

May 31, 2013

Ms. Leslie Seidman  
Chairman  
Financial Accounting Standards Board  
P. O. Box 5116  
401 Merritt 7  
Norwalk, CT 06856

Re: Comments on Proposed Accounting Standards Update: Financial Instruments-Credit Losses;  
File Reference number 2012-260

Dear Chairman Seidman:

On behalf of CDC Federal Credit Union, I appreciate the opportunity to comment on the FASB Proposed Accounting Standards Update: Financial Instruments-Credit Losses. CDC Federal Credit Union is a \$260 million financial institution offering Loans, Deposit Accounts and other financial services to a membership of 17,000 people who are primarily affiliated in some way with the Centers for Disease Control and Prevention. We have been in existence since March of 1949. Our financial model has been one of providing the membership with low cost lending, market deposit yields and no or low fees to predominantly middle income members. Your proposal, referred to above, will threaten that model. I would suggest that most credit unions in the USA follow a similar model as ours. You will only hear from a small minority of us in reference to your proposal. If adopted, this proposal will expedite the merger of smaller credit unions into larger ones because the cost to comply will multiply in the form of software, management, monitoring and much higher audit and examination fees. In order to recover these costs, loan rates must increase, deposit accounts will no longer be free, low cost or receive market interest rates and services may be eliminated. The American people will lose their local financial cooperative voice and one more option will be closed for many who have few options to begin with. Therefore, we encourage the FASB to withdraw this proposal.

It is my understanding that the reason for this proposal is to address current accounting guidance on the "Incurred Loss" (IL) model's inability to prevent past and potentially future global financial crisis. I have concluded that the same result could occur under the proposed model if financial institution officers, auditors and examiners fail to perform their assigned duties. If financial institution officers, auditors and examiners had performed their functions as prescribed in 2007 and 2008, the "IL" would not be an issue today. The issue still comes down to competent people performing their jobs well and our industry cannot propose ourselves into compliance.

The proposed Current Expected Credit Loss (CECL) model requires that organizations forecast the extent and timing of future losses at the inception of the product (i.e. loan). Predicting such outcomes on individual, and perhaps tailored, products at inception will be a guess on credit union's part. Yes, that's right, a guess. There will be little, if any, professional judgment exercised in deriving these outcomes. Indeed there will be no historical data to draw any conclusions from and it will take years to develop any credible loss history to make an informed guess. If a FASB representative were to review our credit union's audited financial statements today, one would be impressed with the amount of information available from the footnotes to our audited financial statements. There is detailed information on loan composition, allowance activity, fair value assessment, past due receivables, troubled debts by individual and group assessments along with a host of other useful information. This information is

reviewed by federal examiners, auditors, members of our board of directors and interested employees. That is a group of about 20 – 25 people (and that is being generous). One might ask, “what about the 17,000 members of the credit union?” I have served as the Chief Financial Officer of this credit union for over 6 ½ years and have not been asked by a single member to review the audited financial statements, not once. The only issue the members have is whether or not the regulatory agency rates our credit union as financially sound. That is it. So, FASB wants to add to our existing workload a model with no relevant data available that will basically be unused, provided by employees who do not want it for users who do not need it to satisfy a group of elites who care nothing about the negative impact this proposal will have on our industry, really?

CDC Federal Credit Union is basically in the business of managing risk. If this proposal is implemented, it will necessitate passing this cost along to our member owners in the form of higher lending rates, lower deposit yields and higher fees charged for other services currently provided at no cost or low cost. This proposal has the real potential of adding significant amounts to our Allowance for Loan and Lease losses (ALLL) account to cover potential losses that will not be incurred. This will lead to inevitable volatility and subsequent, frequent adjustments to the ALLL account which will impede the credit union’s ability to manage risk.

The obvious problem with this proposal is the disconnect with the accounting principle of matching, which states that expenses should be recorded in the same time period as the revenues that relate to those expenses. The proposal is inconsistent since it requires expected future loan losses to be recorded immediately. This inconsistency will ultimately cause challenges within the audit community.

If the FASB is insistent on changing to what I have concluded is an inferior approach to credit losses, then I implore the FASB to be tolerant of an extended implementation period sensitive to asset size of the financial institutions expected to implement these changes. This proposal is sweeping and unprecedented. Therefore, a generous helping of guidance, knowledge and practical illustrations should rule the day.

Thank you for entertaining my thoughts on this ill timed proposal.

Sincerely,

Walter L. Hobby, CPA, CGMA  
Chief Financial Officer  
CDC Federal Credit Union