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National Association of Federally-Insured Credit Unions

December 10, 2018

The Honorable Blaine Luetkemeyer
Chairman
Subcommittee on Financial Institutions
and Consumer Credit
House Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Wm. Lacy Clay
Ranking Member
Subcommittee on Financial Institutions
and Consumer Credit
House Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20515

RE: Costs of Implementing the Current Expected Credit Loss Accounting Standard

Dear Chairman Luetkemeyer and Ranking Member Clay:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally insured credit unions, I am writing in regard to tomorrow's hearing, entitled "Assessing the Impact of FASB's Current Expected Credit Loss (CECL) Accounting Standard on Financial Institutions and the Economy." Since the CECL standard was finalized in June 2016, credit unions have wrestled with its potential impact on data warehousing processes and loan loss reserves. NAFCU continues to hear from credit unions about the significant investments that are necessary to implement CECL and the serious impact to operations that could soon take place. Accordingly, NAFCU maintains that credit unions should never have been included within the scope of the CECL standard because they were not a part of the poor lending practices that precipitated the financial crisis.

Given the extent of industry concern about CECL, NAFCU believes that Congress must continue to investigate the economic impact the standard will have on credit unions and the economy at large. NAFCU has already devoted considerable resources to educating its members about CECL, and has continuously engaged the Financial Accounting Standards Board (FASB) and the National Credit Union Administration (NCUA) to communicate the need for meaningful relief. However, more must be done. To that end, we believe that credit unions should be exempted from the new CECL requirements, either by FASB or through regulatory or legislative action.

CECL represents a seismic shift in the way credit unions have traditionally accounted for credit losses. Before the standard was finalized, many NAFCU members anticipated that they would need to expand data collection efforts and increase allowances for loan and lease losses. Based on responses to NAFCU's July 2018 Economic & CU Monitor Survey (Survey), this sentiment has not changed. Respondents expect to collect 22 percent more data points than they do presently and anticipate a sizable impact on allowance for loan and lease losses across a variety of product lines. More than half of the Survey's respondents (57 percent) believed that CECL would have a negative impact on their profitability.

The process for selecting a CECL model bears its own, separate costs, as evaluating potential options is far from straightforward. NAFCU's 2017 CECL Study presented five options in detail to help credit unions identify a preferred method for estimating expected losses and to understand tradeoffs in terms of data size requirements, complexity, computation time, and procyclicality of lifetime loss estimates. The study emphasized that credit unions would need to act quickly to select an appropriate option, as data retention requirements could vary significantly between models.

Since 2015, NAFCU has also hosted CECL-related webinars to educate credit unions about key definitions, implementation challenges, and potential allowance methodologies. NAFCU has also attended FASB's Transition Resource Group meetings to discuss the standard, provided insights at industry roundtables, and worked with members of Congress to better inform lawmakers of more practical alternatives. The cumulative effect of these efforts has helped achieve some additional flexibility, as evidenced in recent updates to the standard, but there is more work ahead. Most recently, NAFCU has been in conversation with the NCUA to offer perspectives on transition relief and industry outreach strategies. We believe Congress may also benefit from engaging with FASB and the NCUA to better understand implementation concerns related to CECL.

The CECL standard is an unnecessarily complex accounting method for credit unions and only adds to mounting regulatory stress. In such a climate, we urge continued attention to the costs that will likely result from implementation of the standard, particularly for small credit unions. We thank you for your attention to this important issue. If you have any questions or concerns, please do not hesitate to contact me or Brad Thaler, NAFCU's Vice President of Legislative Affairs, at (703) 842-2204.

Sincerely,

Carrie R. Hunt
Executive Vice President and General Counsel

cc: Members of the Subcommittee on Financial Institutions and Consumer Credit