

November 14, 2011

To: Members of the House Financial Services Subcommittee on Financial Institutions and Consumer Credit

From: Floyd Stoner, Executive Vice President, Congressional Relations & Public Policy

Re: ABA's View on H.R. 1723, the Common Sense Economic Recovery Act

On behalf of the members of the American Bankers Association (ABA), I am writing to express our opposition to H.R. 1723, the Common Sense Economic Recovery Act of 2011. This bill, scheduled for Subcommittee consideration on November 17, is designed to stop regulators from assigning "nonaccrual" status to performing amortizing loans.

A nonaccrual loan is one for which full payment of principal or interest is not expected, typically the result of the borrower's past or anticipated nonperformance due to financial difficulties. H.R. 1723 would treat nonaccrual loans as performing – or accruing – loans if they are: 1) current; 2) no more than 30 days delinquent in the last six months; 3) amortizing; and 4) not funded through an interest reserve account. The bill also would impose a sunset date of two years after enactment.

As ABA and many Members of the Financial Services Committee have pointed out, the banking regulators have taken an overly aggressive approach in analyzing asset quality. Examiners have consistently required loans to be downgraded when there is any doubt about the loan's condition – even in cases where loans are performing. This aggressive approach in the examination process has directly affected the ability and willingness of banks to lend to small business and mortgage customers. Community banks also are concerned about how loans are classified as problem assets for regulatory purposes, how loans are required to be valued, and how capital is calculated as a result.

H.R. 1723 has worthy goals and attempts to address real problems that community banks experience. Unfortunately, the bill would legislate changes in accounting standards, which should be avoided. Banks are both issuers of financial statements needed by investors and heavy users of the financial statements of our borrowers. As such, banks need to make sure that all parties can rely on the accuracy of all financial statements.

We also are concerned that the legislation could be viewed as not permitting banks to report items as nonaccrual, even in situations when it would be proper to do so. Finally, it is highly unusual to have a "sunset" for an accounting standard, raising concerns about this sunset's effects.

Although the issues intended to be resolved by H.R. 1723 are important and must be addressed, ABA does not believe the specific proposals included in the bill accomplish that goal. Thus, we cannot support the bill, and we encourage the Subcommittee to work with the industry to craft legislation that addresses these issues.