

May 31, 2013

Ms. Leslie Seidman
Chairman
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856
Submitted via email: director@fasb.org

Re: Comments on Proposed Accounting Standards Update: Financial Instruments –Credit Losses; File reference No. 2012-260

Dear Chairman Seidman:

I want to thank you for the opportunity to comment on proposed ASU Subtopic 825-15. I appreciate the FASB's attempt to improve accounting standards relating to the recognition of credit losses. However, proposed ASU Subtopic 825-15 ("the ASU") creates more problems than it solves and will make financial statements less relevant and useful. I believe the current accounting "incurred loss" model, if applied robustly and supplemented by adequate disclosures of fair value and credit loss indicators (such as disclosures of classified assets, allocations of reserves by loan type, TDRs, etc., many of which have been added by FASB in recent years), is more reliable, accurate and relevant for financial statement users and preparers, as well as regulators.

Desert Schools Federal Credit Union is a community based charter credit union with \$3 billion in assets and over 250,000 members, largely based in metro Phoenix. We have been serving our members for 74 years. Like most credit unions and financial institutions, we experienced significant financial hardship during the Great Recession, recording losses in 2008, 2009, and 2010. Our Net Worth ratio deteriorated from a high of 11.41% in December of 2007 to a low of 7.24% in December of 2009. All of our losses were a direct result of the unprecedented economic downturn and resultant deterioration in our member's ability to repay their loans. The good news is we were able to withstand this unprecedented downturn and maintain our capital above minimum regulatory and adequately capitalized levels, and never in risk of failure or receivership. Once the economy turned to recovery, we have quickly returned to significant profitability and re-built our capital to its current level of 9.50%.

Impact of Proposal on Credit Unions

The proposal would require credit unions to recognize on the balance sheet, current loss expectations in the Allowance for Loan and Lease Losses (ALLL). Thus, upon becoming effective, the proposed changes would cause an immediate and drastic increase to the ALLL of credit unions that have financial assets and liabilities within the (broad) scope of the proposal. This increase, which we expect will double or even triple current ALLLs, will result directly in a reduction in many credit unions' retained earnings.

Further, a decrease in earnings can lead to a reduced capital ratio, which can trigger prompt corrective action (PCA) implications for numerous credit unions that currently do not have PCA concerns.

The proposed current expected credit loss (CECL) approach has the potential to lead to quarterly adjustments in expected loss projections, possibly resulting in more volatility in provision expense and earnings.

Another possible result of the proposal is that reporting entities could take large one-time charges at first signs of distress in their loan portfolios, and then look for opportunities to smooth earnings volatility over time through reserve releases or reverse provisions.

One result of the proposal that is certain is that it will require credit unions to expend extensive financial and technical resources to even begin to comply with the changes proposed. The costs of any such expenditure will be borne by credit unions' member-owners. The proposal attempts to address the problems of a few financial institutions—albeit some extremely large financial institutions—that misled or simply did not understand the credit quality of complex CMOs and MBSs by proposing far-reaching changes that will severely impact all financial institutions, including credit unions that did not cause the financial crisis.

Unfortunately, the proposed changes could ultimately result in the consolidation of credit unions that are unable to comply with these changes. Such a result would not only affect the members of those credit unions directly involved, but would affect the larger financial services marketplace by reducing consumer financial options.

Implementation Challenges

The proposed CECL model effectively requires entities to predict/forecast the extent and timing of future losses. Predicting such losses with any degree of accuracy will be extremely challenging, even for an entity with adequate data sets and modeling capability. Further, attempting to predict credit loss for the life of a loan will inherently be affected by the subjectivity of and assumptions made by the reporting entity.

In regard to the data necessary to conduct such modeling, even the largest financial institutions have indicated that they do not have adequate information on this data and that it will take years (some estimating four to five years) to obtain. Further, since smaller financial institutions will require even more time to obtain such data, these institutions will default to relying on their larger counterparts peer information, which will have a lag of at least six to nine months. In addition, even once smaller institutions obtain adequate data; it will take another three to four years for these institutions to become comfortable with the required modeling.

The proposed CECL model is inconsistent with the accounting principle of matching, which states that expenses should be recorded in the same period as the revenues that relate to those expenses. The proposal is inconsistent since it requires expected future loan losses to be recorded immediately. In addition to its impact on the reporting entity, this inconsistency will likely cause challenges/trepidation within the audit community.

Suggestions to Improve the Proposal

I believe it would be inappropriate to apply the proposed changes to credit unions, based on their unique structure as private, not-for-profit, cooperatively owned, financial institutions. As noted above, the primary user of a credit union's financial statements is its regulator, which is not likely to benefit from the proposed changes since it already has a well-developed understanding of the operations of the credit unions it regulates.

I would request that FASB to work closely with the federal financial regulatory agencies throughout the remainder of the standard-setting process, and I encourage such collaboration to continue, particularly with NCUA in light of the unique structure of credit unions.

I would ask FASB to consider a credit impairment approach that is more in-line with the proposed IASB model, particularly the aspect of the IASB's model that uses a twelve-month forecast period.

I would also ask FASB to clarify what is meant by the term "lifetime expected losses," which is used throughout the proposal but not explicitly defined.

If FASB moves forward with this or a variation of this proposal, it is crucial that there be an adequate phase-in/transition period for credit unions. Further, I urge FASB to delay the effective date of a final credit losses standard by at least three years for non-public reporting entities, including credit unions.

Thank you for attention to our concerns. If you have any questions about my comments, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark J. Wiete", with a long horizontal flourish extending to the right.

Mark J. Wiete
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