

May 15, 2019

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairwoman Waters and Ranking Member McHenry:

In advance of the committee's hearing on "Oversight of Prudential Regulators: Ensuring the Safety, Soundness and Accountability of Megabanks and Other Depository Institutions," AFSA¹ takes this opportunity to express its concerns with the Financial Accounting Standard Board's (FASB) final Current Expected Credit Loss (CECL) standard. The CECL model makes fundamental changes to accounting standards that will adversely affect forms of consumer credit used by millions of Americans to improve their lives, such as vehicle financing, home mortgages, student loans, and traditional installment loans. The impact on the cost and availability of these products could be significant, especially for low and moderate income consumers. CECL also creates pro-cyclical dynamics that could accelerate an economic downturn and impede growth.

CECL injects uncertainty and unpredictability into credit loss decisions by altering long-standing accounting practices of matching revenues and expenses. Specifically, the standard requires "day one" recognition of expected credit losses for the life of the loan. This requires institutions to establish a reserve for the full estimated credit loss on the loan across its entire life, even though the institution will only earn interest on the loan over time. As a result, this accounting change will affect how financial institutions make loans and to whom they lend. It will also likely result in higher loan costs and reduced credit availability.

These effects are likely to be exacerbated for low and moderate income consumers because these loans may be viewed as higher risk due to higher debt-to-income ratios, fewer financial assets, or lower credit scores. Many of these consumers often use credit cards and traditional installment loans to safely and conveniently manage their household finances, such as purchasing groceries, or for unexpected expenses, such as a hot water heater. Yet, initial assessments indicate that CECL will have the most profound effect on these loans.

In addition, CECL runs counter to regulators' goals of promoting stability in the financial sector and ensuring credit availability during times of stress. In fact, the CECL standards will actually deepen economic downturns and dampen recoveries. In an economic downturn, when lending is most needed, financial institutions will lend less or will offer products at higher prices because they have to reserve all expected credit losses at origination.

¹ Founded in 1916, the American Financial Services Association (AFSA) is the primary trade association for the consumer credit industry, protecting access to credit and consumer choice. AFSA members provide consumers with many kinds of credit, including direct and indirect vehicle financing, traditional installment loans, mortgages, payment cards, and retail sales finance. AFSA members do not provide payday or vehicle title loans.

Furthermore, the CECL standard impairs comparability across the financial services sector by allowing for wide variations in how individual institutions interpret and implement the standard and will distort earnings and earnings projections. Decreased transparency and comparability of financial results across the financial services industry resulting from divergent modeling approaches also harms investors' ability to make informed, long-term decisions and adds volatility to the balance sheets of financial institutions.

In light of the concerns regarding the CECL standard's potential negative effects, AFSA respectfully urges a delay in the implementation date of CECL until a thorough assessment is conducted by FASB, the Securities and Exchange Commission, or bank regulatory agencies. It is essential that the consequences of such fundamental accounting changes on consumers, financial institutions, and the broader U.S. economy be clearly understood before implementation.

Thank you for the opportunity to comment on this issue. Please do not hesitate to contact me at acarmichael@afsamail.org or (202) 466-8606 if you have any questions or would like to discuss this issue further.

Sincerely,

A handwritten signature in cursive script that reads "Ann Carmichael".

Ann Carmichael
Vice President, Congressional Affairs
American Financial Services Association