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21 RATIOS ALL CREDIT UNIONS MUST KNOW

FOR MORE INSIGHT FROM CALLAHAN & ASSOCIATES VISIT

CREDITUNIONS.COM

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It is an NCUA mandate that a credit union's board of directors have a "working familiarity with basic finance and accounting practices." That's for volunteers. Shouldn't a credit union's management staff have the same working knowledge of ratios that effect the credit union's performance? This Callahan Collection covers basic concepts, definitions, and formulas every credit union volunteer and member of management should know.

4 RATIOS ALL STAFF MEMBERS SHOULD KNOW

These four performance metrics will help CFOs explain the business of credit unions and show how every employee helps the credit union achieve its goals.

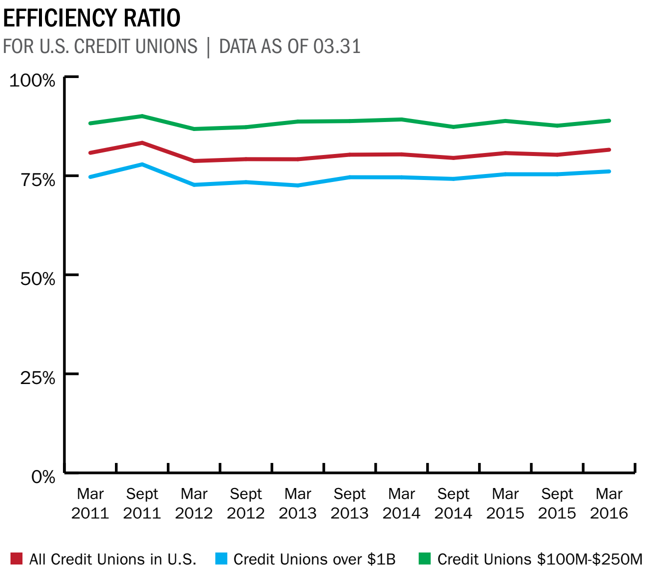
BY SAM TAFT

Credit union CFOs have a complex, highly demanding job. In addition to managing their own daily tasks — and the credit union's performance — they often must educate C-suite executives and other employees who do not have the level of financial acumen required of a CFO. Often, they must show credit union staff members how to analyze and interpret various financial benchmarks and metrics. The following benchmarks are ones that CFOs use daily. Combined with easy-to-understand outlines and descriptions, this article makes a great primer for nonfinancial employees.

EFFICIENCY RATIO

How It's Calculated: The efficiency ratio is calculated by dividing a credit union's operating expenses by interest income less interest expenses plus non-interest income.

$$\frac{\text{Operating Expenses}}{\text{Interest Income - Interest Expenses + NII}}$$

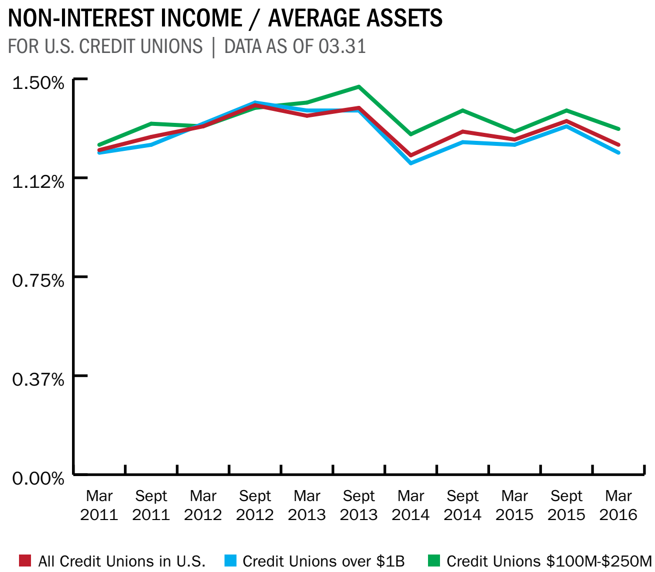


In general terms, the efficiency ratio measures how much the credit union spends to create $1 of revenue. Typically, a lower efficiency ratio is desirable, as long as it doesn't come at the expense of member service. A high or rising efficiency ratio means the credit union is losing a larger share of its income to overhead expenses. A low efficiency ratio means operating expenses are a smaller percentage of income. The efficiency ratio can fluctuate over time, influenced by the interest rate environment, as income is generally more sensitive to changes in interest rates than are expenses. In theory, credit unions with higher ratios of fee income to total income should see less fluctuation in the efficiency ratio than credit unions with little fee income.

NON-INTEREST INCOME/AVERAGE ASSETS

How It's Calculated: This measure is calculated by dividing the sum of annualized fee and other operating income by average total assets.

$$\frac{\text{Annualized Fee Income + Annualized Other Operating Income}}{\text{Average Total Assets}}$$



This ratio measures the amount of non-interest income the credit union generates as a percentage of average assets. The higher the number, the more income the credit union is generating through sources other than asset-based products. Analyzing non-interest income as a percentage of assets removes the variations that exist when comparing the ratio to total income because viewing NII through a total-assets lens removes the impact of a weak loan-to-asset ratio. Non-interest income factors that impact the ratio generally fall into two major categories: (1) income generated directly from the member in the form of fees; (2) income generated indirectly from members or other aspects of the credit union's operations, such as interchange income from credit and check cards or income from CUSO activity. The rate of asset growth is the most impactful variable on the ratio, although strategies for non-interest income play a part as well. Rapid asset growth will depress the ratio while slow or stagnant asset growth will inflate the ratio.

Source: Callahan & Associates

> "In general, a high ROA relative to peers reflects management's success at using assets to generate income."

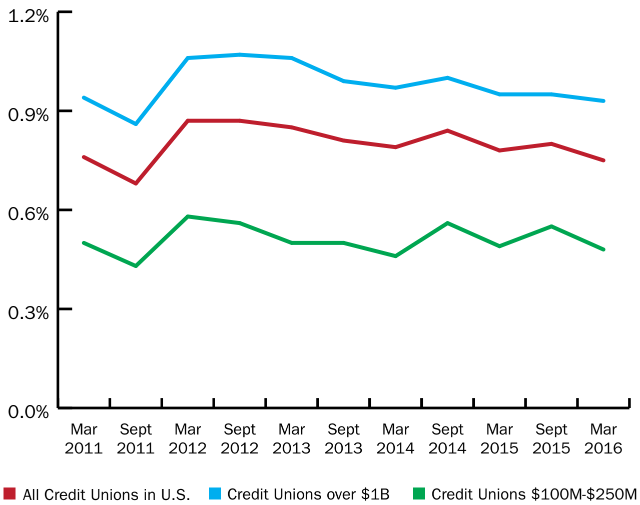
RETURN ON ASSETS

How It's Calculated: Return on assets (ROA) is calculated by dividing annualized net income by average total assets.

$$\frac{\text{Annualized Net Income}}{\text{Average Total Assets}}$$

RETURN ON ASSETS

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



ROA is an important gauge of a credit union's profitability. It shows how efficiently management is running the credit union by revealing how much income is generated for each dollar of assets deployed. In general, a high ROA relative to peers reflects management's success at using assets to generate income. Credit unions; however, should view ROA in light of their institution's distinct strategy. For example, if a credit union passes along potential profits to members through low fees or high deposit rates and low lending rates, then its strategy might result in a lower ROA relative to its peers.

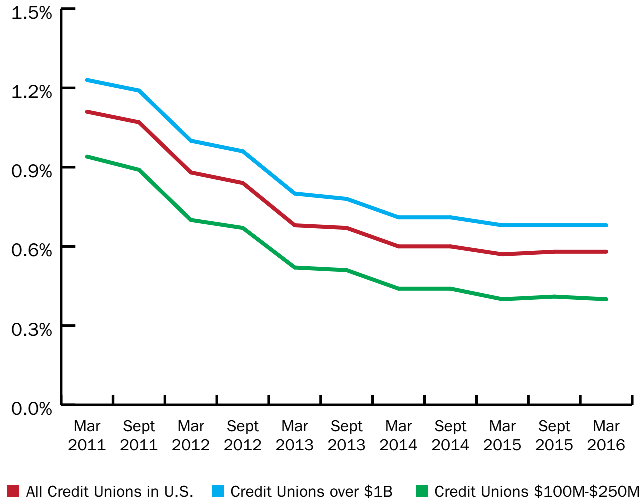
COST OF FUNDS

How It's Calculated: Cost of funds is calculated as the dividends paid to members or interest paid on borrowed money, divided by the average outstanding shares and borrowings.

$$\frac{\text{(Share Dividends + Deposit Interest + Interest On Borrowed Money)}}{\text{(Total Shares (\$) + Total Borrowings (\$))}}$$

COST OF FUNDS

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



A credit union's cost of funds is influenced externally by the overall rate environment and internally by the makeup of the deposit portfolio. For example, older members might have more CDs, or a more affluent membership might have higher balances on tier-priced products. Both situations will increase the cost of funds. Credit unions with high checking account penetration will generally have lower cost of funds. When interpreting the cost of funds, it's easy to think about it as how much the credit union must pay in interest for every dollar of shares or borrowings it receives.

This article originally appeared on CreditUnions.com on February 23, 2015.

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Source: Callahan & Associates

5 RATIOS EVERY CEO MUST KNOW

Jack-of-all-trades, master of none. These benchmarks help CEOs lead their entire organization — from finance to marketing and everything in between.

BY SAM TAFT

The most effective chief executive officers have a high-level understanding of everything happening at their institution. To aid them in their duty, CEOs can use the following metrics to achieve baseline knowledge about the general health of their credit union.

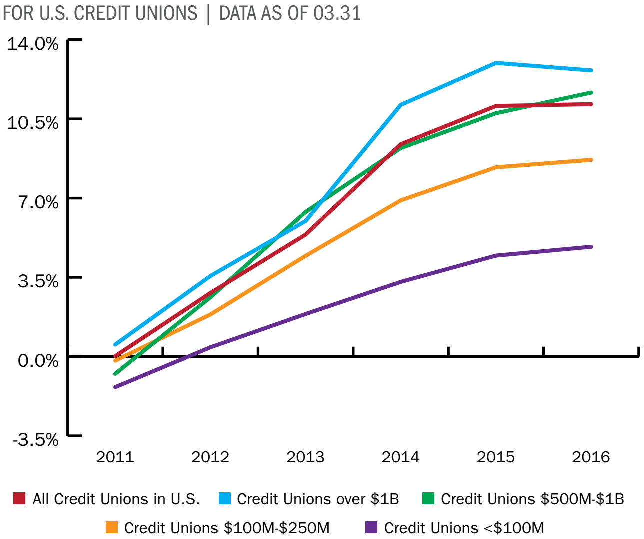
1. LOAN GROWTH

Definition: Loan growth is the period-to-period change of loans outstanding. The loan growth national average as of first quarter 2016 is 11.15%.

$$\frac{\text{Loans Outstanding Current Period (\$)}}{\text{Loans Outstanding Prev. Period (\$)}} - 1$$

LOAN GROWTH

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



Several factors contribute to loan growth. The economy and the membership's confidence in its ability to manage debt affects the overall market for loans, as does demographic factors such as the number of borrowing age members, membership affluence, and cultural attitudes toward debt and borrowing. But internal factors influence this ratio, too, such as the credit union's appetite for risk, marketing effectiveness, product development, sales culture, and delivery channel usage.

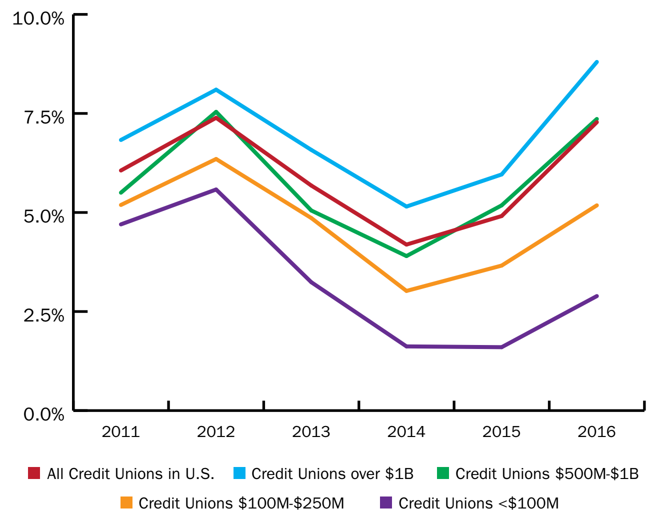
2. SHARE GROWTH

Definition: Share growth is the period-to-period change of total share balances. The share growth national average as of first quarter 2016 is 7.28%.

$$\frac{\text{Share Deposits Current Period (\$)}}{\text{Share Deposits Prev. Period (\$)}} - 1$$

SHARE GROWTH

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



As with loan growth, several factors contribute to share growth. These include the economy, the socio-economic status of a credit union's membership, and the credit union's ability to pay market rates and gain market share. It is important to monitor this ratio in relation to marketing efforts for deposit products. In recent quarters, credit unions have had minimal challenges making loans but have had more difficulty bringing in sufficient deposits to maintain their loan-to-share ratio. As a result, individual institutions have inched closer to being "loaned out," which is when the loan-to-share ratio is equal to or greater than 100%. Moving forward, share growth will be a major factor in determining whether a credit union can continue to make loans at the pace the market demands.

Source: Callahan & Associates

“Credit unions have had minimal challenges making loans but have had more difficulty bringing in sufficient deposits to maintain their loan-to-share ratio.”

3. ASSET GROWTH

Definition: Asset growth is the period-to-period change of total assets. The asset growth national average as of first quarter 2016 is 7.59%.

$$\frac{\text{Total Assets Current Period (\$)}}{\text{Share Deposits Prev. Period (\$)}} - 1$$

ASSET GROWTH

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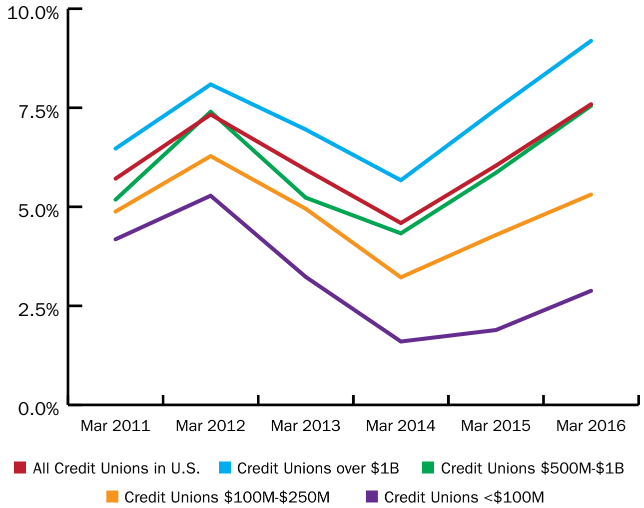


Both internal and external factors affect asset growth. External factors include the economy as well as the makeup and size of a credit union’s field of membership. Internal factors include the quality of member service, the menu of products available, and the credit union’s pricing philosophy. The ability of the credit union to increase its asset base has a direct impact on how well it is able to scale its operations and control expenses. With more assets comes, presumably, more income. This in turn enables a credit union to earn more income for every dollar it spends on operating costs.

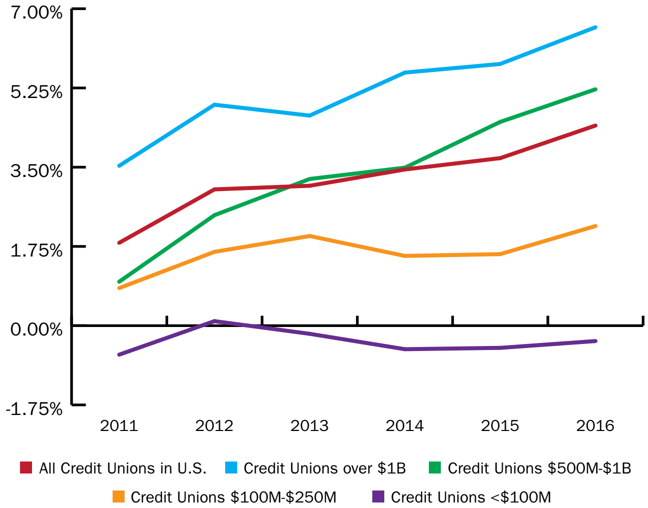
4. MEMBER GROWTH

Definition: Member growth is the period-to-period change of total members. The member growth national average as of first quarter 2016 is 4.42%.

$$\frac{\text{\# of Members Current Period}}{\text{\# of Members Prev. Period}} - 1$$

MEMBER GROWTH

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



A credit union’s business strategy is a major driver of its member growth. More effective strategies for a given marketplace typically yield stronger member growth. The board’s philosophy toward service levels, delivery channels, product pricing, and breadth of services also influence member growth. Typically, credit unions with substantial indirect lending operations have stronger member growth rates than peers without such programs. Although this is a good strategy to recruit members, credit union management must work to convert these new members to users of additional products and services.

Source: Callahan & Associates

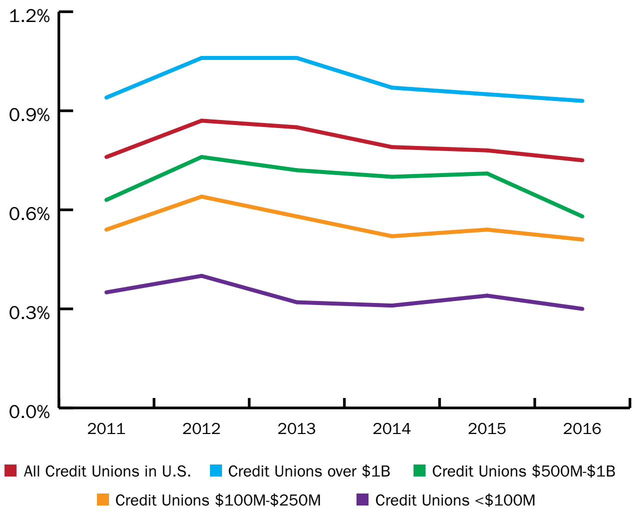
5. ROA

Definition: Return on assets (ROA) is an institution's annualized net income divided by its average total assets. The ROA national average as of first quarter 2016 is 0.75%.

$$\frac{\text{Annualized Net Income}}{\text{Average Total Assets}} - 1$$

RETURN ON ASSETS

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



ROA is an important gauge of a credit union's profitability. It indicates how efficiently management is running the credit union by measuring how much income is generated from every dollar of assets deployed.

In general, a high ROA relative to peers shows management is efficiently using assets to generate income. However, credit union leaders need to view ROA in light of their own institution's distinct strategy. For example, if a credit union passes along potential profits to members — such as through minimal fees, high deposit rates, and low lending rates — then its strategy might result in a lower ROA relative to its peers.

This article originally appeared on CreditUnions.com on April 27, 2015.

Source: Callahan & Associates

3 RATIOS EVERY COO MUST KNOW

The combination of many ratios offers a complete picture of a credit union's operational performance. These three will help COOs communicate successes and opportunities in meeting overall goals.

BY SAM TAFT

Chief operating officers have a finger on the pulse of all areas of the credit union — from revenue to asset growth, and ROA to operating expenses. COOs must monitor it all and have an in-depth understanding of not only what is happening but why. The following selection of benchmarks monitor different areas of a credit union's health and performance and should be on the quarterly performance reports of all COOs.

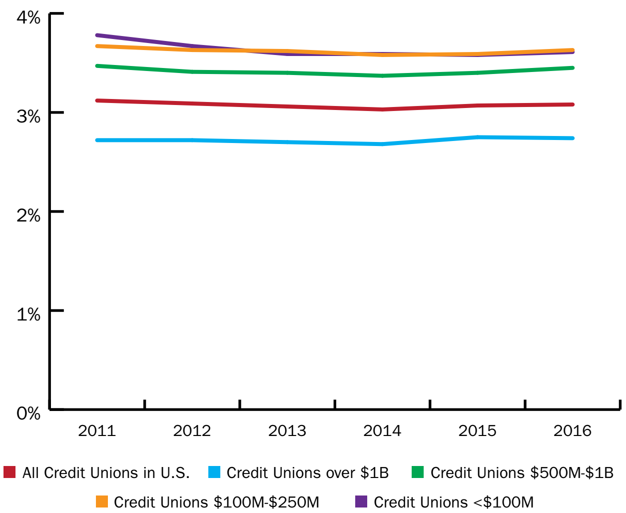
1. OPERATING EXPENSE RATIO

Definition: This measure divides operating expenses by average total assets. The operating expense ratio national average as of first quarter 2016 is 3.08%.

$$\frac{\text{Operating Expenses}}{\text{Average Total Assets}}$$

OPERATING EXPENSE RATIO

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



The operating expense ratio reflects both the operating efficiency and the operating strategy of a credit union. The breadth of a credit union's product and service line will also have an impact on this ratio.

Expense management has a significant impact on a credit union's competiveness and the value it creates for members. In comparing expenses to assets, this ratio underscores the idea that a larger balance sheet is the result of a larger operation that requires greater resources. Leaders should compare the operating expense ratio against the operating expense to income ratio, which is subject to larger swings when interest rate changes affect total income.

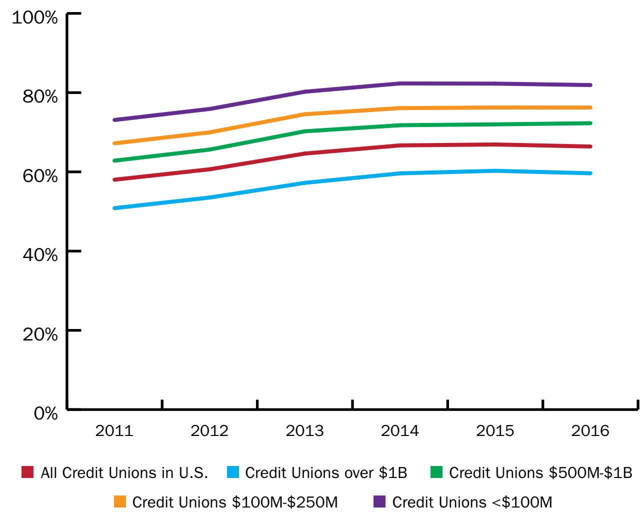
2. OPERATING EXPENSE TO INCOME

Definition: This metric divides the credit union's operating expenses by total income. The operating expense to income national average as of first quarter 2016 is 66.4%.

$$\frac{\text{Operating Expenses}}{\text{Total Income}}$$

OPERATING EXPENSE TO INCOME

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



A credit union's expense to income ratio depends on its ability to generate income from its products and services. Institutions with a full-service strategy and diverse product portfolio will generally have higher expense levels than credit unions with limited offerings.

But the ratio is also a measure of credit union productivity. Product-pricing strategies have a significant impact on income; as such, institutions that price products and services competitively generally have a solid expense to income ratio. And when managed successfully, investments in technology can further boost productivity and lower expenses.

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Source: Callahan & Associates

“In theory, credit unions with higher ratios of fee income to total income should experience less fluctuation in the efficiency ratio. This is because credit unions with lower ratios rely more on loan interest to generate income.”

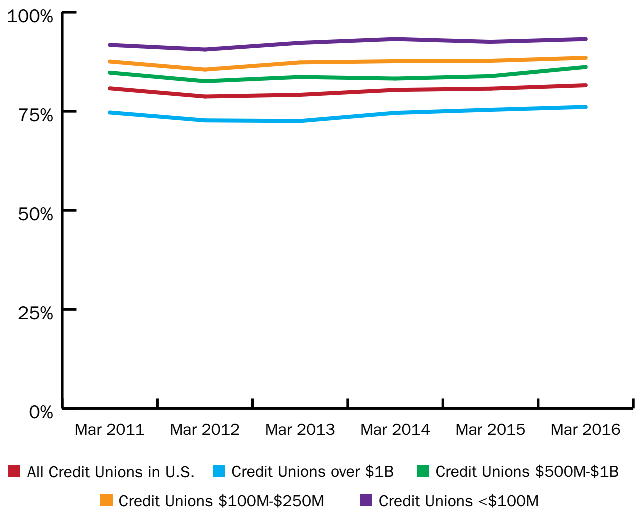
3. EFFICIENCY RATIO

Definition: The efficiency ratio divides a credit union’s operating expenses by interest income less interest expenses plus non-interest income. The efficiency ratio national average as of first quarter 2016 is 81.56%.

$$\frac{\text{Operating Expenses}}{\text{Interest Income} - \text{Interest Expenses} + \text{NII}}$$

EFFICIENCY RATIO

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



An elevated or increasing efficiency ratio indicates a credit union is losing a larger share of its income to overhead expenses while a lower ratio indicates the credit union is diverting less income into such expenses. Therefore, credit unions generally strive to achieve lower efficiency ratios. In nonfinancial terms, the efficiency ratio measures how much it costs to create $1 of revenue — the lower the number, the better.

In theory, credit unions with higher ratios of fee income to total income should experience less fluctuation in the efficiency ratio. This is because credit unions with lower ratios rely more on loan interest to generate income. As income is generally more sensitive than expenses to changes in interest rates, movement in interest rates will result in a fluctuating efficiency ratio.

This article originally appeared on CreditUnions.com on April 27, 2015.

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Source: Callahan & Associates

5 RATIOS EVERY CLO SHOULD KNOW

Lending officers are under constant pressure to produce loans. These five benchmarks give CLOs a place to start when managing lending activities and communicating about the health and growth of the credit union.

BY SAM TAFT

With the ever-changing rate environment and constant pressure to produce loans, it can be difficult for CLOs to sort through the clutter and determine how well the credit union is reaching members and the quality of loans it is writing. The measures below are a good place to start to gain a big-picture understanding of a credit union's lending operations and performance.

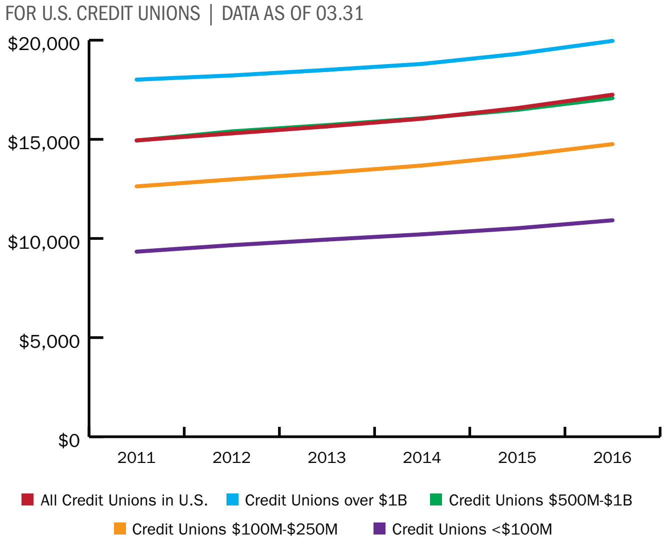
1. AVERAGE MEMBER RELATIONSHIP

Definition: Average member relationship divides the sum of loans outstanding and total shares by the number of members the credit union serves. The average member relationship national average as of first quarter 2016 is $17,251.

$$\frac{\text{Loans Outstanding (\$) + Total Shares (\$)}}{\text{Current Members (\#)}}$$

AVERAGE MEMBER RELATIONSHIP

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



The average member relationship represents the average value of loans and deposits individual members have with the credit union. The credit union's pricing strategy, underwriting policies, and product mix all contribute to this performance measure. In addition, the makeup of the membership, the economic environment, and the credit union's ability to sell loan and deposit products can also have measurable impact on the average member relationship.

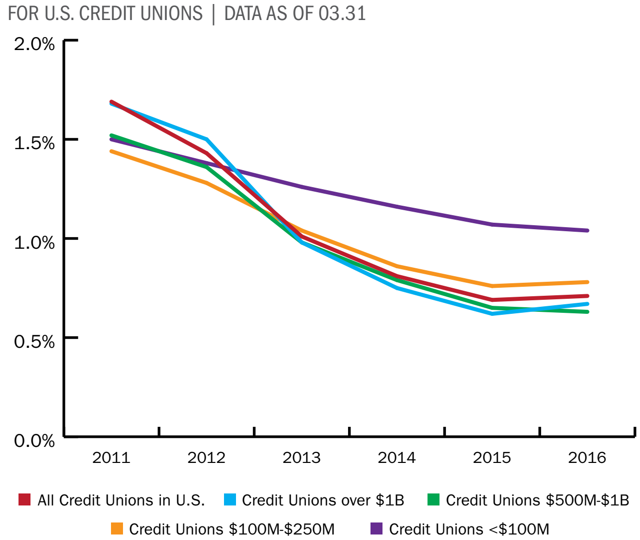
2. DELINQUENCY RATIO

Definition: The delinquency ratio divides the total amount of delinquent loans by the total amount of loans outstanding. The delinquency ratio national average as of first quarter 2016 is 0.71%.

$$\frac{\text{Delinquent Loans (\$)}}{\text{Loans Outstanding (\$)}}$$

DELINQUENCY RATIO

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



The delinquency ratio measures the credit risk of a credit union's loan portfolio. It is a forecaster of future loan loss; therefore, unusual increases or decreases generally affect future earnings. The level of delinquency a credit union can sustain is a function of several factors, including loan income, credit risk management, and loan loss management. Risk-based pricing is often accompanied by higher delinquency, but credit unions typically compensate for that higher delinquency by charging higher interest rates and in turn, achieving higher loan yields. A low delinquency rate, on the other hand, can imply a credit union's underwriting policies are too conservative. Credit unions should evaluate this ratio in conjunction with their loan-to-share ratio, loan loss ratio, and ROA.

Source: Callahan & Associates

"Because a credit union funds the allowance from current earnings, a declining ratio from an increase in delinquent loans indicates the credit union will have to increase the allowance account as those loans turn into losses."

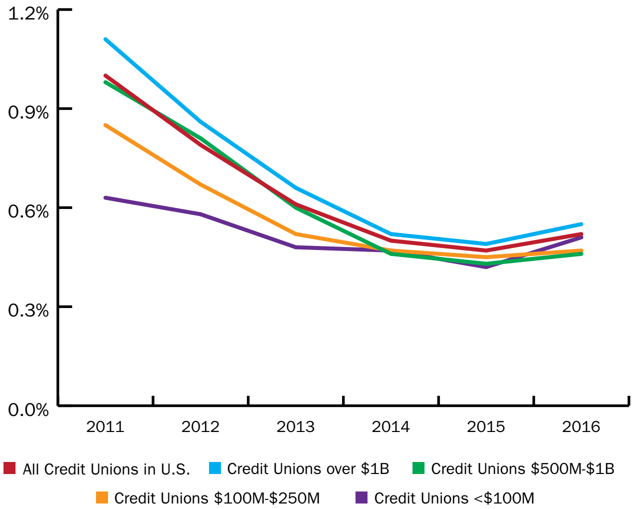
3. NET CHARGE-OFFS RATIO

Definition: The net charge-offs ratio subtracts year-to-date recoveries from year-to-date charge-offs and divides the difference by the amount of average loans outstanding. The net charge-offs ratio national average as of first quarter 2016 is 0.52%.

$$\frac{\text{YTD Charge-Offs – YTD Recoveries}}{\text{Average Loans Outstanding (\$)}}$$

NET CHARGE-OFF RATIO

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



The net charge-offs ratio measures the credit union's history of credit risk management and directly influences a credit union's ROA. In general, the lower the ratio, the healthier the credit union. Credit risk management strategies that influence the charge-off ratio primarily include underwriting and debt collection. As such, risk-based pricing, membership demographics, loan mix, and collection timeliness and aggressiveness all contribute to a credit union's charge-off levels. Changes in lending strategies typically take 12 to 18 months to be reflected in charge-off statistics.

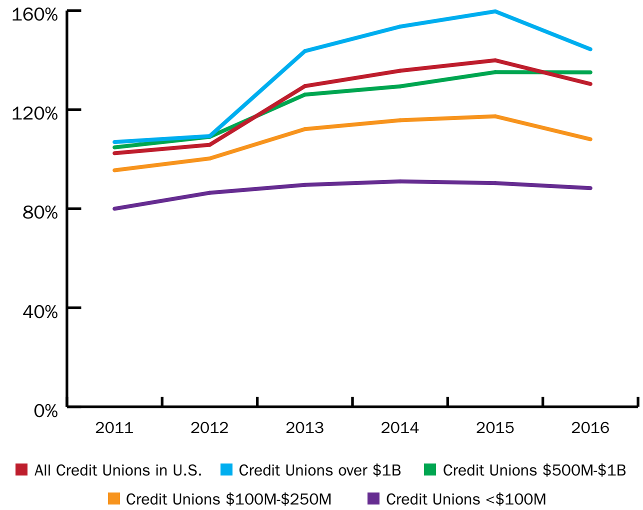
4. COVERAGE RATIO

Definition: The coverage ratio divides the allowance for loan and lease losses by the amount of delinquent loans. The coverage ratio national average as of first quarter 2016 is 130.4%.

$$\frac{\text{Allowance for Loan \& Lease Losses}}{\text{Delinquent Loans (\$)}}$$

COVERAGE RATIO

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



The coverage ratio measures the adequacy of the credit union's reserves to cover potential losses in its loan portfolio. Delinquent loans forecast future losses; the allowance for loan losses is the reserves an institution sets aside to cover loan losses. Because a credit union funds the allowance from current earnings, a declining ratio from an increase in delinquent loans indicates the credit union will have to increase the allowance account as those loans turn into losses. A declining trend in the ratio indicates an under-funded allowance.

Source: Callahan & Associates

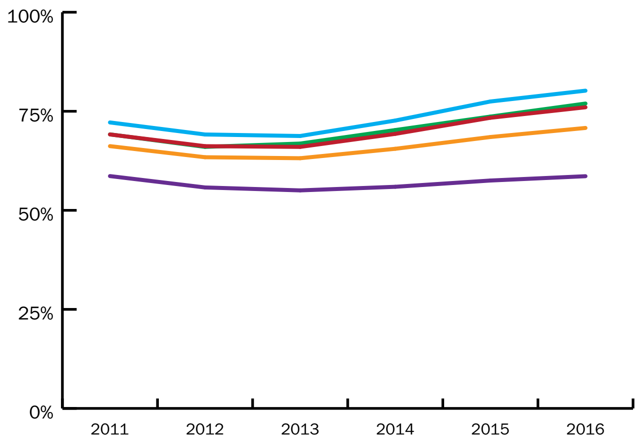
5. LOAN-TO-SHARE RATIO

Definition: The loan-to-share ratio divides the total amount of loans outstanding by the total amount of share deposits at the credit union. The loan-to-share ratio national average as of first quarter 2016 is 76.01%.

$$\frac{\text{Loans Outstanding (\$)}}{\text{Share Deposits (\$)}}$$

LOAN-TO-SHARE RATIO

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



■ All Credit Unions in U.S. ■ Credit Unions over $1B ■ Credit Unions $500M-$1B ■ Credit Unions $100M-$250M ■ Credit Unions <$100M

A credit union's loan and deposit acquisition performance drives its loan-to-share ratio. Most credit unions concentrate on building the loan portfolio rather than focus on deposits, unless liquidity is an issue. In general, a credit union's operations — sales culture, marketing, product development, risk management, etc. — influences loan growth more than deposit growth. Non-operational factors, such as membership demographics, are what generally influence deposit growth. In general, a higher loan-to-share ratio indicates greater profitability.

This article originally appeared on CreditUnions.com on April 27, 2015.

Find more coverage of lending ratios, industry performance, best practices, and more at CreditUnions.com/lending.

Source: Callahan & Associates

4 RATIOS EVERY HR PROFESSIONAL SHOULD KNOW

Staffing costs are a typical credit union's largest operating expense; therefore, tracking the performance of the workforce is crucial.

BY SAM TAFT

Managing people is difficult in and of itself, but quantifying employees' contributions and efficiencies can be downright daunting. Staffing costs are typically a credit union's largest operating expense; therefore, tracking the performance of the workforce is crucial. This selection of benchmarks handpicked for the human resources professional helps gauge a workforce's productivity and ties that productivity into the performance of the credit union.

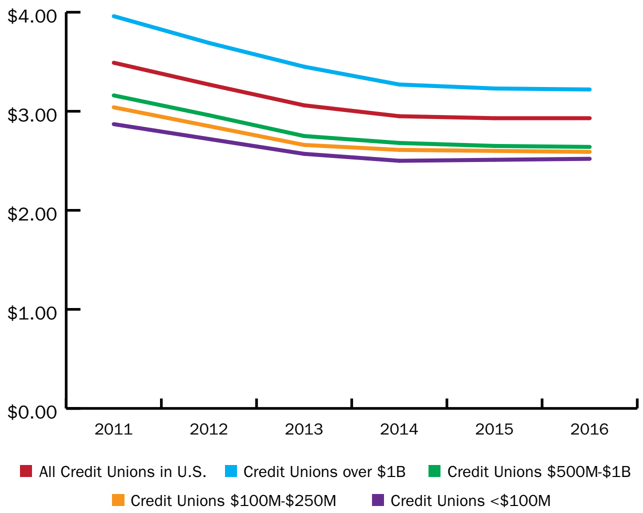
1. $ REVENUE PER $ SALARY AND BENEFITS

Definition: This ratio divides total revenue by employee compensation and benefits. The revenue per salary and benefits national average as of first quarter 2016 is $2.93.

$$\frac{\text{Total Revenue}}{\text{Employee Compensation and Benefits}}$$

$ REVENUE PER $ SALARY AND BENEFITS

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



This ratio evaluates the credit union's total employee compensation relative to its total revenue. Credit unions in metropolitan areas or areas with a high cost of living tend to post lower ratios because the cost to hire and retain talent is higher than in rural areas. For example, the average $ of revenue per $ of salary and benefits for credit unions in California is $2.77, whereas in Mississippi it is $3.27.

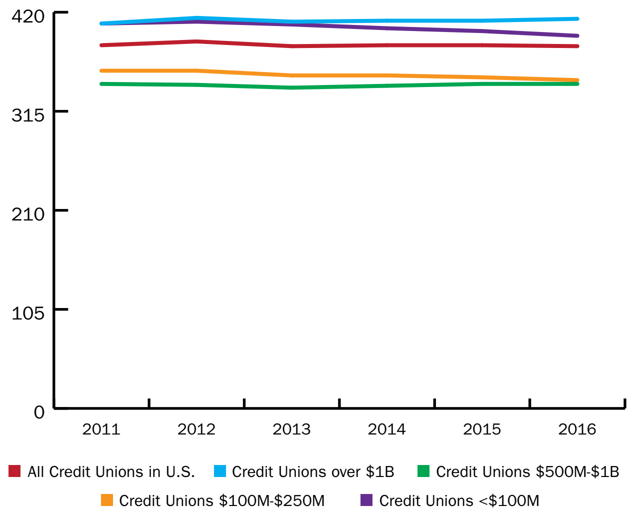
2. MEMBERS PER EMPLOYEE

Definition: Members per employee divides the number of members by the number of full-time equivalent employees. The member per employee national average as of first quarter 2016 is 384.

$$\frac{\text{Current Employees}}{\text{Full-Time Employees}}$$

MEMBERS PER EMPLOYEE

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



The members per employee ratio measures the productivity of the credit union's employee base. In theory, a higher ratio means a credit union is more productive, but other factors also play a part. When examining the ratio, credit unions should also consider product penetration rates, members per branch location, the geographic distribution of the membership, and field of membership requirements. Strategic factors that impact the ratio include organizational service level goals, growth, and product and technology development.

Source: Callahan & Associates

> "Credit unions with productive operations tend to have fewer employees who earn higher salaries."

3. SALARIES AND BENEFITS PER EMPLOYEE

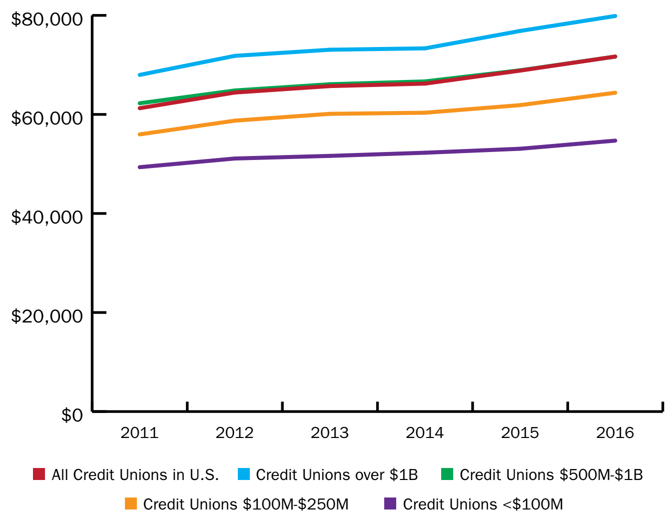
Definition: Salaries and benefits per employee divides annualized employee compensation and benefits by the number of full-time equivalent employees. The salaries and benefits per employee national average as of first quarter 2016 is $71,686.

Annualized Employee Compensation And Benefits

Full-Time Employees

SALARIES AND BENEFITS PER EMPLOYEE

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



Many factors — among them location, employee productivity, the board of director's philosophy toward compensation and benefits, and the credit union's organizational structure — affect the average salary and benefits paid per employee. Credit unions with productive operations tend to have fewer employees who earn higher salaries. So although the average cost per employee might be elevated, the overall cost to staff the credit union can be less than peers. For example, a Georgia credit union ($191M in assets) has an efficiency ratio of 59.0% (in essence, the credit union must spend $0.59 to earn $1.0 of revenue), and an average salary and benefits per employee of $132,518, with 10 employees. In comparison, credit unions in the $150M-$250M asset peer group had average efficiency ratios, salary and benefits per employee, and headcounts of 88.9%, $62,172, and 46, respectively.

4. LOAN ORIGINATIONS PER EMPLOYEE

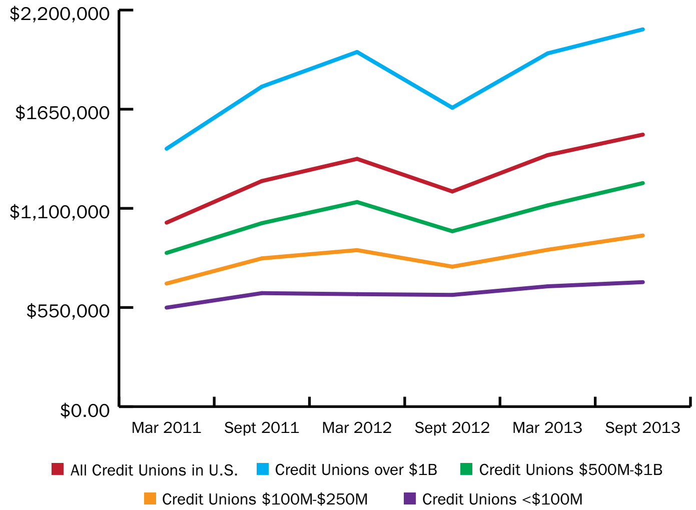
Definition: Loan originations per employee divides the annualized amount of loans originated by the credit union's number of full-time equivalent employees. National average as of first quarter 2016 is $1,473,102.

Annualized Loan Originations ($)

Full-Time Equivalent Employees (#)

LOAN ORIGINATIONS PER EMPLOYEE

FOR U.S. CREDIT UNIONS | DATA AS OF 03.31



High loan originations per employee ratios indicate employees excel at generating member loans. The loan component of this performance measure is a reflection of the credit union's lending philosophy, employee training programs, and the members' propensity to borrow. In general, credit unions with significant consumer lending operations, specifically indirect automotive, will have higher loan originations per employee ratios due to the increased volume associated with consumer and indirect lending.

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Source: Callahan & Associates