

03/28/2018

Ms. Mary Thor  
National Credit Union Administration  
Office of Examination and Insurance  
1775 Duke Street  
Alexandria, Virginia 22314-3428

***Re: Request for Information – Modernizing Data Collection for Supervision of Credit Unions***

Dear Ms. Thor:

I am writing on behalf of SchoolsFirst Federal Credit Union (SchoolsFirst FCU), which serves school employees in Southern California. We have more than 800,000 Members and over \$14 billion in assets. SchoolsFirst FCU appreciates the opportunity to comment on your Request for Information on Modernizing for Supervision of Credit Unions.

**Foreclosed and Repossessed Assets Subsequent Measurement**

Currently, the Call Report requires that upon acquisition of foreclosed or repossessed assets, the assets should be measured at fair value less costs to sell and be re-classified to Other Assets, with difference of the recorded amount of the loan and the fair value charged to the Allowance for Loan Loss (“ALL”). SchoolsFirst agrees with this practice.

Subsequently, any *adjustments* to maintain held for sale foreclosed and repossessed assets at fair value less costs to sell, should be reported on Page 5, line 29 MISC Operating Expenses. Any gain or loss upon the disposition of fixed assets should be reported on Page 5, line 16, Gain (Loss) on Disposition of Fixed Assets.

U.S. Generally Accepted Accounting Principles (“GAAP”) is silent on which section in earnings the subsequent valuation shall be recorded, as long as it is recognized through earnings. Based on the current Call Report Instructions, through the life cycle of a foreclosed asset, the valuation adjustments are recorded in three different places, ALL upon acquisition, Misc. Operating Expenses during holding period, and Gain or Loss upon sale. SchoolsFirst recommends combining the subsequent valuation adjustment into Gain (Loss) on sale to simplify the reporting for the foreclosed and repossessed assets.

**Schedule FC-2 - Statement of Financial Condition**

New FASB guidance ASU No. 2016-02, “Leases”, effective in 2020, changes the way operating leases are treated, turning them into “right of use” assets and lease obligations. The prototype form does not give clear direction on where the leases under this new ASU should be recorded. SchoolsFirst suggests adding guidance in the instructions and an additional line item under “Other Fixed Assets” for “Right of Use” assets.

Credit unions report derivatives, such as Interest Rate Lock Commitment (“IRLC”) or cash flow hedges, as an asset and liability based on fair values. The prototype form does not give clear direction on where derivatives should be recorded. SchoolsFirst recommends adding guidance/clarity in the instructions and an additional line item under “Other Assets” for derivatives.

### **Schedule IE-1 – Statement of Income and Expense**

Members earn interest on mortgage loan portfolio escrows, and in the future, interest will be required to be recorded on financing leases under the new FASB guidance ASU 2016-02, “Leases”. SchoolsFirst would like to see a line for other interest and instructions that reflect the types of interest that should be reported on that line.

### **Schedule FC-A - Investments – Available-For-Sale and Held-To-Maturity**

SchoolsFirst would like to see further clarification on the definitions of guaranteed and non-guaranteed debt instruments. Debt instruments can carry an explicit guarantee, such as Federal Housing Administration (“FHA”) backed instruments, or an implicit guarantee, such as Federal National Mortgage Association (“Fannie Mae”). Would the debit instruments from government sponsored enterprises (“GSEs”) be considered guaranteed even though they do not carry an explicit guarantee of the U.S. Government?

### **Schedule FC-M - Loans – PCIL and PCD**

SchoolsFirst has concerns on the verbiage “Recorded Investment”. Clarification is requested on what comprises “Recorded Investment” (e.g. unpaid principal balance, deferred fees, accrued interest receivable, etc.). Ideally, we would eliminate this verbiage, as it is not used upon CECL implementation. The terminology is confusing and may not be comparable to other credit unions.

### **Risk Based Net Worth**

Sections FC-J, FC-R, and FC-S all require inputted Risk Based Net Worth (RBNW) information that SchoolsFirst feels is redundant when PCA requirements will be based on the Risk Based Capital Calculation. SchoolsFirst suggest removing the RBNW questions from these sections.

### **Other Unfunded Commitments**

Throughout the prototype form “other unfunded commitment” inputs are requested. SchoolsFirst would suggest providing further clarification on what constitutes “other unfunded commitments” i.e. overdraft tolerance, unfunded approvals, unfunded pre-approvals, etc.

### **Prototype 4501A Profile Form**

SchoolsFirst is recommending an addition to the prototype Profile Form. We are requesting that “Fedline Command” be added as an option to choose for Question 7, Page 7, “Systems used to process electronic payments.”

SchoolsFirst also asks for clarification on Question 4, Page 11, “Minority Depository Institutions Questions.” It asks “Are more than 50% of your credit union’s current and eligible potential Members Black American, Native American, Hispanic American, or Asian American?” Is this asking if any one of the listed groups comprise 50% of our credit union’s Membership or if the combination of the specified groups comprise 50% or more of a credit union’s current and eligible potential Members?

The CU Profile currently requires credit unions to update their profile within 10 days after the election or appointment of senior management or volunteer officials, or within 30 days of any change to the information in the profile. SchoolsFirst recommends to align both change requirements to 30 days to allow for one monthly board meeting cycle.

Thank you for the opportunity to comment on this Request for Information. We feel that our feedback and recommendations will minimize the burden on reporting for FICUs while enhancing richer comparisons of FICU data.

Sincerely,



Robin Turner,  
Vice President/Controller  
SchoolsFirst Federal Credit Union

Cc: Credit Union National Association (CUNA)  
California/Nevada Credit Union League (CCUL)