2019, Issue 4

The Auditor's Report

FASB Gives the WARM Method a Thumbs-Up

On November 15, 2019, the Financial Accounting Standards Board officially extended the implementation date for the Current Expected Credit Loss (CECL) model to January 1, 2023 for credit unions. As you may know, CECL requires a new approach to estimating credit losses. It modifies the impairment model for loans and all financial instruments carried at amortized cost including Held-to-Maturity (HTM) debt securities, as well as off-balance-sheet credit exposures including loan commitments, standby letters of credit, and financial guarantees. The new accounting standard does not apply to trading assets, loans held for sale, financial assets for which the fair value option has been elected, or loans and receivables between entities under common control. Also, over the last year a simplistic solution to CECL called the Weighted Average Remaining Maturity (WARM) method has been supported by both the FASB and the National Credit Union Administration (NCUA).

In January 2019, the FASB issued a Staff Q&A Topic 326, No.1 "Whether the Weighted Average Remaining Maturity Method is an Acceptable Method to Estimate Expected Credit Losses." This document details what the WARM method is and when it may or may not be the right CECL solution for a credit union. In early 2019 the NCUA and all the other agencies that supervise financial institutions, performed a webinar on the WARM method (presentation can be found on-line).

The WARM method uses an average annual charge-off rate calculated at a summary level. This average annual charge-off rate contains loss content over several vintages and is used as a foundation for estimating the credit losses for the remaining balances of loans in a pool at the balance sheet date. The average annual charge-off rate is applied to the contractual term, further adjusted for estimated prepayments to determine the unadjusted historical charge-off rate for the remaining balance of loans.

Should you have any questions regarding this new accounting standard or the WARM method, please do not hesitate to contact our firm.

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Happy Holidays!

Best wishes to all of our clients and industry partners for the holidays and the coming year from our entire organization. **Please take note of our holiday hours.** Our offices will be closed November 28th and 29th for the Thanksgiving, December 23rd through the 27th for Christmas, and January 1st for the New Year.

INSIDE THIS ISSUE

ABOUT US

Since 1979, Nearman, Maynard, Vallez, CPAs has provided auditing and consulting services exclusively to credit unions throughout the United States. Our dedication to the credit union industry has given us the unique ability to provide exceptional service at a reasonable price. Our primary objective is to assist our clients in accomplishing their goals through our experience, service, and commitment. If your Supervisory/Audit Committee, Management, or Board of Directors is interested in obtaining information on the subjects in this issue or about our many services, call or email us today.

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FASB Updates

Norwalk, CT, November 15, 2019 — Financial Accounting Standards Board (FASB) issued two Accounting Standards Updates (ASUs) that finalize various effective date delays for standards on current expected credit losses (CECL), leases, hedging, and long-duration insurance contracts.

- ASU No. 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates, finalizes various effective date delays for private companies, not-for-profit organizations, and certain smaller reporting companies applying the credit losses (CECL), leases, and hedging standards.

- ASU No. 2019-09, Financial Services—Insurance (Topic 944): Effective Date, finalizes insurance standard effective date delays for all insurance companies that issue long-duration contracts, such as life insurance and annuities.

For more information on this FASB release and others go to FASB.org

AICPA Conference Recap

The AICPA's "2019 Conference on Credit Unions" was held in Nashville, Tennessee October 21st–23rd this year and it was a huge success. This city best known for its great music was a harmonious setting for our conference. Attendees enjoyed the educational sessions, both those in person and those on-line. Throughout the conference there were plenty of opportunities for networking with peers and the vendors. Again, this year issues related to the Current Expected Credit Loss (CECL) dominated the conference. We had a deep dive into the more complicated CECL solutions as well as a general session presented by the Financial Accounting Standards Board (FASB) on a simplistic solution, the Weighted Average Remaining Maturity (WARM) method.

This year's Keynote Speaker was Jay Johnson, Chief Collaboration Officer at Callahan & Associates. His presentation included an overview of the Credit Union industry today and what the future of the industry may look like. Other session topics included an economical update from Douglas Duncan, PHD, SVP & Chief Economist with Fannie Mae, issues relating to bank acquisitions, and even more on CECL. Attendees were very pleased with the sessions and provided excellent input for next year's conference which will be held in Las Vegas, NV. Oct 19th – 21st. Hope to see you there or online.

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