

May 31, 2013

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

RE: Comments on Proposed Accounting Standards Update:

Financial Instruments-Credit Losses (Subtopic 825-15); File Reference No. 2012-260

Dear Chairman Seidman:

Thank you for the opportunity to comment on proposed ASU Subtopic 825-15.

Desert Schools Federal Credit Union is a community based federally chartered credit union with in excess of \$3 billion in assets and 350,000 members, largely based in the metropolitan Phoenix area. We have been serving our members for 74 years. Like most financial institutions, we experienced significant financial hardship during the 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. Most of our losses were a direct result of the unprecedented economic downturn and resultant deterioration in our member's ability to repay their loans which translated into an explosion of our allowance for loan losses under almost any methodology. The good news is that we were able to withstand this unprecedented downturn and maintain our capital above minimum regulatory and adequately capitalized levels while never being at risk of failure or receivership. Once the economy recovered, we quickly transferred most of those dollars added to the allowance to capital (current level of about 9.50%) and have reported substantial earnings in the last few years.

Had the proposed standards been in place, we fear that our institution (as well as countless others) would have been effectively rendered insolvent and possibly conserved, liquidated, or forced to merge with another institution. Through the experience of history, we now know that would have been unnecessarily painful for our institution, our employees and our member/owners. Ironically, we argued unsuccessfully with our independent accountants and regulators about our desire to enlarge our allowance for loan losses during the boom years leading up to the recession. In the final analysis, we were simply not able to exercise our best judgment and prudence due to the accounting standards in place at the time. We believe that financial institution management need to be given more flexibility to do what they feel is necessary and prudent given their own unique circumstances while staying within a broader set of accounting quidelines. Providing for future credit losses is after all part art as well as science.

While we appreciate the FASB's desire to improve the accounting standards relating to the recognition of credit losses, we believe that the proposed ASU Subtopic 815-15 creates more problems than it solves and would make financial institution financial statements less understandable and relevant. As we understand it, the proposal would require financial institutions to recognize on their balance sheets current loan loss expectations in the allowance for loan losses. The proposed change would cause an immediate increase to the allowance for all lending institutions

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under the broad scope of the proposal. This increase, which we expect to double or triple most institution's current allowances, would result in a drastic reduction in the net worth ratios of most financial institutions which could trigger regulatory actions.

While we disagree with the proposed changes for all financial institutions, we believe that it would be especially harmful to credit unions based upon our unique structure as private, not-for-profit, cooperatively owned entities which rely on earnings as our sole source of net worth. We would therefore respectfully request that if the FASB does move forward with this proposal that it work closely with our federal regulators, the National Credit Union Administration.

Finally, we believe that the FASB should consider instead the adoption of the credit impairment approach being proposed by the IASB, a model that we understand uses the twelve month forecast period to which we have grown accustomed.

Thank you again for the opportunity to comment on this important proposal.

Sincerely,

Susan C. Frank
President and CEO

Desert Schools Federal Credit Union

cc: Mary Dunn, Deputy General Counsel, CUNA

Tessema Tefferi, Senior Regulatory Affairs Counsel, NAFCU

Mark Robey, Senior Vice President of Regulatory Affairs, Mountain West Credit Union Association