NAFCU
3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org
National Association of Federally-Insured Credit Unions

September 21, 2022

Christopher McGrath
Acting Chief Accountant
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Simplified CECL Tool Requests

Dear Mr. McGrath:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to urge the National Credit Union Administration (NCUA) to provide additional clarity and guidance regarding the NCUA's new Simplified current expected credit losses (CECL) Tool (Tool). NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 133 million consumers with personal and small business financial service products. NAFCU greatly appreciates the efforts of the NCUA and its staff to ensure that credit unions are prepared for the implementation of CECL and that they have the tools and resources to smoothly transition to the new standard without inordinate costs. To more fully aid credit unions as they transition to CECL, NAFCU requests that the NCUA provide clarity regarding the applicability of the Tool for credit unions of different asset sizes. Additionally, NAFCU urges the NCUA to provide explicit guidance on both the recommended and required methods of model validation that will be expected from credit unions as CECL implementation begins. NAFCU appreciates your attention to this matter, and we hope that you will continue to work with us to ensure that this significant accounting transition is as painless as possible.

Credit unions of virtually all sizes have been preparing for CECL for years, and most have viewed the impending transition with more than a little trepidation. Of significant concern for the majority of credit unions are the costs associated with replacing the current Allowance for Loan and Lease Losses (ALLL) accounting standard with CECL. Although credit unions under $10 million in assets are exempt from compliance with Generally Accepted Accounting Principles (GAAP) such as CECL, there are many small credit unions over that threshold that could not easily bear the cost of outsourcing CECL compliance to a third-party vendor and lacked the tools to address implementation in-house. Additionally, these changes come at a time when compliance burdens across the credit union industry are spiking as evidenced by NAFCU's 2022 Federal Reserve Survey where respondents indicated that overall compliance burden had increased by 84 percent over the previous five years. The NCUA's Tool provides a much-needed lifeline for these smaller institutions under $100 million in assets and should help them avoid one more addition to the ever-growing costs of compliance.

It is important to note however, that it is not only the very smallest credit unions that need relief from the burdens of CECL implementation. Whenever an industry-wide mandate such as CECL is implemented, every financial institution is placed in competition with every other financial institution. However instead of competing for customers, financial institutions must compete for service providers. In this environment, service providers price their products and services according to the demands of the market. When the market includes the very largest banks, the prices can correspondingly skyrocket, and the cost for CECL implementation services which might be perfectly reasonable for a big bank, become prohibitive for a small or midsized credit union. It is imperative therefore, that as many credit unions as possible have access to and permission to use a backstop like the NCUA's Tool. Therefore, NAFCU urges the NCUA to issue guidance indicating that, while the Tool may be ideal for use by credit unions under $100 million in assets, it can be used by credit unions up to $1 billion in assets. Making this threshold clear will make the safety net of the Simplified Tool available to credit unions under $1 billion in assets and will place the decision of whether or not to use the Tool at the discretion of credit union management and auditors. Additional guidance about what factors and modifications credit unions between $100 million and $1 billion should consider in utilizing the tool would also be helpful for credit unions in evaluating whether the tool can be effectively used.

In the interest of minimizing costs and providing clear expectations, the NCUA should also issue guidance concerning exam expectations regarding CECL model validation. Specifically, NAFCU requests that the NCUA ensure that credit unions have the same level of flexibility when validating the credit union's allowance for credit losses (ACL) methodology, as they did when validating their ALLL methodology. This would mean that the ACL account validation may be performed by the supervisory committee, credit union staff not responsible for lending or the ACL account, or a qualified third party hired by the supervisory committee. NAFCU urges the NCUA to avoid requirements for third party model validation as this would place an unnecessary burden on smaller credit unions.

NAFCU would like to thank the NCUA for its continued focus on providing credit unions with the tools and resources to implement CECL. NAFCU urges the NCUA to provide credit unions with regulatory certainty and the ability to avoid high-cost vendor products by issuing guidance emphasizing that credit unions under $1 billion in assets may use the Tool, and that model validation can be conducted internally. Thank you for your consideration and we look forward to working with you to make CECL transition simple for credit unions. If we can answer any questions or provide you with additional information, please do not hesitate to contact me at 703-615-5109 or jakin@nafcu.org.

Sincerely,

James Akin