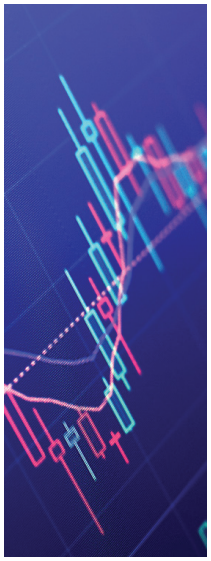
NCUA Adopts CECL Final Rule



Many financial institutions adopted the current expected credit losses (CECL) accounting standard over a year ago, but the deadline for smaller public and nonpublic entities, such as credit unions, was phased to begin later. Federally insured credit unions (FICU) now are required to apply the CECL standard for fiscal years beginning after December 15, 2022.

On July 1, 2021, the National Credit Union Administration (NCUA) published a final rule on the "Transition to the Current Expected Credit Loss Methodology," establishing a deadline by which FICUs must move toward the CECL model.[1] The final rule introduces two notable updates effective August 2, 2021:

1. Similar to other federal banking agencies, the NCUA Board decided to phase in the day-one adverse effects on regulatory capital that may result from the adoption of CECL.

The phase-in period is not tied to specific calendar dates. Instead, the Board chose to establish a fixed duration of the phase-in period of three fiscal years or twelve quarters. NCUA believes that the phase-in process will help to "temporarily mitigate the adverse PCA [prompt corrective action] consequences of the day-one capital adjustments, while requiring that FICUs account for CECL for other purposes, such as Call Reports."

FICUs that choose to exercise the phase-in option must keep in mind that this option is only available to FICUs "that adopt the CECL methodology for fiscal years beginning on or after December 15, 2022." FICUs interested in moving toward the CECL standards earlier, or those that have already adopted these standards, cannot utilize the phase-in option.

2. The Board also determined that FICUs with less than $10 million in assets are not required to adopt the CECL standards.

Instead, FICUs in this asset size may establish their own methodology for determining the reserve limits, as long as such methodology "adequately covers known and probable loan losses." However, such FICUs will not be able to rely on the earlier discussed phase-in model.

Some FICUs may be attracted to retain existing methodologies or develop in-house methodologies. However, these financial institutions must think twice and diligently test the ability of in-house–developed models to meet the NCUA's adequacy standards.

The effective date of the NCUA's final rule on the transition to the CECL methodology is August 2, 2021. With the transition deadline set for December 15, 2022, FICUs have just over a year to prepare for the complete CECL transition.

Given the mixed experiences of financial institutions that have relied on the CECL methodology, FICUs must invest adequate time and resources for model design, development, validation, revision, and improvements.

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1 NCUA, "Transition to the Current Expected Credit Loss Methodology," 86 FR 34924 (July 1, 2021), available at: https://www.federalregister.gov/documents/2021/07/01/2021-13907/transition-to-the-current-expected-credit-loss-methodology