

CREDIT UNION UPDATE

FASB Issues New Standard For The Measurement of Credit Losses (CECL)

On June 16, 2016 the Financial Accounting Standards Board issued the long awaited, but not highly popular, new standard on recording credit losses, which will change the methodology required by all banks, savings associations, credit unions and financial institutions holding companies regardless of asset size or complexity.

Under CECL, the allowance for credit losses is a valuation account, measured as the difference between the loan's cost basis and the net amount to be collected on the loan over its lifetime. This differs from the current methodology, which requires allowance based on the estimated losses incurred to date, as opposed to what is expected to be lost over the life of the loans.

The new standard becomes effective for Credit Unions for fiscal years beginning after December 15, 2020, including interim periods beginning after December 15, 2021. In other words the new standard is effective as of December 31, 2021. Early application is permitted no sooner than December 31, 2019.

This new standard will likely require the amount of recorded allowance for most credit unions to increase.

The Federal Reserve System, the Federal Deposit Insurance Corporation, National Credit Union Administration and Office of the Comptroller of the Currency have issued a joint statement on the new accounting standard dated June 17, 2016. A copy of this joint statement is [here](#) and we encourage all financial institutions to become familiar with it.

We will be developing various practical and acceptable methodologies to assist our clients meet the requirements of this new standard and encourage you to contact us if you have questions. For now it is important that institutions collect data to support the computational methods they expect to use. This will likely include longer periods of loan history payoffs, charge offs and recoveries. It may also require accumulation of factors independent of the institution, that impact credit losses, such as local, regional and national unemployment rates and how these type of factors may impact the specific institutions losses.

It is important to start planning now to avoid a crisis or gap in data later.



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About GBQ Partners LLC

GBQ has a team of professionals that exclusively serves credit unions with a combined 100 years of industry experience. Our team assists credit unions through accounting, compliance, regulatory, IT and a number of other complex areas. Our IT professionals have already been using the FFIED Cybersecurity Assessment Tool to assist our clients evaluate and implement risk monitoring tools. Our compliance professionals are up to date and accredited and our accounting professionals work with credit unions every day. If you have questions or need assistance please do not hesitate to contact us.