



NATIONAL ASSOCIATION OF CREDIT UNION CHAIRS

CONNECTING CREDIT UNION BOARD LEADERS

# Financial Literacy Training - 2026

Tim Harrington, CPA *ret*

Timothy P. Harrington, Inc. dba

**TEAM**Resources



# Presented by Timothy Harrington, CPA



Tim Harrington is a Certified Public Accountant who has consulted with financial institutions since 1992. Since 1996, Tim has been President of TEAM Resources, a firm that provides consulting, strategic planning and training to financial institutions from coast-to-coast. He is the author of the popular the books:

- **Eisenhower on Enlightened Leadership**
- **Living a Life that Matters: Into the Light**
- **Credit Union Guide to Strategic Governance**

Tim is a faculty member of 3 national credit union schools on governance, finance and management, and has spoken to hundreds of thousands of directors, executive management and staff throughout the Northern Hemisphere.

# CAMELS

## Just Good Ole' Financial Ratios

---

**C**apital Adequacy

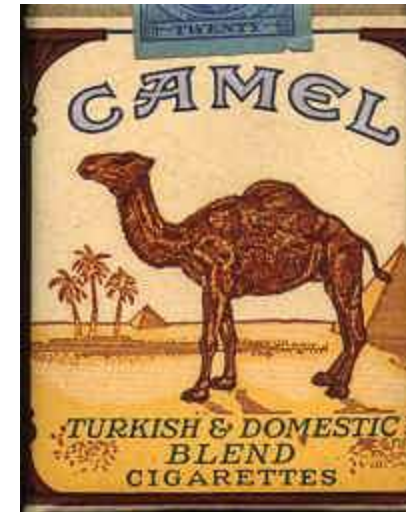
**A**sset Quality

**M**anagement (includes volunteers)

**E**arnings

**L**iquidity – Cash Flow and Sources

**S**ensitivity – Interest Rate Risk



# CAMELS

---

*Measured on a Scale of 1 to 5*

**1** - Indicates strong performance

**2** - Indicates satisfactory performance

**3** - Performance is of supervisory concern

**4** - Performance serious supervisory concern

**5** - Performance is critically deficient

# Basic Financial Statements

- **Balance Sheet or**
  - Statement of Financial Condition OR
  - Statement of Condition
  - Statement of Position
  - Statement of Financial Position
- **Income Statement**
  - Profit and Loss
  - Revenues over Expenses
- Statement of Cash Flows
- Statement of Changes in Equity

# Balance Sheet

## ASSETS

### EARNING ASSETS

Cash  
Loans

Less Allowance for Loan and  
Lease Losses

Investments  
Held -to-Maturity  
Available-for-Sale  
Trading

### NON-EARNING ASSETS

Building, Equipment, etc.  
NCUSIF Deposit

Other Assets

## LIABILITIES & CAPITAL

### MISCELLANEOUS LIABILITIES

SHARES

### CAPITAL

Undivided Earnings  
Other Sub Accounts

1

# Income Statement

## REVENUE

Loan Interest Income

Investment Interest Income

Fees and Other Non-Interest  
Income

## EXPENSES

Occupancy  
Personnel  
Provision for Loan Losses

## COST OF FUNDS

Dividends Paid

NET INCOME or LOSS



# Balance Sheet

## ASSETS

### EARNING ASSETS

Cash  
Loans

Less Allowance for Loan and  
Lease Losses

**What You  
Have**

Investments  
Held -to-Maturity  
Available-for-Sale

**What Your  
Members  
Own**

Bu  
NCUSIF Deposit

Other Assets

## LIABILITIES & CAPITAL

### MISCELLANEOUS LIABILITIES

**What You  
Owe**

SHARES

### CAPITAL

Undivided Earnings  
Other Sub Accounts

# Income Statement

## REVENUE

Loan Interest Income

**What  
Comes In**

Investment Interest Income

Fees and Other Non-Interest  
Income

## EXPENSES

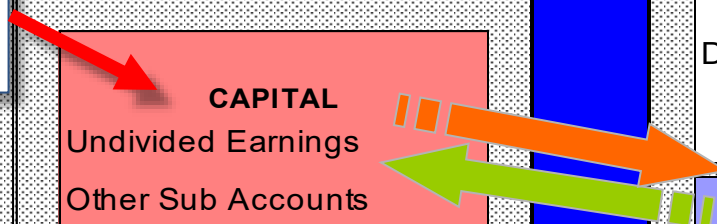
**What Goes  
Out**

Occupancy  
Personnel  
Provision for Loan Losses

## COST OF FUNDS

Dividends Paid

**NET INCOME or LOSS**



# Key Ratios to Know and Understand

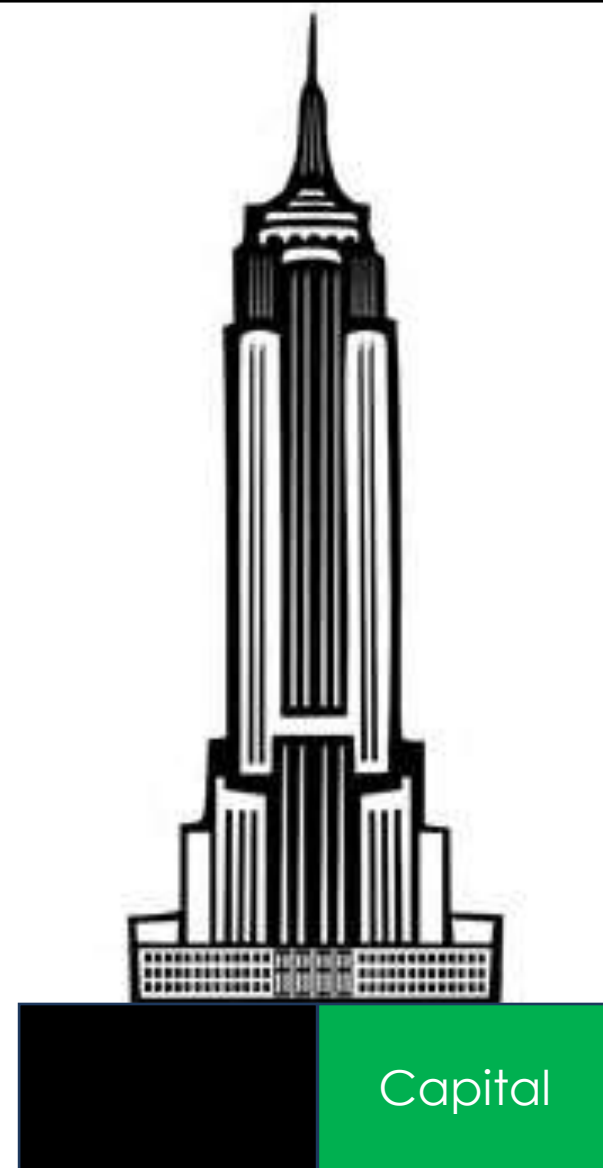
- **Capital to Assets Ratio**
- **Delinquency Ratio/Charge-off Ratio**
- **Net Interest Margin (Spread)**
  - Yield on Assets (interest income ratio)
  - Cost of Funds (interest expense ratio)
  - Net Interest Margin
  - Operating expense ratio
  - Provision for Loan Loss ratio
  - Non-Interest Income ratio
  - ***Return on Assets (profit ratio)***
- **Loan to Share Ratio**

# **Why Is Capital Important?**

# Capital to Assets

Capital is your 'Stability' account

- Grows with profit.
- Shrinks with losses.
- Cushion for the unknowns
- Percentage of Asset Size



# Capital to Assets

## HOWEVER...

If Asset size grows, and  
Capital size doesn't keep up,  
your structure becomes  
unstable.



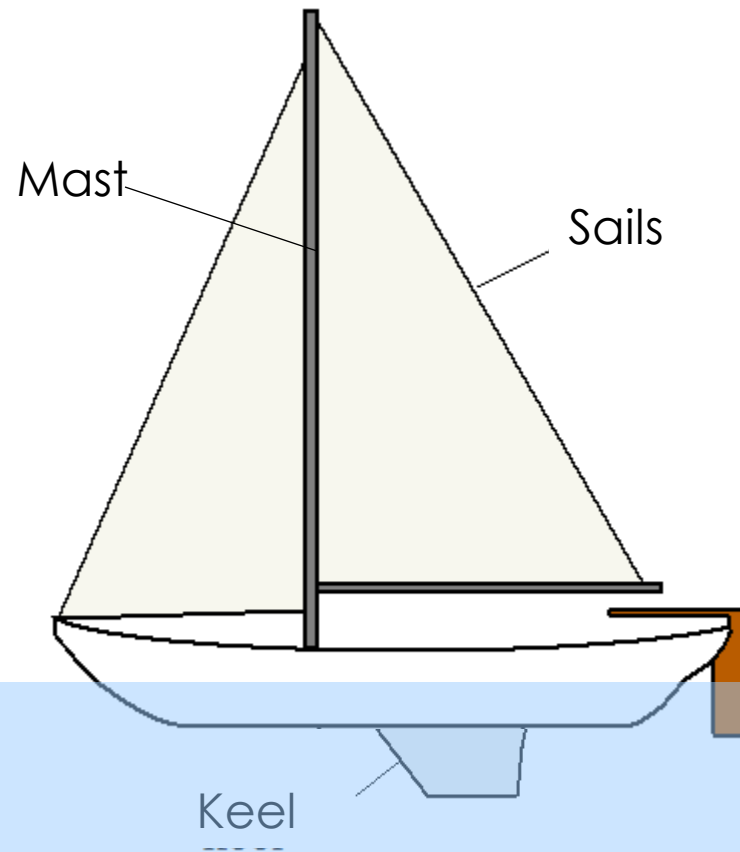
# Capital to Assets

## HOWEVER...

If Asset size grows, and  
Capital size doesn't keep up,  
your structure becomes  
unstable.



# If Assets grow and Capital doesn't keep up, the credit union becomes unstable



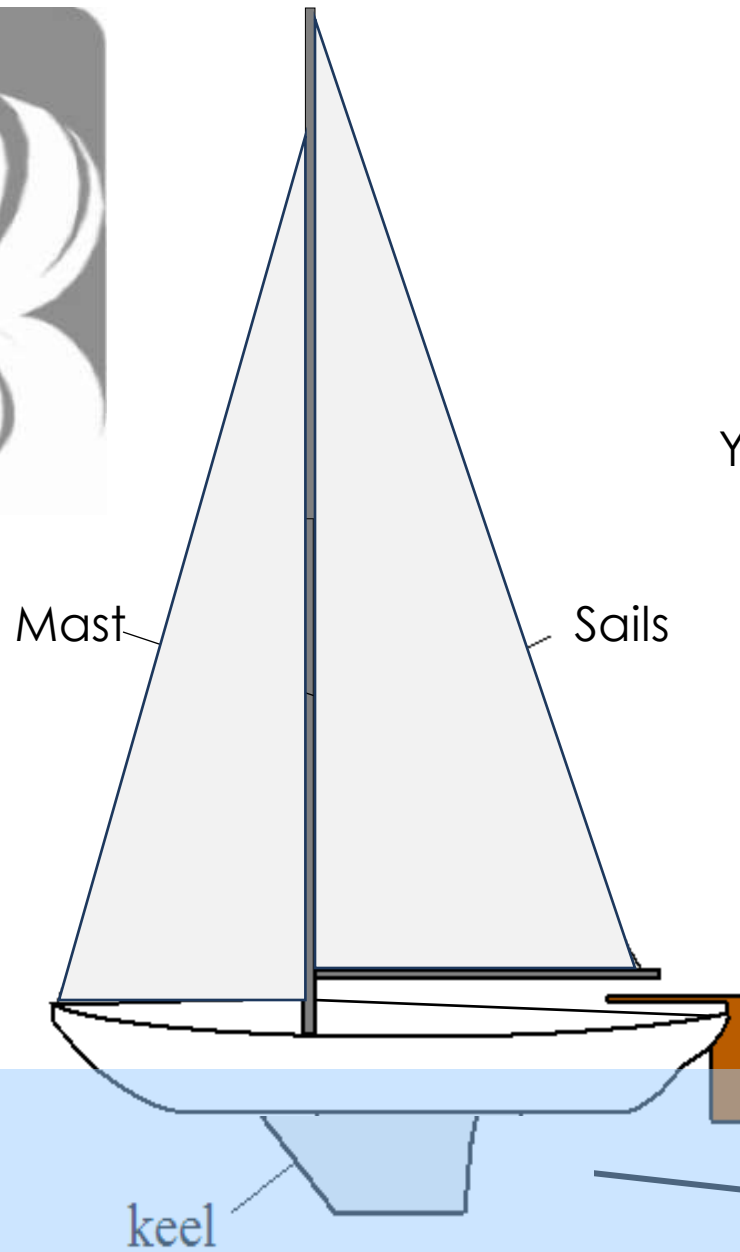


If a Big Wind comes  
up...

Negative economic  
change,

Large Charge-offs,

Your sailboat could tip



**CU needs more  
Capital**



# What is Capital?

## **Capital is not cash**

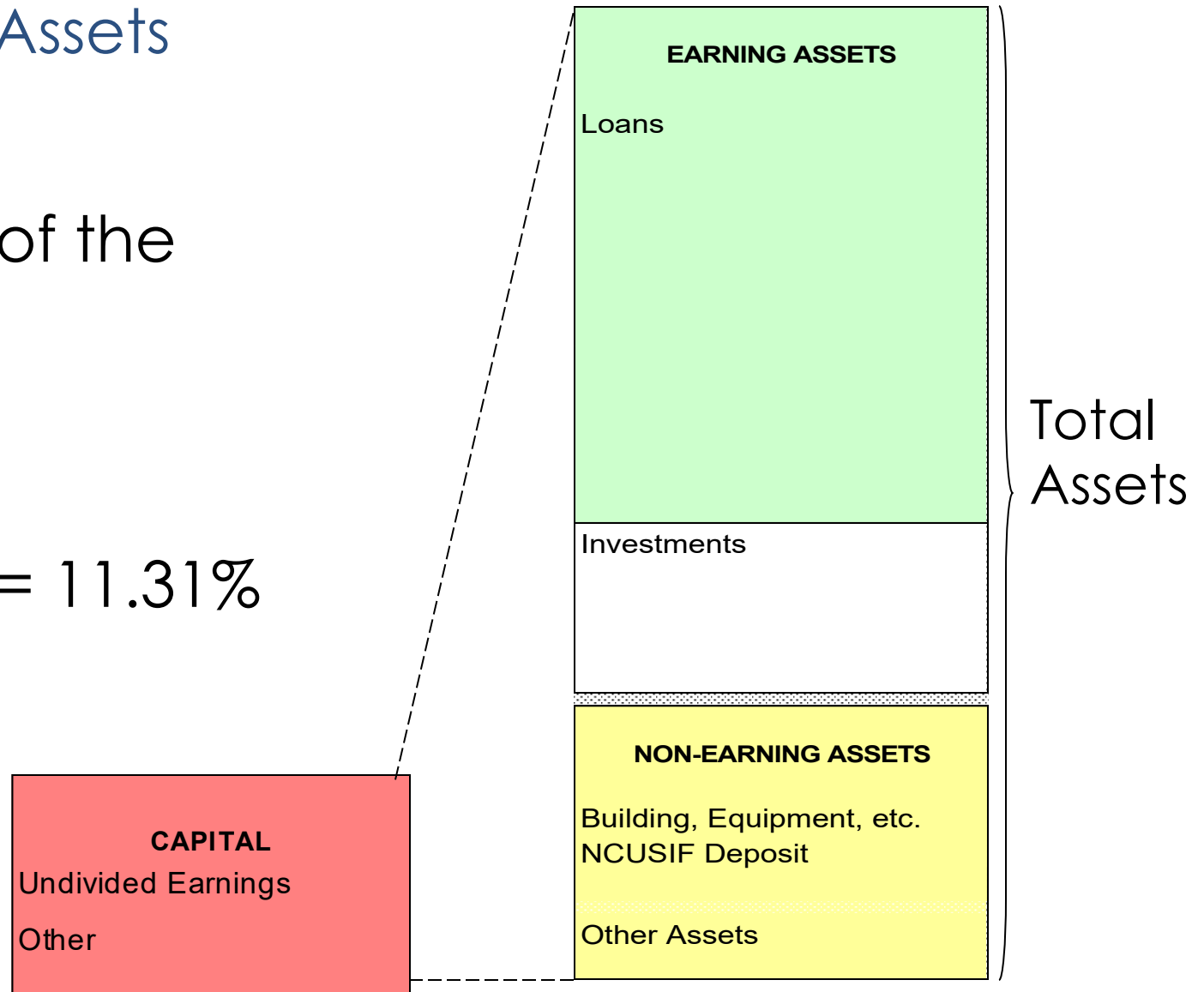
- It is the accumulated earnings and losses since you started the credit union.
- Tells you what portion of your assets belong to the member owners and what part is owed to creditors
- Your 'rainy day' fund
- Your 'hibernation' fat

# Capital To Assets Ratio

Total Capital/Total Assets

Measure's stability of the credit union

National Average = 11.31%

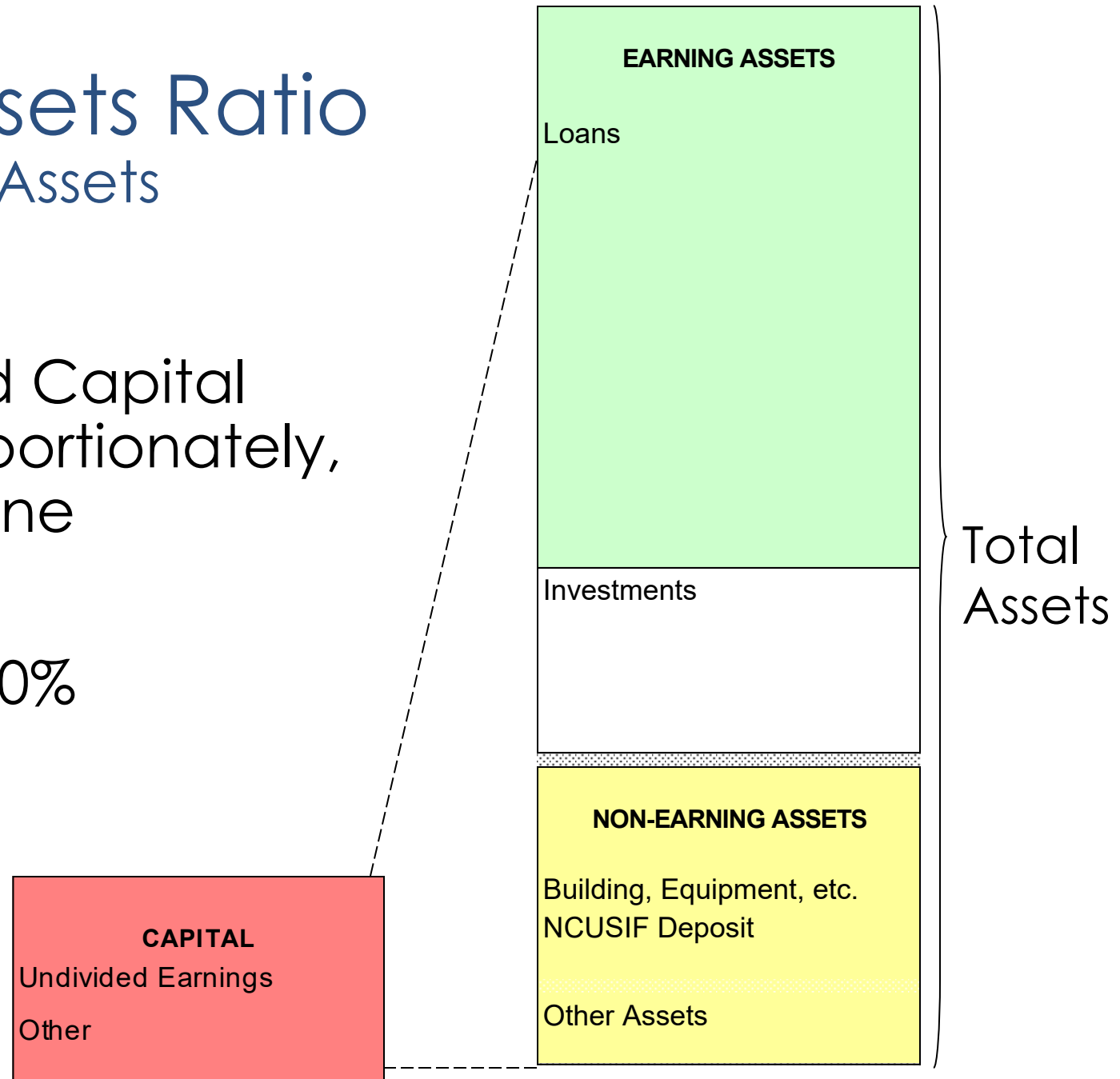


# Capital To Assets Ratio

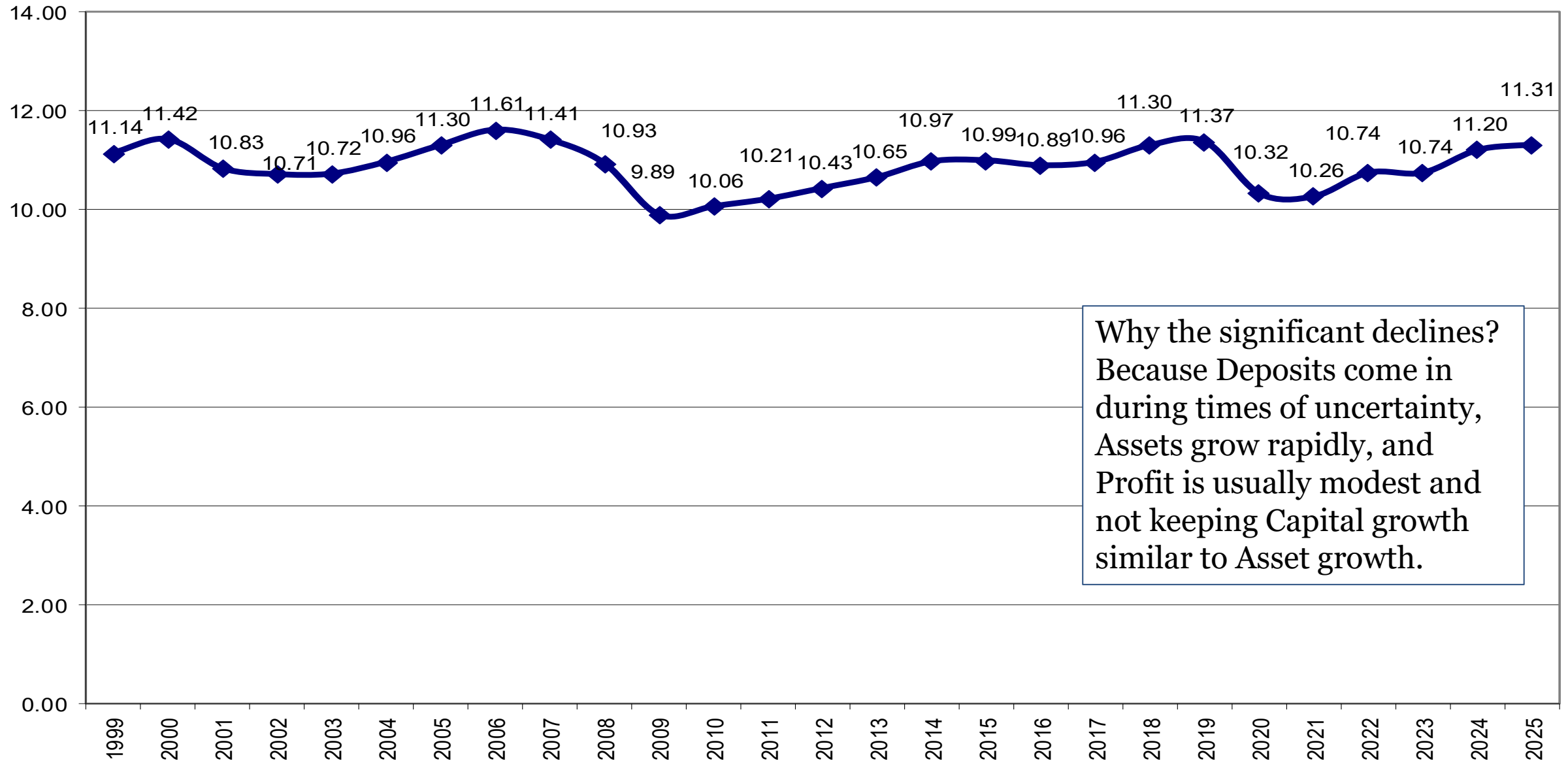
Total Capital/Total Assets

If Assets grow, and Capital doesn't grow proportionately, the Ratio will decline

Woops! Now = 9.90%



## History of Capital to Assets Ratio National Average



Why the significant declines?  
Because Deposits come in during times of uncertainty, Assets grow rapidly, and Profit is usually modest and not keeping Capital growth similar to Asset growth.

# NCUA Calculation a bit different

## NET WORTH / TOTAL ASSETS

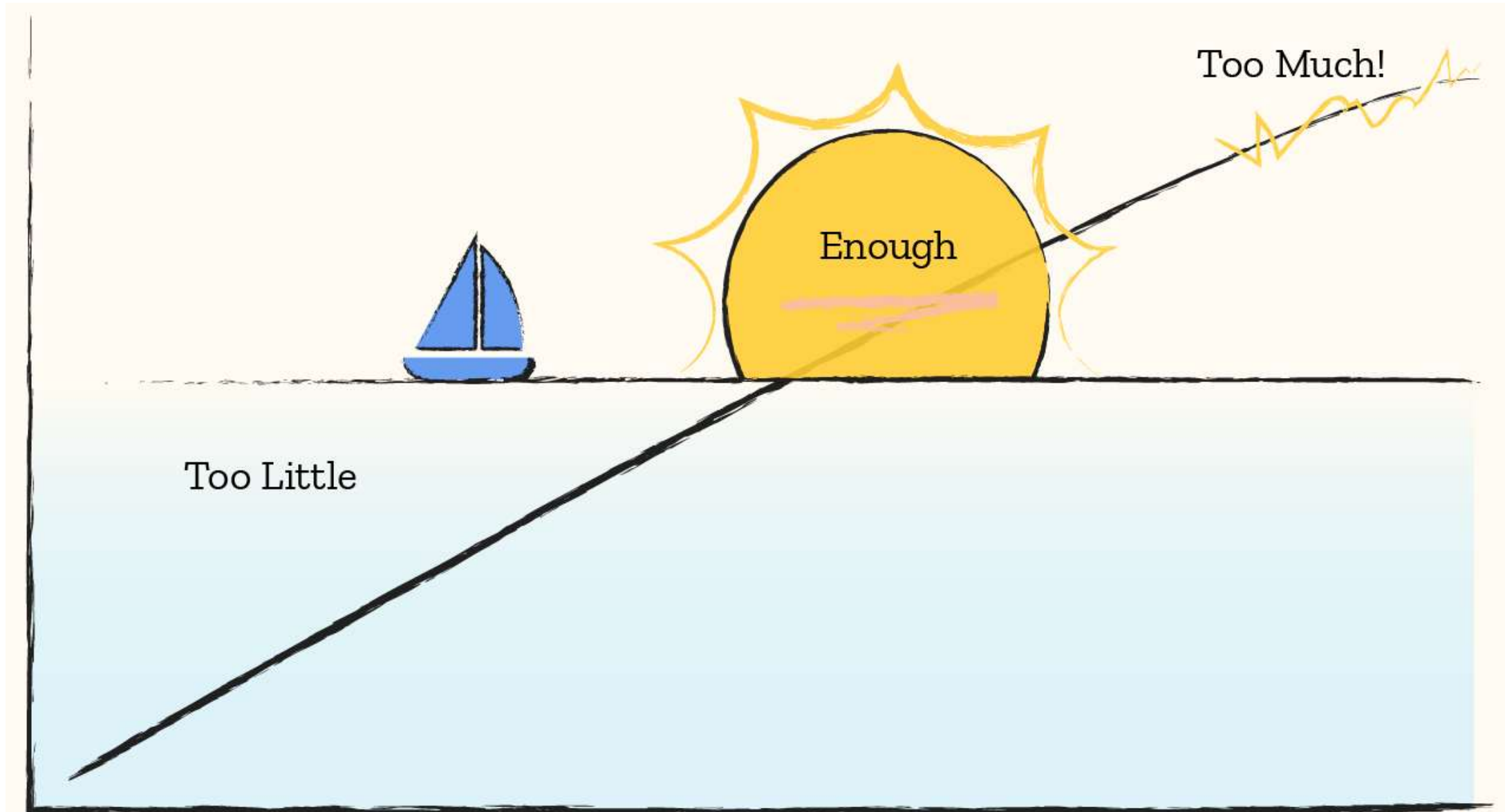
(Regular Reserve + Appropriation for Non-Conforming Investments [*SCU Only*] + Other Reserves + Undivided Earnings + Uninsured Secondary Capital [*Low-Income Designated CU Only*] + Net Income or (Loss)) / Total Assets

\*

\*Total assets means a credit union's total assets as measured by either the:

- (i) average quarterly balance of the four most recent calendar quarters; or
- (ii) average monthly balance over the three calendar months of the calendar quarter; or
- (iii) average daily balance over the calendar quarter; or (iv) quarter-end call report balance for the calendar quarter.

# How Much Capital Is Enough?



# How much Capital is enough?

**Suggestion:** Project worst 3 years possible  
(combination of Asset Growth and Net Losses)

If at end, the ratio is greater than 4%, you may have enough

Prompt Corrective Action Rules

Depends on how much risk your assets and liabilities represent

Depends on level of growth

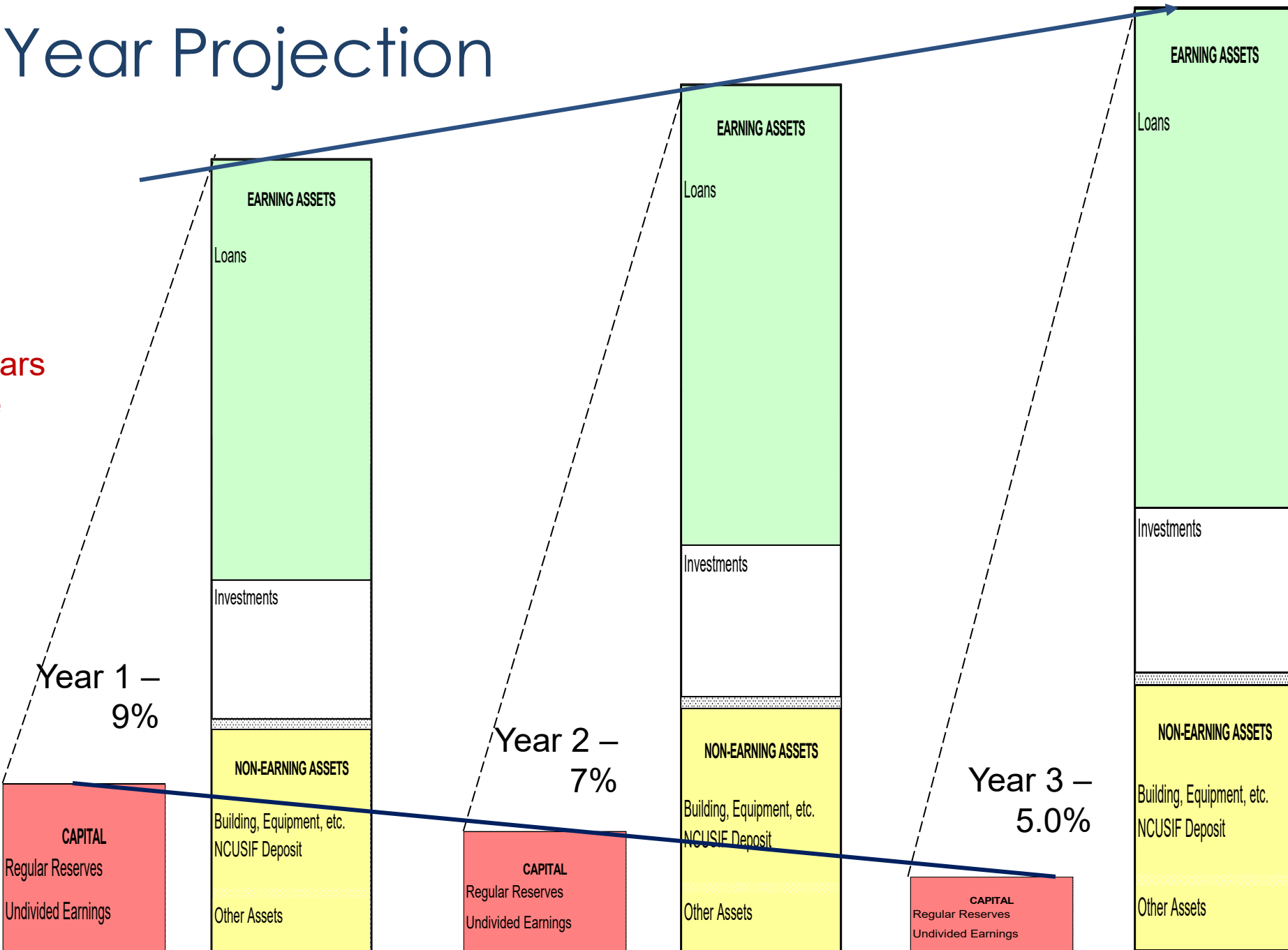
Depends on profitability of CU

Depends on future plans

# Three Year Projection

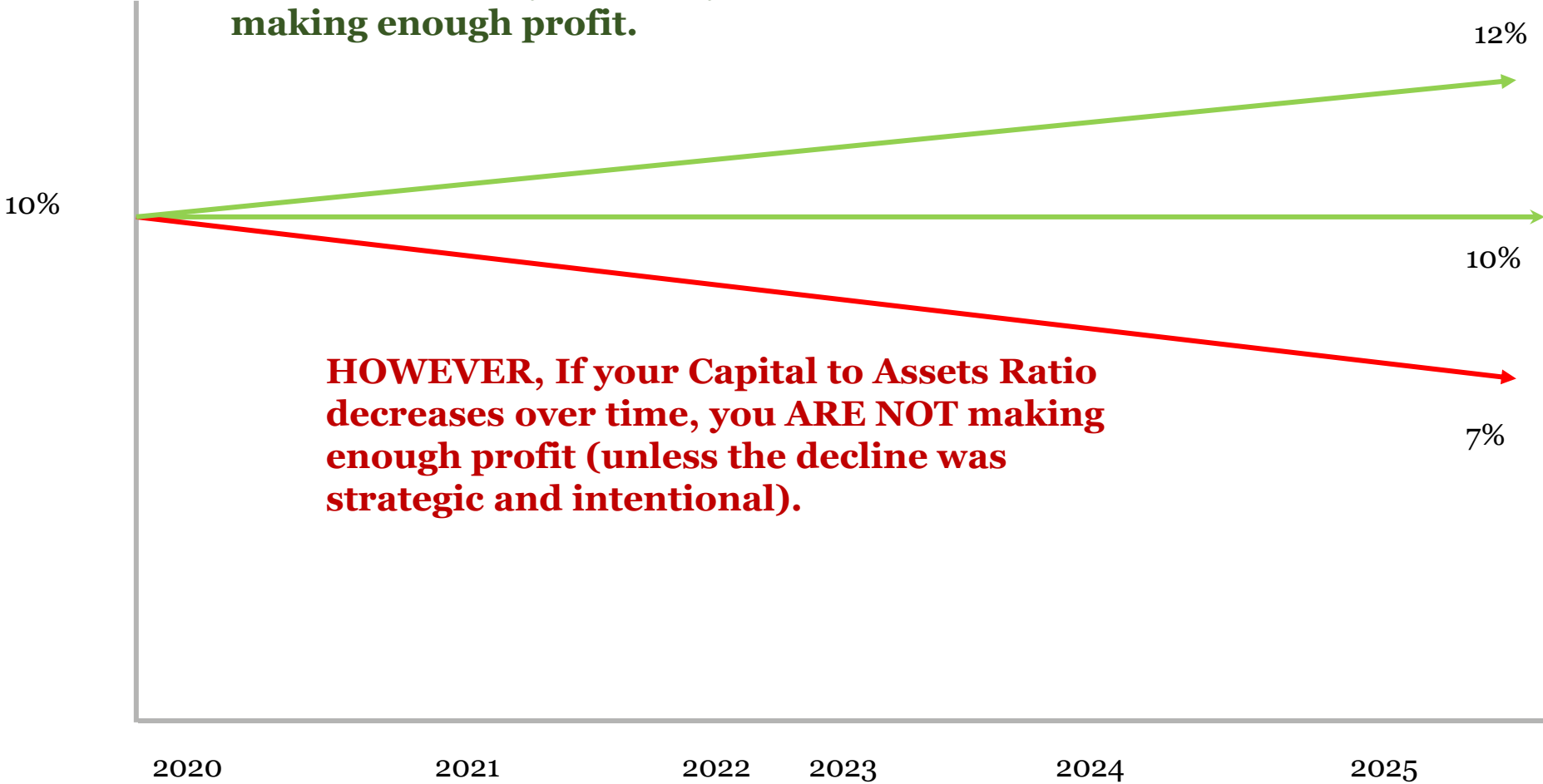
Today  
10.5%

Worst 3 years  
imaginable



# The Capital to Assets Gauge

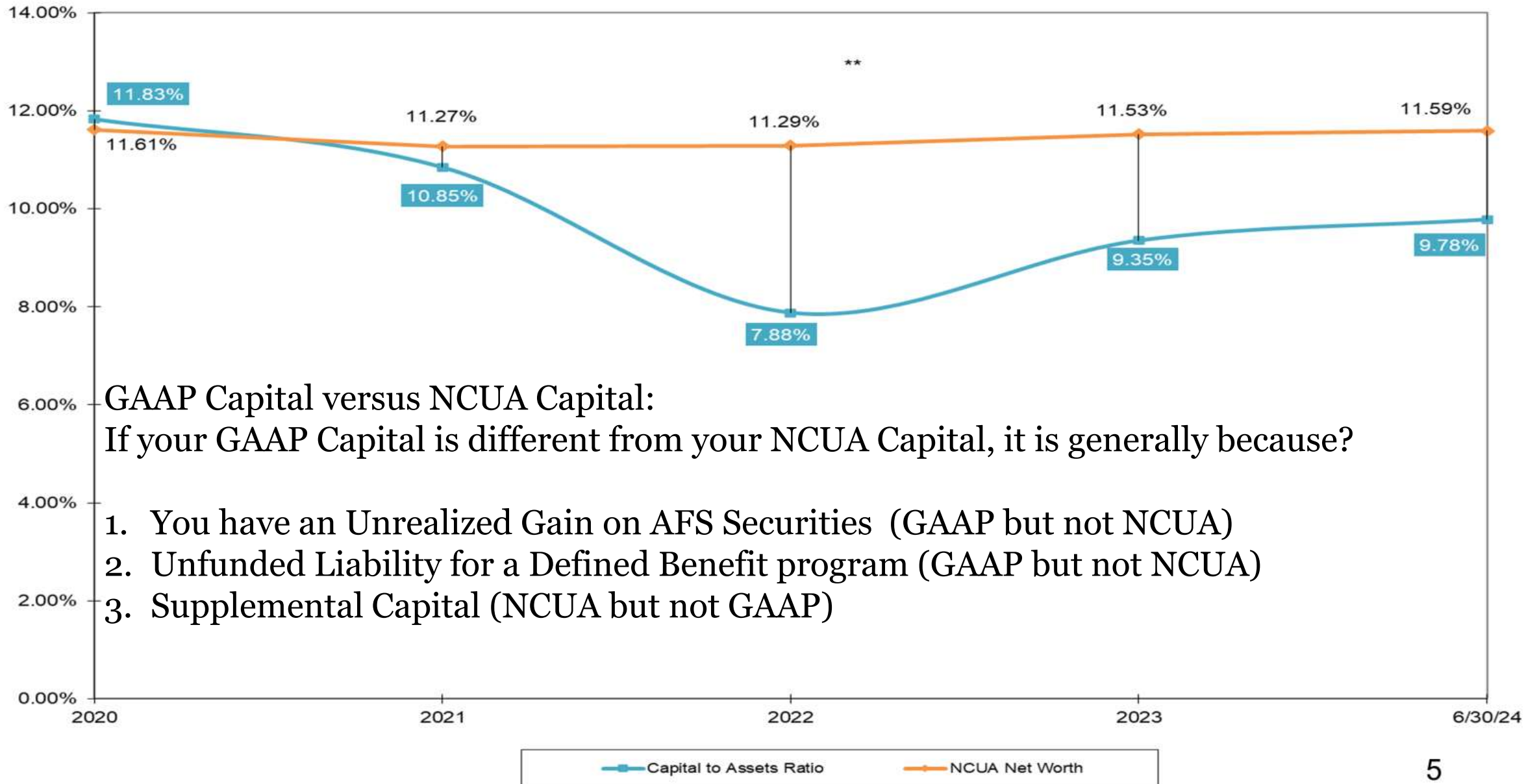
**If your Capital to Assets Ratio increases over time, or stays stable, you ARE making enough profit.**



**HOWEVER, If your Capital to Assets Ratio decreases over time, you ARE NOT making enough profit (unless the decline was strategic and intentional).**

### Capital to Assets (Net Worth) Ratio

PA Peer Average: 11.38%



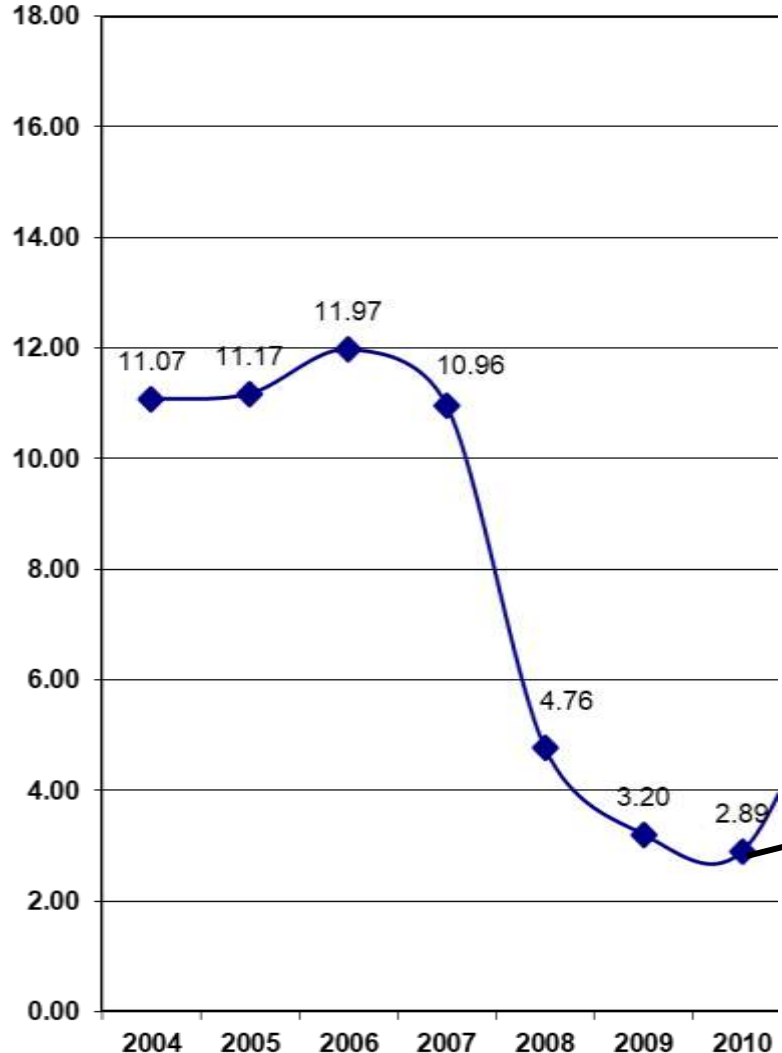
#### GAAP Capital versus NCUA Capital:

If your GAAP Capital is different from your NCUA Capital, it is generally because?

1. You have an Unrealized Gain on AFS Securities (GAAP but not NCUA)
2. Unfunded Liability for a Defined Benefit program (GAAP but not NCUA)
3. Supplemental Capital (NCUA but not GAAP)

# Capital can disappear fast and grows back slowly

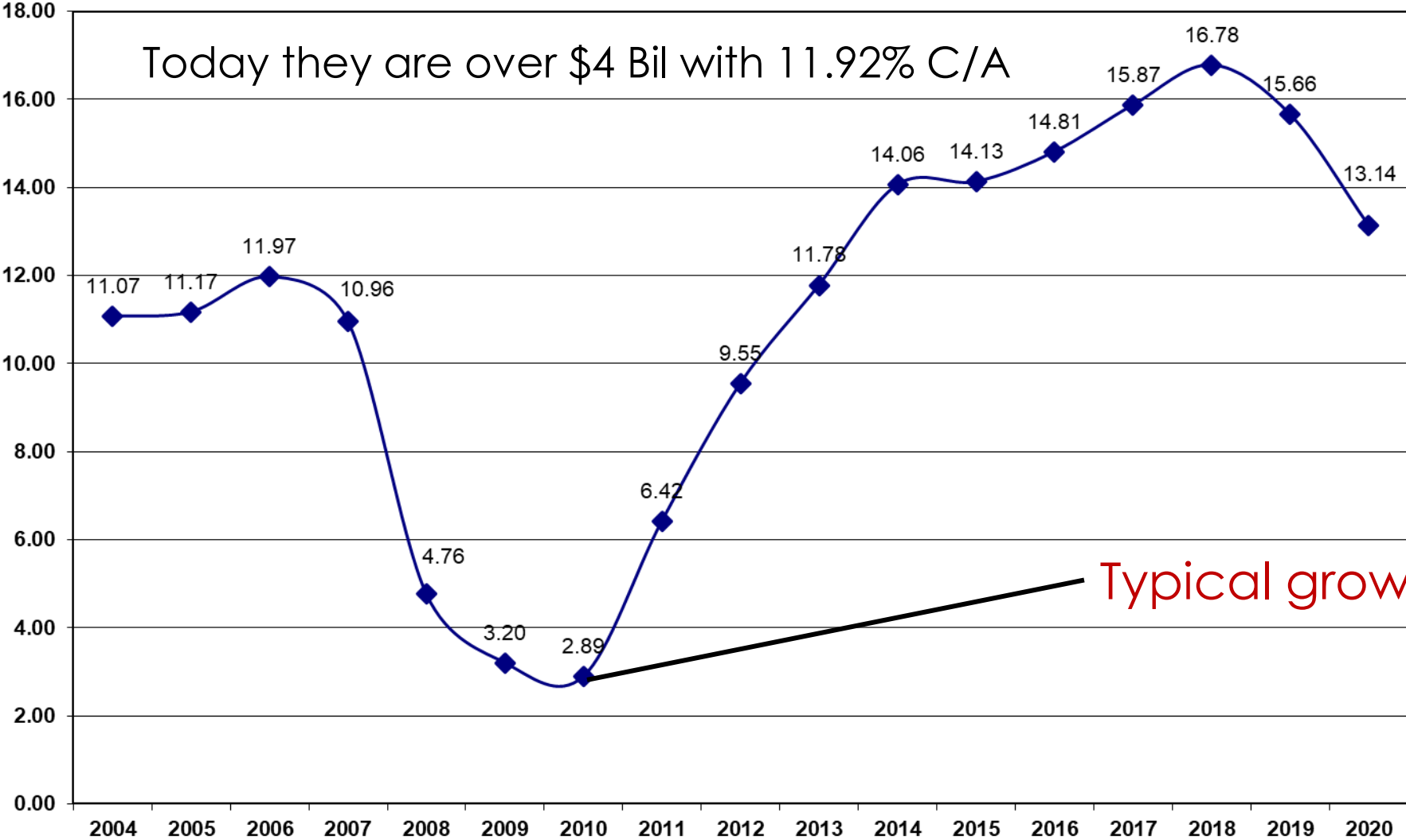
Capital to A



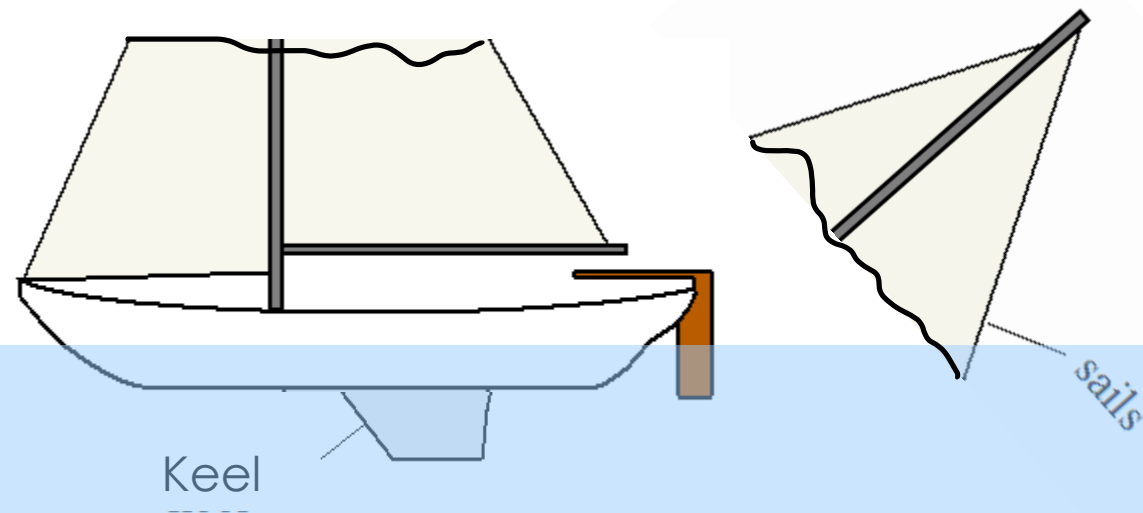
Capital to A

# Capital can disappear fast and grows back slowly

Capital to Assets Ratio in a Recession



As a “last ditch effort” the credit union can ‘shrink’ into its Capital



# Projecting Capital:

## If you grow rapidly, how much profit is needed?

### Capital Growth Calculator

Fill in white cells, do not change gray cells

### Calculate ROA Needed

### Five Year Projection

	20X6	20X7	20X8	20X9	20Y1	20Y2
<b>ANTICIPATED ASSET GROWTH</b>		4.00%	5.00%	6.00%	7.00%	8.00%
<b>TOTAL ASSETS</b>	\$ 268,888,180	\$ 279,643,707	\$ 293,625,893	\$ 311,243,446	\$ 333,030,487	\$ 359,672,926
<b>TOTAL CAPITAL</b>	\$ 40,020,889	\$ 41,610,984	\$ 43,691,533	\$ 46,313,025	\$ 49,554,937	\$ 53,519,331
<b>\$ INCREASE IN CAPITAL (SAME AS NET PROFIT NEEDED)</b>		\$ 1,590,095	\$ 2,080,549	\$ 2,621,492	\$ 3,241,912	\$ 3,964,395
<b>% INCREASE IN CAPITAL</b>		3.97%	5.00%	6.00%	7.00%	8.00%
<b>ACTUAL CAP/ASSETS %</b>	14.88%					
<b>DESIRED CAP/ASSETS %</b>		14.88%	14.88%	14.88%	14.88%	14.88%
<b>ROA NEEDED</b>		0.58%	0.73%	0.87%	1.01%	1.14%

# Prompt Corrective Action Rules

- 7% or higher Well capitalized
- 6%-6.99% Adequately capitalized
- 4%-5.99% Undercapitalized
- 2%-3.99% Significantly undercapitalized
- Less than 2% Critically undercapitalized

# Prompt Corrective Action Rules

- **Mandatory Supervisory Actions**
  - Below 7% - transfer 0.1% of Total Assets to Regular Reserve each month
  - Below 6%
    - Develop a Net Worth Restoration plan
    - Limit asset growth
    - No new member business loans
- **Discretionary Supervisory Actions**

The lower you go, the more authority the regulators take away from management and the board

# Capital for Complex Credit Unions

Complex Credit Unions must calculate capital differently

“Complex” refers to CUs >\$500 MM with complex instruments

Must calculate Capital using:

- a. the **Risk Based Capital Rule**, or
- b. The **Complex Credit Union Leverage Ratio – CCULR**

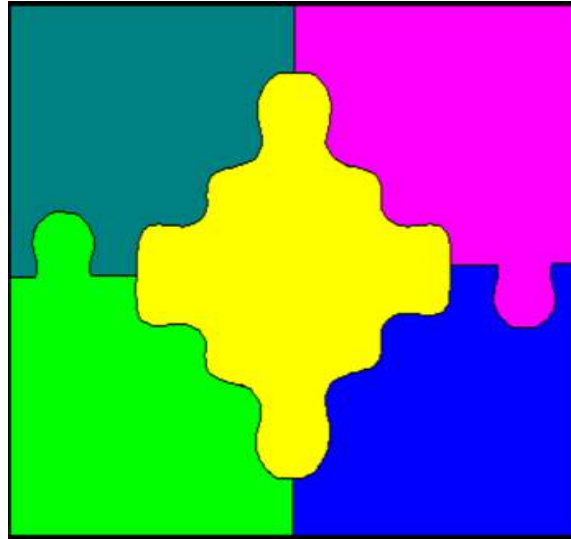
The CCULR is the regular NCUA Net Worth Ratio for credit unions that qualify.

# How Can You Build Capital to Assets Ratio?

1. Make more profit
2. Slow Asset Growth
3. Reduce Asset size
4. Some combination of these

# Profit: Where Capital is Built

# Understanding the Five Puzzle Pieces of Profitability



# Which CU Is Doing Better?

## Why We Use Comparable Ratios

		<b>\$10 Bil CU</b>		<b>\$100 Mil CU</b>
Interest income		\$ 496,000,000		\$5,630,000
Cost of funds		( 175,000,000)		(1,6400,00)
<b>Net Interest Margin</b>		<b>321,000,000</b>		<b>3,990,000</b>
Operating costs		(329,000,000)		(3,3200,00)
Provision for loan losses		(111,000,000)		(440,000)
Net loss before other income		(120,000,000)		230,000
NII – Non-interest income (Fee income, Other)		136,000,000		780,000
<b>Net Profit or Loss</b>		<b>\$ 16,000,000</b>		<b>\$1,020,000</b>
<b>Total Capital</b>		<b>\$ 500,000,000</b>		<b>\$10,000,000</b>

# Which CU is Doing Better?

## Why we use Comparable ratios

<b>As a % of Average Assets</b>		<b>\$10 Bil CU</b>		<b>\$100 Mil CU</b>
Yield: Interest income		4.96%		5.63%
Less: Cost of funds		(1.75%)		(1.64%)
Net Interest Margin (NIM-Spread)		3.21%		3.99%
Less: Operating costs		(3.29%)		(3.32%)
Less: Provision for loan losses		(1.11%)		(0.44%)
Net loss before other income		(1.20%)		0.23%
Plus: NII-Non-interest income (Fee income, Other)		1.36%		0.78%
<b>Equals: Return on Assets (ROA)</b>		<b>0.16%</b>		<b>1.02%</b>
<b>Capital to Assets Ratio</b>		<b>5.00%</b>		<b>10.00%</b>

# ROA

## **ROA stands for Return on Assets (or Return on Average Assets-ROAA)**

- It is a standard measure of profitability in financial institutions
- It tells you your profit as a percent of your credit union's asset size
- It allows you to compare your profitability to other credit unions of any size (as it is based on Asset size)
- It is the end of an equation known as the Spread Analysis

# Balance Sheet

## ASSETS

### EARNING ASSETS

Loans  
Less Allowance for Loan and Lease Losses

Investments  
Held -to-Maturity  
Available-for-Sale  
Trading

### NON-EARNING ASSETS

Building, Equipment, etc.  
NCUSIF Deposit  
Other Assets

**Total Assets**

## LIABILITIES & CAPITAL

### MISCELLANEOUS LIABILITIES

SHARES

**CAPITAL**  
Undivided Earnings  
Other Sub Accounts

# Income Statement

## REVENUE

Loan Interest Income

Investment Interest Income

Fees and Other Non-Interest Income

## EXPENSES

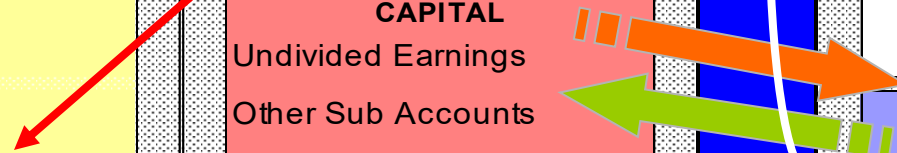
Occupancy  
Personnel  
Provision for Loan Losses

## COST OF FUNDS

Dividends Paid

**NET INCOME or LOSS**

**Spread Analysis**



# Puzzle Pieces of Profitability...

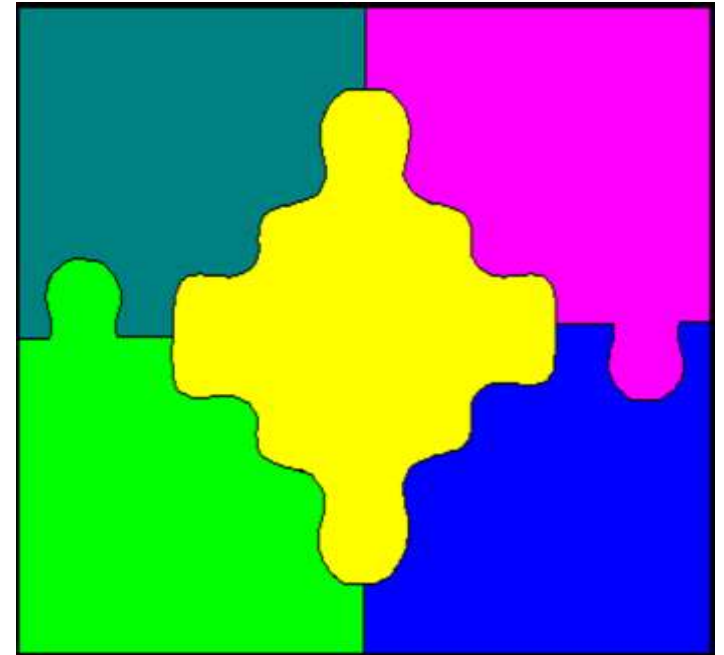
and We Need to Make a Profit

## Credit unions make money 2 ways:


- Interest Income
- Non-Interest Income

## Credit unions spend money 3 ways:

- Cost of Deposits (Cost of Funds)
- Operating Expenses (cost of people, buildings, and systems)
- Provision for Loan Losses  
(cost caused by bad loans)

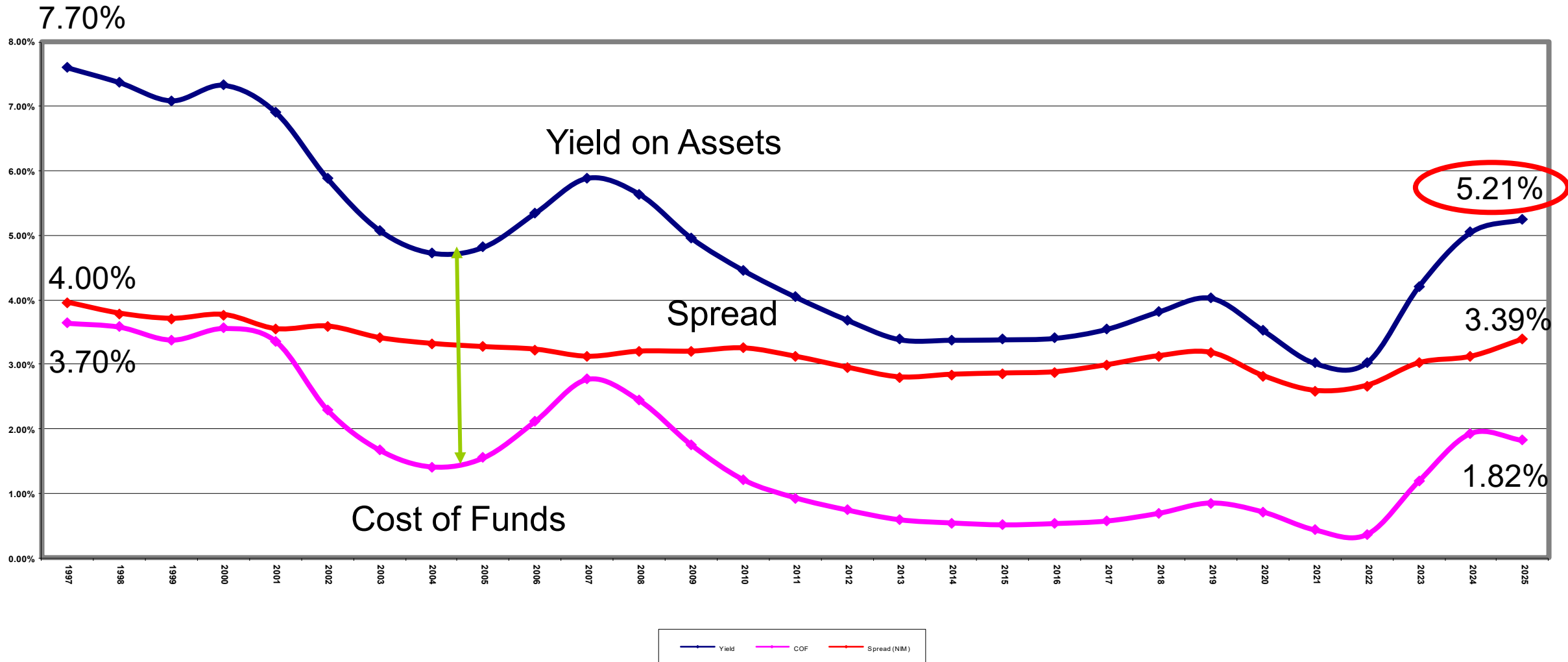


# Spread Analysis (ROA) National Averages

<b>As a % of Average Assets</b>	<b>12/31/24</b>	<b>12/31/25</b>
<b>Yield: Interest income</b>	<b>5.05</b>	<b>5.21</b> 
<b>Less: Cost of funds</b>	<b>(1.93)</b>	<b>(1.82)</b>
<b>Net Interest Margin</b>	<b>3.12</b>	<b>3.39</b>
<b>Less: Operating costs</b>	<b>(3.03)</b>	<b>(3.12)</b>
<b>Less: Provision for loan losses</b>	<b>(0.63)</b>	<b>(0.61)</b>
<b>Net loss before other income</b>	<b>(0.54)</b>	<b>(0.34)</b>
<b>Plus: Non-interest income</b>	<b>1.17</b>	<b>1.13</b>
<b>Equals: Net Profit or Loss (ROA)</b>	<b>0.63</b>	<b>0.79</b>

# Spread or Net Interest Margin (NIM)

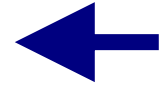
Goal: Can you keep it stable...or grow it?



# Spread Analysis (ROA)

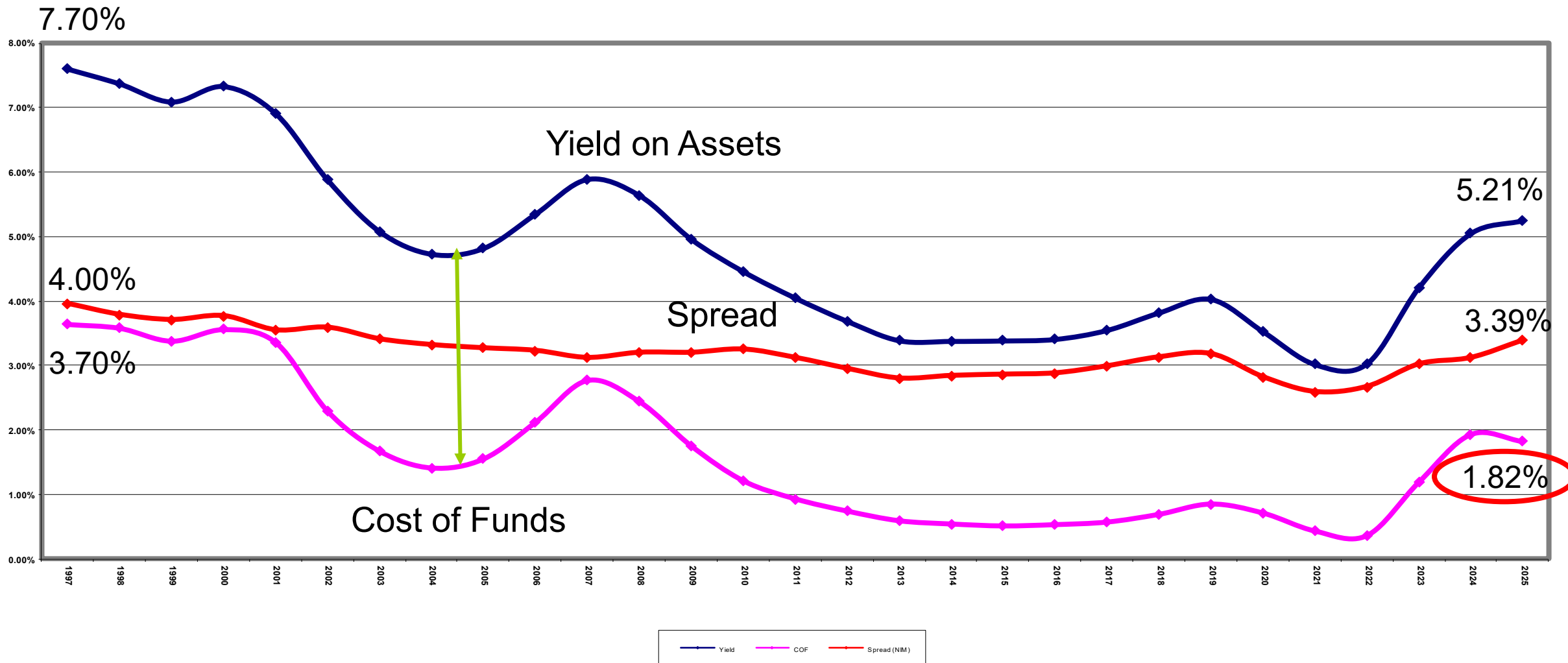
## National Averages

As a % of Average Assets	12/31/24	12/31/25
Yield: Interest income	5.05	5.21
Less: Cost of funds	(1.93)	(1.82)
Net Interest Margin	3.12	3.39
Less: Operating costs	(3.03)	(3.12)
Less: Provision for loan losses	(0.63)	(0.61)
Net loss before other income	(0.54)	(0.34)
Plus: Non-interest income	1.17	1.13
Equals: Net Profit or Loss (ROA)	0.63	0.79



# Spread or Net Interest Margin (NIM)

Goal: Can you keep it stable...or grow it?



# What Is Net Interest Margin?

## **Net Interest Margin:**

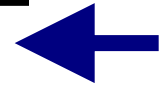
- **NIM**
- **Spread**
- You don't control your Interest Income, the Market does
- You don't control your Interest Expense, the Market does

You try to control the spread between the two:

NIM or Spread

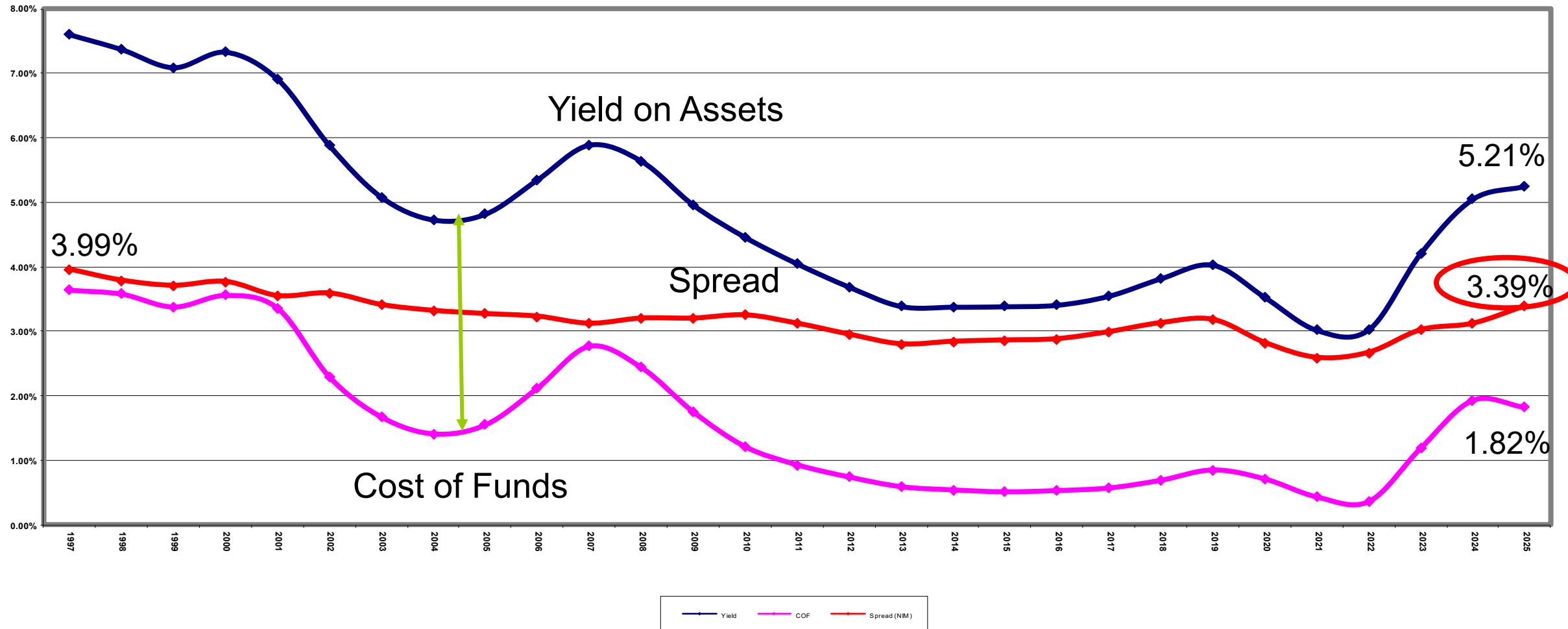
# Spread Analysis (ROA) National Averages

<b>As a % of Average Assets</b>	<b>12/31/24</b>	<b>12/31/25</b>
<b>Yield: Interest income</b>	<b>5.05</b>	<b>5.21</b>
<b>Less: Cost of funds</b>	<b>(1.93)</b>	<b>(1.82)</b>
<b>Net Interest Margin (Spread)</b>	<b>3.12</b>	<b>3.39</b>
<b>Less: Operating costs</b>	<b>(3.03)</b>	<b>(3.12)</b>
<b>Less: Provision for loan losses</b>	<b>(0.63)</b>	<b>(0.61)</b>
<b>Net loss before other income</b>	<b>(0.54)</b>	<b>(0.34)</b>
<b>Plus: Non-interest income</b>	<b>1.17</b>	<b>1.13</b>
<b>Equals: Net Profit or Loss (ROA)</b>	<b>0.63</b>	<b>0.79</b>



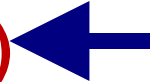
# Spread or Net Interest Margin (NIM)

Goal: Can you keep it stable...or grow it?



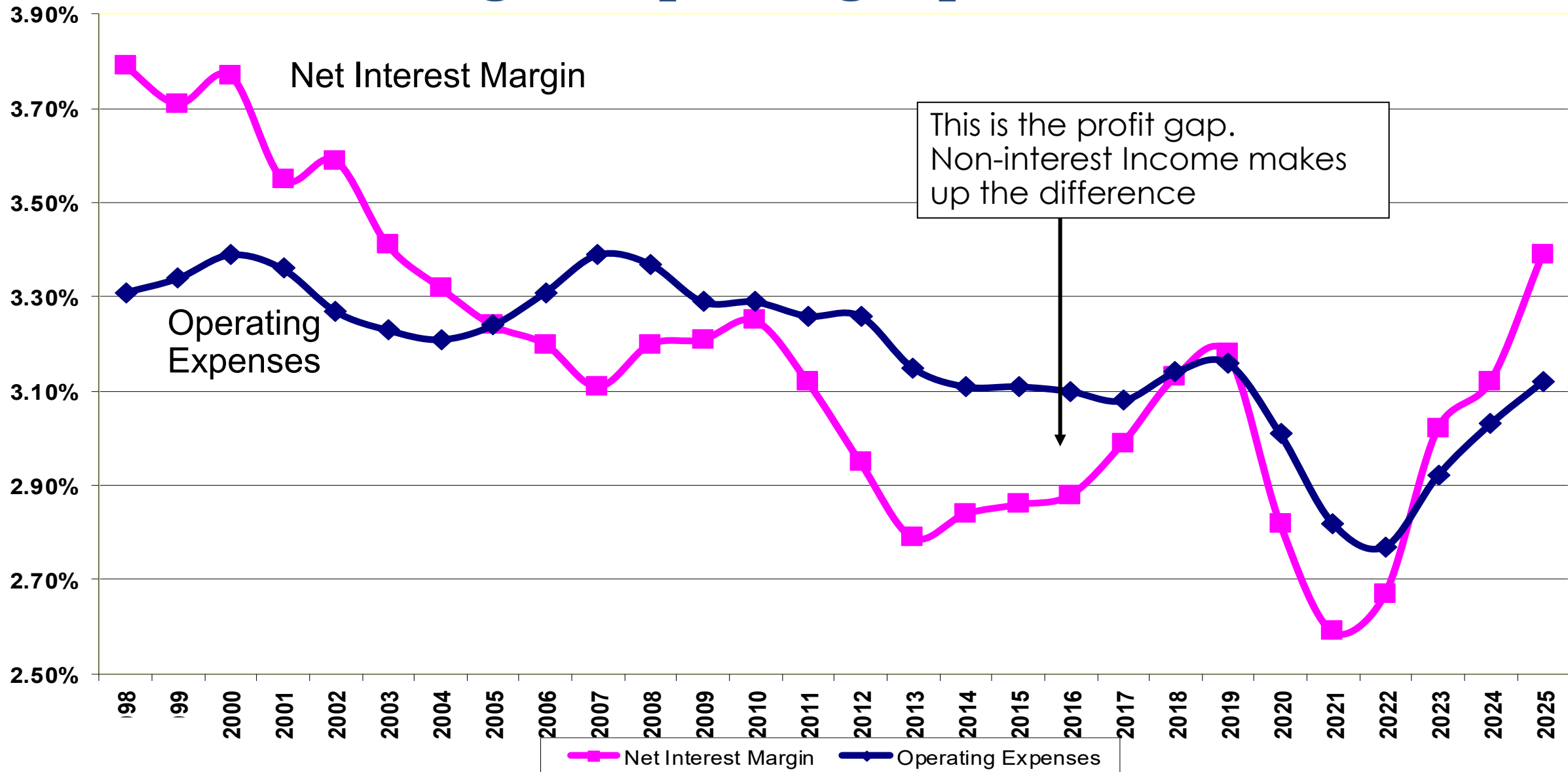
# Spread Analysis (ROA) National Averages

<b>As a % of Average Assets</b>	<b>12/31/24</b>	<b>12/31/25</b>
<b>Yield: Interest income</b>	<b>5.05</b>	<b>5.21</b>
<b>Less: Cost of funds</b>	<b>(1.93)</b>	<b>(1.82)</b>
<b>Net Interest Margin</b>	<b>3.12</b>	<b>3.39</b>
<b>Less: Operating costs</b>	<b>(3.03)</b>	<b>(3.12)</b>
<b>Less: Provision for loan losses</b>	<b>(0.63)</b>	<b>(0.61)</b>
<b>Net loss before other income</b>	<b>(0.54)</b>	<b>(0.34)</b>
<b>Plus: Non-interest income</b>	<b>1.17</b>	<b>1.13</b>
<b>Equals: Net Profit or Loss (ROA)</b>	<b>0.63</b>	<b>0.79</b>



### All Credit Unions

# Net Interest Margin & Operating Expense Ratio



# Spread Analysis (ROA)

## National Averages

As a % of Average Assets	12/31/24	12/31/25
Yield: Interest income	5.05	5.21
Less: Cost of funds	<u>(1.93)</u>	<u>(1.82)</u>
Net Interest Margin	3.12	3.39
Less: Operating costs	(3.03)	(3.12)
Less: Provision for loan losses	<u>(0.63)</u>	<u>(0.61)</u>
Net loss before other income	(0.54)	(0.34)
Plus: Non-interest income	<u>1.17</u>	<u>1.13</u>
Equals: Net Profit or Loss (ROA)	<u><u>0.63</u></u>	<u><u>0.79</u></u>



**Not for Profit,  
Not for Charity,  
But for Service**

# Is Non-Interest Income (NII) Important?

## **Vital:**

- Where a significant amount of CU profit is derived
- Has been important for decades
- NSF and Courtesy Pay income are challenged by competitive pressure
  - Where will you make up the income?
- If you can't get enough revenue from Non-Interest Sources, where do you need to get it?
  - From Interest Income...or Reduce Costs

# Sources of Non-Interest Income

## Not Just Fees!!!

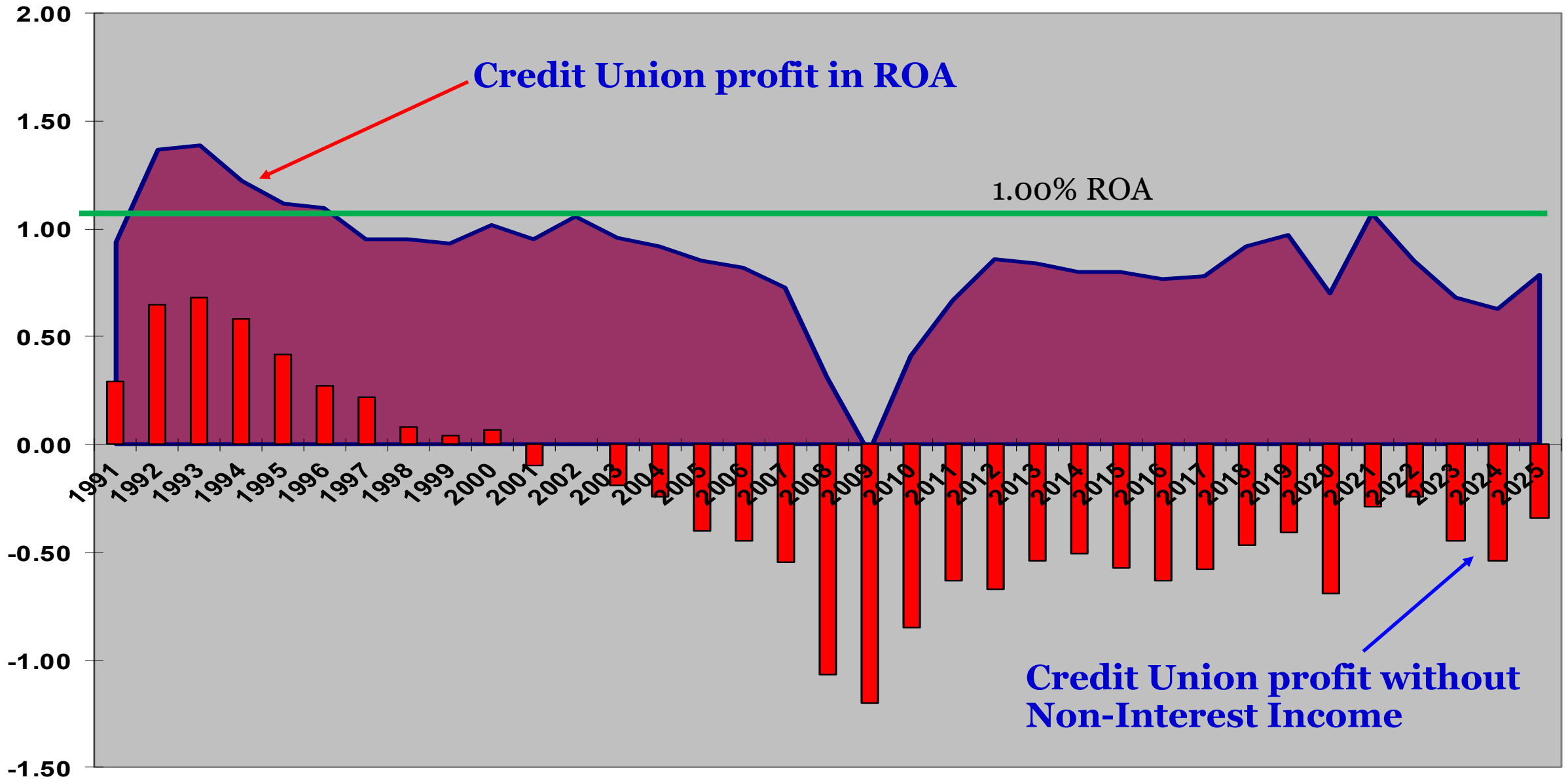
- **Fee Income** – NSF and late loan fee
- **Service Revenues** – Overdraft Privilege/Courtesy Pay
- **Commission Income** – Sales of something
- **Interchange Income** – Debit and Credit cards
- **Other Non-Interest Sources** – CUSO selling some product or service
  - Mortgage sales
  - Mortgage servicing
  - Etc.

# Spread Analysis (ROA)      National Averages

<b>As a % of Average Assets</b>	<b>12/31/24</b>	<b>12/31/25</b>
<b>Yield: Interest income</b>	<b>5.05</b>	<b>5.21</b>
<b>Less: Cost of funds</b>	<b>(1.93)</b>	<b>(1.82)</b>
<b>Net Interest Margin</b>	<b>3.12</b>	<b>3.39</b>
<b>Less: Operating costs</b>	<b>(3.03)</b>	<b>(3.12)</b>
<b>Less: Provision for loan losses</b>	<b>(0.63)</b>	<b>(0.61)</b>
<b>Net loss before other income</b>	<b>(0.54)</b>	<b>(0.34)</b>
<b>Plus: Non-interest income</b>	<b>1.17</b>	<b>1.13</b>
<b>Equals: Net Profit or Loss (ROA)</b>	<b>0.63</b>	<b>0.79</b>

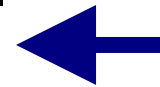


# Non-Interest Income – We're NII Dependent



# Spread Analysis (ROA) National Averages

<b>As a % of Average Assets</b>	<b>12/31/24</b>	<b>12/31/25</b>
<b>Yield: Interest income</b>	<b>5.05</b>	<b>5.21</b>
<b>Less: Cost of funds</b>	<b>(1.93)</b>	<b>(1.82)</b>
<b>Net Interest Margin</b>	<b>3.12</b>	<b>3.39</b>
<b>Less: Operating costs</b>	<b>(3.03)</b>	<b>(3.12)</b>
<b>Less: Provision for loan losses</b>	<b>(0.63)</b>	<b>(0.61)</b>
<b>Net loss before other income</b>	<b>(0.54)</b>	<b>(0.34)</b>
<b>Plus: Non-interest income</b>	<b>1.17</b>	<b>1.13</b>
<b>Equals: Net Profit or Loss (ROA)</b>	<b>0.63</b>	<b>0.79</b>



# Return on Average Assets (ROAA or ROA)

Net income/Average assets\*

\*Average assets = Total assets last period + Total assets this period/2

Measures a credit union's profitability

National Average = 0.79% ←

NET INCOME or LOSS





## Why Peers don't really help

Manut Bol played at 7'7"

Muggsy Bogues played at 5'3"

**On Average, they were 6'5"**

Peer info is just a conglomeration of financial data from hundreds of credit unions.

peer info does not:

- Reflect local market difference
- Strategic choices
- Business model differences

All Peer averages can show you is how different you are than the imaginary average

# Different Business Models

## Different Spread Results

## Know Your Model

	Avg CU	MOMMs CU	Low Op CU
Yield	5.05	7.31	3.18
Cost of funds	(1.93)	(1.79)	(2.04)
NIM	3.12	5.52	1.14
Operating exp	(3.03)	(4.61)	(0.87)
PLL	(0.62)	(1.76)	(0.01)
Net before NII	(0.53)	(0.85)	0.26
Non-Interest Income	1.16	1.72	0.24
ROA	0.63	0.87	0.50
Capital/Assets	11.20%	14.0%	14.0%

# Balance Sheet

ASSETS		LIABILITIES & CAPITAL	
<b>EARNING ASSETS</b>		<b>MISCELLANEOUS LIABS</b>	
Cash	\$ 16,000	Miscellaneous Liabs	\$ 15,100
<b>LOANS</b>		<b>SHARES</b>	
Unsecured	13,500	Share savings	68,000
Vehicle	110,000	Share drafts	35,000
Real estate	30,000	Money market	45,000
Total loans	153,500	IRAs	41,000
Less allowance	(1,100)	CDs	4,000
Net Loans	152,400	Total Shares	193,000
<b>INVESTMENTS</b>		<b>CAPITAL</b>	
Held to maturity	50,000	Regular reserve	8,000
Avail for sale	5,000	Undivided earn	10,900
TOTAL	55,000	Total Capital	18,900
Less Allowance for Investment Losses			
<b>NON-EARNING ASSETS</b>			
Property and equip	1,500		
NCUSIF	2,000		
Other assets	100		
<b>TOTAL ASSETS</b>	<b>\$ 227,000</b>	<b>TOTAL LIABS/CAP</b>	<b>\$ 227,000</b>

# Income Statement

<b>REVENUE</b>	
<b>INTEREST INCOME</b>	
Loans	\$11,000
Investments	1,500
<b>TOTAL</b>	<b>12,500</b>
<b>COST OF FUNDS</b>	
DIVIDENDS PAID	4,200
<b>Net Interest Income</b>	<b>8,300</b>
<b>EXPENSES</b>	
Provision for Loan Losses	1,000
Occupancy	} 7,800
Personnel	
Systems	
<b>TOTAL</b>	<b>8,800</b>
<b>NON-INTEREST INCOME</b>	
Fee Income	700
Service Charges	800
Other Income	400
	<u>1,900</u>
<b>NET INCOME</b>	<b>\$ 1,400</b>

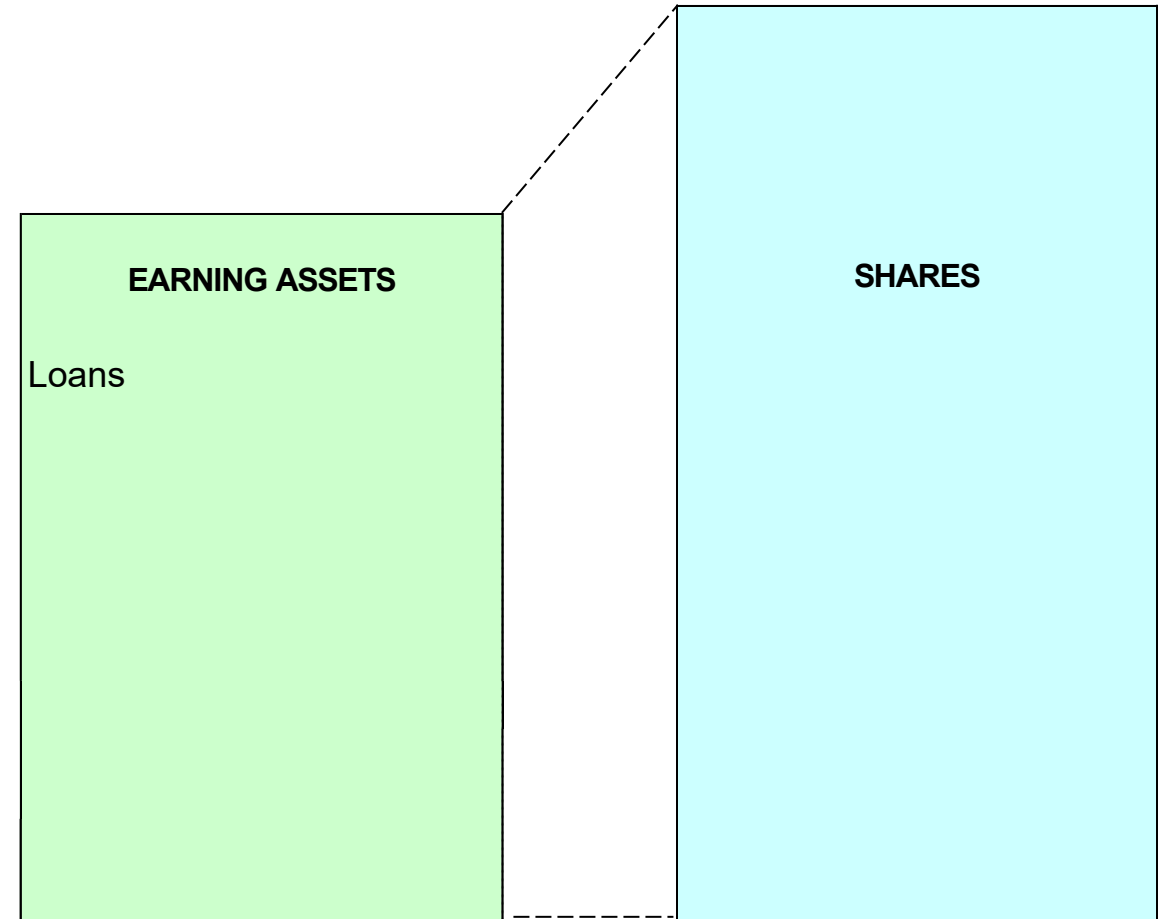
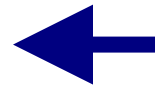
# Loan to Share Ratio

Total Loans/Total Shares and Deposits

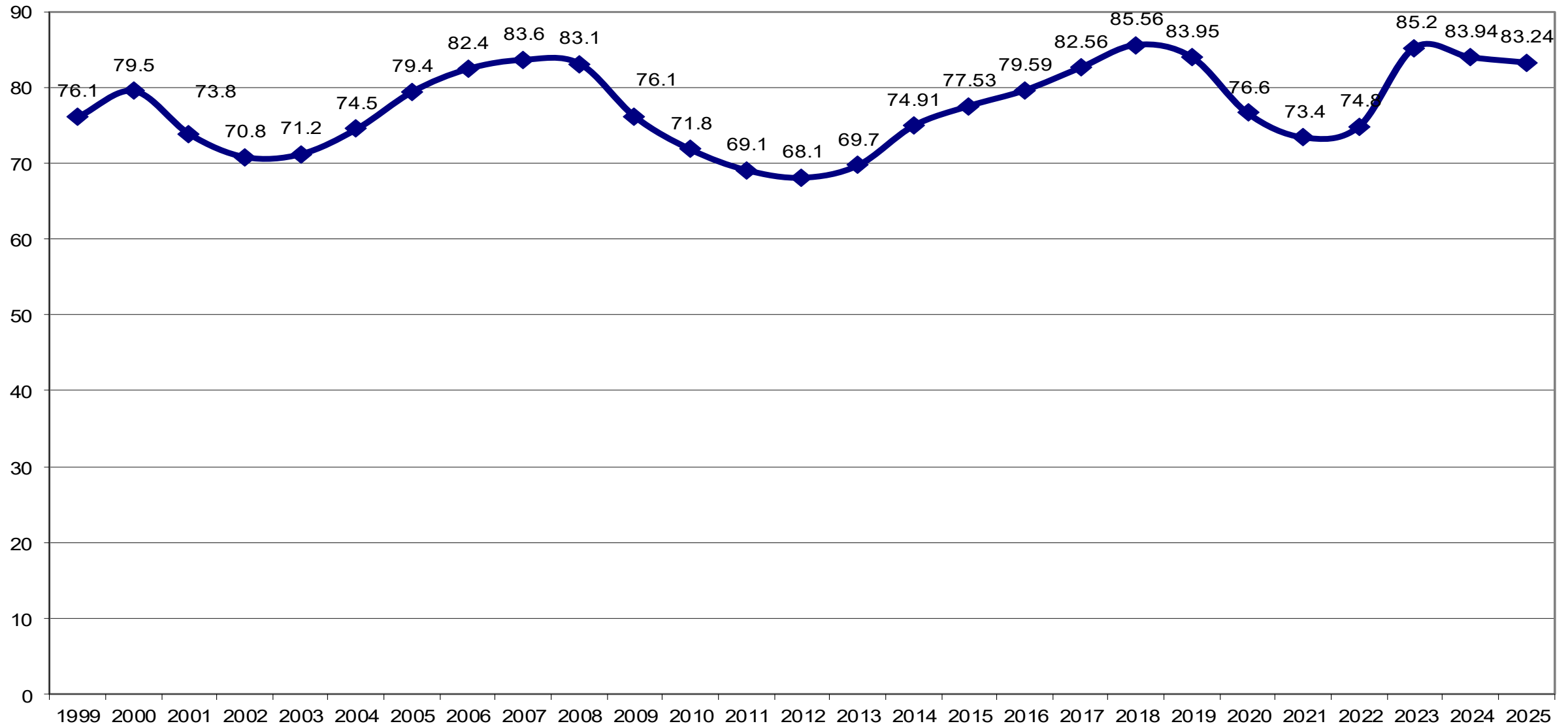
Measures the credit unions use of its best earning asset

***What % of our Deposits is currently loaned out to members?***

**National Average = 83.24%**



## History of Loan to Share Ratio National Average



Which is better, low loan to share or high loan to share ratio?

It Depends

The Loan to Share Ratio tells you only how well you turn deposits into loans

If the loans are poorly underwritten, loan losses could undermine a high Loan to Share Ratio

If the loans are underpriced, the weak Yield could undermine the high Loan to Share Ratio

# Delinquency and Charge-offs

- **Delinquency ratio**

Delinquent loans over 60 days old / Total loans

- **Charge-off ratio**

Charge-offs (less recoveries) / Average loans



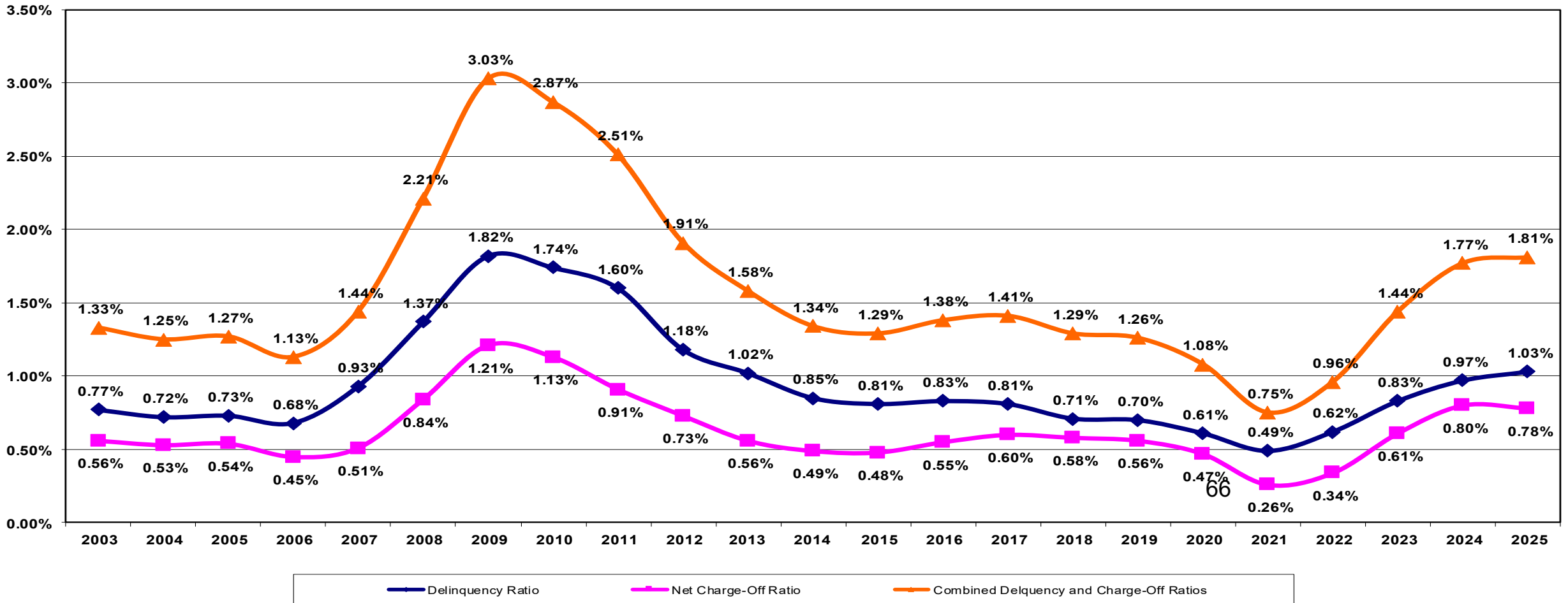
# Delinquency and Charge-offs

	Normal	Average 12/31/25	Modest Means	
Delinquency	0.75%	1.03%	2.50%	
Net Charge-offs	0.50%	0.78%	1.00%	
Combined	1.25%	1.81%	3.50%	

*But what is considered a healthy ratio depends on the credit union's **Business Model and Strategy***

# Delinquency and Charge-offs

History of Delinquency and Charge-Offs  
National Averages



# Allowance for Loan & Lease Losses

ALLL or ALL or ACL

CECL – Current Estimated Credit Losses:

An amount based on management's best estimate of losses over the life of the loan (or life of the portfolio)

A.L.L.L. is a **Contra-Asset**, that means it takes away from the assets

# Balance Sheet

ASSETS		LIABILITIES & CAPITAL	
<b>EARNING ASSETS</b>		<b>MISCELLANEOUS LIABS</b>	
Cash	\$ 16,000	Miscellaneous Liabs	\$ 15,100
<b>LOANS</b>		<b>SHARES</b>	
Unsecured	13,500	Share savings	68,000
Vehicle	110,000	Share drafts	35,000
Real estate	30,000	Money market	45,000
Total loans	153,500	IRAs	41,000
Less Allowance for Loan Loss.	(1,100)	Other	4,000
Net Loans	152,400	Total Shares	193,000
<b>INVESTMENTS</b>		<b>CAPITAL</b>	
Held to maturity	50,000	Undivided earn	18,900
Avail for sale	5,000	Gains (Losses) on Investments	
Allow Inv Loss		Other	
TOTAL	55,000	Total Capital	18,900
<b>NON-EARNING ASSETS</b>		<b>TOTAL LIABS &amp; CAP</b>	
Property and equip	1,500	\$ 227,000	
NCUSIF	2,000		
Other N. E. assets			
Other assets	100		
TOTAL ASSETS	\$ 227,000		

# Income Statement

<b>REVENUE</b>		
INTEREST INCOME		
Loans	\$ 14,000	
Investments	3,000	
Non-Interest Income		
Fees/Serv Revs	1,900	
TOTAL	18,900	
<b>EXPENSES</b>		
Occupancy	}	7,800
Personnel		
Provision for Loan Losses		1,000
TOTAL		8,800
<b>COST OF FUNDS</b>		
Dividends Paid		8,700
<b>NET INCOME</b>		
NET INCOME	\$	1,400

# Allowance for Loan and Lease Losses

– Before charge-off

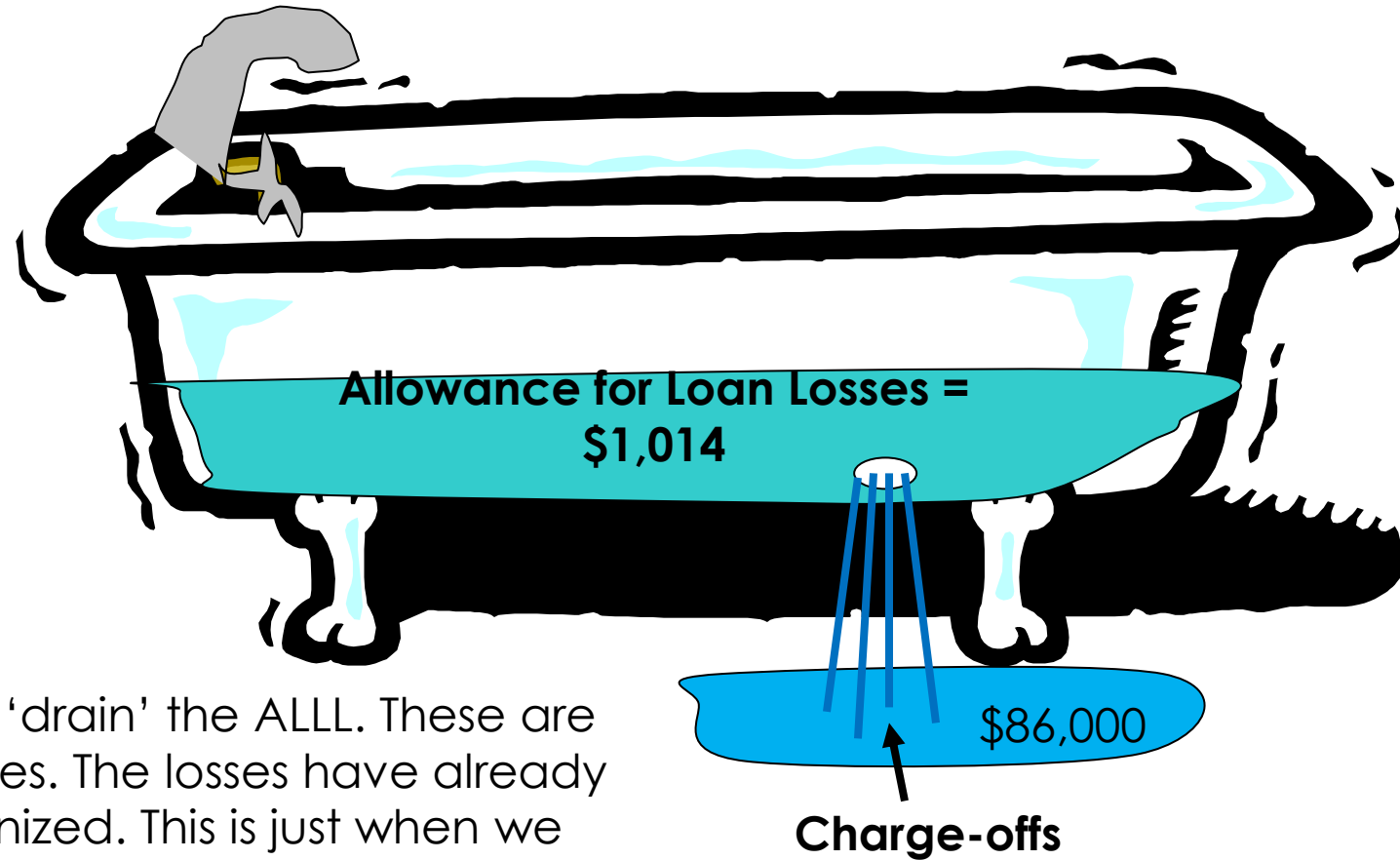
<u>Monthly Expense</u>
Usage this month
<b>\$0</b>



The ALLL is like a reservoir of loan losses ready to be used. The loss has already been incurred at the time the loan became impaired. We are just waiting for the loan to finally wither and drop

# Loans Charged-off

Monthly Expense  
Usage this month  
**\$0**



Charge-offs 'drain' the ALLL. These are not new losses. The losses have already been recognized. This is just when we finally remove the loan from the books.

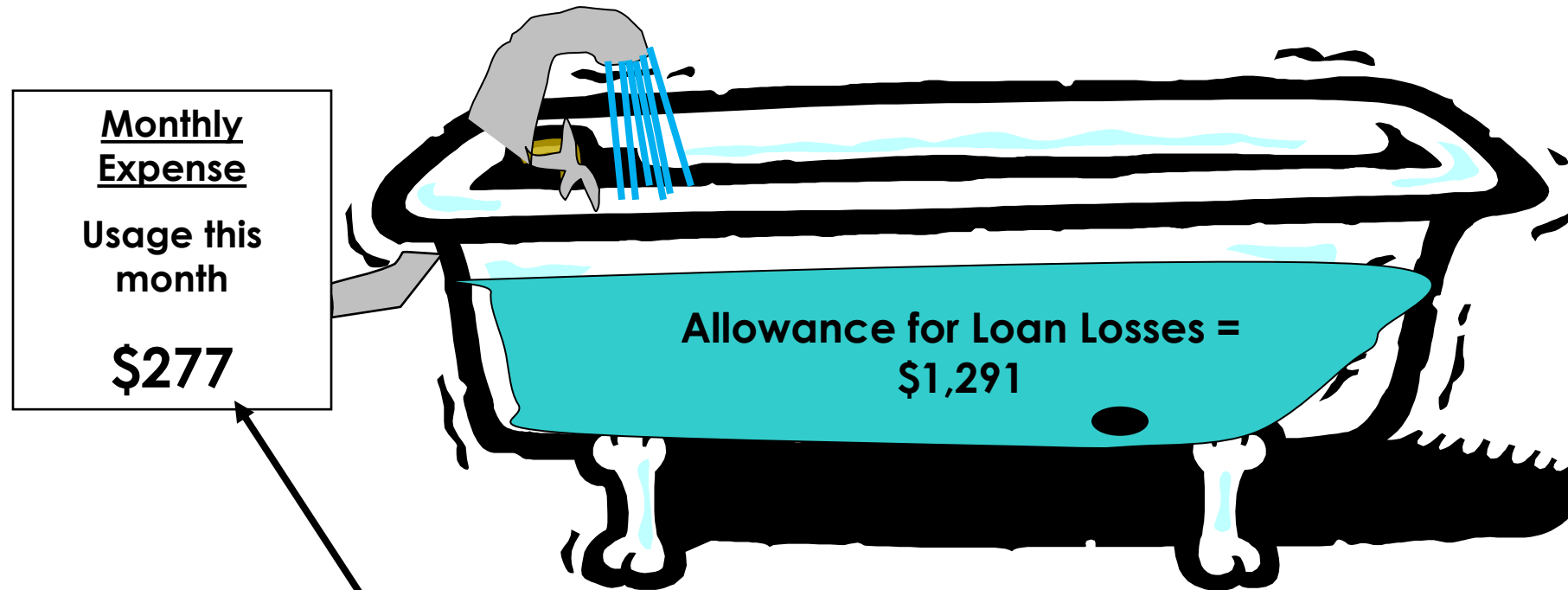
# ALLOWANCE FOR LOAN & LEASE LOSSES

	Portfolio Balance	Allowance Req.	Allowance Req.
LOAN TYPE	this Month	Previous Month	this Month
Used Auto	\$ 65,000,000	\$ 507,000	\$ 593,000
New Auto	\$ 35,000,000	191000	\$ 215,000
Credit Card	\$ 10,000,000	\$ 320,000	\$ 350,000
Other Unsecured	\$ 3,500,000	\$ 45,000	\$ 74,000
First Mortgage	\$ 30,000,000	\$ 23,000	\$ 40,000
Home Equity Mortgage	\$ 10,000,000	\$ 14,000	\$ 19,000
	\$ 153,500,000	\$ 1,100,000	\$ 1,291,000
<b>Less Charge-offs at month end</b>		\$ 86,000	
Net Allowance		\$ 1,014,000	\$ 1,291,000
<b>ADJUSTMENT REQUIRED</b>			\$ 277,000

The ALLL increases to this amount

The Provision for Loan Loss Expense would be this amount for the month

# Restoring the ALLL through the Income Statement – Provision for Loan Losses



The Provision for Loan and Lease Losses is the current monthly charge-to restore the ALLL. It represents matching the expense to the period the loss actually occurred.

# Balance Sheet

## ASSETS

### EARNING ASSETS

Cash	\$ 16,000
Loans	153,500
Secured	13,500
Vehicle	110,000
Real estate	30,000

Less Allowance for Loan Loss. (1,291)

Net Loans 152,400

### INVESTMENTS

Held to maturity	50,000
Avail for sale	5,000
Allow Inv Loss	

TOTAL 55,000

### NON-EARNING ASSETS

Property and equip	1,500
NCUSIF	2,000
Other N. E. assets	
Other assets	100

TOTAL ASSETS \$ 227,000

## LIABILITIES & CAPITAL

### MISCELLANEOUS LIABS

Miscellaneous Liabs \$ 15,100

### SHARES

Share savings	68,000
Share drafts	35,000
Money market	45,000
IRAs	41,000
Other	4,000

Total Shares 193,000

### CAPITAL

Undivided earn	18,900
Gains (Losses) on Investments	
Other	
Total Capital	100,000

TOTAL LIABS & CAP \$ 227,000

# Income Statement

## REVENUE

INTEREST INCOME

Loans \$ 14,000

Investments 3,000

Non-Interest Income

Fees/Serv Re

TOTAL

Add \$277,000 to the expense here

## EXPENSES

Occupancy }  
Personnel } 7,800

Provision for Loan Losses (1,277)

TOTAL 8,800

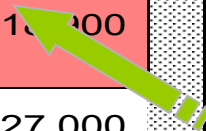
## COST OF FUNDS

Dividends Paid 8,700

## NET INCOME

NET INCOME \$ 1,400

Add \$191,000 to the contra-asset here



# Accounting for Investments

## **MARK TO MARKET**

Credit unions must revalue the carrying amount on their books of investments under certain circumstances

This is similar to the concept of ALLL

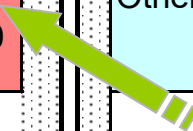
# Balance Sheet

ASSETS	
<b>EARNING ASSETS</b>	
Cash	\$ 16,000
<b>LOANS</b>	
Unsecured	13,500
Vehicle	110,000
Real estate	30,000
Total loans	153,500
Less allowance	(1,100)
Net Loans	152,400
<b>INVESTMENTS</b>	
Held to maturity	50,000
Avail for sale	5,000
TOTAL	55,000
Less Allowance for Investment Losses	
<b>NON-EARNING ASSETS</b>	
Property and equip	1,500
NCUSIF	2,000
Other assets	100
<b>TOTAL ASSETS</b>	<b>\$ 227,000</b>

LIABILITIES & CAPITAL	
<b>MISCELLANEOUS LIABS</b>	
Miscellaneous Liabs	\$ 15,100
<b>SHARES</b>	
Share savings	68,000
Share drafts	35,000
Money market	45,000
IRAs	41,000
CDs	4,000
Total Shares	193,000
<b>CAPITAL</b>	
Regular reserve	8,000
Undivided earn	10,900
Total Capital	18,900
<b>TOTAL LIABS/CAP</b>	<b>\$ 227,000</b>

# Income Statement

<b>REVENUE</b>	
<b>INTEREST INCOME</b>	
Loans	\$11,000
Investments	1,500
TOTAL	12,500
<b>COST OF FUNDS</b>	
DIVIDENDS PAID	4,200
<b>Net Interest Income</b>	<b>8,300</b>
<b>EXPENSES</b>	
Provision for Loan Losses	1,000
Occupancy	} 7,800
Personnel	
Systems	} 8,800
TOTAL	
<b>NON-INTEREST INCOME</b>	
Fee Income	700
Service Charges	800
Other Income	400
	1,900
<b>NET INCOME</b>	<b>\$ 1,400</b>



# Accounting **for Investments**

**Held to Maturity (HTM)** - an investment that your CU has the intent and capacity to carry until the investment matures and is paid back

Carry on your books at historical (or amortized) value unless:  
OTTI – a decline in value that is Other than a Temporary Impairment

# Accounting for Investments

**Trading/Equity** - an investment that your CU has purchased for speculative purposes. (All Equity investments must be categorized as “Trading”)

Carry on your books at market value. Run the increase or decrease in market value through your income statement as an income or expense, even if you did not sell the investment.

Note: You may have Equity securities in your retirement fund portfolio that will need to follow these accounting rules

# Accounting for Investments

**Available for Sale (AFS)** – any investment that is not HTM or Trading.

Carry on your Balance Sheet at market value but run the increase or decrease in value through your Equity

New Account: Unrealized Gain or Loss on AFS Securities

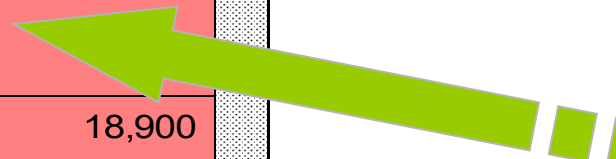
Most Credit Unions have most of their investments in AVS

# Balance Sheet

ASSETS	LIABILITIES & CAPITAL																																																																																														
<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center;"><b>EARNING ASSETS</b></td> </tr> <tr> <td>Cash</td> <td style="text-align: right;">\$ 16,000</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td colspan="2"><b>LOANS</b></td> </tr> <tr> <td>Unsecured</td> <td style="text-align: right;">13,500</td> </tr> <tr> <td>Vehicle</td> <td style="text-align: right;">110,000</td> </tr> <tr> <td>Real estate</td> <td style="text-align: right;">30,000</td> </tr> <tr> <td>Total loans</td> <td style="text-align: right;">153,500</td> </tr> <tr> <td>Less Allowance for Loan Loss.</td> <td style="text-align: right;">(1,100)</td> </tr> <tr> <td><hr/></td> <td></td> </tr> <tr> <td>Net Loans</td> <td style="text-align: right;">152,400</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td colspan="2"><b>INVESTMENTS</b></td> </tr> <tr> <td>Held to maturity</td> <td style="text-align: right;">50,000</td> </tr> <tr> <td>Avail for sale</td> <td style="text-align: right;">5,000</td> </tr> <tr> <td>Allow Inv Loss</td> <td></td> </tr> <tr> <td><hr/></td> <td></td> </tr> <tr> <td>TOTAL</td> <td style="text-align: right;">55,000</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td colspan="2"><b>NON-EARNING ASSETS</b></td> </tr> <tr> <td>Property and equip</td> <td style="text-align: right;">1,500</td> </tr> <tr> <td>NCUSIF</td> <td style="text-align: right;">2,000</td> </tr> <tr> <td>Other N. E. assets</td> <td></td> </tr> <tr> <td><hr/></td> <td></td> </tr> <tr> <td>Other assets</td> <td style="text-align: right;">100</td> </tr> <tr> <td><hr/></td> <td></td> </tr> <tr> <td>TOTAL ASSETS</td> <td style="text-align: right;">\$ 227,000</td> </tr> </table>	<b>EARNING ASSETS</b>		Cash	\$ 16,000	<hr/>		<b>LOANS</b>		Unsecured	13,500	Vehicle	110,000	Real estate	30,000	Total loans	153,500	Less Allowance for Loan Loss.	(1,100)	<hr/>		Net Loans	152,400	<hr/>		<b>INVESTMENTS</b>		Held to maturity	50,000	Avail for sale	5,000	Allow Inv Loss		<hr/>		TOTAL	55,000	<hr/>		<b>NON-EARNING ASSETS</b>		Property and equip	1,500	NCUSIF	2,000	Other N. E. assets		<hr/>		Other assets	100	<hr/>		TOTAL ASSETS	\$ 227,000	<table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: center;"><b>MISCELLANEOUS LIABS</b></td> </tr> <tr> <td>Miscellaneous Liabs</td> <td style="text-align: right;">\$ 15,100</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td colspan="2" style="text-align: center;"><b>SHARES</b></td> </tr> <tr> <td>Share savings</td> <td style="text-align: right;">68,000</td> </tr> <tr> <td>Share drafts</td> <td style="text-align: right;">35,000</td> </tr> <tr> <td>Money market</td> <td style="text-align: right;">45,000</td> </tr> <tr> <td>IRAs</td> <td style="text-align: right;">41,000</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">4,000</td> </tr> <tr> <td><hr/></td> <td></td> </tr> <tr> <td>Total Shares</td> <td style="text-align: right;">193,000</td> </tr> <tr> <td colspan="2"><hr/></td> </tr> <tr> <td colspan="2" style="text-align: center;"><b>CAPITAL</b></td> </tr> <tr> <td>Undivided earn</td> <td style="text-align: right;">18,900</td> </tr> <tr> <td>Gains (Losses) on Investments</td> <td></td> </tr> <tr> <td>Other</td> <td></td> </tr> <tr> <td><hr/></td> <td></td> </tr> <tr> <td>Total Capital</td> <td style="text-align: right;">18,900</td> </tr> <tr> <td><hr/></td> <td></td> </tr> <tr> <td>TOTAL LIABS &amp; CAP</td> <td style="text-align: right;">\$ 227,000</td> </tr> </table>	<b>MISCELLANEOUS LIABS</b>		Miscellaneous Liabs	\$ 15,100	<hr/>		<b>SHARES</b>		Share savings	68,000	Share drafts	35,000	Money market	45,000	IRAs	41,000	Other	4,000	<hr/>		Total Shares	193,000	<hr/>		<b>CAPITAL</b>		Undivided earn	18,900	Gains (Losses) on Investments		Other		<hr/>		Total Capital	18,900	<hr/>		TOTAL LIABS & CAP	\$ 227,000
<b>EARNING ASSETS</b>																																																																																															
Cash	\$ 16,000																																																																																														
<hr/>																																																																																															
<b>LOANS</b>																																																																																															
Unsecured	13,500																																																																																														
Vehicle	110,000																																																																																														
Real estate	30,000																																																																																														
Total loans	153,500																																																																																														
Less Allowance for Loan Loss.	(1,100)																																																																																														
<hr/>																																																																																															
Net Loans	152,400																																																																																														
<hr/>																																																																																															
<b>INVESTMENTS</b>																																																																																															
Held to maturity	50,000																																																																																														
Avail for sale	5,000																																																																																														
Allow Inv Loss																																																																																															
<hr/>																																																																																															
TOTAL	55,000																																																																																														
<hr/>																																																																																															
<b>NON-EARNING ASSETS</b>																																																																																															
Property and equip	1,500																																																																																														
NCUSIF	2,000																																																																																														
Other N. E. assets																																																																																															
<hr/>																																																																																															
Other assets	100																																																																																														
<hr/>																																																																																															
TOTAL ASSETS	\$ 227,000																																																																																														
<b>MISCELLANEOUS LIABS</b>																																																																																															
Miscellaneous Liabs	\$ 15,100																																																																																														
<hr/>																																																																																															
<b>SHARES</b>																																																																																															
Share savings	68,000																																																																																														
Share drafts	35,000																																																																																														
Money market	45,000																																																																																														
IRAs	41,000																																																																																														
Other	4,000																																																																																														
<hr/>																																																																																															
Total Shares	193,000																																																																																														
<hr/>																																																																																															
<b>CAPITAL</b>																																																																																															
Undivided earn	18,900																																																																																														
Gains (Losses) on Investments																																																																																															
Other																																																																																															
<hr/>																																																																																															
Total Capital	18,900																																																																																														
<hr/>																																																																																															
TOTAL LIABS & CAP	\$ 227,000																																																																																														

AFS will often require a new Capital (Equity) account:

**Accumulated Gains or Losses on AFS**

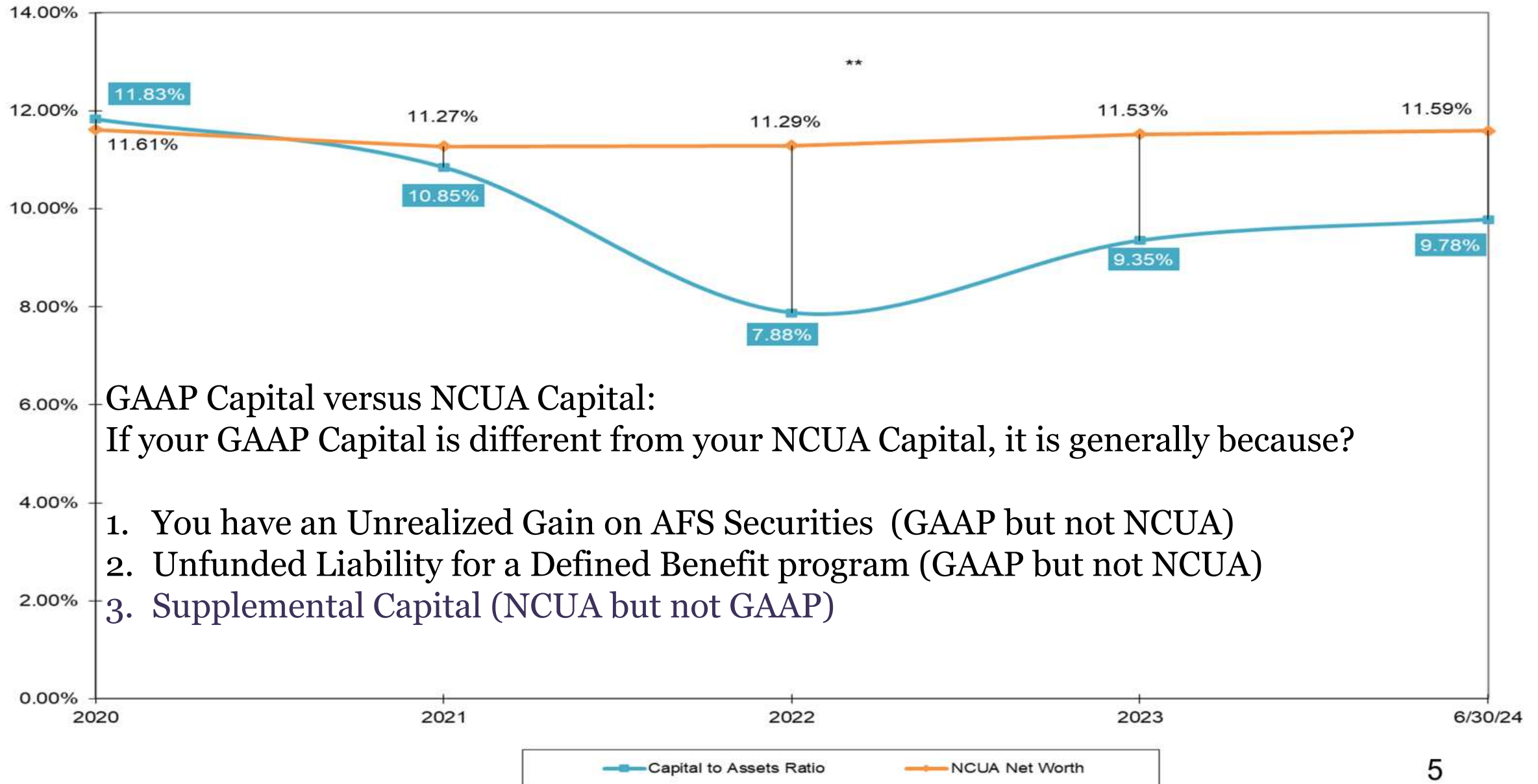


# Effect of Investment Market Value being less than Book Value

<b>EQUITY:</b>	
Undivided Earnings <sup>3</sup>	27,007,160
Other Reserves	0
Appropriation For Non-Conforming Investments (SCU Only)	0
Equity Acquired in Merger	2,442,992
Noncontrolling Interest in Consolidated Subsidiaries	0
Accumulated Unrealized G/L on Cash Flow Hedges	0
Accumulated Unrealized G/L on AFS Securities	N/A
Accumulated Unrealized Losses for OTTI (due to other factors) on HTM Debt Securities	0
Accumulated Unrealized Gains (Losses) on Available for Sale Debt Securities <sup>4</sup>	-4,598,534
Other Comprehensive Income	0
Net Income	0
	24,851,618

### Capital to Assets (Net Worth) Ratio

PA Peer Average: 11.38%



#### GAAP Capital versus NCUA Capital:

If your GAAP Capital is different from your NCUA Capital, it is generally because?

1. You have an Unrealized Gain on AFS Securities (GAAP but not NCUA)
2. Unfunded Liability for a Defined Benefit program (GAAP but not NCUA)
3. Supplemental Capital (NCUA but not GAAP)

# Risk: An ALM Primer

Tim Harrington, CPA

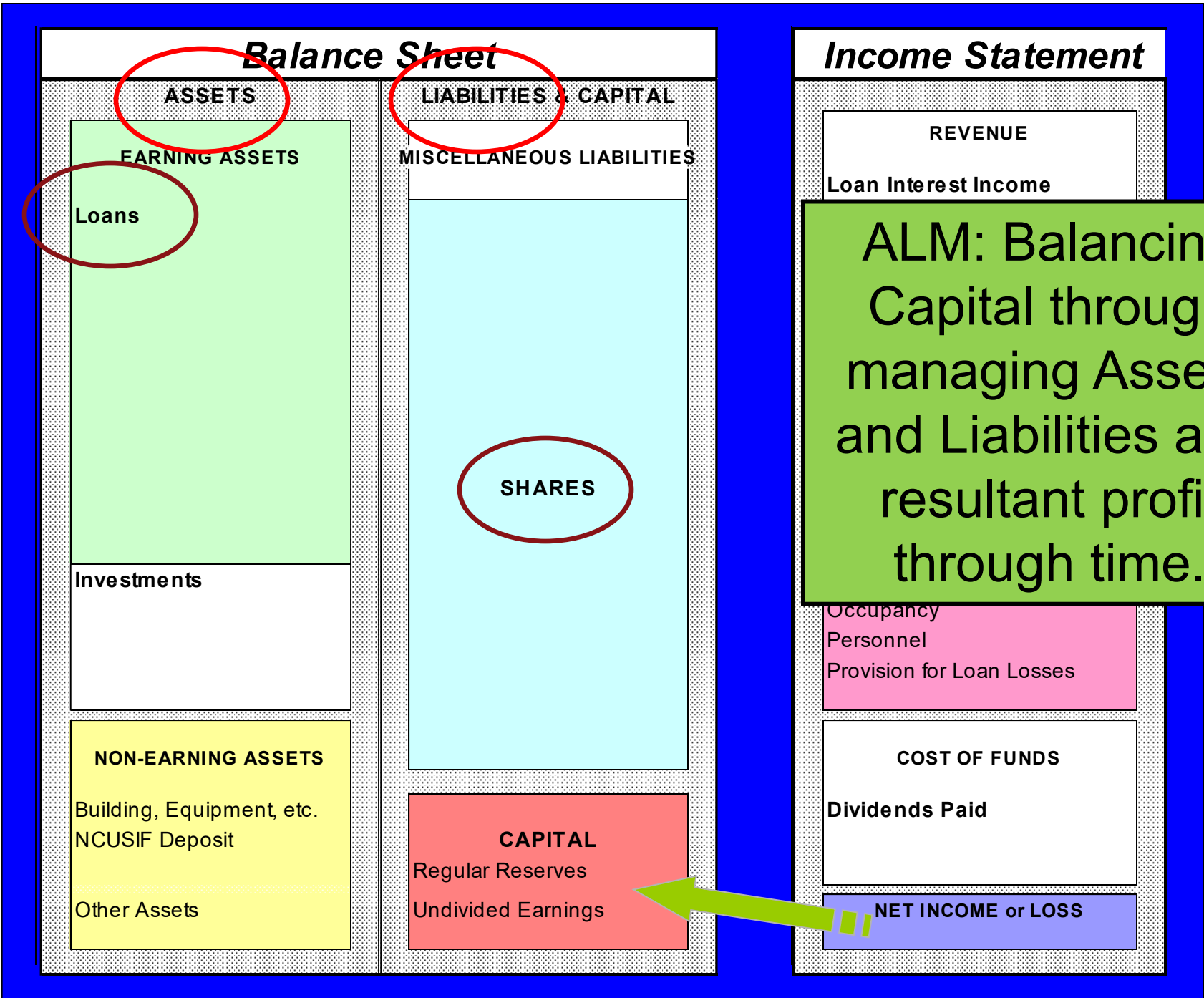
**TIM** Transform Inspire Motivate

## In ALM, Keep it Simple

### Watch “Capital at Risk” in your ALM Reports

ALM reports are not standardized. ALM providers use a variety of terms unique to them.

What I always ask them to show me is “Under this scenario, how much Capital is at risk?”



# What Risks Could We Watch?

- Credit Risk
- Interest Rate Risk
- Liquidity Risk
- Transaction Risk
- Compliance Risk
- Strategic Risk
- Concentration Risk
- Growth Rate Risk

# Credit Risk

Risk that we won't get our money back from a loan or investment

# Credit Risk

Risk that the credit union:

- Will make weak loans
- Will make loans to weak borrowers
- Will get involved in investments that might not pay back

# Measuring Credit Risk

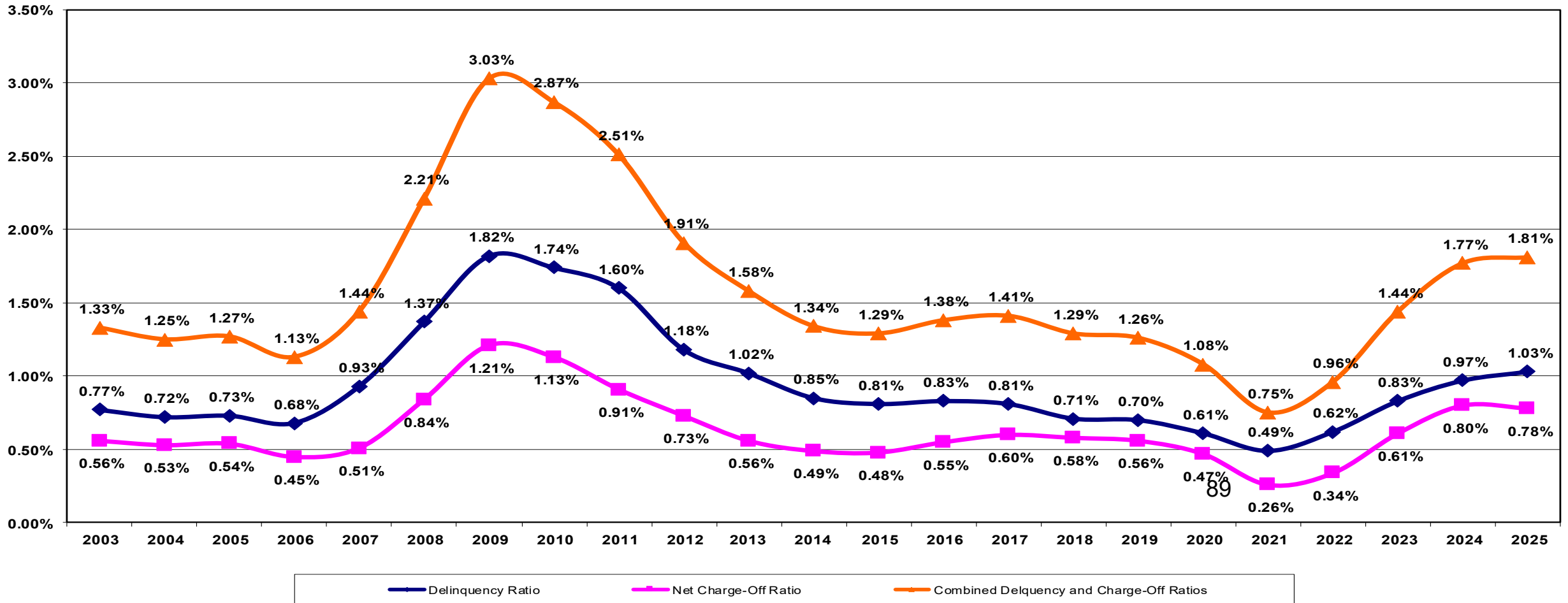
- ✓ Delinquency Ratio
- ✓ Net Charge-off Ratio
- ✓ Earning assets to non-earning assets ratio
- ✓ Trend in credit score or grade mix of your loan portfolio
- ✓ Product mix of your loan portfolio
- ✓ Mix of your investment portfolio

Lagging Indicators

Predictive

# Delinquency and Charge-offs

History of Delinquency and Charge-Offs  
National Averages



## Credit Risk

Your Goal is NOT risk avoidance

Your Goal is ***RISK INTELLIGENCE***

# Know Your Risk and Return in Each Credit Tier

	INDIRECT	%	Loan Balance	Interest Income	Gross Yield	Admin Costs	% Net CO	COF	DEALER COMM	Net Yield
A+ PAPER		42.7%	\$ 298,187,085		5.54%	0.20%	0.07%	1.25%	0.33%	3.69%
A PAPER		22.2%	\$ 155,226,776		6.63%	0.20%	0.23%	1.25%	0.33%	4.62%
B PAPER	86.1%	21.2%	\$ 148,294,462		8.16%	0.40%	0.74%	1.25%	0.33%	5.44%
C PAPER		12.8%	\$ 89,547,268		10.15%	0.80%	1.32%	1.25%	0.33%	6.45%
D PAPER		1.0%	\$ 7,119,608		12.53%	1.50%	1.44%	1.25%	0.33%	8.01%
E PAPER		0.0%	\$ 263,194		12.93%	1.80%	2.59%	1.25%	0.33%	6.96%
No Score		0.0%	\$ 144,740		13.50%	1.80%	12.05%	1.25%	0.33%	-1.93%
Not Rep	13.91%	0.0%	\$ 153,620		5.46%	1.80%	0.00%	1.25%	0.33%	2.08%
<b>TOTAL</b>			\$ 698,936,753	\$ -						

This report can help you see beyond Charge-offs.

Charge-offs are not automatically bad. They are bad if they cause a Tier to not be profitable.

As can be seen from this credit union, the highest loss ratio, C Tier Paper, has a Net Yield substantially higher than A+ and A Tier Paper

# Risk Based Pricing = Sharing

Credit Score		<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
Desired Net Yield		3.00	3.50	4.00	5.00
Charge-offs		0.40	0.60	1.20	2.40
Admin costs		0.20	0.40	0.80	1.50
Dealer fee		0.33	0.33	0.33	0.33
Cost of funds		1.90	1.90	1.90	1.90
Loan Rate		<b><u>5.83</u></b>	<b><u>6.73</u></b>	<b><u>8.23</u></b>	<b><u>11.13</u></b>

Compare yield and term to alternative investments

# Interest Rate Risk

The risk of loss due to rising or falling interest rates.

Arises when a credit union's assets do not mature or re-price at the same interval as its liabilities

If interest rates change, what will happen to:

- Net Interest Margin?
- Net Income?
- Capital?

# Interest Rate Risk

Risk that credit union:

- Will lose money due to long-term, fixed rate loans or investments
- Funded by short-term, variable rate deposits

# Interest Rate Risk

At time loan is made:

Loan rate 3.90%

Your COF at time of loan 0.80%

**Spread** **3.10%**

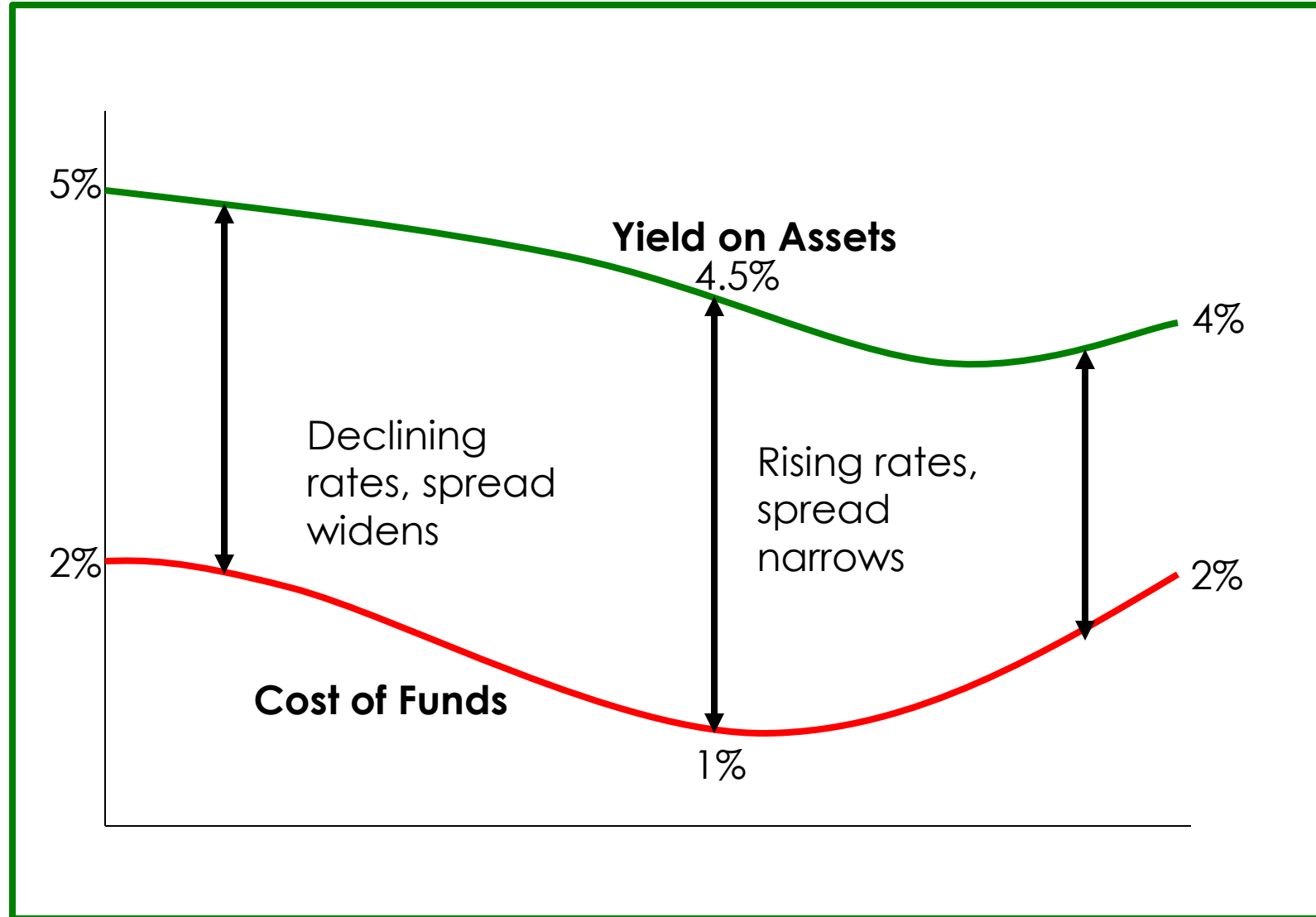
2 years later, rates rise 220 bp:

Loan rate 3.90%

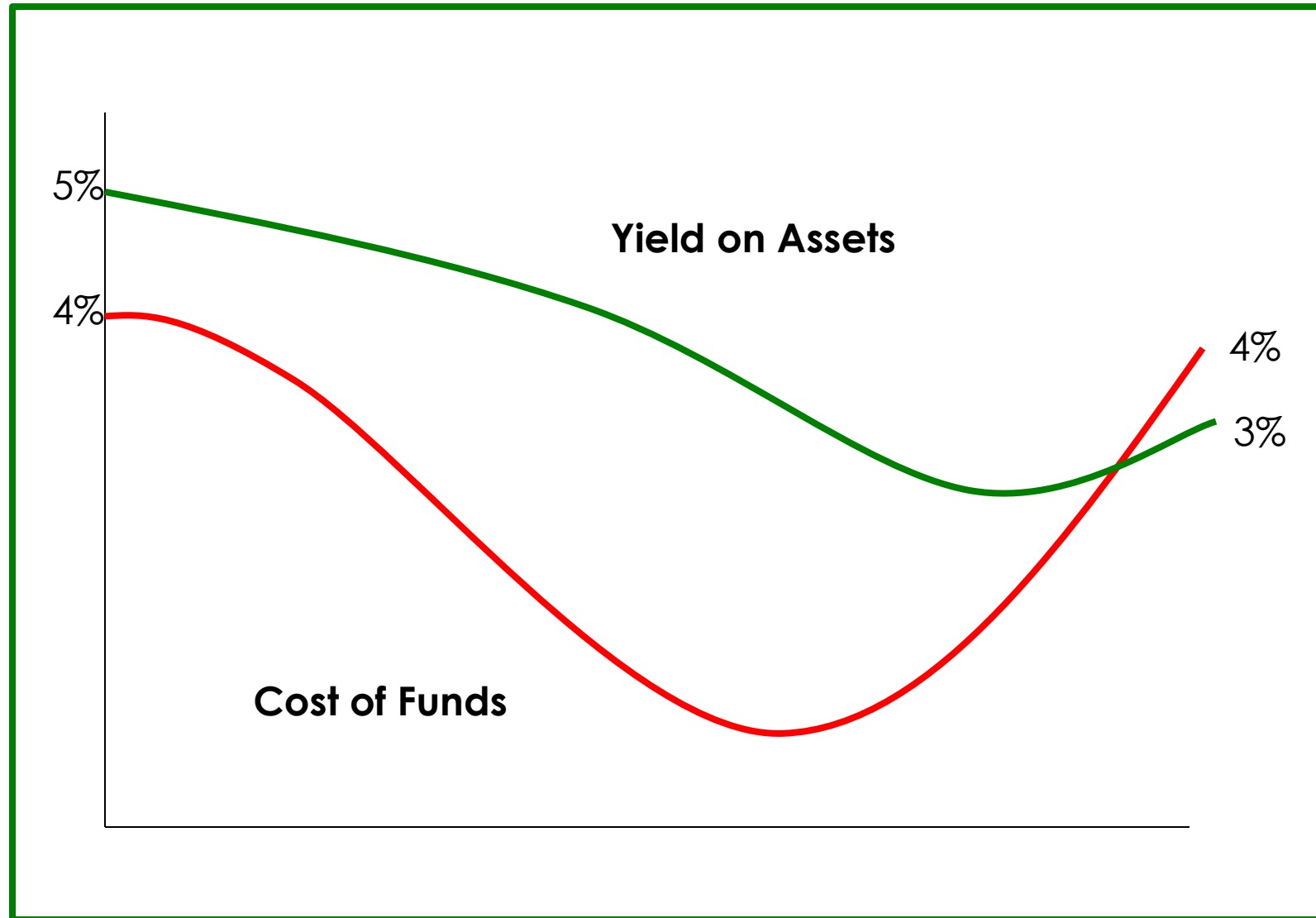
Your COF at time of loan 2.80%

**Spread** **1.10%**

# Normal Banking Cycle: Spread widens and narrows with changing rates



# Interest Rate Risk: Catastrophic!



# Causes of Interest Rate Risk

## Making Fixed Rate Loans in A Variable Rate World

- Fixed rates over long term
- Terms of fixed rate loans and shares
- Adjustable rate loans,
  - Floors, ceilings, re-pricing period

# Measuring Interest Rate Risk

Always pay attention **Capital at Risk**

Compare rate sensitivity of the credit union's earning assets to that of its interest-bearing liabilities

- Gap Analysis
- Net Economic Value (NEV) Calculations
- Income Simulations

Computer simulations

Shock tests

- ✓ Measuring effect on asset values if interest rates rise or fall 300, 400 or 500 basis points

# Net Economic Value:

## Book Value vs. Market Value: Capital at Risk

Net economic value (NEV) measures the effect of interest rate risk on capital

NEV measures balance sheet's value at a future fixed point in time

NEV = "present value" of Assets - "present value" of Liabilities: The end result is the "present value" of Capital at some point in the future.

### Book Value or Current Value:

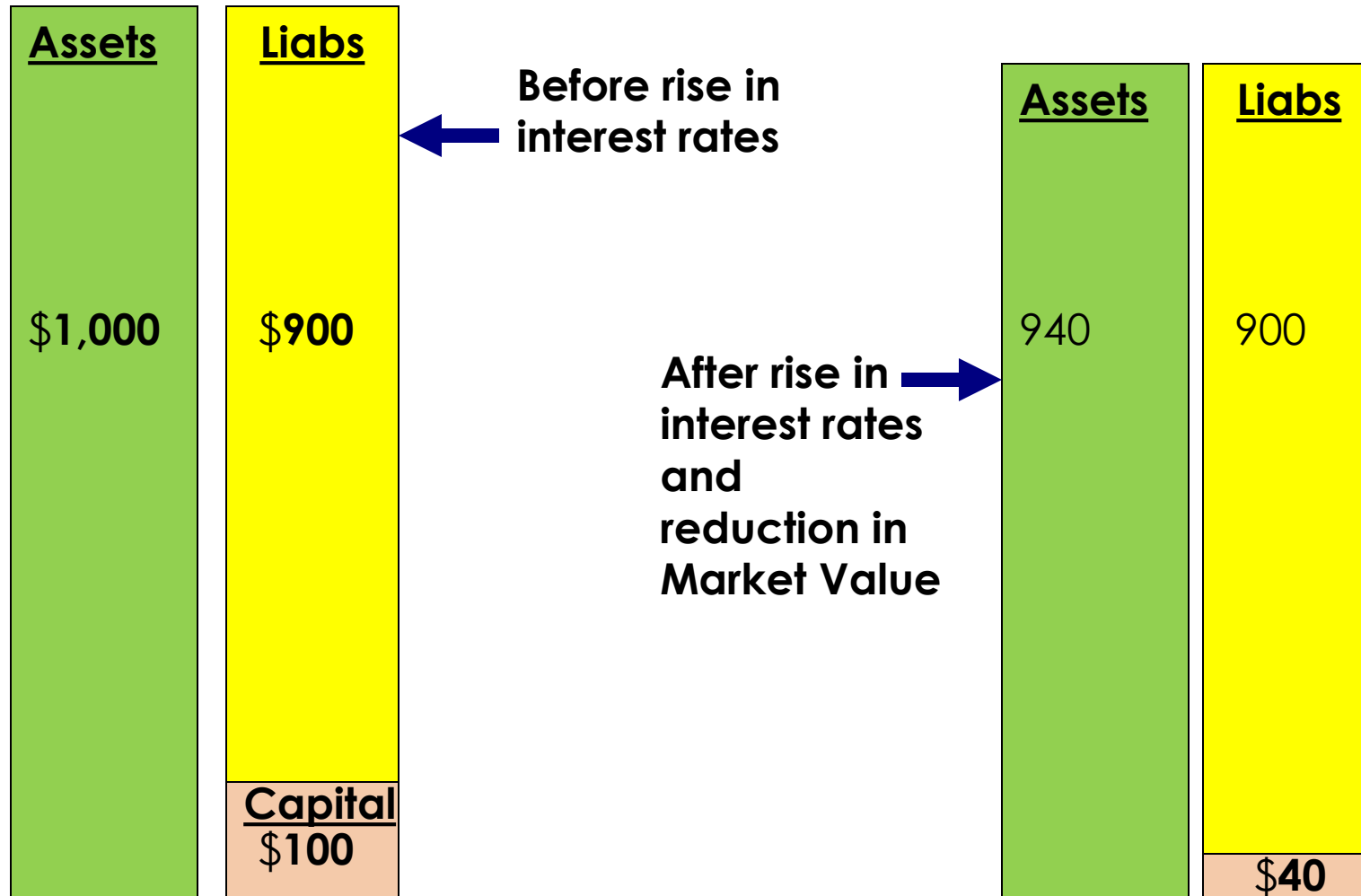
Assets	-	Liabilities	=	Capital	Capital to Assets Ratio
\$1,000	-	\$ 900	=	\$ 100	\$100 / \$1,000 = 10.0%

### Future Value: (after a 3 % Pt. (300 bp) increase in market rates):

Assets	-	Liabilities	=	Capital	Capital to Assets Ratio
\$ 940	-	\$ 900	=	\$40	\$40 / \$940 = 4.3%

**Capital  
at Risk:  
57%**

# Net Economic Value: Book Value vs. Market Value



# Capital at Risk

From NCUA Financial Performance Report

(only available for CUs under \$500 MM in assets)

Line Item	Dec-2021	Dec-2022	Dec-2023	Dec-2024	Dec-2025	Peer Avg.
<b>CAPITAL ADEQUACY RATIOS</b>						<b>Ratio</b>
Net Worth/Total Assets for Prompt Corrective Action <sup>6</sup>	7.37	7.86	8.47	8.64	8.31	12.21
Net Worth + ALLL or ACL / Total Assets + ALLL or ACL	7.71	8.00	8.75	8.87	8.55	12.68

<b>SENSITIVITY TO MARKET RISK</b>					<b>After Stress test</b>	
Est. NEV Tool Post Shock Ratio <sup>4</sup>	2.88	-2.09	-0.78	0.82	2.68	9.62
Est. NEV Tool Post Shock Sensitivity <sup>4</sup>	-64.36	-141.57	-114.63	-86.69	-62.23	-27.57

<sup>1</sup> From data ratios are annualized

**Capital at Risk**

## Liquidity Risk

Risk that adequate cash will not be available to fund loans, meet withdrawal demands, or pay bills

# Liquidity Risk

1. Does Management know what our sources of cash are going to be?
2. Does Management know what are uses of cash are going to be?
3. Do we have access to loans or lines of credit?
4. How much cash and liquid investments do we have?

# Causes of Liquidity Risk

- Investments not liquid
- Loans or investments not paying as planned
- New loans exceeding new deposits
- Deposits leaving the C.U.
- Financial losses
- Lack of alternative funding sources
  - Loans from others
  - Lines-of-credit

# Measures of Liquidity

## Ungood Federal Credit Union

### Liquidity Projection - Cash-Flow Projection

January, 200X

	<b>ACTUAL Jan 0X</b>	<b>ACTUAL Feb 0X</b>	<b>Mar-0X</b>	<b>Apr-0X</b>
<b>BEGINNING CASH BALANCE</b>	\$ 24,480,091	\$ 28,081,931	\$ 30,209,082	\$ 22,281,008
<b>ASSUMPTIONS</b>				
<b>NET LOAN (GROWTH) DECREASE</b>	\$ 2,415,510	\$ 2,210,170	\$ (754,776)	\$ (758,927)
<b>DEPOSIT GROWTH (DECREASE)</b>	\$ 3,707,806	\$ 1,366,869	\$ 456,244	\$ 457,612
<b>CDs MATURING GROWTH (DECREASE)</b>	\$ (2,701,680)	\$ (1,638,779)	\$ (7,779,542)	\$ (8,575,551)
<b>ESTIMATED NET INCOME</b>	\$ 180,204	\$ 188,891	\$ 150,000	\$ 150,000
<b>NET LIQUIDITY INCREASE (DECREASE)</b>	\$ 3,601,840	\$ 2,127,151	\$ (7,928,074)	\$ (8,726,866)
<b>ENDING LIQUIDITY BALANCE</b>	\$ 28,081,931	\$ 30,209,082	\$ 22,281,008	\$ 13,554,142
<b>LIQUIDITY MINIMUM ESTABLISHED BY THE ALM COMMITTEE</b>	\$ 15,525,625	\$ 15,423,515	\$ 15,488,545	\$ 15,484,158
<b>LIQUIDITY EXCESS (SHORTAGE)</b>	\$ 12,556,306	\$ 14,785,567	\$ 6,792,463	\$ (1,930,016)

# Managing Liquidity

- Appropriate pricing on deposits
- Ability to sell investments early
- Keeping loans and investments relatively short term
- Lines-of-credit at Corporate, bank or FHLB
  - Borrow from Corporate or FHLB
- Willingness and ability to sell loans or participations

Board might consider a Deep Dive into the credit union's Liquidity Position once a year

# What Can You Focus On?

1. Maintain **Deposit Growth** at a manageable pace
2. Watch **Duration** on Earning Assets (life of the asset)
3. Monitor projections of **Capital at Risk** and be prepared to restructure your Balance Sheet
4. Review **Concentration Limits** in IRR and ALM policies

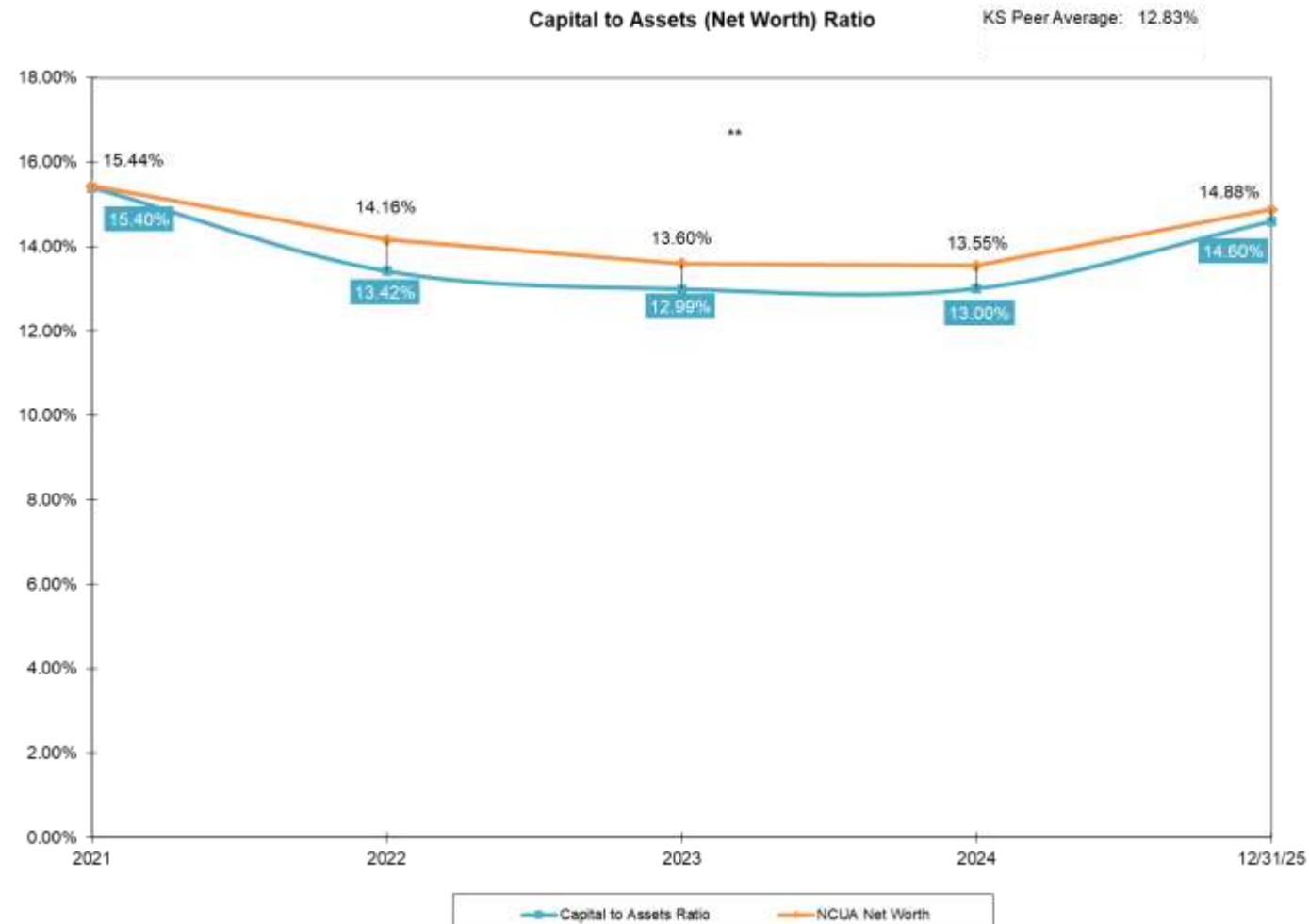
# What Can You Focus On?

- Monitor your **Capital to Assets Ratio** (Net Worth Ratio)
  - Its direction and your expectations
- Monitor your **Spread** Analysis and ROA
- If the Capital to Assets Ratio is falling, determine what it would take to improve Profit (ROA) and return your Capital to Assets Ratio back to 'stable'
- **Project** out what might happen to Capital/Assets ratio
- Monitor other Key Ratios in Graphic Form or a DashBoard

# A Quick Look at Key Metrics

Monitor a Graph of your Capital to Assets Ratio. Is the trend 'stable' or 'improving'? Or is it declining?

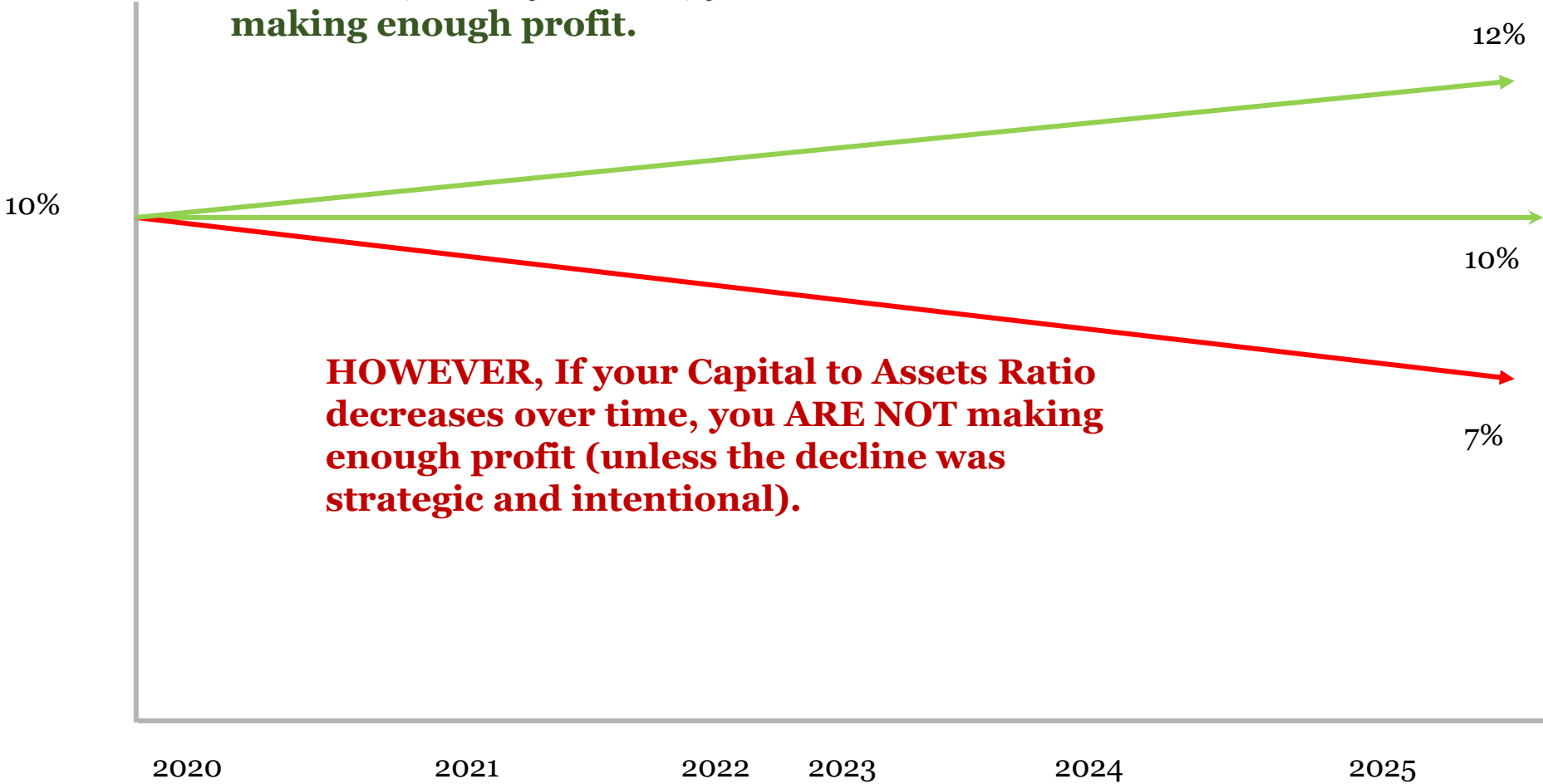
And why?



Spread Analysis	2020	2021	2022	2023	2024	12/31/2025
Interest Income/Avg Assets	5.26%	5.30%	5.27%	6.30%	7.34%	7.90%
Interest Expense/Avg Assets	0.86%	0.55%	0.65%	1.79%	2.62%	2.20%
Net Interest Margin	4.40%	4.75%	4.62%	4.52%	4.73%	5.70%
PLL /Average Assets	0.83%	0.52%	0.23%	0.76%	1.26%	1.85%
Operating Expenses	4.33%	4.61%	4.67%	4.61%	4.56%	4.36%
Other Revenues	2.17%	2.20%	1.82%	1.72%	1.77%	1.89%
Return on Average Assets	1.41%	1.82%	1.54%	0.87%	0.68%	1.38%

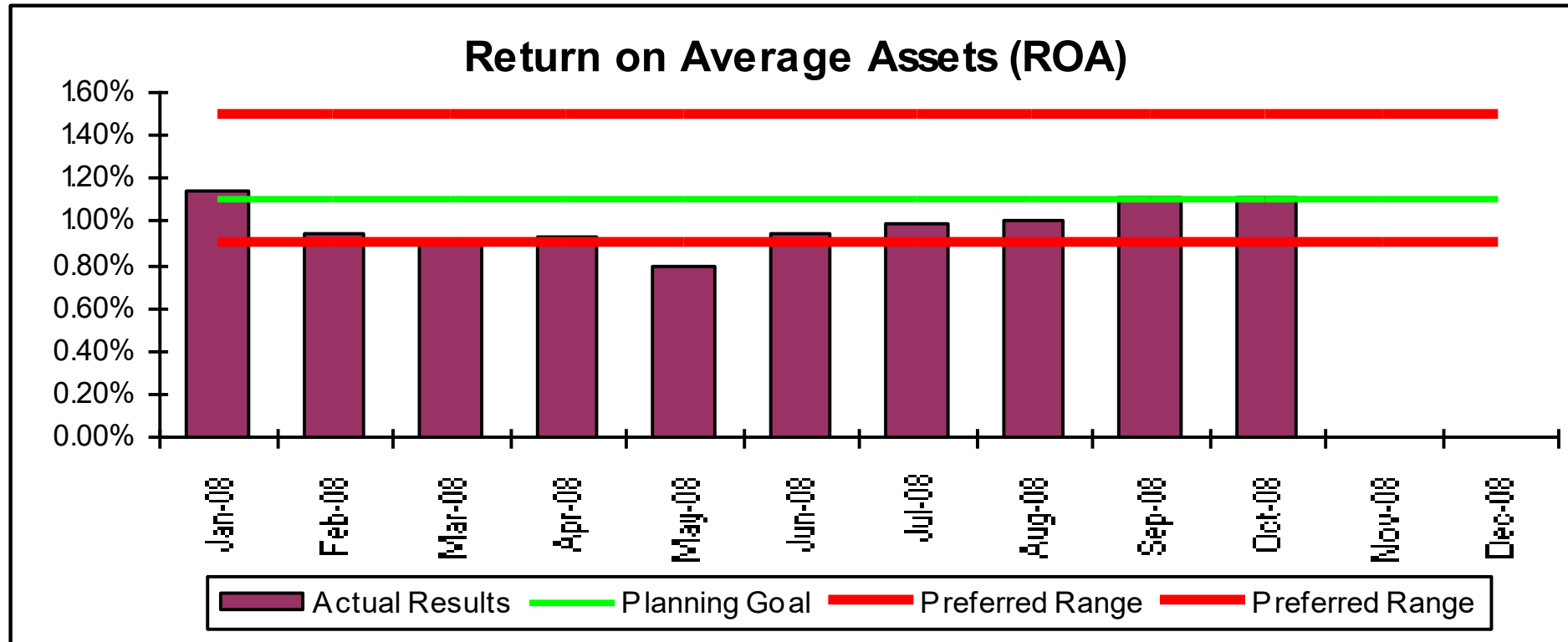
# The Capital to Assets Gauge

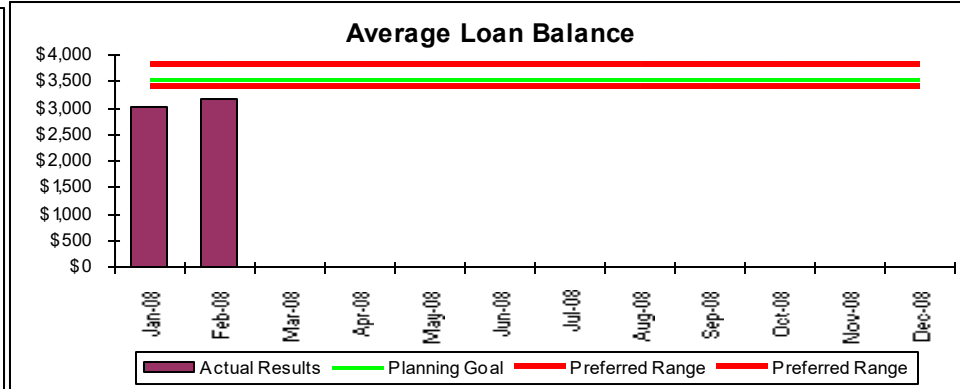
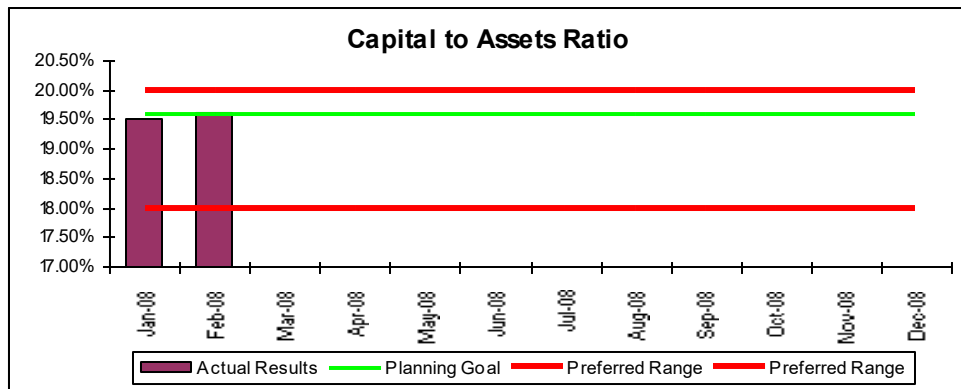
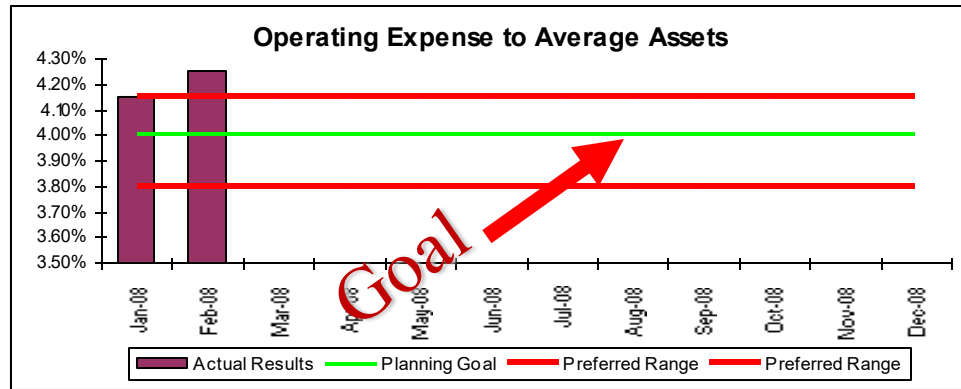
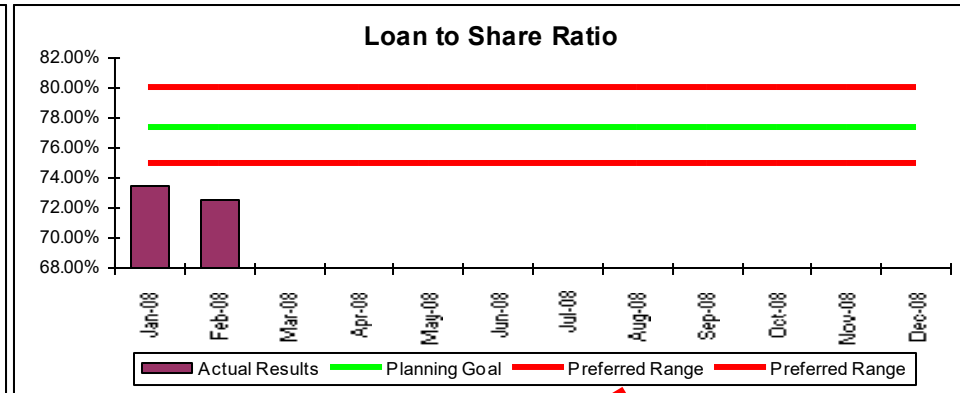
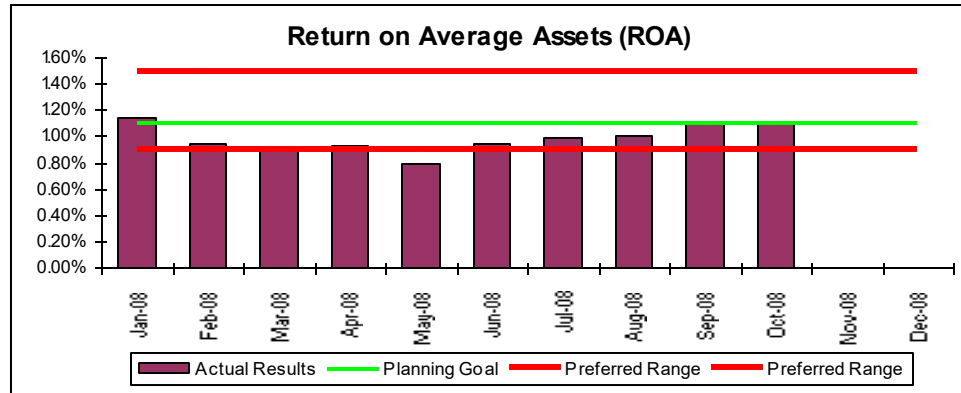
**If your Capital to Assets Ratio increases over time, or stays stable, you ARE making enough profit.**



**HOWEVER, If your Capital to Assets Ratio decreases over time, you ARE NOT making enough profit (unless the decline was strategic and intentional).**

# Using an Instrument Panel





# Free Dashboard

<http://forteamresources.com/products/free-downloads/>

The screenshot displays the TEAM Resources website. At the top, the logo reads "Timothy P. Harrington, Inc. dba TEAM Resources" with the tagline "Opening Doorways to Your Future". A navigation menu includes links for Home, About Us, Consulting Services, Speaking/Training, Products, Webinars, Videos, The TR Blog, and Contact Us. A prominent red banner below the navigation reads "Free Downloads". Two featured items are shown: a green card for "Financial Dashboard Template" and a blue card for "Financial Decoding Manual". Each card includes a small thumbnail image of the respective document and a "VIEW INFO" button.

# TIM

Transform Inspire Motivate

## Timothy Harrington, CPA

Timothy P. Harrington, Inc. dba

**TEAM**Resources  
Opening Doorways to Your Future



520-290-5721



THarrington@forTeamResources.com



[www.forTeamResources.com](http://www.forTeamResources.com)



@TimTeamResource



[www.linkedin.com/in/timothypharrington1](http://www.linkedin.com/in/timothypharrington1)



[www.TimothyHarrington.net/blog.html](http://www.TimothyHarrington.net/blog.html)