

August 1, 2016

Mark Vaughan  
National Credit Union Administration  
Office of Examination and Insurance  
1775 Duke Street  
Alexandria, Virginia 22314

Re: Request for Information

Dear Mr. Vaughan:

The National Credit Union Administration (NCUA) is seeking comments on modernizing the 5300 Call Report (Call Report) and Form 4501A Profile (Profile).

As part of its process of modernizing its Call Report and Profile, NCUA identified three overarching goals. First, it should strengthen on-site examination and off-site monitoring by NCUA and state supervisory authorities. Second, it should facilitate richer comparisons of institution and industry trends by other parties. Third, it should minimize the reporting burden on federally insured credit unions (FICUs).

#### General Comments

NCUA's Call Report has not materially changed in the last decade with the exception of the addition of the new derivative schedule. As the agency reviews its whole examination framework, it is appropriate for the agency to look at the Call Report and Profile and whether these off-site monitoring tools are sufficiently capturing information regarding safety and soundness.

Call Report data helps inform examiners about any significant changes in balance sheet composition, new programs that have been instituted at a credit union since its last exam that warrant closer inspection, and changes in the overall performance of key aspects of a credit union's portfolio.

FICUs are growing larger and more complex. As a result, NCUA's data-collection vehicles need to evolve with changes at FICUs. As the agency seeks to modernize its Call Report, NCUA needs to ensure that its off-site monitoring tools are sufficiently robust and granular to capture risk posed by FICUs to the National Credit Union Share Insurance Fund (NCUSIF). This is extremely important given that the agency is currently studying an extension in the time between on-site examinations for FICUs.

Furthermore, the reporting burden of a FICU is commensurate with the level of complexity associated with a FICU. For example, FICUs that do not originate or participate in business loans do not have to fill out Section 4 of Schedule A dealing with business lending. Moreover, only 44 credit unions currently fill out the Schedule D "Derivative Transaction Report" – less than one percent of the industry.

Finally, as an end user of the Call Report and Profile data, I have a strong interest in preserving data items so that historical industry trends can be identified and comparisons can be made across institutions over time.

### Specific Recommendations

The following are specific recommendations with regard to data items for the Call Report or Profile.

First, beginning on January 1, 2019, FICUs with more than \$100 million in assets will be subject to a risk-based capital requirement. This will require these credit unions to fill out a new schedule on risk weighted assets. This schedule should be comparable to Schedule RC-R Part II filled out by banks. In addition, the agency will need a new schedule regarding the data items comprised in the numerator of the risk-based capital ratio, which would be comparable to RC-R Part I filled out by banks. However, since the risk-based capital requirement is replacing the risk-based net worth requirement, NCUA can delete line items 14a and 14b in the PCA NET WORTH CALCULATION WORKSHEET, once the risk-based capital requirement becomes effective.

Second, the Call Report should require an FICU to report on its aggregate investment in the Central Liquidity Facility as part of the Statement of Financial Condition. This data item would provide a more complete picture of sources of emergency liquidity for an FICU.

Third, NCUA should report annually the compensation of a federal credit union's senior executives. The Government Accountability Office (GAO) in 2006 pointed out that executive compensation at federal credit unions lacks transparency; because federal credit unions are not required to file the Internal Revenue Service's Form 990 information return.<sup>1</sup> GAO in its report recommended to NCUA that the agency needs to improve transparency of credit union senior executive compensation. Furthermore, in 2008 NCUA's Outreach Task Force recommended that since federal credit unions are cooperatives, the NCUA Board should adopt an amendment to its regulations requiring federal credit unions to annually disclose the total compensation of each senior executive officer. Requiring the reporting of this information would ensure comparable treatment with other tax-exempt entities, especially state chartered credit unions. Reporting this information would enhance good corporate governance and promote greater transparency. This information could be included as part of the Profile.

Fourth, the Profile captures information on the address of credit union offices for an FICU. However, this information has limited value. To improve the quality of this information, NCUA should collect annually information on deposits by branch location for each FICU. This is equivalent to the Federal Deposit Insurance Corporation's Summary of Deposit data. Gathering this information would permit NCUA to assess the impact of credit union mergers on credit union competition and concentration in local markets. In other words, would a credit union merger reduce individuals' access to FICUs in a local market?

Fifth, NCUA should end the collection of interest rate information on loans and dividend rates for deposit accounts in the Statement of Financial Conditions. It has been my experience that this information adds very little value. Therefore, I recommend that NCUA should no longer gather information for the following Acct Codes: 521, 522, 522A, 595A, 523, 524, 563, 562, 565, 595, 553, 552, 532, 547, 554, 585, and 599.

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<sup>1</sup> <http://www.gao.gov/products/GAO-07-29>.

### Conclusion

The Call Report and Profile are integral off-site tools for the supervision of risk at FICUs. NCUA needs to ensure that its off-site monitoring tools are sufficiently robust and granular to capture the risk posed by FICUs to the NCUSIF. Also, NCUA needs to make sure that the Call Report and Profile evolve with the industry practices. Therefore, I am supportive of the agency's efforts to modernize its Call Report and Profile.

If you have any questions, please feel free to contact me.

Sincerely,

Keith Leggett

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