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August 15, 2016

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Cooperative Credit Union Association, Inc. Comments on Call Report/Profile Content Modernization

BY EMAIL ONLY

Dear Secretary Poliquin:

On behalf of the member credit unions of the Cooperative Credit Union Association, Inc. ("Association"), please accept this letter relative to the National Credit Union Administration's ("NCUA") request for comments on Call Report/Profile Content Modernization. The Association is the state trade association representing credit unions located in the states of Delaware, Massachusetts, New Hampshire and Rhode Island, serving approximately 195 credit unions which further serve approximately 3.8 million consumer members.

The Association begins by noting the NCUA's recent commitment to regulatory relief. You have remained open to credit union suggestions to reduce regulatory burdens within the rules over which the Agency has direct control provided that those changes do not compromise safety and soundness.

The Association welcomes the Board's voluntary decision to open the Call Report content, Profile, and process to public comment. This initiative, dedicated to the goal of modernizing content to strengthen on-site examination and off-site monitoring, facilitate richer comparisons of institutions and industry trends, and minimize the burden on reporting credit unions, is a welcome opportunity to provide suggestions which the Association believes will further reduce burden on our member credit unions and make the call report submission process more effective. The Association is pleased that modernization of the call report process was a top priority outlined by Chairman Metsger, and applauds the timeliness of such review.

The Association notes that in conjunction with the request for comments on the Call Report, the NCUA has also requested comments on its Exam Flexibility Initiative. The Association submitted detailed recommendations in response to that request. However, it must be recognized that Call

Report data significantly and directly overlaps with the examination process. The two processes are intricately intertwined.

Credit unions currently provide a significant amount of data on the quarterly. This data should be utilized more effectively to reduce the burden and cost associated with onsite examinations. The Association made recommendations regarding an offsite review process as well as a credit union-specific pre-examination risk assessment that would save time and effort on both the credit union and examiners' sides, and repeats those requests here. At a minimum, the scheduling of safety and soundness examinations to directly overlap with Call Report deadlines should be avoided at all costs.

In preparation for the development of the present comment letter and in order to assist in providing thoughtful, detailed comments, the Association conducted an industry-wide conference call with representatives from each of our states in order to collect detailed recommendations. Additionally, individual requests for comment were made with targeted outreach to members of the Advocacy Committees of each state. These comments represent general, broad changes that should be made to the Call Report, as well as specifically delineated areas of concern currently within the Call Report or Profile.

The Association specifically sought comments on the amount of time member credit unions spend completing and filing Call Reports. Notably, attendees on the call indicated that for larger institutions, 50-60 staff hours is a typical period of time necessary to complete the reports. For smaller institutions, 20-25 staff hours are averaged. This large amount of time that credit unions of all sizes devote to completing the Call Reports is striking, and these numbers do not include the additional time that credit unions spend explaining the same information to examiners, both new and seasoned, during on-site examinations. A significant reduction in time dedicated to the call report process is necessary.

I. <u>Call Report Filing Deadline Extensions</u>

The Association has been a strong advocate for a large overhaul to the call report and examination process. Most recently, the Association was at the forefront of the call to permanently extend Call Report filing deadlines. While member credit unions note that NCUA has made some efforts to push back the Call Report schedule and improve its examination process, these efforts are but the first step in an extended process towards improving the system, and there is more that can be done.

Credit unions should have an end-of-month cycle, one that mirrors the schedule applicable to the banking sector. A one-time extension of a few days, such as that given for second- and third-quarter 2016 Call Reports, is not significantly helpful to credit unions. Credit unions need to be able to prepare for a regular, set date every quarter. The current fourth Friday of the month following the end of each quarter is too erratic and requires credit union's to manage expectations differently every quarter. A consistent, end-of-month cycle will allow management to more effectively plan for filing deadlines and allocate staff and resources as necessary, while maintaining the NCUA's key role in supervising credit unions.

II. <u>Tailored Call Reports</u>

The NCUA must take advantage of technological advances, and create a call report system that uses the plentiful information both the Agency and credit unions already have and maintain regularly to tailor the Call Report to each particular credit union's book of business. This proposed call report model would resemble products commonly found in the marketplace, such as popular electronic tax completion services, whereby credit unions could skip entire sections of requested information that is inapplicable to their institution.

With technologies currently available, real time data input, using the software and mechanisms already in place at credit unions, NCUA should adopt a linking system whereby these mechanisms can send information in real time to the NCUA, as well as pre-populate the applicable data fields on the Call Report. The information already regularly maintained and updated on the credit union's own software is extensive, and includes such items as: number of indirect loans and rates, which can be broken down for specific type of loan (boat, motorcycle, car) and whether it is a new or used item; real estate loan products; MBLs; and membership growth, including numbers categorizing additions and subtractions. The fact that much of this numerical data is already regularly kept up to date by the credit union should be harnessed as a benefit for the call report process.

Going further, this would allow Call Reports to be tailored to the particular credit union. For example, because of the data gathering, the report software would be able to discern that a credit union does offer member business loans, for example, and that data field would not be included in that credit union's required report.

These advances would serve to reduce man-hours for both credit unions and the NCUA, would dramatically improve analytics and peer-to-peer comparisons, would move the system from a standardized approached to a data compilation approach, and reduce in-house examiner time, thereby reducing cost. The acknowledged interplay between NCUA staff Call Report review man-hours and current technology available collectively lends credence to an end-of-month deadline.

III. <u>Definition Inconsistencies</u>

Definitions are a particular area of concern for credit unions. In multiple schedules of the Call Report, the understanding of a particular item in a credit union's records and the apparent definition of the item in the Call Report instructions differ. In some situations, definitions are entirely missing or unclear. When the credit union's definition of a product, and thereby its numerical records pertaining to that product, differ from what is apparently (but not dispositively) requested in the Call Report, the credit union is forced to undergo time consuming manual calculations. In addition, these discrepancies in understanding ultimately leave interpretation up to the individual examiner on site, resulting in non-standardized reports. Examples of such unclear terms include:

- Lack of definition as to how motorcycle loans should be reported;
- Lack of definition as to how to report escrow deposits;
- Lack of clarity on definitions for MBL data and loans for Risk Basked Net Worth;
- Lack of clarity on splitting mortgages as either greater than or fewer than 15 years;
- Lack of a distinction between cash on deposit for amounts deposited in financial institutions, and deposits in commercial banks, savings and loans, and savings banks; and

- Lack of definitions key terms such as “escrow deposit” and "dividend rates for shares on loans.”

IV. Areas for Expansion

In the section of the Call Report dedicated to non-interest income, member credit unions noted that it would be more effective to have additional categories of fee income separated out, and would be willing to provide additional information to an expanded section on non-interest income. Such an expansion could include a breakdown of NSF fees, loans fees, and others. With income aggregated, it is difficult for credit unions to compare numbers with their peers, and also results in increased examination time as many examiners closely scrutinize this area.

Credit unions have also indicated willingness to expand reporting for the Allowance for Loan & Lease Losses schedule. This section should be broken down, and a section should be added that reconciles changes in the allowance since the prior year-end. This would be useful to better understand the allowance function in each credit union.

Credit unions also note that significant changes are coming to certain areas captured in the Call Report. For example, to accounting treatment for leases, risk-based capital, and the Current Expected Credit Loss Model. The Association urges the NCUA to adopt a futuristic view of the Call Report that will be able to seamlessly incorporate these upcoming changes. Changes that are too rigid and do not allow for flexibility should be avoided. For example, the Call Report should be able to accept flexibility in the methodology and calculations required under the upcoming CECL changes in order to avoid a system-wide disruption.

V. General Considerations

The Association offers additional general observations. A common criticism noted by members relates to the overall redundancy and duplication of work required not only throughout the call report itself, but between the Call Report and the Credit Union Profile, and from quarter to quarter. It remains a burden for credit unions to prepare the quarterly filing given the lack of change in information from quarter to quarter. In addition, there are a number of redundancies between the Call Report and the Profile. It is suggested that NCUA review all fields contained in the Call Report and Profile and transfer those that are relevant to improve the offsite monitoring program.

Additionally, the Call Report often creates inconsistencies when it comes to rounding. The system should either be able to avoid these irreconcilable issues, or include a reporting threshold amount under which inconsistencies are considered immaterial.

In the same vein, current account categories (database fields) are not aligned with credit unions’ internal accounting. When entering whole numbers the fields are difficult to navigate and it is easy to make errors. The numerical system is complicated and confusing for credit unions. There does not appear to be a pattern to the box numbers. It is suggested that the box numbers be aligned with the question and page number in order to be located more easily.

The length of the Call Report could be shortened by eliminating certain currently required pieces of information that do not have supervisory or comparative value. In addition, extraneous information as it relates to Call Report information, for example, the report of the number of members that use the credit union's website, or the report on the number of potential members, could be eliminated.

VI. Schedule-Specific Suggestions

Member credit unions offer the following specific areas of concern:

- Loans. Balance sheet schedules could be added or expanded to break down loan categories. For example, first mortgages could have subcategories for MBLs and residential. Consumer loans should be broken down into subcategories. A section should be added on Paid-Off Loans.
- Income/expense. This section should be broken down into subcategories.
- Other Real Estate. This section should be broken out into more detail, adding additional lines for numerous types of loans that fall under this category for further clarity.
- Member Business Lending. The instructions for this schedule are confusing when looking for residential and non-residential properties. More detailed instruction as to where these types of loans should be reported would be helpful. It is the experience of some member credit unions that examiners ask for a different breakdown of MBLs than what is required to be reported on the Call Report. For example, a credit union has been requested to provide a breakdown of 1-4 unit investment residential, as compared to a five or more unit investment residential. The information required by statute or examination, and that is most useful to examiners, should coincide with the information reported in this schedule. Overall, credit unions reported difficulty and significant time dedicated to this portion of the Call Report.
- Loans & Leases and Shares/Deposits. Similar language is used for reporting deposit interest rates in these two sections. Using the weighted average would provide more value than the most common rate.

V. Conclusion

The NCUA specifically asked whether instructions are adequate, and whether a complete reorganization of the Call Report would prove useful. Member credit unions have noted that reorganization of the report would be welcomed, but that adequate training must accompany any change. Additionally, annual educational opportunities, such as training seminars, videos, or written documents, for completing the Call Report would be welcomed.

The Association has long advocated for the return to a risk-based examination program that is based on the results of an individual credit union's risk assessment. Key to this process is accurate, meaningful data from the Call Reports. Expansion and modification of some schedules is necessary to ensure that the agency can obtain and review applicable data to better understand a credit union's performance and the industry as a whole.

The Association notes that this call for comments is the first such comprehensive review of the call report process in a substantial period of time. It is suggested that review of the call report process, as well as the examination and supervision process, become an institutionalized and regular undertaking in order to avoid the need for another large-scale endeavour. As part of its ongoing review processes, the Agency currently undergoes an annual one-thirds review of all of its regulations. Incorporating the call report process and the examination process into this regular review would be consistent with other activities undertaken by the Agency, would allow for streamlined incorporation of the currently unknown parameters of future rule changes, and would allow for the incorporation of any future legislative changes.

Additionally, given these considerations, and the comments and suggestions provided in this letter and in response to NCUA's Exam Flexibility Initiative, the Association recommends that the Agency form a credit union transition group in order to help the industry easily and effectively transition through these widespread changes.

The Association expresses its appreciation to the NCUA for seeking stakeholder input into its review of the Call Report and Profile. The call report process is an integral part of the credit union industry's continued growth and development, the improvement of which could not only ease burden, but also allow for greater efficiency and expansion. The Association hopes that the NCUA carefully reviews these and other stakeholder comments, and continues to invest in improving the call report process.

Thank you for your consideration of these views. The Association appreciates the opportunity to provide input and I remain available to address any questions or concerns at 732.865.4641 that you or your staff may have at your convenience.

Sincerely,

Paul Gentile

Paul C. Gentile
President/CEO

PCG/mabc/kb