December 16, 2019

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218
Washington, DC 20219

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Interagency Policy Statement on Allowances for Credit Losses

Dear Ladies and Gentlemen:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to respond to the request for comment on the proposed interagency policy statement *Interagency Policy Statement on Allowances for Credit Losses*. This new interagency policy statement reflects changes to accounting for credit losses under the Financial Accounting Standards Board's (FASB) codification of Accounting Standards Update 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Under the

[1] The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 52,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 760,000 Americans and are the only physical banking presence in one in five U.S. counties. Holding more than $4.9 trillion in assets, $3.9 trillion in deposits, and $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

codification, community banks will be required to account for credit losses using the current expected credit loss (CECL) methodology beginning in 2020 or 2023 depending on the entity's status as a public company and its size. ICBA continues to voice strong concerns about the impact of CECL on community banks and how changes to loss allowance recognition will impact lending over long periods. ICBA is supportive of FASB's decision to delay implementation of CECL for smaller community banks until 2023. ICBA also supports recent legislation calling for a study of the impact of CECL before it can be implemented.

CECL applies to financial assets held at amortized cost including loans and debt securities classified as held-to-maturity. CECL also applies to the impairment for debt securities classified as available-for-sale. The proposed interagency policy statement reflects the updates needed to incorporate the changes needed to manage CECL, including how to estimate future losses, how to validate those loss estimates, and how to document the loss estimation process.

ICBA would like to thank the banking agencies for maintaining comprehensive interagency policy statements on the allowance for credit losses, as management's estimate of future credit losses has continually risen in significance as a critical accounting policy. Providing community banks with a clear understanding of what regulators expect from management in maintaining the allowance under CECL is very helpful in avoiding any pitfalls that could arise when the bank encounters a challenging credit environment. The outreach that the agencies have conducted to better prepare community banks for the estimation changes needed under CECL has made a significant impact on bank readiness.

ICBA would like to reiterate its view that community banks should continue to be allowed to manage CECL without the use of complex modeling techniques, outside vendors, and expensive risk management product solutions. Most community banks should be permitted to provide credit loss estimations through Excel and other commonplace applications that can easily allow for dynamic inputs while providing accurate estimates. ICBA strongly recommends that agency personnel continue to stress the value of community banks using inexpensive Excel solutions both in presentations to community banks and through onsite examination reviews.

ICBA believes that the proposed interagency policy statement is appropriate for the level of scrutiny needed under ASC Topic 326. Because generally accepted accounting principles (GAAP) are becoming less prescriptive, the guidance level contained within the document matches the open-ended nature of CECL. The information surrounding impairment of available-for-sale debt securities is also consistent with GAAP and properly reflects the considerations needed by management on loss estimation. The proposed interagency policy statement weighs heavy on the need for appropriate documentation, reserve analysis and validation, roles of management and the board, and examiner expectations, with concise but thorough coverage of the considerations needed. One area that will continually need active engagement among stakeholders is the credit quality surrounding debt securities issued by government sponsored

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enterprises, where implicit guarantees could lead to speculation around the probability of loss recognition.

As mentioned above, ICBA requests that the agencies add a section on scalability of the management of the allowance, where small community banks engaging in traditional lending activities should not be expected to invest an overwhelming amount of time and resources to management of the allowance when such efforts would not produce a meaningful improvement in safety and soundness for that institution. ICBA also requests that the agencies provide implementation examples for community banks, including examples for community banks that have residential and commercial mortgage portfolios with little to no losses over extended periods.

ICBA appreciates the opportunity to comment on this proposed interagency policy statement. If you have any questions or would like additional information, please do not hesitate to contact me at (202) 821-4364 or james.kendrick@icba.org.

Sincerely,

/s/

James Kendrick
First Vice President, Accounting and Capital Policy

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