SAFE
CREDIT UNION

August 12, 2016

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

Re: Call Report/Profile Content Modernization

Dear Mr. Vaughan:

Thank you for the opportunity to comment on the challenges with the current call reporting process and provide our recommendations for improvement. We have provided answers to each of the questions NCUA outlined in its notice letter.

1. *What specific areas of the Call Report/Profile forms do you find challenging to complete? Please describe the nature of those challenges.*
   a. **The structure of the loan section of the balance sheet on Page 2 is out of date. It should be updated to reflect the major types of loan products and not combine products like consumer and commercial real estate into one category. Specifically, the major products should be as follows:**
      i. **Residential Real Estate (1st and 2nd Liens, including non-owner occupied residential real estate loans)**
      ii. **Consumer Vehicle Loans (direct and indirect autos, RVs, boats)**
      iii. **Consumer Credit Cards**
      iv. **Business Loans (include conventional, SBA, lines of credit, business credit cards, commercial vehicles, regardless of whether they are a participation loan or not)**

   b. **Based on the simplified structure above, separate sub-schedules should be created that allow for more specific details for each category, similar to what Schedule A is attempting to do now but in a much more informative way. Each of these sub-schedules should foot to the loan category totals shown on the balance sheet on Page 2.**

   c. **The structure for loan originations, delinquency, and charge-off sections are also difficult because of the many different ways this information is being reported. It does not align well with today's balance sheet or Schedule A. We believe these sections should reflect a structure similar to the balance sheet and sub-schedules.**

   d. **There should be no combining of business lines based on type of collateral. For example, combining residential real estate with commercial real estate in Schedule A is problematic as this information is tracked and reported separately within our systems and audited financial statements. It is very difficult to combine and reconcile product categories like these into one bucket for the Call Report.**

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e. Classifying non-farm business-purpose residential real estate loans as "business loans" is difficult as that is not how we underwrite, originate, track, or report these loans for both internal and external financial reporting. We report these loans as consumer residential real estate loans, similar to the way banks report them on their Call Report.

f. Aggregating and classifying member business loans that are < $50,000 as non-business does not make sense from an underwriting, origination, portfolio management and reporting perspective.
   i. We understand that this requirement impacts the cap on member business lending but this might be solved by having a separate or stand-alone line item that identifies the total amount of business loans that are below $50,000 which can be separately deducted from the business loan total to compare to the cap limit and is not part of the member business loan total shown on the balance sheet within the Call Report.
   ii. Having to combine business loans for a single borrower to evaluate the $50,000 limit is problematic. Our accounting and database systems are not designed to support this so it requires extensive manual effort to aggregate and reconcile loan balances back to our source system files.
   iii. There is reporting confusion and a lot of unnecessary work performed when the balances increase or decrease below the $50,000 threshold, which also creates volatility in reclassifying the loans between business and non-business. It is very time-consuming and difficult to support and reconcile loan balances this way, thus raising the question as to the value it provides.

g. Requiring loan balances to include the unfunded line of commitment amount is challenging to reconcile and prevents the ability to tie back to the balance sheet on Page 2 of the Call Report. There should be one section in the Call report that separately addresses unfunded commitments.

h. Counting only the 1st disbursement on an existing line of credit as a loan granted year-to-date is inconsistent with how we track and report internally and is difficult to administer. Our internal systems count each disbursement as a loan granted year-to-date. There should be some further discussion on whether the existing requirement still makes sense or if this should be modified to look at all disbursements.

2. *What sections/schedules/items on the Call Report/Profile could be made optional for small or non-complex credit unions without complicating assessments of risk?*
   a. None. All credit unions should be required to report the same type and amount of information for consistency and clarity. Making certain sections optional will only create more room for error and interpretation of the reporting requirements. There are already too many different interpretations of the reporting requirements/definitions today between credit unions and examiners.

3. *What specific items would you like to see added to the Call Report/Profile to enhance analysis of local, regional and national performance trends or improve comparisons of individual credit unions with peer institutions?*
   a. On the Statement of Income and Expense, NCUA should consider breaking out the Fee Income and Other Operating Income line items into slightly more detail and eliminating

many of the existing non-operating gain (loss) line items. The categories we would like to see replace the current Fee Income and Other Operating Income line items are as follows: 1) account service fees, 2)ATM and debit card fees, 3) gain on sale of loans, 4) loan fees, 5) investment advisory and insurance fees, and 6) other non-interest income. Non-interest income represents a significant percentage of revenue for most credit unions so there should be more visibility into the sources of this income.

b. Consider adding a line item for "Assets Under Management" for those that offer financial services through a broker/dealer.

4. *Are current Call Report account categories (database fields) reasonably aligned with your internal accounting? If not, what changes would improve the alignment?*
   a. No they do not align with internal or external accounting. See item #1 above.

5. *Are the Call Report and Profile instructions adequate? If not, what improvements (overall and peculiar to specific items/schedules) would improve clarity and reduce reporting burden?*
   a. Simplifying some of the definitions would add greater clarity. For example, the criteria and definitions for determining how to classify business loans could be simplified greatly. In many cases, these definitions require manual tracking and reporting and we question the value this is providing. See the following instruction definitions below for examples:
      i. "Include investor-owned properties where the investor leases the property to an unaffiliated party, who in turn, operates the business occupying the property. The primary source of repayment (i.e., greater than 50 percent) is derived from third-party, non-affiliated rental income associated with the property."
      ii. "The primary source of repayment for these loans is the cash flow from the ongoing operations and activities conducted by the borrower occupying the property, and any rental income is less than 50 percent of the source of repayment. Do not include loans secured by investor-owned properties, where the investor leases the property to an unaffiliated operator."
      iii. "Report the number and NMBLB of secured loans or participation interests to members (line 1h) or nonmembers (line 2h), other than those secured by real estate, for commercial and industrial purposes to sole proprietorships, partnerships, corporations, and other business enterprises. Include loans to individuals for commercial, industrial, and professional purposes but not for investment or personal expenditure purposes."
   b. Reducing the complexity of Schedule A in conjunction with the feedback listed above would also be helpful.

6. *Could re-organization of the Call Report or Profile reduce reporting burden? If so, please describe the needed changes. Does the Call Report contain elements that should be moved to the Profile? If so, please detail these elements. Does the Profile contain elements that should be moved to the Call Report? If so, please detail these elements. Show citation box.*
   a. The financial information for CUSOs is requested in both the profile and Page 19 of the Call Report. Consider reporting the financial information only in the Call Report.

7. *Do you have any concerns or ideas about NCUA schedules/forms for collecting financial and non-financial information not addressed above?*
    a. **We believe the NCUA should move Investments in CUSOs to the Investment section (Page 1) of the Call Report instead of reporting in All Other Assets. Since these are typically equity investments, as shown in the top section of Section C, moving them to the Investments section would be more consistent with financial reporting. In addition, consider adding a line item to Schedule B for CUSO Investments to identify them and to ensure the investment totals tie out to Page 1. Lastly, utilize Schedule C only for wholly-owned CUSO information.**

    b. **Similar to Investments in CUSOs, we believe Loans to CUSOs should be moved to the Loan section on Page 2 of the Call Report.**

    c. **Consider adding a "Mobile" category to the "Programs and Services" on the profile.**

    d. **Consider adding a "Correspondent Lender" category under "Credit Services" on the profile.**

    e. **You should be able to save the Profile (while working on it) without having to also certify.**

    f. **NCUA may want to evaluate whether having stated interest and dividend rates on the Call Report is adding value.**

If you have any questions regarding our comments, please let me know.

Sincerely,

Chris Harris, Chief Financial Officer
SAFE Credit Union