



3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org

National Association of Federally-Insured Credit Unions

April 2, 2018

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

RE: Modernizing Data Collection for Supervision of Credit Unions

Dear Ms. Thor:

On behalf of the National Association of Federally-Insured 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 regard to the National Credit Union Administration's (NCUA) Request for Information (RFI) on the modernization of its data collection and supervisory processes through proposed amendments to the Call Report and Profile forms and instructions. NAFCU and its member credit unions support the NCUA's efforts to streamline the data collection process and facilitate more offsite examinations as well as reduce the regulatory burden and create cost-savings for credit unions. NAFCU would like to thank the NCUA for incorporating several of the changes suggested in its August 2016 comment letter.

Additionally, despite concerns regarding the new Current Expected Credit Loss (CECL) accounting model (Financial Accounting Standards Board, Accounting Standards Update No. 2016-13 Topic 326, Financial Instruments Current Expected Credit Losses) and NAFCU's position that credit unions should not be included within the scope of this standard, NAFCU appreciates the NCUA adding new account codes for credit unions that may have chosen to adopt the standard earlier than required. Similarly, NAFCU appreciates the forward-thinking approach to include account codes for the risk-based capital (RBC) ratio calculation. Nonetheless, NAFCU has concerns regarding the extent of this Call Report modernization effort, particularly with respect to the account codes for commercial loans as well as the consistency of reporting instructions, and would like to see an even stronger approach to streamlining the Call Report. NAFCU also requests at least a one-year phase in process for the adoption of the new forms.

General Comments

The NCUA first introduced plans to modernize its data collection processes during the May 2016 NCUA Board meeting. Then, in June 2016, the NCUA issued a RFI to gather public input on the regulatory data collected through the Call Report and Profile. NAFCU submitted its comments in a letter dated August 12, 2016, in which it outlined support for the agency's enterprise solution

modernization program (ESPM) but also urged the agency to do the following: (1) prioritize burden reduction as the overall goal of its modernization effort; (2) leverage technology to streamline data entry and submission; (3) eliminate data fields that are not related to safety and soundness concerns; and (4) integrate certain specific and actionable recommendations raised by NAFCU's members.

After the close of the 2016 comment period, the Call Report Modernization Working Group sought feedback from agency staff and state supervisory authorities and hosted phone calls with credit unions representing each of the five asset peer groups during October 2016. The working group also conducted research on generally accepted accounting principles, including the new CECL standard, and its relevance to the Call Report modernization effort. The working group's review resulted in this proposal to reorganize the Call Report and Profile, retire certain account codes, and relocate other account codes. This produced an overall reduction of 40 percent of account codes for the Call Report and 20 percent for the Profile. The prototype released with this RFI adds 413 new account codes to accommodate for necessary changes including CECL and the RBC rule, scheduled to go into effect in January 2019, which brings the total account codes on the prototype to 919.

NAFCU would like to reiterate the concerns outlined in its August 2016 letter because modernization of the Call Report should be an ongoing project, not a one-off update. NAFCU's letter detailed many overarching recommendations as well as line-by-line suggested changes to the Call Report based on feedback from its members' frustrations with the form and process. For example, in its letter, NAFCU called for changes ranging from reducing ambiguity in the Call Report instructions to streamlining certain information required for delinquent loans by collateral type. NAFCU is pleased to see several of its recommendations incorporated into the proposed Call Report form, but maintains that more remains to be done in terms of modernization in order to more appropriately reduce the burden credit unions face with each filing, specifically with respect to the reporting of commercial loans.

Credit Unions Support Many of the Proposed Changes

NAFCU strongly supports removing obsolete account codes and consolidating items when possible. NAFCU is certainly encouraged by the reduction in total account codes on the proposed Call Report to 919, which is a level the industry has not seen since 2009. Even though the restructuring and implementation process may carry with it certain transitional difficulties, NAFCU and its member credit unions are generally supportive of the proposed changes to the Call Report and hopeful that these difficulties will subside with continued, yet measured, dedication to the improvement of the process.

NAFCU is particularly supportive of the reorganized Call Report format, including the elimination of the separate Schedules A through D, to create a more integrated, streamlined, and user-friendly format. Imbedding the line items for "Specialized Lending" directly into the Call Report makes completing the Call Report more logical and intuitive than cross-referencing Schedule A in the existing form. The overall organization and grouping of the proposed Call Report is also preferable to the current form, which forces filers to toggle between numerous,

poorly organized and illogically grouped sections. NAFCU's member credit unions have reported significant difficulty and frustration with the current Call Report format in terms of deciphering where to plug in certain information.

The proposed Call Report form, instead, groups items together starting with a broader, more holistic view of a credit union's financial health to a more specific breakdown of particular programs and activities. This format is easier to understand and appropriately focuses on the most important risks facing credit unions' financial stability – credit risk, interest rate risk, and liquidity risk. In addition, the proposed instructions for the new Call Report form are generally clearer and more helpful in terms of providing illustrative examples to assist filers in understanding which items should and should not be reported.

Another helpful change is the removal of the section on troubled debt restructured (TDR) loans based on the new CECL accounting standard, which has modified the treatment of distressed loans. NAFCU recognizes that the more important accounting questions surround delinquencies and charge offs and commends the NCUA for focusing on those account codes instead and retiring the now obsolete TDR codes. This is a positive change for the Call Report and adding the codes back in would only cause more confusion and uncertainty with respect to complying with the CECL standard.

NAFCU and its member credit unions are also thankful to see several of NAFCU's other specific recommendations incorporated in the proposed Call Report form. First, the drastic reduction in derivatives reporting is a very welcome change. What is currently a five page reporting requirement has been reduced to a single page in the proposed Call Report. This level of detail is certainly more appropriate for such an activity and it will ease the significant work load for credit unions to fill out this portion of the Call Report. Second, the delinquent loans (by collateral type) portion of the proposed Call Report has been reformatted to place emphasis on dollar amounts instead of loan count. Although NAFCU still encourages the NCUA to remove the loan count altogether, it is supportive of the new emphasis on dollar amounts. Finally, the reduction in line items for the information required to be reported for loan charge offs and recoveries represents a much-needed elimination of insignificant details and overall streamlining of the reporting process.

Further Recommended Changes

Despite all of the aforementioned positive changes to the proposed form, a principally troublesome portion of the Call Report remains untouched. The \$50,000 threshold for an aggregate member business purpose loan relationship to be considered reportable on the Call Report form is still in the proposed instructions in its original format. Credit unions oftentimes use varying data points and approaches to track and aggregate their affiliated commercial loan balances, based on internal process and system limitations. The arbitrary \$50,000 threshold for reporting such relationships not only causes credit unions confusion and frustration from the onset, in terms of figuring out which loans are reportable and which ones are not, but also requires ongoing tracking to determine whether the relationship still exceeds the threshold. This calculation and tracking is overly complex, inefficient, and unnecessary. NAFCU urges the

NCUA to remove this reporting requirement and shift to tracking just the total number and balances of member business loans and commercial loans.

The proposed Call Report form also creates some uncertainty with regard to the RBC calculations, specifically in terms of phasing out the risk-based net worth requirement page. Considering the RBC rule is set to go into effect January 1, 2019, NAFCU assumes that the proposed risk-based net worth requirement page, although automated and requiring no input from credit unions, will be phased out in the quarters following the implementation of RBC. Although NAFCU and its member credit unions are generally supportive of the proposed RBC account codes, NAFCU urges the NCUA to ensure that as many fields as possible are auto-populated and that the risk-based net worth requirement page is phased out to reduce any confusion.

The NCUA should also consider changing its approach and instructions for reporting first draws in a calendar year on revolving credit lines as new loans, regardless of the actual date of origination. It is unclear why the NCUA insists that credit unions count an existing line of credit as a new loan if one or more advances were made on that line year-to-date. This approach may mislead an individual who is reviewing a Call Report regarding the level of actual activity and new loan production at a credit union. NAFCU urges the NCUA to reevaluate its approach and reasoning for this reporting and promptly remove such requirement from the proposed Call Report instructions.

Furthermore, the instructions for such reporting are ambiguous and inconsistently applied within different sections. For example, in the section entitled "Loans Granted YTD" on page 62 of the proposed instructions, the NCUA requires credit unions to "count each line of credit as a single loan granted if one or more advances were made on that line year-to-date, even if it is an existing line of credit approved in a previous year." The section for Schedule FC-I, entitled "1-4 Family Residential Property and All Other Consumer Real Estate Loans and Lines of Credit (Non-Commercial)" on page 75 of the proposed instructions, however, contains no similar instruction. This inconsistency necessitates further clarification from the NCUA as to exactly what types of loans should be counted as a new loan for purposes of the year-to-date reporting. Regardless of what the NCUA ultimately decides, NAFCU requests the agency conduct a thorough review of its instructions to create consistency throughout with respect to this requirement.

In light of all of the changes to the Call Report and Profile forms and, hopefully, the adoption of additional recommended changes, NAFCU requests the NCUA allow sufficient time for credit unions to make the adjustments necessary to properly reflect the revisions. Credit unions may understandably be worried about the level of work that will necessarily be required to make changes to the internal, automated processes and procedures they have developed to conform to the existing Call Report. Many of NAFCU's member credit unions have automated their reporting for numerous fields, so a significant amount of internal changes will be required to deconstruct the existing automation and build new processes. Consequently, NAFCU and its member credit unions recommend at least a one-year phase in of the new forms to accommodate for the variety of different approaches, systems, and processes utilized by credit unions and third-party vendors who provide support for some of the entries.

Conclusion

The Call Report is an incredibly useful tool that can help credit unions to continue to advance and thrive. NAFCU and its member credit unions support the use of the Call Report to assist the NCUA in its performance of supervisory duties, but do not support it as a means to capture or develop policy or market research. Moreover, as articulated throughout this comment letter, the Call Report should be continually updated and improved. A regular review of the Call Report and its efficiency and effectiveness should become a regulatory priority for the NCUA to ensure the ongoing safety and soundness of the credit union system.

NAFCU strongly supports the NCUA's efforts to reduce the reporting burden on credit unions by modernizing its data collection; however, NAFCU urges the NCUA to do more and adopt the recommendations contained in this letter to achieve true streamlining of the Call Report process. NAFCU appreciates the opportunity to provide comments on this RFI. If you have any questions or concerns, please do not hesitate to contact me at akossachev@nafcu.org or (703) 842-2212.

Sincerely,

A handwritten signature in black ink, appearing to read "Ann Kossachev". The signature is fluid and cursive, with the first name "Ann" and last name "Kossachev" clearly distinguishable.

Ann Kossachev
Regulatory Affairs Counsel