAN
JGOBER@FSBGRAHAM.COM
FIRST STATE BANK, GRAHAM

JOHN W. JAY
IBAT CHAIRMAN-ELECT
JWJAY@ROSCOESTATEBANK.COM
ROSCOE STATE BANK, ROSCOE

ROGERS POPE, JR.
IBAT VICE CHAIRMAN
RPOPEJR@TEXASBANKANDTRUST.COM
TEXAS BANK AND TRUST, LONGVIEW

DARLA ROOKE
IBAT SECRETARY-TREASURER
DROOKE@JUNCTIONNATIONAL.COM
JUNCTION NATIONAL BANK

KEVIN W. MONK
LEADERSHIP DIVISION CHAIRMAN
KMONK@ALLIANCEBANK.COM
ALLIANCE BANK, SULPHUR SPRINGS

WILLARD J. STILL
IBAT EDUCATION FOUNDATION
CHAIRMAN
WSTILL@AMBANKWACO.COM
AMERICAN BANK, N.A., WACO

TROY M. ROBINSON
IMMEDIATE PAST CHAIRMAN
TROBINSON@BANKTEXAS.ORG
BANK TEXAS, QUITMAN

CHRISTOPHER L. WILLISTON, CAE
PRESIDENT AND CEO
CWILLISTON@IBAT.ORG

STEPHEN Y. SCURLOCK
EXECUTIVE VICE PRESIDENT
SSCURLOCK@IBAT.ORG

JANE HOLSTIEN
SENIOR VICE PRESIDENT
JHOLSTIEN@IBAT.ORG

URSULA L. JIMENEZ, CAE
SENIOR VICE PRESIDENT
UJIMENEZ@IBAT.ORG

CHRISTOPHER L. WILLISTON, VI, CAE
SENIOR VICE PRESIDENT
CLWILLISTON@IBAT.ORG

CURT NELSON
IBAT SERVICES PRESIDENT
CNELSON@IBAT.ORG

MARY E. LANGE, CAE
IBAT EDUCATION FOUNDATION
PRESIDENT
MLANGE@IBAT.ORG

JULIE COURTNEY, CAE, CMP
IBAT EDUCATION FOUNDATION
SENIOR VICE PRESIDENT
JCOURTNEY@IBAT.ORG

October 23, 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:

While we are aware that the comment period is over, the concerns raised by our member banks regarding this particular proposal have increased significantly over the past month. We are hopeful that you will consider our thoughts, specifically as they relate to the community banking business model.

You are no doubt aware that community banks are facing monumental challenges in the wake of a financial crisis they neither contributed to nor profited from. The multitude of regulatory requirements, and the rapidity with which these mandates are generated from Washington, D.C. and elsewhere, are creating frustrating and costly challenges for the small banks in Texas and across the country. Tragically, the quest to “fix” perceived problems in the industry is forcing additional consolidation and concentration, and resulting in consumers having fewer choices for financial services.

The expected loss model (CECL) appears to be yet another untested academic theory, but one that will create significant additional costs and burdens on a portion of the industry that frankly cannot deal with any more mandates that are inappropriate and unnecessary for the community bank business model.

It is interesting to note that one of the issues many of our banks dealt with prior to the 2008 meltdown was auditor determination that their Allowance for Loan and Lease Losses (ALLL) was over-reserved. Community banks, especially in Texas, understand the importance of adequate levels of capital and reserves, and intimately understand how quickly an economic downturn can stress a bank’s financial condition. The regulatory scrutiny on community banking is significant, and the business model is simple enough to adequately assess risk in the asset mix without complex and cumbersome new requirements as proposed.

Further, it is disturbing that the Office of the Comptroller of the Currency recently estimated that the reserves of community banks would increase some 30 – 50%. Several bank regulators, in recent anecdotal discussions, have indicated that they believe the vast majority of community banks have adequately reserved against potential losses.

AFI-UNS
Comment Letter No. 42

It is evident that any reserve methodology intended for "normal business cycles" will not be sufficient to cover potential losses in a meltdown similar to our experiences in Texas in the 1980's, or more recently in parts of the country subsequent to the 2008 disaster. However, it is our strong belief that community banks can and do react much more quickly and appropriately than their larger counterparts when economic or other challenges arise.

The cumbersome process as proposed, along with the predictions of significant increases in the reserve accounts of most banks, will in our assessment not only create additional stress on our banks, but also further restrict credit availability, especially for marginal borrowers.

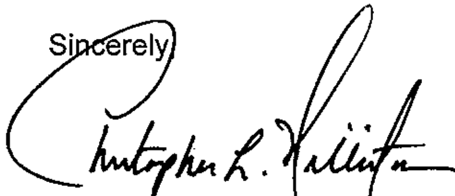
The additional scrutiny on investment portfolios is also potentially problematic. Community banks invest in high quality securities, and rarely if ever experience losses on this asset segment.

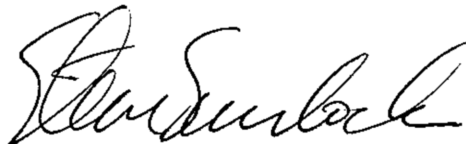
It would appear that a methodology considering the risk profile of the portfolio, historical losses, economic conditions and risk management practices of a particular bank is an appropriate template for a general reserve. Further, as a particular asset becomes impaired, classified or otherwise reflects weaknesses, a specific reserve should be allocated to that asset and monitored for adequacy on an ongoing basis. We believe that this is the standard practice in our sector of the industry, and one that has worked well over several decades.

We are asking for FASB to consider a common sense, real world approach to appropriate measurement of credit losses in the loan portfolio for community banks, and believe that such is already the practice of virtually all of the smaller banks in the country. Sadly, much like the original Basel III capital proposal, the credit loss proposal now under consideration reflects an ongoing disconnect between the regulatory entities and the reality of Main Street community banking.

Thank you for your consideration of our thoughts on this important issue.

Sincerely,





Christopher L. Williston, CAE
President and CEO

Stephen Y. Scurlock
Executive Vice President

cc: The Honorable Charles Cooper
Commissioner
Texas Department of Banking

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