October 19, 2020

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

Submitted electronically to www.regulations.gov

RE: NCUA– 2020–0074; Transition to the Current Expected Credit Loss Methodology

Dear Mr. Poliquin,

The Dakota Credit Union Association, which represents state and federally chartered credit unions in the states of North Dakota and South Dakota, appreciates the opportunity to provide comment to the National Credit Union Administration (NCUA) regarding its proposed rulemaking concerning the transition to the current expected credit loss (CECL) methodology.

The Dakota Credit Union Association represents credit unions that range in size from just over $4 million in assets to over $1.5 billion in assets. Of the 71 credit unions in North and South Dakota, 43 have ten or fewer full-time employees, with four credit unions not having any full-time employees at all. As not-for-profit financial institutions, the cost of implementing new accounting standards, or any new compliance requirement at a credit union, is borne by the member owners.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016–13, which revises the accounting for credit losses under GAAP. The implementation of CECL has created challenges for small credit unions as they attempt to work with third parties to extract data from core processors, overhauling accounting methods, determining appropriate models and adjusting reporting systems. CECL appears to be a solution in search of a problem with regard to credit unions. In addition to the cost of implementing this new standard, credit unions are also concerned about the impact CECL will have on capital.

The Dakota Credit Union Association applauds Chairman Rodney E. Hood's April 30, 2020 letter to the FASB, in which he requested an exemption for credit unions, specifically, "In support of our efforts to ease the regulatory burdens on the credit union system, I am asking the FASB to provide relief by exempting credit unions from complying with Accounting Standards Update 2016-13, current expected credit losses (CECL).” We further agree with Chairman Hood in his closing remarks that, “CECL provides insufficient advantages over the incurred loss model to support implementing CECL in the credit union system, especially under the current economic conditions.”

We appreciate the NCUA’s aim at reducing the adverse effects of CECL on a federally insured credit union (FICU) through this proposed rulemaking. As discussed in the proposed rule, “FICUs with less than $10 million in assets would no longer be required to determine their charges for loan losses in accordance with GAAP. This provision would eliminate the adverse PCA consequences for smaller FICUs resulting from CECL.” *85 FR 50965* The Dakota Credit Union Association fully supports this proposed provision and believes it will greatly benefit small FICUs.

The proposed rule would add new subpart G to Section 702 of the NCUA Rules and Regulations. Subpart G would address CECL transition provisions for eligible FICUs as it relates to determining a credit union’s net worth. A FICU is only eligible under these transition provisions if the credit union has not adopted CECL before December 15, 2022 and the credit union records a reduction in retained earnings due to the adoption of CECL. We are supportive of proposed Subpart G, as it provides a phased in approach of the potential adverse effects the CECL methodology may have on the regulatory capital of federally insured credit unions.

The proposed rule defines transition period to mean, “the 12- quarter reporting period beginning with the quarterly Call Report for the quarter ending March 31, 2023 and ending with the quarterly Call Report for the quarter ending December 31, 2025.” *85 FR 50969* The Dakota Credit Union Association requests that the transition period also be made available for credit unions currently under $10 million in assets, which as proposed would be exempt from determining their charges for loan losses in accordance with GAAP. Once these credit unions grow over $10 million they would be required to adopt the CECL methodology and could potentially face the same adverse effects on their net worth.

The Dakota Credit Union Association acknowledges that CECL is a rule promulgated by FASB, however, we are concerned of potential unintended consequences that implementation of this rule may have on lower credit quality consumer loans. Credit unions operate for the purpose of promoting thrift, providing credit at competitive rates, and providing other financial services to their member-owners. CECL does not further the credit union's mission of serving their community.

Thank you for this opportunity to share our comments and concerns.

Respectfully,

Jeffrey Olson
CEO/President

Amy Kleinschmit
Chief Compliance Officer