May 31, 2013

Technical Director
File Reference No. 2012-260
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

VIA ELECTRONIC DELIVERY: director@fasb.org

RE: Proposed Accounting Standards Update: Credit Losses Proposal

Dear Director:

Affinity Plus Federal Credit Union appreciates the opportunity to comment on the Financial Accounting Standards Board’s (FASB) proposed accounting standards update regarding financial reporting of credit losses on loans and other financial assets held by financial institutions. I appreciate you extending the comment period until May 31, allowing for more analysis and commentary on the proposal.

As a summary of my position on the proposed changes to the Credit Losses Proposal, I am adamantly opposed to the proposal due its inconsistency with accounting principles and the potential enormous negative impact it would have upon credit unions and their members.

By way of background, Affinity Plus Federal Credit Union is one of the largest credit unions in Minnesota and we provide consumer, real estate and limited business lending services. We have 165,000 members and serve them via 27 branch locations throughout the state. Credit unions are member-owned, not-for-profit financial cooperatives that operate for the purpose of promoting credit and thrift, and providing other financial products at competitive rates.

Challenges with Compliance

As an degreed accountant, former auditor and now a credit union CEO, I have concern with the proposal’s inherent inconsistency with the well-established accounting principle of matching. The matching principle states that expenses should be recorded in the same period as the revenues that relate to those expenses. However, the proposal does not follow this principle. Instead, reporting entities would be required to estimate the cash flows that the reporting entity does not expect to collect in the future. This estimate would be based upon past events, current conditions, reasonable and supportable forecasts that affect the expected collectivity of the asset, and would be booked immediately; all of which is inconsistent with the matching principle. I understand the conservative nature of accounting, but this is taking conservatism too far and would be financially detrimental to credit unions.

In addition, under this proposal revenues and expenses would be more volatile with expected quarterly adjustments making it even more difficult to compare financial statements between reporting periods and reporting entities.

I believe the proposal could have the unintended consequence of unfairly penalizing credit providers and taking away incentives to provide loans to consumers. I believe that many financial institutions would slow down or eliminate critical lending solutions to consumer and small businesses at a time when the national economy is fragile and needs stimulus, not contraction. It will also have a negative effect on loan growth due to the
short-term impact on net income. Lending to borrowers with less than excellent credit histories would result in an instantaneous negative effect upon an institution’s ALLL and net income, even though the potential expected losses may not occur for several years or if at all.

The proposal calls for a more subjective method of estimating potential losses. Increasing subjectivity will add differing viewpoints, which will ultimately lead to varying outcomes. The likely result of this subjective approach will decrease the reliability placed upon financial statements – which I believe was one of the intents of this proposal.

In addition, the proposal moves away from the historical cost approach. The proposal is asking entities to include future losses in the carrying value of a financial asset. This method has the potential to distort income across future reporting periods, and degrade the usefulness of financial statements.

As stated above, credit unions are not-for-profit, member-owned financial institutions. They are not publicly-traded, investor-owned entities. The proposal requires reporting entities to provide information that is not relevant to the primary users of credit union financial statements: the regulators; which is very different from the users of bank financial statements: the investors.

Based upon the more subjective and speculative nature of the proposal, and the inherent contradiction to current accounting principles, I oppose the proposed current expected credit loss approach.

Potential Negative Impact on Credit Unions

In addition to the above concerns regarding the proposal, I am also extremely concerned with the potential negative impact the proposal will have upon credit unions. Under the proposal, credit unions will be required to immediately recognize current credit loss expectations in their Allowance for Loan and Lease Losses (ALLL) provision. This would likely cause an immediate increase to a credit unions’ ALLL provision. We estimate this woulddouble or even triple our credit union’s current ALLL provision. This immediate increase will directly result in a reduction in retained earnings and, consequently, a reduction to credit unions’ capital ratios. This has the potential to lead to prompt corrective action taken by a credit union’s regulator, the National Credit Union Administration and, if applicable, its state regulator. I would have to wonder why this proposal is being considered well after many credit unions and financial institutions have weathered the worst economic crisis in the nation’s history.

In addition to the negative financial statement impact on credit unions, the cost of implementing and maintaining such a model would be significant and take away from resources that could be put to better use of helping our members. I do believe that this proposal will also have the unintended consequence of reducing consumer options for competitive products and services.

If FASB decides to move forward with this proposal, I believe that credit unions should be exempt from its requirements. As stated above, credit unions are not-for-profit member-owned financial institutions, not publicly traded entities.

Thank you for allowing me the opportunity to provide my comments and concerns on the proposal. If you have any questions about our comments, please do not hesitate to contact me at (651) 312-9254.

Sincerely,

Kyle L. Markland
President/CEO