



May 14, 2013

Technical Director
File Reference No. 2012-206, FASB, 401 Merit 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Director:

Unlike many you will undoubtedly hear from, I am neither a CPA nor accountant, but simply a 38 year veteran of credit unions who began as collector and for the last 25 years been the CEO of a credit union.

I am opposed to this proposed rule for the following reasons:

1. It's a direct contradiction of the matching principal of income and expenses. How do we expense something in the present day that may or may not happen in the future? If we are expected in the present day (now) to recognize future losses that may or may not occur, then should we not also recognize all future income cash flow (that may or may not occur) now in the present day. You can't do one without doing the other.
2. I oppose the change related to the Current Expected Credit Losses ("CECL") model that will remove the "probable" threshold for loss recognition and instead require us to evaluate any "possibility" that a loss exists. It makes more sense to stay with the current model which is based on the probability of a loss occurring rather than the obscure possibility that it may occur in the distant future based on factors that are unknown or virtually impossible to forecast.
3. I also oppose the proposed longer loss horizon looking to the lifetime of the loans for all loans. This will cause the allowance for non-impaired assets to rise without justification. The difficulty of trying to estimate "possible" losses in the distant future is likely to cause a higher volatility of the allowance.
4. Trying to recognize future cash flow losses in the present day depletes net worth, instead of when it actually occurs. Credit Unions are required by regulation to maintain a 7% net worth ratio to be well capitalized. Any net worth ratio below 7% falls under Prompt and Corrective Action (PCA) by our regulator, the National Credit Union Administration (NCUA). This proposal, in all probability, will force a large number of credit unions under the 7% net worth requirement for a well-capitalized credit union, and possibly result in liquidation for many credit unions. How can this best serve the public interest? All it will do is eliminate competition that best serves the public interest.

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5. This proposal is overly burdensome. Credit Union assets are predominately comprised of loans, and in most credit union's automobile loans. The staffing and staff time to comply with this proposal creates a huge drain on already historically thin margins, again making it difficult if not impossible to grow capital.
6. Unlike other financial institutions or businesses, by regulation the only way for a credit union to grow capital is through earnings. We are not publically traded entities and cannot issue stock. Therefore, this proposal greatly diminishes our ability to form capital and net worth.
7. Having to recognize possible future cash flow losses in the present, would require all loans to be recognized as Troubled Debt Restructuring (TDR) loans. This, by regulation, imposes mandatory tracking of every loan on our books, as well as other TDR requirements. Such tracking would be totally unnecessary and burdensome.
8. I could not help but notice in the FASB Statement "Proposed Accounting Standards Update, Financial Instruments – Credit Losses" dated March 25, 2013 you often reference "investors", which I assume means those who might invest in or purchase a financial instrument, publically traded entities and etc. Credit unions are not publically traded entities, you don't invest in credit unions, you make deposits in credit unions and these deposits in most cases are federally insured. Credit unions are member-owned cooperatives. A member, or prospective member simply purchases one share in the credit union, usually by depositing \$5 into a savings or deposit account and they become a member-owner. They then have the same member/ownership rights as any other member, regardless of the amount of money they have on deposit. And, all deposits are federally insured up to \$250,000 by the National Credit Union Share Insurance Fund (NACUSIF). There is simply no investing in or purchasing of a credit union. It is a member-owned cooperative.

For the reasons outlined above, I believe this proposed rule should be withdrawn. And, if the FASB is intent on going forward with it, credit unions should be specifically exempted from the rule, as otherwise we are required to follow GAAP.

Sincerely,



Gary Davis, CCUE
Pres/CEO