Heartland
Credit Union Association

December 16, 2019

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314
regcomments@ncua.gov

Re: Interagency Policy Statement on Allowances for Credit Losses; RIN 3133–AF05

Dear Mr. Poliquin:

On behalf of the 2.2 million credit union members we represent, the Heartland Credit Union Association (HCUA) appreciates the opportunity to comment on the proposed interagency policy statement on allowances for credit losses (Proposed Statement).

Proposed Statement on Allowances for Credit Losses

The NCUA, Office of the Comptroller of the Currency, Federal Reserve Board, and Federal Deposit Insurance Corporate (the agencies) have issued a Proposed Statement in response to changes to U.S. generally accepted accounting principles (GAAP) as promulgated by the Financial Accounting Standards Board (FASB) in Accounting Standards Update 2016–13, *Financial Instruments—Credit Losses* (Topic 326), which includes the current expected credit loss (CECL) methodology. Specifically, the Proposed Statement addresses:

- Supervisory expectations for designing, documenting, and validating expected credit loss estimation processes;
- Maintenance of appropriate allowances for credit losses (ACLs);
- Responsibilities of boards of directors and management; and
- Examiner reviews of ACLs.

In addition, the Proposed Statement would incorporate relevant aspects of existing guidance, which would then be rescinded.

Does the Proposed Statement clearly describe the measurement of expected credit losses under CECL?
There are a few areas where credit unions could benefit from additional clarity.

We particularly appreciate that under *Reasonable and Supportable Forecasts* the Proposed Statement clearly states that management is not required to "incur undue cost and effort to collect data for its forecasts." As noted in the Proposed Statement, historical loss information generally provides a basis for an institution's assessment of expected credit losses. However, there appears to be some ambiguity in instances where there are no historical losses, no industry data, and/or no internal data, such as lower credit, higher loan-to-value or exceptions, or anything qualitative that would support recording a loss. Therefore, we ask the agencies to review this section to see how it can be further clarified in such instances.

Does the Proposed Statement clearly communicate supervisory expectations for designing, documenting, and validating expected credit loss estimation processes, internal controls over ACLs, and maintaining appropriate ACLs?

Yes, we believe the Proposed Statement clearly communicates supervisory expectations for designing, documenting, and validating expected credit loss estimation processes, internal controls over ACLs, and maintaining appropriate ACLs.

We agree with the importance of utilizing an individual for review who is independent of the institution's credit approval and ACL estimation processes. Further, we appreciate the Proposed Statement's flexibility in regard to the individual conducting the review, as long as the individual is independent of management overseeing the process. While this is easier for larger credit unions with more resources, segregation of duties may be more difficult for smaller credit unions. This could result in a smaller credit union being required to utilize an external third-party review, which could result in additional costs. Again, while we recognize the importance of independence here, we ask the NCUA to consider flexibility as it relates to smaller credit unions that may have difficulty achieving such independence in-house.

We also support the Proposed Statement's acknowledgement that examiners' review of ACLs, including the depth of the examiner's assessment, be commensurate with the institution's size, complexity, and risk profile. We believe this is a critical component given the variety of charter type, membership composition, geographical location, and assets size of credit unions, making it that much more important that examiner review be commensurate with the uniqueness of the credit union.

Concerns

HCUA has concerns that the Proposed Statement could unintentionally stray from pure GAAP and spill into the area of regulatory accounting principles (RAP). We recognize and appreciate the agencies' comment that the Proposed Statement conforms to GAAP and is wholly consistent with Topic 326.[4] While we did not observe any departures from GAAP, we ask the NCUA and the other agencies to ensure the statement and any supplemental material remain GAAP and GAAP alone. Further, we suggest the agencies state explicitly in the preamble to the final statement that all aspects of the statement are grounded in GAAP.

In addition, we urge the NCUA to recognize that credit unions—in addition to other reporting entities—are in the very early stages of understanding what CECL means for them and how to implement changes necessary for compliance. Therefore, we request the NCUA continue to be proactive in its outreach to credit unions in terms of examinations and guidance. While credit unions will not be examined in the context of CECL for several years, the agency has been seeking input from credit unions during examinations to understand where credit unions are in the process and to determine any areas that may be particularly problematic as credit unions work to come into compliance. We urge the NCUA to continue such outreach as well as increase its focus on compliance resources specific to credit unions.

As always, we appreciate the opportunity to review this issue. We will be happy to respond to any questions regarding these comments.

Sincerely,

Bradley D. Douglas

Brad Douglas
President/CEO