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**B. Dan Berger**  
President & Chief Executive Officer

**National Association of Federally-Insured Credit Unions**

December 18, 2018

The Honorable Steven T. Mnuchin  
Secretary, U.S. Department of the Treasury  
Chairman, Financial Stability Oversight Council  
U.S. Department of the Treasury  
1500 Pennsylvania Ave., NW  
Washington, DC 20220

RE: Impact of CECL Standard on Credit Unions

Dear Secretary Mnuchin:

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 to share industry concerns regarding future implementation of the current expected credit loss (CECL) standard, which was issued by the Financial Accounting Standards Board (FASB) as Accounting Standards Update 2016-13.

Since the CECL standard was finalized in June 2016, credit unions have wrestled with its potential impact on data warehousing processes, loan loss reserves, and capital planning requirements. NAFCU continues to hear from credit unions about the costly investments that are necessary to implement CECL and the significant shift in operations that are set to take place in 2022, the effective date for non-public business entities. 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 is appropriate for the Financial Stability Oversight Council (FSOC) to consider the standard's potential for economic disruption at its meeting tomorrow. NAFCU also believes the FSOC should coordinate with the FASB, the National Credit Union Administration (NCUA), and other financial regulators to formally assess the extent to which the standard may complicate financial institution operations, result in unnecessary impairment to capital, and exacerbate periods of economic stress. Specifically, the FSOC should seek to delay implementation of CECL until a quantitative impact study is performed and shared with industry.

NAFCU has already devoted considerable resources to educating its members about CECL, and has continuously engaged the FASB and the NCUA to communicate the need for meaningful relief. However, more must be done, and delaying implementation does little to resolve the inherent burden of compliance. Accordingly, NAFCU also urges the FSOC to work closely with the FASB to mitigate disruption to smaller, community-based institutions, such as credit unions, by pursuing coordinated relief efforts.

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 (ALLL). 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 ALLL across a variety of product lines. More than half of the Survey's respondents (57 percent) believe that CECL will have a negative impact on their profitability.

More recent information collected by the FASB suggests that credit unions continue to expect significant burdens associated with CECL implementation. At a meeting held on October 24, 2018 to discuss implementation challenges, the FASB noted that a majority of credit unions and their representatives noted operational concerns related to the cost and complexity of the standard.<sup>1</sup> However, credit unions are not the only institutions that have expressed alarm regarding CECL. Across the broader financial sector, there is persistent worry that implementation of CECL will reduce capital availability during times of stress, restrict access to credit during downturns, and disproportionately harm underserved communities as a result of its pro-cyclicality.

At a House Financial Services Committee hearing on December 11, 2018 titled "Assessing the Impact of FASB's Current Expected Credit Loss (CECL) Accounting Standard on Financial Institutions and the Economy," members of the Subcommittee on Financial Institutions and Consumer Credit recognized that CECL was the most significant accounting change in the banking industry over the past 40 years. Further remarks noted that application of the standard to credit unions and other community-based institutions is misguided, and that CECL should be subject to more rigorous quantitative analysis before taking effect. Testimony offered by witnesses during the hearing also drew attention to the lack of data regarding the potential for a negative economic outcome should CECL be implemented in its current form.

The Federal Reserve Vice Chairman of Supervision, Randal Quarles, expressed similar uncertainty about CECL's impact during a House Financial Services Committee hearing on November 14, 2018 titled "Semi-Annual Testimony on the Federal Reserve's Supervision and Regulation of the Financial System." During the hearing, Governor Quarles shared his view that the impact of CECL on both large and small institutions is not well understood, and explained that the banking regulators would adopt a phased-in implementation strategy to study the practical effect of the standard over a longer period.

For credit unions, CECL's challenges are also compounded by unique, structural limits on capital accumulation. A credit union's net worth ratio is currently determined solely on the basis of retained earnings as a percentage of total assets. Furthermore, the *Federal Credit Union Act* provides that credit union net worth means the credit union's "retained earnings balance, as determined under generally accepted accounting principles."<sup>2</sup> Consequently, increases to ALLL

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<sup>1</sup> Financial Accounting Standards Board, "Codification Improvements to Topic 236, Financial Instruments—Credit Losses," Board Meeting Handout, 2 (October 24, 2018), available at [https://www.fasb.org/cs/ContentServer?c=Document\\_C&cid=1176171489088&d=&pagename=FASB%2FDocument\\_C%2FDocumentPage](https://www.fasb.org/cs/ContentServer?c=Document_C&cid=1176171489088&d=&pagename=FASB%2FDocument_C%2FDocumentPage).

<sup>2</sup> 12 U.S.C. § 1757a(c)(2).

accounts resulting from CECL will likely impair the net worth—and regulatory capital ratios—of credit unions more significantly than banks.

Unlike banks, credit unions cannot increase their net worth ratio by issuing capital instruments such as stock, and this limitation could magnify the pro-cyclical effects of CECL during times of stress. Furthermore, because retained earnings often cannot keep pace with even healthy asset growth, CECL could further dilute a credit union's regulatory capital ratio and trigger non-discretionary supervisory actions during good economic times.

Credit unions' conventional reliance on retained earnings to maintain net worth will also exacerbate the immediate transition to CECL once the standard becomes effective. Like other financial institutions, credit unions cannot build their ALLL levels in anticipation of adopting the standard. As clarified in a FAQ document released by the federal banking regulators, including the NCUA, institutions must continue to use existing GAAP incurred loss methodology until CECL becomes effective, and may not increase allowance levels beyond those that are currently appropriate under GAAP. For credit unions, adjusting to this limitation may entail postponement of future growth in order to ensure that net worth and regulatory capital ratios do not fall below minimum standards the day CECL becomes effective.

Given the staggering complexity of the standard and its ramifications for capital planning, NAFCU has sought to provide educational resources to help credit unions prepare for compliance. NAFCU has hosted CECL-related webinars to improve understanding of implementation challenges and published a detailed study to better inform the selection of loss-estimate methods. NAFCU has also attended the FASB's Transition Resource Group meetings to discuss the standard, provided insights at industry roundtables, and worked with members of Congress to identify more practical alternatives. The cumulative effect of these efforts has helped achieve some additional flexibility, as evidenced in recent updates to the standard, but more meaningful relief is necessary. Already credit unions must bear the near-term cost of testing possible CECL solutions, a process which is by no means straightforward given the lack of regulatory clarity regarding future compliance expectations.

CECL 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 also ask that the FSOC seek to delay the standard until a formal, quantitative study is conducted to assess CECL's economic impact. 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 Carrie Hunt, NAFCU's Executive Vice President of Government Affairs and General Counsel, at [chunt@nafcu.org](mailto:chunt@nafcu.org) or (703) 842-2234.

Sincerely,



B. Dan Berger  
President and CEO

Financial Stability Oversight Council

December 18, 2018

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cc: The Honorable Jerome H. Powell, Chairman of the Board of Governors of the Federal Reserve System  
The Honorable Joseph M. Otting, Comptroller of the Currency  
The Honorable Kathleen Kraninger, Director of the Bureau of Consumer Financial Protection  
The Honorable Jay Clayton, Chairman of the Securities and Exchange Commission  
The Honorable Jelena McWilliams, Chairman of the Federal Deposit Insurance Corporation  
The Honorable J. Christopher Giancarlo, Chairman of the Commodity Futures Trading Commission  
The Honorable Melvin L. Watt, Director of the Federal Housing Finance Agency  
The Honorable J. Mark McWatters, Chairman of the National Credit Union Administration  
The Honorable Thomas E. Workman, Independent Member with Insurance Expertise, Financial Stability Oversight Council