



Examination Process – Savings Review

November 6, 2002

Objective of Savings Review – Savings accounts are the primary source of funds for credit unions. Management must monitor the savings structure and make appropriate changes as dictated by the asset liability management analysis, member needs, and local market competition. In reviewing the savings structure, the examiner should determine that:

- Savings policies are realistic;
- The member's needs are met;
- Interest rates are competitive with the local market;
- Internal controls are adequate;
- The savings program meets all legal requirements; and
- Management takes timely, corrective action when problems are noted.

Scope of Savings Review – The extent of the examiner's analysis depends upon the complexity of a credit union's savings structure. The examiner considers such factors as the savings policy (e.g. savings and deposit terms, interest rates, maturities, fees, etc.) and the effect of the policy and practices on net income, short and long-term goals, and asset liability management. Examiners having concerns should expand the review and perform additional steps to address and resolve any concerns.

Savings Review Process – At a minimum, the examiner should:

1. Verify the general ledger savings balances and ensure that they are equal to the subsidiary ledger and financial statement balances.
2. Determine that the board of directors approves all interest rate changes (before or after the action) and the approval is documented in the board minutes.
3. Determine if any member or group of related members owns a large percentage (10%) or concentration of the savings funds.
4. Determine the different types of savings accounts offered and the total amount in each type.
5. Review the interest rates, terms, fees, and maturities on each account and ensure that they are competitive.
 - If rates are below or above market, determine the reason(s) for the difference and document the information in the workpapers.
6. Compare the savings account balances by type over a 12-month period to determine negative and positive trends.
7. Compare the effective cost of savings (based on the actual interest rates advertised) to the actual amount of interest paid.
 - A significant difference may indicate that the credit union computed the interest incorrectly or overstated total savings.
8. Review the internal control procedures to ensure that employees with access to member accounts do not misappropriate the funds.
 - Each transaction performed should generate a receipt with the date of the transaction, the cashier ID number, the amount of the transaction, the balance of

- the account after the transaction, and the account number and member name effected by the transaction.
- Members should be educated to request a receipt and check the transaction amount and account balance on the receipt or, in the case of a manual record keeping system, members should verify the deposit or withdrawal made with the entries in the passbook.
 - All activity in dormant accounts should be reviewed to determine that the owner of the account initiated the activity.
9. Review the operational procedures for checking accounts, if applicable. The examiner should determine the extent of control over check processing, balancing, and posting, including prompt (daily) review and processing of overdrafts and any processing exceptions.

Signs of Warning – These signs or indicators are ratios, numbers, trends, or suspicious activity that may indicate existing or potential problems. During the review of savings, the examiner should look for the following signs of warning:

- Interest rates significantly above or below the local market rates;
- Concentration of savings in one account type;
- A few members own a large percentage of the savings funds;
- Management changes interest rates without board approval;
- Fees are not sufficient to offset the cost of the savings program;
- Receipts are not generated for each transaction and/or are not given to the member;
- Dormant savings account activity is not reviewed;
- Members write checks on accounts without sufficient funds and they are not returned within the required time frame;
- Check writing privileges are not denied to members who write checks without sufficient funds in their account;
- The credit union can not attract sufficient savings to fund the loan demand or attracts more than is needed for the loan demand; and
- Members obtain loans at the credit union but save at other financial institutions.

Capital, Profitability, and Savings Deficiencies – Issues and problems of a material nature should be addressed in the Document of Resolution. The solution to the problem or the action to be taken should be noted along with the individual responsible for taking the corrective action and the time frame in which the action or correction should occur. To enhance follow-up from one exam to the next, examiners should also include on this document action plans that were noted at previous exams that have yet to be corrected. These unresolved issues should be cited under a heading of a similar nature.

Problems that can not be resolved during the exam, and are not material, should be noted in the final report in the “Examiner Findings”. This document lists operating exceptions, violations of law or regulation, unsafe and unsound policies, practices and procedures. Relatively minor or infrequent infractions should not be discussed within this document; they distract from the more important matters. Immaterial issues should be discussed orally with the manager or appropriate employee.

When identifying a finding, the examiner should include a precise description of the problem or violation, the individual responsible for correcting the problem, the specific section of the Law, bylaws, rules and regulations or other authority which the finding violates. In the event that the credit union violates more than one of the aforementioned, the examiner should cite the highest authority. Examiners should also include on this document exceptions that were noted at previous exams that have yet to be corrected. These findings should be cited under a heading of a similar nature.

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