

NCUA LETTER TO CREDIT UNIONS

**NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314**

DATE: August 2005 **LETTER NO.: 05-CU-10**
TO: Federally Insured Credit Unions
SUBJ: 5300 Call Report Process Improvements

Dear Board of Directors:

NCUA initiated a comprehensive review of the 5300 Call Report data collection, analysis, and reporting processes in 2004. The review revealed significant opportunities to increase efficiency and effectiveness by implementing innovative technological improvements.

These improvements will reduce costs, increase data integrity, expedite information dissemination, and significantly increase NCUA's risk analysis capabilities. By leveraging technology, NCUA will also be providing the credit union community with a more efficient means to report data and new tools to access and work with this data.

As further explained below, the key changes being implemented for the September 30, 2005 reporting cycle include:

- The addition of comment boxes and controls in the 5300 Call Report software to allow credit unions to provide an explanation for data that triggers warnings programmed into the software;
- The implementation of an electronic validation process that compares data reported in the current cycle to historically reported data, identifies unusual or unlikely conditions, and generates a Historical Warnings Report (HWR);
- The modification of the 5300 Call Report submission process to allow credit unions to upload their transmission file for initial processing directly to an NCUA server and receive the HWR and Financial Performance Report (FPR) via email within 24 hours; and
- A major revision of the FPR to make it a more comprehensive and flexible tool for credit unions and examiners to check data integrity and analyze risk.

NCUA 5300 Call Report Software

NCUA provides internally developed software to all federally insured credit unions for use in preparing their quarterly data submission. The software contains auto sum features and data entry controls to help minimize errors in reporting. Errors and warnings are two types of data entry controls programmed into the software.

Errors identify data representing conditions that cannot be true (e.g., assets do not equal liabilities plus equity). Controls in the software prevent the creation of a transmission file for a call report containing errors. Warnings identify data representing conditions that can be true but are generally outside expected parameters (e.g., the amount of recoveries on loans charged off is greater than the amount of loans charged off). Since warnings represent conditions that may be true, the software does not prevent the creation of a transmission file for a call report containing warnings.

NCUA modified the software to include comment boxes for triggered warnings. The comment boxes provide an efficient means for credit unions to explain the conditions leading to the warning. The comments provided by the credit union will increase communication and understanding between the credit union and the supervisory authority responsible for processing the report. Other modifications to the software are detailed in the Users' Guide to NCUA's Call Report Software, which will be distributed with the call report materials for the September 30, 2005 cycle and are available on the NCUA website at <http://www.ncua.gov/>.

Historical Warnings Report

Errors and warnings, as described above, are an electronic means to review the integrity of reported data. These data entry controls are programmed into the software and are limited to reviewing and comparing current cycle data to identify unusual conditions.

NCUA is expanding the use of electronic validation by comparing current cycle data to historically reported data. The data submission process was revised to allow credit unions to send call report data directly to an NCUA server where historically reported data resides. The data will run through a series of warnings programmed on the server and, if unusual or unlikely conditions are identified, the system will generate a Historical Warnings Report (HWR). The HWR will be forwarded to the examiner and to credit unions using eSend within 24 hours of the initial data submission. The HWR is intended to be the basis for discussion between the credit union and the supervisory authority. Credit unions are not required to provide comments about the conditions leading to historical warnings but will be alerted through the HWR to issues an examiner might question.

Financial Performance Report

The Financial Performance Report (FPR) is a computer-generated, analytical tool that credit unions may use to identify key trends, analyze past performance and set future goals. NCUA produces an FPR for each federally insured credit union quarterly. In the past, the FPR contained summary data, financial ratios, and graphs for an individual credit union. FPRs were printed and mailed via U.S. Mail at the end of the cycle after all call report data was submitted and peer averages were calculated. Delivery of the FPR generally ranged from 45 – 65 days after the end of each quarter.

NCUA performed a comprehensive review of the content, structure, and timing of the FPR. As a result, NCUA made improvements to make the FPR a more timely, comprehensive, and flexible tool. Beginning with the September 30, 2005 call report cycle, NCUA will email (normally within 24 hours) a five-page FPR to credit unions that use eSend¹ to submit their 5300 Call Report. Additional pages containing more detailed information will be available to the public on the NCUA website upon request. When requesting an FPR, users may choose the page(s) they wish to review. Users may also request a consolidated FPR for a group of credit unions based on select criteria such as region, state, peer group, charter type, field of membership code, etc. The FPR request application and a complete *User's Guide to the NCUA Financial Performance Report* are available on the NCUA website at <http://www.ncua.gov/>.

As of the September 30, 2005 cycle, the peer average calculation methodology will also change. The new method trims the top five and bottom five values for each ratio to minimize distortion, separates the remaining ratios into the six peer groups based upon asset size, and then calculates a peer average. The six peer groups will now include all federally insured credit unions (federal and state charters will be combined). NCUA will no longer calculate peer average ratios for non-federally insured credit unions.

Credit Union Workshops

A summary of the 5300 Call Report process improvements is an agenda item for credit union workshops being conducted throughout the United States. These workshops are sponsored by NCUA's Office of Small Credit Union Initiatives and are free and open to all credit unions regardless of asset size.

Registration forms for the workshops are posted on the NCUA website at <http://www.ncua.gov/CreditUnionDevelopment/Events>. The NCUA website is frequently updated with changes in location and agenda items. Credit unions are encouraged to visit the website for the latest information.

¹ eSend is a function within the Call Report program that credit unions may use to send their Call Report directly to the NCUA server. After a credit union uses eSend, the examiner and SSA (where applicable) assigned to the credit union are notified that the credit union's Call Report is ready for review.

The scheduled dates and locations of the workshops are as follows:

2005 Credit Union Workshops		
Date	Workshop Locations	City, State
August 16	Holiday Inn Hotel & Suites	Council Bluffs, IA
August 18	Park Plaza New Orleans	New Orleans, LA
August 27	Radisson Hotel Waikiki Prince Kuhio	Honolulu, HI
September 10	Red Lion Hotel on the River	Portland, OR
September 29	To Be Determined	Indianapolis, IN
October 1	To Be Determined	Pittsburgh, PA
October 4	To Be Determined	Kansas City, MO
October 5	Kansas Credit Union Association	Wichita, KS
October 6	Arkansas Credit Union League	Little Rock, AR
October 8	St. John United Federal Credit Union	Buffalo, NY
October 15	To Be Determined	Philadelphia, PA
October 15	To Be Determined	Minnesota
October 27	To Be Determined	Clarksburg, WV
October 27	To Be Determined	Chicago, IL
October 29	To Be Determined	Alexandria, VA
October 29	To Be Determined	Boston, MA
November 8	Holiday Inn Select Memphis East	Memphis, TN
November 10	To Be Determined	Savannah, GA
November 17	To Be Determined	Jackson, MS
November 19	To Be Determined	Albuquerque, NM
December 3	To Be Determined	Dallas, TX
December 10	To Be Determined	Los Angeles, CA

NCUA encourages all federally insured credit unions to submit call report data using the NCUA 5300 Call Report software and the eSend option to better yield the benefits of these technological improvements. Questions regarding the new software and process improvements should be directed to the district examiner, regional office, or state supervisory authority.

Sincerely,

/s/

JoAnn Johnson
Chairman