

10 Ratios Every Volunteer Should Know

Iowa Code 533.205

- Board of Director Duties
 - General management of the affairs of the credit union
 - Establishing education and training programs to ensure that the director possesses adequate knowledge to manage the affairs of the state of the credit union

Financial Statements

- Balance Sheet
 - Financial position at a point in time
 - Summarizes assets, liabilities and capital/net worth
- Income Statement
 - Financial performance over a period of time
 - Summarizes the income, expenses, gains and losses

Sample Balance Sheet

ABC Credit Union Balance Sheet					
Assets:	12/31/2014	12/31/2013	Liabilities and Capital/(Net Worth):	12/31/2014	12/31/2013
Cash	16,000	14,000	Payables	15,100	14,000
Loans	153,500	147,000	Total Shares	<u>193,000</u>	<u>182,100</u>
Allowance for Loan Loss	<u>(1,100)</u>	<u>(900)</u>			
Net Loans	152,400	146,100	Total Liabilities	208,100	196,100
Investments	55,000	50,000			
Property and Equipment	1,500	1,600	Undivided Earnings (includes Net Income)	8,000	6,600
NCUSIF Deposit	2,000	1,800	Regular Reserves	<u>10,900</u>	<u>10,900</u>
Other Assets	100	100	Total Capital	18,900	17,500
Total Assets	\$ 227,000	\$ 213,600	Total Liabilities and Capital	\$ 227,000	\$ 213,600

Sample Income Statement

ABC Credit Union 12/31/14 Income Statement

Revenue:

Loan Interest Income	14,000
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Investment Income	<u>3,000</u>
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Total Interest Income	17,000
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Fee Income	1,000
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Other Operating Income	<u>900</u>
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Total Income	18,900
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Expenses:

Occupancy/Personnel	7,800
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Provision for Loan Loss	1,000
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Cost of Funds	<u>8,700</u>
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Net Income or Loss	\$ 1,400
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1. Net Worth Ratio

This ratio is the primary measure of a credit union's financial strength.

- Build Net Worth through profitability
- Rainy day fund/cushion
- Allows you to take risks
- How much is enough? It depends

Total Capital/Total Assets = Net Worth
(\$18,900/\$227,000 x 100 = 8.33%)

2. Loans to Assets

This ratio is one indicator of a credit union's liquidity position. A high loan to assets ratio may stress liquidity, especially if

- the credit union has limited funding sources, or
- the credit union has minimal short-term investments

Total Loans/Total Assets

(\$153,500/\$227,000 x 100 = 67.62%)

3. Growth Ratios (annualized)

The Boards philosophy toward service levels, delivery channels, product pricing and breadth of services drives the credit unions growth strategies.

- **Loan Growth**

- $\frac{\text{Total Loans Current Year} - \text{Total Loans Prior Year}}{\text{Total Loans Prior Year}} \times 100$
- $\frac{(\$153,500 - \$147,000)}{\$147,000} \times 100 = 4.42\%$

- **Asset Growth**

- $\frac{\text{Total Assets Current Year} - \text{Total Assets Prior Year}}{\text{Total Assets Prior Year}} \times 100$
- $\frac{(\$227,000 - \$213,600)}{\$213,600} \times 100 = 6.27\%$

- **Share Growth**

- $\frac{\text{Total Shares Current Year} - \text{Total Shares Prior Year}}{\text{Total Shares Prior Year}} \times 100$
- $\frac{(\$193,000 - \$182,100)}{\$182,100} \times 100 = 5.99\%$

4. Gross Income/Average Assets Ratio (annualized)

This ratio reflects the rate at which the credit unions assets produce income.

Significant levels of non-earning assets such as land and building, furniture and equipment, and the volume of delinquent loans impacts this ratio

Total Gross Income/*Average Assets
(\$18,900/*\$220,300 x 100 = 8.58%)

*Average Assets = 2013 Total Assets + 2014 Total Assets/2 (\$213,600 + \$227,000/2 =\$220,300)

5. Fee & Other Non Operating Income/Average Assets (annualized)

This ratio measures the amount of non-interest income the credit union generates as a percentage of assets.

The higher the number the more income is being generated by sources other than asset based products

Fee and Other Operating Income/*Average Assets
(\$1,900/\$220,300 x 100 = .86%)

6. Cost of Funds Ratio (annualized)

This ratio reflects the percentage of assets used for dividends and interest on borrowed money

The mix of deposits between lower costing regular shares and higher-costing share certificates directly affects the cost of funds.

Cost of Funds/*Average Assets
($\$8,700/\$220,300 \times 100 = 3.95\%$)

7. Net Interest Margin (annualized)

This ratio measures whether income from loans and investments sufficiently covers the cost of funds.

It is impacted by the credit unions execution of its lending, investing, and liquidity strategies

Total Interest Income - Cost of Funds/*Average Assets = Net Interest Margin Ratio

$((\$17,000 - \$8,700)/\$220,300 \times 100 = 3.77\%)$

8. Provision for Loan & Lease Losses/Average Assets (annualized)

This ratio reflects the percentage of assets used to fund the Allowance for Loan Loss Account for potential member defaults.

This ratio should be reviewed in conjunction with delinquency and charge-off ratios.

Provision for Loan Loss Expense/*Average Assets
(\$1,000/\$220,300 x100 = .45%)

9. Operating Expense/Gross Income

This ratio reflects the percentage of income used for operations.

For every \$1 of income, a % goes out the door in operating expenses (salaries, data processing, travel, loan servicing, exam fees, etc.)

Total Operating Expense(non-interest expenses)/Gross Income

$(\$7,800/\$18,900 \times 100 = 41.27\%)$

10. Return on Average Assets - ROA (annualized)

This earnings ratio measures net income in relation to average assets and represents the bottom line.

A positive ratio shows that earnings covered the credit union's operating expenses, provision for loan loss expense and cost of funds.

$$\text{Net Income(Loss)}/\text{*Average Assets} = \text{ROA}$$
$$(\$1,400/\$220,300 \times 100 = .64\%)$$

Analyzing Ratios – Is it Good or Bad?

- Trends
 - Are the ratios over time increasing or decreasing
 - Are they in line with internal policy limits
- Peer Groups – Based on asset size
 - Examination Key Ratios Page
 - Financial Performance Reports
- CUAnalyzer

Resources

- <https://www.ncua.gov/analysis/Pages/call-report-data/financial-performance.aspx>
- <https://www.ncua.gov/analysis/Pages/research.aspx>
- <https://www.iowacreditunions.com/icul/resources/board-resources>

Thank You!

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