

Congress of the United States
House of Representatives
Washington, DC 20515-4208

March 18, 2020

Mr. Steven Mnuchin
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Ave, NW
Washington, D.C. 20220

Dear Secretary Mnuchin,

I am writing to encourage the Financial Stability Oversight Council (FSOC) to delay the implementation of the Current Expected Credit Loss (CECL) accounting model in the wake of the COVID-19 outbreak in the United States.

The Current Expected Credit Loss accounting standard was issued by the Financial Accounting Standards Board (FASB) on June 16, 2016, and went into effect last December. The goal of the standard is to measure and recognize credit losses for loans and debt securities. With this new standard, the FASB is replacing the existing “incurred loss” accounting model with a new “expected loss” model that will affect any institution issuing credit. This means that CECL will affect how banks and credit unions calculate credit loss reserves and how institutions manage their allowance for loan and lease losses (ALLL). Additionally, CECL requires a recognition of expected losses over the life of the loan on the day of origination. More importantly, this new standard does not allow financial institutions to account for expected interest income upon origination. As a result, financial institutions will drastically reduce their lending activities during economic downturns.

The impact of the COVID-19 outbreak on our economy and financial markets will make it extremely difficult for financial institutions to make accurate predictions regarding credit risk. I am concerned that this will lead to a decrease in access to credit for consumers who need it most. Delaying the implementation of CECL will free up a significant amount of funding for financial institutions to continue providing credit to businesses that are currently undergoing considerable financial strain. During a time of such economic uncertainty, it is essential that consumers and small businesses have access to affordable, reliable credit and other financial services.

Therefore, until we can fully understand the economic impact that COVID-19 will have on our economy, financial institutions, community banks, and consumers, I strongly encourage the FSOC to consider delaying the implementation of CECL.

Thank you for your attention to this important matter.

Sincerely,

A handwritten signature in cursive script that reads "David Kustoff".

David Kustoff
Member of Congress

Cc:

The Honorable Heath Tarbert
The Honorable Jerome Powell
The Honorable Joseph Otting
The Honorable Jelena McWilliams
The Honorable Jay Clayton
Mr. Russell Golden
The Honorable Mark Calabria
The Honorable Mark McWatters
The Honorable Kathy Kraninger