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National Association of Federally-Insured Credit Unions

B. Dan Berger
President & Chief Executive Officer

October 14, 2021

Mr. Richard R. Jones
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-05116

RE: Non-Public Filer CECL Exemption

Dear Chairman Jones:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I would like to urge the Financial Accounting Standards Board (FASB) to address the continued serious concerns that credit unions and other smaller financial institutions have with the impacts of the adoption of the Current Expected Credit Losses (CECL) accounting methodology, issued as Accounting Standards Update 2016-13. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 127 million consumers with personal and small business financial service products. NAFCU has consistently called on FASB to exempt credit unions since the adoption of the CECL standard and now, given the challenges posed by the pandemic, the lack of resources available to smaller institutions, and the fast-approaching deadline, NAFCU requests that FASB exempt all non-public filers from compliance with CECL in 2023.

In June of this year, I wrote to FASB to express concern that it had not made sufficient efforts to gather feedback on CECL implementation for smaller preparers, practitioners, and users. Despite FASB's otherwise extensive outreach through conference attendance and other convenings, smaller financial institutions such as credit unions have been largely excluded or minimized in discussions of the impact of future implementation of CECL, due to a focus on larger financial institutions that have already adopted CECL. In my letter, I requested that FASB conduct a roundtable with credit unions and other small financial institutions to discuss the unique impacts that CECL adoption would have on these unique institutions. To date, NAFCU has received no response to this request.

If FASB were receptive to our invitation and had conducted a roundtable, it would have learned about the many ways in which credit unions differ from larger financial institutions, including the industry's record of prudent fiscal management before and after the financial crisis, limited complexity, and structure as not-for-profit, member-owned cooperatives. As such, credit unions are not publicly traded and do not have equity investors. The CECL standard was intended to better protect such investors and preserve the health of the financial system, not to impose undue burdens on community financial institutions. The National Credit Union Administration (NCUA) ensures

the safety and soundness of credit unions and guarantees that the type of risks that led to the 2008 financial crisis, which credit unions had no part in, are not present in the credit union system.

NAFCU has repeatedly called for increased cooperation between FASB and the NCUA regarding implementation of the CECL standard but has not seen a concerted effort at collaboration from FASB. In April 2020, then-NCUA Chairman Rodney E. Hood wrote to FASB asking that credit unions be exempt from the CECL standard or subject to a Private Company Council alternative that retains the current incurred loss methodology. Former Chairman Hood recognized that credit unions should not have been included in the CECL standard, especially because credit unions have a unique, statutorily-defined capital framework and face certain regulatory constraints.

The *Federal Credit Union Act* defines a credit union's "retained earnings balance, as determined under generally accepted accounting principles"¹ and places limits on the NCUA's ability to mitigate CECL's impact on net worth without accompanying action from FASB. Without an exemption from the CECL standard, credit unions could face a scenario where they must dramatically scale-back asset growth or face supervisory action should their net worth ratios fall below minimum levels. The NCUA has expressed a willingness to discuss these legitimate and compelling reasons that make the CECL standard incompatible with the credit union model. Just as NAFCU has requested that FASB engage with our member credit unions, we also ask that that FASB enter into a more robust dialogue with credit unions' prudential regulator.

The COVID-19 pandemic, which has yet to abate, led to record rates of unemployment, high rates of forbearances on loans, and constrained liquidity for many financial institutions. During the financial downturn, credit unions were focused on working with their members to offer solutions that meet their needs, such as permitting members to skip payments without penalty, waiving fees, and offering low- or zero-interest loans, loan modifications, and no interest accruals. Given the continued threat of economic uncertainty and credit unions' conservative tendencies, CECL's forecasting requirement would likely lead to upwardly-biased loss estimates. This could severely tighten credit conditions and reduce access to credit, which could disproportionately affect low- and moderate-income individuals most impacted by the COVID-19 pandemic. This not only runs counter to CECL's goal of establishing economic stability but could also amplify and extend the impacts of the economic crisis.

The credit union industry and its prudential regulator, both of which are unique in the realm of financial institutions, have repeatedly communicated the fundamental incompatibility of the CECL standard with the credit union model. We urge you to work with us to better understand this underlying conflict and, with that knowledge, provide credit unions and other non-public filers with an exemption from the standard. The reality is that 2023 is fast approaching and without additional support, many smaller community financial institutions remain underprepared for the implementation of CECL. We request that you forego the application of the CECL standard to all non-public filers; but in the alternative, FASB should commit to providing more resources and assistance to credit unions, including offering forums to discuss preparation and implementation challenges like the roundtable we requested earlier this year, and engage the NCUA to better

¹ 12 U.S.C. § 1757a(c)(2)

Financial Accounting Standards Board

October 14, 2021

Page 3 of 3

understand the unique nature of credit unions and how to best provide a simplified alternative to CECL for those institutions that lack the necessary resources for wholesale implementation.

Thank you for your consideration and we look forward to working with you to provide the requested relief. If we can answer any questions or provide you with additional information on this issue, please do not hesitate to contact me or James Akin, Regulatory Affairs Counsel, at 703-842-2268 or jakin@nafcu.org.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Dan Berger". The signature is stylized and cursive, with a large initial "B" and "D".

B. Dan Berger
President and CEO