

People Helping People

May 30, 2013

Technical Director, FASB
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Submitted via email: director@fasb.org

Re: File Reference No. 2012-260

Thank you for the opportunity to comment on the Exposure Draft on Financial Instruments and Credit Losses. As a representative of a community based not for profit financial cooperative serving over 24,000 members, I have concerns with the impact that this proposal would have on our credit union, the credit union industry as a whole, and the 96 million members we represent. Below, I have outlined those concerns and attempted to provide clarification:

- 1. The proposed method uses speculative forecasting not objective, measured, empirical data to estimate the projected loss. To me there are multiple concerns with this: First, it will be difficult to convince regulators and auditors of the need to reduce funding requirements based on positive changes made which decrease your estimated credit losses such as improvements in underwriting, enhanced internal controls, key management changes, and improved portfolio risk analysis. Second, it is very hard to estimate something based on future events, which may or may not occur. For example, three years ago, could anyone have predicted that interest rates would remain as low as they have for as long as they have? Finally, it will be even more difficult for there to be any consistency in application of the methodology. There is a joke that the only two people who get to be wrong on a daily basis and keep their jobs are Weather Forecasters and Economists. If Economists can't agree on what might happen in the future; I'm quite certain that Accountants, CFO's, Auditors, and Examiners won't be able to agree on this with any consistency either.
- 2. The potential financial impact on credit unions could be devastating. In looking at this issue, there are far-reaching effects. The proposed methodology could result in an immediate doubling or tripling of the current Provision (for Loan Loss or Bad Debt)



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Expense, which would further diminish credit unions' already low margins and returns. This would also reduce the Capital level of the credit union, in some cases resulting in Prompt Corrective Action, which would mean mandatory Supervisory Actions in some cases and in others would certainly result in increased regulatory scrutiny. For some credit unions, it could even result in conservatorship, if NCUA believes that the credit union doesn't have the ability to work their way out of the financial stress. Additionally, the cost to re-evaluate the portfolio quarterly or more often depending on our CPA, Examiner, or other Consultant's perception of how often is needed for our size and complexity, including using outside parties, purchasing additional software, or using employee man-hours could be significant. unintended consequence of the overall potential financial impact is that credit unions could, raise interest rates to offset the expenses, increase fees, cut dividend rates, take less risk, or cut back on lending altogether because they will immediately have to fund for the expected credit losses, but need to maintain a certain level of income to achieve strategic objectives to remain competitive. This would hurt the 96 million credit union members who choose credit unions because of the low fee structure, lower loan rates, higher dividend rates, or because they pose too much risk to other financial institutions, or because there isn't enough margin for others to lend to them outside of predatory lenders.

- 3. The proposed methodology does not adhere to the Matching Principle which is a major tenet of Generally Accepted Accounting Practices. Under the proposed methodology, we would be required to recognize Provision Expenses when new loans are booked based on our estimated credit losses, when as mentioned above, our prediction may or may not come true. However, we are required to recognize interest income throughout the life of the loan. The proposed methodology doesn't match (recognize) income and expenses over the same period.
- 4. Finally, if the FASB Board determines that such a methodology is necessary to ensure fair and accurate financial statement presentation, I would request that the FASB Board consider the unique structure of a credit union and provide for a Special Exemption for credit unions and other not-for-profit cooperatives. Credit unions are not-for-profit and return what income is earned back to the members in the form of lower fees, lower loan rates, higher dividend rates, and improved member services.



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We have member-owners rather than stockholders, who can't gain more power or wealth than others based on their investment in the credit union. Each member has one vote, and is paid the same dividend as other members holding the same type of deposit. Our board of directors is made up of volunteers, who are not paid anything for their service. And, most credit union board members have served on a volunteer basis for many years. Most businesses who would be impacted by this proposed methodology can't say the same.

The credit union philosophy of "People Helping People" is evident in its structure and commitment to improved financial services for all. Our industry serves 96 million members, and this methodology has the potential to bring about a negative impact on the credit union industry and all our members in reduced services, reduced loans, and reduced competition. For the reasons stated above, I respectfully request the board reconsider this proposal, or at least provide a Special Exemption for Credit Unions and other Not-for-Profit Cooperatives.

Sincerely,

Chief Financial Officer

My Community Federal Credit Union