May 31, 2013

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

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

Dear Chairman Seidman:

I am writing to share my concern regarding the reference above. The current approach for determining credit impairment at credit unions is a fair and appropriate methodology and the proposed approach does not offer material improvement. Moreover, the proposed concept will be difficult for credit unions to apply effectively.

I have read the comment letter provided to you by Bill Cheney, President of the Credit Union National Association. He is correct in his various points as to why this would not be an appropriate change for calculating credit impairment. Some of my concerns include:

- I have not seen sufficient evidence that the current approach is inadequate with respect to credit unions. The current approach has worked very well for many years with very few exceptions. I am not sure it is prudent to implement a significant change when any past problems were very few. In fact, I suspect those individual problems really stemmed from the loan approval process not from the methodology in determining the allowance.
- It does not appear that NCUA is able to adjust its regulations on net worth requirements in response to these changes.
- It will be extremely difficult, if not impossible, to develop a set of assumptions for the proposed methodology that is considered appropriate. Attempting to forecast the future with respect to rates, the economy, customer specific influences, prepayments, and other variables is very subjective. I foresee constant annual debates with regulators regarding the appropriateness of these many variables.
- The change will force a material cost on the credit unions. It will lead to new software applications to help us estimate, calculate and justify the results. It will involve more time with regulators and auditors. It will require a new round of education for auditors, regulators, employees, and Boards so they can attempt to

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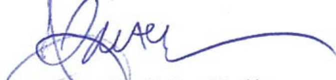
apply assumptions appropriately. In fact, I see this leading to the need to estimate a base case, worse case and alternatives cases in determining the allowance.

- I suspect this change could result in a material adjustment for some credit unions as they learn to apply the new methodology. Moreover, I believe the awkward application in the early years that could lead to higher allowances will slowly revert back to the historical norm as we see actual results. Consequently, we will observe turmoil in the early years to adjust to a new approach when in fact future actual charge-offs will mirror historical patterns. Therefore, we will go all the way around the barn only to end up with the same actual charge off results and be no better off than the current approach.
- Finally, I believe the new approach could adversely impact lending in our community. It will particularly harm those less fortunate individuals who need the helping hand of a credit union. Ultimately, this has the potential to harm the economy while not becoming more useful to the readers of our financial statements.

I hope you hear the true concern we have on this matter and understand the adverse impact it could have on our members and community. Thank you for allowing me to comment.

Sincerely,



Duncan R. MacKellar
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