BANKING – THE DCU WAY

VIA EMAIL: CallReportMod@ncua.gov

August 1, 2016

Mr. Mark Vaughan
National Credit Union Administration
Office of Examination and Insurance
1775 Duke Street
Alexandria, VA 22314-3428

Re: Modernizing Data Collection for Regulatory oversight of Credit Unions (FR Doc. 2016-13332)

Dear Mr. Vaughan,

On behalf of Digital Federal Credit Union (DCU), thank you for the opportunity to provide comments on the National Credit Union Administration's (NCUA) Notice; Request for Information (RFI): Modernizing Data Collection for Regulatory oversight of Credit Unions.

DCU supports and commends the NCUA for its review of the 5300 Call Report (Call Report) and Form 4501A Profile (Profile) and believes that by modernizing the content and improving the instructions, the data gleaned from the Call Report will better assist credit unions, and the industry, in comparing institutions and identifying industry trends.

Currently, some areas of the Call Report instructions are unclear, and therefore may be interpreted differently by each credit union. Accordingly, when we review Call Report data to look at industry trends, we believe that credit unions may be reporting certain items differently, making accurate and helpful comparisons less feasible. The following elaborates on the certain areas that are unclear with respect to several specific questions enumerated in the RFI.

1. The Schedule A is time-consuming and confusing in some areas on the Call Report. The NCUA should prioritize on improving instructions for this schedule, specifically, but not limited to, the following areas that are challenging to complete:

   a. Schedule A, Section 4: Net Member Business Loan Balance (NMBLB): The NCUA's definition of a member business loan (MBL) based on the size of the loan balance is unique and requires credit unions to manually and inefficiently monitor its business loan portfolio. The Call Report instructions provides an example of a MBL stating, *"If a member has $35,000 in business purpose loans and the credit union grants this member* *an additional $40,000 in business purpose loans, the credit union should report the additional $40,000 on lines 1a-j, as applicable, as a Member Business Loan."* Therefore, if this member subsequently pays down the $35,000 business purpose loans to $15,000 and the $40,000 business purpose loans to $34,000, making the aggregate NMBLB $49,000, the credit union is not required to list such a loan on line 1a-j as MBL since NMBLB is below the $50,000 threshold as further defined in Section 723.1(b)(3) of the NCUA regulations. Accordingly, to properly complete the Call Report and monitor its business loan portfolio, a credit union must implement manual processes to continually review small MBLs to determine the classification, particularly if the borrower has multiple loans with the credit union. The NCUA should modify the definition of a MBL so that once a MBL is accounted for as a MLB, that loan should always be reported as a MBL, despite the NMBLB falling below the $50,000 threshold. Alternatively, the NCUA could instruct credit unions to report all MBLs on the Call Report, regardless of the loan balance.

b. Schedule A, Section 4, Item 1j., Unsecured Revolving Lines of Credit for Business Purposes: The instructions state, *"Report the total number and NMBLB of any unsecured revolving line of credit loan or participation interest to a member (line 1j) or nonmember (line 2j) for business purposes. Report all business credit cards on this line, including credit card line of credit programs offered to non-natural person member-borrowers that are limited to routine purposes normally made available under those programs and unfunded commitments. Count each line of credit and credit card loan as a single loan granted. The NMBLB granted or purchased year-to-date should include* ***all new advances on the line of credit or credit card year-to-date,*** *all refinanced balances year-to-date, and all unfunded commitments as of the quarter-end."* These instructions, particularly the language in bold, are unclear. The NCUA should clarify in the Call Report instructions whether "all new advances" must be reported only in the year the line of credit is originated, or at each new advance over the life of the line of credit or credit card to avoid confusion.

c. In addition to the clarification above in item b, the NCUA should provide more specific instructions on how to report lines of credit secured by inventory, accounts receivable, or other assets other than real estate, on the Call Report. For such loans, it is common to limit the amount a member can borrow based on a formula for collateral, with such limitations outlined in the loan agreement. For example, a member may have a line of credit for $500,000, and the credit union will advance 50% of inventory and 70% of accounts receivable. In this example, if inventory was valued at $100,000, and accounts receivable were valued at $400,000, then the member could only borrower $330,000. Assuming there is zero balance on the line, it is unclear how report the unfunded amount; whether to use the full amount of the line ($500,000 in this example), or the amount the member could borrower given the current inventory and accounts receivable amounts ($330,000 in this example). Accordingly, the NCUA should provide clarification and additional instructions on the reporting requirements of lines of credit secured by assets other than real estate for the Call Report.

2. Although DCU is not a small or non-complex credit union, it is an important that we recognize such a concern addressed by the NCUA. Based on DCU's process for completing the Call Report, we can attest that the process is time-consuming and involves many business areas of the credit union, outside of the accounting department. Accordingly, we recommend that the following items should be optional, or less detailed, for small or non-complex credit unions:

   - Page 8 – Additional Delinquency Information should be optional,
   - Page 9 – Additional Loan Loss Information should be optional, and
   - Page 15, Section 4 – Business Lending lines should be reduced.

3. The NCUA should add the following items, related to Schedule A, Specialized Lending, to the Call Report to enhance analyses of trends and improve comparisons of credit unions:

   a. Adjustable-rate real estate loans outstanding: Schedule A, Section 2, item 17, of the Call Report, requires credit unions to report the *"Amount of Real Estate Loans Outstanding that will contractually refinance, reprice or mature within the next 5 years and that are not reported in Sect 4, line 9"* which highlight maturity and other risk factors of a credit union's real estate portfolio. In addition to such maturity information to report of a credit union's real estate portfolio, it is also important to highlight risks relating to the portion of adjustable-rate real estate loans outstanding within a credit union's real estate portfolio. The Call Report should have an item to report the amount of real estate loans outstanding that have an adjustable-rate that are not reported in Section 4.

   b. Non-real estate loans sold but serviced by the credit union: Schedule A, Section 2, item 18, of the Call Report, requires credit unions to report the amount of real estate loans sold but serviced by the credit union. However, credit unions sell other loans, other than real estate loans, which are serviced by the selling credit union; therefore the Call Report should have an item to report such loans.

   c. Non-mortgage servicing assets: Schedule A, Section 2, item 19, of the Call Report, requires credit unions to report mortgage servicing rights. However, credit unions have servicing assets/rights that relate to non-mortgage loans, such as vehicle loans; therefore the Call Report should have an item to report such servicing assets.

d. Participation loan balances that are serviced but not outstanding: Schedule A, Section 3, item 5, Participation Loans Outstanding by Type, of the Call Report, requires credit unions to report participation loan balances, purchased and sold, that are outstanding on the credit union's financial statements. The NCUA should add columns to this item to ensure that credit unions report any participation loan balances, purchased and sold, that are serviced but not outstanding on the credit union's financial statements.

In closing, thank you once again for the opportunity to provide information and comments regarding Modernizing Data Collection for Regulatory oversight of Credit Unions. I look forward to additional communication related to this important topic.

Sincerely,

Laurie M. LaChapelle

Laurie M. LaChapelle
Vice President Finance
Digital Federal Credit Union