MINNESOTA
CREDIT UNION NETWORK

April 2, 2018

Submitted electronically via: CallReportMod@ncua.gov

Mary Thor
National Credit Union Administration
Office of Examination and Insurance
1775 Duke Street
Alexandria, Va. 22314

RE: Modernizing Data Collection for Supervision of Credit Unions

Dear Ms. Thor,

On behalf of Minnesota's credit unions, please accept this correspondence in response to the National Credit Union Administration's (NCUA) request for information regarding proposed modernizations to the NCUA's collection of data from federally insured credit unions. The Minnesota Credit Union Network (MnCUN) represents the interests of Minnesota's 113 credit unions and their more than 1.7 million members. MnCUN thanks you for the opportunity to provide feedback on this matter.

We strongly support the NCUA's efforts to streamline the Call Report and Profile. Please consider the following when making your final decisions.

Are there account codes that are proposed to be retired that are still pertinent?

No, we agree with the proposed list of account codes to retire. We do not see any codes on the list that are still pertinent. One of the reasons we support removing these codes from the Call Report is that, for many of the account codes listed, the Call Report is not the source looked to for analysis of the data collected.

Are there additional account codes that should be retired or consolidated?

Since the NCUA is reviewing the account codes, it would be an appropriate time to consider a comprehensive restructuring of the entire list. One possible way to restructure would be to follow the same pattern of the chart of accounts used by credit unions. This would result in at least two benefits.

First, the data collected would be more meaningful. For example, one of the account codes is for "Number of Potential members." That number is, at best, an estimate. In many cases the information is not very meaningful. For example, for credit unions whose fields of membership are any person who donates to the credit union's foundation, almost every person in the entire country is a "potential" member. We suggest that the NCUA retire this account code.

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Second, it would streamline the process for credit unions because the data collection request would match how credit unions already organize that data internally. The results would be a reduction of the time spent collecting data, and more meaningful and helpful data for the NCUA, the state examiners and the credit unions themselves.

We also think that it would be helpful to do the following:

- **Loans – Supplemental Information (FC-E, FC-G) -** It would be helpful to consolidate **1-4 Family Residential Property loans/LOC secured by 1st lien and junior lien**. This information is only good at the inception of the loan. Currently, to complete the forms properly, credit unions must reclassify home equity loans.

- **Member Business Loans vs. Commercial Loans** - These two account codes should be consolidated, or at least make that an option for the credit union. By current NCUA definition, most commercial loans are member business loans, so segmenting these two types of loans creates a lot of work yet does not necessarily result in meaningful data.

- **Delinquency Schedule** – We suggest going back to using number of months delinquent instead of number of days. Using number of days delinquent can cause seasonality variances due to the number of days in a month. This would alleviate the need for credit unions to make seasonal adjustments.

<u>Are relocated account codes grouped logically?</u>

The new groupings align better than prior Call Report versions. Please also consider lettering the pages so future pages that are added do not disrupt the sequence. For example, Cash and Investment could be CI-A, CI-B, etc.; Loan Information - LI-A, LI-B, etc.; and Other Schedules - OS-A, OS-B, etc. That way the sequence still works without having to rename all the pages when new pages are added.

<u>Should any of the schedules be expanded to assist in analysis based on new rules or accounting changes?</u>

Lease accounting changes will be effective Jan. 1, 2019. Please consider separating lease assets from other assets and lease payable from other liabilities to account for this change.

We also suggest expanding the schedules so non-interest income, particularly fee income and other operating income, could be broken-out. Fee income for deposit accounts, securities brokerage and insurance activities should be broken out. For other operating income, net gains/losses on sales of loans and leases should be itemized separately. This will provide for better analysis as it will help credit unions better understand why they are ahead or behind a peer group regarding income.

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Are the instructions adequate in both content and design?

We would like to see more detail in the instructions. The current instructions are very high-level and do not contain sufficient detail. As a result too many things are left to interpretation. For example, the instructions for “Total outstanding loan balances of loans affected by bankruptcy claims” does not specify whether the NCUA is looking only for loans affected by new bankruptcy claims filed in the current year, or is also looking for loans where the claim was filed in a prior year, but is still in process. Please consider adding more detail to the instructions, including a reference for GAAP applicability. The FDIC’s call report instructions may be a good model from which to work.

What are the estimated costs to implement the proposed changes to the Call Report?

The costs will mainly be in staff time reviewing and becoming familiar with the changes, then in refining and updating reports and reporting systems. This cost will vary depending upon the size and technology of the credit union. For some credit unions the process will take perhaps only a quarter; for others it could take at least three quarters. Staff time will likely range between 30 to 80 hours depending upon the credit union. That said, we do think modernizing will pay off, because in the long run it will hopefully reduce the amount of staff time it takes to complete the call Report and profile.

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

Given that it will take some credit unions several quarters to implement the changes, we think that there should be at least nine months of lead time. We also request that the NCUA not make this a mid-year change. We ask that notice of any changes be given no later than June of 2018 and that those changes not be effective until the March 2019 call report.

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

We have identified three operational issues that the NCUA should consider.

First, please consider the timing for implementation. The accounting changes coming with CECL are substantial and credit unions continue to work through those changes. The resources that credit unions must dedicate to CECL are likely the same resources that they will need to dedicate to call report and profile changes. Therefore, implementing any changes sooner rather than later is imperative.

Second, we suggest that the NCUA further streamline and consolidate the reporting of member business loan data. Current reporting requirements on these loans typically crosses business division lines and the data between those lines is often segmented. Manual review and manual updating of data system fields is constantly required as a member business loan one quarter may not stay as a member business loan in the next quarter due to pay-offs, pay-downs or new originations.

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Third, because of account codes being retired, presumably there is some data that will no longer be provided to the NCUA. Please consider whether any such data is used to calculate any peer ratios currently given to credit unions.

Do you think this is a reduction in your reporting burden?

We are uncertain as to the effects the proposed changes will have on reporting burdens in the aggregate. Certainly, it will reduce the reporting burden as it relates to Call Reports and Profiles. However, if the reduction and consolidation of data on the Call Reports and Profiles results in an increase to data requests during examinations as well as an increase to the length of examinations, then there really will not be a reduction in reporting burden. If that is the case, the reporting burden may increase since there are very short turnaround windows for data requests made as part of an examination.

For several reasons, the reduction in reporting burden may not be much for some credit unions. Some of the retired account codes are not applicable to some credit unions and therefore are already not being used. Additionally, data for some of the retired codes will still need to be reported in total even though it is not reported in detail, so the same information will still need to be gathered regardless of the code being retired. For other retired codes, some of the information will still need to be reported (e.g., the number of foreclosed and repossessed assets will need to be reported even though the amounts will not). The changes are likely to reduce some of the reporting requirements, however we are not certain of the overall effects because at least some of the data will still need to be collected.

We thank the NCUA for taking efforts to reduce the reporting burden on credit union by modernizing the Call Report and Profile, and we thank you for taking into consideration MnCUN's commentary on this matter.

If you have any questions about our comments, please do not hesitate to contact me at (651) 288-5517.

Sincerely,

Tim Tacheny

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