(701) 667-7000 614 West Main Street Box 1150 Mandan, North Dakota 58554

November 7, 2013

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

Re: Proposed Accounting Standards Update: Financial Instruments—Credit Losses

Dear Mr. Golden:

I am writing to you today to express our serious concerns regarding the proposed accounting standards update on impairment for loans and securities currently under deliberation by the FASB. I acknowledge the need to overhaul the current incurred loss model, as FASB's last major revision certainly made absolutely no sense for our community banks like ours either.

After FASB's last major ill-advised revision to loan loss calculations, I will never forget FDIC examiners telling me that our loan loss reserve was too high and that I should reduce it. I asked them why, and I was told that under the then new FASB rules it was much higher that it needed to be. I responded: "It's our money, what's the difference if it's too high." Their reply was that FASB wanted me to comply with this new rule so that I wouldn't be "smoothing earnings and fooling our shareholders in difficult economic times." How insane was FASB to require a bank regulator through mandatory FASB rules to require the same banks that regulator insures to reduce their loan loss reserves?

In a community bank such as ours, which is 100% owned by a holding company, which in turn had had only two shareholders for over 10 years (myself at 98.6% and my brother, who is our bank's internal auditor and controller, at 1.4%), what kind of illogical reasoning is that? We certainly weren't smoothing earnings to "fool" ourselves. Rather, we were simply trying to maintain a strong loss reserve position to carry the bank successfully through any potential bad times that may occur in the future. Assuming that type of discussion was held by examiners with bank management teams across the country as a result of that FASB ruling, and assuming that banks across the country reduced their reserves levels to be in compliance with the FASB rule as we did, I would suggest that the FASB last major rule regarding loss reserves for banks likely contributed to increasing the number of bank failures in the recent financial crisis.

While this latest FASB proposal regarding loan loss reserves is not as fundamentally flawed as the last major revision, it is certainly out of touch with the real community banking world. First,

it is unworkable and overly burdensome for community banks. It is overly complex and will require models that will be dangerous because they will be so complex no one will be able to understand them or how the results they indicate were arrived at. Further, these models are unlikely to ever be accurate predictors of future loss events. Second, these complex models will increase auditing fees and other bank operational costs further impairing community banks's ability to build capital. Community banks are already being smothered with a raging sea of rapidly increasing regulations and regulatory costs and we simply don't need any more overly complicated "theoretical" rules to follow. Third, under Basel III community banks are already being required to adhere to higher capital standards which in themselves are in reality higher reserves for losses.

For community banks the proposed expected credit loss model, with its reliance on complex modeling techniques and front loading impact on loan loss provisioning, is simply the wrong approach to properly providing for future credit losses. Again, had community banks been able to provide for expected credit losses sooner in the credit cycle, many of the recent strains placed on community banks would have been easily avoided. This is why I am asking you today to adopt the alternative proposal put forth by the Independent Community Bankers of America.

The proposal set forth by ICBA relies on historical loss observations for similar assets as the primary driver for initially building the loan loss reserve. As loans and securities become impaired where a loss is probable, my institution would be allowed to increase the reserve based on a specific measurement of impairment considering the value of all relevant loss mitigation alternatives. ICBA's alternative proposal properly builds the necessary allowance in a ratable fashion that matches the credit risks inherent in the financial instrument with its earning potential. Additionally, reserves are recognized sooner in the credit cycle, which meets FASB's objective in reforming the shortfalls exposed during the recent credit crisis. Most importantly, the alternative proposal removes the day-one-loss concept from the equation, a provision that would greatly harm community banks nationwide.

Thank you for taking the time to consider my concerns with the proposed expected credit loss model. If you have any questions or would like additional information, please do not hesitate to contact me at 701-667-7000 or via e-mail at jim@securityfirstbank.com.

Sincerely,

James M. Goetz
Chairman and CEO