

From: Marv.Elenbaas@dfcufinancial.com [mailto:Marv.Elenbaas@dfcufinancial.com]
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Technical Director
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Thank you for the opportunity to comment on the Proposed Accounting Standards Update: Financial Instruments - Credit Losses.

DFCU is a \$3.5 billion credit union in Michigan.

The global economic crisis that began in 2008, highlighted the fact that credit loss recognition was delayed from a balance sheet perspective. The empirical data shows that the credit union industry-wide allowance at a each quarter-end failed to cover the industry-wide trailing twelve months of net charge-offs from the middle of 2007 until early 2009 - for nearly two years. However, in such a rapidly changing environment, with economic data reported up to three months in arrears, and the need to affirm trends with successive economic reports, the allowance always lags by similar time-frames. This proposal will not affect this lag.

The loan portfolio of a credit union is predominantly retail loans, consisting mostly of first mortgages on single family residences, related home equity loans, and new and used automobile loans. Single family residential loans are mostly fixed rate 15 and 30-year loans, home equity mostly revolving credit with no fixed maturity, and auto loans mostly amortize over 3-6 years.

It is our view that to reduce the complexity of this proposal for smaller, less-complex financial institutions, that the following practical expedient be allowed: use of an annual loss rate for current (i.e., not-past-due) loans times a reliably estimable and predictable expected loss period, adjusted for affirmed trends in economic conditions. Paragraph 825-15-55-24 states that loss rates are not linear, and therefore such a method is unacceptable. We do not believe the academic theory of non-linearity results in a materially inaccurate loss rate in a less-complex, member-owned institution's loan portfolio, and therefore believe that the benefit of a simple, straight-forward methodology far outweighs the cost of added complexity. We believe that the adjustment for economic conditions should incorporate only current and one year forward-looking forecasts, since any forecast beyond one year is likely to be materially inaccurate. For past-due loans, we believe the allowance should be calculated based on loss-rate studies or specific cash flow analysis, as appropriate.

If financial institutions are not allowed to use the practical expedient discussed above, it is our view that most credit unions would estimate credit losses using the loss-rate approach (Example 1). But, with the long-lived assets in our portfolios, it will take up to ten years to establish, track and develop these loss rates. Our databases/data warehouses are not very sophisticated and/or powerful, and do not contain comprehensive historical data, so developing loss rates will need to be a prospective task. Therefore, the implementation time-frame needs to take that into consideration. Also, updating a study on loss rates will need to be an infrequent requirement. While not specified in the exposure draft, our assumption is that it will be acceptable for loss rates to be updated solely based on changes in economic

conditions between the infrequent studies. If, in fact, there is an expectation that loss rate studies be updated quarterly or annually, that will not be practical.

Thank you for your consideration of our views.

Marvin J. Elenbaas
Executive Vice President, Chief Financial Officer DFCU Financial
313-322-8693

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