



Via email: director@fasb.org

May 31, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856

Re: Comments on Proposed Accounting Standards Update: Financial Instruments—Credit Losses; File Reference No. 2012-260

To Whom It May Concern:

Otero Federal Credit Union (OFCU) appreciates the opportunity to submit comments to the Financial Accounting Standards Board (FASB) in regard to its proposed accounting standards update on accounting for credit losses for financial instruments. We also appreciate FASB's extension of the comment period in response to public input. By way of background, OFCU is a \$265 million full service financial institution serving the New Mexico counties of Otero, Lincoln, Chaves, and Eddy, and was federally chartered in 1953.

OFCU strongly opposes FASB's accounting standards update as proposed. There are several aspects to your proposal that causes concerns for our credit union and the entire industry.

The proposal would require OFCU to recognize on our balance sheet, current loss expectations in our Allowance for Loan and Lease Loss account (ALLL). Thus, upon becoming effective, it is estimated that the proposed changes would cause an immediate and drastic increase to the ALLL account under the broad scope of the proposal. This increase, which could double or even triple our current ALLL, would result directly in a reduction of retained earnings for OFCU. A decrease in earnings could lead to a lower net worth ratio, which could trigger prompt corrective action (PCA) implications for numerous credit unions that currently do not have PCA concerns.

There is also a concern that the proposed current expected credit loss (CECL) approach could result in quarterly adjustments in expected loss projections, possibly resulting in even more volatility in reported earnings. 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.

We anticipate an increase in audit fees as a result of the amount of work that will be required for our auditors to become comfortable with these changes. In addition, the proposed changes will

We Make Loans Simple!

require credit unions to obtain costly core enhancements. Moreover, we do not believe these added costs will result in a commensurate amount of benefit.

The proposed changes could also ultimately result in the consolidation of credit unions that have difficulties complying with these changes. Such a result would not only affect the members of those credit unions directly involved, but would affect the larger financial services marketplace by reducing consumer financial options.

We do not know if these concerns would materialize if the proposal is adopted, but the problem is that no one knows for sure that they will not.

One result of the proposal that is certain is that it will require credit unions to expend extensive financial and technical resources to even begin to comply with the changes proposed, particularly to be able to forecast future credit losses. The costs of any such expenditures will be borne by our credit unions' member-owners.

As FASB continues to work on its credit losses proposal, it is critical that FASB understand the unique structure of credit unions. Credit unions are member-owned, not-for-profit financial cooperatives that operate for the purpose of promoting thrift, providing credit, and providing other financial services at competitive rates. In addition, credit unions are unique from other financial institutions in that their enabling statute, the Federal Credit Union Act, limits net worth to retained earnings only. Further, this statutory limitation restricts the ability of the National Credit Union Administration (NCUA)—the prudential regulator of federally chartered credit unions and insurer of most state and all federally chartered credit unions—to adjust its regulations in response to changes in accounting standards, as is possible for other federal financial regulators.

We urge FASB to work closely with the federal financial regulatory agencies throughout the remainder of the standard-setting process, and we encourage such collaboration to continue, particularly with NCUA in light of the unique structure of credit unions.

Again, OFCU does not support the FASB's accounting standards update as proposed.

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.

Best regards,



Norma J. Garrett
VP of Finance
Otero Federal Credit Union