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MORTGAGE BANKERS ASSOCIATION

May 21, 2019

The Honorable Maxine Waters  
Chairwoman  
Committee on Financial Services  
U.S. House of Representatives  
2129 Rayburn House Office Building  
Washington, DC 20515

The Honorable Patrick McHenry  
Ranking Member  
Committee on Financial Services  
U.S. House of Representatives  
2221 Rayburn House Office Building  
Washington, DC 20515

Dear Chairwoman Waters and Ranking Member McHenry,

On behalf of the Mortgage Bankers Association (MBA), I am writing to express concerns regarding the upcoming implementation of the “Current Expected Credit Loss” (CECL) accounting standard for the measurement of credit losses (Accounting Standards Update 2016-13) issued by Financial Accounting Standards Board (FASB). MBA believes that the requirements of the CECL standard, which is effective for SEC registrants in 2020, and for all other companies in 2021, will adversely impact the availability, structure and price of credit, with a larger proportion of such impact landing on longer-term loans, such as 30-year single-family residential mortgages, commercial and multifamily mortgages, student and business loans.

MBA supports any efforts by Congress to direct an independent body to conduct a quantitative study on the overall impact of CECL implementation on the financial services industry, and engagement with FASB to request a delay in enactment pending completion of that study.

The analysis should not only focus on the overall potential impact of CECL – including potential reductions in economic activities and higher unemployment during economic downturns – but also assess how CECL would have affected regulatory capital leading up to and going through the recent recession. Furthermore, this examination should assess the capital and operational impact of the standard on smaller institutions, and especially how such impacts will affect their ability to compete and serve their communities. Ideally the study should propose solutions for identified negative or adverse impacts, and such solutions should be within existing liquidity, capital and accounting regulatory frameworks.

CECL probably represents one of the most significant rewrites of U.S. GAAP in the past 40 years, and once implemented, will fundamentally change how banks and other financial companies recognize credit losses in their loan and held-to-maturity debt security portfolios. In contrast to the traditional U.S. GAAP approach, which required companies to establish a reserve when a loan loss is probable and reasonably estimable, CECL requires day-one upfront recognition of credit losses using long-term economic forecasts over the contractual life of the loan but does not allow a similar upfront recognition of corresponding future revenues associated with the loan.

For many MBA community bank members, more than 50% of their loan portfolios constitute residential mortgage products, and therefore, the unforeseen impact of CECL implementation on residential mortgage lending will have significant detrimental effects on these banks. In fact, according to a recent study on the impact of CECL on bank capital, it was noted that many community banks may need to raise additional capital in order to maintain their “well capitalized” status and be in compliance under CECL on day one. This unforeseen impact of CECL, in

addition to the fact that the heavy costs of implementation naturally hit smaller organizations the most, could result in costly and unintended adverse consequences for the community banking industry.

As always, thank you for the consideration of the views expressed within this letter. We look forward to our continued work together to promote a more competitive and sustainable real estate finance market in the United States.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Killmer", with a long horizontal flourish extending to the right.

Bill Killmer  
Senior Vice President, Legislative and Political Affairs

cc: All Members: Committee on Financial Services