Office of the Chairman

May 31, 2013

SENT VIA ELECTRONIC MAIL

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, Connecticut 06856-5116


Dear Ms. Cosper:

I appreciate the opportunity to provide supplemental NCUA perspectives to the Financial Accounting Standards Board (FASB) on its Exposure Draft, Financial Instruments-Credit Losses, in addition to the joint comment letter issued with the federal financial institutions regulators.¹

Above and beyond the points in the combined comment letter related to “Application to Smaller and Less Complex Entities,” my intent in this letter is to describe the potential impact of the Current Expected Credit Losses (CECL) model on small- and medium-sized credit unions, and urge in the strongest terms that the FASB, working with the Private Company Council (PCC), develop practical expedients for small private companies in the final standard.

As the primary regulator of federal credit unions and insurer of the majority of state-chartered credit unions, I have safety and soundness concerns about the outsized exposure of small- and medium-sized credit unions to additional compliance costs such as those imposed by the CECL model.

I urge the FASB to consider the unintended consequences of enacting financial reporting rules that may unduly impact the financial performance of small- and medium-sized credit unions and discourage these institutions from making loans to low-income borrowers, particularly during times of economic distress. Since credit unions were the only federally insured financial institutions to increase lending throughout the recent economic downturn, discouraging credit union lending would negatively impact consumers going forward.

¹ See May 31, 2013 letter electronically filed to Ms. Susan M. Cosper re: File Reference No. 2012-260 – Financial Instruments-Credit Losses (Subtopic 825-15) signed by the chief accountants of the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the National Credit Union Administration.
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Ninety-two percent of micro depository institutions\(^2\) with less than $30 million in assets are chartered as not-for-profit credit unions. These institutions focus on providing quality consumer services because they are owned and controlled by the members who use their services. The median micro depository institution has an operating budget (excluding interest expenses) of $300,000, and earned just over $3,000 in net income in 2011.

a. The median staffing levels at depository institutions with less than $30 million in total assets is 3 full-time employees.

b. Micro depository institutions often rely upon volunteers to maintain continuity of operations. The time managers at these institutions have available to devote to additional financial reporting compliance is limited.

c. Most micro depository institutions (less than $30 million in total assets) are single-branch institutions with 3 or fewer employees and fewer than 1,700 account holders in each institution.

To their credit, small credit unions disproportionately serve low-income consumers.

1. Small- and medium-sized credit unions have limited managerial and financial capacity. As a result, incremental financial reporting burdens and compliance costs can have dramatic negative impacts on earnings and capacity to serve their members.

2. Small- and medium-sized credit unions have a limited scope of activities relative to depositaries, but in comparison to many non-bank financial service providers, the scope of small- and medium-sized credit unions’ services is likely to be quite broad without the benefit of economies of scale. As a consequence, small- and medium-sized credit unions are likely to be required to evaluate, understand and comply with a broad array of regulations and financial reporting standards. This results in small- and medium-sized credit unions facing a large cumulative compliance burden.

3. Small- and medium-sized credit unions systematically show higher operating costs than larger financial institutions because of the nature of the fields of membership they serve—which makes additional compliance burden related to CECL disproportionate.

Thus, due to their small size, limited managerial and financial resources, and relatively broad scope of services, small- and medium-sized credit unions face unique regulatory challenges. For example, such credit unions simply do not have the resources to perform complex economic analysis at the time of loan underwriting. As a consequence, these micro depository institutions would likely be faced with the difficult choice of paying third-party economic consultants or simply cutting back on lending. Either choice would result in lower net income and reduced services to consumers, which would threaten the viability of these institutions over the long term.

\(^2\) NCUA defines “micro depository institutions” (MDIs) as institutions that are categorically different in their size, scope, and capacity from the common perception of small financial institutions. An October 2012 study prepared by NCUA’s Chief Economist quantified the impact of compliance costs on MDIs with less than $30 million in assets.
NCUA is concerned that without the FASB’s careful consideration of the impact of its standards to small- and medium-sized entities as it deliberates the CECL model, small- and medium-sized credit unions and their members will experience significant negative effects from the revised requirements that will be unworkable.

The FASB, with input from the PCC, has the authority to institute practical expedients for small- and medium-sized entities. It would be both prudent and preferable to provide such practical expedients in implementing CECL that are scalable to the size and complexity of the small- and medium-sized credit unions. Additionally, the FASB should consider issuing implementation guidance with basic, scalable examples for reporting credit unions that do not have the ideal systems and processes to track and analyze the data necessary to reasonably calculate expected credit losses.

I strongly urge the FASB to consider the impact of the CECL model on small- and medium-sized credit unions, and their ability to continue to serve members of modest means. The NCUA stands ready to assist the FASB and the PCC in understanding implementation challenges of small- and medium-sized credit unions as it redeliberates the CECL proposal.

Sincerely,

Debbie Matz
Chairman

cc: Private Company Council