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National Association of Federally-Insured Credit Unions

January 14, 2020

The Honorable Brad Sherman
Chairman
Subcommittee on Investor Protection,
Entrepreneurship, and Capital Markets
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Bill Huizenga
Ranking Member
Subcommittee on Investor Protection,
Entrepreneurship, and Capital Markets
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Re: Tomorrow's Hearing, "Overseeing the Standard Setters: An Examination of the Financial Accounting Standards Board and the Public Company Accounting Oversight Board."

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) ahead of tomorrow's hearing entitled "Overseeing the Standard Setters: An Examination of the Financial Accounting Standards Board and the Public Company Accounting Oversight Board." NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 119 million consumers with personal and small business financial service products. We appreciate the Subcommittee's oversight of the Financial Accounting Standards Board (FASB), particularly in relation to the current expected credit loss (CECL) standard.

As NAFCU has communicated to the Committee previously, there is an inherent misalignment between FASB's objectives in developing the CECL standard and the credit union industry. While a primary goal of CECL was to provide more reliable information on credit loss exposure to outside investors, the standard is addressing a problem that simply does not exist within the credit union industry since outside capital is not available at most credit unions. Additionally, credit unions did not engage in the types of lending practices that precipitated the financial crisis and ultimately led to the dramatic credit losses experienced during the crisis. From the outset, NAFCU has stressed these points to FASB. However, FASB historically has been reluctant to create exemptions from its accounting standards.

A majority of our members maintain a policy that requires their net worth to well-exceed the seven percent level well-capitalized threshold (a "capital cushion" for bumps in the road) and according to a NAFCU survey of our members, two-thirds of them expect a moderate to significant change to their business strategy if they were to fall below their credit union's internal net worth target. That is, if their capital cushion declines under CECL, they would likely make business decisions to restore that cushion – which can mean a constraining of credit, or a rise in the cost of credit to the consumer. The bottom line is the impact on credit union capital levels from the CECL standard could likely result in credit unions making fewer loans to members primarily in the mortgage and commercial loan space.

CECL represents a seismic shift in the way credit unions have traditionally accounted for credit losses. Since this standard was finalized in 2016, NAFCU has devoted considerable resources to educating its members about CECL and we have continuously engaged FASB to communicate the need for meaningful relief. We have also been working with the National Credit Union Administration as they have worked with credit unions to try to mitigate the impact on the industry. Additionally, we have communicated our concerns and economic research to many legislators about the detrimental effect CECL will have on credit unions. While the one-year delay for credit unions implemented by FASB this year was welcomed, concerns with CECL remain. We hope that the subcommittee will examine these concerns with FASB tomorrow and continue to work with FASB and the financial regulators to lessen the impact of this new standard on consumers. Ultimately, given credit unions' unique nature, we do not think the CECL standard should apply to credit unions.

Thank you for attention to this important issue. We appreciate your leadership and ongoing focus on issues important to credit unions. Should you have any questions or require any additional information, please do not hesitate to contact me or Brad Thaler, NAFCU's Vice President of Legislative Affairs, at 703-842-2231 or bthaler@nafcu.org.

Sincerely,

Janelle Relfe

Janelle Relfe
Associate Director of Legislative Affairs

cc: Members of the Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets