Michael Lee
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League of Southeastern Credit Unions
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Gerard Poliquin
Secretary of the Board,
National Credit Union Administration
1775 Duke St.
Alexandria, VA 22314-3428

Re: Interagency Policy Statement on Allowances for Credit Losses – 12 CFR 741 – [RIN 3133-AF05]

12/16/2019

To Mr. Poliquin,

The League of Southeastern Credit Unions & Affiliates (LSCU) appreciates the opportunity to comment on this Interagency Policy Statement. We appreciate the efforts of the agencies to update their topical guides to conform with the upcoming implementation of the CECL provisions. The LSCU is a trade association that represents 339 credit unions in Alabama, Georgia and Florida with nearly $120 billion in total assets and approximately 10 million members. Our mission is “to create an environment that enables credit unions to grow and succeed.”

We commend NCUA for the consideration it has given to the policy associated with this major transition in accounting standards for allowances for credit losses (ACL). We want to emphasize that our opinion has not changed: we continue to see FASB’s updated methodologies regarding credit losses as inappropriate for credit union operations. Credit union operations are distinct enough from those of banks – and all other entities required to adopt these methodologies – that we believe FASB should introduce measures that better accommodate our cooperative industry, the unique way we provide products and services to our members, and our capital structure.

League of Southeastern Credit Unions & Affiliates

More specifically, we continue to be concerned over the impact of these changes on our credit unions, which will be tasked with collecting and analyzing the data required to properly implement the ACL standards. We are most concerned for our smallest credit unions. While we appreciate the delay in the implementation date of these standards, that will not diminish the heavy costs for our smallest credit unions, which are vital for underserved communities and individuals. The importance of maintaining the viability of our small credit unions in serving their members must weighed against the need for a uniform accounting mechanism to better foresee and mitigate credit losses. We think the accounting standards are sufficient to mitigate the risks that led to the development of the ACL methodology, so we urge an exemption from these standards to alleviate high costs to our small credit unions- which are already under great operational burdens.

Similarly, we are concerned about the quality and adequacy of the data credit unions will be required to collect – along with the time and costs of collecting that data. What actual value will these figures provide in mitigating credit loss risk? We hope that, along with this guidance NCUA will work with credit unions through the implementation date to perfect the collection, analysis/forecasting models and reporting of data so credit unions can properly acclimate their unique circumstances and operations to these new standards.

We appreciate the policy statement's clear acceptance that management is responsible for segmenting financial assets by characteristic – that examiners should accept a credit union's ACL estimates when the processes are adequately supported and comply with the regulations and GAAP. However, the variety of techniques to categorize the loan pools lead us to wonder how examiners will be evaluating compliance with the standards. What steps will NCUA take if examiners have a different preference on how the credit union is categorizing, analyzing, or forecasting its loan loss data? We think the complexity of this methodology increases the opportunity for disagreement in management's decisions in maintaining a functional system for ACL. With the diversity of credit unions, their particular portfolio mix, their vendors, core processors and many other factors that will have an impact on how they will go about implementing the ACL standard, does NCUA anticipate that ACL disagreements will be handled like other disputed findings in exams?

Another concern we have is in regard to historical loss information. For the most part, credit unions have been gathering data to implement the ACL standard during periods of loan growth, so it may not properly reflect trends during economic downturns. We hope NCUA will be providing further guidance on forecasting when the inevitable economic downturn occurs, so credit unions can appropriately prepare for it.

We think this interagency policy statement is generally well-considered, however, we continue to have many concerns regarding the utility of the standard, the complications of its implementation for our credit unions, and the serious negative impact it will have on our smallest credit unions. Yet, we will continue to work with NCUA to find workable solutions to the challenges imposed by these changes.

Sincerely,

Mike Lee
Director of Regulatory Advocacy
League of Southeastern Credit Unions and Affiliates