October 17, 2013

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

Regarding: Proposed Accounting Standards Update: Financial Instruments – Credit Losses

Dear Mr. Golden:

The Community Bankers Association of Illinois (CBAI), representing approximately 400 community bank members and their 900 branches, is pleased to provide the Financial Accounting Standards Board (FASB) with our observations and recommendations regarding the proposed accounting standards update on impairment for loans and securities currently under consideration by the FASB. The proposed accounting standards update would require every community bank to revise the way they account for loan loss reserves (ALLL), loans, and securities. While CBAI acknowledges the apparent shortcomings of the current "incurred loss" method and the desirability of a more counter-cyclical method of reserving for losses, we believe the proposed update, while well intentioned, is seriously flawed. We strongly encourage the withdrawal of the current accounting standards proposal and urge the re-proposal of a simpler and more straightforward method of analysis that would not harm Illinois community banks.

The current proposal requires *day one* loss recognition for newly originated loans. However, *day one* loss recognition does not follow the natural progression of losses in the credit cycle. Community banks are relationship-based financial institutions that serve their local communities. Their loans are customized to meet the specific needs of their customers based on prudent underwriting standards and a superior knowledge of local economic conditions. By creating an immediate (or *day one*) loss community banks are actually being penalized by recognizing losses prematurely for their being common sense lenders and for making high quality loans in their communities. Community banks should justifiably benefit from their relationship based business model and superior underwriting of their community-based loans - not be penalized. To the extent community banks are harmed by this proposal, they will suffer a significant competitive disadvantage versus the transaction-based lenders on Wall Street.

The proposal also represents an additional and unnecessary regulatory burden for community banks by requiring them to develop and maintain complex credit loss modeling systems. The considerable time, effort, and expense required to project expected multiple loss scenarios for each loan would negatively impact community banks' abilities to serve their customers and communities.

CBAI recommends FASB withdraw its current proposal and re-propose a simpler and more straightforward credit loss approach that is easy to understand, implement and maintain for all banks and bank holding companies with total consolidated assets of $10 billion or less. The alternative proposal should require community banks to recognize credit losses over the effective life of the loan using historic losses experienced by the bank (or by its peer group). Upon the occurrence of an incurred loss event where the occurrence of a credit loss is probable, the historical credit loss model would be replaced by the incurred loss model for the specific impaired asset only. This approach is straightforward, better reflects the fact that losses generally occur later in the life of the loan, and achieves the same goals as the proposed expected loss model, but in a more practical manner with readily available information.

CBAI appreciates this opportunity to share our observations and recommendations regarding the proposed accounting standards update currently under consideration by the FASB. The proposal however is unnecessary for community banks to ensure that their loan loss reserves are adequate and appropriate, and represents an additional regulatory burden on community banks. It also places them at a significant competitive disadvantage vis-a-vis their Wall Street competitors. **We strongly encourage the withdrawal of the current accounting standards proposal and urge the re-proposal of a simpler and more straightforward method of analysis that would not harm Illinois community banks.**

If you have any questions or would like any additional information, please do not hesitate to contact David Schroeder, Vice President Federal Governmental Relations, at (847) 909-8341 or davids@cbai.com .

Sincerely,

/s/

David G. Schroeder
Vice President Federal Governmental Relations

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