FIRST CITIZENS'
FEDERAL CREDIT UNION
Think First.

May 23, 2013

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

Re: Comments on the Proposed Accounting Standards Update: Financial Instruments- Credit Losses; File Reference No 2012-260

To Whom It May Concern:

First Citizens Federal Credit Union appreciates the opportunity to submit comments to the Financial Accounting Standards Board (FASB) in regard to its proposed accounting standards update on accounting for credit losses for financial instruments. First Citizens Federal Credit Union is a financial institution of approximately $575 million in assets. Our ten branch offices serve communities located in south eastern Massachusetts, Cape Cod and the Islands of Martha's Vineyard and Nantucket. We are primarily a residential and consumer lending institution funding these credit portfolios by acquiring retail type deposits.

First Citizens Federal Credit Union strongly opposes FASB's accounting standards for financial instrument credit losses as proposed. As described below, the proposed changes will have a significant, detrimental impact on the Credit Union and by inference, its ability to continue serving our members.

Overview of Proposal and Concerns

Credit Unions are member-owned, not-for-profit financial cooperatives that operate for the purpose of promoting thrift, providing credit and other financial services at competitive rates. Credit Unions are unique from other financial institutions in that net worth (capital growth and acquisition) is primarily provided by retained earnings only. We do not have access to acquire capital similar to other banks other than through our earnings.

FASB's stated intent behind issuing the proposal is that current impairment methodology does not allow for the timely recognition of credit losses. The proposal favors an expected credit loss of lost or foregone cash flows over the life of loan(s). We <u>do not</u> agree because we believe it is impossible to accurately predict the extent and timing of **all variables** impacting possible credit losses. We believe the proposed approach <u>would not</u> have prevented the credit losses we experienced over the past several years.

As an example, our Watched Asset Credit Committee (WAC) meets at least quarterly to address and review credit performance. WAC monitors and manages troubled or watched credits (loans). At a recent WAC meeting, some credits were identified as potential non-performers due to:

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- Marital issues- divorce
- Substance abuse by borrower(s)
- Health issues-disability
- Deceased borrowers

The proposal's basic premise "the Financial Crisis Advisory Group, recommended exploring alternatives to the incurred loss model that would use more forward-looking information." Current estimates of cash flow not expected to be collected would be reflected as an adjustment from cost to fair value. Deriving the estimates using forward looking estimates is impossible as evidenced by the example listed above.

While we oppose most of the proposal, <u>we do support</u> the proposed changes regarding mergers/business combinations that would permit the loss-allowance of the target entity to be brought into the continuing entity in a merger situation.

Impact on First Citizens' Federal Credit Union

The proposal will require the Credit Union to recognize current loss expectations to our Allowance for Loan Losses with offsets to capital (retained earnings). We anticipate that the initial determination of loss reserve amounts will reduced our capital. This reduction in capital impairs our ability to grow and ultimately meet the lending needs of our service area. Further, the reduced capital position may invariably trigger regulatory concerns that may further reduce our ability to manage our institution without Regulator oversight.

We believe the proposed expected credit loss (CECL) approach has the potential to lead to regular adjustments in expected loss projections, possibly resulting in more volatile activity in the provision expense and earnings.

If the proposal is enacted as currently structured, we will most likely require expending extensive monies on financial and technical resources to assist us in developing and implementing GAAP acceptable measurement models and disclosure methods. These costs are further erosion of our retained earnings and yet another constraint on our ability to continue serving our member communities.

Challenges to Complying with the Proposed Changes

The CECL model proposal requires an effective forecast predicting the extent and timing of future losses. As mentioned above, this is impossible, subjective and costly to determine and ultimately can be challenged. Defending challenges is yet another cost and once again a potential reduction our net worth. How comfortable will our auditor be with our methodology? Our models and measurement?

What subjectivity may they employ that in turn may render the process yet more complex. How will our audit fee change to accommodate the additional effort? **Is the effort worth the result?**

Finally, we disagree that the CECL is consistent with a basic premise of accounting practice, "matching". How is a potential future loss, determined years ago at the inception of a loan, proper if it occurs years later due to a variable not identified when the loss was determined? The CECL proposal is inconsistent with matching principles as it requires expected future loan losses to be recorded immediately. This may cause challenges to GAAP interpretation by the audit community?

Suggestions to Improve the Proposal

We believe it is **inappropriate** to apply the proposed changes to our Credit Union based upon our unique structure as a private, not-for-profit, cooperatively owned, financial institution. The primary user of our financial statements is our regulator (NCUA). NCUA is not likely to benefit from the proposed changes as it is already well aware of our company and its financial standing. We urge FASB to work closely with the financial regulatory agencies throughout the remaining standard-setting process and collaborate with the NCUA to arrive at proper standards impacting our industry.

We ask that the FASB consider a credit impairment approach that is more in-line with the IASB proposal that relies primarily on expected credit losses forecast over twelve month periods.

We urge you to ensure that there are proper phase-in periods to the final rule as the impact to our company and the industry will require a material investment in time and resources.

Thank you for the opportunity to express our views on the FASB's credit losses proposed accounting standards update.

If you have any questions about our comments, please do not hesitate to contact me at 508-979-4708 or by email at George.Custodio@firstcitizen.org

Sincerely,

George M. Custodio
Senior Vice President, Chief Financial Officer