



August 12, 2016

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

Re: Comments on NCUA Request for Information on Call Report/Profile Content
Modernization

Dear Mr. Vaughan:

This letter represents the views of the Cornerstone Credit Union League ["Cornerstone"] in response to the National Credit Union Administration's ["NCUA"] request for information on Call Report/Profile Content Modernization. Cornerstone is the official trade association serving 531 federal and state-chartered credit unions in Arkansas, Oklahoma, and Texas combined, and more than 8.9 million credit union members. Cornerstone appreciates the opportunity to comment on this very important issue.

Understanding and properly filing quarterly Call Reports are a great source of trepidation and confusion for our credit unions. The present filing process is not particularly intuitive and ripe for potential errors or omissions, especially given the staffing resources available at many of our smaller credit unions. Future revisions of the Call Report must include improved instructions and concise examples for each section and each line item. The lack of specific instructions on many items leaves entries uncomfortably open to user or even less desirably, examiner interpretation.

Moving forward, Cornerstone would appreciate a reporting system that is not only easy to understand, but reflects information that is relevant and useful to NCUA. Much of the information collected does not appear to accomplish any supervisory goal, or value to the industry for peer-to-peer comparison. Other information requires a great deal of staffing resources, and while important, may be more appropriate for collection over longer intervals. These sore spots represent a great opportunity for NCUA to provide a more streamlined collection process.

The process could also be simplified by the use of a software-based question and answer system, similar to popular tax filing software. This places much of onus for understanding on the underlying programming, rather than ability of the filer to place information in specific locations. Data inputs that are used in multiple fields or aggregated with other line items would automatically populate in the correct places, removing the need for the same information to be entered multiple times. Improved filing software would also provide the opportunity for error correction and automatic calculation of certain elements. Collecting information in this way

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would also assist credit unions in excluding portions of the Call Report that do not correspond to their operations, saving time and effort.

Based on discussions of our focus group and member credit union input, we also offer the following suggestions.

General Improvements

Our credit unions expressed that the Call Report instructions are not clear; making it very difficult to understand what information is being requested. These instructions tend to be minimal in nature, and do not provide adequate detail or sufficient examples for filers to properly understand the information prompts. We recommend that these instructions be replaced with clearer, more detailed examples on how to complete each section, with specific instructions for each line item. A model for helpful form instructions would be the Bank Secrecy Act forms, such as the currency transaction report ("CTR"). The CTR form allows the user to see detailed instructions by hovering the cursor over a particular field. A similar approach for the call reports would be much appreciated.

As an example of an area of confusion, our credit unions report that instructions for business loan reporting and member business lending ("MBL") are silent on many reporting requirements, or simply provide insufficient detail to provide accurate reporting. This lack of information has caused differences of opinion with examiners, and with the degree of sophistication required in running an MBL program, interpretations for certain line items may differ from person to person. We would like to see additional instruction provided for line items in this specific area.

Several elements of data entry are troublesome. One of credit unions reported that when entering in the "Equity Acquired in Merger" number of 3,300,000, the filing software defaulted to placing the first 3 at the end of the number instead of at the beginning, making it 3,000,003 instead of 3,300,000. While not directly causing a filing mistake, the need to continually review and correct cursor position greatly increases filing time.

Also, when there is a warning message for an incorrect entry or error, the Call Report program only takes you to the page where the issue occurred, and does not highlight the specific cell entry that is causing the issue. Since these account codes are not necessarily in any specific numbering order, it can be difficult to pinpoint the cell that needs correction. We would ask that the reporting software be changed to show exactly which entry is causing the warning message, and possible solutions to resolve the issue.

Filing software also does not provide the ability to save changes to the profile without submitting the report. The ability to save entered information and resume at a later time would provide greater flexibility and welcome relief.

The software should also include a built-in tolerance, in order to avoid rounding issues during reconciliation.

Many of our suggestions apply to specific sections of the Call Report, and we list those below:

Statement of Financial Condition

- Delete the Interest Rate Column found on Page 2, Lines 15-24 and Dividend Rate Column on Page 3, Lines 10-17. These sections are not relevant in the current environment, and with interest income statistics available, NCUA would still be able to look at current trends to ascertain these metrics.
- Create a separate line under Loans and Leases on Page 2 in order to place FAS91 and Deferred Loans Fees and Expenses. Current reporting requires this information to be segregated and allocated to different loan categories so that the Call Report Loan Total matches Financial Statement Loan Totals, and can affect the warning messages for Pages 2, 10, 13, and 15.
- Change Page 2, Line 26 to align with the upcoming FASB Current Expected Credit Losses (CECL) standards.
- Consolidate the liabilities section on page 3, lines 1-9 with information from Page 10 in order to put liabilities in one place.
- Remove Lines 19-25 on Page 3, as its value to NCUA is questionable, or at least requiring this information to only be reported quarterly.

Statement of Income and Expense

- Add a line to include "Interest for Loans Held for Sale", with a corresponding line on Page 1.
- Add two new lines to the statement, with one to allow for a determination of interest expense related to hedging, and another to allow for determination of interest expense related to borrowings due to arbitrage.
- Remove "Transfers to Regular Reserves" as these types of transfers are now prohibited.

Miscellaneous Information

- Move Page 6, Lines 1-12 to profile and requiring only quarterly reporting of this information.
- Provide clearer instructions on how to determine "Number of potential members" on Page 6, Line 3, and if census date is to be used, add clarification to indicate that in the instructions.
- Remove the request for certain merger information on Page 6, Line 6, as this information is required during merger approval process. In the alternative, move these questions to page 10 alongside related information.
- Remove questions indicating that the credit union has a transactional world wide website, as most credit unions maintain a website as an ordinary business practice.

- Remove questions on Page 6, Lines 10 and 11, as the value of this information is minimal to NCUA.

Delinquent Loans by Collateral Type/Additional Delinquency Information

- Add a line for total business loans together with MBL breakouts (Page 8, Lines 16a-21a) on Page 7, Line 1-10a.
- Combine Page 7 and Page 8 to present a better picture of delinquency information, along with the addition of a Current Loan Column.
- Add a line to account for guaranteed student loans, instead of including them with other loans on Page 7, Line 9a, as this misrepresents delinquency totals.
- Add a line to separate Government Guaranteed Loans from other loans, as these loans do not carry a high risk for the credit union, and whose risk is misrepresented by its inclusion with "All Other Loans".
- Remove the detail breakdown of delinquency as reported on Page 8, as this information is duplicative of information provided on Page 7, or alternatively consolidating this information.
- Move MBL information from Page 8, Lines 16a-21a to a new designated MBL location, with Page 15 being the most logical place.
- Consolidate TDR information from various places to one page (Page 16).

Loan Charge Offs and Recoveries

- Consolidate MBL information on Page 9, Lines 16-21 and from throughout the Call Report to one page (Page 16).
- Change applicable sections for TDR loans and bankruptcies (Page 9, Lines 22-28) to either annual reporting or revise the section to reduce reporting burdens, as this information is difficult to track and whose value is not outweighed by the reporting burden.

Liquidity, Commitments and Sources

- Remove "Dollar Amount of Pending Bond Claims on Page 10, Line 4, and utilize the figure provided in annual audited financials, or alternatively, provide clearer guidance on how to determine the amount.

PCA Net Worth Calculation

- Eliminate Page 11, Line 7, as this is information obtained by NCUA through the merger approval process and is unnecessary and duplicative.

Standard Components of Risk Based Net Worth Requirement

- Revise Page 12 to be consistent with the Risk-Based Capital (RBC) Rule.

Schedule A – Specialized Lending

- Remove columns related to “Number of Loans Granted” and “Amount Granted Year to Date” on Page 13, as information on portfolio changes can be derived from other information.
- Combine Page 14, Lines 14-19, pertaining to “Miscellaneous Real Estate Loans/Lines of Credit Information” with similar information on Page 8.
- Combine Page 16, Lines 1a-1f regarding TDR information with Page 14 information, or eliminate this section completely.
- Have Page 16, Line 3, regarding “TDR portion of Allowance for Loan and Lease Losses” feed directly into the Page 2.

Schedule A – Report YTD Numbers

- Add an additional column to provide the outstanding balance along with moving the Page 10 unfunded commitments to this page, as the information logically fits better together.
- Revise Page 15, Lines 10-12, to make reporting more consistent with Page 10, so that the numbers are not out of balance. Information should be automatically fed by the detailed sections to this page.
- Allow Page 15 to include a loan below \$50,000 to be reclassified for reporting purposes, including applicable instructions.

Schedule B – Investments, Supplemental Information

- Remove page 17, Line 1b, regarding “TOTAL NCUA Guaranteed Notes”, as NCUA already has this information.
- Reconsider or remove Page 17, in total. The majority of this information is collected through the examination process where investments are scrutinized. Several categories do not need to be separately reported.
- Combine Page 18 with summary section on Page 1.

Schedule C – CUSO Information

- With the recent addition of the CUSO registry, information on Page 19 does not need to be reported quarterly. NCUA should remove this section or provide better instructions of what is needed.

Schedule D – Derivative Transactions

- Consolidate pages 20-24 into a tighter, less extensive schedule.

Schedule E – Bank Secrecy Act/Anti-Money Laundering information

- Remove BSA/AML MSB information on Page 25 from the report, and realign collection of this information to an annual, rather than quarterly reporting cycle.

Summary

Cornerstone appreciates the opportunity to comment on this very important issue. The call report process impacts all of our credit unions, regardless of size, and any revisions that remove unnecessary reporting or provide clearer instructions will be a benefit to our members. Incomplete or incorrect information has no value to NCUA, and with these suggested improvements, we can move closer to a process that is both more efficient and user-friendly.

We support NCUA's proactive efforts to research and potentially improve the Call Report filing process. Thank you very much for considering our comments. If you have any questions, please do not hesitate to contact me at (512) 853-8516.

Sincerely,



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