July 23, 2020

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

RE: CECL Exemption for Credit Unions

Dear Chairman Jones:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I would first like to congratulate you on your recent appointment as Chair of the Financial Accounting Standards Board (FASB). As you begin your new role, NAFCU requests that you consider exempting credit unions from compliance with the current expected credit loss (CECL) standard, issued as Accounting Standards Update 2016-13. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve nearly 121 million consumers with personal and small business financial service products. As credit unions work hard to meet the needs of their members during this difficult economic time, uncertainty and concern remain high regarding the implementation of the CECL standard by 2023. Although NAFCU appreciates the one-year delay of the adoption of CECL for non-public business entities adopted in October 2019, the COVID-19 pandemic and current economic crisis have highlighted apprehensions about the appropriateness and efficacy of CECL implementation for not-for-profit, member-owned cooperative financial institutions.

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. 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. Given the unique nature of credit unions as non-public financial institutions, FASB should exempt credit unions from the CECL standard.

Additionally, in the past year, several lawmakers have asked for additional studies on the impacts of CECL, given concerns regarding its procyclicality and propensity to exacerbate capital and liquidity concerns during an economic downturn. In April 2020, NCUA Chairman Rodney E. Hood also 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. NAFCU agrees that the existing incurred loss model is sufficient to maintain the safety and soundness of the credit union industry.
The COVID-19 pandemic has led to record rates of unemployment, high rates of forbearances on loans, and constrained liquidity for many financial institutions. During this financial downturn, credit unions are currently 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 high degree of economic uncertainty and credit unions’ conservative tendencies, CECL’s forecasting requirement is likely to 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 current economic crisis.

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 defined 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 the FASB. NAFCU urges FASB to exempt credit unions from compliance with the CECL standard to provide capital relief and prevent a scenario where credit unions must dramatically scale-back asset growth or face supervisory action should their net worth ratios fall below minimum levels.

Thank you for your attention to this matter and we look forward to discussing this request with you. In the midst of this pandemic and economic crisis, credit unions should remain focused on helping their members and not diverting valuable and already limited resources to preparing for an unnecessary and potentially detrimental accounting standard. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

B. Dan Berger
President and CEO

¹ 12 U.S.C. § 1757a(c)(2).