From: James Adams
To: Call Report Modernization
Subject: Suggestions for Call Report modernization
Date: Friday, July 22, 2016 7:34:52 PM

My name is James W. Adams. I am Treasurer of Railroad FCU, Charter No. 11176. I am also the Investment Manager of the credit union's approximately $80 million investment portfolio.

One of the most glaring weaknesses in the call report involves breaking down investments into the various maturity categories. On amortizing investments, we are allowed to use weighted average life as the determining factor in remaining life. This is acceptable, in my opinion. However, on non-amortizing investments, we are instructed to categorize by remaining life to maturity. This is fine on bullet maturities. However, our credit union has about 40% of its portfolio in callable stepup agency securities. We are forced by your regulations to list these in categories based on their final maturities. However, with the stepup features inherent to these securities, their lives are highly unlikely to ever extend to their original maturity date. As these securities approach and reach their coupon stepup dates, they are invariably called. The result is that a security with a possible life at time of purchase of five years will likely be called after a much shorter time. The categorization that you are using is actually a worst case scenario and results in our investment portfolio appearing to be much riskier than it really is.

My suggestion would be for the NCUA to start requiring duration numbers on investment portfolios. Every month we download from a broker weighted average life and duration values on every security that we own. We then do weighted average calculations to determine both average life and duration for our entire portfolio. These two numbers are much more meaningful than the remaining life to maturity that you are now requiring. Duration takes into account interest rate movements and recalculates duration values based on these movements. We do not see how this would be a burden on any credit union. With the calculation power in today's spreadsheets, any credit union could do the same process that we have been doing for years.

The NCUA should also consider moving toward duration analysis on loan portfolios. Those credit unions doing long term fixed rate real estate loans are possibly creating future problems for credit unions such as ours that do not choose to go in this direction. If credit unions wish to get involved in this area of lending, they should immediately sell these loans into the aftermarket and not hold them on their books.

I appreciate the opportunity to comment on this subject.

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