



# The Savings Bank

14 June 2013

Leslie Seidman  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Via email to: [director@fasb.org](mailto:director@fasb.org)

File Reference: No. 2012-260 *Financial Instruments – Credit Losses*

Dear Chairman Seidman,

The Savings Bank appreciates this opportunity to comment on the Exposure Draft: *Financial Instruments – Credit Losses (ED)*.

The Savings Bank is a \$450 million state-chartered bank in mutual form. Our charter dates from May 1869. We are a community bank by any definition. We have eight branches and 130 employees. Our loan to asset ratio is 65.6%; our debt securities to asset ratio is 16.5%; our equity securities to asset ratio is 3.1%.

Our loan portfolio (gross) of \$302.9 million is 52.1% in residential mortgages, 1.8% in consumer loans, 42.2% in commercial real estate mortgages, and 3.9% in C&I loans. Our debt securities portfolio of \$73.9 million (book value) is 6.8% in mortgaged backed securities (all issued by FNMA or FHLMC), 11.9% in U.S. Treasury securities, 43.5% U. S. Agency securities, 37.8% in corporate debt securities (all rated A or higher). We service loans sold to Freddie Mac totaling \$50.2 million.

We spend a total of two to three days to close our books each month. We spend several hours during the month, and at month-end closing, performing our estimate for the Allowance for Loan and Lease Losses (ALLL). We set aside reserve funds in the ALLL each month rather than quarterly.

The Savings Bank supports the points made in the American Bankers Association comment letter and we believe as well that the Banking Industry Model (BIM) will satisfy FASB's objective to recognize credit losses earlier than the current incurred loss model. However, instead of the huge costs that our bank will incur to implement a "life of loan" analysis, the BIM requires much less time and cost to implement while maintaining the integrity of the provisioning process. Time and cost are very important to community banks like ours.

We agree that credit losses should be recorded when they are expected, but the life-of-loan projection required by the Current Expected Credit Loss (CECL) model in the ED requires us to make projections much farther into the future than we are capable of making with any level of confidence and reliability. Our only alternative would be to hire third-party modeling companies that have access to large amounts of data and are able to integrate professional economic forecasts effectively into their model. The cost to hire such a firm is a concern and effectively we believe this will require us to accrue for losses that are neither reliable nor necessarily expected by us.

The ED requires us to begin with historical data, which we believe should not be the base requirement. To give you an example of how this is problematic, we have examined our charge-off data for both our residential and commercial real estate portfolios to determine whether effective estimates can be based on them. We found the following:

- Since 2003 (and through May of 2013) we have closed \$198 million in commercial real estate loans. In that same period we have had total charge-offs in that portfolio of \$224,527 representing two borrowers and three loans. All three loans were originated in 2006 (when we closed \$18.9 million in CRE. One of those loans was a deed-in-lieu and two were foreclosures.
- Since 2003 (and through May of 2013) we have closed \$427.7 million in residential real estate loans. In that same period we have had total charge-offs in that portfolio of \$153,048 representing three borrowers. One loan was originated in 2005 (total originations that year were \$34.7 million); one loan in 2006 (total originated was \$16.6 million); and one loan in 2009 (total originations of \$38.7 million). Two loans were foreclosures; one loan was a short sale.

We believe that our level of charge-offs do not support the ED proposed changes. Over the past ten years our data indicates that there has been no predictability as the sample of loans (6) is just too small. It appears to us, therefore, that the approach of using "vintage" data is not a valid predictor in our case.

Again, The Savings Bank agrees with the comment letter submitted by the American Bankers Association dated May 14, 2013, and we believe the ED needs to be significantly amended so as not to add additional expense our time to our ALLL process. Community banks, like The Savings Bank, can ill afford the potential costs.

Thank you for considering our views. Please feel free to contact me at 781-224-5428 (office direct) or by email to [bmccoubrey@tsbawake24.com](mailto:bmccoubrey@tsbawake24.com) if you would like to discuss our views.

Sincerely,



Brian D. McCoubrey  
*President and Chief Executive Officer*