May 31, 2013

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


Dear Chairman Seidman:

Lake City Bank appreciates the opportunity to comment on the Exposure Draft: Financial Instruments – Credit Losses (ED).

Lake City Bank is a community bank with 45 branches in Northern and Central Indiana and approximately 500 employees. It is the wholly owned subsidiary of Lakeland Financial Corporation, a $2.9 billion publicly traded bank holding company headquartered in Warsaw, Indiana. We have a $2.212 billion loan portfolio comprised of 38% commercial real estate and multi-family residential loans, 37% commercial and industrial loans, 9% agri-business and agricultural loans, 2% other commercial loans, 12% 1-4 family mortgage loans and 2% other consumer loans.

We have the following comments and concerns with the ED that we wish to bring to your attention.

The ED proposes a “life of loan” loss concept that would not only be problematic to predict and ultimately much less accurate, but also contradicts the matching principle used across all other accounting standards. Our loan system does not maintain the origination date of a loan in all situations as renewals occur. Nor do we maintain reliable historical loss data at the detail level necessary to stratify our portfolio under our current allowance segment/class categories going back far enough to support a “life of loan” loss concept. This includes the present value data required by the “life of loan” loss concept. While some element of future loss recognition would not necessarily be disagreeable, perhaps the “more likely than not” concept being used currently by many other accounting standards makes more sense as it encompasses a much more foreseeable time period into the future than the “life of loan” loss concept.

Including debt securities in the scope of this ED does not make sense to us for several reasons. Debt securities are currently evaluated for impairment individually, which is also how the market views their
credit risk, while the ED seems to view impairment more from a pooled approach. Municipal securities present their own problems in that financial information received is not always reliable or timely and municipal securities are unique, both of which will add additional burden to the impairment process under the ED. In addition, the assumption of possible loss doesn’t make sense when evaluating the impairment of U.S. government securities, which have never had a default. Finally, the current OTTI model works, with one exception. Currently there is no opportunity to immediately recognize improvements in credit quality through net income as proposed in the ED. We feel that this issue can easily be addressed by making a change in the current OTTI model.

The ED appears to significantly improve the accounting for purchased impaired loans, but we feel it should also be applied to purchased non-impaired loans. An allowance should be set up at time of purchase.

While we appreciate the ED proposing to include nonaccrual accounting guidance in GAAP, we feel the requirement of a specific recovery method would be burdensome to apply efficiently. We request that no method be required in applying the nonaccrual principle.

We feel the distinction between a TDR and a non-TDR continues to make sense as it indicates that a concession has been granted to a borrower in distress. However, linking impairment directly to TDR status, when impairment occurs in addition to and not because of TDR status, does not make sense. We feel impairment should be independent of the TDR status designation. In that regard, in the situation where a loan is now performing under the terms of the modification and the impairment analysis indicates the credit quality of the loan has improved to the point it is no longer impaired, it should be allowed to be removed from TDR status.

While we feel some of the current credit quality disclosures are useful, they are burdensome to provide and are not fully understood or utilized by investors or analysts today. In that same vein we can see some usefulness in the disclosures proposed in the ED, however some would present challenges to compile and the informational benefit of some are uncertain.

- We feel providing forecasts of the future particularly to the extreme of a “life of loan” loss concept, as proposed in the ED, would be difficult to comply with from an audit standpoint. Being able to support for an audit an outcome looking that far into the future would present a great challenge and would require the disclosure of information that could be proprietary information that we feel should not be disclosed.

- The proposed roll forward of loan balances presents challenges to differentiate meaningfully due to revolving lines, renewals and modifications reported in the same line items. It is unclear what added benefit this has particularly in distinguishing where loan growth is occurring since it can already be concluded from existing disclosures. Adding amortization and accretion as line items in the roll forward should be considered to capture these other distinct changes that occur in amortized cost, for debt securities in particular.
While we can see usefulness of schedules of collateral values for certain types of loans, appraisals generally are not updated regularly for our non-qualified loans and neither they or the loan-to-value are currently housed in our loan system. Similarly, FICO scores are generally not updated for non-impaired loans. Requiring this type of information to be updated for all loans would not only be a significant burden of time, but also a significant cost to us.

In closing, we would like say that the allowance for loan losses is the most significant and subjective calculation that we perform. Accordingly, we have developed a disciplined allowance methodology that requires substantial time and expertise of many individuals across several functional areas within our institution to carry out on a monthly basis. As indicated above, we are a commercially focused lender and have maintained prudent credit underwriting standards prior to, during and since the recent economic downturn. Of course we saw a decrease in asset quality and an increase in our allowance for loan losses during this downturn just like everyone else. However, we feel that because of our disciplined allowance methodology, prudent underwriting and well managed loan workout program, we managed through this tough economic environment very well. After reading through the ED we are not convinced that if we had been operating under the proposed rules during the recent economic downturn we would have been any better off or that our investors/regulators would truly have had a better picture of our credit quality.

Sincerely,

Michael L. Kubacki
Chairman and Chief Executive Officer

David M. Findlay
President and Chief Financial Officer

Teresa A. Bartman
SVP – Finance & Controller

Charles E. Niemier
Audit Committee Chairman