August 12, 2016

Mark D. Vaughan
Office of Examination & Insurance
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Modernizing Data Collection for Regulatory Oversight of Credit Unions

Dear Mr. Vaughan:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation’s federally-insured credit unions, I am writing in regards to the National Credit Union Administration’s (NCUA) Request for Information (RFI) related to modernizing data collection for regulatory oversight of credit unions.

In preparation of extending the exam cycle and providing other forms of regulatory relief, NCUA is contemplating a revision to the Call Report and the Form 4501A Profile to facilitate more advanced off-site monitoring of federally-insured credit unions (FICUs). The goal of this RFI is to learn about common problems and issues, and to identify solutions to strengthen on-site examination and off-site monitoring, facilitate richer comparisons of institution and industry trends by other parties, and minimize the burden on reporting FICUs.

As NAFCU understands, this RFI is the first step of the agency’s enterprise solution modernization program (ESMP), which is being implemented to enable the agency to be a more efficient regulator. NAFCU and our members strongly support such moves, which demonstrate the agency’s commitment to transparency and industry participation in the rulemaking process.

Over the last few months, the agency has taken several steps that NAFCU and our members have long advocated for, including the elimination of the calendar year exam requirement, re-introduction of budget briefings, and convening the Exam Flexibility Initiative to reform the current examination process. With regards to the Call Report, NAFCU supported the extended deadline of three extra calendar days to file the reports for July and October, as well as the opportunity to recommend several of our members to
serve on the Call Report working group, which will study the current state of the Call Report and recommend improvements.

For purposes of this RFI, and to aid in the Call Report working group’s efforts, NAFCU urges the agency to:

- Prioritize burden reduction as the overall goal of its modernization effort;
- Leverage technology to streamline data entry and submission;
- Eliminate data fields that are not related to safety and soundness concerns; and
- Integrate specific and actionable recommendations raised by our members (Appendix A).

General Comments on Call Report and Profile Modernization

NAFCU considers the Call Report as one of the most important tools the agency has when examining credit unions for safety and soundness, and we welcome the agency’s solicitation of ideas to make the tool even more effective. Generally, NAFCU believes the agency’s modernization of the Call Report will create a credit union system that is more safe and sound, while simultaneously streamlining and reducing regulatory burden for our members.

NAFCU is optimistic for the opportunities that an updated Call Report could present. For example, an updated Call Report could provide NCUA with a more accurate picture of individual credit union health. Such opportunities could be achieved by leveraging technology and software solutions developed since the last time the Call Report was substantially revised. This would enable NCUA examiners to conduct more thorough pre-exam reviews, and thus decrease the amount of time spent on-site, or at least, decrease the amount of examiner-requested documentation. Additionally, this more thorough review should allow examiners to identify potential red flags at credit unions, and thereby narrow the focus of the on-site review to specific targets that are potential risks to the National Credit Union Share Insurance Fund (NCUSIF).

Moreover, NAFCU frequently hears that the physical presence of examiners actually creates a greater disruption than the process of providing requested information. As such, not only will these improvements better enable examiners to identify potential risks and reduce travel expenses, but less time spent on-site will decrease the amount of operational disruptions credit unions experience during the examination process.

NAFCU also supports using technology to not only aid in on-site examinations once every cycle, but to also aid in off-site virtual monitoring. NCUA has explained that it plans to use risk analysis tools that evaluate portfolio performance data on a more frequent basis. Such use of loan portfolio analysis and other advanced tools would better track a credit union’s performance, further diminishing the risk to the NCUSIF.
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Concerns about Collecting Additional Non-Financial Information

The RFI specifically inquires as to whether stakeholders have concerns about NCUA schedules or forms collecting non-financial information that is not already collected. NAFCU believes information that is not statutorily mandated, nor related to the industry’s safety and soundness, should not be required in the Call Report, as such additional information will likely yield marginal results or transparency.

NAFCU also urges NCUA to thoroughly evaluate whether requests for additional data are feasible given the standard operating procedure for credit union vendors and processors, and their capacity to add or “break-out” more detailed information than is currently available. As the industry is already currently experiencing under new HMDA requirements, adding new data fields that are not currently available through existing data processors is a much bigger burden than it might initially appear.

Further, the Call Report is a powerful instrument that should be limited to collecting financial information at individual credit unions that reveals the financial health of the institution. NAFCU believes the Call Report should be used in assisting NCUA in its performance of supervisory duties, and is not intended as a vessel to capture or develop policy or market research.

For example, many of our members have inquired as to the use or need to report the potential field of membership. Such policy information is better left to separate studies, like the 2008 NCUA report, which found that FCUs continue to serve their mission and purpose. NAFCU therefore questions the need for further policy-related information, and how it is related to the safety and soundness or prudential functions of NCUA.

Specific Recommendations for Call Report and Profile

In addition to the general comments above, NAFCU and our members have several ideas and recommendations to modernize the Call Report, including the belief that many sections or data fields should be removed. Though discussed in more detail in Appendix A, NAFCU raises the following issues and recommendations in response to the questions raised in the RFI:

Recommendations for Changes to the Call Report/Profile Forms

NAFCU strongly supports deleting obsolete line items from the Call Report. Over the past several years, the agency has modernized several of its regulations, including broader authority related to member business lending (MBL) and investment in derivatives. However, although we and our members appreciate increased credit union powers, as the chart below illustrates, the number of items in the Call Report has more than doubled since 2008.
Additionally, as the effective dates for upcoming rules such as risk-based capital, member business lending, and others draw near, the size of the Call Report is likely to expand even further.

For purposes of reducing the number of data fields and possible redundant information collection, NAFCU recommends that NCUA explore whether the Call Report could be better integrated with information that credit unions already produce, such as HMDA data or ALM modeling software through the use of application program interface (API).

So that the Call Report does not continue to grow unwieldy, NAFCU asks that the agency review the data fields of the Call Report periodically, perhaps in tandem with its rolling annual regulatory review.

**Adequacy of Call Report and Profile Instructions**

In a recent survey, approximately one in four of our members rated the clarity and overall helpfulness of the Call Report instructions as “poor” or “very poor.” Additionally, many of our members have found that NCUA examiners are not a good resource for technical questions on completing the Call Report. While it is understandable examiners might not have the intimate knowledge of the Call Report necessary to answer such questions, NAFCU members have requested a call-in number for the ability to speak directly with someone with the adequate technical expertise.

NAFCU requests that NCUA host routine Call Report training and guidance for credit union staff, or in the alternative, provide credit unions with the same training opportunities afforded to NCUA staff.
Reorganization of Call Report and Profile to Reduce Reporting Burden

NAFCU and our members also request NCUA to add more interactivity to the Call Report. Most of the Call Report feedback we have received relates to frustration with the online interface and upload process. In particular, many of our members would like the ability to upload an Excel spreadsheet rather than XML. NAFCU also advocates moving the due date of the data to the last day of the month, in order to set a consistent deadline that provides our members with the most amount of time possible to file on-time.

Changing the upload process could also decrease the number of hours credit union staff dedicate to reporting requirements each quarter. Feedback provided by our members indicates the current process can be very time-intensive since the Call Report does not lend itself to automatic uploads. Several members indicate they manually input the information into NCUA’s portal, which increases the risk of an inadvertent or incorrect entry. According to our most recent survey on the Call Report, members spent approximately 39.3 hours on their most recent filing, and 3.8 staff members were involved in the process, on average.

Technical Issues

There are several areas of the Call Report that are prone to technical problems. For example, some data inputs do not create historical warnings. Such an absence is found on page 5, line 15. Conversely, some fields improperly raise warnings. For example, some of our members have pointed out that an error alert is raised for a sub-four percent interest rate for autos, despite the fact that we have been in a low-rate environment for the better part of the past decade. Additionally, several credit unions have more than 500 employees, yet an error message arises when a larger number is inputted. These issues, and much more, are discussed further in Appendix A.
Thank you for the opportunity to provide comments in response to this RFI. Should you have any questions or would like to discuss these issues further, please do not hesitate to contact me at memancipator@nafcu.org, or (703) 842-2249.

Sincerely,

Michael Emancipator
Senior Regulatory Affairs Counsel
Appendix A: 
NAFCU Recommendations to Improve and Streamline the 5300 Call Report

General Comments

1. Count information is required at a very granular level
   a. Count information is required throughout 5300 reporting for loans, deposit accounts, delinquent accounts, loans granted YTD, etc.
   b. The time required to gather and validate the count data is great while the data itself does not add significant value to the reporting.

2. Level of information required is too detailed. Examples include:
   a. There are 5 pages of the 5300 that are solely related to derivative activities.
   b. There are 4 pages of the 5300 that are solely related to specialized lending activities.
   c. There are 1½ pages of the 5300 that are solely related to TDR activities.
   d. Delinquency data is reportable not only by collateral type and stage of delinquency (11 different reportable categories) but also by 17 other more detailed categories based on the type of loan or TDR (example: Interest Only and Payment Option 1st mortgage loans, TDR consumer loans not secured by real estate, loans held for sale).

3. Add column totals to the bottom of each section on Page 8 – “Additional Delinquency Data.”

4. Clarify Item #4 on Page 6 – “Number of Employees.” The instructions do not clearly state that these counts should include employees of wholly owned subsidiaries. As such, credit unions might not be accurately reporting this information, thereby creating a significant disparity in efficiency ratios compared to other credit unions.

5. Clarify Item #7 on Page 6 – “Transactional Website Usage.” Instructions state “report the number of members using your transactional website” but it does not define within what time frame. Does a member who used it two years ago still count provided they are still a member?

6. Clarify what wholly owned CUSO data, aside from consolidated financials on BS and IS, should and should not be included in other areas of the report.
Online Platform Functionality

1. Instructions are ambiguous.
   a. It would be helpful to the credit union community to have clear, concise instructions that do not require extensive research and interpretation.

2. The 5300 Online input functionality needs improvement.
   a. Often times the cursor will shift inside a cell causing input to get jumbled, often in dollar amount fields.
   b. Happens when the user advances cells with a [Tab] key and then uses [Shift/Tab] to return to the prior cell to make a correction. For some reason the form jumbles the new input. This can easily lead to misstatements.

3. Manual input to NCUA online portal is inefficient
   a. Currently all information is manually keyed into the online portal. The process would be more efficient and the data more controlled if the ability to upload data to the online portal existed.

Section-by-Section Recommendations

Member Business Loans and Business Purpose Loans

1. Member Business Loan (MBL) calculation is unnecessarily complex
   a. MBLs are subject to a $50,000 threshold before a business loan is considered reportable on the 5300. In cases of multiple business loans belonging to one member, only the business loan that takes the total balance over $50,000 is considered to be reportable. Once a loan is considered reportable, it is reportable forever. This calculation is overly complex and is difficult to apply consistently, track over historical periods and validate at each reporting cycle.

2. Schedule A, Section 4 – Eliminate the following exclusion from Business Loan reporting:
   a. “Loans to a member or an associated member which, when the net member business loans are added together, are equal to less than $50,000.”
   b. The tracking required for this “exclusion” is cumbersome without a benefit.
   c. All references to specific dollar amount thresholds for inclusion/exclusion of reporting in this section are exceptionally challenging to track and report.

3. Schedule A, Section 4 – Do not include “non-owner occupied 1-4” in business loans.
   a. No other regulatory agency considers these business loans, from a reporting perspective.
   b. Owner occupied 1-4 are already excluded from the reporting in this section.
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Statement of Financial Condition
1. Investments – Remove investment maturity information and include it in supplemental information in Schedule B, Page 17.

Additional Shares/Deposits Information
1. Consider removing the level of detail required in this section; for example consider removing lines 26 & 27, Dollar amount of share certificates and IRA greater than $100,000.
2. Eliminate uninsured deposits field – not possible to accurately calculate.

Statement of Income & Expenses

Delinquent Loans by Collateral Type and Additional Delinquency Information
1. Remove loan count table.
2. Consider aligning the information on Page 7 from lines 1 - 10 to Statement of Financial Condition and reduce the level of detail required in this section.
3. Consider streamlining the information required on Page 8 lines 11 – 27; level of detail required does not add significant value and can be consolidated.

Loan Charge Offs and Recoveries
1. Consider aligning the information on Page 9 from lines 1 - 10 to Statement of Financial Condition and reduce the level of detail required in this section.
2. Consider streamlining the information required on Page 9 lines 11 – 26; level of detail required does not add significant value and can be consolidated.

Liquidity, Commitments and Sources
1. Line2 – Consider eliminating this breakout of Agricultural related business loans and construction & Land development loans.
2. Line 9 – Eliminate the level of detail and keep the total of lines of credit.

PCA Net Worth Calculation
1. Remove Line 7 breakout of retained earnings acquired through business combination.

Schedule A - Specialized Lending
1. Remove count and amount for loans granted YTD at this level of detail, suggest keeping it at the real estate portfolio level.
2. Remove count information altogether.
3. Section 1
   a. Indirect loans, remove level of detail of lines 1a and 1b and combine into one line.

4. Section 2
   a. Remove the level of detail of closed end vs. open end in lines 6 to 9.
   b. Remove Lines 11 & 12 Interest Only & Payment Option details.
   c. Line 17 – calculating the loans contractually maturing in 5-years is a manual and time consuming process.

5. Section 3
   a. Line 5, combine lines.

6. Section 4
   a. Consider consolidating level of detail in misc. business loan information section.
   b. Remove line 10 to 12 information.

7. Section 5
   a. Consolidate the line items.

Schedule B – Investment, Supplemental Information
   1. Add maturing of investments information here and remove from page 1.

Schedule C – CUSO Information
Add check to tie the total investment in CUSO to profile or remove information from one place.

Schedule D – Derivative Transactions Report
   1. Streamline/combine the information on pages 20-22, remove the duplicate information.