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FINANCIAL SERVICES
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
OVERSIGHT AND INVESTIGATIONS

Congress of the United States
House of Representatives
Washington, DC 20515–0603

January 29, 2016

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

Dear Chairman Golden:

We write to express our strong concern about an imminent action by your organization. The Financial Accounting Standards Board's (FASB) "accounting standards update" (or "ASU"), titled Financial Instruments – Credit Losses (Subtopic 825-15), would comprehensively revise the way all lenders set aside reserve funds in anticipation of possible future credit losses. FASB must proceed with the utmost caution in finalizing this ASU, as it has the potential to irreversibly damage community banks' and credit unions' ability to continue to adequately serve their customers/members and communities and sustain the economic recovery. As a staple for access to capital and credit in communities across the United States, it is imperative that community banks and credit unions continue to safely operate in a manner that best serves their respective communities.

Reserves provide a critical cushion for absorbing losses and protecting the lender in the event of loan default. However, the method for determining expected losses should be simple, straightforward, and easy to apply. A requirement that lenders use complex, theoretical forecasting models, determining each loan's probability of failure based on a wide range of economic factors, is impractical, costly, and time consuming for community banks and credit unions.

What's more, FASB is expected to require lenders to create a reserve for each loan on the day the loan is made. This is a radical departure from the current process in which lenders reserve for losses when signs of trouble emerge for a particular loan. If the new method dictates an unwarranted level of reserve for each loan, based on a theoretical model and contrary to a community banker or credit union's informed judgment, it will sharply increase the cost of lending and constrict the flow of credit.

These are the real world risks posed by the forthcoming ASU and the federal banking agencies' implementation of it. What's at stake is the community bank and credit union lending model, which relies on time tested methods for assessing creditworthiness and projecting losses. Community banks and credit unions have safely served their communities for generations by drawing on their direct, personal knowledge of their customers and local economic conditions.
With these considerations in mind, we request that you respond to the following questions and concerns:

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- Before finalizing the ASU, will you consider its impact on general credit availability and economic growth? A higher level of reserves will necessarily contract the credit that fuels consumer purchasing and business expansion. More specifically, will you consider the impact the ASU will have on lower income borrowers, borrowers with marginal credit ratings, and small businesses? Loans with higher expected losses will be more expensive for the lender.
- Will you consider more practical alternatives to a complex modeling requirement? An historical loss approach would be more manageable to implement and rely on a tangible data source. Because today's historical losses include the recent economic crisis, they would probably overstate, rather than understate future losses.
- Will the ASU allow for tiered implementation by the agencies? Approaches that may be appropriate for a large lender with ample investment in technology and economic forecasting may not be appropriate for smaller lenders with smaller overall risk profiles, such as many community banks and credit unions, which already face excessive regulatory burden.

Thank you for your attention to these concerns. We look forward to your prompt response.

Sincerely,

Scott Tipton
Member of Congress

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Member of Congress

Steve Stivers
Member of Congress

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Member of Congress

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