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National Association of Federally-Insured Credit Unions

January 2, 2018

Amber Gravius
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Electronic Loan, Deposit, and Investment Data Collection

Dear Ms. Gravius:

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 electronic collection of loan, deposit, and investment data. As the NCUA comprehensively reviews the scope of information collected during the examination of credit unions to modernize, formalize, and standardize data formats, NAFCU and its member credit unions request that the NCUA engage in a cost-benefit analysis of all potential data fields and consider incorporating various suggestions to minimize the overall burden on credit unions. Additionally, NAFCU would like to stress the importance of data security and the use of proper encryption technology and data storage procedures as the NCUA continues to evaluate electronic data collection. Finally, NAFCU and its member credit unions would like to be included on any potential stakeholder calls and workgroups to provide additional information and feedback about this initiative.

General Comments

During the examination process and some supervision contacts, as well as on an ad hoc basis, NCUA examiners obtain electronic data from credit unions. Before 1995, credit unions provided the NCUA with such data in written format. In 1995, the NCUA initiated its first electronic data collection initiative to provide examiners with member data through standard download routines from information processing vendors or written in-house in place of paper listing and reports. Subsequently, in 2000, the NCUA encouraged credit unions to use the share and loan data record layout specifications to assist the functions of the Automated Integrated Regulatory Examination System (AIRES) software. The NCUA's last change to the loan and share download occurred in April 2003. In 2009, the NCUA informed federal credit unions of the membership data collection and information extracted from the electronic loan and share download but did not increase the data fields or modify the data format.

As the credit union industry continues to evolve, the NCUA's data collection processes must evolve to capture all material risk exposures, ensure that data which does little to identify these

exposures are no longer solicited, and minimize the reporting burden for credit unions. The goals of this modernization effort include increasing consistency in the examination process, promoting agency efficiencies, reducing onsite time by streamlining data collection, improving data reliability and quality, enhancing the objectivity of examination conclusions, and supporting the Exam Flexibility Initiative's longer examination cycle and other goals. This RFI seeks to solicit feedback from interested stakeholders on this initiative, specifically to identify considerations and challenges that could arise in the adoption of a new standardized data format for loan, deposit, and investment data.

NAFCU and its member credit unions generally support the NCUA's efforts to modernize and standardize its electronic data collection formats; however, we have identified several potential burdens on credit unions that the NCUA should work to mitigate as well as suggestions for the NCUA to consider as it crafts a standardized data format. NAFCU also asks the NCUA to strongly evaluate data security measures at every step to ensure the electronic transmission of loan, deposit, and investment data is secure from end to end and is appropriately stored at the NCUA. Moreover, NAFCU urges the NCUA to conduct stakeholder calls and workgroups through the process.

Regulatory Burden

NAFCU and its member credit unions strongly urge the NCUA to engage in a cost-benefit analysis before releasing a final list of data fields to be collected. This analysis should be done to ensure that each specific field assists the NCUA in conducting more efficient examinations. The NCUA should also pursue this initiative with an eye toward achieving some of its strategic goals for 2018 through 2022. NAFCU's members have expressed concern that several of the data fields listed in the RFI would be quite difficult to provide because they would require credit unions to create the requested data, as they are not part of their current core systems and are not included in the standard reporting process as it exists. The NCUA should consider whether the potential regulatory burden from the introduction of another reporting regime is truly preferable to reinforcing and utilizing existing data collection measures.

Furthermore, credit unions are likely to incur significant initial costs and some ongoing costs in implementing the new electronic data collection regime. Most credit unions will likely have to train existing employees regarding the collection and reporting of the new requested data and possibly hire new employees to assist with the new burden. Other costs may arise in working with third-party vendors to acquire and filter through the new requested electronic data fields. Third-party vendors will likely charge an additional cost to provide credit unions with the new data, adding an ongoing cost to the collection of this data. Consequently, NAFCU recommends that the NCUA seriously consider whether the benefits of collecting all potential data fields outweigh the initial and ongoing costs that will likely be imposed on credit unions.

Some of NAFCU's member credit unions have also expressed concerns regarding examiners requesting certain unnecessary data during an examination. Examiners may sometimes be requesting data from credit unions that is not essential to the performance of their duties and the examination process overall. The NCUA and its examiners should only be collecting data that

further the purpose of the examination process and is necessary to protect the safety and soundness of the credit union and the system as a whole. Requests for unnecessary or duplicative data should not occur.

The NCUA should consider the instance of such examiner requests a reason to conduct a careful and exhaustive cost-benefit analysis of all potential electronic data fields to be collected. This electronic data collection initiative should not result in credit unions undergoing a costly examination process because they must provide the NCUA with numerous unnecessary data fields. The NCUA should strongly consider the overall burden on credit unions' bottom lines and day-to-day operations as it moves forward with this initiative.

NAFCU and its member credit unions also recommend that the NCUA examine whether, and to what extent, the separate collection of loan, deposit, and investment information is necessary in the first place. There would certainly be a need for better integration of this data request with call reporting and the annual financial statement audits. Concerning Call Reports, NAFCU's members would like the NCUA to evaluate potential methods for modifying Call Report schedules to achieve the NCUA's stated objectives, create greater efficiency, and minimize risks to the safety and security of the information and the credit union system as a whole.

Potential Considerations and Challenges

Despite the difficulties and concerns explained above, NAFCU's members are overall comfortable with providing most of the example data fields listed in this RFI. An important consideration here is that not all credit unions use the same type of naming conventions for their various data, so it may be helpful for the NCUA to provide a brief description or example of the type of information requested in a given field. This will simplify and facilitate the electronic collection of data across loans, deposits, and investments. All of this should be done at little or no cost to credit unions. The burden of modernizing the electronic collection of data, both monetary and administrative, should fall on the NCUA and not credit unions.

Once the NCUA has created a comprehensive list of data fields and has begun to work on creating a standardized data format, NCUA should consider the following technological challenge. As explained above, credit unions rely on third-party vendors to house some of their data. This means they may require additional time or flexibility to run or generate reports from those third parties to provide examiners with the requested data. Many credit unions work with multiple third-party vendors for their loan, deposit, and investment data and, even though most vendors have the capability to provide data and reports electronically, creating uniform requirements for all vendors would require sufficient time. The NCUA should provide credit unions with a flexible timeline to work with their vendors to meet standardization requirements.

After a standardized data format has been created, the NCUA should establish a secure portal for credit unions, similar to that used by Certified Public Accountant firms during their annual audit process. Such a portal should contain a list of the NCUA-requested documents and allow for the uploading of those documents. The portal should be updated in real-time to provide credit unions with confirmation that the proper documents have been received or that incorrect documents

have been uploaded and new documents must be provided to fulfill the requirements. There should also be an area for examiners to make comments and notes to credit unions. Ideally, the secure portal would send out periodic updates to credit unions regarding outstanding data to be uploaded in the days leading up to the end of the examination period.

Additionally, the NCUA should consider incorporating the AIREX Exam Questionnaires into the portal so that credit unions may see examiner comments, questions, and results all in one central location. To the extent available and feasible, previous exam data and comments should also be uploaded onto the portal so that examiners may extract information regarding which data the credit union struggled to provide during examinations performed onsite; for example, data that was provided in paper format. Such technological infrastructure and updates would greatly reduce the burden on credit unions and facilitate the expansion of off-site examinations.

In pursuing its modernization efforts, it may be helpful for the NCUA to consider existing data collection processes and controls utilized by the other prudential federal banking regulations. The agency should review the scope of data collected by other agencies, specifically whether they collect summary data or transactional level data containing personally identifiable information. The NCUA should also review the other agencies' methods of data collection, storage, retention, and disposition.

The Importance of Enhanced Data Security Measures

In the RFI, the NCUA emphasizes the "great care" it is taking to protect sensitive and personally identifiable information. The federal standards cited in the RFI, however, are the bare minimum precautions that should be taken when guarding credit unions' valuable data about their members. In developing a new electronic data collection standardized format and process, the NCUA should be evaluating data security measures at every step. Cybersecurity must be at the forefront of this initiative and the NCUA should be utilizing the highest data security standards available.

Given the recent statements by the Consumer Financial Protection Bureau's Acting Director Mick Mulvaney regarding a freeze on the collection of personally identifiable information based on concerns about the CFPB's data security systems, NAFCU recommends that the NCUA consider alternatives to forcing credit unions to provide it with such data. An internal audit of the NCUA's information security program may not provide a fully transparent process for guaranteeing that sensitive data is adequately safeguarded. As such, NAFCU and its member credit unions encourage the NCUA to consider the following suggestions as it pursues this electronic data collection initiative.

Data Security Standards

The NCUA should evaluate how it will rate the information and information systems it intends to use for storing and processing the data it is considering collection according to this RFI, as called for in Federal Information Processing Standard 199 issued under the *E-Government Act of 2002* (E-Government Act). Title III of the E-Government Act, entitled the *Federal Information*

Security Management Act of 2002, tasked the National Institute of Standards and Technology (NIST) with the responsibility of crafting standards and guidelines, including the development of standards to be used by all federal agencies to categorize all information and information systems collected or maintained by or on behalf of each agency based on the objectives of providing appropriate levels of information security according to a range of risk levels. Agencies may be incentivized to assess risk levels with the goal of reducing security costs; however, this practice may result in a misalignment of controls or failure to adopt appropriate standards. NAFCU requests the NCUA be transparent in its rating of the information and information systems it plans to use in the collection of the data under this initiative to protect the safety and soundness of the credit union system.

Relatedly, the NCUA should address data security standards in the use of contractors or third- and fourth-party providers. Assuming it uses such parties, the NCUA should provide specific details regarding the standards to which these parties are to be held, such as meeting the same levels of protection expected of the NCUA, background checks, and other controls. Moreover, the NCUA should provide assurances regarding its liability for the use of such parties.

Encryption, Segmentation, and Storage of Data

After a comprehensive evaluation of its information and information systems, the NCUA should consider taking steps toward data segmentation to prevent the comingling of credit unions' data and a full compromise of industry data in the event of a massive security breach. Specifically, NAFCU's member credit unions would appreciate assurances that the NCUA's measures include data isolation along with unique and discrete encryption keys; that is, the encryption keys used by the NCUA should be unique to each credit union's data and distinct from any encryption key used by a particular credit union whose data is collected or stored by the NCUA.

If the NCUA should choose to develop a portal as recommended and explained above, all communications between the credit union and examiners or others at the NCUA on the portal should be encrypted from end to end. Additionally, it is critical that the NCUA ensures credit union data files are encrypted when stored on the portal to provide another layer of security. The NCUA should continue its work on the Secure File Transfer pilot program and roll that effort into developing a secure portal for examination purposes. Although it is important that all parties involved, that is credit unions, third party vendors, and the NCUA, all understand and appreciate the importance of encryption and data security measures, the burden should rest with the NCUA to encrypt and protect credit unions' sensitive data. Credit unions should not be required to invest in such technology to participate in the examination process.

NAFCU requests an update on the current status of the Secure File Transfer pilot program and urges the NCUA to be transparent in its ongoing efforts to develop this portal and ensure its usability, functionality, and reliability. Credit unions deserve a safe, user-friendly, and efficient means of sharing their sensitive data with the NCUA if electronic data collection becomes a required part of the examination process. The NCUA should release regular updates on the status of this portal and the steps it is taking to safeguard credit union data. The safety and soundness of the credit union industry is dependent on strong data security initiatives.

Other Data Security Considerations

NAFCU and its member credit unions also have several questions regarding the NCUA's data storage, data retention, and data use practices (i.e., sharing with other organizations or federal agencies). NAFCU believes that NCUA's current practices and future plans for such measures are essential to the overall security of an electronic data collection process. More specifically, where and how will data be stored? What is the period of data retention? Does the NCUA prohibit the storage of a credit union's member data beyond a reasonable period directly and solely related to the examination in question? NAFCU's member credit unions recommend the NCUA not store member data beyond six months, at most, unless the data is associated with a finding resulting in judicial or administrative action by the agency.

Another concern involves the initiative's potential interaction with statutory requirements and various regulatory protections. The NCUA should consider how its current and future data collection practices implicate statutory and regulatory protections that exist for confidential information, such as provided under the *Freedom of Information Act*. NAFCU requests complete transparency in the evaluation of such considerations and that the agency publishes its conclusions in a letter to credit unions, if necessary.

Stakeholder Calls and Workgroups

In this RFI, the NCUA indicated that it may seek clearance from the Office of Management and Budget (OMB) to conduct stakeholder calls and form workgroups to solicit additional information about the successes and challenges of this modernization effort. NAFCU encourages the NCUA to seek OMB clearance for several stakeholder calls and workgroups. The NCUA should make every effort to conduct such calls and convene workgroups at least every six months for the first several years of this modernization initiative. Regular check-ins with credit unions would greatly improve the implementation and functionality of changes to the NCUA's electronic data collection formats.

Not only would such engagement efforts further increase the agency's transparency as it pursues this initiative, but it would also help identify potential difficulties before implementation and more effectively resolve problems after they have occurred. Obtaining feedback from the credit unions that will be directly affected by these changes should be a required part of this initiative, not just an option. Therefore, NAFCU strongly encourages the NCUA to pursue OMB clearance for stakeholder calls and workgroups.

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Conclusion

NAFCU generally supports the NCUA's efforts to modernize, formalize, and standardize its collection of loan, deposit, and investment data and 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