December 7, 2021

Mr. Richard R. Jones
Chair
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Current Expected Credit Losses

Dear Chair Jones:

The Independent Community Bankers of America ("ICBA")[1] would like to renew its concerns regarding implementation of the current expected credit loss ("CECL") model by community banks. Since the overhaul of the credit loss standard was originally proposed over a decade ago, both the Financial Accounting Standards Board (FASB) and prudential bank regulators have failed to provide simple, straightforward methodologies for projecting future expected credit losses for small financial firms like community banks. Application methodologies brought forward by regulators and practitioner oversight bodies have focused primarily on the need to collect large volumes of historical data to create baseline loss scenarios that can be adjusted in real time to reflect current economic conditions. While such an approach may be possible for larger financial institutions offering commoditized lending products to the masses, this approach is not workable for community banks.

As repeated many times throughout CECL deliberations, regulators and standard setters should understand the unique nature of community bank lending and their customer-centric approach to credit decisioning. Community banks in the United States are quintessential relationship lenders

[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.

that extend credit based on a customer relationship that takes into account many qualitative factors well beyond what a quantitative credit model can show. In its most common form, a community bank lends to individuals, families, and businesses because the bank is confident that the borrower is unlikely to default on the obligation regardless of what a stressed credit scenario would indicate. Such a symbiotic relationship has allowed community banks to remain in business for many years, in some cases well over 100 years of serving the community. Some community banks have been lending to the same customers for generations in all economic conditions with minimal defaults. The intangible trust built between these special banks and their customers cannot be adequately captured through a quarterly loan loss provision in any reasonable fashion that would represent the credit risk present in a financial instrument.

ICBA has yet to observe any methodology put forth by FASB or bank regulators that incorporates the unique credit loss mitigation techniques pursued by community banks as they minimize credit risk exposure to the institution. For a small community bank, data collection, storage, analysis, and validation are very expensive and require a large amount of continuous bank time, resources, and capital without providing the information or data needed to determine how a particular credit might perform in a stressed economic scenario. Certainly, no implementation of CECL for smaller banks has been put forward that demonstrates an improvement over the current incurred loss methodology used to maintain the allowance for credit losses. Utilizing CECL for these smaller institutions will expend vital bank resources to produce a credit loss estimate that is not an improvement over existing processes.

In addition to the inability of CECL to accurately capture the credit risks inherent in community bank lending, the COVID-19 pandemic has reshaped the economic landscape going forward by generating increased uncertainty with regard to lending. Large amounts of economic stimulus payments have in many cases deferred potential economic stress by allowing impacted consumers, families, and small businesses to meet payment obligations that otherwise would be in jeopardy due to economic lockdowns, job losses, and inability to efficiently obtain essential goods and services. The realization of this uncertainty is best observed by Congressional action throughout the COVID-19 pandemic to enact delays to the adoption of CECL by larger financial institutions so that the harmful impact of CECL implementation would not further deteriorate economic conditions.

ICBA recommends that FASB immediately amend Accounting Standards Update ("ASU") 2016-13 to limit the adoption of CECL to only SEC filers that are considered accelerated filers or

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large accelerated filers. These entities are already covered in the ASU for annual reporting periods beginning after December 15, 2019. All other entities, including community banks and bank holding companies that are not accelerated SEC filers, should continue to follow incurred loss accounting to determine their loan loss reserves. If FASB is unwilling to outright exempt these entities from adopting CECL, ICBA recommends that FASB extend the implementation date for all entities that have not yet adopted CECL to 2025 to allow those banks additional time to prepare for adoption. Such an extension is warranted considering the impact of COVID-19 on these institutions as they dedicate their limited resources to serving impacted customers.

ICBA appreciates the opportunity to provide comment on the adoption of CECL by community banks and hopes that FASB will take immediate action to assist impacted community banks. If you have any questions or would like additional information, please do not hesitate to contact me.

Sincerely,

/s/

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President and CEO

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