

May 30, 2013

Director@fasb.org

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Re: Proposed Accounting Standards Update, Financial Instruments – Credit Losses (Subtopic 825-15)

Director:

With \$9.7 billion in assets, Old National Bancorp is the largest financial services bank holding company headquartered in Indiana. We own multiple financial services operations in Indiana, Kentucky, and Illinois, and provide a wide range of services, including commercial and consumer loan and depository services, investment and brokerage services, lease financing and other traditional banking services. Through our non-bank affiliates, we provide services to supplement the banking business including fiduciary and wealth management services, insurance and other financial services.

As a community bank, the topic of Financial Instruments – Credit Losses is very important to our operations. As such, we would like to thank you for the opportunity to comment on the proposed ASU Subtopic 825-15.

There are several aspects of the exposure draft that we would like to see adopted, but there are other aspects that we believe should be reconsidered. We will address each of these.

Positives

One of the positives of the exposure draft for us is that we currently use a historical loss migration model to calculate the allowance balance for loans collectively evaluated for impairment under ASC 450-20, Loss Contingencies (previously FAS 5). We could expand on this to calculate the allowance balance for the rest of our portfolio, including our ASC 310-30 (previously SOP 03-3) purchased credit impaired ("PCI") loans. This would allow for more synchronization and it reduces the complexity in loss accounting.

One of the primary problems that we have with our current ASC 310-30 accounting is the implications of our cash flow forecasts. Since many of our loans have longer maturities, the wide ranges of assumptions that can be used to estimate cash flow projections have a major impact on the estimated impairment or yield increases for the various pools. When actual cash flows differ from projected, the accounting under ASC 310-30 can get very complex and



difficult for users to understand. This hampers any comparison of different time periods, so being able to use the same process for all of our loans would be very beneficial and much simpler to prepare and understand.

A second positive is that we would be allowed to record an allowance for our PCI loans on the acquisition date. Currently, since we utilize ASC 310-30 and ASC 310-20 (previously FAS 91) at acquisition, the credit risk component is buried as part of the premium/discount recorded. By allowing the credit component to be recorded as part of the allowance for PCI loans, the preparation of the financial statements again becomes much simpler and easier to understand. We recommend the Board consider eliminating the distinction between purchased credit impaired and purchased non-credit impaired loans, including those acquired in a business combination, such that the accounting is the same.

Negatives

One of the primary negatives of the exposure draft is that it ignores the matching principle, which leads to more distortion in the financial statements. Since the interest rate we charge includes a component to offset the credit risk (i.e. the higher the credit risk, the higher the rate charged), the income would be recognized over the life of the loan, while the expenses related to credit loss would be recognized immediately. The current incurred loss model used to calculate the allowance balance better matches the expense against the income each period.

A second and related negative would be the effect on capital. We note in the FASB Staff FAQ that the Board is aware of the regulatory capital implications. We appreciate that the Board is cognizant to that fact and is continuing to work with the regulators to assure mutual understanding. Since we are in the banking industry, we use our capital as well as our reserves to absorb losses, and with the Dodd-Frank Act and the move toward the Basel III rules, the required capital is going to increase. This will have an impact on the type and amount of lending that we will undertake, thus affecting the credit available to those in our communities. Although this is not part of the mission of the FASB, we want to emphasize that the proposed changes affect more than just our financial statements.

Another negative is that we believe the troubled debt restructuring ("TDR") designation should no longer be used. The exposure draft recommends a direct basis adjustment when loans are designated as TDR, rather than permitting an allowance adjustment. Similar to our comments on PCI assets, the accounting and reporting requirements should be consistent among our entire portfolio, including TDR loans. In addition, current TDR accounting requirements add complexity to preparers and confusion to users, and the benefit of the separate accounting and reporting treatments are not relevant. We recommend the Board discontinue TDR accounting



and reporting, and that these loans be measured for impairment in the same manner as recommended for the rest of the portfolio. We would support additional disclosures about modified loans.

We also recommend the Board exclude debt instruments classified at fair value with qualifying changes in fair value recognized in other comprehensive income from the scope of this proposal. The current accounting and reporting for debt securities are appropriate, and we believe that implementation of the proposed method will not benefit our financial statement users. We evaluate our debt securities for other than temporary impairment ("OTTI") on an individual basis due to the structure of the financial asset, which is more consistent with how we and the banking industry view credit risk. We do recommend a change to the current OTTI literature to permit reversals or recoveries of OTTI when credit risk has improved.

Conclusion

We reiterate that being able to utilize the same loan loss allowance methodology for our entire portfolio, whether originated, purchased credit impaired, or purchased but not credit impaired, is a major positive as a community bank. The reduced complexity in the preparation and reporting would be welcomed. We hope that the negatives can be reduced or eliminated, making the final accounting standard update better for us as preparers and for the users of our financial statements.

Thank you for your consideration.