May 29, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: No. 2012-260 *Proposed Accounting Standards Update – Financial Instruments – Credit Losses (Subtopic 825-15)*

Dear Director:

First of all let me say that I admire the work that the FASB performs and the burdens that it accepts on behalf of fair and reliable financial reporting. The task of issuing standards that are supposed to be adopted by the smallest and largest financial statement preparers and that is supposed to be of value to the users, I feel is daunting, and to make it cost effective for all companies is impossible. In recent years of implementing FASB pronouncements, I have noticed an increasing speed and volume of rules particularly those affecting the financial services industry. Many have limited value to users and high costs of compliance. The above referenced exposure draft is an example of this, particularly to the privately held community banks across the country that will have to comply.

We all realize that the financial statements just prior to the near financial collapse of many of the nation's largest banks in 2007 and 2008, gave us no indication of what was to come, nor the severity of losses that were about to be incurred. Hindsight is very clear on that matter. Community bank financial statements also provided no indication of what was to happen in the coming years.

But realize this financial crisis was not only missed by financial statement preparers, but by the vast majority of economists, and by any projections of losses that would have been prepared under the proposed Current Expected Credit Loss (CECL) model.

I realize this is an attempt to correct the problem of "too little too late" when it came to provisioning of loan losses, but again, this is mainly due to hindsight. The realization that it was too little came as the losses materialized, which was too late to report. As a community banker, and a former manager of a CPA firm auditing community banks, particularly privately held, non-public community banks, I realize these community banks are typically conservative with their estimates. Most are probably already meeting the objectives that are in the mind of FASB, which is recording losses early. Current practice allows for historical losses to be adjusted for changes in trends, conditions, and other relevant factors. Many community banks, particularly the privately held

P.O. Box 487, 300 N. Main Street, Franklin, WV 26807 • Phone (304) 358-2311 Fax (304) 358-7997

community banks, are conservative in their estimates. These are not the banks that FASB is trying to force into increasing their allowance.

Trying to force less conservative banks into a more conservative approach I think would be welcomed by most all financial statement users. However the complexity will be overwhelming for many community banks. And at worst, the complexity will be a tool used by more aggressive banks to manipulate earnings.

Forecasting is problematic, look at the one year economic forecast for the past 10 years, back test if you will. Interest rate forecasts have been abysmal, GDP forecasts not much better, yet companies are going to be asked to use these forecasts to project losses, not over the next 12 months, but over the entire lives of the loans. Add to this fact that community banks and credit unions will need to be able to support forecasts in their local markets. The vast majority of community banks do not have the models set up to even understand how this is going to play out. It will be very expensive, in terms of man hours, in costs of consultants, and in terms of auditing fees. Total costs will increase significantly. Will information be improved?

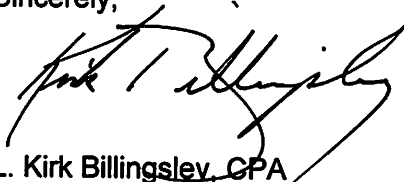
This reliance on forecasts, and complexity of modeling future events will only exacerbate the differences between more aggressive financial reporting of large institutions and the conservative approach used by most community banks. Comparability will be further damaged, significant volatility will arise.

If a more conservative approach is what is needed, then require it. Here's a simple solution. Ask financial institutions to reserve 150% of what they estimate the current losses to be, maybe 175%. Pick your multiplier, it would be a much more auditable, comparable, and less subjective than the CECL model as proposed. There are other reasonable methods to obtain larger reserves that will serve the financial statement users much better, reduce preparer and auditor complexity, inefficiencies, and allow financial resources to be better utilized.

I know this may sound simplistic, but it will get to the same result with a much clearer path for the preparers, and more understandable by the users. Please take another look at credit loss issue, and come up with a more cost effective, understandable approach to the issue

Thanks for what the FASB does, and allowing comments on the proposed exposure draft.

Sincerely,



L. Kirk Billingsley, CPA
Chief Financial Officer
Pendleton Community Bank