May 30, 2013

RE: Financial Instruments – Credit Losses; File Reference No. 2012-260

Dear FASB,

Amplify Federal Credit Union appreciates the opportunity to submit comments to the Financial Accounting Standards Board (FASB) in regard to the proposed accounting standards update on accounting for credit losses for financial instruments. Amplify is a \$600M+ credit union in Austin, Texas, chartered in 1967, and today serving over 45,000 members thru over 17,000 loans.

Amplify strongly opposes FASB's accounting standards update as proposed. As described below, the proposed changes will have a significant, detrimental impact on Amplify and the entire financial institution industry, which will in-turn adversely impact millions of Americans, and reduce small business lending which is a key driver of our economy.

Overview of Proposal and Our Concerns

The proposal would require us to provide information that is not relevant to the primary users of our financial statements, particularly our regulators. Further, the intent behind issuing the proposed changes is that the current impairment methodology does not allow for the timely recognition of credit losses. We do not agree with this. We currently have Allowances for Loan Losses of over 300% of our most recent annual net charge-offs, and we continue to provision monthly for new loans added. So we are very conservatively provisioned and review provisioning metrics monthly. As such, we are not sure exactly what problem is being addressed by this proposal? And further still, how would the addition of more subjective estimates improve the current objective process? If anything, this proposed change would seem to us to reduce the confidence of financial statement users.

Potential Impact of Proposal

The proposal would require us to recognize on the balance sheet current loss expectations in the Allowance for Loan and Lease Losses (ALLL). Thus, upon becoming effective, the proposed changes could cause an immediate and drastic increase to our ALLL. This increase, which could possibly double or even triple current ALLLs, would have a very detrimental impact on our Retain Earnings and associated ratios, which are vitally important in our industry. Surely you don't intend to throw us and other financial institutions into immediate jeopardy within the banking industry and with our creditors, regulators, and customers based on an arbitrary and subjective accounting rule change? That seems very ill-advised and not well thought out at all. Think of the unintended consequences.

Problems Complying with the Changes as Proposed

The proposed CECL model effectively requires entities to predict/forecast the extent and timing of future losses. Predicting such losses with any degree of accuracy will be extremely challenging, even for an entity with adequate data sets and modeling capability. Further, attempting to predict credit loss for the life of a loan will inherently be affected by the subjectivity of and assumptions made by the reporting entity.

In regard to the data necessary to conduct such modeling, even the largest financial institutions have indicated that they do not have adequate information on this data and that it will take years (some estimating four to five

years) to obtain. A smaller institution like Amplify will require even more time and cost to obtain such data. Further, since the proposal precludes the use of static statistical models, it will not be possible for us to apply a statistical thought process to our loan portfolio in order to estimate future expected losses. Thus, each time we reach a particular point in time (e.g., the end of the month), we must look at our portfolio as it stands at that time and then subjectively attempt to determine how its loss-projections will vary in the future. Again, substituting subjective judgment over statistical analysis seems counter-intuitive to us.

Another issue of concern, that is also likely to increase the cost of compliance, relates to the audit community. Specifically, it will likely be very challenging for auditors to become comfortable enough with these drastic changes to provide an opinion on the most significant estimate on the balance sheet. We anticipate an increase in audit fees as a result of the amount of work that will be required for auditors to become comfortable with these changes. In addition, the proposed changes will require us to obtain costly core system enhancements. Again, we do not believe these added costs will result in a commensurate amount of benefit.

In addition, the proposed CECL model is inconsistent with the accounting principle of matching, which states that expenses should be recorded in the same period as the revenues that relate to those expenses. The proposal is inconsistent since it requires expected future loan losses to be recorded immediately. In addition to its impact on the reporting entity, this inconsistency will likely cause challenges/trepidation within the audit community.

Suggestions to Improve the Proposal

We believe it would be inappropriate to apply the proposed changes to financial institutions. As noted above, the primary user of our financial statements is our regulator, which is not likely to benefit from the proposed changes since it already has a well-developed understanding of our operations. While we recognize FASB's inclusion of a practical expedient in the proposal, we are not optimistic that it will provide meaningful relief.

We urge FASB to work closely with the federal financial regulatory agencies throughout the remainder of the standard-setting process, particularly with NCUA in light of the unique structure of credit unions. We ask FASB to consider a credit impairment approach that is more in-line with the proposed IASB model.

Again, we do not support the FASB's accounting standards update as proposed. However, if FASB moves forward with this or a variation of this proposal, it is crucial that there be an adequate phase-in/transition period. Further, we urge FASB to delay the effective date of a final credit losses standard by at least three years for non-public reporting entities, including credit unions. Lastly, FASB should permit early adoption of any revisions to its standards on credit losses.

Finally, we suggest following the Hippocratic Oath in this matter: "First Do No Harm."

Thank you for the opportunity to express our views on the FASB's credit losses proposed accounting standards update. If you have any questions about our comments, please do not hesitate to contact me.

Sincerely,

John Orton, Amplify CFO

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