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National Association of Federally-Insured Credit Unions

October 25, 2018

Mark A. Treichel
Executive Director
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Current Expected Credit Loss (CECL) Implementation

Dear Mr. Treichel:

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 the National Credit Union Administration's (NCUA) future outreach plans as it prepares to implement the Financial Accounting Standards Board's (FASB) Current Expected Credit Loss (CECL) standard. Since the standard was finalized in June 2016, credit unions have wrestled with its potential impact on data retention processes and loan loss reserves. NAFCU continues to hear from credit unions about the costly investments that are necessary to implement CECL and the significant 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 and its high potential for disruption, NAFCU believes that the NCUA should play an active role in educating industry about future implementation challenges. NAFCU has already devoted considerable resources to educating its members about CECL, but more can be done.

Both the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have offered interagency webinars to educate banks about CECL. We hope the NCUA will continue to offer similar industry resources in the future. We also ask that the NCUA partner with FASB and adopt a collaborative approach to providing industry education. While we appreciate that both FASB and the NCUA have committed to ensuring that the requirements of the standard are scaled appropriately, we believe that more active engagement will be beneficial in terms of clarifying transition expectations and when the CECL model must be implemented.

NAFCU has undertaken a number of initiatives to help address industry concerns regarding CECL. We have conducted member surveys, hosted multiple webinars, published a detailed study, and communicated member concerns to FASB through meetings and letters. We believe that these efforts may serve as a model for future outreach by the NCUA.

NAFCU began formally assessing the impact of the CECL standard in 2016. Even before the standard was finalized, many NAFCU members anticipated increases to their credit unions' allowances for loan and lease losses. Based on responses to NAFCU's July 2018 Economic & CU Monitor Survey (Survey), this sentiment has not changed. In 2018, NAFCU also asked members whether they had selected a CECL model. As of July, only a quarter of respondents had settled on a particular option. However, nearly all survey respondents reported that they have begun the process of investigating methods for estimating loan losses under the new standard. In this context, it is essential that the NCUA act quickly to provide appropriate educational tools before credit unions commit to particular loss estimate models. Furthermore, 19 percent of Survey respondents indicated that they are still waiting for clearer guidance before adopting a particular model to implement CECL.

In April 2017, NAFCU published a study on CECL which discussed potential models and options for implementing the new accounting standard. Five potential options were evaluated in detail to help credit unions identify a preferred method for estimating expected losses and to understand potential tradeoffs in terms of data size requirements, complexity, computation time, and procyclicality of lifetime loss estimates. The study also emphasized that credit unions would need to act quickly to identify an appropriate option, as data requirements could vary significantly between models. NAFCU believes that the rigor of the study will help credit unions validate modeling choices in the future. We also believe that the NCUA should develop additional resources to help credit unions better understand approaches to implementing the CECL standard.

Since 2015, NAFCU has hosted CECL-related webinars to educate credit unions about key definitions, implementation challenges, and potential allowance methodologies. NAFCU has also met on numerous occasions with FASB 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 additional flexibility, as evidenced in proposed updates to the standard. In a September 2018 letter regarding FASB's Codification Improvements to Topic 326, NAFCU expressed its appreciation for extended implementation for non-public business entities, which NAFCU has supported since the CECL effective dates were first announced. However, more can be done, and NAFCU believes that the NCUA may be able to offer perspectives that could lead to future improvements. Accordingly, we encourage the NCUA to engage with credit unions and FASB to identify additional opportunities to promote flexibility and ease implementation concerns.

The CECL standard is an unnecessarily complex accounting method for the majority of credit unions and only adds to mounting regulatory stress. In such a climate, we encourage the NCUA to work closely with FASB to reduce burdens on credit unions and alleviate industry uncertainty. If you have any questions or concerns, please do not hesitate to contact me at amorris@nafcu.org or (703) 842-2266.

Sincerely,

Andrew Morris
Senior Counsel for Research and Policy

cc: Larry Fazio, Director of Office of Examination and Insurance, NCUA