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Hot topics
Takeaways from the 2021 AICPA & CIMA Conference on Credit Unions

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Contents

Conference overview	3
Economic updates	4
Credit union industry	7
Digital transformation and fintech	8
Accounting standards update	9
Other industry and conference hot topics	12

Conference overview

The annual American Institute of Certified Public Accountants (AICPA) and Chartered Institute of Management Accountants (CIMA) Conference on Credit Unions was held from Oct. 18 through 20, 2021. For only the second time in its history, the conference was fully virtual, due to the ongoing COVID-19 pandemic. Conference topics focused on the current economic environment and emerging from the pandemic into a “new normal.” As expected, an economist, regulators, auditors, and credit union leaders all discussed the ongoing COVID-19 pandemic and its impact on the credit union industry.

The economist and credit union leaders discussed the continued unusual nature of the current environment and the struggles credit unions are facing. The economist stated that the current economic environment is unprecedented – while the U.S. has faced financial crises in the past, this is the first health crisis experienced in recent history. Excess liquidity, net interest margin compression, increased deposits, and the ongoing “Great Resignation” were common themes throughout the conference.

Current projects and rules published by the Financial Accounting Standards Board (FASB) were discussed, including but not limited to the upcoming lease standard, the cessation of the London Interbank Offered Rate (LIBOR), and the current expected credit loss (CECL) model. One session covered the forthcoming AICPA CECL audit and accounting guide.

Conference panelists also highlighted the ever-changing landscape of the financial institutions industry, including fintech, digital assets, and automation. In addition, conference speakers discussed embracing diversity, equity, and inclusion in the workplace; regulatory and compliance updates; and other credit union hot topics.

The 2022 conference is slated for Oct. 24-26, 2022, at the MGM Grand in Las Vegas.

We hope you find this summary useful.

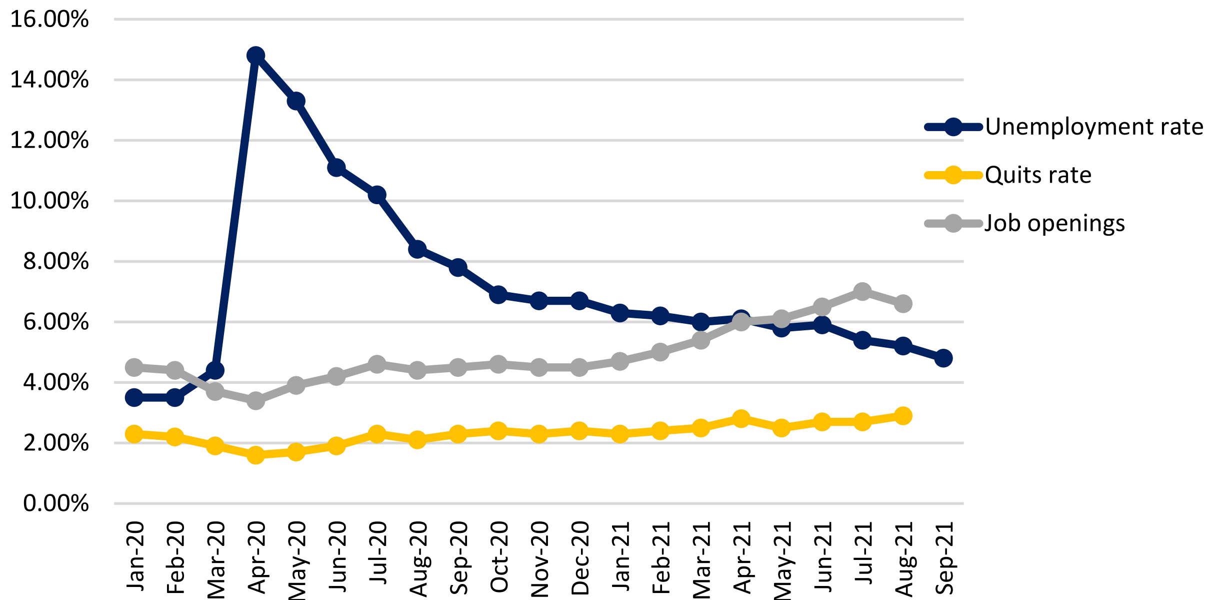
Economic updates

Stifel's chief economist, Lindsey Piegza, kicked off the 2021 conference. Piegza provided her perspective on the current economic landscape and the effects caused by COVID-19. While risks certainly remain, the economy has seen a rebound and recovery that has been more rapid than what has been seen in most other crises. Piegza noted that one potential reason could be the fact that this has first and foremost been a health crisis and not a financial crisis. Unlike other recessions, wealth increased during the most recent recession.

Unemployment and labor

Given the uniqueness of the current recession and the amount of government relief provided in response to the COVID-19 pandemic, the economy is experiencing trends unlike any we've seen in recent history. As of September 2021, unemployment was 4.8%, the lowest since the start of the ongoing COVID-19 pandemic in March 2020.[1] While there certainly have been employment gains, many workers have dropped out of the labor force altogether since the start of the pandemic. Because they are not actively seeking employment, these individuals are no longer included in the unemployment rate.

Job openings continue to be at record highs and hit peak levels in 2021. According to the U.S. Bureau of Labor Statistics, as of September 2021, 1.6 million workers were prevented from looking for work because of the pandemic.[2] Piegza stated that there continue to be lingering effects on job openings due to lack of child care and elder care. So, while the stimulus and unemployment benefits do factor into the current labor market, other factors remain at play. For the time being, labor demand outpaces labor supply, and wage pressures continue to mount.



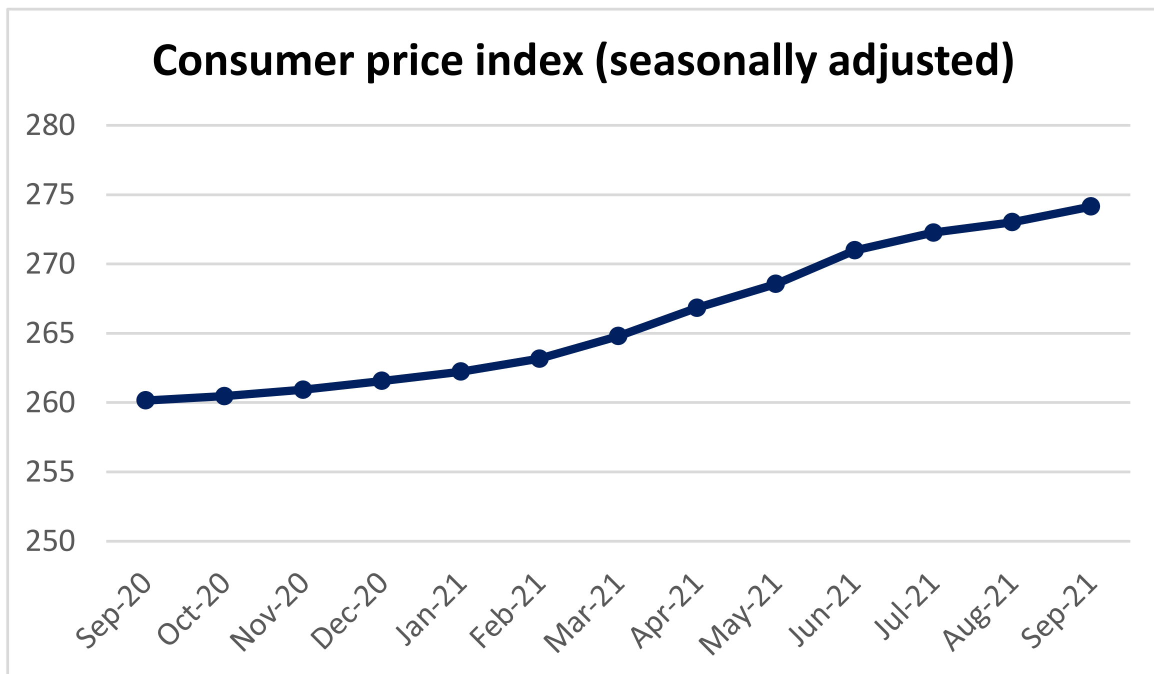
Source: U.S. Bureau of Labor Statistics.

[1] https://data.bls.gov/pdq/SurveyOutputServlet
[2] https://www.bls.gov/news.release/empsit.nr0.htm

Real estate
Despite the ongoing pandemic, the housing market remains strong, and home prices continue to rise. According to S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index, home prices have risen nearly 20% from August 2020 to August 2021.[3] Demand for housing changed due to the way in which Americans now work. A wave of millennials that were waiting to buy a house have now done so, and whether going to a new city or just a new space, individuals are moving to accommodate the new work-from-home environment.

Saving rates
Consumer saving rates remain above pre-pandemic levels but have declined significantly from the peak experienced during the pandemic. The personal saving rate in January 2020 was 7.8%, spiked in April 2020 at 33.8% and was reported at 9.2% as of August 2021.[4] According to Piegza, additional savings, along with additional federal spending and higher wages, will – it is hoped – slow the fallout that could occur as the government stimulus ends.

Outlook
Current low Federal Reserve (Fed) rates and potential inflation risk were on the minds of many conference participants. According to Piegza, the Fed projects continued low rates and moderate – if any – potential rate hikes. While there can be no certainty as to the timing of any rate increase, Piegza stated that the expectation would be that it would not occur before the end of 2022 or potentially into 2023 or beyond, depending on the continued performance of the economy.



Source: U.S. Bureau of Labor Statistics.

[3] https://www.spglobal.com/spdji/en/indices/indicators/sp-corelogic-case-shiller-20-city-composite-home-price-nsa-index/#overview
[4] https://fred.stlouisfed.org/series/PSAVERT

Statements made by members of the Fed have indicated that inflation will be "transitory." The Fed's target for inflation is 2% on average.[5] Given the lower inflation rates pre-pandemic, even with the current high inflation rate, the Fed has fallen short of its 2% long-term target for many years.

Conference takeaway: Lindsay Piegza, chief economist at Stifel, stated that the rebound and recovery from the pandemic has been more rapid than in other crises, which might in part be due to it being first and foremost a health crisis. Uncertainty remains related to job openings and inflation risk.

[5] https://www.federalreserve.gov/newsevents/pressreleases/monetary20210922a.htm

Credit union industry

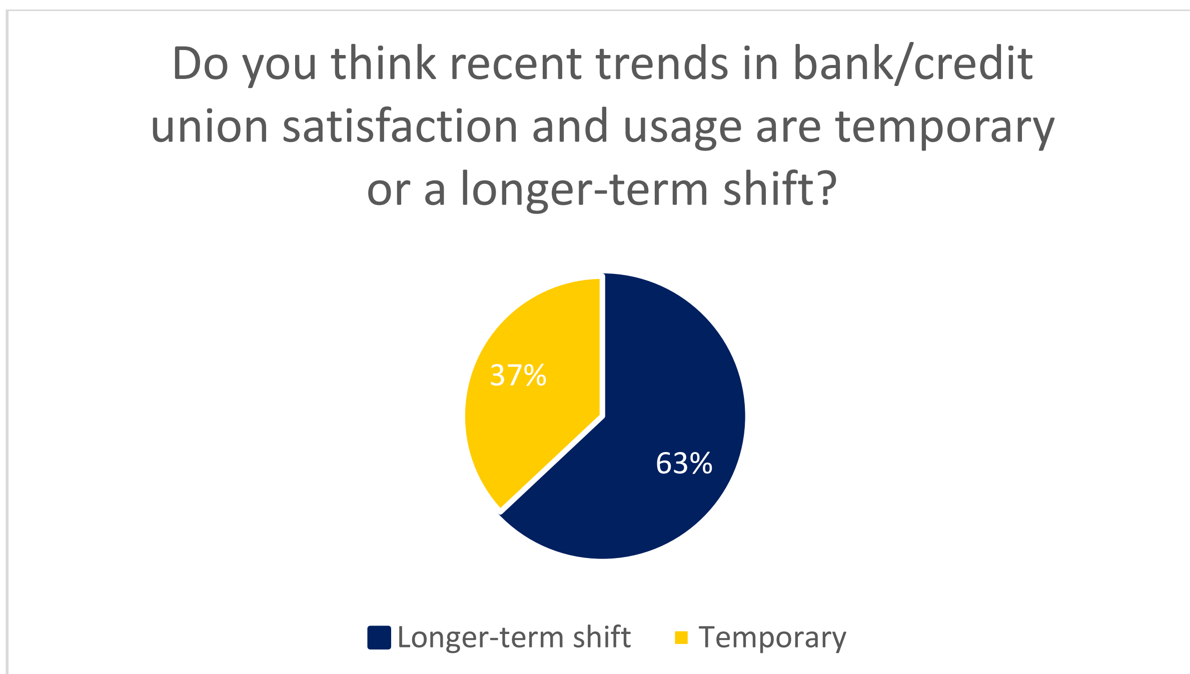
Jay Johnson of Callahan & Associates spoke on credit union performance trends and emerging challenges and opportunities as the industry emerges from the pandemic. The discussion focused on what a “new normal” might look like. In a survey asking audience members how they think credit unions are doing in this new normal, 60% stated better than expected, 38% answered about as expected, and 2% said worse than expected.

Johnson stated that according to Callahan’s peer-to-peer analysis, from June 2020 to June 2021, credit union assets have grown 13%, member share accounts have increased 15%, and the number of total credit union members has increased 4%. Members have elected to save nearly 40% of the federal relief income received, and, as economist Piegza discussed, this can be seen in the high personal savings rate. Loan originations continue to grow, but the balance sheet loan growth does not reflect the lending surge. Johnson noted that the gap between the net interest margin and operating expense ratio is expanding.

Member satisfaction and usage

On the member front, Johnson noted that several banks and credit unions have begun to remove, simplify, or reduce their overdraft and nonsufficient fund fees. Credit union member engagement continues to outperform the rest of the financial services industry. However, according to American Customer Satisfaction Index,[6] satisfaction with credit unions is at a historic low and below banks for the second year in a row.

A survey of the audience on whether they think the recent trends in member satisfaction and usage are temporary or a longer-term shift provided the following results:



Source: Poll results during the conference.

[6] https://www.theacsi.org/index.php?option=com_content&view=article&id=149&catid=&Itemid=214&i=Banks; https://www.theacsi.org/index.php?option=com_content&view=article&id=149&catid=&Itemid=214&i=Credit+Unions

Digital transformation and fintech

According to Johnson, consumer usage of digital channels rose sharply starting in 2020. The largest banks are investing in fintech, and so-called disruptors, or challenger banks, continue to evolve their offerings. Johnson's discussion segued nicely to the main theme of the presentation by Ron Shevlin, director of research at Cornerstone Advisors and a senior contributor to Forbes.

Shevlin started his presentation discussing the shadow financial lives of consumers. According to Shevlin, 36% of Americans have more than one checking account. Money is moving through merchant apps, and many consumers are taking advantage of the buy now, pay later programs. In addition, products are being purchased with bitcoin, and payments are being made with all kinds of digital assets. The average consumer might have multiple checking accounts, savings accounts, mobile payment accounts, investing accounts, and financial management accounts, among others, all with different financial institutions or fintech companies. Shevlin said he believes that this diversification is due to the product quality of the tools offered and the uniqueness of each tool. Members aren't necessarily leaving credit unions, they are just opening multiple accounts and slowly moving funds out. Community fintech companies are differentiating themselves by serving niche groups.

Johnson and Shevlin both noted that digital transformation is occurring all around us, and it's more important than ever for credit unions to make sure they aren't on the lagging end of the transformation. Fintech eventually will need to be embedded within credit unions through mobile apps, websites, products, and business processes. Shevlin reiterated that although this can seem like a daunting world to compete in, credit unions should be looking for "singles, and not home runs" and should form partnerships when the credit union does not have the necessary expertise.

In Shevlin's closing, he noted that efforts to determine how to best serve members and evaluate engagement should focus on the credit union's "best members." He reiterated that access to humans is important, and while human-to-human interaction is necessary, technology can be that conduit.

Conference takeaway: Credit unions should work to understand the needs of their members and embrace the current digital transformation. Fintech is embedded in consumers' everyday lives, and credit unions will need to differentiate themselves.

Accounting standards update

Representatives from the FASB, the National Credit Union Administration (NCUA), and Crowe discussed upcoming accounting standards on leases and CECL, and they highlighted other practice matters. In November 2019, the FASB issued an ASU to delay the adoption date of leases to Jan. 1, 2021, and CECL to Jan. 1, 2023, for calendar year-end credit unions. In response to the pandemic, in June 2020, the FASB issued an ASU to further delay the adoption date of leases to Jan. 1, 2022, for calendar year-end credit unions.

Leases

ASU 2016-02 "Leases (Topic 842)" takes effect on Jan. 1, 2022, for calendar year-end credit unions. As a friendly reminder, this standard requires the recording of a right-of-use asset and lease liability for leases with an original term of more than 12 months. At adoption, the cumulative effect adjustment (if any) is recorded through equity, and if the transaction practical expedient is elected, credit unions do not need to adjust prior periods for comparability. Jeffrey Mechanick of the FASB stated that post-implementation review (PIR) is occurring to analyze the impact of adoption. Mechanick expects in the fourth quarter of 2021 an ASU related to the discount rate for lessees that are not public business entities, allowing an accounting policy election to use a risk-free discount rate by class of underlying asset when the rate implicit in the lease it not readily determinable.

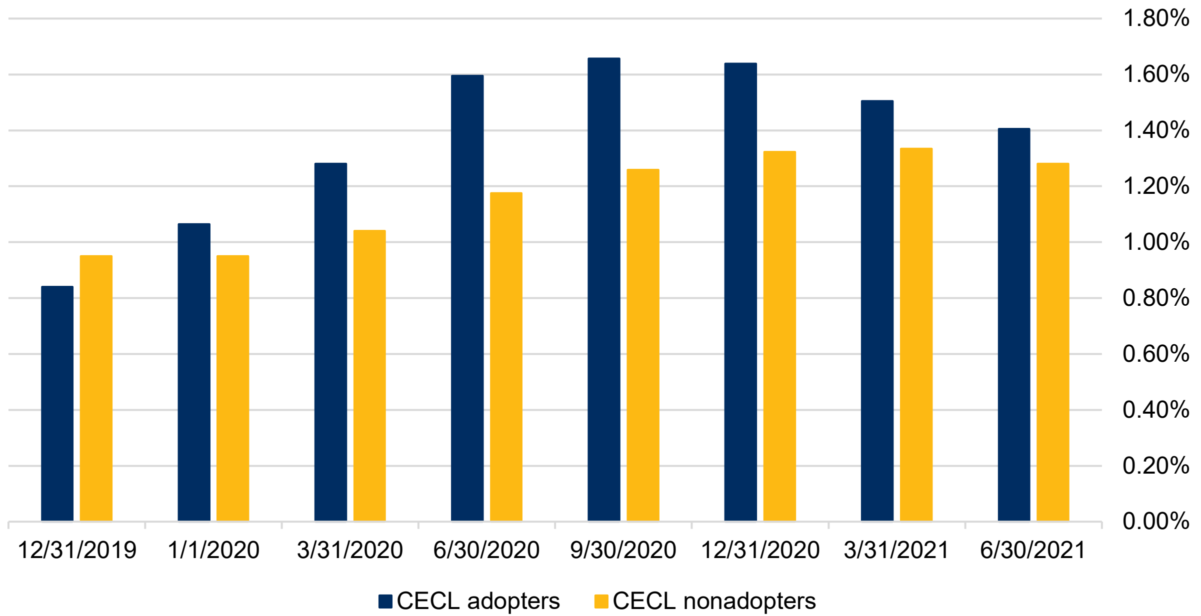
CECL

The FASB has continued its PIR by conducting outreach to stakeholders, hosting a public roundtable, monitoring, and responding to technical inquiries. Investors, regulators, auditors, and preparers have contributed additional feedback, and common themes revolved around the need for flexibility in disclosures and the concern over income statement volatility.

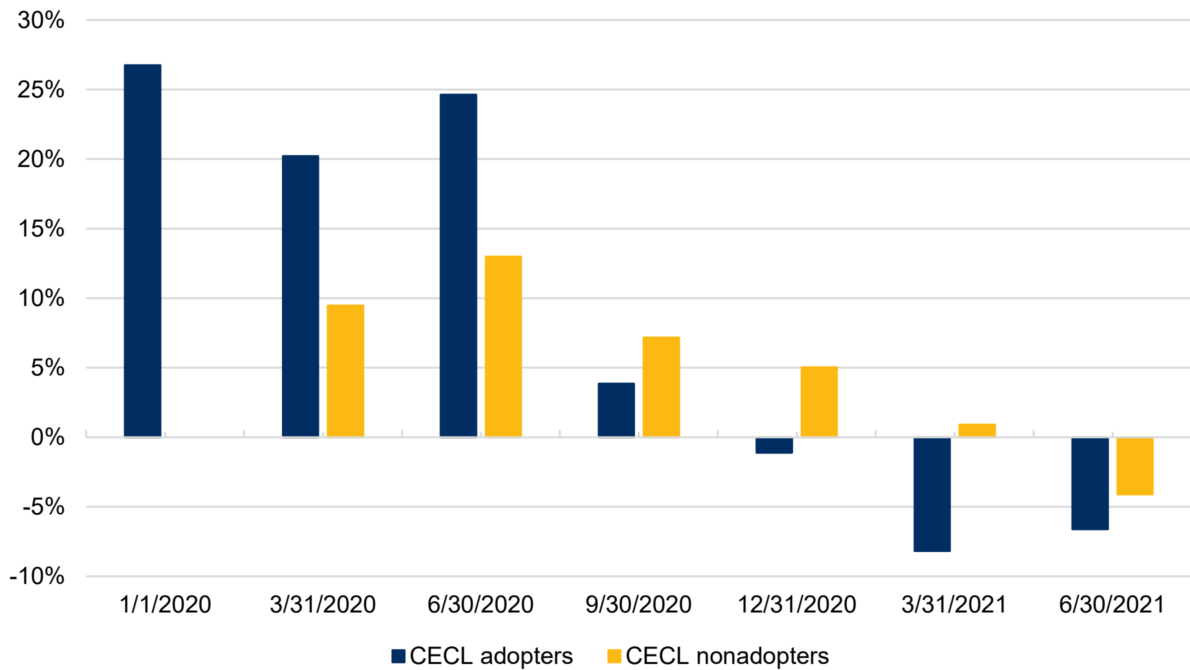
In response, the FASB added two projects to its technical agenda: one to consider expanding the purchased credit deteriorated (PCD) assets model to other acquired assets and another to consider removing troubled debt restructuring (TDR) accounting for those who have adopted CECL.

For PCD assets, some roundtable participants desired to have one model for all acquired assets, while on the opposite side, some supported expanding the PCD accounting model to alleviate concerns about recognizing a day-one loss on purchased financial assets. For TDRs, most roundtable participants supported eliminating TDR accounting and revisiting disclosures. Some said they believe TDR accounting lacks decision-useful information after the adoption of CECL.

Crowe observation: To provide perspective on the day-one impact of CECL adoption, the following charts present median allowance coverage ratios and percent changes in median coverage ratios for public company banks, bifurcated by CECL adopters and nonadopters.



Source: Crowe analysis of press releases filed with the SEC, June 30, 2021.



Source: Crowe analysis of press releases filed with the SEC, June 30, 2021.

NCUA Chief Accountant Alison Clark reminded the audience that the transition to CECL for regulatory capital will occur as a phase-in over three years. After a one-time entry on the call report, the call report automatically will calculate the phase-in over the three-year period. There will be a 100% add back for the first three quarters of 2023. The phase-in is not optional unless a credit union early adopts CECL.

The AICPA CECL Audit and Accounting (A&A) Guide was highlighted in its own session. The A&A Guide is expected to be published by early to mid-November 2021. Sydney Garmong, Michael Lundberg, and Jason Brodmerkel, all members of the Credit Loss Task Force, highlighted that the preface of the A&A Guide outlines implementation observations from the nearly 150 financial institution SEC registrants that have already adopted. Key observations include:

- CECL may not be comparable between institutions, even those with similar size and/or geography.
- When using a third party, calibration and customization are necessary.
- Model validation is a key component.
- Parallel runs in advance of adoption are vital to success.

The remaining chapters of the A&A Guide outline:

- Background information, management's responsibility, and audit/supervisory committee's role in oversight
- Internal controls and governance
- Audit objectives and procedures and sources of risks of material misstatements
- Common accounting issues, including reasonable and supportable forecasting, reversion methods, and zero expected credit losses, among others
- Presentation and disclosure
- Communications with those charged with governance, regulators, and others

Other practice matters

Other practice matters highlighted by panelists included:

- Updates made to Section 4013 of the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) on timing of modifications
- Revision of 12 Code of Federal Regulations (CFR) Appendix B to Part 741 to include capitalization of interest
- Grants from the Community Development Financial Institutions (CDFI) Fund and Emergency Capital Investment Program (ECIP) – reported in other noninterest income
- Overhaul for risk-based capital ratios that go into effect in the first quarter of 2022
- Update on the proposed complex credit union leverage ratio (CCULR)

Other industry and conference hot topics

Collateral-assigned split-dollar policies
Regulators and auditors provided insight into collateral-assigned split-dollar policies. Current accounting requires that if a loan to an executive is nonrecourse and the cash surrender value (CSV) is less than the loan amount, the loan is written down to CSV. If the loan to the executive is with recourse, credit unions need to consider the underlying collateral, if any, and the ability of the executive to repay.

Diversity, equity, and inclusion
A panel provided insight into ways in which the credit union industry can embrace diversity, equity, and inclusion (DEI). Underscoring all panelist remarks was the need for an entire organization to buy in for a DEI initiative to be successful. Panelists recommended that any DEI leader should have a direct line to the CEO. Focus areas to ensure that this topic is top of mind for the organization include:

- Ensuring that leadership from the top is involved
- Recruiting
- Operationalizing a program
- Engaging employees and the communities credit unions serve

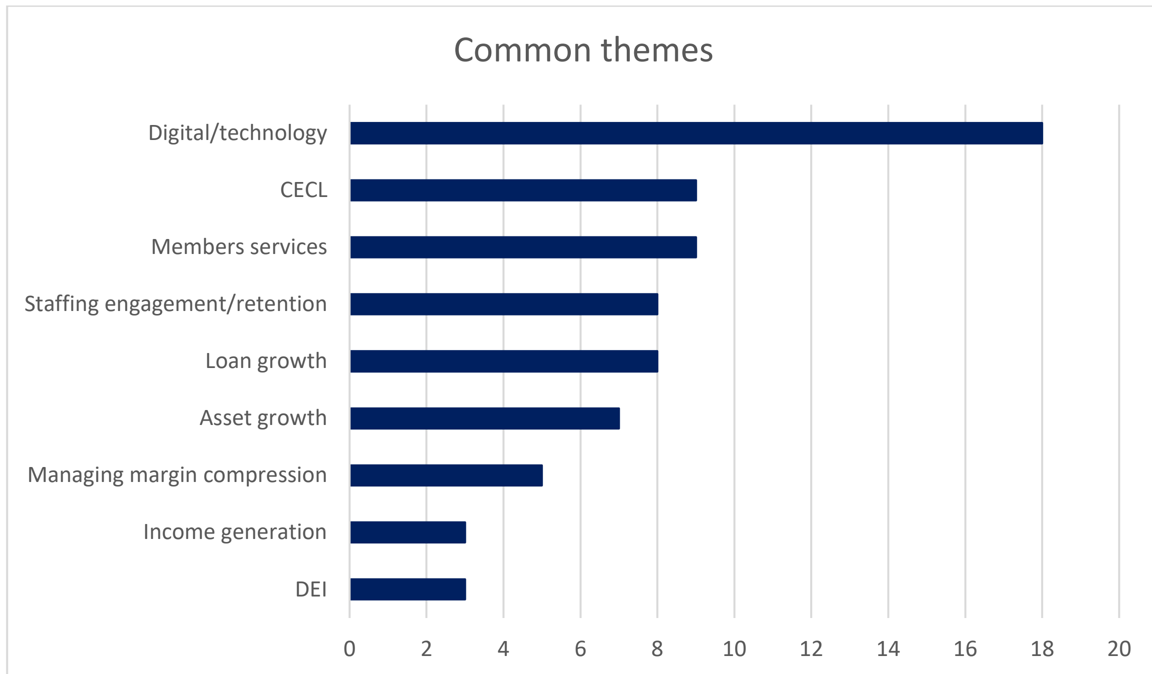
Regulatory update
The NCUA's Viki Nahrwold, with input from Alison Clark, discussed the state of the industry, noting asset growth, declining delinquencies, and slightly declining net worth ratios. The NCUA's supervisory priorities remain relatively unchanged from the prior year. The following chart outlines the NCUA's supervisory priorities for 2021.

[7]

[7] https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/ncuas-2021-supervisory-priorities

Other topics
A panel of CFOs discussed the current challenges facing the credit union industry. Common themes were excess liquidity and margin pressure, digital transformation, the current labor market, and CECL.

A poll of the audience asked what the focus of recent planning discussions among management and committee members has been. Of those who responded, these were the most common themes:



Source: Audience poll results during the conference.

Other conference sessions included these topics:

- Accounting and auditing issues
- Automation using robots
- Auditing and assurance updates
- Balance sheet management
- Trends in payments frauds and scams
- Derivatives
- Cannabis banking
- Mergers and acquisitions
- Supervisory Committee Audit Guide
- Regulatory compliance

Learn more

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