members choice
credit union

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May 31, 2013

Re: File Reference No. 2012-260: Proposed Accounting Standards Update, *Financial Instruments-Credit Losses*

Dear Directors,

Members Choice Credit Union is a community financial institution providing banking, insurance, investments, and lending for real estate, consumer, and business borrowers in the Houston, Texas market. We appreciate the opportunity you have provided to respond to the proposed rule changes.

We believe the proposed rule changes to the allowance for loan loss methodology would increase a financial institution's compliance risk, financial risk, credit risk and operational risk. Our understanding of the proposed rule requires forecasting of potential losses without the use of historical data. However, it is impossible to forecast without utilizing historical data.

We are certain the proposed changes will have unintended consequences on consumers' ability to borrow funds. With the potential for increased provisions, financial institutions may limit loan funds available to only low-risk borrowers, which could have a disparate impact on certain members of our community. Recent historical data demonstrates that limiting consumers' access to credit has negative economic consequence.

Concerning compliance risk, without clear regulatory guidance, or a model as to how the proposed provision for loan loss should be calculated, each financial institution will have broad discretion as to how to design the model and forecast such losses. Auditors and regulators will then be expected assess the value of such models and forecast calculations providing opinions on an institution's effectiveness to reserve for the anticipated losses; placing unguided, undue burden on the financial institution and its regulators.

Implementation of such a model, without careful and gradual roll-out, would increase a financial institution's expenses immediately in several areas. The added costs of implementing and maintaining such a model, increased staff requirements to manage said model, and increased provision expense (which could as much as triple the amount of current ALLL balances); all of which impacts an institution's expenses and capital ratios.

In addition to increasing an institution's expenses and lowering capital ratios, we are concerned about the effect this rule would have on the viability of loan participations. Decreasing revenue while increasing expenses so significantly, in such a short period of time will have immediate and substantial negative effects on our net worth ratio. This impact has the potential to reduce an institution's capital adequacy by moving funds from reserves to an asset contra account; this at a time that lenders are experiencing improvement in delinquency and charge-off ratios.

Our concern is that this FASB rule change will make it more difficult to provide consumer credit to members of our credit union at affordable rates. However, with very clear guidance and gradual implementation, the impact may not be as severe. We encourage you to consider the effects and impacts on financial institutions and the communities we serve, particularly given the very fragile nature of our current economic recovery.

Regards,

Steve Gilman

Steve Gilman
President
Chief Executive Officer
Members Choice Credit Union