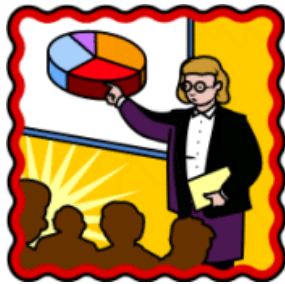


What Volunteers Need to Know about Financial Statements, Trends & Ratios



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Volunteers – What to Know & Why:

- Manage the Risks of being a Credit Union
- Recognize Trends
 - sort the positive from the negative
- Support Timely Actions
 - not to decide is a decision



Balance Sheet

Assets	Liabilities, Deposits & Equity
<div style="display: flex; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; color: green; margin-right: 5px;">Income Earning</div> <div style="flex-grow: 1;"> <p>Loans (Allowance for Ln Loss)</p> <p>Cash & Equivalents</p> <p>Investments (Allowance for Invest.)</p> <p>Fixed Assets</p> <p>Other Assets</p> </div> </div>	<div style="display: flex; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; color: blue; margin-right: 5px;">Must be Paid Back</div> <div style="flex-grow: 1;"> <p>Liabilities</p> <p>Borrowed Funds</p> <p>Deposits</p> <p>Regular Reserve</p> <p>Investment Valuation Reserve</p> <p>Undivided Earnings</p> </div> <div style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; color: blue; margin-left: 5px;">Liability & Equity</div> </div>
<div style="display: flex; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; color: brown; margin-right: 5px;">Non-earning Assets</div> <div style="flex-grow: 1;"></div> </div>	<div style="display: flex; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; color: green; margin-right: 5px;">Equity or Capital</div> <div style="flex-grow: 1;"></div> </div>

Contra Accounts

Allowance for Loan Losses

Allowance for Investment Losses

■ **A L L Calculation - Primer**

Historical Loan Loss Ratio by Type x Current Loans
+ Known Value of Doubtful Loans
 Estimate of Loans Unlikely to be Repaid with Interest

GAAP The Principle of Conservatism provides that accounting decisions should be “fair and reasonable.” Requires evaluations and estimates, to deliver opinions, and to select procedures. They should neither overstate nor understate.

Off Balance Sheet Items

Future Responsibilities or Commitments:

- to fund line of credit loan disbursements
- to purchase Investments or fund Loans
- to fund retirement plans and insurance
- plans for a merger
- Investment that may fail

GAAP The Full Disclosure Principle all information that affects the full understanding of a company's financial statements must be included with the financial statements. Items that do not affect the ledger accounts directly are to included in footnotes.

Income Statement

Interest Income from:		
Loans		
Investments		
	= Gross Interest Income	\$ _____
Cost of Funds		
Interest on Borrowed Money		
Dividends on Shares		
	= Cost of Funds	\$ _____
Operating Income from:		
Fees & Charges		
Miscellaneous Activities		
	= Operating Income	\$ _____
Operating Expenses:		
Compensation & Benefits		
Office Occupancy		
Office Operations		
Provision for Loan Losses		
Miscellaneous		
	= Operating Expenses	\$ _____
Net Income from Operations		\$ _____
Non-operating Gains and Losses		\$ Rare _____
	Net Income (Contribution to Capital)	\$ _____

Shows on Balance Sheet as Equity

Why Capital (Equity) is Important

- What are possible sources of Capital?
- What are the uses of Capital?



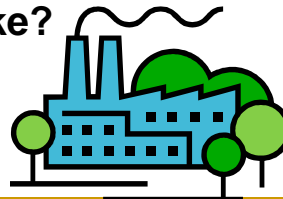
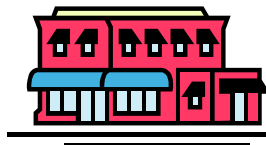
Relationships Between Financial Statements

Balance Sheet is a Snapshot
Income Statement has a Timeframe

“A credit union is first of all a business”

Roy Bergengren, February 1938

What do Credit Union's Make?



Income & Expenses Relative to Assets

Spread Analysis

Interest Income divided by Average Assets
- Interest Expenses divided by Average Assets
= Interest Margin
+ Operating Income divided by Avg Assets
- Operating Expenses divided by Avg Assets
= Net Spread or Increase in Capital

All Texas Credit Unions

Spread Analysis	2007	2006	2005	2004	2003
Interest Income/AA	6.12	5.64	5.10	4.91	5.18
Interest Expense/AA	3.12	2.64	1.99	1.61	1.86
Interest Margin	3.00	3.00	3.11	3.30	3.32
Operating Income/AA	1.30	1.21	1.07	0.94	0.87
Operating Expenses/AA	3.58	3.46	3.40	3.33	3.26
Net Spread	0.72%	0.75%	0.78%	0.91%	0.93%

Product & Services

“Everything can’t be a Loss Leader.”

My former boss at NCUA

- Does it ever make sense to ***unknowingly*** offer a product at a loss?
 - How SHOULD products & services be priced?
 - ___ More attractively than the competitors’
 - ___ As high as the members will accept
 - X*** Higher than the *direct costs* to produce them
-

Analyzing Ratios, Trends and Peer Data

- Numbers
 - Ratios
 - Trends
 - Peer Group Data
-

What Do You Really Need to Know? (Not Too Much, Not Too Little)

Capital Adequacy:	This Month	Goal	Last Month
Net Capital/Assets	Goal = Enough, not too much, not too little		
Risk Based Net Worth			
Asset Quality:			
Delinquent Loan \$	Goal: Not too low or high, provided there are good communications		
% change in Delinquent Loans	Watch the direction of change as well as amount.		
Net Charge offs/ Avg. Loans	This is the number that matters most! Contributes to cost of credit.		

What Do You Really Need to Know?

Earnings:	This Month	Goal	Last Month
Yield on Avg. Earning Assets	Needs to be "enough"		
Cost of Funds	Keep near market – Too High & Too Low are ALM problems		
Operating Exp.			
Avg. Assets	Needs to be "enough" and should be "steady" during asset growth, unless there is a start up cost involved		
Return on Avg. Assets	How much is enough? Too much? Too Little? See Capital Ratio Goal		

What Do You Really Need to Know?

Liquidity - ALM	This Month	Goal	Last Month
% assets repricing/ maturing >1 year			
% assets repricing/ maturing 1- 3 years			
% assets repricing/ maturing 3-5 years			
% assets repricing/ maturing < 5 years			

*Set goals for Investments + Loans, not separately.
Goal should change as your CU's SWOT changes*

What Do You Really Need to Know?

Member Service Use	This Month	Goal	Last Month
Borrowers/Members	Ideally always growing but tied to your FOM's age range & Wealth Management		
Mbrs/Potential Members	Ideally always growing but tied to liquidity & risk management vs. FOM & economy		
Loan \$/ Members			
Average Loan Size		Generally	
Shares/Member	the larger the average loan & share balance the lower the impact on overhead costs, BUT Liquidity & IRR must be managed well		
Avg Share Account			

What Do You Really Need to Know?

Loan Production	This Month	Goal	Last Month
# (\$) loan applications processed for CU	/		/
# (\$) loan applications approved for CU	/		/
# (\$) loan applications disbursed for CU	/		/
# (\$) loan applications processed per FTE	/		/
# (\$) loan applications approved per FTE	/		/
# (\$) loan applications disbursed per FTE	/		/

Watch this relationship: speaks to marketing style, credit risk management and MEMBER SERVICE

Productivity increases are the goal, though overworked & undertrained staff, or lack of proper technology will show up here

What Do You Really Need to Know?

Employee Efficiency	This Month	Goal	Last Month
Members/FTE			
Share Accounts/FTE			
Assets / FTE			
Loans Granted (annualized)/ FTE			
Accounts Opened (Annualized)/ FTE			

Productivity increases are the goal, though overworked & undertrained staff, or lack of proper technology will show up here

Benchmarking: Standard Interpretations

<u>Spread Analysis</u>	This Month	Goal	Last Month
Interest Income/AA	6.12	6.20	6.18
Interest Expense/AA	3.12	2.80	3.18
Interest Margin	3.00	3.40	3.00
Operating Income/AA	1.30	1.50	1.40
Operating Expenses/AA	3.58	3.75	3.65
Net Spread	0.72%	1.15	0.75

Benchmarking: Standard Interpretations

<u>Spread Analysis</u>	This Month	Goal	Last Month
Interest Income/AA	6.12	6.20	6.18
Interest Expense/AA	3.12	2.80	3.18
Interest Margin	3.00	3.40	3.00
Operating Income/AA	1.30	1.50	1.40
Operating Expenses/AA	3.58	3.75	3.65
Net Spread	0.72%	1.15	0.75

Better Report Formats: Delinquent Loans

<u>Degree of Delinquency</u>	#	\$
Current & < 2 mo.	2714	\$4,894,602
2 mo. to < 6 mo.	4	387
6 mo. to < 12 mo.	1	563
Over 12 mo.	1	1058
Total Loans	2720	\$4,896,610
	LOOKS GREAT!	
% delinquent over 2 mo	0.22%	0.0004%

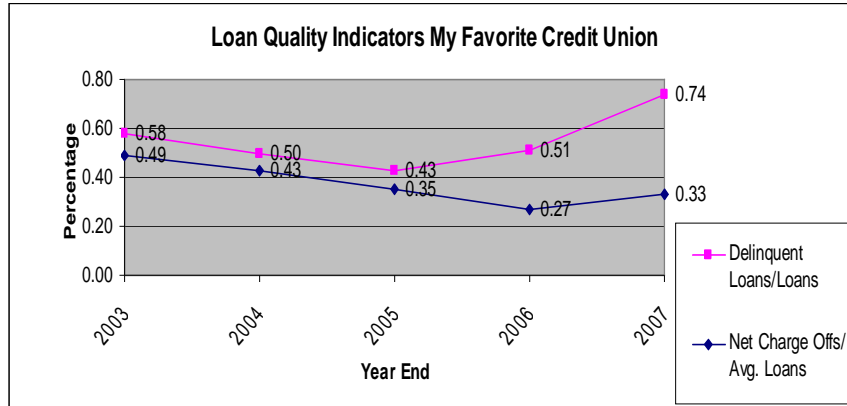
Classification of Outstanding Loans

Different story! Charge offs, re-writes, or were loans paid up?

Degree	#	This Month	%	Last Month	%
< 2 mo.	2714	\$4,894,602		\$4,224,002	
2 – 6 mo.	4	387	.0001	156,045	3.23%
6–12 mo.	1	563	.0001	145,075	3.00%
> 12 mo.	1	1,058	.0002	303,209	6.28%
Total	2720	\$4,896,611	.0004%	\$4,828,331	12.52%

A Picture is Worth 1000 Numbers!

Delinquency increases as Charge Offs hold steady
= not a problem. (Yet?)



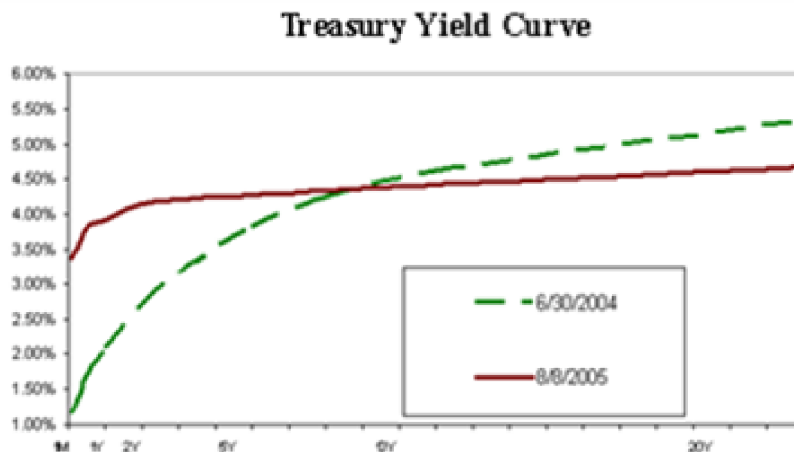
How Much Capital is Enough?

- What Risks has Your Credit Union Acquired?
 - Internally Selected
 - Externally Imposed

NCUA Rules & Regs. Section 702

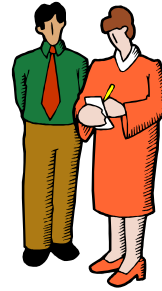
Net Worth Category...	
Well Capitalized	7% and greater
Adequately Capitalized	6.0% – 6.99%
Undercapitalized	4.0% - 5.99%
Significantly Undercapitalized	2.0% – 3.99%
Critically Undercapitalized	Less than 2%

What Has Been Happening: Economy?



What We Want to Change Back Home:

*If you have knowledge,
let others light their candle by it*



Unknown

Let me hear from you!

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