

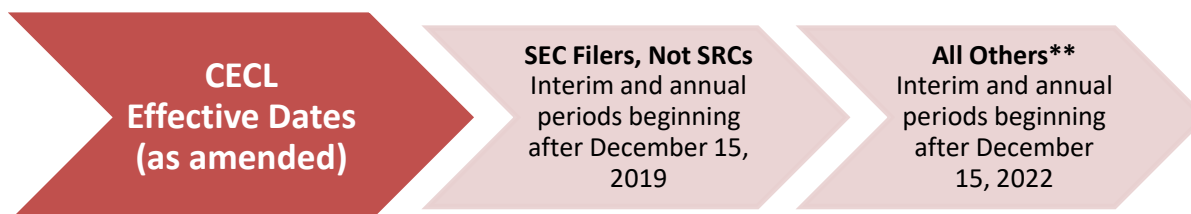
CECL Capital Relief for Credit Unions Proposed

In July, the National Credit Union Administration (NCUA) issued a proposal that would allow credit unions to smooth the impact of adopting the new credit loss model known as CECL. In addition, the proposal would exempt federally insured credit unions (FICU) with less than \$10 million in assets from determining credit loss reserves in compliance with generally accepted accounting principles (GAAP). Comments should be submitted within 60 days of publication in the Federal Register.

The CECL model replaces today's "incurred loss model" with an "expected credit loss model." Under CECL, when a loan is originated and on each reporting date, a credit union would recognize an allowance for lifetime expected credit losses based on the current estimate of contractual cash flows not expected to be collected. CECL is expected to result in earlier recognition of credit losses. Upon adoption, a credit union would recognize in retained earnings a day one transition adjustment for the difference between the credit loss allowance under today's incurred loss model and the CECL model. This adjustment could negatively affect the net worth calculation under the prompt corrective action (PCA) regulations. Under the NCUA's proposal, for purposes of the PCA regulations, the CECL transition impact would be required to be phased in over a three-year period for credit unions that adopt CECL on or after December 15, 2020. This would be a requirement, not an election. The transition amount would be phased in on a straight-line basis over 12 quarters. **FICUs would continue to calculate their net worth in accordance with GAAP and use CECL for all other purposes, including call reports.**

FICUs with assets of less than \$10 million would be allowed to calculate loan losses in accordance with GAAP or with any reasonable reserve methodology provided it covers known and probable losses.

The NCUA continues to lobby FASB for a CECL exemption for credit unions.



**Includes all other public business entities (PBE) (including smaller reporting companies (SRC)), private companies, not-for-profits, and employee benefit plans

Conclusion

BKD will continue to follow this project. If you have questions about these changes, contact your **BKD Trusted Advisor™** today.

Contributors

Chad Garber
Partner
317.383.4000
cgarber@bkd.com

Anne Coughlan
Director
317.383.4000
acoughlan@bkd.com