From: Beverley Rutherford [mailto:beverley.rutherford@vacu.org]
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To: Director - FASB
Subject: File Reference No. 2012-260

Thank you for the opportunity to comment on your proposed changes regarding recognizing credit losses. I am responding on behalf of a 2.4 billion dollar state chartered credit union located in Virginia.

We have several concerns over this proposal. First, and most importantly, we think this defies the matching principle of GAAP. Recognizing all credit losses up front is inconsistent with the matching principal. In the lending world, a higher interest rate is typically charged for riskier loans in order to recover the losses that are anticipated. If this proposal is put into place, we would have to recognize all those losses up front without recording any of the interest income. This is a detriment to lenders helping less affluent borrowers. The balance sheet should be a reflection of what exists at a point in time, not what might potentially exist at some time in the future. Recognition of credit losses that have been incurred is more consistent and is already meeting the needs of existing financial statement users, preparers, and regulators when applied consistently. There is already a place for deteriorating financial conditions in current GAAP - through the qualitative, environmental component.

Second, we think the scope is too wide. We do not think that investments should be handled in the same way as loans. This is especially true for government guaranteed (implicit or explicit) investments where one does not expect to take a credit loss, though it is remotely possible. From what we have heard from experts at this point, these investments are also expected to have an allowance recorded at the time of purchase. We do not agree with this. We feel that the current OTTI rules address the possibility of losses more effectively. In addition, we do not think loan commitments should be covered. These are not even loans on the books yet, so it seems unnecessary and inappropriate to be recording an allowance for something that has not yet even been put on the books.

Third, this proposal is much too complex. Forecasting losses for extended periods of time is inherently inaccurate and will create non-value added volatility on the income statement. In theory, this approach may sound reasonable but in practice, we question the accuracy of these estimates knowing how difficult under current circumstances it is to predict the level of charge-offs for upcoming months, much less years. This opens the allowance calculation to even more speculation than already exists, providing for more opportunity for manipulation. Many smaller institutions are likely to not have the necessary data collected even to estimate loss ratios under the methodology described and would need years to collect a meaningful amount of data. In addition, discounting cash flows increases the complexity of preparation with little value to the presentation on the balance sheet as a whole.

We do commend FASB for attempting to improve the handling of purchased credit impaired assets. All loans in portfolio should be treated the same regardless of who originated them.

In closing, we feel this proposal causes more issues than it resolves. Accountants are not economists and should not be using predictions as part of accounting methodology. There are not enough benefits to overcome the sacrifices to the matching principle. In addition, the complexity of implementation, especially for smaller institutions, will likely result in a lack of comparability across the industry and perhaps even contribute to further industry consolidation due to the immense pressure of regulatory compliance. While all may like to think there is something that could have prevented the most recent financial crisis, this proposal in all likelihood would not have. Financial institutions already have a
cushion for those unexpected losses - their capital. With regulators looking to increase capital requirements, this proposal has the possibility of double counting those potential losses and making it difficult for institutions such as credit unions to compete. Credit unions’ only method of building capital is through earnings. Please consider withdrawing or significantly amending your proposal.

Thank you for considering our comments. Should you have any questions, you may contact me.

Beverley F Rutherford, CIA, CUCE  
VP/Compliance  
Virginia Credit Union  
Richmond, VA 23225  
804.560.5665  
beverley.rutherford@vacu.org