NCUA
National Credit Union Administration

Call Report Modernization:

External Stakeholder Feedback

January 2018 Request for Information

June 2018

NATIONAL CREDIT UNION ADMINISTRATION

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Call Report Modernization: Request for Information 2018

Background

The National Credit Union Administration's regulation and supervision of federally insured credit unions is designed to protect the safety and soundness of credit unions and enforce applicable laws and regulations. As the financial services industry and credit union landscape evolve, the NCUA must regularly review and update its data collection and supervisory processes. The NCUA uses the Call Report and Credit Union Profile to collect information from federally insured credit unions. The resulting data are integral to our risk supervision at both the institution and industry level, which is central to safeguarding the integrity of the National Credit Union Share Insurance Fund.

At the May 19, 2016, NCUA Board meeting, the agency discussed plans to modernize the NCUA's collection of data from federally insured credit unions. Key goals of this modernization effort include reducing the reporting burden on credit unions, improving our offsite supervision capabilities, and updating the organization of the Call Report forms and related instructions.

The NCUA solicited stakeholder feedback through a variety of outreach efforts including a Request for Information (RFI) published in the *Federal Register* in June 2016 and a series of conference calls with external stakeholders (credit unions, vendors, NCUA staff, state regulator staff, and other industries) in October and November 2016. In response to the agency's outreach, stakeholders shared their desire for the NCUA to reduce the size and complexity of the Call Report, reorganize the schedules to group items logically and reduce overlap, and improve the instructions.

The Call Report Modernization Working Group used this feedback to create reorganized and streamlined Call Report and Profile prototypes. The Call Report prototype reflects a net reduction in total account codes of approximately 40 percent. The Profile prototype has a net reduction in the number of attributes of approximately 20 percent.

On January 31, 2018, the NCUA published a Request for Information (RFI) in the *Federal Register* seeking input on the proposed reduction in account codes, the reorganized Call Report and Profile prototypes, and the revised Call Report and Profile instructions. The NCUA also sought input on how much lead-time credit unions will need to prepare for the new process and forms. The comment period closed April 2, 2018.

This report focuses on stakeholders responses to the January 2018 RFI.

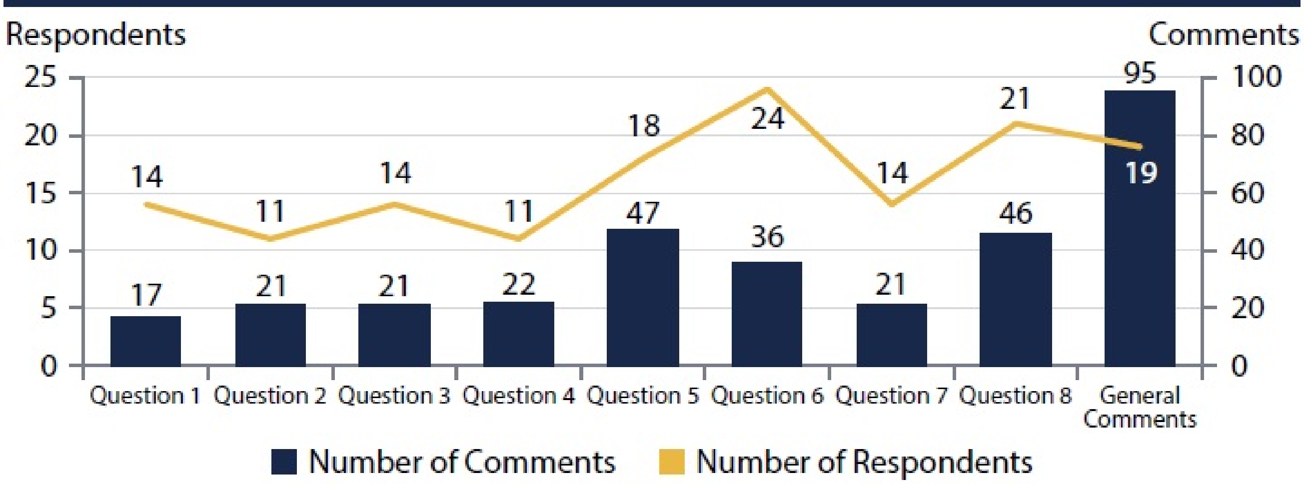
Request for Information

The January 31, 2018 RFI included the NCUA's prototype Call Report form 5300, the Profile form 4501A, their accompanying instructions, and a catalog of account code changes. The NCUA received 326 comments from 31 respondents.

Type of Commenter	Number of Respondents
Credit union	14
Industry trade or league group	13
Other	4

Eight questions were included in the RFI. Question five, relating to the adequacy of the revised instructions, generated the most comments (47), other than general comments that were not specific to a particular question. Many stakeholders felt the instructions could be further enhanced with additional examples.

Number of Responses by Question



Question eight, which asked if the modernization efforts represented a reduction in credit unions' reporting burden, received the second highest number of comments (46). Question six, which asked about the amount of lead-time credit unions would need to work with vendors to make the system changes, received the third highest number of comments (36). Based on the responses, at least a one-year lead-time would be necessary for implementing the proposed changes.

Question One

"Are there account codes that are proposed to be retired that are still pertinent? If so, please provide the account code and the reason for maintaining it."

Responses

Of the 17 individual comments related to Question One, ten commenters (59 percent) indicated that none of the account codes proposed for retirement are still pertinent. Two commenters supported retiring the interest- and dividend-rate account codes, while one commenter indicated the account codes for interest rate and dividend rates were still relevant. Other retired account codes thought to be pertinent by one commenter were loans to natural person credit unions, miscellaneous equity, and total real estate loans granted year-to-date.

One commenter recommended that the NCUA should work with state regulators to ensure the account codes are maintained for states that have substantially different commercial lending regulations.

Question Two

"Are there any other account codes that should be retired or consolidated? If so, please provide the account code and the reason for retiring it."

Responses

A majority of the 21 comments did not propose the same account code for retirement. Four respondents thought no other account codes should be retired or consolidated. Two respondents thought several account codes should be auto-populated or auto-calculated.

Two respondents thought the commercial and member business loan account codes should be consolidated and one respondent suggested removing the $50,000 member business loan threshold. Additional comments related to commercial and member business loans are located in the General Themes section of this report.

One commenter recommended retiring the risk-based net worth account codes. The NCUA plans to retire these account codes with the implementation of the agency's risk-based capital rule.

Other individual comments received included:

- Consolidating the gain/loss on restricted investments with the gain/loss on disposition of fixed assets;
- Retiring the number of potential members;
- Consolidating 1–4 family residential loans/lines of credit secured by first and junior liens;
- Reverting to the number of months delinquent as opposed to the number of days delinquent; and
- Adding account codes for non-interest income and assets under management.

Two commenters recommended adding an account code for commercial real estate loans in the Foreclosed and Repossessed Assets section, and one commenter wanted to remove commercial loans and add commercial real estate loans and commercial, non-real estate loans to the Foreclosed and Repossessed Assets section.

Question Three

"Are relocated account codes grouped logically? If not, please propose a location you feel is more logically suited to the account code."

Responses

The NCUA received 21 individual comments related to Question Three. Eleven commenters thought the relocated account codes were grouped logically. Four respondents did not like the way the pages were lettered and numbered and wanted the pages to be either all numbered or all lettered.

One commenter wanted the investment maturity schedule moved back to the Statement of Financial Condition, while another wanted the Investment schedule moved after the Loan schedule. One commenter wanted the schedules renamed Investment Schedule, Loan Schedule, among other suggestions. One respondent felt the proposed organization of the investment and loan account codes could still use improvement, but did not offer a solution.

One respondent wanted total fields to auto-calculate and other fields to auto-populate when possible. All fields shaded gray on the Call Report prototype will auto-calculate when using Credit Union Online, the NCUA's web-based data collection program. The NCUA will strive to use auto-populate whenever possible in the finalized forms.

One respondent wanted Loans to CUSOs to be reported in the Loans section rather than Other Assets. One respondent wanted the account for negative shares to be retired.

One respondent indicated, "The addition of updating profile changes within 30 days of any change will require us to submit the 4501A Profile Form monthly due to changes in the number of members, potential members… in the past this would have been updated quarterly on the 5300 Call Report." The reporting requirements were not changed as part of the Call Report Modernization. However, the transfer of the number of members and potential members to the Profile does create a requirement for credit unions to update the Profile more frequently. The NCUA will conduct additional analysis to determine the best way to obtain membership information without increasing the reporting burden.

Question Four

"Should any of the schedules be expanded to assist in analysis based on new rules or accounting changes? If so, please provide details of data we should also collect."

Responses

Five of the 22 comments received indicated none of the schedules should be expanded. One respondent indicated they support proactive revisions to add new regulations and remove accounts that are no longer relevant. One respondent indicated they liked the addition of "Outstanding balance of loans sold with servicing retained." One respondent wanted the NCUA to clarify the differences between commercial and member business loans. Another respondent wanted clarity relating to life insurance investments and FHLB stock.

At least one comment recommended adding the following accounts:

- Amount of Loans Granted or Purchased Year to Date for all the loan categories on FC-E, lines 1–14
- FC-H Indirect Loans–add
  - Indirect auto loans
  - Indirect 1–4 family real estate loans.
  - Indirect commercial loans.
  - Indirect MBLs.
- Loans sold to a federally insured credit union or outside the industry
  - Vehicle – non-commercial loans sold
  - Non-federally guaranteed student loans sold
  - 1–4 family residential property loans sold
  - Commercial loans sold excluding C&D
  - Commercial C&D loans sold
  - All other loans sold
- Add lease assets and leases payable due to the accounting changes related to leases
- Fee income related to:
  - Deposit accounts
  - Securities brokerage
  - Insurance activities
- Other operating income related to:
  - Net gains/losses on sales of loans and leases
- Federal Reserve borrowing capacity on FC-N

Question Five

"Are the instructions adequate in both content and design? If not, please cite specific sections that require improvement or correction."

Responses

Eighteen commenters provided 47 comments for this question. Six comments indicated the changes to the Call Report instructions addressed prior issues with lack of content. One comment indicated the Call Report and Profile instructions were adequate. Twenty-nine commenters requested additional instructions or examples. Two commenters indicated that annual Call Report training would be beneficial. Five commenters requested the addition of "help boxes" or a dedicated help line or online chat portal. Two commenters wanted the online portal to align with the instructions.

One respondent indicated that breaking out loans and delinquency by security will take more time. However, the current Call Report Instructions require loans and delinquency to be reported by collateral code (security). The current Call Report also requires credit unions to report delinquency on 28 collateral codes and to report net charge offs on 25 collateral codes. The 13 collateral codes required for delinquency and net charge offs on the prototype reflect a significant reduction.

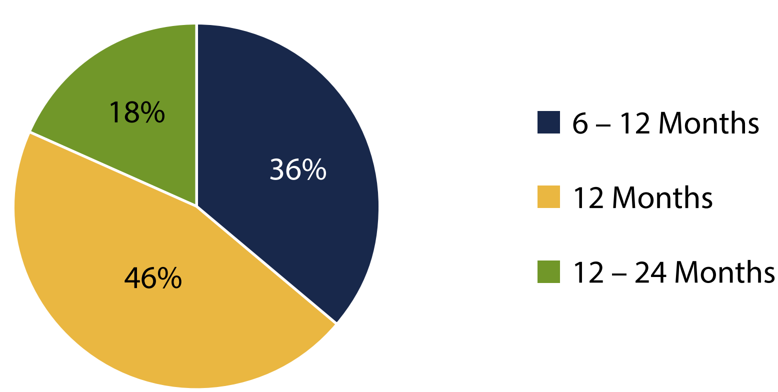
Question Six

"How much lead-time do credit unions need to work with vendors to make changes to their systems in order to support such changes to the Call Report?"

Responses

Twenty-two of the 36 comments (61 percent) recommended specific lead-times.

Lead Time for Implementation



Forty-six percent of respondents indicated a one-year lead-time is required. One comment stated the Call Report should be implemented in phases with the changes related to risk-based capital and ASC 326 having a lead-time of 12 months, changes to the Investments schedule having a lead-time of 9 months, and all other changes having a lead-time of 6 months.

Six comments wanted the NCUA to waive penalties for varying lengths of time, while two comments indicated the filing time should be extended for the first quarter the new Call Report is implemented.

One comment requested the new Call Report not be implemented at mid-year, while another comment wanted the new Call Report to be implemented in any quarter other than March.

One comment wanted the Call Report Import Test File Utility, Call Report Errors and Warnings, and FPR Call Report Ratio calculation changes available three months prior to implementation.

Using both forms (the current Call Report and the prototype) concurrently and allowing credit unions to adopt the prototype early, if desired, was suggested by one comment. Using both forms concurrently is not feasible because the current data collection system, CU Online, cannot accommodate more than one form. If the NCUA acquires a new data collection system, the agency may run the two systems concurrently for testing purposes with a limited number of credit unions.

Question Seven

"Are there any other operational issues the NCUA should be aware of prior to implementing the proposed changes?"

Responses

Fourteen commenters provided 21 comments to this question. Three of the comments stated there were no other operational issues. Two comments indicated the NCUA should make Call Report changes on a standard cycle in the future. Two comments requested that the NCUA provide a webinar to familiarize credit unions with the new Call Report and grant credit unions access to any examiner training.

One comment encouraged NCUA to stagger the Call Report account code changes by adopting a tiered system. Tier 1 would include account codes that are based on readily available data points that most credit unions already monitor. Tier 2 would include account codes that are aggregated by third parties such as investment account codes. Tier 3 would include new account codes and should not be added until six months prior to the regulations' effective date.

Two comments asked if a delinquency category was added for current expected credit loss (CECL) requirements and if allowing 90 percent of the payment to count as a full payment is a CECL requirement. These are not CECL requirements.

Additional comments included:

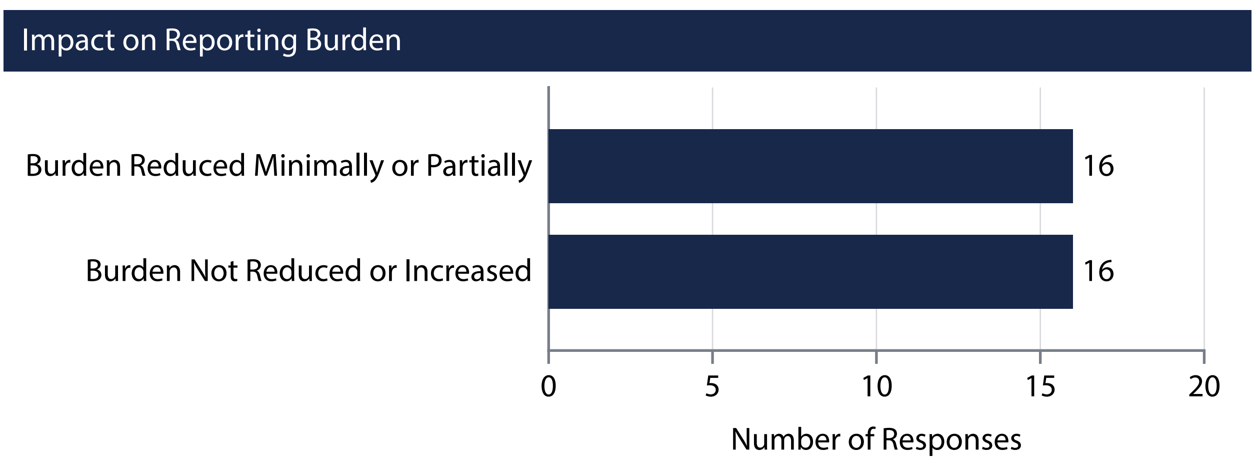
- Call Report changes are necessary and useful, but regular changes to the Call Report cause operation disruptions
- Maintaining data for retired account codes will not allow any time savings
- Consider the impact of retired account codes on peer ratios
- Changes will be time consuming
- Implement the changes sooner rather than later
- Provide links to instructions from within CU Online
- Provide extensive training to examiners
- Page numbering is confusing

Question Eight

"From your perspective, do you think this is a reduction in your reporting burden? Please explain."

Responses

The NCUA received 46 comments for this question. While a wide variety of responses were received, there was no clear consensus on whether the modernization efforts reduced the reporting burden—comments were split evenly.



Several commenters indicated the Call Report prototype would have reduced the reporting burden if the risk-based capital ratio calculation worksheet had not been added. One credit union thought the Call Report Modernization would increase the reporting burden. One commenter indicated that the Call Report burden would be reduced, but the exam burden would increase. One commenter indicated a lot of loan information was removed and more investment information was requested.

Several commenters requested that the NCUA provide additional assistance by extending the Call Report deadline and suspending penalties for one year following implementation, implementing a Call Report hotline, providing grant money to be used for hiring consultants to provide training to credit union staff, or conducting training sessions.

Regarding the implementation of ASC 326, one comment indicated there should be a better way to capture data for non-CECL and CECL adopters rather than having two sections. One comment indicated it was excessive to break out CECL expenses by category. Once the CECL implementation date has passed, non-CECL account codes will be retired. The CECL expense categories included on the prototype are required by generally accepted accounting principles.

One comment indicated the Risk-based Capital schedule is cumbersome and wanted more fields to auto-populate. Another comment indicated the instructions for the Risk-based Capital schedule were not descriptive enough.

One comment suggested less-complex credit unions should report semi-annually, while another comment asked when a dynamic Call Report based on the products and services offered at the credit union would be available. One comment indicated it was not worth the time and effort to build an export feature because of frequent Call Report changes.

One comment suggested the NCUA should provide additional information on the reason each new account code is necessary. This information is already available in the proposed Call Report Instructions.

General Themes

Call Report Instructions

The NCUA received 18 comments related to the Call Report Instructions. The commenters suggested the need for additional clarity, definitions, and examples, and consistency between schedules.

One commenter requested instructions for Schedule FC-T lines 22–46. The instructions for these lines were inadvertently omitted in the Call Report Instructions made available in the *Federal Register*, and will be available if the NCUA adopts the revised Call Report prototype.

Functionality

Six comments suggested the need for a "help" box, similar to the one used in AIRES, on the Call Report form. Two comments went even further and suggested a link from CU Online to the Instructions.

Accounting Changes

Some comments were concerned with account codes remaining on the Call Report after the implementation date for the accounting standard changes. Only the account codes relevant to Accounting Standards Codification 320, 321, and 326 will remain after the final implementation date of the accounting standard.

Commercial Loan versus Member Business Loan

Some commenters thought the commercial- and member-business loan account codes should be consolidated and suggested removing the $50,000 member-business loan threshold. The NCUA cannot combine the account codes because the regulatory definition is not interchangeable. Section 107A of the Federal Credit Union Act and §723.8 of the NCUA's Rules and Regulations define and establish limitations on member business loans. Commercial loans are defined in §723.2 of the NCUA's Rules and Regulations. The biggest distinctions between commercial and member business loans are:

a) Loans granted to a non-member are not member business loans; and

b) Loans on 1– 4 family residential real estate, regardless of the ownership structure, are not considered commercial loans.[1]

Section 107A(c)(B)(iii) of the Federal Credit Union Act excludes from the member business loan definition loans made to a borrower or an associated member that have a total of all such extensions of credit in an amount equal to less than $50,000. This means the $50,000 threshold cannot be changed without congressional action to change the Federal Credit Union Act.

[1] With the signing into law of the Economic Growth, Regulatory Relief, and Consumer Protection Act (S.2155) and the subsequent revisions to NCUA Rules and Regulations §723.8 this distinction is no longer relevant.

Profile Form 4501

There is ongoing confusion surrounding the requirements to update the Profile. Several commenters wanted the NCUA to align the requirement for credit unions to update the Profile within 10 days of a change in volunteer officials and senior management with the requirement to update the Profile within 30 days of any other change. NCUA Rules and Regulations, §741.6(a)(1), require credit unions to report the election or appointment of senior management and volunteer officials within 10 days. Consequently, credit unions are required to update the Profile within 10 days of any change in official.

The regulation further requires that credit unions update the Profile within 30 days of any change of the information in the Profile. Absent a change in the regulation, the requirements to update the Profile cannot be aligned.

Conclusion

The NCUA received responses from federally insured credit unions, ranging in asset size from $200 million to $38 billion, trade associations, and other interested parties. The comments were wide-ranging and reflected varying opinions on the prototypes and overall modernization. The feedback received will be taken into consideration as the agency moves forward with evaluating necessary revisions to the Call Report and Profile.

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