



# Solving the Mystery of Credit Union Financial Statements

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ALM & Financial Analysis Director

**SMALL CREDIT UNIONS  
BIG IMPACT**



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# Goals of Session

- Identify the components of a basic financial statement
- Identify the important and not-so-important amounts
- Identify constant balances and annual amounts
- Identify market-driven and non-market income and expense sources



# Definition of Financial Statement

- A financial statement is a written report that quantitatively describes a credit union's financial health.
- The report includes a balance sheet and an income statement. Credit unions also typically include information regarding asset quality (loan quality).
- Financial statements are compiled monthly, quarterly, and annually.



# Definition of Financial Statement

- Financial statements contain dollar amounts that are converted to ratios recognized in the industry.
- Ratios assist credit union management in analyzing the areas of earnings, capital adequacy, asset quality, liquidity management and interest rate risk.



# BALANCE SHEET

## 2 sections

- Liabilities
- Assets



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# Liabilities

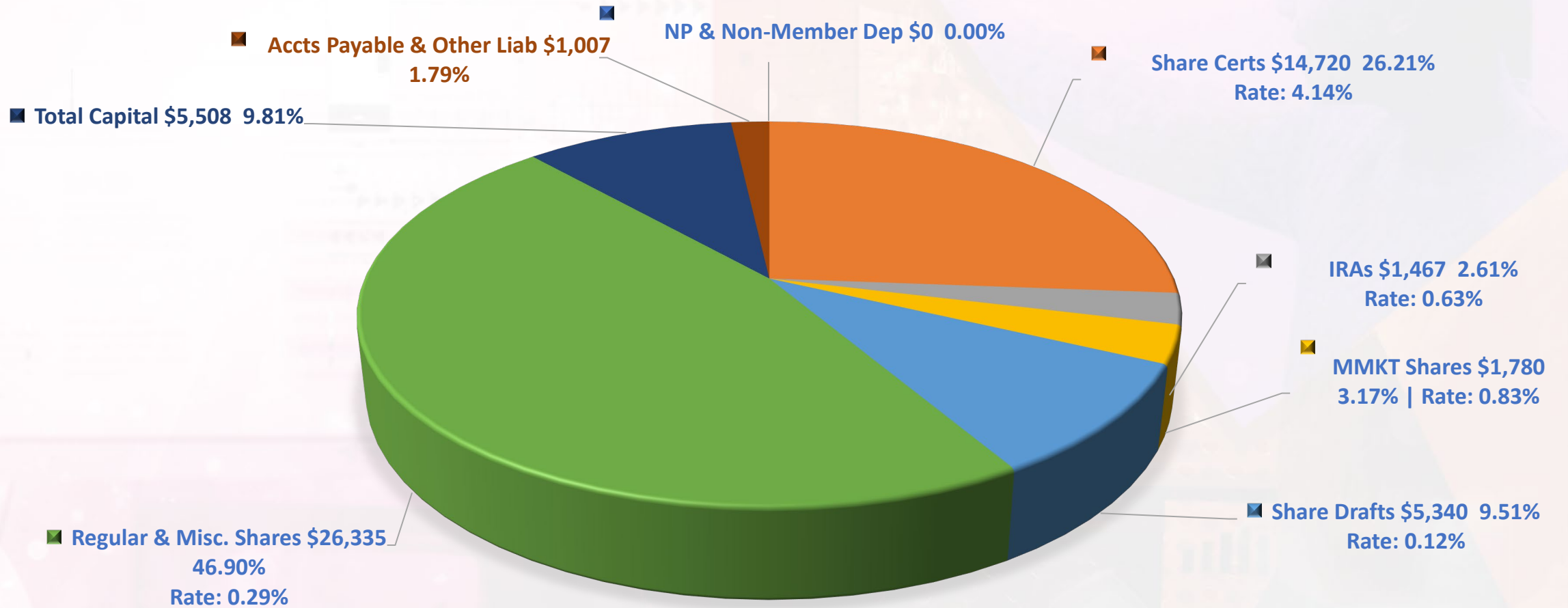
## Buy Money | Cost

- Member Deposits \$
- Non-Member Deposits \$
- Notes Payable \$
- Other Payables/Liabilities small, temp
- Regular Reserves net worth
- Undivided Earnings net worth





# ABC CU Liability Mixes - Buy Money



ABC CU: NET TOTAL FUNDS, LIABILITIES & CAPITAL = \$56,157

# Assets

## Sell Money | Income

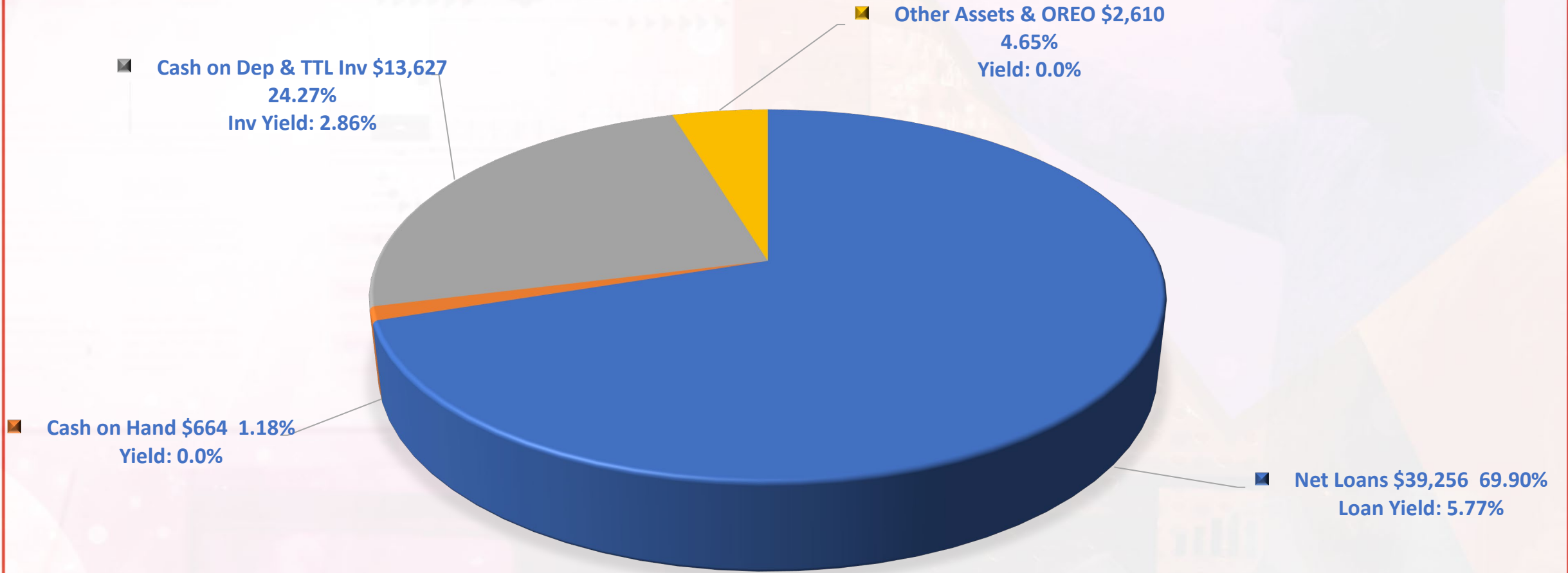
- Loans \$
- (Allowance for Loan Losses)
- Investments \$
- Cash non-earning
- Fixed Assets non-earning
- NCUSIF Deposit provides \$250,000 deposit insurance
- Account Receivables & Prepaids small, temp







# ABC CU Asset Mixes - Sell Money



ABC CU: TOTAL ASSETS = \$56,157

# INCOME STATEMENT

## 4 Sections

- Income
- Cost of Funds
- Expenses
- Non-Operating Amounts



# Income



- Interest on Loans – market-driven
- Interest on Investments – market-driven
- Member Fee Income – non-market
- Other Operating Income – non-market

# Cost of Funds

## Market-Driven

- Dividends on Deposits
- Interest on Borrowed Money
- Dividends on Non-Member Deposits



# Expenses

## Non-Market

- Employee Compensation & Benefits
- Travel & Conference
- Office Occupancy
- Office Operations
- Education & Promotion
- Loan Servicing
- Professional & Outside Services
- Member Insurance
- Operating Fees
- Miscellaneous Operating Expenses



# Non-Operating Amounts

## Provision for Loan and Lease Losses

- Acct code #300 + #IS0017

## Acct code #400 series

- Gain(Loss) on Non-Trading Derivatives (#421)
- Gain(Loss) on Disposition of Fixed Assets (#430)
- Gain From Bargain Purchase (Merger) (#431)
- Other Non-Interest Income (Expense) (#440)



# INCOME STATEMENT

## 4 Sections

- Income
- Cost of Funds
- Expenses
- Non-Operating Amounts



# Asset Quality



## Loan Quality

- Delinquency – The percentage of the loan portfolio with payments delinquent two months or longer.
- Net Charge-Offs – The percentage of loans being lost because of annualized net charge offs.



# Loan Information

- Delinquent Amounts
  - 2 – 6 Months
  - 6 – 12 Months
  - Over 12 Months
- Year-to-Date Amount of Loan Charge-Offs
- Year-to-Date Amount of Loan Recoveries
- Year-to-Date Amount of Loans Granted



# QUESTIONS ?



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# Financial Statement Review

Review ABC CU  
Financial Statements



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# Market-Based Pricing of Loans

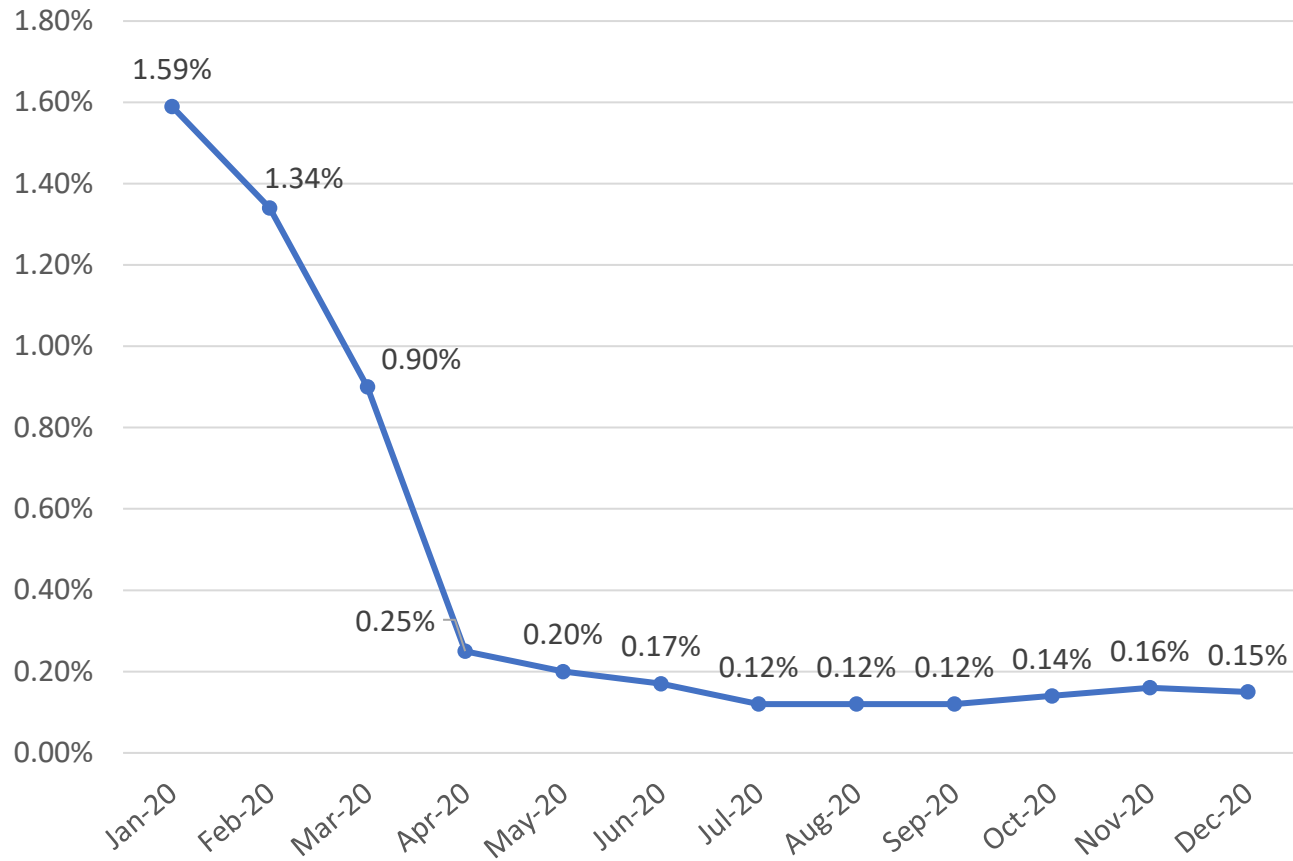
- Market Indicator
- Expense Factor
- Loss Factor
- Balance Adjustment
- Dividend Premium



# Market-Based Pricing



2-Year CMT Rates 2020







# Market-Based Pricing of Loans

- \* Loan Mix X Net Operating Exp Ratio = \_\_\_\_\_% X \_\_\_\_\_% = \_\_\_\_\_%
- \*\* Net Operating Exp Ratio + 50 bps = \_\_\_\_\_% + .50% = \_\_\_\_\_%

	New Car	Used Car	Signature
2-Year CMT ( <b>April 2024</b> )	<b>4.62%</b>	<b>4.62%</b>	<b>4.62%</b>
Operating Expense	* _____	* _____	** _____
Net Charge Offs (NCOs)	.25	.30	1.50
Balance Adjustment	0	.50	1.50
Dividend Premium bps	.XX	.XX	.XX
Rate	_____%	_____%	_____%



## Key Ratio Analysis Report – Page 8

Profitability					
Loan Yield	5.54%	5.32%	5.54%	5.63%	5.77%
Investment Yield	1.38%	2.29%	2.64%	2.88%	2.86%
Earn. Asset Yield	4.21%	4.25%	4.50%	4.71%	4.81%
Asset Yield	4.01%	4.17%	4.43%	4.62%	4.75%
Cost of Funds	-0.36%	-0.88%	-0.95%	-0.99%	-1.06%
Gross Spread	3.65%	3.29%	3.48%	3.63%	3.69%
Net Operating Expense	-2.78%	-2.96%	-3.06%	-3.08%	-3.18%
Other Operating Income	0.15%	0.12%	0.13%	0.14%	0.14%
Operating ROA	1.02%	0.45%	0.55%	0.69%	0.65%
Provision Expense	-0.18%	-0.17%	-0.02%	-0.04%	-0.08%
Net ROA	0.84%	0.28%	0.53%	0.65%	0.57%
Non Operating Balances	-0.04%	0.00%	0.00%	0.00%	-0.03%
NCUA ROA	0.80%	0.28%	0.53%	0.65%	0.54%
Capital   Asset Quality   Earnings					
Net Worth/TAs	11.45%	10.61%	10.76%	11.03%	11.03%
Delinquencies/Total Loans	0.43%	0.32%	0.23%	0.32%	0.36%
NCOs/Avg Loans	0.23%	0.23%	0.19%	0.15%	0.16%
Loan Mix	68.22%	64.14%	65.50%	69.67%	70.15%
NCOs/Avg Total Assets	0.15%	0.15%	0.13%	0.10%	0.11%





# Market-Based Pricing of Loans

\* Loan Mix X Net Operating Exp Ratio = **70.15%** X **3.18%** = **2.23%**

\*\* Net Operating Exp Ratio + 50 bps = **3.18%** + **.50%** = **3.68%**

	New Car	Used Car	Signature
2-Year CMT ( <b>APRIL 2024</b> )	<b>4.62%</b>	<b>4.62%</b>	<b>4.62%</b>
Operating Expense	<b>2.23%*</b>	<b>2.23%*</b>	<b>3.68%**</b>
Net Charge Offs (NCOs)	.25	.30	1.50
Balance Adjustment	0	.50	1.50
Dividend Premium bps	.XX	.XX	.XX
	<b>7.10%</b>	<b>7.65%</b>	<b>11.30%</b>

# Review

## CAMEL Matrix from NCUA Letter 03-CU-04



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# Key Ratios for Credit Unions with Assets of \$2 Million or Less

	Code 1	Code 2	Code 3	Code 4	Code 5
<b>1. CAPITAL</b>					
Net Worth/Total Assets	> 7%	6% - 6.99%	4% - 5.99%	2% - 3.99%	< 2%
<b>2. ASSET QUALITY</b>					
Delinquent Loans/Loans	< 1.5%	1.5% - 3.5%	> 3.5% - 7%	> 7 – 9.5%	> 9.5%
Net Charge Offs/Avg. Loans	< 0.25%	0.25% - 0.75%	> 0.75% - 1.75%	> 1.75% - 2.5%	> 2.5%
<b>3. EARNINGS</b>					
Return on Avg. Assets	> 1.25%	0.9% - 1.25%	0.4% - < 0.9%	0.2% - 0.4%	< 0.2%



# Key Ratios for Credit Unions with Assets of \$2 - \$10 Million

	Code 1	Code 2	Code 3	Code 4	Code 5
<b>1. CAPITAL</b>					
Net Worth/Total Assets	> 7%	6% - 6.99%	4% - 5.99%	2% - 3.99%	< 2%
<b>2. ASSET QUALITY</b>					
Delinquent Loans/Loans	< 1.5%	1.5% - 3.5%	> 3.5% - 5%	> 5 - 8.25%	> 8.25%
Net Charge Offs/Avg. Loans	< 0.25%	0.25% - 0.75%	> 0.75% - 1.5%	> 1.5% - 2.5%	> 2.5%
<b>3. EARNINGS</b>					
Return on Avg. Assets	> 1.0%	0.8% - 1.0%	0.35% - < 0.8%	0.15% - <0.35%	< 0.15%



# Key Ratios for Credit Unions with Assets of \$10 - \$50 Million

	Code 1	Code 2	Code 3	Code 4	Code 5
<b>1. CAPITAL</b>					
Net Worth/Total Assets	> 7%	6% - 6.99%	4% - 5.99%	2% - 3.99%	< 2%
<b>2. ASSET QUALITY</b>					
Delinquent Loans/Loans	< 1.25%	1.25% - 2.5%	> 2.5% - 3.5%	> 3.5 - 5.5%	> 5.5%
Net Charge Offs/Avg. Loans	< 0.25%	0.25% - 0.75%	> 0.75% - 1.5%	> 1.5% - 2.0%	> 2.0%
<b>3. EARNINGS</b>					
Return on Avg. Assets	> 1.0%	0.8% - 1.0%	0.35% - < 0.8%	0.2% - < 0.35%	< 0.2%



# Key Ratios for Credit Unions with Assets of \$50 Million +

	Code 1	Code 2	Code 3	Code 4	Code 5
<b>1. CAPITAL</b>					
Net Worth/Total Assets	> 7%	6% - 6.99%	4% - 5.99%	2% - 3.99%	< 2%
<b>2. ASSET QUALITY</b>					
Delinquent Loans/Loans	< 1.25%	1.25% - 2.25%	> 2.25% - 3.25%	> 3.25 - 4.75%	> 4.75%
Net Charge Offs/Avg. Loans	< 0.25%	0.25% - 0.6%	> 0.6% - 1.2%	> 1.2% - 1.8%	> 1.8%
<b>3. EARNINGS</b>					
Return on Avg. Assets	> 1.0%	0.8% - 1.0%	0.35% - < 0.8%	0.2% - < 0.35%	< 0.2%



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# Credit Union Industry Standards

RATIO	INDUSTRY STANDARD	CAMEL CODE ABC CU
Net Worth	9% or higher	Code 1
Delinquency	2.0% or lower	Code 1
Net Charge-Offs	0.40% or lower	Code 1
Net ROA	0.80% or higher	Code 3



# Questions ?

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