One Mission. Community Banks.®

December 21, 2015

Mr. Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Regarding: Remarks of December 10, 2015

Dear Mr. Golden:

The Community Bankers Association of Illinois (CBAI), which proudly represents 350 Illinois community banks, is compelled to respond to your remarks of December 10, 2015 in Washington D.C. before the AICPA Conference on Current SEC & PCAOB Developments. Your disturbing comments go a long way in explaining why some members of the Financial Accounting Standards Board (FASB) support implementing the misguided and inappropriate current expected credit loss (CECL) model on community banks.

CBAI completely agrees that rulemakers should not be inappropriately influenced by outside sources; but valuable input from stakeholders (including community banks) is necessary, as stakeholders have the real world experience to inform bureaucrats in rulemaking. It is incumbent upon rulemakers to reasonably consider and incorporate these valuable real world experiences into proposed rules.

In your comments you bracketed a discussion of CECL with statements extolling the need to maintain independence from politics and special interests, expressing admiration for the independent stance taken by other agency heads, and accusing the unnamed of a “torrent (later – a “cascade”) of misinformation that seems to be flooding the marketplace” which wrongly infers inappropriate influence by community banks, and the dedicated associations that represent them.

This misguided inference, however, is not the full extent of the issues that CBAI has with your comments. You have an apparent misconception of which banks caused the financial crisis, which banks were tragically harmed by the misdeeds of others, where rulemakers should focus their energies, and with what level of severity.

By way of background, too-big-to-fail (TBTF) banks, <u>not</u> community banks, caused the financial crisis. The banking system and economy was threatened with massive destruction by the greed and excess of these mega banks <u>not</u> community banks. A growing chorus for resolving TBTF has been fueled not only by the outrage over their taxpayer-funded bailouts but also by their numerous violations of the law (often criminal) as evidenced by billions of dollars in fines, settlements and deferred prosecution agreements (conditional amnesty).

During the financial crisis the federal government provided the TBTF banks with multi-trillion dollars in financial assistance to rescue them. Were it not for this unprecedented support, their rightful and collective failure would have destroyed our financial system and the economy. Meanwhile, community banks received little assistance and a number of them failed, devastating their employees, customers and communities. Tragically, community banks were not considered to be a major part of the financial system by their own government and were apparently just too-little-to-matter.

Another tragic result of the financial crisis is that the mega banks have grown larger, more complex and interconnected, and remain candidates for future bailouts. The four largest TBTF banks have grown rapidly since the mid-1980s and now control more than half of the banking profession’s assets. During that same period, the number of community banks has declined and represent less than one-fifth of banking profession’s assets.

The financial crisis demonstrated that the risks taken by TBTF banks are very different from those taken by community banks, and regulations should reflect those differences. The regulatory burden imposed on community banks by a one-size-fits-all approach (including FASB's proposed CECL model) ignores their lack of individual and collective systemic risk and the disproportionate burden of laws and regulations on community banks. CBAI urges all rulemakers to continue to expand and refine a tiered regulatory system based on size and risk profile to ensure that every banking law, rule, and regulation clearly distinguishes and appropriately regulates community banks.

In your comments regarding impairment and CECL, you enumerated "troubling misconceptions" including "The credit crisis involved only large banks." In the span of four sentences you cite community bank failure statistics followed by your conclusion that "Clearly community banks have been a major part of the problem" and that this is the reason why "all lending institutions should be included in the new guidance." This flawed reasoning is comparable to citing elder financial abuse statistics and then blaming senior citizens for that abuse.

What is <u>not</u> needed in FASB's response to the financial crisis is a one-size-fits-all CECL model being imposed on community banks. What <u>is</u> needed is an exemption from the proposed CECL model for banks under $10 billion in assets. An exemption would alleviate the concerns of community banks regarding inappropriate and expensive provisioning that does not fairly present the risk profile of their assets. An alternate approach would allow community banks to use their own loss experience for identical or similar financial assets. In the event there is a lack of sufficient experience, the experience of a representative peer group would be an acceptable substitute. Historical loss estimates should be recognized in a uniform manner and matched with the expected income stream. In the event of incurred loss events, community banks should establish specific impairments and periodically update those impairments. This alternate approach would avoid the front loading of imprecise credit loss estimates, eliminate the need to create and maintain complicated credit loss models, and would be a simple and straightforward approach to implement. Establishing appropriate credit loss estimates does not need to be a complicated and expensive process to be effective for community banks.

CBAI appreciates this opportunity to correct your obvious misunderstanding of the cause and victims of the financial crisis, and present an alternate approach to achieve the goal of appropriately reserving for credit losses for community banks. Please contact me with any questions you may have at 1-847-909-8341 or davids@cbai.com

Sincerely,

/s/

David G. Schroeder
Vice President Federal Government Relations

cc: The Honorable Janet L. Yellen, Chair, Board of Governors of the Federal Reserve System
The Honorable Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporations
The Honorable Thomas J. Curry, Comptroller, Office of the Comptroller of the Currency

The Honorable Mark S. Kirk, Senate Banking Committee
The Honorable Randy Hultgren, House Financial Services Committee
The Honorable Bill Foster, House Financial Services Committee