



May 31, 2013

Technical Director, FASB
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File Reference No. 2012-260 Proposed Accounting Standards Update, Financial Instruments-Credit Losses (Subtopic 825-15)

Submitted via E-Mail: Director@fasb.org

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

One of the reasons stated for the implementation of proposal was the delay in recognition of losses during the economic crisis of 2008. Credit Union ONE recognized this crisis and the potential impact on our balance sheet and increased funding to our Allowance for Loan Losses (ALL) by over 250% as compared to 2007. The question arises in that was the methodology incorrect in the industry or were other institutions just slow in reacting to the crisis? Another question that we have is what information was available prior to 2008 that would have allowed us to accurately predict the future losses. As with many other financial institutions many of our losses were in real estate, mainly from the decline in housing values in the Metro Detroit area, which was among the hardest hit areas in the country. Up until the time of the economic downturn there was no indication of forthcoming precipitous decline in housing values.

The proposal states that we should consider a forecasted direction of the economic cycle as a possible determinant of future losses. We have concerns with this in that we would be expected to predict future changes in values of specific asset classes without the knowledge of what impact any downturn would have on the values of those assets. Prior to 2008, the economy had experienced many downturns, but in few of those downturns did real estate prices decline to the extent that they did in 2008. In the future, which theory would we use to predict losses, the pre-2008 scenario or the 2008 scenario? Also, our job is to accurately report the financial picture of the credit union with the best available known information, not to report the financial picture based on our predictions.

Based on most everything that we have read on the proposal, funding to the ALL could increase as we would be required fund for losses that may or may not occur. Funding of these additional losses would have a detrimental impact on the net worth ratios of financial institutions. These additional losses could lead to higher lending rates to offset the losses, which would negatively impact our members' and the economy.

The last concern we have with the proposal is that it is inconsistent with the accounting principal of matching revenue and expenses to the life of an asset. If the proposal is adopted the expense of the write-down would be taken immediately while the income is recognized of the life of the loan. While we agree that accurate presentation of financial statements is critical, we believe that this proposal would not enhance the content of the financial statements.

Thank you for the opportunity to comment on the proposal.

Sincerely,

Scott Sommers
SVP/CFO
Credit Union ONE
Ferndale, MI