

# MID-MINNESOTA FEDERAL CREDIT UNION

---

13283 ISLE DRIVE • MAILING ADDRESS – P.O. BOX 2907 • BAXTER, MN 56425

May 30, 2013

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

File Reference: No. 2012-260 Proposed Accounting Standards Update: Financial Instruments – Credit Losses  
(Subtopic 825-15)

I appreciate the opportunity to offer comments on the above referenced exposure draft. As evidenced by the comment letters to date, there has been an outpouring of responses from the credit union community...preparers, auditors, trade associations and other advocates. All are valid concerns for credit unions:

- Users of credit union financial statements are not the typical investors as targeted by FASB.
- Credit unions are not, as a whole, contributors to this most recent financial crisis as proven before, during and throughout recovery. Yet credit unions continue to be subjected to the aftermath of “solutions” proposed by the various oversight agencies in an attempt to avoid a reoccurrence.
- An immediate shift to implement the proposed expected loss model would have a potential detrimental effect on the equity of credit unions. This would result in possible unintended consequences to the overall health of the credit union system.

Beyond the credit union system, the proposed model introduces the entire financial services industry to a new set of challenges more than difficult to overcome and likely leading to future standard changes. A few of these challenges include the following:

- Inserting projections as proposed will introduce more subjectivity, incomparability, and volatility in earnings, which in turn may give rise to an opportunity to manipulate net worth.
- Data collection for compliance will require additional expertise and technical resources adding to the cost of compliance beyond what is reasonable for financial information that is largely not decision useful.
- Implementation of the concept of “expected losses” will be met with varying degrees of interpretation within each financial institution. Statistical models are specifically excluded in the proposal leaving each financial institution to determine losses subjectively. Without the incurred loss concept, opinions of what credit losses exist will vary between management, analysts and loan managers.
- Increased examiner scrutiny with possible imposition of additional interpretation introduces another layer of subjectivity.
- The audit community will find it difficult to attest to fair presentation of financial statements including supporting footnote disclosures imbedded with projections and economic forecasts as part of the most significant asset on a financial institutions balance sheet. Audit fees are sure to increase adding new costs to compliance.
- Consumer access to lending will suffer if financial institutions begin considering the recognition of a loss at the moment of origination.

The real challenge is in finding an acceptable solution that is not an overreaction detrimental to the financial services industry. There is no single model for impairment measurement that would have accurately or even adequately recognized the losses experience during the Great Recession. While I believe that the incurred loss model has its pitfalls and in some cases contributed to a delay in recognition of credit losses, I also believe misapplication of the model was the bigger issue. Years later, with proper use of qualitative and environmental factors, credit loss recognition is better than it's ever been. However, there is room for improvement which I believe can be found through the IASB's proposed model. IASB's model allows for a triggering event and the probability of default in the future. And given the project to converge FASB and IASB standards to something uniform, I encourage FASB to return to working with the IASB for a solution. With that, I also encourage FASB to collaborate with the Private Company Council to address possible modifications to proposed GAAP for private companies such as credit unions.

Thank you for the opportunity to provide comments on this exposure draft.

Sincerely,

A handwritten signature in blue ink that reads "Pamela S. Finch". The signature is written in a cursive style with a large initial "P" and "S".

Pamela S. Finch, CPA, CGMA  
Chief Financial Officer  
Mid Minnesota Federal Credit Union  
13283 Isle Drive, PO Box 2907  
Baxter, MN 56425