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WOODSVILLE GUARANTY  JAMES E. GRAHAM
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FIRST NATIONAL BANK OF MOOSE LAKE  LARRY D. PETERSON
FLUSHING BANK  JOSEPH SHKRELI
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FLUSHING BANK  ANIL DATTA
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<td>ANDY MCDONALD</td>
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January 29, 2014

Russell G. Golden  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  
Via email: director@fasb.org

RE: Exposure Draft 2012-260 and the CECL Credit Loss Estimation Model

Dear Chairman Golden:

We are writing you to express our concern related to the Current Expected Credit Loss CECL model for credit losses.

We are a $120 million asset community bank located in Irving, Texas, a suburb of Dallas, with a secondary location in Frisco, Texas. The majority of our customers are locally owned businesses with $30 million or less in sales, and less than 100 employees. And, the greatest portion of our loans are owner-occupied commercial real estate loans, equipment loans and working capital loans. Today we spend 10-15 hours each quarter performing our Allowance for Lease Loss (“ALL”) analysis.

We have no problem with recording credit losses when they are expected – no matter how far out in time those losses would be. However, the wording of your exposure draft raises some very practical questions about whether we could implement the CECL, and, if so, how it should be implemented. In order to prove to our auditors and examiners that we have performed a life-of-loan loss analysis over our portfolios, analyses appear to be required. However, we currently do not perform significant vintage analyses, and we question how effective such analyses would be.

- Our loss experience is normally very low each year, except for those years between 2008 and 2011. Basing the estimation process on historical life of loan averages means that we will be starting with numbers we know are wrong. Although you expect us to make adjustments from the historical averages, the adjustments will be huge. How will we support our adjustments from the averages when they could be as much as 200 to 400 basis points?

- Portfolio analysis by vintage can make sense for certain portfolios, like conforming residential home mortgages. However, many of our commercial loans are renewable, revolving or otherwise have no real need to be analyzed by vintage. We are struggling with whether we, our auditors, and our examiners will have a meeting of the minds about the appropriate analysis of the lives of our loans. This can be especially important for outstanding loan commitments.
- We normally have a good sense of the economic climate in our footprint over the next twelve months, but less so for forecasting after that. We understand that you believe that we should assume an average economic scenario for our forecasts beyond what we can foresee. However, this requires either individual loan analysis or more intense vintage-by-vintage analysis to ensure there is no double-counting in our estimates. We currently do no vintage-by-vintage analysis and also question the reliability of such analysis.

- The requirement to record estimates far into the future is troublesome because of the inherent inaccuracy of such estimates. This will cause volatility in our portfolios that are unnecessary. Our banking regulators also currently require us to back-test our estimates for loan portfolios, which will much more difficult to do under the CECL. We fear that the CECL will result in a severely negative impact on our “model risk” ratings without justification.

- We are having trouble understanding how to manage our lending business under CECL. How do we explain to our board of directors that, although the delinquency statistics we maintain regularly show deterioration, we need no more provisions for losses? We doubt they or our investors would believe us if, during the Financial Crisis, we said that no additional provisions were needed because, long term, such delinquency will stabilize?

- We are having trouble understanding how to manage our capital under this proposal. Possible loan losses three years (or more) in the future are recognized at the time of origination, though the interest income that normally offsets the losses is not recognized. Our comfort with how reliable our long-term estimates will be is, naturally, very low. Not only will we have to maintain more capital, but we will also have to maintain extra capital buffers merely because of the life of loan loss requirement.

We also note that our systems do not maintain vintage information and that sufficient time will be needed to implement CECL. However, the above points make me wonder whether the FASB has sufficiently thought through the implications of “life of loan” loss analysis. We, therefore, support the American Bankers Association’s call for roundtable discussions so that bankers, investors, regulators, and auditors can all agree on what the requirements should be before a final standard is issued.

Thank you for your attention to these matters. Please feel free to contact me at (972) 506-2921 if you would like to discuss these views in more detail.

Sincerely,

Brad L. Durham
President/CEO