From:	James Akin
To:	_PRA Comments
Subject:	NAFCU Letter to NCUA on Call Report Changes
Date:	Friday, November 26, 2021 2:27:46 PM
Attachments:	Letter to NCUA - NCUA Call Report .docx Letter to NCUA - NCUA Call Report .pdf

Good Afternoon

Attached please find the National Association of Federally-Insured Credit Unions' (NAFCU) comment letter on the proposed changes to the NCUA Call Report. Thank you.

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NAFCU
National Association of Federally-Insured Credit Unions

November 26, 2021

Melane Conyers-Ausbrooks
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: PRA Notice on NCUA Call Report (Document No. 2021-20850)

Dear Ms. Conyers-Ausbrooks:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU) I am writing in response to the Paperwork Reduction Act (PRA) notice issued by the National Credit Union Administration (NCUA), regarding changes to the Call Report. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 127 million consumers with personal and small business financial service products. The changes proposed in the NCUA's notice in the Federal Register are plentiful, and the NCUA has not provided sufficient advanced communication to guarantee industry readiness. NAFCU urges the NCUA to provide credit unions with more time to evaluate and prepare for these significant changes to the NCUA's Call Report. NAFCU and its member credit unions support the NCUA's efforts to streamline the data collection process as well as reduce the regulatory burden and create cost-savings for credit unions. NAFCU urges the NCUA to continually update the Call Report and to consider changes to its reporting requirements as outlined here.

The NCUA should postpone the effective date of the Call Report changes from March 2022 to January 2023 so that credit unions may adequately prepare for the impact to resources and staff. NAFCU urges the NCUA to continue to work to ease the burden on credit unions and their vendors while modernizing the Call Report.

General Comments

The NCUA first introduced plans to modernize its data collection processes during its May 2016 Board meeting. Later that year, the NCUA issued a request for information (RFI) to gather public input on the various data collected through the Call Report. NAFCU submitted comments at that time, noting support for removing obsolete data points and the reorganization of the sections to assist the NCUA in its performance of supervisory duties, but cautioned that NAFCU and its member credit unions did not support the Call Report as a means to capture or develop policy or market research. This led to a modernization effort in 2018. Since then, the NCUA has published minimal information about the changes or the timeline toward implementation.

On September 27, 2021, NCUA published a PRA notice in the Federal Register regarding the Call Report. In its notice, the NCUA requested comment on changes to the Call Report. On November 12, 2021, NAFCU President and CEO Dan Berger wrote to the NCUA stating the NCUA should extend the comment period for its notice to provide credit unions with more time to evaluate and respond to the changes. In addition, he requested that the NCUA postpone the effective date of the call report changes from March 2022 to January 2023.

NAFCU strongly supports the removal of obsolete account codes and consolidation of items when possible. Even though the restructuring and implementation process will carry with it significant 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. As noted in the NCUA's November 2021 Board Meeting, an average of 63 credit unions have filed their Call Report late each quarter during the pandemic. Sudden changes to the Call Report such as this will only serve to exacerbate the issue and may result in increases in late filings. The NCUA can mitigate the transitional difficulties associated with these changes by providing sufficient time for credit unions to implement them.

NAFCU is particularly supportive of the overall organization and grouping of the proposed Call Report which is preferable to the current form, in which filers must toggle between numerous poorly organized and illogically grouped sections. NAFCU's member credit unions 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.

NAFCU would like to reiterate concerns outlined in its August 2016 and April 2018 letters to emphasize that modernization of the Call Report should be a transparent, ongoing project, not a one-off update. NAFCU is pleased to see several of its recommendations incorporated into the proposed Call Report form, but more remains to be done in terms of modernization to appropriately reduce the burden credit unions face with each filing.

For example, as expressed in its 2018 comment letter, NAFCU appreciates the retirement of data points related to troubled debt restructurings (TDRs). As the implementation date for the Current Expected Credit Losses (CECL) methodology approaches and as the Financial Accounting Standards Board (FASB) takes steps to eliminate TDR recognition for creditors that have adopted CECL, the utility of TDR reporting is diminished. Financial institutions and preparers have found that allowances for credit losses have captured the effect of most concessions recognized as TDRs. In addition, there may be significant judgment involved in determining whether a modification should be designated as a TDR, and, therefore, the cost of recognizing TDRs may not justify the benefits. 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.

Despite otherwise helpful changes in the proposed call report, NAFCU is disappointed to see the continued inclusion of a particularly burdensome portion of the Call Report. The $50,000 reporting threshold for member business loans or commercial loans to a single member, which is exceptionally cumbersome to track, persists in the proposed instructions in its original format. Under the current and proposed Call Report, credit unions must monitor aggregate balances that may exceed this threshold in one reporting period only to drop below the threshold in a subsequent reporting period, and vice versa. The arbitrary $50,000 threshold for reporting such relationships not only causes credit unions confusion and frustration from the onset, by requiring them to ascertain which loans are reportable and which ones are not, but also requires ongoing tracking to determine whether the relationship still exceeds the threshold. This reporting is exceptionally complex, especially for larger credit unions with many multi-loan member business loan borrowers, and requires labor-intensive processes to monitor and report accurately each reporting cycle. There is little value gained in this reporting for the expenditure of time and effort necessary to accurately report. Eliminating the $50,000 threshold would make reporting much easier, without compromising the integrity and intent of the underlying data. NAFCU urges the NCUA to remove this reporting requirement and shift to simply tracking the total number and balances of member business loans and commercial loans.

Additionally, the NCUA should 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.

In terms of burden to credit unions, the addition of the RBC ratio calculation schedule and specifically the schedule of off-balance sheet credit exposures and derivatives to determine the denominator in the RBC ratio calculation is likely to represent the most significant expenditure of resources and staff time. While NAFCU appreciates the NCUA’s efforts to reduce this burden by making many of the fields auto-populated or auto-calculated, the addition of off-balance sheet account codes which were not included in the NCUA’s 2018 proposed Call Report may come as a surprise to any credit unions expecting to rely on previous NCUA guidance. The addition of these new codes will take time to evaluate and implement, time that the NCUA has not provided.

Extension to Implementation

The silence from the NCUA between 2018 and 2021 regarding the proposed changes is unreasonable. The absence of meaningful and proactive communication from the NCUA in the lead up to this massive Call Report overhaul has left credit unions scrambling to understand the proposed changes and assess their impact on reporting processes. To the extent that the NCUA expected credit unions to rely on the information posted on its website in 2018 to understand these changes, it is still difficult to comprehend why the NCUA would not send periodic reminders regarding the impending implementation date of the changes, as they have done with previous transitions of this magnitude. Additionally, as previously mentioned, the most recent proposal contains completely new account codes that even the most prepared credit unions could not have expected. Credit unions should not be forced to rush to implement Call Report changes that have remained a mostly dormant subject since they were introduced four years ago.

In light of all of the changes to the Call Report 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 these revisions. Credit unions are understandably worried about the level of work that will 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. These credit unions will need to work with vendors to alter these processes and the sudden nature and extensive scale of these changes will represent an unnecessary burden for vendors.

The NCUA has indicated that it plans for these changes to be effective for the March 2022 Call Report. Though the NCUA has maintained the proposed 2018 changes on its website since their publication, it has not prepared credit unions to expect an effective date this soon, and the changes that were not reflected in the 2018 proposal are even more unexpected. To worsen matters, the most recent notice concerning these changes was issued in late September, approximately two months before many third-party vendors update their core systems and many credit unions engage in strategic planning with their third-party vendors. Credit unions will therefore be forced to prioritize implementation of these changes in an extremely narrow window, at a time when they can least afford to. Finally, the simultaneous wholesale reorganization of reporting processes of hundreds of credit unions will create a demand on vendors that could overwhelm their capacity to be responsive in a timely manner.

The NCUA should postpone the effective date of the proposed changes to January 2023. This will provide credit unions with sufficient time to work with their staff, third-party vendors, and core providers to properly implement the new account codes and provide the NCUA with the desired data. Additionally, NAFCU cautions the NCUA against implementing these changes at any point mid-year in 2022 as that would result in nonconforming sets of Call Report data for 2022. A mid-year switch would also require a pivot in operations that would place an unnecessary burden on credit unions. This would result in credit unions being unable to maintain a clear picture of their data in 2022 and create the potential for issues forecasting and modeling dependent on Call Report data.

Credit unions are largely supportive of these changes to the Call Report and would have enthusiastically worked to implement them in 2022 had the NCUA provided sufficient lead time to prepare. Unfortunately, that time was not provided, and the NCUA should recognize the difficult situation in which it has placed credit unions and provide an extension of the effective date to 2023.

NAFCU acknowledges that the proposed Call Report changes are necessary components of RBC implementation. To facilitate compliance while still accommodating a longer transition to the revised Call Report, the NCUA should consider interim measures for assessing RBC compliance that leverage existing supervisory tools. A simplified method for demonstrating RBC compliance such as an RBC calculator could serve as a reasonable substitute without overburdening credit unions with numerous account code changes in 2022, the same time-period most credit unions will be preparing to implement Current Expected Credit Losses (CECL), the most significant new accounting standard of the last two decades.

Conclusion

NAFCU urges the NCUA to provide credit unions with sufficient time to evaluate and implement these substantial changes. The NCUA should postpone the effective date of these changes to January 2023. NAFCU strongly supports the NCUA's efforts to reduce the reporting burden on credit unions by modernizing its data collection, however 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 appreciates the opportunity to provide comments on this notice. If we can answer any questions or provide you with additional information, please do not hesitate to contact me at 703-615-5109 or jakin@nafcu.org.

Sincerely,

James Akin
Regulatory Affairs Counsel