June 4, 2020

The Honorable Steven T. Mnuchin  
Secretary of the Treasury  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, D.C. 20220

Dear Secretary Mnuchin:

As the nation grapples with the Covid-19 pandemic and the resulting unprecedented public health and economic crisis, appropriate planning must be made for the future and that incentives are aligned for the country to rebuild. However, we are concerned that the decision by the Financial Standards Accounting Board (FASB) to implement the new current expected credit loss (CECL) accounting standard on January 1, 2020, for mid-size, regional and national banks, credit unions, and other financial services firms will make it harder for consumers and businesses to access credit. We request that the Financial Stability Oversight Council (FSOC) conduct a study on the new standard’s impact on lending and economic consequences overall.

Even prior to the current economic downturn, there was an insufficient understanding of the potential economic impacts of the new accounting approach on banks and the customers and communities that they serve. As banks, credit unions, and other financial services firms built new models and operational systems to adopt the CECL standard, concerns grew that it would impact their ability to lend. Worse, those affects would be pro-cyclical during an economic downturn and slow a recovery. During this debate, it was unimaginable that we would face a global pandemic leaving a devastated economy in its wake. Unfortunately, this is where we now find ourselves.

In March 2020, Federal Deposit Insurance Corporation (FDIC) Chairman Jelena McWilliams wrote to the FASB expressing concern that the COVID-19 pandemic had caused “sudden and significant changes in the economy,” noted the “uncertainty of future economic forecasts,” and contended that the economic crisis made the sophisticated models designed to account on the day a bank books a loan for all future credit losses, as required by CECL, “potentially more speculative and less reliable at this time.”

The new standard’s impact can be seen on the dramatic increase on the loan-loss reserve levels of banks of all sizes. The reserves for the 200 largest banks, which have community, state, regional, and national footprints, increased by nearly 60% at the end of the first quarter

compared to the quarter ending 2019, representing billions of dollars of capital that has been taken out of the system during a moment when it is most needed.²

While it is possible to disagree about the wisdom of the timing of the CECL adoption during the pandemic, now is the optimal time to assess CECL’s economic impact, including how the policy affects products and lending decisions of financial institutions, and especially the consequences on customers in low-to-moderate income communities. For that reason, we believe FSOC should begin a comprehensive economic impact study about the economic consequences of the CECL policy over the next four quarters.

Instead of relying on speculation and models, that look backward as much as forward, the FSOC can gather current macroeconomic data and banking metrics. The FSOC can observe a year’s worth of data and complete a report by July 2021. We look forward to its findings and expect it to better inform the debate around CECL and its impact on lending to consumers and businesses by financial institutions and financial services firms.

Sincerely,

_______________________________
Doug Jones
United States Senator

_______________________________
Thom Tillis
United States Senator

_______________________________
Jon Tester
United States Senator

_______________________________
Kevin Cramer
United States Senator

Cc: Chairman Jerome Powell, Federal Reserve Board
Acting Comptroller Brian Brooks, Office of the Comptroller of the Currency
Chairman Jelena McWilliams, Federal Deposit Insurance Corporation
Chairman Rodney Hood, National Credit Union Administration
Chairman Jay Clayton, Securities and Exchange Commission
Chairman Heath Tarbert, Commodity Futures Trading Commission
Director Mark Calabria, Federal Housing Finance Agency
Director Kathy Kraninger, Consumer Financial Protection Bureau
Thomas E. Workman, Independent Member of FSOC