NAFCU
3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org

National Association of Federally-Insured Credit Unions

September 18, 2018

Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 6856-5116

RE: Codification Improvements to Topic 326, Financial Instruments – Credit Losses (File Reference No. 2018-270)

Dear Director Cosper:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally-insured credit unions, I am writing in regard to the Financial Accounting Standards Board's (FASB or Board) Codification Improvements to Topic 326 (the Update). NAFCU and its member credit unions appreciate the clarification of the Current Expected Credit Loss (CECL) effective date as it applies to non-public business entities (non-PBEs), which includes credit unions, and the applicability of the CECL model to operating lease receivables. Despite this clarification, NAFCU maintains that credit unions should never have been included within the scope of the CECL standard because they were not a part of the poor lending practices that precipitated the financial crisis. Credit unions are still struggling to gather a sufficient amount of data and many are unsure how they will be able to afford the software necessary to implement CECL.

Since the CECL effective dates were first announced, NAFCU has supported a delay for non-PBEs to allow credit unions more time to adequately prepare for implementation. As member-owned, not-for-profit financial institutions, credit unions' financial statements are reviewed by the National Credit Union Administration (NCUA), not private investors. Thus, the CECL standard is an unnecessarily complex accounting method for the majority of credit unions. CECL compliance only adds to the growing maze of regulatory requirements that has crippled much of the industry. In fact, from 2008 to 2017, the NCUA chartered only 29 new federal credit unions while, during that same period, 2,528 credit unions were forced to close or merge with another institution.

As the Transition Resource Group (TRG) and other industry stakeholders have noted, the original proposed effective dates were virtually the same for PBEs that are not Securities and Exchange Commission (SEC) filers and non-PBEs when considering the required cumulative-effect adjustment to opening retained earnings. This Update clarifies that this distinction without a difference was not the Board's intention and sets a new effective date for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years, which would require credit unions to fully incorporate CECL on the first Call Report of 2022.

NAFCU and its member credit unions are pleased that the FASB acknowledged this oversight and has taken action to correct it. NAFCU encourages the FASB to coordinate with the NCUA to establish informational resources for credit unions. A stronger FASB-NCUA partnership would prove incredibly beneficial for credit unions seeking to better understand exactly when the CECL model must be implemented, where to find CECL software vendors, and how to locate other helpful CECL tools. In fact, according to NAFCU's July 2018 Economic & CU Monitor survey (see attached), 19 percent of respondents said they are still waiting for clearer guidance before adopting a particular model to implement CECL. Keeping in mind the significant expenditure of resources necessary to implement CECL, NAFCU urges the FASB to develop a good working relationship with the NCUA to provide guidance to credit unions that presents them with a broad range of options. It is important not to steer credit unions into a narrow set of solutions.

The Update also proposes an amendment to clarify that operating lease receivables are not covered within the scope of CECL. NAFCU is aware that the FASB did not intend to include accounting for operating lease receivables within CECL and is appreciative of this amendment. The current accounting method for operating leases is well understood and ingrained in the industry, so including operating lease receivables within CECL would only further complicate matters and require significant resources in exchange for a relatively small benefit to stakeholders. NAFCU and its member credit unions are encouraged by the FASB's attention to detail and receptiveness to feedback from the TRG and other stakeholders as it continues to provide clarifications on the scope of the CECL standard. Although NAFCU still believes that credit unions should not be required to implement CECL, our members are hopeful that through continued clarifications and guidance, especially in conjunction with the NCUA, compliance efforts will be substantially streamlined.

NAFCU appreciates the opportunity to provide comments on these proposed clarifications to the implementation of the CECL standard. If you have any questions or concerns, please do not hesitate to contact me at akossachev@nafcu.org or (703) 842-2212.

Sincerely,

Ann C. Kossachev

Ann Kossachev
Senior Regulatory Affairs Counsel

cc: Larry Fazio, Director of Office of Examination and Insurance, NCUA

ECONOMIC & CU MONITOR

NAFCU
National Association of Federally-Insured Credit Unions NAFCU's Monthly Report on Economic and Financial Conditions Affecting Federally-Insured Credit Unions

Industry & Economic Briefing

By Curt Long, Chief Economist / Director of Research

Economic & Industry Outlook: GDP growth appears poised for a strong reading in the second quarter. Consumer spending is up thanks in part to tax cuts. The strong labor market and rising inflation has the Fed prepared to raise rates two more times this year.

Credit union loan growth remains strong but may have peaked. NAFCU's Credit Union Sentiment Index declined during the month as respondents' growth outlook continued to dim.

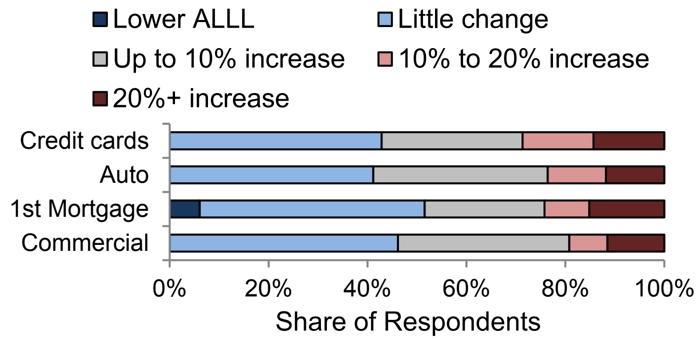
Special Topic: CECL

Since the Financial Accounting Standards Board (FASB) released its final current expected credit loss (CECL) standard in June 2016, credit unions have wrestled with its potential impact on data retention processes and loan loss reserves. NAFCU strongly opposes the inclusion of credit unions within the scope of the CECL standard, but as the implementation date draws nearer, credit unions' preparations are underway. Given the potential impact of CECL, it is important that all available resources be provided to credit unions as soon as possible in order to allow for adequate capital planning prior to the effective date.

Nearly all survey respondents reported that they have begun the process of investigating methods for estimating loan losses under the new standard. Of those still in the search process, the majority (65 percent) are currently assessing model types or vendor solutions. However, another 19 percent say they are still waiting for clearer guidance before adopting a particular model. Both FASB and NCUA have expressed a commitment to ensuring that the requirements of the standard are scaled to the size of the institution. This is a laudable goal, and one that is supported by a NAFCU-commissioned CECL study. But it can leave credit unions with some uncertainty, particularly in the absence of substantive guidance.

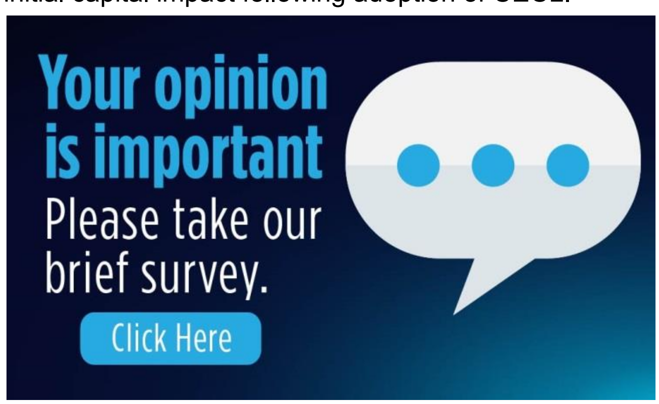
Survey responses confirmed that CECL represents a seismic shift in the way credit unions have traditionally accounted for credit losses. While nearly every respondent currently uses a historical loss model to calculate reserves, CECL solutions are proving to be far more varied. Historical loss remains the choice for 54 percent of survey participants, followed by probability of default/ loss given default (PD/LGD) (43 percent) and vintage models (31 percent). Data

Expected CECL Impact on ALLL, by Loan Type



requirements project to be significantly greater. Respondents expect to collect 22 percent more data points than they do presently. On average respondents plan to incorporate over 6 years of historical data. Only 14 percent of respondents said that they anticipate incorporating proxy data, but another 66 percent said that remains a possibility.

Even aside from compliance issues, CECL represents a major business consideration for credit unions. Respondents anticipate a sizable impact on allowance for loan and lease losses across a variety of product lines (see chart). More than half of respondents (57 percent) believe that CECL will have a negative impact on their profitability. In a December 2016 *Letter to Credit Unions*, NCUA stated that it would be "training examiners to take [CECL] into account when evaluating capital adequacy" and that a new field would be added to the Financial Performance Report showing the impact of CECL on net worth. Nevertheless, 71 percent of respondents expressed concerns regarding post-CECL examinations. It is critical that credit unions are afforded the flexibility to adopt a size-appropriate solution and to manage the initial capital impact following adoption of CECL.



July Special Topic: Liquidity
Survey Deadline: August 7

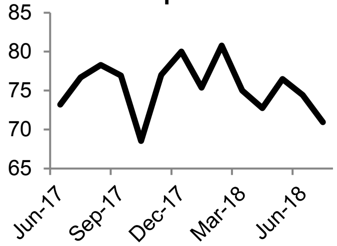
NAFCU

NAFCU Economic & CU Monitor: CU Sentiment Index

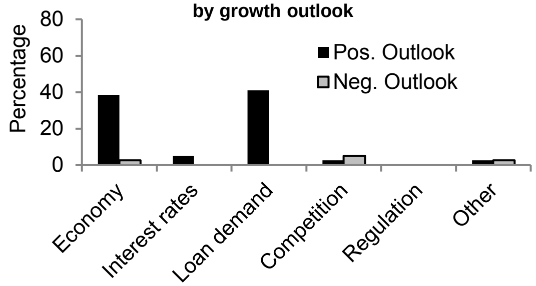
Jul 2018

The Credit Union Sentiment Index (CUSI) is a composite index based on NAFCU member responses to eight questions from the monthly Economic & CU Monitor survey on growth and earnings outlook, along with their perception of lending conditions and regulatory burden. The index can range from 0 to 100. A score over 50 indicates a generally positive or optimistic outlook.

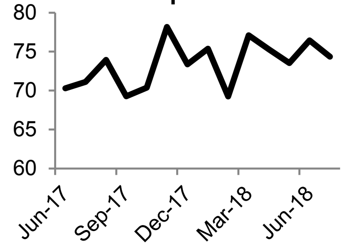
1a: Growth Component



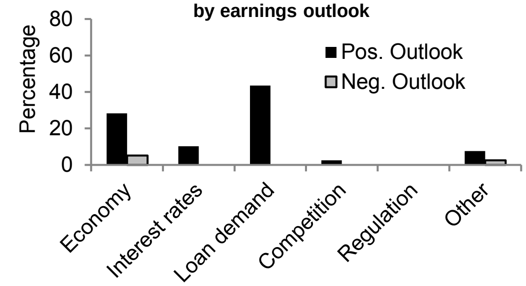
1b: Most important reason for growth outlook
by growth outlook



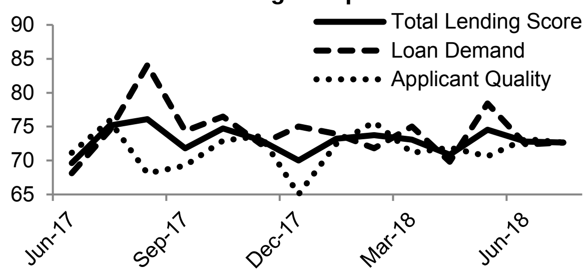
2a: Earnings Component



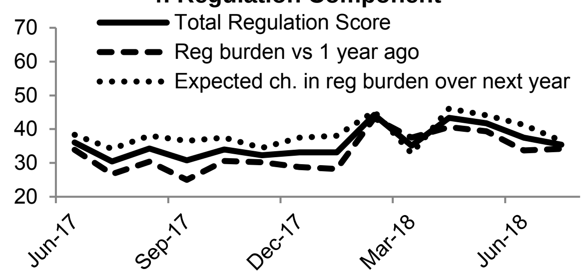
2b: Most important reason for earnings outlook
by earnings outlook



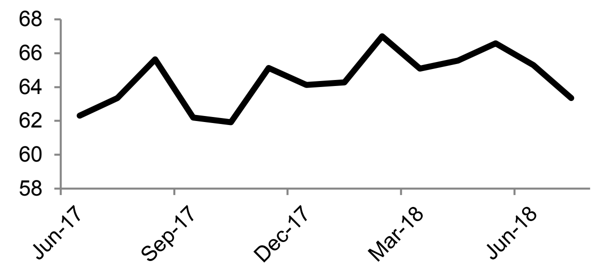
3: Lending Component



4: Regulation Component



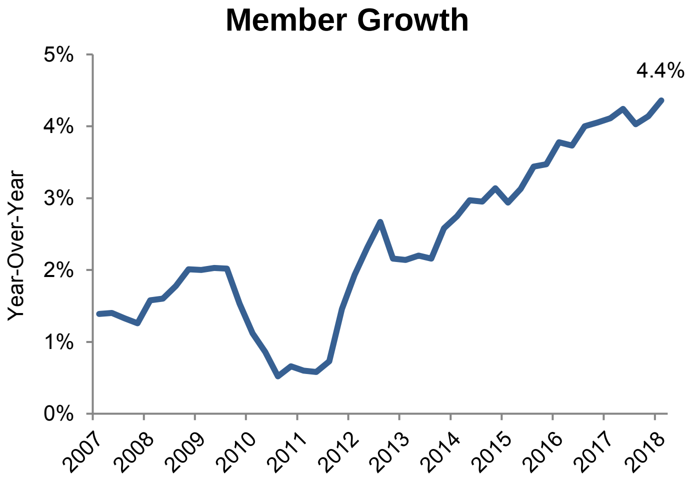
5: Overall

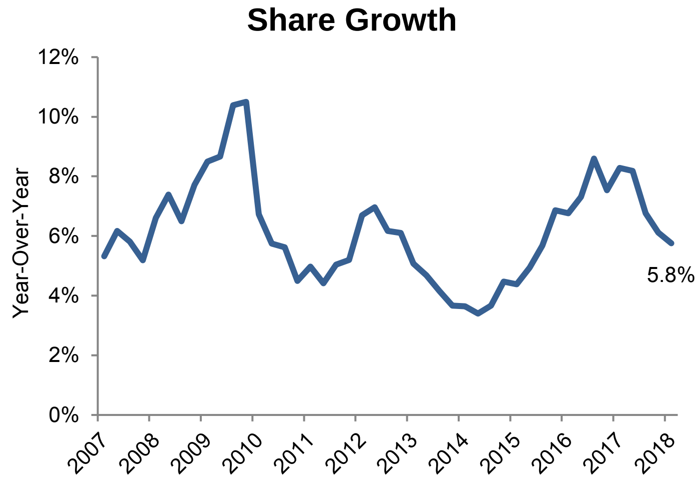


The Credit Union Sentiment Index (CUSI) declined for the second consecutive month in July (Chart 5). The drop was broad-based, as every component score fell. The growth component (1a) declined for the fourth month in the past five and is near its lowest point of the past 12 months. Most respondents remain optimistic thanks to a strong economy and solid loan demand, but a larger share rated growth conditions as "somewhat strong" rather than "very strong" (1b). The earnings component declined as well this month (2a). Respondents have indicated a slightly more positive outlook for earnings than for growth in four of the past five months, although each remains strong. The lending component (3) was nearly unchanged in July. A mild decline in the applicant quality score was enough to cancel out a slight uptick in the loan demand rating. Finally, the regulatory component (4) fell for the third consecutive month. Survey participants had a less negative assessment of the buildup in regulatory burden over the past 12 months,but their outlook over the next year faded.

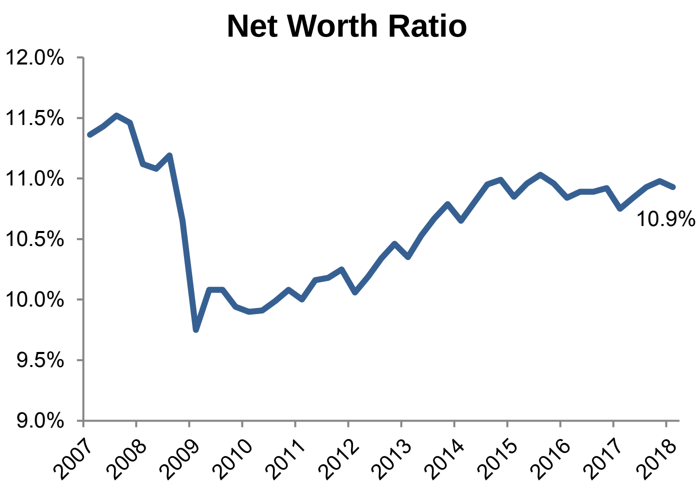
Thank you to the many NAFCU members who took part in this month's survey. Your responses provide us with valuable data to share with lawmakers and regulators as we advocate on your behalf. Please feel free to reach out to us with any questions at research@nafcu.org.

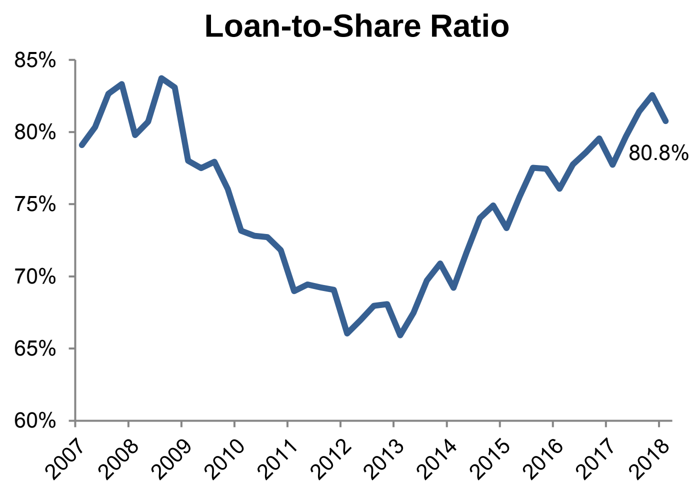
NAFCU Economic & CU Monitor: Credit Union Conditions **Jul 2018**



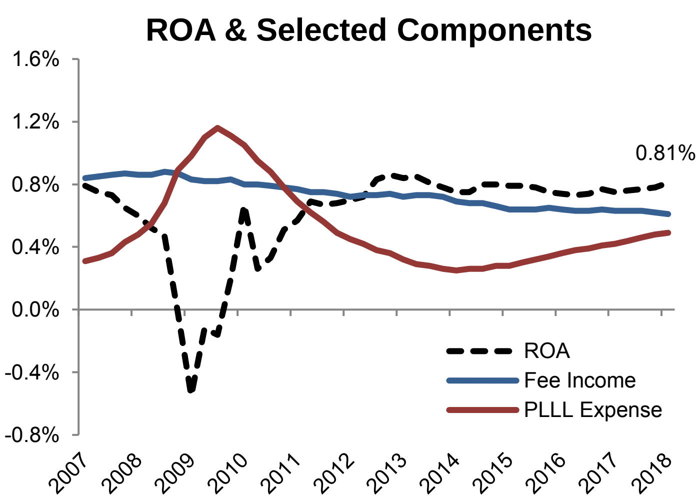


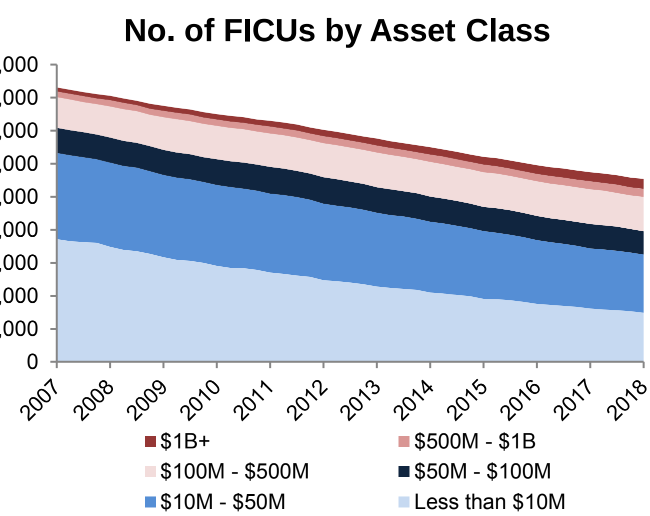
Member growth on a year-over-year basis continued to reach new heights in the first quarter. Rising interest rates provide greater scope for credit unions to attract new members. However, share growth continued to decline during the quarter.





The net worth ratio declined in the first quarter due to seasonal growth in total assets, but was up nearly 20 basis points versus a year prior. Likewise, the loan-to-share ratio was up by over 3 percentage points against the previous year, partly due to slower share growth.

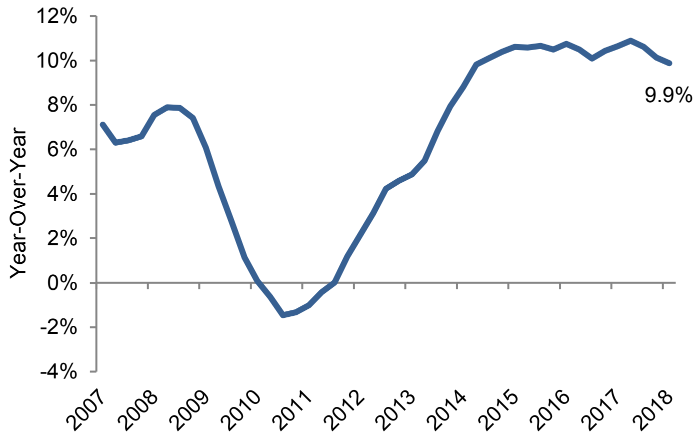




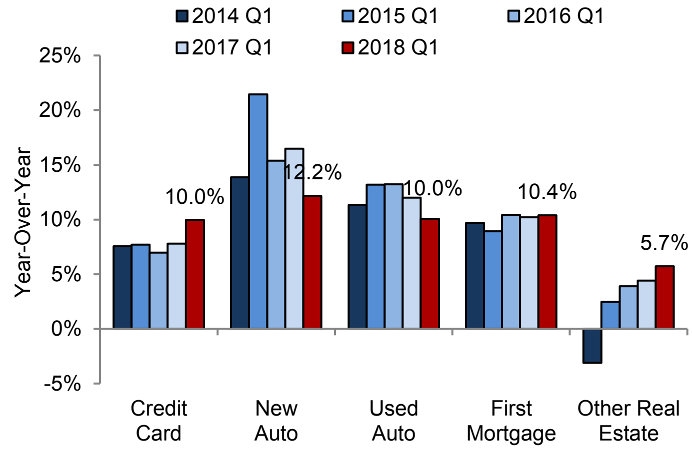
ROA improved in the first quarter as credit unions recognized their 2018 NCUSIF distributions. Drags from rising provision for loan loss expense and declining fee income remain. The number of credit unions has declined by 25 percent since 2010, and the majority of those losses are among small credit unions.

NAFCU Economic & CU Monitor: Credit Union Conditions **Jul 2018**

Loan Growth

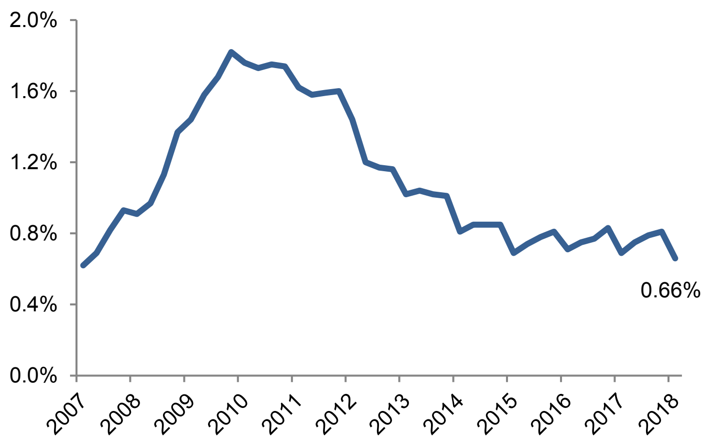


Loan Growth by Type

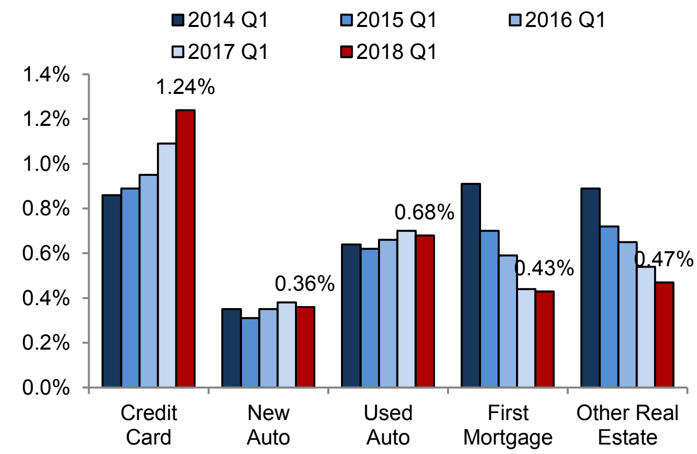


Year-over-year loan growth dropped below 10 percent for the first time since 2014, but remains strong. Within the loan segments, auto continues to be a key source of growth, although both new and used vehicle loan growth have moderated somewhat. Credit card loan and HELOC loan growth are improving.

Delinquency Ratio

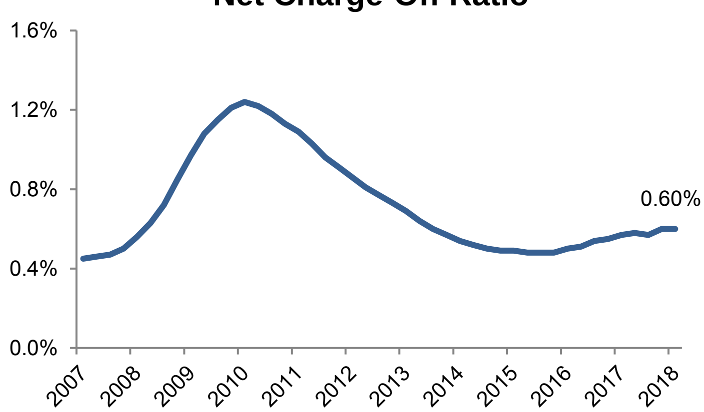


Delinquency Ratio by Type



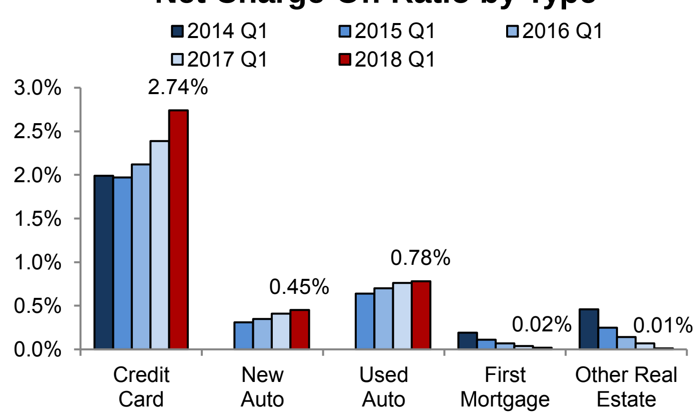
Credit union delinquency ratios declined by three basis points from a year ago. Real estate loan delinquencies have been falling and are consistent with pre-crisis levels. However, they have been offset by rising credit card delinquencies.

Net Charge-Off Ratio



Note: Figures reflect most recent 4 quarters of charge-offs (i.e., not

Net Charge-Off Ratio by Type



Note: Figures reflect most recent 4 quarters of charge-offs (i.e., not annualized)

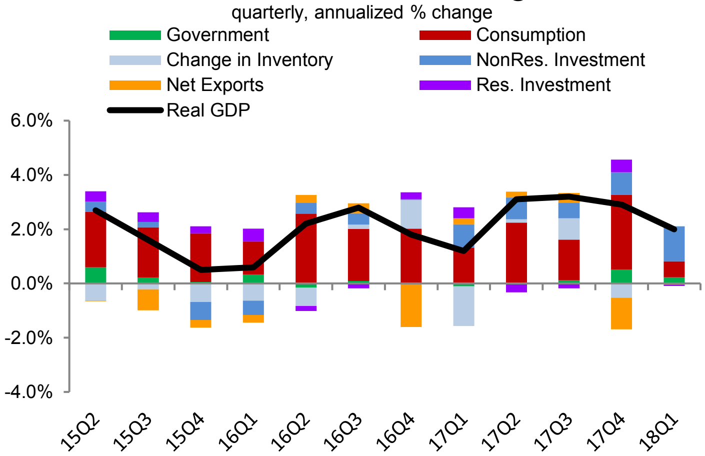
The charge-off ratio increased by three basis points from a year earlier to 0.60 percent. Charge-offs remain near their pre-crisis level despite a recent rise. Among the major loan categories, credit card and auto loan charge-offs have risen in recent years.

 Sources: NAFCU member survey and NCUA Call Report

NAFCU Economic & CU Monitor: Economic Conditions — Jul 2018

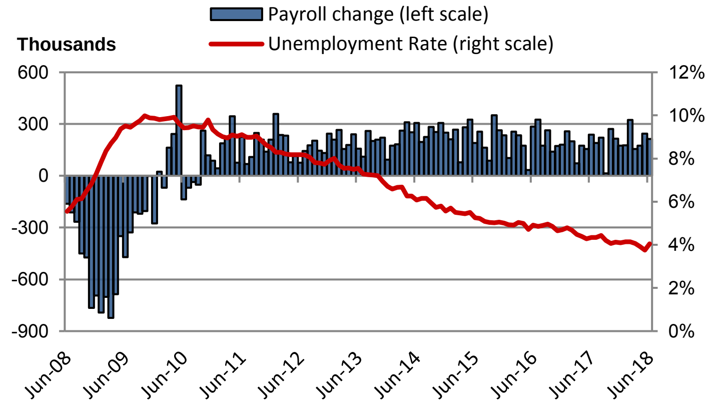
Contributions to real GDP growth

quarterly, annualized % change



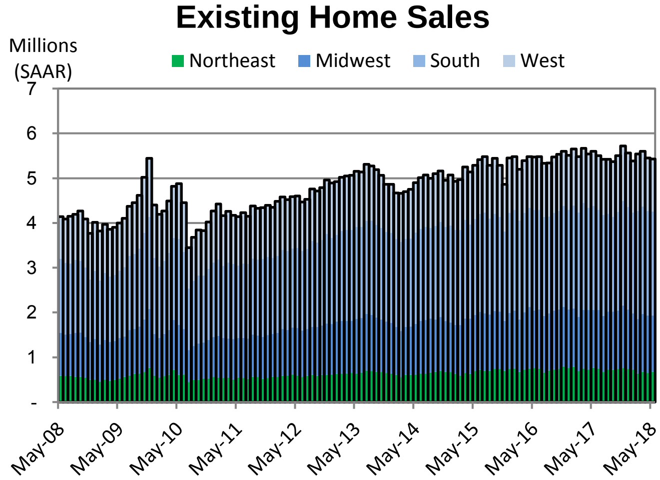
Monthly Payroll Gains and Unemployment Rate

seasonally adjusted



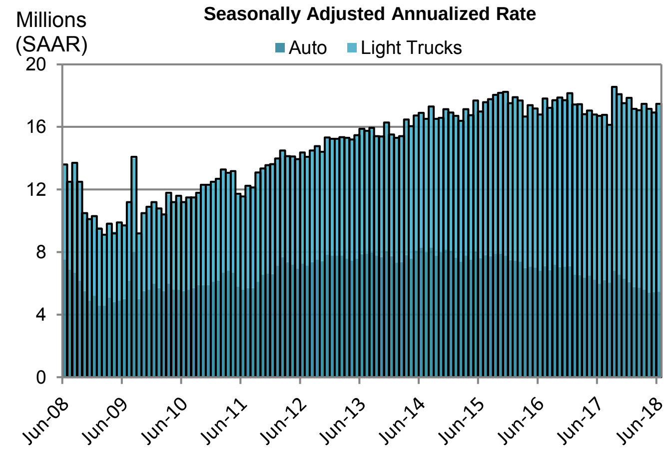
GDP grew by 2 percent in the first quarter according to BEA's final estimate, a slight decline from the previous estimate due to downward revisions to consumer spending. Both corporate profits and real disposable income improved since the tax cuts came into effect in January. Job growth topped expectations in June and the labor force participation rebounded. Wage growth remains stuck below 3 percent, which will provide some reassurance to the Fed that inflationary pressures remain relatively muted.

Existing Home Sales



Vehicle Sales

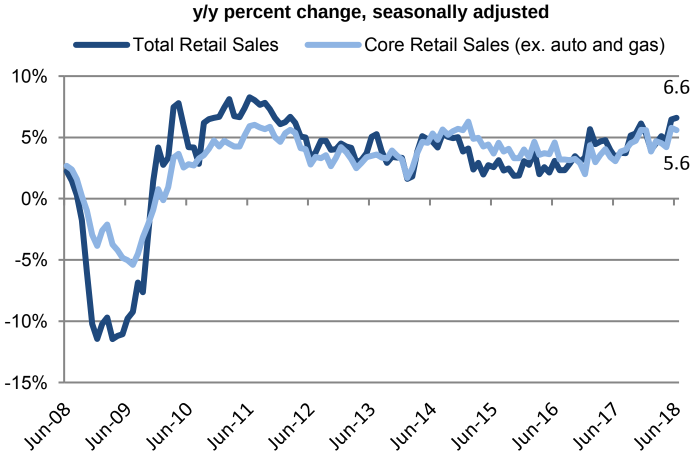
Seasonally Adjusted Annualized Rate



Existing home sales decreased for the second straight month in May. The lack of affordable inventory remains the biggest constraint. Meanwhile, new home sales rose 6.7 percent thanks to strong growth in the South. However, rising mortgage rates and construction costs will likely add to affordability woes. Vehicle sales rebounded in June following two months of decline. Despite the improvement, sales are expected to trend down this year. Potential tariffs on auto related imports are also negative for the outlook.

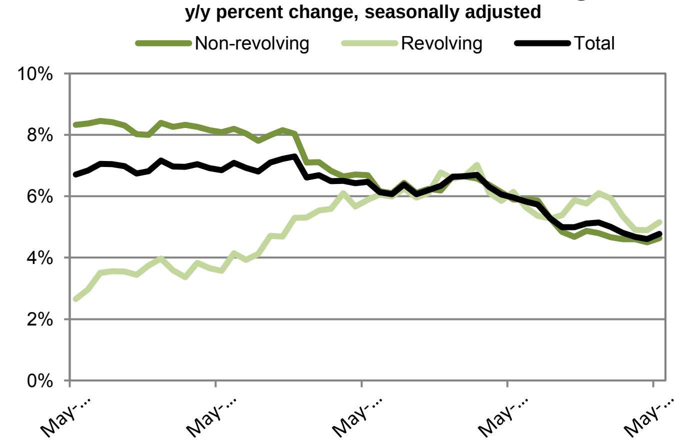
Retail Sales

y/y percent change, seasonally adjusted



Consumer Credit Outstanding

y/y percent change, seasonally adjusted



Retail sales advanced for the fifth consecutive months in June, driven by higher gas prices and a rebound in auto sales. Growth is expected to remain healthy in the second half of 2018, though higher interest rates and uncertain trade policies pose downside risks. Consumer credit grew by the fastest pace in six months during May. Growth was led by the revolving credit segment, which accelerated sharply after several disappointing months. Non-revolving credit growth remained solid.

NAFCU Economic & CU Monitor: Forecast

Jul 2018

NAFCU Forecast	2015	2016	2017	2017	2017	2017	2018	2018	2019
GDP and components		annual		Q2	Q3	Q4	Q1	estimate	estimate
Real GDP (annual or quarterly % chg)	2.9	1.5	2.3	3.1	3.2	2.9	2.0	2.9	2.3
Personal Consumption Expenditures	3.6	2.7	2.8	3.3	2.2	4.0	0.9	2.2	2.4
Residential Investment	10.2	5.5	1.8	-7.3	-4.7	12.8	-1.1	2.0	3.0
Nonresidential Investment	2.3	-0.6	4.7	6.7	4.7	6.8	10.4	6.5	5.0
Government Spending & Investment	1.4	0.8	0.1	-0.2	0.7	3.0	1.3	2.5	1.5
Private inventories (chained $b)	$100.5	$33.4	$15.2	$5.5	$38.5	$15.6	$13.9	$35.0	$60.0
Net Exports (chained $b)	-$545	-$586	-$622	-$614	-$598	-$654	-$657	-$650	-$750
Other data	2015	2016	2017	Mar	Apr	May	Jun	estimate	estimate
Unemployment Rate (ann. avg., %)	5.3	4.9	4.4	4.1	3.9	3.8	4.0	3.8	3.6
Vehicle Sales (millions, SAAR)	17.5	17.5	17.3	17.5	17.2	16.9	17.5	17.0	17.0
Retail Sales Growth (y/y)	2.6	3.0	4.6	5.1	4.8	6.5	6.6	5.0	4.5
Consumer Credit Growth (y/y)	7.1	6.8	5.4	4.7	4.6	4.8	N/A	5.0	4.8
Consumer Price Index (y/y)	0.1	1.3	2.1	2.4	2.4	2.7	2.8	2.6	2.3
Core Consumer Price Index (y/y)	1.8	2.2	1.8	2.1	2.1	2.2	2.2	2.2	2.3
Housing data	2015	2016	2017	Feb	Mar	Apr	May	estimate	estimate
Housing Starts (thousands, SAAR)	1,112	1,174	1,203	1,290	1,327	1,286	1,350	1,300	1,340
New Home Sales (thousands, SAAR)	501	561	614	663	671	646	689	670	700
Existing Home Sales (millions, SAAR)	5.25	5.45	5.51	5.54	5.60	5.45	5.43	5.6	5.8
				Q2	Q3	Q4	Q1		
Median New Home Price (thou, NSA)	294	308	324	317	323	335	330	340	350
Median Existing Home Price (thou, NSA)	222	234	247	254	253	247	244	255	265
Mortgage Originations (billions)	1,679	1,891	1,710	463	471	415	346	1,700	1,720
Refinance Share (% of originations)	46	48	38	32	32	37	37	28	24
Interest rates (annual / monthly avg.)	2015	2016	2017	Mar	Apr	May	Jun	estimate	estimate
Federal Funds Rate (%)	0.13	0.39	1.00	1.51	1.69	1.70	1.82	1.8	2.6
1-Year Treasury	0.32	0.61	1.20	2.06	2.15	2.27	2.33	2.2	2.8
10-Year Treasury	2.1	1.8	2.3	2.8	2.9	3.0	2.9	2.9	3.2
30-Year Mortgage	3.9	3.7	4.0	4.4	4.5	4.6	4.6	4.5	4.8
Credit union trends									
Federally insured credit unions	2015	2016	2017	2017 Q2	2017 Q3	2017 Q4	2018 Q1	estimate	estimate
Member Growth (y/y)	3.5	4.1	4.1	4.2	4.0	4.1	4.4	3.9	3.7
Loan Growth (y/y)	10.5	10.4	10.1	10.9	10.6	10.1	9.9	9.5	8.5
Share Growth (y/y)	6.9	7.5	6.1	8.2	6.8	6.1	5.8	5.8	6.0
Loan/Share Ratio	77.5	79.6	82.6	79.7	81.4	82.6	80.8	85.5	87.5
ROA before stabilization	0.75	0.77	0.78	0.76	0.77	0.78	0.81	0.85	0.80
Net Worth Ratio	10.92	10.93	10.99	10.85	10.94	10.99	10.94	11.2	11.3
Delinquency Ratio	0.81	0.83	0.81	0.75	0.79	0.81	0.66	0.85	0.85
Net Charge-Off Ratio	0.48	0.55	0.60	0.58	0.57	0.60	0.60	0.60	0.60

**NAFCU estimates are end of year, compiled from Federal Reserve, Fannie Mae, Freddie Mac, Mortgage Bankers Assoc., and Moody's Analytics. Quarterly figures are Q/Q percent change at annual rates. Monthly figures are Y/Y percent change SAAR, except member survey (M/M)*