September 28, 2020

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Transition to the Current Expected Credit Loss Methodology; Docket Number NCUA 2020-0074

Dear Mr. Poliquin:

The Indiana Credit Union League (ICUL) appreciates the opportunity to submit comments on the National Credit Union Administration's (NCUA) proposed rule on the Transition to the Current Expected Credit Loss (CECL) Methodology. The ICUL member credit unions represent 99% of assets and members of Indiana's credit unions, with those memberships totaling more than 2.6 million consumers.

As we have stated in previous comment letters to FASB, we believe that this new standard is a solution in search of a problem that does not exist within credit unions. Historically, credit unions have not underfunded allowance accounts. Further, credit unions have weathered economic situations (e.g., great recession) very well. When the CECL standards go into effect, we believe the result will be credit unions overfunding allowance accounts. The end result will be lower reported earnings, and reduced capital for credit unions as they implement these onerous standards.

We ask NCUA to continue exploring all avenues, including contacting FASB, to review whether the CECL standards should be applied to credit unions at all. We appreciate Chairman Hood's letter to FASB questioning the applicability of CECL to credit unions.

We commend the NCUA Board's efforts to assist credit unions with the transition to the CECL methodology. We support the three-year transition as proposed because it is very important for credit unions that will be adversely affected by the CECL methodology. This would bring NCUA into alignment with similar authorities granted by banking regulators. We are concerned that the initial increase in funding to the allowance account based on CECL standards, if not spread over multiple years, will significantly reduce existing capital and reflect less financially strong institutions, when in reality, nothing has changed in the complexity or risk tolerance of the institution. We also support automatically opting credit unions into this transition.

Additionally, we believe that implementation of the CECL standards will further impact net income and capital levels due to the expenses associated with the time, systems and ongoing management that will be necessary to analyze the loan portfolio in the detailed manner required by the CECL standards. Because of this, we support NCUA's proposal to exempt credit unions with less than $10 million in assets as NCUA has the authority to do. By giving this group the choice of whether to follow GAAP or not, it will allow those credit unions to individually evaluate a reasonable reserve methodology that adequately covers known and probable loan losses.

We are also concerned that there may very well be an unintended consequence where lower credit quality consumer loans may not be as available due to the onerous requirements of the CECL standards. Institutions will be required to review their risk tolerance and may not be as willing to extend loans where higher expenses will result simply due to funding the allowance account based on a simple calculation, and not the institution's knowledge and experience with making these types of consumer loans. We would appreciate any future efforts by the NCUA to convince FASB of the lack of necessity of this rule as it applies to credit unions.

We appreciate the opportunity to comment on the proposed rule. We ask NCUA to consider our comments as discussed above. If you have any questions about our letter, please do not hesitate to give me a call at (317) 594-5320.

Sincerely,

John McKenzie
President, Indiana Credit Union League