

SHARONVIEW

FEDERAL CREDIT UNION

April 25, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, Financial Instruments – Credit Losses (Subtopic 825-15)

Dear Director:

Sharonview Federal Credit Union is a federally chartered credit union with just over \$1 billion in assets headquartered in Fort Mill, South Carolina. We have eighteen branches in North Carolina, South Carolina, and New Jersey and serve 65,000 member/owners. The proposed changes create more problems than it solves and will make financial statements less relevant and useful. The current “incurred loss” model, if applied correctly and supplemented by adequate disclosures of fair value and credit loss indicators, is more reliable, accurate and relevant for financial statement users and preparers, as well as regulators.

The shift from the “incurred loss” model to the “expected credit loss” model will dramatically increase the Allowance for Loan and Lease Losses (ALLL) balance and reduce capital. Our current ALLL balance is just under \$10 million. Due to our concentration in consumer residential real estate loans with relatively long average lives, I estimate the increase to our ALLL required by the proposed changes to be three to four times its current balance, resulting in a new ALLL balance between \$30 million and \$40 million. This would significantly reduce our current regulatory capital to asset ratio from its current 11% to between 8% and 9%. Our members would be negatively impacted as we rebuild our capital to asset ratio to the desired 11% the only way we can – through future earnings. As a member owned cooperative, our members pay for higher earnings through higher loan rates, lower savings rates, higher fees, etc. Another negative impact to our member/owners is that we may be forced to make less risky loans as losses relating to those riskier loans will be estimated over the life of the loan and recognized up front while the interest income is recognized over the life of the loan. All of these changes come at a time when the financial services industry needs more capital, not less, and needs to be making more loans instead of fewer loans.

Adoption of the proposed changes will ensure that the calculation of the ALLL will be even more subjective than it already is. Incorporating forecasts of future economic data on future expected cash flows is an exercise in futility and will result in a much wider range of "reasonable and supportable" balances in the ALLL. A wider range in the biggest estimate we make on the balance sheet results in less reliable and meaningful financial statements for the users. In addition, there will be no consistency and comparability among peers. The diversity of results that different preparers, using the same fact pattern(s), will generate under the proposed changes will be too great to make financial statements comparable or reliable. Regulators and accounting firms providing opinion audits will have even greater latitude than they do now to challenge the reasonableness of methodologies used by preparers, possibly resulting in material adjustments to ALLL balances after the annual audit or regulatory exam is complete.

This proposal completely abandons the matching principle of accounting. A portion of the interest rate on a loan relates to the credit risk on the loan and so the income relating to that credit risk is earned over the life of the loan. This proposal requires financial institutions to recognize up front the estimated losses on each loan. While it is true that this inherent mismatch is also true in current loan loss accounting and interest income recognition, the problem is further magnified by these proposed changes as preparers employ life of loan cash flow estimates. Losses should not be recorded before the loss is probable and can be reasonably estimated.

Existing accounting principles, if properly and conservatively applied, supplemented with appropriate disclosures are already sufficient to produce reliable, relevant and credible financial statements. I strongly recommend that FASB withdraw or substantially modify these proposed changes and not replace the "incurred loss" model with the "expected credit loss" model.

Sincerely,



Steven O. Smith, CPA, PFS, CFP®

Chief Financial Officer