OPERATIONAL GUIDELINES FOR THE DEVELOPMENT OF AND EARLY STAGES OF CREDIT UNION OPERATIONS

PREPARED FOR THE WORLD COUNCIL OF CREDIT UNIONS

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SCOPE OF WORK

The World Council of Credit Unions is increasingly involved in creating new credit union movements. The objective of this operational guide is to provide a road map or guide of critical elements which need to occur in the process of credit union organization and early operation. The elements which are discussed in these guidelines mainly focus on those elements needed once a credit union is organized and volunteers are selected to provide leadership. The main areas identified are:

- Key elements necessary to the sound initiation of credit union operations,
- Tools required to place those elements in place and,
- A time frame to guide sequential steps leading to sound operations.

THE BUSINESS PLAN

The single most demanding and difficult technical element of the credit union start up phase is the credit union's business plan. This plan will be drafted by the credit union organizers and the potential manager (if already selected), with the assistance of the organization promoting credit unions within the country (this assistance is paramount because often these are the only individuals remotely familiar with credit union operations). If time is available, a representative from the country project office or the "League" within the country should act as a facilitator during the business planning so that discussions on priorities do not drag on. The facilitator's main objective is to keep the group on track so that they reach their goals in a timely fashion.

The business plan should be drafted after the results of the survey have been analyzed. (The survey / pledge form was completed by potential members earlier in order to determine the level of interest in the formation of a credit union. **See examples 22 and 26- Credit Union Pledge Forms.**) The business plan is the union between the ideas, goals, and objectives of the potential credit union and the financial numbers. The numbers will determine if the formation of the credit union is feasible. The business plan has three main areas:

- "It documents support for the credit union. This support may include letters of commitment, survey results, sample pledge forms (**see examples 22 and 26– Deposit Pledge Form**) used during the organizing campaign, maps of the community to be served, and resumes of proposed officials.
- It describes the credit union's goals and methods. The business plan explains where you intend to take your credit union, when, and how.
- The plan demonstrates that these goals are achievable. The financial projections should show that the credit union will generate sufficient income to cover the cost of providing service, paying dividends on member savings, and building up financial reserves"(Clifford Rosenthal, pages IV-5 – IV-6).

The basic purpose of the business plan is to describe how you plan to run your credit union business. What is your vision for the development of the credit union and services to be offered to the members? Can this vision be supported by numbers? It is important to remember that the credit union can not be all things to all people, especially during the formation of the credit union. Due to this fact, it is important for the group designated to work on the business plan to bring to the surface varying views, decide on priorities, and develop a single business plan that incorporates those priorities.

Sometimes, the business planning process produces a red flag or a warning signal (for example, the credit union would not be self sustainable, desired services might be to costly and need to be reduced at the onset of credit union operations, and/or the organizing group is unable to decide on one common vision for the credit union). These results are very important to be aware of prior to the chartering of a credit union so that the credit union mission, goals, and objectives can be revised or the process of chartering a credit union can be discontinued. The business plan may save you from further efforts, or may point you toward another institution or type of institution.

When established organizations prepare business plans, they have the advantage of years of historical data. But how can a credit union prepare a credible business plan without a track record to analyze? How can you identify your membership base and project a rate of growth? The costs of providing products and services? To some extent, the answers truly are speculative because there are so many uncertainties associated with a new credit union. That being said, there are several techniques that can be used to reduce the uncertainty which include:

- Pay close attention to the results of the survey and deposit pledge drive that were performed. If you obtained only 100 positive responses, your business plan is very likely to show that a credit union is not feasible. On the other hand, if you have obtained 2,000 pledges, you are not guaranteed a successful credit union – but you do have a good starting point for a plausible business plan. According to the National Credit Union Administration, the regulatory agency in the United States, "experience has shown that a credit union with under 500 potential members is generally unlikely to succeed. Therefore, a charter applicant with a proposed field of membership of under 500 will have to demonstrate convincing support for the credit union. The group's size is meaningful only if members participate in the credit union. The charter applicant must show that a substantial percentage of the group's members will join the credit union and use its services"(NCUA Chartering and Field of Membership Manual, page 1-12).
- Contact officials and management from other credit unions, especially those that have been recently started. The experiences of other credit unions provides a ready source of data on costs and other operational matters.
- When formulating the business plan it is better to err on the side of caution or conservatism.
  - If the survey and pledge drive produced 1000 deposit commitments, discount that by 25%-50%.
  - Use best and worst case scenarios and then split the difference. The mid-point between the 2 scenarios is usually the "most likely scenario".

Credit unions are organized by persons or "organizers" who donate time and resources and are responsible for determining the interest, commitment, and advisability of forming a credit union. The functions of the organizing committee are to provide direction, guidance, and advice on the chartering process. The organizers also provide the group with information about a credit union's functions and purpose, as well as technical assistance in preparing and submitting the charter application. Ideally, the individuals who will be involved in executing the business plan are the group that should be involved in preparing it. Unfortunately, it is not always possible to identify these people before the planning process starts in earnest. Certainly, anyone on the organizing committee who hopes to become a director or official of the credit union should be involved.

Organizing a credit union is a very time consuming campaign. Many groups have the skills and resources to carry out an organizing drive over a period of 12 or 18 months – but lack the capability to sustain a credit union over years. Similarly, many groups have the resources and interest to maintain a credit union once it is up and running – but do not have the drive or skills to conduct a lengthy organizing campaign. Therefore, individuals with both sets of talents should be recruited – the organizers and the managers. While the organizers may dominate during the formative period, during the last stage of the pre-charter period – and certainly once the charter is issued – the managers will come to play the leading role.

"There are several approaches to preparing a business plan. Some organizers start by holding a "brainstorming" session which includes as many people as possible; then they delegate the preparation of the final document to a smaller group. Some groups hire a consultant to write the business plan. Others delegate the entire planning process to a small task force, including future directors, management, and sponsors" (Clifford Rosenthal, page IV-8). A sponsor such as a company, a church, or a community organization can greatly increase the chances of long - term survival of the credit union. Sponsors usually provide any or all of the following:

- Provide space or a facility for the credit union,
- Provide office equipment,
- Provide and pay for credit union staff,
- And other cash support for credit union expenses.

It is helpful to secure a sponsor during the organizing phase. Organizers should note that once a credit union is chartered, it becomes a separate legal entity. Ordinarily the sponsor bears no legal or financial liability for the actions of the credit union.

"Any of these approaches may work for your group. However, the smaller the group involved in preparing the business plan, the more vital it becomes for them to consult regularly with the organizing committee to verify their assumptions, test out their proposed strategies, receive suggestions, and make the necessary modifications. Delegating the entire process to one person – whether a hired consultant or a volunteer – is discouraged because the group may lose a valuable opportunity to educate itself about the credit union business"(Clifford Rosenthal, page IV-8)

ELEMENTS OF A BUSINESS PLAN
(NCUA Chartering and Field of Membership Manual, page 1-12)

At a minimum the business plan is to address the following:

1. The mission statement,
2. Analysis of market conditions – economic prospects for the group, availability of financial services from other credit unions, banks, and financial institutions,
3. Summary of survey results,
4. Financial services needed / desired,
5. Financial services to be provided,
6. How / when services are to be implemented,
7. Staffing of credit union and credentials of key employees,
8. Physical facility – office, equipment,
9. Type of record keeping system, including consideration of a data processing system,
10. Budget for 1st and 2nd year,
11. Semi annual pro forma financial statements for 1st and 2nd year, including assumptions – e.g. loan and dividend rates,
12. Goals for number of members,
13. Goals for operating independently – e.g. without subsidies or grant funds,
14. Source of funds to pay expenses during initial months of operation,
15. Written policies (savings, lending, investments, funds management, capital accumulation, dividends),
16. Goals for savings and loans,
17. Plan for continuity – directors, committee members, and
18. Evidence of sponsor commitment if subsidies are critical to success of the credit union – evidence may be in the form of letters, contracts, or any other such document on which the proposed credit union can substantiate its projections.

MISSION STATEMENT (#1)

The credit union's specific mission or purpose guides the development of the business plan. The mission statement is the credit union's statement of purpose, what the credit union truly stands for. It appears first in a business plan, because all other elements should flow from or support the attainment of the mission statement. The mission statement should be based on the answers to the following questions:

- Who are (or should be) our members?
- What member needs and wants do we (or should we) fulfill?
- What technologies do we (or should we) use to serve our members?
- What is (or should be) the financial framework of our operations?

Questions such as these help to ensure that your mission statement will be responsive to member needs.

Example of a mission statement – The Saguache County Credit Union exists to provide the people of Saguache county a conveniently located, member owned and managed financial institution dedicated to serving the financial, banking, economic development, and financial education needs of the county.

MARKET ANALYSIS (#2)

Market analysis allows potential credit unions to determine if there are enough potential members for its goods and services, which would allow it to be self sustaining in the foreseeable future. The main question the market analysis should answer is: "What are the driving forces which will lead to the establishment of a new, successful, self sufficient credit union?" The best way to answer these questions is through:

- The market survey and pledge drive,
- Observing the competition including "informal" competition such as money lenders and pawnshops where such sources represent relevant competition– note loan and savings rates, fee schedules, services offered, hours of operations, member service, etc.,
- Read the local newspaper, taking note of what the local competition is offering,
- Hold "Focus Groups" – these are in-depth interviews with potential members, which obtain more detailed information about current banking habits, needs, and perceptions of the proposed credit union.
- Communicate with banking and/or other relevant regulators.

Important market analysis questions include:

- "Who are the potential credit union members?
  - How many of them are there?
  - What is the average age of the potential members, their gender, and occupations?

- What financial services do potential members want?
  - What services do they now use and how often?
  - How much do they save? Are savings "in the mattress" or in a financial institution?
  - How much and how often do they borrow? For what purposes?
  - What services do they want now but can not find access to?
  - Why can't they find them? Cost? Qualifications?
  - How satisfied or dissatisfied are people with existing services?
  - Are they willing to make the change to the credit union?

- What does the competition offer potential members?
  - Who is the competition: Banks? Pawn shops? Local money lenders?
  - What products and services do they offer? How are these priced?
  - What are their rules and procedures? Minimum balances, fees?
  - What are their business hours?

- What can the credit union offer potential members?
  - What products and services will it offer initially? In one year? In year two?
  - What prices are members likely to be willing to pay for loans and services?
  - What will members expect in exchange for saving with the credit union?

- What do the potential members think the credit union will offer them?
  - How do we want the credit union to be perceived?

- What are the expectations of potential members?"(Clifford Rosenthal, page IV-16)

MARKETING PLAN (#4 and #5)

After gathering and analyzing the answers to the above questions, the organizers should identify the products and services to be offered and the time frames in which they will be initiated and place this in writing. In the plan describe the services and products to be offered, keeping in mind that in the early phase of credit union operations not all the desired services can normally be offered (if members want business loans, a credit union usually has to build up reserves prior to offering riskier loans). In the marketing plan describe the strategy to promote the products and services. Include how the services are to be developed and offered to the membership (with advertisements in local papers or on the radio, posters in locations in which potential members would read them, announcements at church services, etc.). Remember your goal is always to make effective use of marketing dollars by providing information on products and services to those most likely to be interested in using them.

Lastly, management should include in the pro forma financial statements that will be discussed later, the costs for the promotion of the new credit union.

EXAMPLE OF SERVICES OFFERED AND TIMING ASSOCIATED WITH THE SERVICES IN A NEWLY CHARTERED CREDIT UNION (#6)

START UP PHASE (months 1 to 6)

"The newly chartered credit union can offer many services at little or no cost beyond basic staffing requirements. These include:

- Savings accounts, Christmas (or other National Holidays) and vacation club accounts, and other special purpose savings accounts (such as organizational or associational accounts),
- Payroll deduction savings and loan payments for employees of the sponsor and / or other employers,
- Marketplace roving credit union employee to collect daily/weekly deposits and loan payments at "workplace" or home of members,
- Direct deposit of government checks,
- Fully savings secured loans which present no risk to the credit union,
- Loans fully funded by grant monies (e.g. microenterprise),
- Financial counseling and other types of member education,
- Money orders and Travelers Checks.

PHASE II (months 6 to 18)

Once credit union management has mastered the basic skills other services can be offered such as:

- Certificates of Deposit,

- Secured loans – small real estate loans, vehicles, jewelry, motorcycles, etc. (with the minimum balance in the savings account),
- Signature or unsecured loans and co-signed loans (depending on the size of credit union reserves) – usually limited to a percentage of credit union reserves with a minimum balance in the savings account,
- Wire transfer of funds to other institutions (in countries with developed financial systems),
- Cash services and check cashing, if appropriate credit union security is present with a minimum balance in the savings account.

PHASE III (months 18 to 30)

Usually, these services are projected for no sooner than the second or third year of a business plan. However, their sequence depends on staff capabilities, available resources, and member priorities.

- Checking accounts, retirement and business accounts,
- Larger loans for real estate, small business, agricultural, and microenterprise loans,
- Depending on the sophistication of the financial services in the country:
    - ATM cards which would allow the member to access an ATM network (the credit union does not necessarily need to buy a machine),
    - Credit and/or debit cards"(Clifford Rosenthal, page IV-19).

MANAGEMENT PLAN (#7)

By the time the business plan is prepared, potential management candidates should have been identified. Included with the business plan should be:

- A list of the key officials and staff. Some groups include one paragraph descriptions of all their proposed officials, identifying the position the individual will hold, their professional skills, knowledge of the potential membership and community, and any background in credit unions or other financial institutions.
- A list of paid staff and unpaid volunteer positions. Which staff will be full time and which part time? What duties will they perform? Will you make use of volunteers in the day to day operations?

PHYSICAL FACILITY (#8)

In the first couple of years of operations, most credit unions will rent space or be provided space by the credit union sponsor. If for some reason the credit union is going to buy space, the ramifications of that purchase are to be addressed in the pro forma financial statements that are part of the business plan. This would be considered a non-earning asset. It does not directly generate any net income. They are to be kept at a minimum.

In choosing a facility carefully consider and place the following considerations in writing:

- Member comfort,
  - Is the location convenient for the majority of our membership?
  - Is the site easily accessible?
  - Does the facility offer an appropriate degree of privacy so that confidential business can be conducted?
    - Will members feel secure in and around the offices?
- Visibility,
  - Is the location in an area in which potential members can easily see the credit union?
- Security,
  - If the credit union will have cash on site, can the credit union afford the appropriate security measures such as: looking teller drawers, security cameras, a vault?
  - Can access to the credit union be controlled?
  - Is the office equipment secure?

- The organizers should discuss if the credit union will be computerized or manual. If the credit union is computerized the organizers need to get bids on computer equipment and insure that the equipment will be able to handle more sophisticated operations as the credit union grows and that it is year 2000 compatible.

- The cost of other necessary office equipment (such as desks, chairs, calculators, teller stations, etc.) needs to be determined and included in the business plan.

PRO FORMA FINANCIALS (THE BUDGET) (#10 - #14, #16)

Prior to receiving a credit union charter each potential credit union must project financial statements for the first 2 years of operations. These projected financial statements are referred to as pro forma statements. They are nothing more than a financial road map used to chart where you are and where you want to be. The pro forma statements consist of savings and loan projections, a balance sheet, and an income statement. The balance sheet is simply a "snapshot" in time as of a certain time period, usually the last day of the month or year. It shows the assets (how much you own), the liabilities (how much you owe), the member savings deposits, and the capital accounts (how much the credit union has earned or lost throughout operations). The income statement identifies all income and expenses and reveals if the credit union is making a profit or a loss.

All of the assumptions used to derive the pro forma financial statements are to be placed in writing. This will assist in the future when the actual results are compared to the projections.

ITEMS TO BE INCLUDED IN PRO FORMA STATEMENTS

(SEE EXAMPLE 1 FOR ILLUSTRATION OF SAVINGS AND LOAN PROJECTIONS.)

Projections normally incorporate some assumptions. Depending on the type of field of membership, new account growth may be projected at the same rate per month or varying if there is seasonality.

Loan projections are more difficult than savings projections. Different types of loans vary in size and maturity. Therefore the loan projections should specify the types of loans and the number of loans monthly in each category which are expected. When projecting loan growth it is imperative that savings growth be considered. Remember savings fund the loans. Without savings growth there will be no loan growth unless non member deposits are accepted. Also, management wants to be careful not to attract a large amount of savings when there is no use in the credit union for the funds (e.g. poor loan demand). In the first months of operations, the loans will be for small dollar amounts and well collateralized. The credit union can not afford to take a lot of risk because the credit union has very little in reserves and management wants to be careful not to lend too much money to any one borrower, therefore posing a concentration risk.

Membership and deposit projections:

- Initial pledges,
- Number of new accounts,
- Total number of accounts,
- Average amount deposited by new members,
- Increase to existing savings accounts,
- Average dividend rate paid on savings
- Average savings balance
- Monthly dividend expense for savings
- Non member deposits (if any)
- Average interest rate paid on deposits,
- Monthly interest expense for deposits.

Loan projections:

- Average new loan amount per month,
- Number of loans made each month for 24 months,
- Total amount of new loans granted,
- Loan repayment amount,
- Outstanding loan balance,
- Number of outstanding loans,
- Average size of outstanding loans,
- Average interest rate or yield on loans,
- Loan interest income,
- Percentage of net new loans granted to be placed in the Allowance for Loan Loss account.

(SEE EXAMPLE 2 FOR ILLUSTRATION OF A PRO FORMA INCOME STATEMENT.)

Income
- Loan interest income,
- Investment interest income,
- Fees and Charges (new member fees, loan application fees, check cashing fees, etc),
- Other operating income,
- Grants and other non operating income.

Expenses
- Salaries,
- Employee benefits (government taxes, insurance costs),
- Travel and conference,
- Association dues,
- Office occupancy (rent, utilities),
- Office operations (which includes communications, data processing, stationary and supplies, bank service charges, depreciation of furniture, fixture, and equipment).
- Education and Promotional,
- Loan Servicing,
- Professional and Outside Services (legal, accounting costs),
- Provision for loan losses,
- Bond, liability, and member insurances,
- Regulatory operating fees,
- Annual meeting,
- Miscellaneous,
- Dividends on member savings,
- Interest on non member deposits,
- Transfer to reserves.

Loan Interest Income – The amount is calculated in the savings and loan projection worksheet. It is based on the average amount of loans outstanding monthly multiplied by the average loan interest rate.

Interest on Investments – The amount is calculated by multiplying the average amount in investments monthly by the average interest rate being paid.

Fees and Charges – Represents all fees assessed for credit union service and other charges. Include a line for each service you plan to offer during the 2 year period.

- New member fees are typically charged on a one time basis. The fee usually in the United States is between $1 and $10.
- Loan application fees are charged to cover the cost of the credit bureau and the loan related forms. The fee in the United States is generally between $5 and $10.
- Check cashing fees are generally charged if the member does not have a minimum balance in the savings account (e.g. $250 US) for all checks up to the required minimum balance. Any checks for more than that or if the

member does not have the minimum balance would have a fee of 1% of the amount of the check.

Other Operating Income – Any other income generated through operations of the credit union (selling candy, soda pop, etc.)

Non Operating Income – Any income generated from other than operations (grants received, sales of used office furniture, etc.)

Salaries – Represents the total amount of salaries paid to employees of the credit union. For ease of reading it is a good idea to include in the written assumptions a chart which lists year by year the positions and the appropriate salaries.

Employee Benefits – Represents all of the expenses of the credit union that relate to employee benefits. Include all government taxes paid by the credit union on behalf of the employee, employee insurance premiums, etc.

Travel and Conference – Represents the amount of authorized expenses incurred by employee and officers for travel and attendance at conferences and other meetings.

Association Dues – Represents membership dues and other fees paid to credit union organizations of which the credit union is a member.

Office Occupancy – Represents all expenses relating to occupying an office including rent, utilities, depreciation of building (if owned), and real estate taxes.

Office Operations – Represents all expenses relating to the operation of an office including communications, data processing, stationery and supplies, insurance, depreciation of furniture and maintenance, bank service charges, etc.

Loan Servicing – Represents all expenses incurred in the servicing of loans such as collection expense, credit reports, recording fees, etc.

Professional and Outside Services – Represents all expenses incurred by the credit union for such items as legal fees, audit and accounting fees.

Provision for Loan Loss – Represents the monthly increase to the allowance for loan loss account due to anticipated loan losses. It is recommended that as the credit union originates loans that 1% of the net new loans made is expensed to this account. As management gets experience this percentage can be changed to represent the credit union's historical losses and a percentage of current delinquent loans that could cause a loss to the credit union.

Bond, liability, and member insurances – Represents the premium cost for fidelity bond insurance for all employees and officials, credit union premise liability premiums, and premiums on member insurances that are paid by the credit union which include life savings and loan protection.

Regulatory Operating fees – Represents any fees that have to be paid to a regulatory agency.

Annual Meeting – Represents all costs that are associated with the annual general meeting.

Miscellaneous – Includes all operating expenses for which no separate expense categories are listed.

Member Dividends – Represents the cost (or dividends paid) of attracting all savings accounts to the credit union.

Non Member Interest – The interest that is paid to non members who place funds in the credit union. They normally do this to help a new credit union build capital and to have funds for loans.

Transfer to Reserves – Represents the amount that must be transferred from net income to any required reserve account to provide for future losses or contingencies. It is important to remember that the reserve transfers must be made prior to the payment of dividends. If the credit union does not have enough income left over after the reserve transfer to pay dividends then they can not be paid.

Net Profit or Loss – Represents the net profit or loss after all expenses and reserves have been paid. This amount at the end of the accounting period will increase or decrease the undivided earnings amount. If the credit union has a net loss, then management must produce more income, reduce expenses, eliminate or reduce dividends, or some combination of the aforementioned in order to return to a profitable position.

(SEE EXAMPLE 3 FOR ILLUSTRATION OF A PRO FORMA BALANCE SHEET.)

PRO FORMA BALANCE SHEET

The balance sheet states at one moment or "snapshot" in time what the credit union owns (assets), what the credit union owes (liabilities), the total member savings dollars (savings), and what the credit union has accumulated from operations or grant funds (equity). In other words, the equity is what would be left over if all the member savings and creditors were repaid. For the business plan, the balance sheets should be prepared for 2 years as of year end (December 31, 19XX).

The balance sheet captures the results of the credit union's operations with regards to growth and profitability. The numbers on the balance sheet, the income statement, and the savings and loan projection worksheet should all tie together and support each other.

Savings, Loans, Allowance for Loan Loss - All of the savings, loan, and allowance for loan loss information will come from the savings and loan projection worksheet. The end of the year information will be used to complete the balance sheet.

Cash – This account represents cash on hand, and cash in banks that earns no interest.

Investments – This account represents the outstanding balances of all interest bearing investments.

Land and Building (net of depreciation) – Represents the amount of land and building less depreciation on the building, if any.

Other Fixed Assets (net of depreciation) – Represents all other fixed assets of the credit union such as furniture and fixtures, leasehold improvements, less related depreciation, if any.

All Other Assets – Represents all other assets of the credit union not included in the above accounts.

Total Assets – Represents the sum of net loans, cash, investments, land and building, other fixed assets, and all other assets.

Accounts Payable – Represents all debts owed to credit union creditors and suppliers that have yet to be paid.

Dividends Payable – This account represents the total amount of dividends and interest that are declared for the last dividend period but have not been paid.

Notes Payable – Represents the outstanding principal balance of the credit union's liability for borrowed funds.

Accruals – This represents the amount of accrued expenses which have been accrued for (or expensed) but have yet to have been paid. For example – The annual audit for 1997 is performed in February 98, the credit union would accrue 1/12th of the audit expense to this account for the 12 months prior to February 98. The reason for the accrual is so that 1997 expenses are in that year and the net income figure will be level throughout 1997, instead of having a large payment in February 1998 when the audit is performed.

Other Liabilities – The balance of this account represents all other liabilities that were not disclosed in the above liability accounts such as government taxes payable.

Total Liabilities – This balance represents the sum of all the account balances of the above liabilities.

Savings – The outstanding balance of all of the savings accounts can be included in one savings total or separated into the different types of savings accounts.

Undivided Earnings – Represents the accumulated net income and/or losses from past credit union operations.

Required Reserve – If required by the regulatory agency, this account balance represents the accumulation of capital that is established to provide for operational losses.

Owner Paid In Capital – This account balance represents the owners contribution to capital. In order for this account to be considered capital, the funds are to be non-withdrawable.

Net Income / Loss – This account represents the accumulation of net income or loss during the current accounting period.

Total Liabilities and Equity – This balance represents the sum of the total liabilities, savings, and equity.

GOAL RATIOS

In analyzing the financial progress and establishing goals there is nothing more important than ratio analysis. Ratios bring the income statement and balance sheet numbers to life. They interrelate different areas of credit union operations. It is important to look at not only the raw number but to analyze the chosen ratios over time to determine both positive and negative trends. Ratios are also a good way for credit union management to compare the credit union to institutions of similar size. At the minimum, management should establish semi annual goals for the first 2 years of operations and thereafter annually for the following ratios (see Financial Disciplines section of this guide for more in-depth information about ratios):

1. Allowance for Loan Losses / Delinquency > 12 months
2. Net Allowance for Loan Losses / Delinquency from 1 –12 months
3. Annual Bad Debt Charge Offs / Average Loan Portfolio
4. Net Loans / Total Assets
5. Borrowed Funds / Total Assets
6. Institutional Capital / Total Assets
7. Non-earnings Assets / Total Assets
8. Total Delinquent Loans / Total Loan Portfolio
9. Net income (annualized) / Average Total Assets,
10. Liquid Assets – Short Term Payables / Member Deposits
11. Growth in Total Assets,
12. Growth in Membership

MONITORING THE BUSINESS PLAN

If a business plan is not periodically monitored it is of little or no use. It is important that organizers do not draft a business plan only for the individual or group who has requested it. For a small credit union in the first 2 years of operations, the actual results should be compared to the pro forma budgeted numbers quarterly. This review should be performed by the manager and presented to the board members. The review should consist of actual results to the budgeted numbers for the savings and loan projections, the income statement, the balance sheet, and the goal ratios. Any material differences (the lesser of >5% or $500US or the equivalent in the local currency) should be reviewed, researched, and reported with the quarterly presentation.

The pro forma numbers should be revised with current information, if that information would materially impact or change the projected numbers. For example – There is a strike at the sponsor company of the new credit union, the loan demand slows down and delinquency increases. Therefore the loan growth numbers should be reduced, the allowance for loan loss account increased, and any other changes made that might be needed so that the credit union can remain profitable and solvent. Without the revisions the pro forma numbers would be useless in the future.

The pro forma statements are something that management should be carefully monitoring throughout the first 2 years of operations. Remember they are like a road map that will assist management and the officials in achieving their stated goals and increasing the financial strength of the credit union.

SUPERVISION FOR A NEWLY CHARTERED CREDIT UNION

Close supervision of a new credit union is paramount in the early stages of credit union operations. Many of the countries in which these credit unions are being chartered have no separate supervision department for credit unions. Therefore their supervision is usually left to the banking supervision department. It seems that most of the people in banking supervision have very little time for a small credit union and they really do not understand credit unions. Also, there will be very little faith in the credit union movement if new credit unions fail and members lose their deposited funds.

For this reason it is important that the WOCCU in-country staff be a large part of insuring that the credit union gets off to a good start and is financially successful. The WOCCU staff members should review for reasonableness and approve all business plans prior to chartering. Upon the chartering of a credit union there should be a signed agreement between WOCCU and the credit union officials. This agreement should address in writing the issues that the WOCCU office believes are very important and needed to insure the success of the credit union **(see Example 4 – Letter of Understanding and Agreement issued by the National Credit Union Administration).** This Letter of Understanding and Agreement or something similar is issued to each newly chartered credit union in the United States.

In order to monitor the credit union's progress and to insure that the credit union is complying with the agreement, the WOCCU office should receive completed financial statements (balance sheet and income statement) and delinquency report by the 20th of the next month. With this information financial progress or the lack thereof, can be closely monitored and if changes need to be made they can be before the credit union has financial problems. An obvious "red flag" or warning signal that a credit union is having problems, is if they are unable to provide the office with updated financial information. If this is the case a WOCCU staff member should visit the credit union immediately. There is no better way to insure that a credit union gets off to a good start than by providing constant supervision. This can be accomplished both by the monthly monitoring of financial statements and the signed agreement and on site visits to the credit union no less than quarterly.

(SEE EXAMPLE 5 FOR ILLUSTRATION OF A BUSINESS PLAN PRESENTED PRIOR TO CHARTERING.)

CREDIT UNION BYLAWS

The bylaws are defined as the rules adopted by the members and board of directors that:
- define the field of membership,
- set the par value of savings and obligatory shares,
- define the services a credit union can offer,
- set the internal procedures it will follow, and
- give the general method by which the credit union functions are to be carried out.

Every credit union must adopt a set of bylaws at the time it applies for a charter to operate. It would be helpful if standard or model bylaws as provided below were made available by the WOCCU office.

MODEL CREDIT UNION BYLAWS

Chapter 1
Name, Domicile, and Purpose

Article 1. C.U.________________________________ was duly chartered on ____________________ with a registration or charter number of __________ in compliance with the applicable laws in ______________(name of country).

Article 2. The credit union's main domicile is in the city of ____________; however, by decision of the Board of Directors, the credit union may open branch offices in any other locations of the country.

Article 3. The purpose of ____________________ Credit Union shall be to:
- promote thrift among its members by establishing a safe place to accumulate savings and offering a fair or real rate of return,
- create a source of credit for provident and productive purposes at a cost allowing the credit union to make an adequate profit which would allow for the attainment of established goals and any increase in required reserve accounts and the allowance for loan loss account,
- offer educational programs on savings, loans, general cooperative issues, and other financial services and products,
- provide the opportunity for members to use and control their money in order to improve their economic circumstances.

Chapter 2
Capital and Savings

Article 4 Economic resources available to the credit union are:

a. Deposits made by members and organizations,
b. Savings and shares paid by members,

c. Capital reserves,
d. Loans obtained from public or private, local or foreign organizations,
e. The use of other funds as may be approved at the annual meeting, and
f. Other funds transferred as credit union property.

Article 5 – The minimum value of each share shall be $______. To be a member each individual must purchase one obligatory share. This amount is non-withdrawable and non-refundable. The minimum and maximum amount of savings shall be established from time to time by the board of directors. Members can have the option to build up their initial share deposit up over time. They may not avail any services until they have met all membership requirements.

Article 6 – The liability of individual members of the credit union for debts of the credit union shall be limited to the nominal value of the member's savings(s) in the credit union.

(ada) Dormant Acct. p.28

Article 7 – Savings are not transferable and may be redeemed upon termination of the membership from the credit union and shall be returned in cash in a manner and at a time prescribed by the board of directors.

Article 8 – Money paid in on savings may be withdrawn on any day when payment on savings and deposits may be made, provided however, that:

a. No members may withdraw savings or deposits that are pledged as required security on loans without the written approval of the credit committee or a loan officer, except to the extent that such savings exceed the member's total primary and contingent liability to the credit union.
b. No member may withdraw savings below the amount of their primary or contingent liability to the credit union if they are delinquent as a borrower, or if borrowers for whom they are co-maker, endorser, or guarantor are delinquent, without the written approval of the credit committee or loan officer.
c. The board shall have the right, at any time, to impose a fee for excessive withdrawals. The number of withdrawals not subject to a fee and the amount of the fee shall be established by board resolution and shall be subject to any consumer regulations limiting fees.

Term Deposits (see Woccu pg 27) – Early W/D loss of all int. or 6 mo. whichever is [illegible]

Chapter 3
Common Bond, Membership

Article 9 – Membership in ________________ Credit Union is limited to individuals who (reside in, work at, belong to)________________________________.

Article 10 – Every applicant for membership shall complete the Application for Membership form. Each applicant for membership shall be required to purchase a minimum of one obligatory share of the credit union. Applications for membership must be approved by the board of directors at a regularly scheduled meeting of the board or by a membership officer / employee of the credit union appointed by the board. A report detailing names of applicants and disposition of applications shall be submitted to the board of directors each month.

Article 11 – A number shall be assigned to each member as a means of identifying their account with the credit union.

Article 12 – Membership shall be terminated upon:

a. Voluntary resignation by the member,
b. The death of the member,
c. The savings balance falling below the stated par value in these bylaws, and
d. By vote of the membership at the next membership meeting following suspension of a member by the board of directors for any violation of these bylaws or conduct contrary to the principles of this credit union.

Article 13 – Any association, club, or similar organization, is eligible for membership provided that their membership is made up primarily of individuals who meet the eligibility requirements for individual membership.

Article 14 – Savings and deposits may be held by a minor (not of legal age), in the minor's name unless the national law prohibits. Minors may not vote at the annual general or special meetings of the credit union and may not hold office or serve on committees of the credit union. The board of directors, at its discretion may consider a reduced share subscription value for the membership of minors.

Article 15 – The membership of an individual member may be extended to include the member's spouse or other immediate family members thus providing the opportunity for joint accounts. The membership basis of a joint deposit or account is considered to be that of a single member. The holders of a joint account, therefore, may only exercise one vote at membership meetings of the credit union but in all other respects are eligible for the rights and privileges of an individual member.

Article 16 – Subject to these bylaws, policies, and procedures, all members shall have the right to use the credit union's services and exercise the rights established by the law and bylaws. Members are entitled but not limited to the following:

a. Receive, periodically or upon written request, but not less than once a year, a statement of accounts containing the individualized record of the credit and debit transactions.
b. Attend and participate at the annual general membership meeting. Each member shall have one vote irrespective of the member's savings total.
c. Elect or be elected as officer of the credit union.
d. Use the credit union services according to the policies and procedures approved by the Board of Directors.
e. Submit projects or initiatives to the Board of Directors, for the improvement of the credit union services.
f. Other rights as prescribed by law.

Chapter 4
Receipting of Money

Article 17 – Members shall be provided with a receipt by the credit union, which shall serve as a confirmation to the member of each and every transaction processed between the member and the credit union. In case of dispute, the official credit union receipt shall prevail although the member may protest or appeal as discussed in Article 18.

Chapter 5
Disputes and Member Expulsions

Article 18 – In the case of a dispute between a member and the credit union, or in the event of a complaint by a member against the credit union, or any of its officers or employees, the member may make application to the supervisory committee for consideration. Should the dispute or complaint not be satisfied, the member may appeal to the board of directors.

Article 19 – Upon formal and written announcement and proof that a member has committed a violation punishable by expulsion:

a. The Board of Directors shall provide written notice to the member setting forth the reason for the proposed expulsion, and grant 30 days for the member to take action on their defense.
b. After the allotted time, taking into consideration the member's defense the Board of Directors shall initiate an administrative inquiry and take a decision on its findings within 15 days. The member shall have 10 days to file an appeal with the Board of Directors, and take their appeal to ~~a~~ the next annual general meeting of the membership.

→ Member expelled by a [illegible] majority of the board.

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Article 20 – Expulsion or withdrawal shall not relieve a member of any liability to the credit union. All amounts paid in on savings by expelled or withdrawing members, prior to their expulsion or withdrawal shall be paid to them after deducting any amounts due from such members to the credit union.

Chapter 6
Membership Meetings

Article 21 – The annual general meeting shall be held within 90 days of the close of the financial year of the credit union. The meeting will be held in the city in which the main office of the credit union is located. Notice of the annual general meeting, or of any other meeting of the membership, shall be posted in the offices of the credit union and in other public places, at least 21 days prior to the date set for the meeting. All members in good standing have a right to attend and participate in such meetings.

Article 22 – Members exercise democratic control over the credit union by attending membership meetings. Each member in good standing, regardless of the volume or amount of business conducted with the credit union is entitled to one vote, which shall be cast by secret ballot. Members may not vote by proxy. Unless otherwise specified, a simple majority of votes shall be construed as an act of the credit union.

Article 23 – The order of business at membership meetings shall be:

a. Ascertainment that a quorum is present,
b. Reading and approval (or correction) of the minutes of the last meeting,
c. Report of directors,
d. Report of the financial officer or the chief management official,
e. Report of the credit committee,
f. Report of the supervisory committee,
g. Unfinished business,
h. New business other than elections,
i. Elections,
j. Adjournment.

Article 24 – The rules contained in ______________________________ (name a selected book on parliamentary practices) shall govern the credit union and meetings in all cases to which they are not inconsistent with the bylaws of this credit union.

Article 25 – A special meeting of the membership may be requested by a majority of the board of directors or by written request submitted to the secretary of the board of directors, by 10% of the membership or 50 members whichever is the lesser number. The purpose of the special meeting shall be stated in the announcement of the meeting. No business other than that related to this purpose shall be transacted at the meeting. The announcement shall be posted in the offices of the credit union and in other public places, at least 21 days prior to the date set for the meeting. The meeting may be held at any location permitted for the annual meeting.

Article 26 – The supervisory committee may at any time require a special membership meeting. The supervisory committee must provide adequate notice of the meeting to the membership (as described in Article 25). The chairperson of the supervisory committee shall preside.

Article 27 – A quorum at annual or special meetings shall be 10% of the membership or 50 members, whichever is the lesser number. Directors and committee members of the credit union shall be included in the ascertainment of a quorum. If a quorum is not present, an adjournment may be taken to a date not fewer than 7 nor more than 21 days thereafter; and the members present at any such adjourned meeting shall constitute a quorum, regardless of the number of members present. The same notice shall be given for the adjourned meeting as is prescribed in Article 25 of these bylaws, except that such notice shall be given not fewer than 5 days previous to the date of the newly scheduled meeting.

Article 28 – Minutes of all membership meetings, upon confirmation of correctness, shall be signed by the chairperson and secretary and placed in the permanent records of the credit union. The minutes shall contain:

a. The number and names of members and guests present at the meeting, the names of the presiding officers, and confirmation that a quorum was present,
b. The time, place, and date of the meeting and a record of all decisions taken.

Chapter 7
Elections

Article 29 – At least 90 days prior to each annual meeting, the board of directors at a regular meeting shall appoint a nominations committee. The committee is to be no less than 3 persons who are not directors or officers of the credit union. The nominations committee shall determine the number of vacancies to be filled and nominate at least one member for each vacancy, including any unexpired term vacancy, for which elections are being held. Candidates must be members in good standing. Candidates shall be interviewed with respect to their qualifications and willingness to serve voluntarily in positions for which they are nominated. Nominated candidates shall be presented to the membership during the annual general meeting prior to the casting of ballots.

Article 30 – After the nominations of the nominating committee have been placed before the members, the executive officer shall call for nominations from the floor. When nominations are closed, tellers shall be appointed by the executive officer or chairperson. The ballots shall be distributed, the vote shall be taken and tallied by the tellers, and the results announced. All elections shall be determined by simple majority vote of members present and shall be by ballot except where there is only one nominee for the office. If there is a tie vote, the chairperson shall cast the deciding vote.

Article 31 – Upon receipt of the credit union charter the organizers will nominate from themselves, or from those eligible to become members of the credit union a board of directors and a supervisory committee, all of who will hold office until the first annual meeting of the members and until the election and qualification of their respective successors. If not already a member, the elected official must become a member within 30 days of accepting the appointment. If within 30 days, they have not become a member then the office shall automatically become vacant and shall be filled by the board.

Article 32 – At the first annual meeting all the board of directors and supervisory committee members will be up for election. At this meeting one third of members will be assigned 3 year, 2 year, and 1 year terms, respectively. Thereafter, all members of the board of directors and of the supervisory committee shall be elected for a term of three years. Membership in all other committees of the credit union shall be by appointment by the board of directors. Only 3 directors shall be elected each year unless the expiration of the term of office and resignations from the board require the election of more than 3 directors. Only 1 member of the supervisory committee shall be elected each year unless the expiration of the term of office and resignations from the committee require the election of more than one member.

Article 33 – The board of directors within 10 days of the annual meeting shall elect from within their own numbers an executive committee, which shall include a chairperson, a vice chairperson, a secretary, and a treasurer.

Article 34 – No member of the management or staff of the credit union may stand for any elected office although they shall not be denied the right to vote as members.

Chapter 8
Board of Directors

Article 35 – The board of directors shall consist of _________ members, all of whom shall be members of the credit union. The number of directors may be changed to any odd number not fewer than 5 nor more than 9 by board resolution. No reduction in the number of directors may be made unless corresponding vacancies exist as a result of deaths, resignations, expiration of terms of office, or other actions provided by these bylaws.

Article 36 – The board officers of the credit union shall be comprised of an executive officer, one or more assistant executive officers, a financial officer, and a recording officer or secretary, all of whom shall be elected by the board and from their number. The executive officer shall preside at all meetings of the members and the board, unless disqualified through suspension by the supervisory committee. The ranking assistant executive officer available shall have and exercise all powers, authority, and duties of the executive officer during the absence of the executive officer or their inability to act.

Article 37 – The secretary shall give or cause to be given, in the manner prescribed in Chapter 6 of these bylaws, proper notice of all membership meetings and shall be responsible for the development of an agenda for such meetings.

Article 38 – The treasurer in the absence of the general manager, shall be the custodian of the funds, securities, and all financial records and books of account of the credit union. The treasurer shall prepare or cause to be prepared a financial accounting of the credit union and shall present such information to the board of directors and to the membership at the annual general meeting.

Article 39 – Elected directors shall hold office for a term of three years and no more than 2 consecutive terms may be served. However, after a term or 3 years has passed they are eligible to run for office again.

Article 40 – The board of directors may declare a board or committee position vacant when a board or committee member misses 3 consecutive meetings or more than 4 meetings during a calendar year. Vacancies occurring on the board of directors and supervisory committee between elections shall be filled until the next election by majority vote of the board of directors. Vacancies on the credit committee so appointed shall hold office until the first regular meeting of the board following the next annual meeting of the members. Vacancies occurring on board committees shall be filled by appointment by the board of directors.

Article 41 – The board of directors shall hold monthly meetings at a place, time, and date set by the board. A majority of board members shall constitute a quorum. Special meetings of the board may be called by the chairperson or in the chairperson's absence by the vice chairperson, or in the vice chairperson's absence upon the written request of a majority of the board.

Article 42 – No member of the board of directors nor any committee member shall be paid or compensated in any way for their time or service. Such reasonable out of pocket expenses as may be approved by the board of directors may be reimbursed (such as mileage to credit union meetings).

Article 43 – The chairperson of the board of directors shall not cast a vote on the matters put to vote by the board of directors unless the vote is tied, in which case the chairperson shall cast the deciding vote. (This is the reason that there is an odd number on the board. The chairperson only votes to break a tie.)

Article 44 – The board shall have the general direction and control of the affairs of the credit union and shall be responsible for performing all the duties customarily performed by board of directors. This shall include but not be limited to the following:

a. To comply and enforce compliance with the objectives of the credit union.
b. Determine from time to time, the minimum share requirement and share value for membership in the credit union and the maximum amount of savings which may be owned by one member provided that no member shall hold more than 10% of the total savings amount.
c. Control the investments of the credit union except to the extent that the board may have delegated this responsibility to the executive committee or to the manager.
d. Determine from time to time the services, loan interest rates, savings dividend rates, and types of deposits and loan accounts, which the credit union shall offer to its members.
e. Approve credit union procedures and policies, financial statements, the annual budget, and the long- term business plan.
f. Perform an annual written appraisal of the manager based on goals established in the budget and business plan.
g. Authority to declare a savings dividend and / or loan interest refund.
h. Designate a safe depository for surplus funds and investment.
i. Approve any external borrowings of the credit union.
j. Employ, establish compensation of, and prescribe the duties of the manager and have the power to remove this employee with due cause.
k. Ensure the safe preservation of the credit union books and records.
l. Authorize the executive officer and treasurer, or such other persons as may be agreed to by the board of directors, to sign all official documents on behalf of the credit union.

m. Supervise the collections of loans, authorize the writing off of bad or uncollectible loans and their removal from the books.
n. Approve loans to directors and committee members by a simple majority vote.
o. Plan, and hold all annual and special meetings as described in Chapter 6 of these bylaws.
p. Report to the annual general meeting on: the activities occurring since the last annual meeting, the annual plan and budgets, financial statements audited by the supervisory committee, and the proposed use of profits for the fiscal year.
q. Appoint a security officer and determine the security needs of the credit union.
r. Request amendments to the charter and bylaws as needed.
s. Hold monthly meetings. The minutes of these meetings and all committee meetings shall be in writing and prepared within 10 days of the respective meeting and verified by the recorder or secretary and the presiding officers of the meeting. Such minutes shall contain the names of members present, the date, time, and place of the meeting, and a record of material discussions and all decisions made. The minutes shall become part of the permanent records of the credit union and shall be available for inspection by members at a time(s) prescribed by the board of directors.
t. To appoint an executive committee, specific committees, and task forces as may be necessary to improve the administration of the credit union and its services, and also to appoint or remove delegates representing the credit union in other organizations.
u. Suspend any member of the supervisory committee by a majority vote of the board of directors. The members of the credit union shall decide, at a special meeting held within 14 days after any such suspension, whether the suspended committee member shall be removed from or restored to the supervisory committee.
v. Appoint the credit committee members within 10 days of the annual general meeting, if the committee has not been dissolved per Article 45 of these bylaws.

Article 45 – With an affirmative vote of two thirds of the authorized number of members of the board, the board may vote to eliminate the credit committee and vest power in the board of directors to appoint and delegate authority to one or more loan officers and to review written appeals of members whose loan applications have been denied.

Chapter 9
Conflict of Interest

Article 46 – Every director, committee member, and employee of the credit union shall be required, before taking part in any business transaction which the credit union maybe about to discuss, or initiate, to disclose any personal interest in the matter and shall not take part in any discussion or vote upon that item of business. The director, committee member, or employee shall physically absent himself from the discussion unless it is determined that the individual has relevant information to provide. Failure to divulge this information shall result in removal from office or termination of employment.

Chapter 10
Credit Committee

Article 47 – The credit committee shall consist of ________ members. All of the members of the credit committee shall be members of the credit union. They may not however be a member of the Board of Directors or Supervisory Committee. The number of members of the credit committee must be an odd number and may be changed to not fewer than 3 nor more than 7 by resolution of the board. Within 10 days of the first annual general meeting one third of the committee members will be assigned 3 year, 2 year, and 1 year terms, respectively. Thereafter, terms for this committee shall be 3 years. No more than 2 consecutive terms may be served. However, after a term or 3 years have passed they are eligible to be appointed again. Only 2 members of the credit committee shall be elected each year unless the expiration of the term of office and resignations from the committee require the election of more than 2 members. The committee shall choose from their number a chairman and a secretary. The secretary of the committee shall prepare and maintain full and correct records of all actions taken by it, and such records shall be prepared within 3 days after the action.

Article 48 – The credit committee may, by majority vote of its members appoint one or more loan officers to serve at its pleasure, and delegate to them the power to approve application for loans and lines of credit, savings withdrawals, releases and substitutions of collateral, within limits specified by the committee, and applicable law and regulations. Not more than one member of the committee may be appointed as a loan officer. Each loan officer shall furnish to the committee a record of each transaction approved or not approved by them within 7 days of the date of the filing of the application or request, and such record shall become a part of the records of the committee. All applications or requests not approved by a loan officer shall be acted upon by the committee. No individual may disburse funds of the credit union for any application or savings withdrawal, which they have approved as a loan officer.

Article 49 – The credit committee shall:

a. Meet no less frequently than monthly and more frequently as required by the volume of business referred to the credit committee for decision or review.
b. Provide counsel to members in the wise use of credit.
c. Review applications for loans and make decisions upon such applications within the authority delegated to the committee by the board of directors.
d. Act upon the request of a member with respect to amendment of the terms and conditions of a loan provided such amendment falls within the regulations permitted in the loan policy.
e. Review and confirm all loan applications, which have been declined by an employee of the credit union.
f. Give preference to the smaller loan applications if the need and credit factors are equal, should adequate funds not be available to meet all loan demand.

Chapter 11
Supervisory Committee

Article 50 – The supervisory committee shall be elected by the membership at the annual general meeting as prescribed in Chapter 7 of these bylaws. The supervisory committee shall be comprised of three members of the credit union who may not be employed by the credit union or serve on the board of directors or any other committee of the credit union. Terms on the committee will be for 3 years and no more than 2 consecutive terms may be served. However, after a term or 3 years have passed they are eligible to run again. The supervisory committee members shall choose from among their number a chairman and a secretary. The secretary of the supervisory committee shall prepare, maintain, and have custody of the records of all actions taken, including written evidence of any audits performed by the committee.

Article 51 – The following are the powers and duties of the Supervisory Committee:

a. To insure that the credit union complies with the law, regulations, bylaws, and annual general meeting resolutions, and policies of the Board of Directors.
b. To oversee the performance of the Board and the credit union manager. To perform various internal audits to evaluate internal operations and controls (policies and procedures) at least once a month, and make accounting and procedural recommendations regarding the internal controls. These recommendations will be submitted in writing to the board at the monthly board meeting.
c. To present the annual audit report to the board of directors and give a report at each regularly scheduled board meeting detailing the activities undertaken by the committee since the last meeting.
d. At the annual general meeting give its opinion on the financial statements presented by the Board of Directors.
e. To audit, or cause to be audited by an outside auditor if the committee is not capable of performing the audit of the financial records and books of the credit union, no less frequently than annually. The audit shall include a 100% verification of the member accounts with the records of the treasurer or manager. The committee shall maintain a record of such verification.
f. The committee shall receive and investigate any complaint or appeal by members concerning the operations of the credit union.
g. At least monthly, perform a physical count of cash to determine that the amount corresponds to the records, and review and verify securities and investments held by the credit union.
h. Attest to the balance sheet and income statement, which the treasurer and/or the manager are required to prepare by the 20th of the following month.

Article 52 – By unanimous vote the supervisory committee may suspend until the next meeting of the members any director, executive officer, or member of the credit committee. In the event of any such suspension, the supervisory committee shall call a special meeting of the members to act on said suspension within 14 days of the suspension. The chairman of the committee shall act as chairman of the meeting unless the members select another person to act as chairman.

Article 53 – By the affirmative vote of a majority of its members, the supervisory committee may call a special meeting of the members to consider any violation of the provisions of any regulations or the bylaws of the credit union, or to consider any practice of this credit union which the committee deems to be unsafe or unauthorized.

Chapter 12
Operational Management

Article 54 – The manager of the credit union shall be responsible for day to day operations, implementation of policies, procedures, and the business plan, and overall security of the credit union property.

Article 55 – The manager shall have the following duties:

a. To prepare and propose to the Board policy and procedure changes with regards to all areas of credit union operations.
b. To participate in board meetings, but with no voting rights.
c. To prepare and analyze on a quarterly basis the credit union's business plan and budget.
d. To hire, supervise, appraise annually, and terminate credit union personnel, as necessary.
e. To represent the credit union in business transactions and any other transaction authorized by the Board of Directors.
f. To report to the board monthly on the financial condition of the credit union including the balance sheet, income statement, and delinquency list.
g. To provide information required by the supervisory authority in a timely fashion.
h. To propose to the Board the opening of new positions at the credit union, and the revision of the salary schedule for all credit union personnel.
i. To implement recommendations set forth in the audit reports and those issued by the supervisory authority.
j. Authorize budgeted expenditures, and sign all credit union notes, checks, and orders for the disbursement of the credit union funds.
k. Insure on a monthly basis the accounting records are in balance and the individual account subsidiaries are up to date and the income statement, balance sheet, and delinquency list are complete and correct. Insure that the account records are maintained using accrual or modified cash basis accounting and Generally Accepted Accounting Principles (GAAP).
l. Insure that adequate insurance is in place if available for all employees, officials, and the business premise.
m. Direct and supervise the administration and processing of loan applications by the loan officers.
n. Establish a pricing strategy for products and services, in which the interest rate structure will seek a balance between the loans available to the members,

and the long-term viability of the institution. For this purpose management should consider:

1. Costs, particularly those related to member savings dividends, the allowance for loan loss, and operating expenses.
2. The need for a strong capital position, which is essential for the credit union's long term viability and future growth.
3. The competition's pricing structure, given the competitive nature of the financial market.

o. Assist the board with determining acceptable types of collateral that can be used to secure credit union loans.

p. Insure there is adequate liquidity to meet loan demand, savings withdrawal, and operating expenses.

Chapter 13
Investment and Borrowing of Funds

Article 56 – Amounts of cash, which are surplus to the immediate needs of the credit union, may be deposited with recognized financial institutions, which have been licensed and audited by the country's supervisory authority. The board of directors shall set policy with respect to amounts and maturity terms of such deposits and may delegate authority to the treasurer or to a designated employee to act on behalf of the credit union with respect to such deposits.

a. Cash shall be deposited no later than the second business day after receipt provided however that receipts in the aggregate of $_________ or less may be held as long as 1 week before they are deposited.

b. A cash fund may be authorized by the board for an amount of $___________ for the purpose of making change. If one has not been authorized then all disbursements of funds by the credit union shall be made by check, signed by the financial officer or manager if the amount is less than $_____________, and countersigned by the executive officer if the amount is greater than that.

Article 57 – The credit union may not borrow funds from other financial institutions but may borrow from the Stabilization Fund (if established) for purposes of protecting financial stability of the credit union. Such loans must be authorized by the board of directors who will negotiate security, repayment, and interest rate terms.

Chapter 14
Expenses and Budget

Article 58 – The board of directors shall cause to be developed an annual budget supported by the written assumptions estimating the balance sheet and income statement numbers of the credit union. The board of directors shall review no less than quarterly financial results against budgetary estimates instituting corrective procedures to reverse results, which are detrimental to the financial stability of the credit union.

Article 59 – Authorized operational expenses shall be paid from the earnings of the credit union and shall be paid or accounted for prior to the declaration of dividends or any type of refunds.

Chapter 15
Dividends

Article 60 – The board shall establish dividend periods and declare dividends as earnings permit. Dividends may only be declared after satisfaction of: all operational expenses, required contributions to statutory or capital reserves, and the allowance for loan loss account have been met. In declaring dividends the board of directors shall consider the capital requirement needs of the credit union. The declaration shall be placed in writing in the board minutes.

Article 61 – Dividends shall be paid on all funds in accounts with balances greater than $______________. The dividend payments shall be credited to the savings account of each member.

Chapter 16
Liquidity and Reserves

Article 62 – The credit union shall maintain liquid funds equal to 15% of total assets. Liquid funds are cash and deposits with a maturity of not more than 30 days. The board may increase liquidity from time to time to meet seasonal demand.

Article 63 – The board of directors shall retain 100% of the net profit of each annual fiscal period as capital reserves until such time as institutional capital is 10% of the total assets.

Article 64 – The board of directors shall insure on a monthly basis that the allowance for loan loss account is adequate to cover 35% of loans delinquent between 1 and 12 months and 100% of the loan balances > 12 months delinquent. Delinquent loans are those loans in which payment of principal or interest is more than 30 days late.

Article 65 – Capital reserves shall be held by the credit union to fund growth and to meet operational losses not related to loans, the allowance for loan loss account shall be held to meet loan losses. Capital reserves and the allowance for loan loss account may not be distributed to members except in the case of the dissolution of the credit union and after all of the losses have been provided for.

Article 66 – If available the credit union will participate in a credit union stabilization program or deposit insurance fund.

Chapter 17
Loans and Credit

Article 67 – Credit may be extended to members for provident and productive purposes in accordance with applicable law, these bylaws, and the credit union lending policy.

Article 68 – Each loan application shall be on an approved loan form and shall set out the purpose of the loan, the security offered, and such other information as may be required by the lending policy. Loan application forms and attachments thereto shall be filed as permanent records of the credit union.

Article 69 – Applications for loans shall be subject to approval in accordance with the lending policy. The approving authority may attach such terms and conditions as are deemed necessary to protect the credit union.

Article 70 – A member may only borrow from the credit union if the member is in good standing. If the member has failed to repay any previous loan or if the member is in arrears in the repayment of any current loan, or installments thereof, the member is ineligible for another loan.

Article 71 – No member or group of members who are considered to be related for credit purposes such as family businesses or closely related family members (those dependent on the same source of income) may borrow (both secured and unsecured loans) or be obligated to the credit union, in excess of 10% of total assets. With regards to unsecured loans or the unsecured portion of a loan, those in which there is no collateral guaranteeing repayment of the loan, these loans or amounts may not exceed 10% of institutional capital.

Article 72 – If the guarantor of a loan is a member they must be in good standing with the credit union. The guarantor may not provide a guarantee or borrow, if the combined liability by way of loan and guarantee would exceed the restrictions in Article 71.

Article 73 – All loans shall be secured by a promissory note and when considered necessary, an assignment of deposits and/or savings(s), or such other collateral as deemed necessary by the approving authority and/or the loan policy.

Article 74 – A borrower may repay their loan prior to maturity in whole or in part, on any business day without penalty.

Article 75 – A member whose loan is delinquent may be required to pay a late charge as determined by the board.

Article 76 – The credit union may not make loans to other financial institutions nor to registered or unregistered companies nor to any other entity except to individual persons who are members in good standing with the credit union.

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Chapter 18
Merger, Liquidation

Article 77 – The general membership may decide, by two thirds majority vote at a special meeting convened for the purpose, to merge the affairs of the credit union with the affairs of another credit union, or to dissolve and liquidate the business of the credit union. Such decision shall be carried out in conformity with applicable law.

Article 78 – Written notice of a special general meeting for the purpose of merger or liquidation shall be posted in the office of the credit union and shall be mailed to each member at the member's recorded address at least 21 day prior to the date set for the meeting.

Article 79 – In the event of liquidation, the assets of the credit union shall be realized, all liabilities shall be paid, all savings shall be refunded to members, and any surplus or deficit thereafter shall be apportioned to each member in proportion to the value of each member's savings account at the date of liquidation.

Chapter 19
Amendments to Bylaws

Article 80 – Notice of proposed changes to the bylaws shall be posted together with notice of the membership meeting in accordance with procedures prescribed in Chapter 6 of these bylaws.

Article 81 – Bylaws may be amended by affirmative vote of two thirds of the members present at an annual general meeting or at a special meeting convened for the purpose of amending the bylaws.

Article 82 – An amendment to the statutes shall have no force or effect and shall not be valid until the amendment has been filed with the supervising agency.

Chapter 20
General

Article 83 – The current financial statements and information on the current services and loan and savings rates shall be displayed in a conspicuous area of the credit union for member review.

Article 84 – The credit union's fiscal year shall be the calendar year, January 1st through December 31st.

Article 85 – The directors, committee members, and employees shall keep confidential the information regarding the member's transactions with the credit union as well as all information concerning the credit union interests. Such information may be disclosed only through the channels authorized by the law, credit union regulations, and these bylaws. The exchange of information between credit unions, credit reporting agencies, and other financial institutions regarding the members credit history, whether through regulatory or professional agencies authorized to handle such information is not subject to the aforementioned confidentiality clause.

Article 86 – In cases of breach of confidentiality, besides the resulting action for the resulting damages, the responsible party shall be removed from office or their employment terminated.

Article 87 – All books of account and other records of the credit union shall at all times be available to the directors and committee members of the credit union. The charter and bylaws of this credit union shall be made available for inspection by any member.

Article 88 – Any chapter or article of these bylaws in conflict with the law of the country in which the credit union is located shall be automatically void and deemed to be amended to conform to the requirements of the applicable law.

CREDIT UNION POLICIES

Credit union policies are guidelines that are developed and approved by the credit union board. Establishing policy is a primary responsibility of the board of directors. Policies are broad statements designed not to restrict the credit union, but to define the manner in which it conducts business. They provide general direction for credit union operations without specifying how to accomplish each task. They give parameters to credit union employees and help by defining in writing what is acceptable behavior.

Often policies are confused with procedures. Procedures define how certain job duties are to be performed. They are normally quite specific and outline the steps to performing a specific credit union task such as opening a new account or perfecting a lien on collateral. For example – a statement that details the steps for perfecting liens on vehicles is a procedure. It does not belong in the loan policies. In this case, the policy would simply state that the credit union shall require perfected liens on all vehicles used as collateral. Procedures are normally written by operational credit union staff and are not board approved.

Policies offer a number of advantages to the credit union, as well as to officers and staff. Among the reasons for having policies include:

1. They promote consistency and common goals. It is a very dangerous situation if a credit union does not have written policy. Without written policy the employees have no direction in the main areas of credit union operations and will not consistently resolve all similar issues in the same fashion. This leads to members being treated differently and inconsistent answers and actions when resolving similar problems.

2. They define acceptable employee behavior. Without written policy, employees have more latitude to perform illegal or fraudulent activities in the credit union. If acceptable behavior is not defined by policy then employees may participate in certain activities (for example – transact business on their own account) and state that they had no idea that they were doing anything wrong. In order to avoid these situations, place all credit union policy and procedures in writing and update them on an annual basis.

3. They provide answers and assist with decision making. The policies are a master set of directions, which assist employees in making daily decisions. They give employees a framework on which to base their judgements. As a result, decisions are more likely to conform to the credit union's philosophy.

4. They reduce personal liability for board members. By having written policy the room for individual interpretation by employees is reduced, therefore reducing the chances of officials being liable for any illegal or fraudulent activity performed by officials, employees, or members.

Once policies are established, the manager and the employees are responsible for implementation and administration. While the board of directors should monitor management's efforts, directors should not involve themselves in day to day operations. That responsibility is assigned to management.

On an annual basis the board should review and revise all credit union policy so that they are reflective of current credit union operations. So that this does not become burdensome, the board at the beginning of each year, should review and discuss one credit union policy at every other board meeting until all policies have been reviewed.

LENDING POLICY

Mission

It is the ________________________________ Credit Union's desire and obligation to provide its members with loan products that fulfill the member's needs and to establish a long-term financial relationship with each member. The credit union will function as a financial advisor to its members. Members who are denied credit will be given financial advice so that they can improve their financial situation. The credit union may only grant credit to those members who have a good reputation and are creditworthy.

Policy Review

The credit union's board of directors will be responsible for formulating, reviewing, and adjusting the loan policy. On an annual basis the board will review this policy and make changes if necessary so that it is reflective of daily operations.

The credit union supervisory committee will be responsible for ensuring that the loan policy is carried out adequately and that it achieves the goals for which it was created. The committee will determine if the policy is being complied with by periodically (preferably monthly and no less than quarterly) reviewing a sample of loans granted and denied.

Eligibility

Membership in the credit union is open only to individuals who are within the field of membership as defined in the charter and bylaws. Any member is eligible to apply for credit from the credit union after ______ months of membership. Upon approval by the credit committee or management (for savings secured loans), members can obtain credit immediately if they are deemed to have impeccable credit. Staff and officials of the credit union will not discourage a member from submitting an application for credit. All loan requests must be in writing on the approved loan forms. In order to promote savings and deposit growth all borrowers must have a minimum balance at the credit union of $______________ to obtain a loan.

Loan Payments

The first loan payment (including principal and interest) in the majority of the cases will be made within 30 days of granting the loan. An exception to this rule would be loans that are paid quarterly. However, because of credit union liquidity needs the majority of loan payments will be on a monthly payment schedule. If the borrower's cash flow is such that monthly payments can not be made, then quarterly payments will be accepted, preferably with monthly payment of the interest due.

Loan payments will be accepted on any credit union business day and/or by mail. Evidence of payment will always be by a written receipt. A member may pay their loan off prior to maturity without penalty.

Credit Concentration

No member or group of members who are considered to be related for credit purposes such as family businesses or closely related family members (those dependent on the same source of income) may borrow (both secured and unsecured loans) or be obligated to the credit union, in excess of 10% of total assets. With regards to unsecured loans or the unsecured portion of a loan those in which there is no collateral guaranteeing repayment of the loan, these loans or amounts may not exceed 10% of institutional capital (capital reserves).

Loan Portfolio Diversification

It is important that the loan portfolio composition is diversified so to reduce the inherent risk in different loan types. Because of this, the following loan type maximums have been established.

LOAN TYPE	MAXIMUM % OF LOAN PORTFOLIO
Savings Secured	No Maximum
Vehicle Loans (with a perfected lien)	25%
Jewelry or Personal Belongings	25%
Small Real Estate Loans	25%
Signature or Unsecured	20%

Loans to Employees and Officials

All employee loans will be reviewed and approved by the credit committee or the manager if they are within the delegated limits. The manager's loans will be approved by the credit committee. The official's loans (all board and committee members) will be approved by a majority vote of the board of directors. All loan rates and terms are the same for the employees and officials as for the members. No employee or official may perform any transactions on their loans or those of a family member.

Credit Committee and Loan Officer Authority

The credit committee has authority to approve all loans except official loans as discussed above. The credit committee will meet no less frequently than monthly, but as often as necessary to approve loans in a timely fashion so that members receive the best possible service. Loan approval has to be tailored to serve the needs of the most creditworthy borrowers. A creditworthy borrower can go anywhere and get a loan unlike an individual who has credit problems. They usually have fewer choices so they will be willing to wait however long it takes to get a loan. Loans are approved with a majority vote of the committee members present.

The manager or a designated employee shall have limited loan approval authority. They can approve all 100% savings secured loans up to the limit addressed in the Credit Concentration section of these policies. This loan officer can not disapprove loans, only the credit committee may do that. Therefore all loans in which the loan officer does not want to approve will be referred to the credit committee.

As stated in the bylaws the credit committee may delegate their loan approval authority to one credit committee member designated as a loan officer. This is normally done to provide timely answers to loan requests. This committee member has full approval and denial authority within the limits of this policy.

The borrower will be informed in writing of all loan denials. The reason for the denial will be specifically addressed. Credit counseling will be offered to the borrower in hopes of improving their credit so that they will be eligible for credit in the future.

If the Member Causes a Loss

If a member has caused the credit union a loss, no business will be conducted with that member until the loan is repaid. Once the loss has been fully repaid the member shall be eligible for credit in accordance with the loan policies and standards. If the member is repaying the loss in installments and applies for new credit before payment of the final installment, the application will be reviewed considering relevant factors. These factors will include: the amount of the unpaid loss, the number and regularity of the installments made, the amount of credit and the purpose of the new loan request, and whether the credit request is to be secured by collateral or co-signers.

Credit Committee and/or Loan Officer Documentation

The credit committee and each loan officer or management employee will keep a record of all loan requests approved and denied. The information for each loan request should include: date of loan, name of potential borrower, amount of loan request and/or approval, collateral offered, date loan was approved, date loan was issued, or reason for denial **(see example 6 – Credit Committee Minutes)**. This will act to verify that a loan is made according to the conditions set by the approving authority.

The credit committee will also act on all requests by the member to release of collateral prior to loan maturity and to modifications of the original loan terms.

Loan Approval Process

When all of the necessary loan documents have been obtained as described in the Loan Procedure section the loan request will be given to the manager or loan officer, or the credit committee.

The manager is able to approve all 100% savings secured loans up to the credit concentration limit as described in the Credit Concentration section.

All other loan requests along with the necessary documentation will be given to the credit committee or their designated loan officer. All potential borrowers except those seeking a share secured loan will have a loan interview. The interview process focuses on the member's loan qualifications and the condition and value of the collateral (if any is offered to secure the loan) in order to help the committee make an informed decision.

If the committee does not feel that they can approve a loan as requested they may make a counteroffer and the member has 7 day to accept or deny the counteroffer.

If there is a loan request the committee is to meet at least weekly in order to provide a timely response.

Loan Denials

All applicants who are denied loans shall be notified within 30 days of the denial. The reason for the denial should be specific and in writing. Credit counseling shall be offered so that the member can improve their creditworthiness and hopefully qualify for loans in the future.

Requirements for Co-signers

Credit committee officials and/or loan officers will never ask for a co-signer if the primary borrower can not demonstrate both the intent and the ability to repay the loan. A member who can not demonstrate the intent to pay is one who simply does not pay their debts, not one who has never had credit. A co-signer will be obtained when there are concerns over the member's lack of credit history, their length of employment, or the employment history / job stability.

Debt Ratios

Debt ratios are an effective means of evaluating the capacity of the members to repay their debts. The debt ratio is only a tool or guideline to assist management. It should not be thought of as something that will make the credit decision. Through analysis of member loan applications it has been determined that an acceptable debt ratio (monthly installment debt / gross monthly income) should not exceed ______%. (In the United States, gross monthly income is defined as the total salary before any deductions are taken for taxes, etc. and monthly debts include the housing expense, other loan and credit card payments, child care costs, etc. The utilities, telephone, water, and insurance expenses are not included. The acceptable gross debt ratio is never higher than 50%.) If the member's debt ratio exceeds this, then it should be documented on the loan workup sheet why the member will be able to repay the loan satisfactorily. Although the reasons for any exceptions to credit union policy are to be in writing on the loan workup sheet. For example – prior repayment of credit union loans without any delinquency, the collateral value far exceeds the loan amount, there is a good co-signer, etc.

Closed End Loans

Closed end credit is continuous; it ends when the loan is repaid. The loan is repaid on a regular basis at a fixed payment. Members who want the security of knowing what and when they will pay and how long they are committed to that payment prefer closed end loans. Closed end loans include savings secured, unsecured or signature, vehicle, personal possessions such as jewelry and new appliances or equipment, and real estate loans. Frequent borrowers may find closed end credit inconvenient because it requires a new application and time-consuming paper work each and every time more funds are necessary. There are 2 payment types:

- Level Payment Annuity – This type of credit establishes a single payment amount for the whole duration of the loan. It has the following advantages for the user: a) the payment amount is constant; b) payment due dates are easy to remember.
- Fixed Principal Payment – With this credit, the total amount requested is divided by the number of payments the member will make and this is the quantity to be paid at each installment's due date. Interest is calculated on the remaining balance for the period being paid. This credit allows the member to pay a higher amount at the beginning because the principal balance is larger and therefore the interest charge is greater and to reduce it gradually until the credit is paid off.

Types of Closed End Loans Offered

Savings secured – Any borrower can borrow up to 100% of their savings balance for up to _______ (the suggested maturity is 3 years) depending on credit union liquidity. Because the credit union is in possession of the member's savings account, it is not important to analyze the member's ability to repay the loan out of current earnings.

Because there is no risk in these loans the loan documentation is limited. An abbreviated loan application can be used. The application should obtain the following information:

- Loan purpose,
- Collateral offered and amount of savings account(s),
- Desired loan maturity,
- Savings account number,
- Borrower name,
- Borrower address and telephone number,
- Signature of borrower and joint account holder, if there is one.

- Additional paperwork includes the promissory note and a copy of the account history to determine that the account balance is adequate to secure the loan.

Savings withdrawals are only allowed for the amount in excess of the loan's outstanding balance. Funds in a savings account may be used to secure only one loan. Never may the same funds in an account secure more than 1 loan. If a term deposit is used to secure a loan, the loan maturity should be the same as the deposit maturity.

Because of the ease in granting this type of loan it should be granted within 1 hour of the member request, if the manager is available and there is adequate liquidity.

As each monthly payment is made, only the amount needed to repay the outstanding loan balance will be held to collateralize the loan. In other words, the member has access to all savings that are not pledged for a savings secured loan.

Loans less than 100% savings secured or collateralized – Any loan in which savings or other collateral does not secure 100% of the loan balance shall be referred to as an unsecured, personal, or signature guarantee loan. This is the kind of guarantee where the credit user signs a document acknowledging that they will pay their debt with their present or future assets, without specifying which assets will be used to make such a payment. Loans that are guaranteed partially or 100% by a member's signature shall have a maturity of no more than ________ (24 months is the suggested maturity) with a maximum loanable amount of US$1,000 or 10% of institutional capital, whichever is less.

Jewelry – Normally only gold is taken as collateral for loans. Gemstones will be accepted as collateral with a Certificate of Authenticity. The jewelry will be kept in the credit union's safe or a safe deposit box until the loan is repaid in full. An official appraisal must accompany the collateral. No more than ________ (suggested maximum is 50%) of the jewelry's appraised value will be loaned. The maturity can not exceed _________ (2 years is the suggested maturity). Prior to accepting this collateral, management or the credit committee should insure that the jewelry could be easily sold if the member is unable to repay the loan.

The member is to sign an agreement with the credit union that states that the credit union can repossess the collateral if the borrower does not pay.

Household appliances, furniture, camera equipment, computers, office equipment, and light machinery – Only NEW appliances, furniture, etc. will be accepted. The member must provide the receipt for the item and a maximum of ________ (70% is the suggested maximum) of the receipt price or 10% of institutional capital, whichever is less can be financed for no more than ________ (2 years is the suggested maturity). (In order to reduce the risk the terms are the same as the signature loan terms. By taking the collateral as security the credit union gains control over some of the borrower's assets.)

The member is to sign an agreement with the credit union that states that the credit union can repossess the collateral if the borrower does not pay. Keep in mind that this type of collateral is often difficult to repossess because it is normally inside someone's home and many legal systems do not allow for repossession of these items.

Vehicle loans and Heavy Machinery (These types of loans can be offered only if the credit union can secure the lien in the credit union's name.)- Vehicle and heavy machinery loans will not exceed a maturity of____________ (5 years is the suggested maturity). The suggested maturities of vehicle loans are as follows:

Age of Vehicle	Maximum Term	Maximum Amount of Loan
0-2 years old	5 years	80% appraised value or cost
2-10 years old	3 years	70% appraised value
10 years or older	2 years	\$1000 US or 10% of institutional capital, whichever is less

If the vehicle is new, the purchase invoice will be used to determine the value. If the collateral is used the value of the collateral will be determined by an appraiser who is considered an expert or with a vehicle appraisal guide, if available. Also a credit committee member, the credit union manager, or a qualified employee shall do a physical inspection of the collateral and determine the collateral's value to the best of their knowledge and insure that it is in good working condition (**see example 10 – Collateral Evaluation Form**).

Management is to file the lien with the appropriate authorities and the credit union is to be the 1st lienholder. Insurance that covers the value of the collateral will be obtained on the collateral. The credit union will be named as the loss payee (should the car be damaged the credit union will receive the proceeds from the insurance company). If the member allows the insurance to lapse through non-payment of the premium, the credit union has the right to immediately repossess the vehicle or equipment.

Mortgages – The borrower must prove that the property belongs to them or that they are legally authorized to encumber it and that the property is free of liens. This will always require proof in writing from the proper authorities. It should also be determined that the credit union can repossess the property should the borrower default on the loan payments. If the aforementioned can be determined then only 1st mortgages on owner occupied properties will be granted. (In many countries it is not possible to secure a loan on a vehicle so mortgage loans are used when a member wants to buy a vehicle.)

Depending on the purpose of the loan, the maturity can not exceed 10 years. (If the loan is being used to purchase a vehicle the maturity should not exceed 5 years; whereas if the purpose is to buy property the maturity can be up to 10 years.) An appraisal will be obtained for all real estate loans from an expert in that field. The credit union will lend no more than 70% of the appraised value. If real estate prices are steady or increasing then an appraisal up to 1 year old may be accepted. The borrower may use an appraiser suggested by the credit union or an appraiser of which the borrower and the credit union agree on.

Insurance for at least the value of the loan must be carried on the property at all times. The credit union is to be named as loss payee; so that the credit union receives any proceeds first (before the member) should there be any damage to the property. If the member allows the insurance to lapse through non-payment of the premium, the credit union has the right to immediately foreclose on the property.

All real estate loans are to be carefully documented. Each file along with the application and the note or the agreement to repay should include: a copy of the property insurance showing the credit union as the loss payee, a copy of the appraisal used to determine the property's value, a signed deed from the appropriate authority verifying the credit union's 1st lien position, a property description, written proof of the borrower's income, and other items needed to secure a real estate loan as specified by the appropriate authorities.

The member will only receive the funds once all of the necessary information is in the credit union's possession.

Open End Loans

Open-end credit is continuous. This type of credit does not have a pre-specified payment schedule but instead has a maximum duration. A member makes an initial application to use a specified amount of credit on an ongoing basis. Their creditworthiness is to be reviewed at a minimum, every 2 years by requesting a new loan application. When this type of credit is granted the borrower is approved based on the payment to repay the maximum balance to insure that the borrower is capable of repaying the largest monthly payment. They borrow as necessary up to the credit limit. Open-end credit is beneficial for the frequent borrower because of its convenience. There is less paperwork and if the limit is already established the funds are immediately available. This means that an employee may disperse the funds and the disbursement does not have to be approved by the credit committee or loan officer.

The approval of the member's application does not guarantee that the member will be given funds whenever they want. The credit union can deny additional requests based on poor past payment, not paying the loan balance down (instead the borrower continually pays a couple of payments and then requests additional funds that might increase the loan to the limit or somewhere close), or new information is learned about the borrower that indicates the borrower will be unable to pay the higher loan balance off.

At each request for a credit advance the employee or the committee can check the borrower's creditworthiness, capacity to repay, and collateral value (if applicable) if they choose and make the decision whether or not to approve the advance.

This type of credit requires that the credit union have a degree of automation in its operations, which allows control of payments and balances. There are 2 methods in which the payments can be established:

- There is a required payment, either a fixed amount or a percentage of the balance (credit cards are an example of this).
- Revolving lines of credit that may be used according to the needs and convenience of the borrower, which have a maximum term, at which moment the credit should be paid in full. Credit lines are the most common example of this type of credit.

Types of Open End Loans offered

Lines of credit can be obtained using any types of the security described in the closed end loan section. All of the maximum values and maturities apply. Monthly payments are to be made on all lines of credit. The payment is to be at least enough to pay interest current or to repay the loan by the maximum term of the collateral used to secure the loan, whichever is greater.

Grace Period

The credit union may set a grace period, which shall not exceed __________ (5 days is the suggested maximum), to allow for monthly payments without incurring a late fee. After _________(5 days) a late fee of ____________ (10% of the monthly payment or US$15.00 is the suggested amount), whichever is greater will be charged.

Preference of Loan Payments

Payments received from a debtor shall have the following payment preference:
- Legal costs,
- Late fees,
- Interest,
- Principal.

Fees

The credit union may charge the borrowers for all fees incurred in the loan process. These fees may include the following:
- Legal or notary fees for contractual preparations and formalization,
- Appraisals of capital assets (real estate and personal property) offered for mortgages or other guarantees,
- Insurance contracted to ensure credit recovery in case of debtor accident or death,
- Taxes and charges that have to be paid as a result of a service.

This fee shall not exceed ________ (2% is the suggested maximum) of the amount loaned or approved when granting open-end credit. This fee should not affect the competitiveness of the credit union's loan products. The minimum fee is $___________ and the maximum fee is $_________________. This fee will be charged only once during the life of the loan and it will be taken from the authorized loan amount at the time the loan is disbursed.

Interest Rate Risk

All loans will have a variable interest rate. The interest rate may be changed with a 30-day notice. This notice will be posted in the credit union office.

In order to do this type of variable rate lending it is best if the credit union is computerized to handle the payment change effectively. The interest rate on the loan will be tied to the main banking index plus a percentage to cover credit union operating expenses.

Loan Portfolio Evaluation

It is important that the credit committee is aware of the makeup of the loan portfolio and periodically analyzes it. Considerations when analyzing the portfolio include:

- Total number and dollar amount of loans,
- Number of loan denials,
- Ratio of loans approved to applications received,
- Average loan size,
- Number of short (less than a 2 year maturity) and long term loans,
- Number and percentage according to loan collateral,
- Ratio of borrowers to members,
- Ratio of loans to assets,
- Ratio of loans delinquent more than 1 month to total loans,
- Ratio of net loans charged off (total loans charged off for the period – any loan recoveries) to outstanding loans,
- Number and amount of delinquent loans per loan officer(s) and credit committee.

The Board of Directors reviewed this policy as of ____________________.

Interest Rates

When determining the interest rates to be charged on loans management and the officials will seek a balance between the loans available to the members, and the long-term viability of the institution. For this purpose management should consider the following:

- Costs, particularly those related to member savings dividends, the allowance for loan loss, and operating expenses.
- The need for a strong capital position, which is essential for the credit union's long term viability and future growth.
- The competition's pricing structure, given the competitive nature of the financial market.

Loan Type	Interest Rate	Suggested Maximum Amount	Suggested Maximum Term
Savings Secured		100% of member's savings balance or 10% of total assets, whichever	

	______%	is less.	3 years
Loans < 100% Savings secured	______%	Unsecured amount not > 10% of institutional capital or US$1000 whichever is less.	2 years
Jewelry	______%	50% of appraised value	2 years
New Appliances	______%	70% of invoice or 10% of capital whichever is less.	2 years
Vehicle Loans	______%	0-2 years old – 80% of appraised value or cost.	5 years
	______%	2-10 years old – 70% of appraised value.	3 years
	______%	10 years or older – US$1000 or 10% of capital, whichever is less	2 years
Mortgages	______%	70% of appraised value	10 years
Lines of Credit	______%	Dependent on collateral	Dependent On collateral

If the collateral value for any of the above types of collateral is greater than 10% of the credit union's assets, then the maximum loan will be 10% of the credit union's assets. In the case of an unsecured loan or portion of a loan, the maximum amount is 10% of institutional capital or US$1000, whichever is less.

These rates were reviewed and revised on ________________________ by the Board of Directors.

LENDING PROCEDURES

The loan process will start with a loan request from the potential borrower. The loan request can be made in person at the credit union or by phone. The borrower will be given an application and a written list that details what the borrower needs to provide so that the request can be processed promptly (**see example 11 – Borrower information needed**).

Staff and officials of the credit union will not discourage a member from submitting an application for credit. All loan requests must be in writing on the approved loan forms.

Loan Documentation

When a member requests a loan, each time a new loan application must be filled out (for closed end loans and savings secured loans an abbreviated form may be used). The application should be completely filled out by the member. Remember, the more information the borrower gives you the easier it will be to collect the loan, if the loan becomes delinquent.

Attached to each loan application will be a loan work up sheet **(see example 7 – Loan Work up Sheet)** that summarizes the loan request. Written proof of income shall always accompany the application along with a co-signer agreement (if a co-signer is used – **example 8**), an insurance agreement (for vehicle and real estate loans – **see example 9**) and a credit report (except for savings secured loans), if this service is available. For all approved secured loans, there will be a security agreement or proof that the lien on the security has been filed with the proper authorities and that the credit union has "clear title" should the collateral have to be repossessed. Clear title means that it has been verified that no other liens exist against the collateral. Lastly, upon loan approval a promissory note will be completed which is the legal instrument that holds the debtor responsible. All of this information will be made part of the borrower's loan file and retained for inspection by the supervisory and credit committees and the supervisory authority.

If mortgage loans are offered, see the mortgage loan policy section for the documentation necessary to process a loan request.

If the borrower is self employed it is often difficult to verify their income. The credit union will have to request and analyze accounting records such as accounts receivables, etc. or if this is not available then invoices, price lists, volume of daily transactions, bank account statements, etc. This analysis should be complemented by visits to the place of business to assess the volume of daily transactions the business has. Because this is often difficult to analyze, this should be performed by the manager, loan officer, or credit committee, whoever has the most experience.

Once all of the necessary information has been obtained the completed loan request will be given to the manager, if it is a savings secured loan, or to the loan officer or credit committee if it is any other type of loan.

Except for savings secured loans, every member submitting a loan application will have an interview with the credit committee or loan officer in order to:

- Elaborate on the information in the application,
- Verify the loan purpose,
- Better understand the financial status of the applicant,
- Provide credit counseling about the wise use of credit,
- Determine the reliability of the applicant according to their personal history and references,
- Establish a personal relationship,
- Sell other credit union services and educate the member about credit union philosophy.

Before proceeding to the analysis of the submitted application, the loan officer or credit committee should verify all the references contained in the application (personal and business). If at this stage any adverse information is learned, there is no need to proceed to the next step in the process, which is the analysis of the borrower's creditworthiness.

Credit Decision Guidelines

Determining an applicant's credit is one of the most important aspects of the credit evaluation process because the member's creditworthiness is your first line of defense against loss. As loan requests are reviewed it is important to evaluate them keeping in mind the 5 C's of credit – character, capacity, collateral, capital, and conditions.

Character – Character is the most important "C". The member's reputation is the traditional criterion credit unions use to judge the member. This is what repays the loan. In determining someone's character the following information should be analyzed:

- Length of membership,
- Length of residence,
- Length of employment,
- Type of job,
- Stability of employment,
- Land / home ownership,
- Family status – number of dependents,
- Personal references.

In order to determine the above information use all available sources such as: the loan application, credit union files and account history, references, personal knowledge, and information from other credit unions.

Capacity – Does the member have the financial capacity to repay the loan? Remember the objective is to be paid back in cash to fund additional loan demand, savings withdrawal, and the payment of operating expenses. To assess this the following should be reviewed:

- Savings history at the credit union,
- Savings history or deposits at other financial institutions,
- Loan history and repayments at the credit union,
- Debt ratio calculation that includes the new loan payment (see Debt Ratio section for an explanation of this calculation),
  - Is it within the limits established in this policy?
- Disposable income (income to support the family after all monthly expenses have been paid),
  - Is this income adequate to support the family (the borrower is always going to feed and cloth themselves prior to repaying the credit union)?
- The type of debt the member has,
  - Is it secured or mortgage type debt? Or is it unsecured debt and the member has very few assets?
- Quality and age of assets, along with the ability to resell the collateral in a timely manner.
- Does the requested payment plan correspond with the borrower's cash flow?
- Does the loan interest rate correspond with the risk presented by the borrower's financial situation?

Collateral – Collateral by itself is unimportant, it does not repay a loan. If the member's character and capacity are weak collateral will not make a good loan. Obtaining collateral is a means of gaining control over some of the borrower's capital.
Collateral is considered:

- Savings and deposits,
- Vehicles and equipment,
- Personal property such as jewelry,
- Real estate, and
- Co-signers.

In assessing the value and the desirability of the collateral insure that:

- The requested loan term corresponds with the useful life of the collateral.
- The loan amount does not exceed the value of the collateral or a percentage of the value of the collateral, established in credit union policy. Under no circumstance should the amount loaned ever be greater than the security value, the member's savings balance, and their signature limit.
- That the value of the collateral is conservative.
- That the value can be easily determined by a reputable source. Always perform an inspection of the collateral to insure that it is in good shape and can be sold for, at least, the amount of the loan.
- There is a market for the collateral should it have to be sold to repay the loan.
- It can be easily repossessed to pay off the loan. For example – Often it is hard to gain entrance to someone's home to repossess household furnishings.
- That the collateral is adequately insured.

- That the credit union has clear title to the collateral.

Capital Accumulation – This is the member's net worth. In assessing capital accumulation determine:
- Has the member made steady, even if slow, growth in assets or is every penny earned immediately spent?
- Does the member save consistently at the credit union? Or are they there just to obtain a loan? Does the member live beyond their means?

Conditions – This refers to the economic situation at the time of the loan request. The credit union's liquidity at the time of the member loan application also impacts your ability to make the loan. It is important to remember that extenuating circumstances can affect the member's ability to meet a new financial obligation. These can range from a labor strike to personal circumstances such as an illness in the family.

Requirements for the Co-signer

The co-signer's signature or reputation, savings, and/or collateral are used to secure loans. The co-signer is to provide the same information as the borrower and sign the co-signer agreement. The co-signers character should be evaluated just as the member's is, and used to guarantee the loan repayment, along with their savings. The co-signer does not have to be a member of the credit union, but it is preferred. Their savings can be used for additional collateral.

If a co-signer is obtained (without adequate savings to secure the loan), that co-signer is to be more creditworthy than the borrower. The co-signer must have separate income from the borrower and project and must be able to pay the loan payments out of current earnings or savings if the borrower becomes delinquent.

Loans Counteroffers or Disapproval

Upon completion of the above, the loan officer or credit committee should approve, disapprove or give a counteroffer. When a counteroffer is given usually the offer will be for a smaller loan amount, more collateral to better secure the loan, or if the credit union does not have enough liquidity. The borrower has 7 days to accept or deny the counteroffer.

It is management and the official's responsibility to use the member savings and deposits wisely. Therefore, there are certain loan requests that should be denied if they exhibit any of the following characteristics. Also, co-signers with any of these characteristics should be deemed as unacceptable.

- Member has a bad credit history,
  - Insufficient or poor bank references,
  - Doubt about quality of personal references,
  - Frequent job changes,

- Insufficient payment capacity to repay the loan in its entirety,
- Inability to verify the borrower's income,
- Current delinquent loans or obligations at the credit union or other financial institutions.
- The collateral value is insufficient for the loan request.
- Members that have caused the credit union or another financial institution a loss.
- Members that have a questionable reputation.
- Members with personal and/or family problems.
- Unprofitable business or occupation.
- Projects which involve the fabrication of products which are harmful to one's health or the environment.
- Members who do not want or can not disclose information about their financial status or they do not have adequate references.
- Loans for speculative activities.
- Loans to be used for granting subcredits (usury).
- Loans to finance interest or existing debts.
- Loans for political parties or candidates.
- Loans to finance projects with a long investment recovery, which depend on project cash flow for repayment.
- Mortgages in which the credit union would be in the 2nd position or the property does not have clear title.
- Loans applied for by a member to be used by a 3rd party.

Loan Approvals

The member will be notified immediately upon the approval of the loan request. The member will only receive the funds once all of the necessary information is in the credit union's possession.

All loan disbursements are to be deposited in the member's savings account at the credit union or made by check and made payable to the borrower only after the loan request has been approved. If the loan is to be used as payment for other debts or to release a mortgage, then the disbursement shall be made to the previous creditor and not to the member (there are no exceptions to this rule).

Under no circumstances may anyone involved in the loan approval process be allowed to disburse the loan proceeds to the borrower or be involved in the collection process should the loan become delinquent.

Credit Committee Internal Controls

In small credit unions it is often difficult to have sound internal controls because of the limited number of employees. Wherever possible it is important to limit opportunities for fraudulent or illegal activities. With this in mind the following internal controls are suggested along with the above policies and procedures.

1. All loan files or at the very least the original legal loan documents (a copy of these documents should be kept in the loan file) should be kept in a safe, secure, fireproof area.
2. The credit committee and each loan officer or management employee will keep a record of all loan requests approved and denied. The information for each loan request should include: date of loan, name of potential borrower, amount of loan request and/or approval, collateral offered, date loan was approved, date loan was issued, or reason for denial **(see example 6 – Credit Committee Minutes)**.

3. The credit committee will also act on all requests by the member to release the collateral prior to loan maturity and to modifications of the original loan terms. Whether these requests were rejected or approved will be noted on the back of the credit committee minutes.

4. Credit committee members and loan officers are to sign minutes after each meeting. The unused lines on each side of the minutes form (**see example 6**) should be lined out so that an illegal entry cannot be made.

5. All loan notes should be numbered and the notes are to be used in sequential order. All loan note numbers will be recorded in a loan register along with the borrower's name.

6. If open-end credit is offered, all loan advance requests are to be processed only after a loan advance voucher has been completed.

7. Each borrower is to have their own loan file, where all loan paperwork is retained. The members name and account number are to be on the outside of the file. The files should be organized by the borrowers last name.

8. The supervisory committee should periodically review the credit committee minutes to ensure that no loans have been granted to fictitious people to defraud the credit union.

COLLECTION POLICY

Philosophy Regarding Delinquent Loans

The credit union must establish and maintain effective control over all loans in order to safeguard the funds entrusted to it by its members. Because of this, the credit union should establish a culture of collection with its membership. It is important that the members realize that every necessary action will be taken to recover a delinquent loan. These actions should include:

- charging late fees,
- contacting delinquent borrowers consistently about the delinquent loan(s),
- following up immediately when a promised payment is not received by a borrower,
- repossessing collateral in a timely fashion before it loses its value, and
- using outside sources (lawyers, collection agencies, etc.) to collect from delinquent borrowers who do not respond to collections performed by the credit union employees.

The credit union philosophy of helping people to help themselves should be considered when the causes of delinquency are determined to see if collection can be implemented through adequate financial planning. The credit union shall always consider the well being of the member as part of a sound collection policy, and where responsible financial planning is exhibited by the member, satisfactory arrangements can normally be made to accommodate the member. The credit union will encourage regular payments. It can offer economic incentives for timely loan repayment (for example – if all payments are made timely for the first 12 months of a 24 month loan the interest rate for the last 12 months can be reduced ½%). It shall be pointed out to members the additional cost they are incurring when they pay late and on an irregular basis. There is the late fee and the member will pay more interest because their interest is being figured on a higher principal balance.

Every consideration should be given to retaining members when collecting loans, and collection procedures should reflect this objective. The procedures shall include provisions for determining the causes of delinquency and for cooperating with the member to the fullest extent possible without incurring a financial loss to the credit union.

Collection policies and procedures relating to the collection of delinquent loans and interest apply equally to all members, irrespective of their professional or social standing. Delinquent loans in which the member has left the immediate membership area of the credit union will be watched very carefully, so not to lose contact with the member.

It is also the board's desire that management's focus is on preventing delinquency. Therefore, the member loans with the highest balances are to be watched carefully so to identify and resolve a problem before it becomes serious.

Policy Review

The credit union's board of directors will be responsible for formulating, reviewing, and adjusting the collections policy. On an annual basis the board will review this policy and make changes if necessary so that it is reflective of daily operations.

Responsibility for Collections

The manager is responsible for coordinating the collection efforts of the credit union in accordance with this policy. The manager may chose to delegate the day to day collection activities to a credit union employee, or with more difficult delinquent borrowers to a lawyer or collection agency, if available.

Reporting to the Board

On a monthly basis all loans that are more than 1 month delinquent will be reported to the board. A written delinquency report is to be provided. Delinquency will be reported as follows:

- 30 to 90 days delinquent,
- 91 to 180 days delinquent,
- 181 to 365 days delinquent,
- more than 365 days.
- When a loan is reported to be delinquent, the total outstanding loan balance will be reported as delinquent and not just the delinquent amount.

The delinquency report should include:

- the members account number,
- the members name,
- the date the loan was made,
- the original amount of the loan,
- the current loan balance,
- how delinquent the loan is,
- when the last loan payment was received,
- if the last payment was a full monthly payment,
- the loan collateral, and
- any comments about the borrowers ability to repay the loan (**see example 12 – Delinquent Loan Schedule**).

Management, prior to the board meeting, is to analyze the report carefully and determine the potential loss for each delinquent loan based on the borrowers employment situation, the value of the collateral that secures the loan, past payment history, etc. Management is to ensure on a monthly basis that there are enough funds in the Allowance for Loan Loss account to cover 35% of loans delinquent between 1 and 12 months and 100% of loan balances > 12 months delinquent.

Delinquency Notices

When a borrower is 15 days delinquent they will be contacted by phone, or mail if they can not be reached by phone. Personal contact is always much preferred over sending a notice.

This first reminder will be friendly, in hopes that they have just forgotten to make the payment and they are not having trouble making the monthly payment. This notice requests payment upon receipt but not more 15 days from the date of the notice (**see example 15 – Collection Notice #1**).

The second notice is sent or phone contact is made after there has been no payment in 30 days. This reminder requests payment upon receipt but not more than 10 days from the date of the notice and/or contact the credit union to discuss the problems causing the delinquency and to establish a workable solution or payment schedule (**see example 16 – Collection Notice #2**).

The third notice is sent or phone contact is made after there has been no payment in 45 days. This notice requests payment in 5 days from the date of the notice. This notice states that the loan is to be sent to a lawyer or collection agency and the collateral will be repossessed (**see example 17 – Collection Notice #3**). At this point, if savings are available to make the payment, then the amount needed to pay the loan current will be withdrawn from the savings account. If the credit union is able to, according to local law, the collateral is to be repossessed before it loses any more value. Otherwise, the lawyer or collection agency will perform all of the collection work and remit the payments made to the credit union.

Notification of the Co-signer

The co-signer is to be contacted at the same time the primary borrower is. They should receive all notices and phone calls that the borrower does. They should always be made aware of the delinquency. They will be very effective in helping the employee collect the loan. Co-signers do not want to pay a debt in which they did not receive any funds or benefits.

Action to recover from the co-signer shall be taken as soon as it becomes apparent that the primary borrower is not going to pay. In no case should this action be delayed beyond the 3rd month of delinquency.

Termination of Automatic Payment (applicable only if the credit union is receiving loan payments automatically from a payroll office, etc.)

Any time the credit union becomes aware that the automatic payment has been terminated, the credit union should contact the borrower immediately. Information should be obtained on how the borrower will now make the payment, they should verify the borrower's address, phone number, place of employment, and personal references to ensure the credit union has all the correct information should the loan become delinquent.

Collection System

When a member becomes delinquent a collection card will be established for the borrower (**see example 13 – Collection Card**). The collector will organize the cards according to the days of month (there will be 31 dividers, one for each day of the month). When the borrower makes a promise to pay for the 20^{th} of the month, the promise will be noted on the card and placed behind the 20^{th} of the month. Each morning the collector must verify the delinquent borrowers who paid the previous day and those that did not. All contacts, letters sent, conversations will be recorded in writing on the card. With regards to the collection letters discussed above, if the 1^{st} letter is sent with a 15 day time period for payment, the card would be placed behind the divider 15 days in the future. When the member makes a promise to pay, the employee in charge of collections will follow up consistently (the next day after the payment is due) to ensure that the payment is made when promised. If the promised payment is missed the borrower will be contacted immediately to find out why the payment was not made and what is the cause of the borrower's delinquency. If the borrower is sincere and committed to make payments, then a new payment date should be established. If the borrower is not committed the savings should be used to pay the loan current or the loan should be sent to the lawyer for collection and/or repossession.

If the borrower is unable to make any future payments the collateral is to be repossessed or an alternative plan should be agreed upon so the member can repay the loan. If a new plan is agreed upon, it is important that both the credit union and the borrower share in the risk (see Loan Extensions and Refinances). Often times the credit union takes on a majority of the risk and the borrower takes on very little of the risk.

Repossession of Collateral

As soon as it becomes apparent that the borrower either can not or is not willing to repay the loan, the collateral should be repossessed. Every attempt should be made to have the member volunteer to surrender the collateral. The prevailing laws of the country will determine if the credit union can repossess the collateral and how it will be repossessed. The important thing to remember is that each day the member has the collateral it loses value and they have a greater chance of destroying it either through an accident, or malicious behavior.

Sale of Repossessed Collateral

The sale of the repossessed collateral will be in accordance with prevailing regulations within the country. The proceeds from the sale of the property will be applied as described in the section entitled Preference of Credit Payments.

Extension of the Loan Terms

A loan extension is defined as an extension of the payment date granted to the debtor. Extensions are often used if there has been a temporary fluctuation in the conditions (situations beyond the members control - sickness, accident, work stoppage) that do not enable a timely payment and if the key assumptions on which the loan was granted have not changed.

Whenever the credit union has to extend loan terms it should try to improve its risk situation. This can be done by asking for more collateral, obtaining a co-signer, or by requiring that a significant payment on the owed principal be made. This situation is also true for all loans that are refinanced (see the next section).

The maximum loan extension is for 3 months. In the life of the loan several extensions can be granted but the total of the extensions can not be for more than 3 months. The reason for the extension must be documented in writing.

Extensions should be requested before the monthly loan payment is due. Under no circumstances is a loan extension to be used to remove a loan from the delinquency list. All loan extensions are to be approved by the credit committee (**see example 14 – Loan Extension Form**).

Loan Refinances

Loan refinancing occurs when the credit union gives a debtor new payment conditions, different from the ones originally stipulated. This is because the debtor cannot make the payments in a timely fashion, according to the original terms.

The conditions necessary to approve a loan restructuring are such that there is a permanent change in the basis on which the loan was granted. Examples are: loss of a crop, reduction in income due to a job change, etc.

All loan refinances are to be approved by the credit committee.

In order to grant a loan refinance the following is to be complied with:

- Whatever caused the borrower to have trouble making the loan payments has been changed or solved. For example - if the member lost their job, they must have a new one before a loan refinance can be granted.
- Three full monthly payments or 3 payments at an agreed upon (between the credit committee and the borrower) reduced payment are to be made prior to any loan refinance. This is important; it demonstrates the borrower's desire to repay the loan.
- All interest has to be paid current. Under no circumstances should the interest be added to the principal balance when the loan is refinanced.
- If the loan was co-signed, the co-signer shall also sign the refinanced loan, and shall be notified when an agreement for payments different from the original terms is reached.
- The debtor must present all the documents required for a new loan.
- Analysis of the borrowers capacity to repay the loan under the new conditions.

A loan work out plan is an example of a loan refinance. In order to recover the loan funds that were initially loaned to the borrower, a loan workout plan may be developed. Often this involves the member paying the outstanding interest current and then the loan is rewritten at a lower interest rate or for a longer term. This approach allows the member to afford the monthly payments. This should be used only with borrowers who demonstrate a real desire to repay the loan. You do not want members to think that they can lower their monthly payments by being delinquent at the credit union.

Charging a Loan Off

When both management and the officials decides that a loan is uncollectible it is to be charged off. Charging off a loan implies that the member can not repay the loan, and the member is no longer in good standing with the credit union because they have caused the credit union a loss.

On a quarterly basis the manager will recommend to the board of directors all loans that should be charged off to the allowance for loan loss account. The amount submitted for charge off is to be less any savings the member had at the credit union. The board will then vote to approve the charge off recommended by management. Upon approval the charge off will be noted in writing in the board minutes. The borrower's name and account number along with the charged off amount will be disclosed in the board minutes.

Just because a loan is charged off does not mean that collection efforts should stop. Efforts should continue in hopes that the member's financial situation will improve and they can repay the credit union.

If the loan is charged off but the loan remains with the lawyer or a collection agency for additional collection work, the credit union should check with them at least quarterly to determine if any payments have been made.

Recoveries made on Charged off Loans

When a loan is charged off, only the principal amount is charged off to the allowance for loan loss account. If the borrower then decides to repay the loan, any recoveries on principal are credited to the allowance for loan loss account. If by chance the member wants to also repay interest, the loan should be reestablished on the credit union's books at the agreed upon interest rate and the member can make the payments as described in the new agreement.

Analysis of Credit Union Delinquency

On a quarterly basis the credit committee and/or supervisory committee will perform an analysis of the delinquent loans. It is important to identify trends in lending that could reduce the credit union's capital. They should review the types of loans that are delinquent. Do the delinquent borrower's have anything in common (same industry, same place of employment, are they related)? What happened to cause the loan delinquency? Were a majority of the loans made by one employee? Was too much credit extended to the member(s)? (Also see Loan Portfolio Evaluation section of the Loan Policies.)

Preference of Credit Payments

Payments received from the debtor shall have the following payment preference:
- Legal or collection costs,
- Delinquency Late Fees,
- Interest,
- Principal.

Fees

If the officials have chosen, there may be a grace period of up to _________ (5 days is the suggested amount of time) after the payment is due. This means that if the payment is received within _________ (suggested time period -5 days) of the payment due date then no late fee will be assessed.

The credit union will charge a late fee for monthly payments that are not received. The fee is ___________ (suggested -10% of the monthly payment or US$15, whichever is greater) for all loan types. If the borrower contacts the credit union and lets them know that the monthly payment will be late then the late fee is not charged. This is allowed once a year. But if the credit union has to make phone contact or send a delinquency notice then the late fee will always be charged.

If any costs are incurred to collect the loan, the member is responsible for any and all costs.

Delinquent Loan Interest

If the credit union is using accrual based accounting, the interest on delinquent loans can not be accrued after the loan has become 6 months delinquent. The collection of a loan 6 months delinquent is questionable; therefore the accrued or anticipated interest can not be considered an asset of the credit union.

This policy was reviewed as of __________________________ by the Board of Directors.

COLLECTION PROCEDURES

The manager is responsible for the day to day collection process at the credit union, unless it has been delegated to another employee. However, the manager is still ultimately responsible.

If the credit union is automated, at least once a week management is to produce a delinquency report (**see example 12**) and establish contact with borrowers 15 days or more delinquent. If the credit union is not on a computer system but rather on a manual system then on a weekly basis all of the loan ledger cards are to be reviewed in order to determine borrowers who are 15 days or more delinquent.

On a monthly basis at the board meeting the manager will report to the board, using the delinquency schedule, (**see example 12**) all loans that are more than 30 days delinquent. The manager should also discuss any activity on the delinquent loans, such as payments made, collateral repossessed, loans refinanced, etc. The manager should also advise the board on loans that need to be charged off due to uncollectibility.

When the borrower's payment is 15 days delinquent the first collection notice (**see example 15**) will be sent. Also, a collection card (**see example 13**) will be made up for the delinquent borrower. A copy of this card and all notices sent will be kept in the borrowers loan file. The original collection card will be put in the collection file system.

The collection file system will be maintained as follows:

- There will be dividers for each day of the month and behind the day in which the borrower is to make the payment the card is to be placed.
- All actions taken to collect the delinquent loan, any promises to pay, or comments made by the borrower will be recorded on this card. It is important that all of this information is placed in writing for legal purposes and to verify both to the officials and the borrower all that has been said and done with regards to the delinquent loan.
- If the 1st collection letter is sent and it gives the member a maximum of 15 days to make a payment, then the collection card will be placed behind the divider for the day 15 days in the future.
- Each day the person who is in charge of collecting will make or attempt to make contact with all borrowers who did not make the promised payment on that day.
  - If contact is made with the borrower who did not make the payment and a believable promise to pay is made again, then the card will be placed behind the new payment date.
  - If contact is not made or it does not appear that the borrower will make the payments then it should be decided whether to take legal action, repossess the collateral, or change the loan terms so that the borrower is able to pay (see Loan Extensions and Refinances).

The importance of constant and consistent follow up can not be stressed enough. If the borrower does not make a promised payment the collector should be in contact with them the day after the promised payment is missed, attempting to resolve the delinquency. If the follow up is not immediate the borrower will not realize or understand the seriousness of the situation. The collector should explain to them early and often how detrimental late payments are to their credit rating and their chances for obtaining a loan in the future. Consistent follow up also emphasizes that the monthly payment to the credit union is just as important as any other payment they might have.

When a loan becomes delinquent an immediate response can make the difference between collecting and not collecting. Historical recovery percentages are a good illustration of this:

Past Due in Days	Recovery Rate
30 days	95%
60 days	89%
90 days	80%
120 days	70%
240 days	50%
360 days	10%

If no payment is received the second notice is sent and phone contact is made after 30 days (**see example 16**). If a phone or personal contact was not made with the first notice, it should be made no later than the second notice or 30 days delinquent.

The third notice is sent and phone contact is made after there has been no payment in 45 days (**see example 17**). At this point, if savings are available to make the payment, then the amount needed to pay the loan current will be withdrawn from the savings accounts.

If there is a co-signer on the loan, the co-signer is to be contacted at the same time the primary borrower is. They should receive all notices and phone calls that the borrower does. The co-signer is probably one of the most effective collection tools you can use. They normally do not want to repay a loan in which they did not receive the funds.

Phone calls and/or personal contacts are much preferred and normally more effective than collection notices. It is very easy for the delinquent borrower to throw the notice away. With a personal contact it can be discussed with the borrower the importance of making the monthly payments on time. It can be determined if there is some reason (maybe job loss) that has caused the borrower to go delinquent. Also, a date can be obtained stating when they promise to pay.

Remember the objective of the collection process is to be repaid in cash. If the borrower is willing to work with the credit union and truly wants to repay the loan then a loan extension or refinance can be used (see Loan Extension and Refinance section). Under no circumstances should an extension or refinance be used solely to remove a loan from the delinquency list. However, if it becomes apparent that the borrower does not intend to repay or no longer has the means to repay the loan then the credit union should immediately repossess the collateral or take legal action, if available and cost effective, before the collateral loses any more value. Volunteer repossession from the borrower by the credit union should be attempted prior to starting any legal action. It generally is far less expensive to perform a voluntary repossession. The repossession process will depend on the laws of the country.

It is also important to learn from past mistakes. Credit union management should analyze the causes of the delinquent loans. Normally it is for one of the following reasons or a combination of them:

- The borrower has employment or family problems,
- The loan should not have been granted, the borrower was not creditworthy,
- Too much money was given to the borrower as compared to the value of the collateral,
- The collection process was faulty, it was not constant and consistent.

Collection Internal Controls

In small credit unions it is often difficult to have sound internal controls because of the limited number of employees. Wherever possible it is important to limit opportunities for fraudulent or illegal activities. With this in mind the following internal controls are suggested along with the above policies and procedures:

1. Persons who approve or disburse loans should be denied work in the collections area.
2. If possible, collectors should be denied access to cash.
3. All other employees should be made aware of all the delinquent accounts, so that delinquent members are not allowed to withdraw funds from their accounts.
4. If collections are being performed outside of the credit union by a lawyer, collection agency, etc. they should provide management a report no less than quarterly detailing any action taken, or progress made in collecting the delinquent accounts.
5. Periodically both management and the officials should determine how loans were removed from the delinquency report. There are only 3 ways a loan can be removed from the delinquency list:
    - The member pays the loan current.
    - The loan is charged off to the allowance for loan loss account.
    - The terms of the loan were changed by refinancing or extending the loan or by manipulating the loan due dates.

Management and officials should insure that the loan due dates are not being manipulated in order to lower credit union delinquency.

INVESTMENT / ASSET LIABILITY MANAGEMENT POLICY

Investment Objective

The primary purpose of the credit union is to provide financial services for its members. Since loan demand and deposit flows are uncertain, liquidity and cash management activities are required in the management of assets and liabilities. Therefore the primary objective of the investment portfolio is to provide for and complement liquidity and cash management activities. The portfolio will convert excess funds into earning assets keeping in mind that all investments are to be made in safe and sound institutions and within legal limits. The investment return or rate of yield is important, however investment safety and liquidity are always the primary concerns.

Policy Review

The credit union's board of directors will be responsible for formulating, reviewing, and adjusting the investment / asset liability management policy. On an annual basis the board will review this policy and make changes if necessary so that it is reflective of daily operations.

The credit union supervisory committee will be responsible for ensuring that the investment / asset liability management policy is carried out adequately and that it achieves the goals for which it was created. The committee will determine if the policy is being complied with by periodically (no less than quarterly) reviewing the investment portfolio.

Responsibility and Authority

The board of directors has all investment responsibility and authority. No one board member may make an investment. Any investment must be approved by a majority vote of the board of directors. Credit union management has no authority to invest excess credit union funds.

On a monthly basis the manager is to prepare a report which details:

- all investments held by the credit union,
- their interest rate(s) and maturity date(s),
- any investment activity for the month, and
- a comparison of the book value (or the actual cost of the investment) to the current market value. If there is a loss when the book and market values are compared then, in the report, management is to relate the loss to the credit union's capital to illustrate the impact of the loss on the credit union's solvency.

For investments in which the redemption value is not certain, such as stocks, a maximum loss should be established. When the investment value is at or below the maximum established loss then the investment should be sold. The board, along with the assistance of the manager, should establish the maximum acceptable loss in relation to credit union capital. For example – Any investment that is made which will cause the credit union to lose more than 5% of capital (capital reserve accounts) is to be liquidated before the loss increases.

Portfolio Composition

Investment Type	Maximum % of Portfolio

(Complete this table with the investments that are deemed acceptable and the maximum allowable percentage of the portfolio that can be in any one type of investment.)

For Example-

Central Bank Deposits	50%
Other audited financial Institutions	25%
Stocks	25%

Keep in mind the importance of diversification when investing. Management should establish conservative portfolio maximum percentages so as to limit the exposure to loss for any one type of investment.

The credit union can invest only in investments that are deemed appropriate and legal by the local supervisory authority and the WOCCU project management office.

The credit union can make investments only in financial institutions that are audited regularly and receive an acceptable audit opinion from the local supervisory authority (for example – The Central Bank) and an outside auditor (for example – Coopers and Lybrand or some other locally recognized accounting firm).

If possible the officials should obtain the financial statements for the institution that is to be invested in and perform an analysis to insure that the institution is safe. The analysis should be performed using the same criteria that are used to perform the analysis of the credit union's financial soundness (see Financial Disciplines section).

If the credit union invests in any other type of institution, the officials shall insure that should they need to liquidate the investment that it could be easily sold without taking a loss. This means that a readily available secondary market in which the investment could be easily sold is necessary.

All securities are to be denominated in the currency of the country in which the credit union is located therefore eliminating exchange rate risk.

Investments are to be purchased with the intention to "hold to maturity". At no time will the portfolio be used to trade securities for profit. This activity places the credit union's capital in jeopardy for the credit union was established to promote thrift and savings, not profit by investing.

Maturity of Investments

According to the bylaws the credit union must have at least 15% of the total assets in liquid funds or demand deposit type account. Any amount over the 15% that is not needed to fund loans may be placed in investments. Short-term investments (6 months or less) are desirable. The board has the authority to invest excess funds in investments with a maturity not to exceed _________ (1 year is suggested maturity) .

When making investments with a stated maturity make sure that seasonality is considered. Is there excess liquidity because local farmers are being paid for the harvested crops? Will there be loan demand that will need to be funded so that the farmers can buy seed for their next crop? Always analyze these kinds of situations prior to making any investment with a stated maturity more than 1 month.

Fixed Assets

Fixed assets are often accumulated in environments of high inflation because they do not lose their real value as fast as other assets. However, a high level of fixed asset can reduce a credit union's earnings if they are financed by funds such as deposits that require interest payments. Fixed assets often do not provide explicit earnings that compensate for the cost of acquiring and maintaining fixed assets. As well, there is an opportunity cost to the funds invested in fixed assets. A credit union sacrifices what it could earn if the funds were invested in assets that generate income for the credit union.

These types of assets include land, building, furniture, computer equipment, etc. Because these assets are considered to be non-earning and contribute nothing to net income and therefore credit union capital, the investment in them should be kept at a minimum. According to international standards the investment in fixed assets should not exceed 5% of total assets.

If the credit union is in the possession of any repossessed property it should be liquidated or otherwise disposed of as quickly as possible. The credit union is not in the business of property management.

Asset Liability Management

Asset liability management or (ALM) is the process of planning, organizing, and controlling asset and liability volumes, maturities, rates, and yields in order to minimize interest rate risk and maintain an acceptable profitability level. Simply stated ALM is another form of planning. It allows management to be proactive or anticipate change, rather than react to unanticipated change.

Successful ALM is composed of the following:

- Matching assets and liabilities with regards to like maturities.
- Determining the core deposit base in a credit union that can be matched against long term assets.

- Identifying the minimum net interest margin (gross income – cost of funds) necessary to fund operating expenses and contributions to capital.
- Cash management – how much money is needed daily to fund operating expenses, savings withdrawals, and loan demand.

Responsibility and Authority

The board of directors is responsible for monitoring the ALM position of the credit union and making any necessary changes. The manager is responsible for performing the analysis of the ALM position as discussed below and providing that information to the board for the monthly board meeting.

ALM parameters (The following loan maturity assumptions are based on the loan policy in this guide.)

The maximum loan term is 10 years if real estate loans are offered. If vehicles can be used as collateral the maximum loan term is 5 years, if real estate loans are not offered. If only loans secured by savings and other personal collateral such as jewelry and appliances, etc. are offered then the maximum maturity is 3 years. No investment will have a maturity greater than 1 year. These assets will be matched against savings and deposits. Management needs to determine what savings are longer term and can be used to fund the longer term assets (> 3 years). Longer term savings are defined as those savings dollars that will remain in the credit union no matter what happens in the economy or in the local market. Long term savings can be determined by reviewing the demand deposit accounts and arriving at an average balance per account that will remain in the credit union. Depending on the stated maturity, certificates of deposit might also be considered long term.

To alleviate interest rate risk, and have the flexibility should inflation become a concern, all loan interest rates will have a variable interest rate. The rate can be changed with a 30 day notice. The interest rate on the loan will be tied to the main banking index used plus a percentage to cover credit union operating expenses.

The maximum net loans to assets ratio is 80% (see Financial Disciplines section of this guide). The minimum liquid assets – short term payables to member deposits ratio is 15% (see Financial Disciplines section of this guide), which under normal circumstances should assure adequate liquidity to meet loan demand, savings withdrawals, and the payment of operating expenses. If possible and cost effective the credit union will establish a line of credit with another financial institution should there be short-term liquidity shortages. Under no circumstances should the line of credit be used as a long-term source of funding loan demand.

Lastly, management should perform an analysis to determine what minimum net interest margin (gross income – cost of funds) is needed to fund operating expenses and capital contributions as outlined in the business plan. This is important because below this point the credit union's profitability is inadequate. Prior to reaching this point management and the officials should make changes so that profitability is not adversely affected. These changes may include:

- Increasing income by increasing loan rates and/or fees,
- Decreasing the cost of funds by decreasing the interest rates paid on all savings accounts (This is always the fastest way to decrease expenses because the effect is immediate on all but term deposits. These deposits will pay the higher rate until maturity and after that reprice to the lower rate),
- Decreasing or eliminating certain operating expenses,
- Or any combination of the above.

The board of directors on this date_______________ reviewed this policy.

Investment Internal Controls

1. All investments are to be made and held or maintained in the credit union's name.
2. The dispersal of funds for an investment must be approved by at least 2 board members. If the dispersal is made by check, at least 2 board members will sign the check.
3. If because of inflation the value of the credit union's land and building is written up to the new value, this adjustment or gain may not be included when calculating capital. It is not considered capital because the assets would have to be sold in order to recognize the gain.
4. Statements for all investments should be received no less than quarterly and reviewed to insure that the investments made and the amounts stated are the same as what is recorded in the credit union's records.

SAVINGS POLICY

Savings Philosophy

The purpose of a credit union is to help members use financial tools to improve their economic and social well being. Savings are a critical tool – every bit as important as loans. Therefore, a credit union must consider its members' savings needs just as carefully as it considers their borrowing needs.

Savings mobilization is one of the main objectives of the credit union. It is the process of gathering amounts from many people into a pool that can be put to work in the economy through lending. The members, the credit union, and the community benefit from savings.

The member benefits from savings in numerous ways. Saving combines smaller amounts so members can make larger purchases than they would otherwise be able to afford. The credit union will offer short term savings in the beginning. As the demand rises and the credit union grows, the credit union will offer both medium term and long term savings. Short and medium term savings help people manage uneven cash flow. Long term savings help provide security for retirement.

Member savings can reduce the need to borrow, or the cost of borrowing. The loan interest rates are less on savings secured loans.

Savings are liquid, that is, the full value is available almost immediately. This is usually not true for property or other assets. Savings also generate income as long as that income is greater than the inflation rate.

The credit union benefits because savings are the credit union's primary means of securing funds to make loans. The savings also generate income to pay for operating expenses, to invest in new services and benefits, and to increase capital.

Savings are essential to a community's economic development. Credit unions contribute to economic development by helping individuals improve their financial positions through savings and borrowing. As a result, members contribute more to the local economy by purchasing more. Increased sales mean more income and more employment in the community. Credit unions lend only to their members, so they keep funds working in the communities where the savings originate. This is especially valuable in rural areas where money for development is often scarce.

To make a significant long-term difference, savings must be a habit that is practiced regularly. This is especially true if members can only set aside a small amount at a time. To get members to develop this savings habit, credit unions must convert non-savers into savers and convert occasional savers into habitual savers. There are many elements that affect savings, which include:

- Cultural attitudes,

- The members age (older members are usually savers while younger members are usually borrowers),
- The present economic situation,
- The members earning level,
- Government policies (taxation and interest rate policies),
- Confidence in the credit union,
- Accessibility of funds.

A number of factors are going to influence the savings products that will be offered by the credit union. Management and officials are to insure that the services offered by the credit union are the ones desired by the members, offered at a competitive price, competitive with other local financial institutions, and the members have convenient access to their money.

Marketing of Savings Products

There are many ways to market savings products as addressed in the business plan. Management and the officials are to promote credit union savings through:
- Personal contacts with the members through the cross selling of products during their visits to the credit union, at financial counseling sessions or workshops. This is usually the best way to get the message out.
- Printed materials are a good way to reach a large number of people. It is important that when this type of marketing is used that it is "targeted" towards the individuals you are trying to reach, otherwise it will not be cost effective.
- Electronic Media reaches a large group of people, however it is usually quite a bit more expensive than printed material. This type of advertising has an advantage because it usually is more personal and people who can not read are reached.
- Awards and incentives offer the members an extra benefit for savings. These should be used for a limited time so that the award or incentive is something special to the members.

Policy Review

The credit union's board of directors will be responsible for formulating, reviewing, and adjusting the savings policy. On an annual basis the board will review this policy and make changes if necessary so that it is reflective of daily operations.

Types of Savings Products Offered

As stated in the business plan during the first 6 months of operations the credit union will offer the following accounts.

Obligatory Shares or Equity Paid In Capital – In order to become a member of the credit union each member must purchase one obligatory share in the amount of $_______. This deposit is of a minimum amount and is non-withdrawable. Upon termination of membership in the credit union the member does not receive these funds. These funds can not be used to guarantee a loan.

Dividends paid on this account will be based on available earning and paid at the end of each accounting period (when management closes the books). However, no dividends are paid on the shares until the capital to assets ratio has reached the PEARLS goal of 10% (see Financial Disciplines section of this guide). The rate of return on these shares should be higher than the returns paid on other savings accounts. Management may advertise an anticipated rate to be paid on these accounts based on the rate that was paid at the end of past accounting periods.

Upon becoming a member, the obligatory share deposit will become part of the credit union's capital.

Regular Savings Account – This is the primary account offered to the membership. The characteristics of this account include: easy accessibility of account by member, minimum amount to open an account, the payment of a competitive dividend, and the funds in this account may be used to secure loans. To encourage savings, higher interest will be paid on accounts with larger balances.

The minimum balance is $______________. The minimum balance in order to receive dividends is $________________. The maximum allowable savings balance is $____________________ or __________%.

On a monthly basis the member may make ___________ withdrawals. After that amount there will be a fee of $________________ per withdrawal. Withdrawals for less than $______________ can be made in cash. Any withdrawal over that amount will be made by check.

Dividends paid on this account will be based on available earnings and paid at the end of each accounting period (when management closes the books). Should there not be enough in available earnings the dividend paid is to be reduced or eliminated for this account. Management may advertise an anticipated rate to be paid on these accounts based on the rate that was paid at the end of past accounting periods.

Organizational or Club accounts –Any association, club, or similar organization is eligible to open any of the accounts discussed in this section as long as their membership is made up primarily of individuals who meet the eligibility requirements for individual membership. The terms and conditions will be the same for organizations as they are for individual members.

Special Purpose Savings Account – These accounts are for special purposes such as Christmas and vacation, or any other special market niche, which will serve the credit union membership. These accounts usually pay a higher dividend than regular savings because the member can not make any withdrawals from this account until the specified date. Also there is a maximum amount established that may be deposited in this type of account because the dividend rate is higher. This account may be used to secure a loan. The loan maturity is to coincide with this account maturity.

These deposits may be matched against loans or investments with a similar maturity. Unlike regular savings these accounts have a stated withdrawal date and will most likely remain in the credit union until that date.

Withdrawals from these accounts maybe made on ________________________. If the funds are withdrawn prior to that date no dividends will be paid on the account. The maximum amount that may be deposited in this type of account is $________________.

Youth Savings Account – These are savings accounts for members under the legal age (usually 18 years of age). This account is used to motivate and establish a pattern of savings at a young age. The minimum balance on this account is normally lower along with the balance needed to receive dividends. Normally there are few, if any fees on this account. Often promotional items are given out with this account such as banks, stuffed animals, school supplies, etc. This account can be used to secure a loan by someone of legal age. The interest rate offered on this account is usually the same as that offered on the regular savings account.

The minimum balance to open a youth account is $____________________. The minimum balance to receive dividends on this account is $_________________. On a monthly basis the member is allowed __________ withdrawals. After that amount there will be a fee of $___________ per withdrawal.

After approximately 6 months of operations the credit union will offer in addition to the above accounts:

Certificates of Deposit or Fixed Term Savings – These deposits are for a stated amount, until a stated maturity, for a stated dividend rate. The member signs a contract with the credit union when making this type of deposit in the credit union (**see example 18 – Certificate of Deposit**). The longer the maturity of the certificate the higher the interest rate. Credit unions normally start with offering 6 month and 1 year maturities. Depending on demand, certificates with maturities ranging from 18 months to 3 years may be offered. These funds may be used to secure a loan. The loan maturity shall match the deposit maturity.

The interest rate is fixed until maturity. Interest will be paid upon maturity for all certificates.

These funds may be used to match against loans and investments of similar maturity. Management wants to be careful not to have a disproportionate amount of these accounts in comparison to regular savings because these accounts are normally the most costly in terms of dividend rate paid.

The minimum deposit for a certificate of deposit is $______________________. No withdrawal may be made from this account. If the funds are requested prior to maturity there will be a penalty or fine equaling:

- 3 months interest for deposits with a 6 month maturity, and
- 6 months interest for deposits with a 12 month maturity on this account that must be paid prior to withdrawal.

After 18 months to 2 years of operations depending on demand and products offered by the competition the following will be offered:

Checking accounts – If a credit union is to offer checking accounts the credit union must have a certain degree of automation. Checking accounts are desirable because of the convenience they offer the member. When members want to pay a bill or purchase something they can do it with a check instead of making a visit to the credit union to withdraw the needed funds. These accounts normally do not pay interest. Members have these accounts for the convenience they provide, not for the interest paid.

However, this type of account usually has several disadvantages for the credit union. In order to perform all the necessary processing another employee or a part time employee is needed. Also, it is important that management ascertain that each member is creditworthy and is capable of handling the responsibility of a checking account.

In order to be eligible for a checking account the individual has to have been a member of the credit union for _______________ months. Management will determine that this individual is creditworthy through past history at the credit union and other financial institutions.

The account must maintain a balance of $________________. If the account falls below that amount there is a fee of $________________. The monthly fee for a checking account is $_________________. If the member writes checks for which there are not adequate funds in the account there will a fee of $________________ for each check in which there are not sufficient funds. All checks for which there are not sufficient funds will be returned unpaid.

If the member writes more than __________ non sufficient funds checks their checking account will be closed and they will lose all checking account rights. The member will be responsible for any loss that they may have caused the credit union.

Retirement accounts – These accounts are usually offered as a regular savings account or as a certificate of deposit (see above descriptions). Prior to offering these accounts it is important to learn if there are any laws within the country which regulate retirement accounts.

Business accounts. – Any one is eligible for a business account as long as they are eligible for membership. Any of the above accounts may be offered to businesses. It is important that management is attentive to the needs of the business, so that the accounts can be designed accordingly. Normally, these accounts have more activity than personal accounts so the fees are usually higher, especially with checking accounts.

Dividend Priority

If the credit union does not have enough net income to pay all or part of the dividends owed then the dividend will have to be reduced or eliminated for the savings accounts in the following priority.

- Checking accounts – Dividends will not be paid on these accounts.
- Obligatory shares – The dividend earned on these accounts will be paid only after the credit union has attained the 10% total capital to assets goal ratio. If in the future the credit union is unable to maintain the 10% ratio then the dividend is to be discontinued. The rate paid will be slightly higher than the regular savings rate paid. This is the incentive given to the member because these funds are non-withdrawable.
- Regular savings account – The dividend for these accounts will be paid after the term deposit dividends. Due to available earnings, this dividend may have to be reduced or eliminated.
- Retirement accounts – Unless these are term deposits, the dividends for these accounts will be handled in the same fashion as the regular savings accounts.
- Business and Organizational accounts – Unless these are term deposits, the dividends for these accounts will be handled in the same fashion as the regular savings accounts.
- Special purpose savings accounts – These dividends are to be handled in the same fashion as those for regular savings accounts. With these accounts there is no contract between the member and the credit union.
- Term deposits or certificates of deposits – The credit union has entered into a contract with the member so all dividends on these deposits must be paid at the rate and time stated in the contract.

This policy was reviewed as of ____________________ by the Board of Directors.

Interest Rates

When determining the interest rates to be paid on all savings accounts, management and the officials need to take into consideration:

- What does it cost the credit union to offer that product?
- What are other financial institutions, that the credit union competes with directly, paying on each type of savings account offered?
- The current inflation rate.
- Member behavior. Do the members have the funds in the credit union because the dividend rate is the highest in the area? How loyal are the members? If savings interest rates are less than anticipated will they keep their deposits at the credit union or will they take their money elsewhere?

- Are there any types of deposits that the officials think would improve the financial soundness of the credit union? If so, often special promotions, increased marketing efforts, and attractive rates are offered.

On a monthly basis, management should contact the other institutions to determine their rates on their various products. Management should present this information to the board at the monthly meeting so they can approve any changes needed to remain competitive. Interest rates paid on deposits should always be higher than inflation so that the members' savings accounts do not lose value while on deposit at the credit union.

So that the credit union can remain competitive, the manager has the authority to increase or decrease the rates paid on savings accounts by ________% (suggested maximum is 1%) during the month without prior board approval. This change will be approved by the board at the next regularly scheduled meeting.

Account Type	Maturity	Interest Rate
Obligatory Shares	Non-withdrawable	1*
Regular Savings	None/ On demand	5*
$0 - $500		As the balance
$500 - $1000		increases so will
$1000 - $2000		the dividend rate
$2000 and above		paid. The highest rate
paid should not be greater than the rate paid on the special purpose savings account.		
Special Purpose		
Savings	As stated depending	
	On purpose	4*
Youth Savings	None/ On demand	5*
Certificate of		
Deposit	6 month	3
	12 month	2
Checking Accounts	None/ On demand	0%

(In the interest rate column, the number 1 signifies the highest rate and number 5 signifies the account that would be paid the lowest interest rate.)
*Interest is paid on these types of accounts based on available earnings.

These rates were reviewed and revised on ________________________ by the Board of Directors.

SAVINGS PROCEDURES

Prior to opening any savings accounts, the individual requesting the account must be a member of the credit union. Management is to determine if the borrower is eligible for membership according to the credit union's charter and bylaws.

If they are eligible for membership, perform the following:

1. The membership card must be completed (**see example 19 – Membership and Beneficiary Cards**). The membership card is completed only when the first account is opened, not for every additional account the member opens. Also ask for, review, and take a copy of a photo identification card or drivers license. This copy is to be kept with the membership cards and used to verify an individual's identification if there is ever any question. Make sure the correct address is on the card. The card requests the mother's maiden name (last name only), this is also used for individual verification. Make sure the member signs the card in front of a credit union representative, so a valid signature is obtained. All the membership cards are to be kept in fire proof boxes, which are to be locked up when the credit union is not open.

2. The member must then make the obligatory share contribution of $____________. These funds earn interest upon attaining the capital to assets PEARLS goal ratio, but are non-withdrawable and non-refundable. This will become a part of the credit union's capital.

3. The member may open a regular savings account with a minimum deposit of $__________________. At this point the member will receive an account number. Each credit union member should be assigned an account number as a means of identifying their account. It is recommended that the account numbers be credit union assigned numbers and issued in consecutive order beginning with one. The member numbers assigned should be of a permanent nature and not assigned to other members later. Input into the computer system all of the information to open an account or establish a ledger card if a manual system is being used (**see example 20 – Member Share and Loan Ledger Card**). The member may have more than 1 regular savings account.

4. Give the member a passbook if one is being used (**see example 21 – Passbook**) for each account.
   - If the credit union is manual a passbook is used. They are not used with a computerized system. The evidence with a computerized system is the receipt generated by the computer after each transaction and the statements received by the member no less frequently than once a year for each account.
   - Deposits will be accepted to any account without requiring presentation of the appropriate passbook, as long as the member submits an official deposit form. When the passbook is presented at a later date, it will be updated. The account holder will be responsible for any case of error or neglect.

- Deposits on a savings account will be verified by notes written by the credit union in the passbook or by a credit union receipt.
- An individual trying to withdraw funds from a passbook without being the holder of that account, and without written authorization to do so, will be denied the withdrawal and the passbook will be confiscated. The credit union will notify the holder of the account, but will not be responsible for further action.
- Replacement of the passbook or the certificate of deposit, due to loss, destruction or theft, will be the responsibility of the member. If there is a fee associated with this the member is responsible for paying the fee prior to receiving the new passbook or certificate. The new document will show as the initial record the account balance kept by the credit union, unless the member has other convincing evidence as to a different balance.

5. For each transaction the member should complete a receipt for deposit or withdrawal. Any time the member receives money back they should sign the receipt. If the credit union is automated, the employee is to then complete a 2 copy transaction receipt. One copy stays at the credit union and is part of the daily teller work. The other part is given to the member. The daily work receipt is stapled with the member's original receipt.

6. If checks are taken for deposits into member accounts, the account should not be given credit until it is determined that there are sufficient funds to cover the check.

7. These procedures are to be used in opening regular savings, special purpose savings, organizational and club accounts, youth savings, and retirement savings.

8. Each additional account that is added by a member will have the same account number with a different suffix for the different accounts (for example - #255-1, #255-2, etc.).

9. If certificates of deposit are offered, an employee is to complete a certificate of deposit form (**see example 18**) and set up a suffix number for this account. The member must have a minimum deposit of $______________. No withdrawal may be made from this account until the stated maturity. If the funds are requested prior to maturity there will be a penalty or fine (see Certificate of Deposit section) on this account that must be paid prior to withdrawal.

10. If checking accounts are offered, in order to be eligible the individual has to have been a member of the credit union for _____________ months. Management will determine that this individual is creditworthy through past history at the credit union and other financial institutions. If the member is deemed uncreditworthy they are denied a checking account.

11. The checking account must maintain a balance of $__________. If the account falls below that amount there is a fee of $_____________. The monthly fee for a checking account is $______________________. If the member writes checks for which there

are not adequate funds in the account there will be a fee of $________ for each check in which there are not sufficient funds. All checks for which there are not sufficient funds will be returned. If the member writes more than _________ non sufficient funds checks their checking account will be closed and they will lose all checking account rights. The member is responsible for any loss that they may have caused the credit union.

12. Once the member has been approved for a checking account then checks will have to be ordered. The member is responsible for all costs incurred to order checks.

13. The daily check processing at the credit union will differ from country to country. However the following is provided as an example of the type of written procedures that are needed for check processing:
    - Download transmission report from clearing institutions of all checks written by members since last business day and post this information in the credit union's system.
    - Generate a credit union report, which states all members who have written checks in which there are not sufficient funds in their accounts.
    - If an agreement has been signed between the member and the credit union and there are sufficient funds in the regular savings account then the necessary funds can be transferred to the checking account. For this service there is a fee of $_______ and the non sufficient funds fee of $______________.
    - If there is not an agreement or there are not sufficient funds the check should be returned on the same business day and the member charged the non sufficient funds fee of $___________.
    - Some credit unions call the members and allow them to bring deposits to the credit union to cover the checks. There is always a fee associated with this service. This is highly discouraged because it requires a lot of employee time.
    - It is of the utmost importance that all checks in which there are not sufficient funds are returned to the clearing institution on the same business day so that the credit union does not incur a loss by holding a check beyond the deadline.

14. With checking accounts, credit union employees should always watch carefully for illegal or fraudulent activity such as:
    - Kiting – Writing checks between financial institutions without sufficient funds in the checking account. For example – the member could write a check to the credit union from another institution for $500 U.S. without sufficient funds in the account and if the credit union gave the member immediate credit for the check then the member could use those funds. Because of this it is important to "hold" a check to determine if there are adequate funds in the originator's account to cover the check.
    - Forgery – This occurs when someone other than the member writes unauthorized checks on the member's account. Management must watch carefully for any such activity, because it could cause the credit union a loss.

15. All business accounts will be handled exactly the same as the member accounts and transactions. The account will be in the name of the member doing business as (DBA)____. Because there is normally a higher transaction volume for business checking accounts the monthly fee will be $__________________________. All of the other procedures discussed above in the checking account section shall apply to business checking accounts.

16. When closing any accounts insure that the funds are not securing a loan. If there is an active loan securing the account it may not be closed. In order to have a loan, the individual must always be a member of the credit union and have an active savings account.

17. When closing a checking account insure that all checks written have cleared. Until certain that all checks have cleared the account must remain open. The member is to return all unused checks to the credit union. The remaining balance after all the checks have been cleared and any fees have been paid can be transferred to the regular savings or given to the member. If the member caused the credit union a loss, they are not eligible for membership until the loss has been paid.

SAVINGS INTERNAL CONTROLS

1. All passbook entries should contain teller identification.
2. Tellers are not allowed to hold or keep member passbooks at the credit union for member convenience.
3. All teller transactions are to be documented with a receipt.
4. No credit union official or employee may transact business on their account or a family member's account.
5. Telephone transfers between accounts are only allowed between accounts owned by the same member and after the member has given information that is not known by all, such as the mother's maiden name as identification.
6. Employee and official accounts and if desired their family member's accounts are to be reviewed for unusual or abnormal activity on a quarterly basis by the supervisory committee.
7. All members should be notified immediately in writing if there are any deposit errors.
8. All change of address requests must be in writing and signed by the member.
9. Any account in which there has been no activity for more than 12 months (dividend postings are not considered activity) shall be considered dormant.
10. The dormant accounts should be segregated from the active accounts.
11. Any transaction on a dormant account must be initialed by an employee at the point of origin to indicate approval.
12. When an account is transferred from dormant to active status the approval of the manager is required. Number 11 is not to be performed by the same individual that performs number 12.
13. When an account is closed the signature card is to be promptly pulled from the active account file and placed in a closed account file.
14. A list of closed accounts including the account number, member name, and reason for closing shall be provided to the board at each monthly meeting.

PERSONNEL POLICY

Compliance and Fair Employment Policies

It is the policy of the credit union to comply with the letter and intent of all applicable laws.

No employee, nor an individual being considered for employment, transfer, promotion or layoff shall be favored or subjected to discrimination by management because of race, creed, color, handicap/disability impairment, national origin, sex, marital status or age. The overall qualification requirements of the job shall be the determining factor in the selection among applications.

Advancement and/or promotion within the credit union is based upon the employees annual review, based on overall work performance, education, responsibility an employee is willing to assume, background experience, skill, and formal training.

No employee may directly supervise or be directly supervised by any member of his/her immediate family. For the purpose of the policy, immediate family shall mean: spouse, child, parent, grandparents, brother, sister or any relative residing with him/her.

The manager is responsible for hiring, terminating, and supervising the support staff in accordance with board policy and within budgetary guidelines and limitations. The board of directors is responsible for hiring and terminating management personnel.

Policy Review

The Board of Directors is responsible for developing and maintaining written personnel policies. The policies must be reviewed at least annually and can be reaffirmed or revised at any regular or special meeting of the Board of Directors.

The board shall approve all exceptions to this policy.

Confidentiality

Employees of the credit union are expected to conduct themselves professionally and above reproach in carrying out their responsibilities. Confidential information concerning members and their transactions with the credit union must not be discussed with others. Any unusual requests which are beyond the scope of normal job responsibilities or which seem inappropriate should be referred to the manager.

Hours of Work

The standard workweek is ________ hours.
Lunch periods of ________ minutes are set for each department. Lunch periods are without pay.

Two ________ minute rest periods with pay, one in the morning and one in the afternoon, are granted to all full time employees. Part time employees are entitled to rest periods at the rate of one per four hours worked.

There is to be a monthly staff meeting. The manager is to lead this meeting. A summary of the credit union's financial condition will given, any changes made will be discussed, suggestions for improvements or changes from the staff members are to be welcome, and employees will be allowed to discuss any problems or concerns they might have. If appropriate training may take place at this meeting or speakers on occasion can be invited to make a presentation. Generally this meeting will be no longer than _________.

Overtime work is discouraged. However, when it is necessary, it must be approved in advance by the credit union manager.

Full time employees are those employees that are hired to work ______ hours per week for an indefinite period of time that may be ended at the discretion of either the employee or the credit union. These employees are the only ones that are eligible to receive all of the employee benefits offered by the credit union.

Job Descriptions

The credit union manager will insure that all descriptions are current and up to date. Upon acceptance of a job the new employee will be given a written job description for their new job which they will sign and date. It will be retained in their personnel file. The responsibilities and duties given in a specific job description should not be understood as exhausting all of the responsibilities and duties which the incumbent is expected to perform.

Other duties compatible with those mentioned in the job description may be assigned by the supervisor on a temporary or permanent basis.

Probationary Period

For the new employees, the first __________ (generally 3 months) of employment are designated as a probationary period to determine if his/her interest and abilities are suitable with the requirements of the position. The probationary period ends when the employee successfully passes a probationary performance review. The probation period may be extended at the discretion of the credit union to a maximum of 3 additional months.

Management shall have sole discretion to terminate employment prior to the expiration date of the probationary period if, in their judgement the termination is warranted. During the probationary period an employee may be dismissed with or without cause.

Legal Holidays

Employees shall be entitled to the following paid holidays based on full or permanent part time employment status as follows:

(List the legal holidays of the country)

Vacation

Management and staff will earn vacation at the rate of _____ day(s) per month for the first five years of employment. Management and staff will earn vacation at the rate of ______ day(s) per month after five years of employment.

Vacation or annual leave is computed on a calendar year basis. Vacation is earned during the probation period but cannot be taken until after completion of such probationary period. Employees who terminate during a probationary period forfeit any annual leave accrued. It is expected that vacation time be used each year. Vacation time can not be carried over from year to year.

Part year employees earn annual leave on a prorated basis based on the number of full months worked. Scheduled part time employees earn annual leave on a prorated basis based on number of hours worked. Hourly and temporary employees do not earn annual leave.

All full time employees shall be required to take at least five consecutive vacation days each year.

Scheduling Annual Leave

Seniority is recognized in the initial choice of vacation dates – seniority by position and then by length of service among people holding the same level position. Full time status does not of itself give precedence over part time status.

The manager shall approve all annual leave in advance. The manager's annual leave shall be approved by the board president.

Vacations may be scheduled during any month of the year. However, due to the requirements of the work schedule certain periods during the year may not be available for vacation.

Annual leave may be taken in hourly increments. An employee must take annual leave in order to receive pay for it. Pay is not given in lieu of annual leave except at termination.

Sick Leave

Management and staff will earn sick leave at the rate of ________ day(s) per month. The employee may accumulate sick leave up to a maximum of _________days. Sick leave is authorized only by the manager. After _____ days of sick leave the manager may request written medical evidence.

At the time all sick leave is used, accrued vacation days may be used or the time lost will be deducted from the employees paycheck. Upon termination or resignation the employee will be compensated for the accrued sick leave at ______% of the outstanding balance.

Family and Medical Leave

The board of directors will act on any request for extended leaves of absence for family or medical reasons.

Employee Benefits

The credit union offers the following employee benefits:
- Paid annual leave,
- Paid sick leave,
- Paid holidays,
- Paid Employee Training,
- (include any other benefit such as health insurance or life insurance in which the credit union pays the expense for the employee, all benefits should be accompanied by an explanation).

Full time employees are the only ones that are eligible to receive all of the employee benefits offered by the credit union. Part time employees may receive the benefits on a pro-rated basis based on the number of hours worked per week.

Personnel Records

A complete personnel file shall be maintained on each employee. The personnel files shall contain employee records relating to performance evaluations, promotions, grievances, disciplinary actions and record of training offered to or completed by the employee. Each employee shall have the right to review and make submission to his/her personnel file. Upon written request, an employee shall have the opportunity to review his/her personnel file. A supervisor shall be present during the review.

A copy of any material placed in an employee's file which may affect his job performance evaluation shall be immediately presented to the employee involved. Such receipt or review of such material shall be acknowledged by the signature of the employee.

Accurate employee records of annual leave, leave without pay, and overtime work will be kept for each employee.

Written Performance Reviews

The review is performed annually to indicate to the employee and the credit union:

- the extent of his/her success or failure in measuring up to the responsibilities of the position,
- to identify the employee's training and career development needs;
- to provide the basis for making necessary salary adjustments.

However, a salary adjustment does not necessarily follow each performance review.

The review of the credit union manager is performed annually by the board of directors. The remainder of the staff will be reviewed on their anniversary date (annually as of the date started). New employees will be reviewed at the end of the probationary period and on their anniversary date thereafter.

During the performance review, the desired training for the employee for the upcoming year will be discussed. The employee should discuss their long -term goal with regards to employment at the credit union. With this in mind the supervisor should assist the employee in finding training programs that will benefit the employee and the credit union. Both the employee's goals and the proposed training for the year will be placed in writing and retained in the employee's personnel file. Management will budget a certain amount annually for employee training. The amount should be large enough so that each employee may attend ________ (number of training sessions) training sessions, the training sessions are not to exceed ___________ (number of days), and/or ________________ (amount). It is important that all training received is related to the employee's job and/or credit union operations.

The credit union will strive to pay employees at the "going market rates" or equal to what the employee would receive for the same job at other businesses in the area. It is important that salaries paid are competitive so that the credit union can retain quality employees. Salary increases, if merited, shall be granted at the end of the probation period and on the employee's anniversary date. The timing may be changed with prior approval from the board of directors.

The employee who is being reviewed is required to sign the review form to indicate that he/she has actually seen its contents. This is not meant to imply that the employee necessarily agrees with all the details of the review. Space is provided which the employee may use to comment on the contents of the document or a separate written statement may be submitted.

The written performance evaluation of employees whose performance is rated below job requirements will normally be accompanied by a corrective plan of action. The action plan will:

- Inform the employee of poor performance,
- Identify what improvement(s) is/are necessary,
- Provide the information to the employee in writing and place a copy in the employee's personnel file.

Grievance

A grievance is defined as any difference between the employee and the employer affecting wages, hours, working conditions, or career advancements.

The employee will first discuss the issue with their supervisor or the credit union manager depending on the size of the credit union. If the issue or grievance is not satisfactorily settled by the supervisor or the manager, the employee may then submit the grievance in writing to the board of directors. The decision of the board shall be final.

Business Attire

The appearance and actions of the employees have a direct bearing on the credit union's public image. As a general rule, the public expects a financial institution to present a conservative attitude, one that will give the customers a feeling of confidence in its ability to handle their financial affairs.

Therefore, the credit union expects employees to use good taste in these matters by avoiding extremes in dress, hairstyles, and office conduct. Management does reserve to itself the right to exclude anything it considers unbecoming.

Alcohol and Drugs

Employees who, while at work, are found to be using or in possession of alcoholic beverages, non-prescription drugs, narcotics, or other similar substances are subject to termination.

Employees who come to work under the influence of such substances are also subject to termination.

Harassment

Acts of harassment based upon sex, race, ethnic background, national origin, or religion will not be tolerated.

Sexual harassment is defined as: unwelcome sexual advances, requests for sexual favors and other verbal or physical conduct of a sexual nature when such conduct is made explicitly or implicitly a term or condition of employment, is used as a basis for employment decisions, or has the purpose or effect of interfering with work performance or creating an otherwise offensive working environment.

Harassment on other grounds is equally in violation of law. If any employee of the credit union is aware of any such act of harassment, he/she should immediately contact the manager or the board depending on who is committing the harassment.

If the results of the investigation confirm the offense, immediate disciplinary action, including employee termination will be considered.

Gifts and Gratuities

It shall be the responsibility of each employee to remain free from indebtedness or favors which would tend to create a conflict of interest between personal and official interest, or might reasonably be interpreted as affecting the impartiality of the employee.

Classification of Employees

Wages at the time of hiring are negotiated based upon overall employee qualification, which include: skill, education, background, experience, and formal training. The manager has the ability to negotiate employee wages, so long as the total wage budget established by the Board of Directors is not exceeded.

- Regular Full Time Employees – These employees are hired to work ____ hours per week for an indefinite period of time that may be ended at the discretion of either the employee or the credit union. They are eligible for the credit union's various benefits as described.
- Scheduled Part Time Employees – Scheduled to work a regular weekly schedule of at least ____ hours and not more than _____. Scheduled part time employees are eligible for benefits on a prorated basis as:
  - Paid holidays for those holidays falling on their scheduled workdays.
  - Paid annual leave.
  - (Any other benefits such as health insurance, etc.)
- Hourly Employees – Those who have no fixed weekly schedule and/or normally work ______ hours or less per week. Hourly employees are not entitled to share in the credit union benefit program.

Payment of Wages

The standard payday(s) for all employees is(are)___________________. New and terminating employees that work less than a full pay period will be paid at their hourly rate for the number of hours worked.

Salary advances to employees are prohibited.

Employee Loans

Employee loans are available at market rates in accordance with loan policy.

Cash Drawer Abuse

An employee who takes or "borrows" money from his/her cash drawer will immediately be discharged.

Personal Business Transactions by Employees

An employee is strictly forbidden to process or approve any transaction for himself/herself, family member or on any account in which the employee has a signing authority. This prohibition extends to transactions for someone with whom the employee has a spouse-like relationship even though they are not legally husband and wife. It extends to anyone, even a non-relative, who resides with the employee.

These transactions include, but are not limited to the following:

- Deposits,
- Withdrawals,
- Check Cashing,
- Purchase of Money Orders or Traveler's checks,
- Account Transfers.

Attendance

If an employee is unable to report for work, he/she must personally notify the supervisor or manager by phone as early as possible and in no case later than his/her starting time. Failure to do so is cause for termination.

Failure to report for work on three consecutive scheduled workdays, and not notifying the supervisor will be considered voluntary job abandonment and the employee will be terminated.

When working hours begin, the employee should not only be in the office, but should already be at his/her position ready to commence work without delay. Tardiness on three or more occasions in a given month, is considered excessive even if the tardiness amounts to only a minute or two on the average. Excessive tardiness will be grounds for termination.

Leave of Absence

A leave of absence is granted for a specific period of time up to _____ months. It may be extended for good reason if this is requested by the employee. The employee is not paid during this leave.

A request for leave must be made in writing and in advance of the leave. The leave must be approved by the manager. Leave for the manager must be approved by the board of directors. Annual leave is not accrued during any full calendar month of unpaid leave. During unpaid leave costs for health, life, and disability insurances are the responsibility of the employee.

Leaves are granted only for good reasons (e.g. illness without any sick leave, urgent personal need, etc.). Approval of the request will be based upon such factors as the employee's attendance record, job performance, length of service, reason for request, and length of the leave being sought.

Return to Work

During a leave every effort is made to keep the position open until the employee returns. If in the judgement of the manager, this is impossible due to the length of the leave and in the light of the needs of the credit union, the employee will be placed on a preferred recall list. This means that he/she will be offered the first suitable opening, which occurs after the conclusion of the leave period. Suitability is based upon such factors as the employee's qualifications for the other job, comparable salary scale, etc.

An employee who, prior to the conclusion of the leave, has not applied to return to work, or who has not secured an extension of this leave, will be considered as having voluntarily terminated employment at the conclusion of the leave.

Maternity Leave

Maternity leave is a variation of the basic leave of absence policy. The employee must furnish the credit union with a statement from her physician indicating the expected date of delivery and the estimated latest date the employee will be able to work. The employee may work up to the date specified by her physician provided she is able to continue to work her regularly scheduled hours at an acceptable level of performance and with a minimum of absence. The credit union may request additional statements from her physician after the sixth month of pregnancy or even earlier if her job performance, attendance, or punctuality fails to meet credit union standards. The employee may begin a maternity leave prior to the date specified by her physician provided she has the approval of the manager. The employee's acceptance or rejection of maternity leave must be in writing.

The employee must give reasonable notice of the beginning of her leave. Leave is granted for a maximum of _____ months.

The employee is to use all accrued sick leave and after that has been exhausted maternity leave is unpaid leave.

Termination of Employment

Continuation of employment is at the discretion of both the employee and the credit union. Either party may terminate this relationship at will.

Accrued annual leave not yet taken along with _______% of the outstanding sick leave will be paid at termination. All employees are to give at least 2 weeks notice prior to terminating and the manager is to give 3 weeks notice prior to terminating.

Without prejudice to the credit union's co-right with the employee to terminate the employment relationship at will, a supervisor ordinarily will not recommend discharge unless at least 2 disciplinary notices are in the employee's file, unless the offense is viewed by the credit union as sufficiently serious to warrant discharge without prior warning. Some examples: dishonesty, insubordination, unexcused absence without mitigating circumstances, use of alcohol during work, etc. The recommendation must have the approval of the manager.

Among the rights and responsibilities retained as the sole function of management but by no means wholly inclusive of them are: the right to suspend, discharge, or in any way discipline employee's for just cause.

It is understood that discipline is intended to be corrective rather than punitive and as such progression from minor (oral warning) to more severe (suspension) is an important principle. Discipline shall always be administered in a fair and consistent manner.

If the problem is unsatisfactory work performance, inadequate quality or quantity of work or inefficient use of time as determined by the supervisor, an attempt shall be made to correct the situation before using more severe discipline.

Progressive discipline shall be handled as follows:

1. First offense – written reprimand with or without suspension, up to 3 work days.
2. Second offense – written reprimand with or without suspension, up to 5 work days.
3. Third offense – discharge (this applies if first 2 reprimands accumulate within a 12 month period for similar offenses). Where third offense does not result in discharge, reprimand with or without 5 day suspension.
4. Fourth offense – discharge if four offenses of differing nature occur within a 12 month period.

The board of directors on this date ______________________ reviewed this policy.

JOB DESCRIPTIONS –

If the credit union has more than the following number of employees or jobs, the job descriptions may be divided up. For example the manager's job could be divided amongst the manager and the assistant manager. If the credit union has less employees than the job descriptions below then the job duties will have to be combined. For example – the loan officer might also have to perform collection duties.

MANAGER-

The manager of the credit union is responsible for the administration and day to day operations of the credit union. The manager reports to the Board of Directors of the credit union. The manager supervises all credit union staff.

Duties –

1. Plan, direct, and control all credit union operations. Make suggestions for changes and/or improvements in credit union operations and services. Implement programs and policies.

2. Provide all employees written appraisals annually, along with an annual training and development plan to improve the staff's professionalism and understanding of the credit union mission and daily operations.

3. Determine the services that members want and the credit union can afford to offer. Develop the most effective marketing plan of credit union services to the membership. Promote the credit union within the community. If requested, participate in community affairs to further the reputation of the credit union within the community.

4. Continually appraise the outside economic environment and the internal credit union financial situation, anticipate changes in the economy as they may effect the credit union and its members, and implement financial changes timely so that the credit union is not adversely affected by economic changes.

5. Establish the necessary internal controls to assure that books of account, records, and member accounts are maintained in accordance with credit union policy and procedure and that the possibility of fraudulent activity is minimized.

6. Review completeness and ensure accuracy of all financial, statistical, and accounting records of the credit union.

7. Ensure that all legal obligations are met. For example – all taxes are paid, insurance is maintained as prescribed on the credit union premise, all correspondence with the supervisory authority is returned timely, and all state and federal laws are complied with.

8. Ensure that loans to members are managed in conjunction with the advice and consent of the Board of Directors and the Credit Committee. The specific goals at a minimum should be:
   - Consistent growth of quality member loans,
   - Offering loan products that members need and want and that minimize the risk to the credit union's reserves,
   - Offering loan terms and interest rates that are competitive with the local market and accommodate member's needs.

9. Send the monthly board meeting agenda and any important reports that need prior review one week before the next board meeting.

10. Attend all board meetings. Report on a monthly basis to the board about the financial condition of the credit union. This includes:
    - A review of the Statement of Financial Condition or Balance Sheet and the Statement of Income and Expense,
    - A review of the Delinquency List, highlighting any important changes, deletions, or additions,
    - Financial ratio and trend analysis of the PEARLS ratios,
    - No less than quarterly provide a written review of the actual financial results to budgeted numbers,
    - No less than quarterly provide a written review of the rates and services offered at the competing institutions. Suggest to the board changes that need to be made so that the credit union remains competitive.
    - A written management report that summarizes credit union activity for the month and discusses any important changes, suggestions, or problems.

11. Prepare the annual operating budget along with the assistance of other staff members for Board approval. Develop a cash flow budget. Ensure that the credit union has a source for borrowing or a line of credit should it be needed during the year.

12. Implement the credit union's investment, asset liability management, savings, collections, personnel, and other board approved policies.

13. Organize and staff the credit union to accomplish the objectives stated by the Board and to provide outstanding service to the members. Hire, promote, and terminate credit union employees as necessary. Ensure that appropriate salary structures are developed and maintained and that they are competitive with the local market for similar jobs. Ensure job or career development among employees through job training, seminars and workshops, and job "cross training". (Cross training is the training of employees in other credit union jobs so that they can provide "back up" should an employee be absent and have a through understanding of other credit union jobs.)

14. Assist with the planning, organizing, and coordination of the credit union's annual meeting.

15. Periodically assess the physical requirements of the credit union. Ensure that the credit union premises and all credit union valuables are protected, using appropriate security. Is the building and the security adequate? Are the loan files and all original documents of importance stored in fire proof cabinets? Is all vital data backed up daily and stored off site, etc.?

16. Ensure that all loans are charged off as written in the board minutes.

17. Have a good working knowledge of the credit union's computer system, if the credit union is automated or the manual system currently being used.

18. Continually develop a better understanding of credit union history, philosophy, organization, bylaws, operational procedures, member services and desires.

19. Make deposits to the credit union bank account as described in the Bylaws chapter 13 entitled Investment and Borrowing of Funds.

Qualifications-

1. Education – (List the education requirements preferred.)

2. Previous Work Experience and Other Requirements – (List all of the previous experience desired and other knowledge or experience that would be helpful.)

Salary Range-

1. Give the salary range that will be paid for this job.

ACCOUNTANT-

To perform all necessary book keeping and accounting functions to ensure the security of the credit union's assets. If there are other employees in the accounting department this employee is to supervise these employees, delegate adequate work to these employees, and ensure their work is correct. This employee reports to the manager. If the credit union is small, often this work is divided amongst the teller and the manager.

Duties –

1. Maintain the credit union's accounting records under procedures established by management as described in the credit union's policies and procedures. Maintain the highest degree of accuracy and knowledge of the credit union's records. Balance and summarize all cash, check disbursements, and journal transactions on a daily basis in preparation for posting totals to the general ledger.

2. On a daily basis ensure that the general ledger is in balance. All mistakes or errors made are to be corrected prior to leaving the credit union after the close of business. **NO EXCEPTIONS!**

3. Ensure that tellers are in balance between the general ledger and the amount in their drawer daily. Ensure that the daily receipts are equal to the daily deposit.

4. Ensure that the member share and loan ledger cards balance with the general ledger totals.

5. Prepare a subsidiary ledger (this ledger is made up of all the account activity) for each balance sheet account. On a monthly basis the subsidiary ledger is to be compared to the general ledger account to ensure that they balance. The two should always balance after reconciliation.

6. Reconcile all bank and investment statements monthly to ensure that the credit union book balance is the same as the statement balance upon reconciliation.

7. Perform all month end entries such as depreciating the building, furniture, fixture, and equipment, amortizing the prepaid expenses, accruing for member dividends, all entries to the allowance for loan loss account, etc.

8. Prepare all bills and taxes for payment. Ensure that all bills are paid on time and take advantage of any discounts for early payment.

9. After the close of business, and having corrected all mistakes, the computer system is to be backed up (if the credit union is automated). These back up disks are not to be returned to the credit union until the second business day after the backup was performed. Under no circumstances are the backup disks brought to the credit union the following day, for if something were to happen all information would be lost. For

this reason at least 2 sets of backup disks are needed. When all month end entries are made, back up the computer system and store the disks off site in a safe place.

10. If using a computer system, print all monthly reports and retain in a binder for review by the supervisory committee and/or supervising authority.

11. Prepare the balance sheet or statement of financial condition, the income statement, and the delinquent loan list for the month end by the 20^{th} of the following month. Post this information in the credit union office for member review.

12. On a quarterly basis, prepare the comparison of the actual financial results to the budgeted numbers so that the manager may present this information to the board.

13. Print and mail member account statements.

14. Print all annual computer reports and complete annual reports requested by the WOCCU project office and the supervisory authority.

15. Have a good working knowledge of the credit union's computer system, if the credit union is automated, or the manual system currently being used.

16. Continually develop a better understanding of credit union history, philosophy, organization, bylaws, operational procedures, member services and desires.

Qualifications-

1. Education – (List the education requirements preferred.)

2. Previous Work Experience and Other Requirements – (List all of the previous experience desired and other knowledge or experience that would be helpful.)

Salary Range-

1. Give the salary range that will be paid for this job.

LOAN OFFICER –

The loan officer receives members in person and by telephone; provides credit union information, loan applications, performs loan interviews, takes applications and prepares documentation for the disbursement of loans. If the credit union has a credit committee this employee could function as a loan interviewer, loan processing clerk, and often times has credit union teller functions. If there is a loan officer this employee is supervised by the manager. If there are any other employees in the loan department, this employee will supervise them.

Duties-

1. Has a thorough knowledge of credit union loan policy and procedures, credit granting criteria, interest rates and how they are computed, and the documentation required for each type of loan. Upon request gives a potential borrower all the necessary paperwork to apply for a loan.

2. Accepts all completed loan information from the potential borrowers and assures that all necessary information has been received prior to reviewing the loan or referring it to the credit committee. This employee must ensure that the member has the minimum deposit at the credit union, is to complete the loan workup sheet and inspect the collateral to determine the value, if applicable. This employee will also give their recommendation to the credit committee, if there is one on whether to approve, give a counteroffer, or deny the loan.

3. Is capable of performing loan interviews in the credit union office or over the telephone, if there is no other alternative, in a professional manner which is not threatening to the potential borrowers. Should have the ability to discuss loan alternatives, credit criteria, interest rates, and loan documentation in a manner in which the members will understand all loan requirements.

4. Is responsible for assuring that loan officer minutes and credit committee minutes are properly prepared in a timely manner, acted on, and filed.

5. Assure that each loan is properly and promptly prepared, documented, approved, and disbursed. If a loan is not approved this employee is responsible for notifying the member within the legal time limit.

6. If the member loan is approved, inform the member immediately but no later than one business day after the approval. File all liens with the proper authorities, if necessary. Make a loan file for each member and place all paper work for each loan together in the file.

7. Ensure that all necessary information is in the member loan files and that the files are stored in fire proof cabinets. Any valuable documents are to be kept in a safe and secure place. Is responsible for the maintenance of the loan files. After the time

limits have been reached as stated in the records preservation procedures, all unnecessary information should be discarded appropriately.

8. Perform periodic analysis of the loan portfolio to determine the causes of credit union delinquency and make suggestions to the board for changes, as necessary.

9. Ensure that all members have provided all necessary proof of insurance for collateralized loans.

10. Perform periodic surveys of the local competition's loan products and services to ensure the credit union is competitive. Informally survey members to determine that the credit union is meeting their loan needs.

11. Have a good working knowledge of the credit union's computer system, if the credit union is automated, or the manual system currently being used.

12. Continually develop a better understanding of credit union history, philosophy, organization, bylaws, operational procedures, member services and desires.

Qualifications-

1. Education – (List the education requirements preferred.)

2. Previous Work Experience and Other Requirements – (List all of the previous experience desired and other knowledge or experience that would be helpful.)

Salary Range-

1. Give the salary range that will be paid for this job.

COLLECTOR-

The collector is responsible for the effective control and timely collection of delinquent loans so that these loans do not cause a loss to the credit union. The collector is responsible for identifying the causes of credit union delinquency and making suggestions to the manager and the officials for correcting any and all problems that are causing delinquency. The collector is supervised by the manager.

Duties

1. Coordinate and perform the collection of all delinquent loans with regards to the credit union's collection policy and procedures.

2. Ensure that the delinquency report that the board receives monthly is accurate. Ensure that all loans delinquent more than 30 days are reported to the board.

3. Make personal contacts as necessary and take appropriate action so that all delinquent loans are paid satisfactorily.

4. Send delinquency notices promptly after loans are 15 or more days delinquent and ensure adequate follow up is maintained.

5. Place in writing all actions taken to collect delinquent loans.

6. Consult with members requesting extension of loan payments and assure that the appropriate form is completed so that the credit committee or loan officer can make the approval or denial.

7. Ensure that the guarantors or co-signers of all delinquent loans receive the same notices, phone calls, and personal contacts as the delinquent borrower receives.

8. Perform periodic analysis to determine the causes of the delinquent loans and make suggestions to reduce the credit union's delinquent loans.

9. Review and recommend to the manager all loans that need to be collected by an outside source such as a lawyer or collection agency.

10. No less than quarterly, recommend to the manager all loans that are considered a loss and should be charged off to the allowance for loan loss account.

11. Continue to attempt collection on all loans charged off. If the collection of charged off loans is performed outside of the credit union, review the activity report no less than quarterly.

12. Determine the potential loss to the credit union from delinquent loans on a quarterly basis. This can be accomplished by reviewing all loans on the delinquency list and

taking into consideration the value of the collateral and the likelihood that the loan will be repaid. With this information each loan will be devalued by the amount that is expected to be lost. The balance of the allowance for loan loss account must always by adequate to provide for the estimated loss.

13. Have a good working knowledge of the credit union's computer system, if the credit union is automated, or the manual system currently being used.

14. Continually develop a better understanding of credit union history, philosophy, organization, bylaws, operational procedures, member services and desires.

Qualifications-

1. Education – (List the education requirements preferred.)

2. Previous Work Experience and Other Requirements – (List all of the previous experience desired and other knowledge or experience that would be helpful.)

Salary Range-

1. Give the salary range that will be paid for this job.

TELLER / MEMBER ACCOUNT REPRESENTATIVE-

If the credit union has enough employees this job could be performed by 2 individuals. The job could be divided into a teller job and a member account representative job or the 2 employees could perform parts of both jobs.

The tellers / member account representatives are to present a very professional manner in the way they conduct themselves in the presence of members. In many ways they are the "personal image" of the credit union. These employees have the most personal contact with the members and quite often the only contact the member has with the credit union staff. For this reason, it is imperative that these employees have a professional appearance, an enjoyable personality, and a thorough understanding of all functions of the credit union. These employees act as an information source to the members. Their activities with regards to the daily receipt of loan payments, share withdrawals, and new member activity have a direct effect on the jobs of other employees.

Because of the multi faceted nature of this job, these employees must be able to: devote attention to details surrounding many activities, grasp the effects of member requests as they relate to individual accounts, and be professional in the way their deal with different and sometimes difficult situations. This employee is supervised by the manager. If there are other tellers, one individual will be designated the head teller and will be ultimately responsible for all employees in this department, the service the members receive, the daily balancing of all teller drawers and the vault.

Duties-

1. Take member applications and open accounts for eligible members who have the minimum deposit. Assure by reviewing a driver's license, identification card, association list, etc. that the individual is eligible for credit union membership.

2. Have the ability and patience when opening accounts to take the time to explain credit union philosophy, purpose, and other credit union products that the member might be interested in. This very personal style of marketing is the most effective and it makes the member feel apart of the credit union along with increasing their trust in the credit union.

3. Provide each member or potential member with a marketing piece developed by management that describes advantages of belonging to a credit union and all the credit union's services.

4. Handle all member cash transactions. Receive share deposits, loan payments, and handle all share withdrawals. Produce a receipt for all teller transactions. Ensure that all members receive a receipt for each transaction.

5. Balance and account for the contents of each teller drawer and the vault with the credit union's general ledger daily.

6. Correct all mistakes and errors daily prior to leaving the credit union after the close of business. **NO EXCEPTIONS!**

7. Receive and verify the amount of money received for the replenishment of the teller drawers and the vault from the credit union's bank.

8. Process all mail transactions, night deposits, and phone transfers, if these services are provided by the credit union.

9. Ensure that the daily receipts are equal to the daily deposits.

10. Open certificate of deposit or retirement accounts, if the credit union offers them. Mail the notices for the maturity of all member certificates of deposit.

11. Answer the phone and direct all calls to appropriate credit union employees.

12. Maintain all teller records (daily balancing sheets, etc.) in chronological order in a secure place.

13. Keep the member area or lobby clean and organized so that the credit union has a business like atmosphere.

14. Close member accounts and determine in a polite manner the reason the member is closing their account.

15. Assure that the teller area has the proper security to safeguard the credit union's cash and to provide sufficient safety for all credit union employees.

16. Distribute all mail to the appropriate credit union employees.

17. Maintain adequate supplies of all materials used by the department and inform the manager when additional purchases are necessary.

18. Prepare and submit the monthly membership report to the manager. This report should include: the member's name and account number, opening savings balance, date the account was opened, and what other services the member is using. This report should also provide the same information for all closed accounts along with the reason for closing the account.

19. Responsible for the control of all dormant member accounts (an account that has no activity in 12 months, dividend posting is not considered activity) and for all returned member statements.

20. Have a good working knowledge of the credit union's computer system, if the credit union is automated, or the manual system currently being used.

21. Continually develop a better understanding of credit union history, philosophy, organization, bylaws, operational procedures, member services and desires.

Qualifications-

1. Education – (List the education requirements preferred.)

2. Previous Work Experience and Other Requirements – (List all of the previous experience desired and other knowledge or experience that would be helpful.)

Salary Range-

1. Give the salary range that will be paid for this job.

CASH INTERNAL CONTROLS

Cash internal controls are especially important in small credit unions, because of limited personnel in which to segregate the duties. However, it is important that officials of smaller credit unions work within their organizations to develop methods that will safeguard their member's accounts and reduce the opportunity for fraud. Credit union officials are responsible for implementing a system of sound internal controls and for ensuring that the controls are followed by management and staff.

The purpose of internal controls is not to entrap employees; rather, good internal controls provide a working environment in which good employees are not tempted to do something they would not ordinarily do. In smaller credit unions, the supervisory committee often oversees the internal controls, while in larger credit unions, the controls are often monitored by the internal auditing department. Credit unions that initiate and consistently follow basic internal controls are less likely to experience fraud and embezzlement than credit unions whose internal controls are weak.

Major types of internal controls include:

- Limits on access – Credit unions should limit the number of people who handle money or valuables, who can access member records or, who are authorized to sign checks. This makes it easier to identify who is making mistakes and limits opportunities for embezzlement. Some limits are physical such as vaults, locked teller drawers, and file cabinets. Other examples include password security on computer systems and limiting the authority to sign checks or create obligations for the credit union.
- Dual controls – Access can be protected even more by dual controls. Two different keys, combinations or passwords are required for access. They are given to two different people, who must guard them carefully. They each act as a check on the other's actions when accessing valuable items or information.
- Segregation of Duties – Segregation of duties also uses one individual to check the work of another. It is usually applied to different portions of a transaction. So, for example, policy may state that processing and disbursing of loans must be done by different people.
- Sequential Numbering – This type of numbering on documents such as checks, share drafts, and other negotiable or valuable items makes control and reconciliation easier.

Credit Union Bank Account-

1. The board of directors shall approve all employees and officials with check signing authority. These individuals are to be kept at a minimum. Under no circumstance may individuals in the accounting department have check signing authority.
2. Credit union checks less than ____________________ require only 1 signature. Credit union checks written for more than ____________________ require 2 signatures.
3. All checks are to be payable to a specific person or institution and never is a check made payable to "the bearer".

4. All issued checks should be non-negotiable to protect the issuer and recipient.

Bank Reconcilements (see example 31 – Bank Reconcilement Form)

A bank reconcilement is performed to insure that the amount on the credit union books is equal to the amount disclosed on the bank statement. Often times there are timing differences between receipts at the credit union and deposits and withdrawals at the bank. This timing difference is the cause for the reconciliation.

1. The bank reconcilement is to be prepared by someone who is not involved in other cash functions. If this is not possible because the credit union is so small and there are so few employees, then at least once a quarter a member of the supervisory committee or someone appointed by the committee is to reconcile the bank statement.
2. The bank reconcilement is to be completed no later than the 15th of the following month.
3. Checks that have been outstanding for a substantial period should be transferred to an accounts payable account. (The suggested time is after a check has been outstanding more than 6 months).
4. Procedures should be in place that state which employee is to follow up on checks of a material size ____________ (in the U.S. the amount is normally $500) that have been outstanding for a substantial period of time.
5. All adjusting entries to the bank reconcilement are to be cleared in a timely manner (not to exceed 60 days).
6. All funds of this credit union, except for petty cash and cash change funds are to be deposited not later than the second banking day after their receipt, provided however, that receipts in the aggregate of ________ (in the U.S. $300) or less may be held as long as 1 week before they are deposited. Periodically the supervisory committee should reconcile the cash receipts to cash deposits at the bank. The daily receipts should be promptly deposited in amounts that are readily traceable to the bank deposits.
7. All voided or spoiled credit union checks are to marked as such and retained.
8. All receipts for bank charges, etc to the credit union's bank account and deposit receipts are to be retained with the monthly reconciliation.
9. Under no circumstances should blank checks be signed prior to disbursement by the authorized personnel.
10. The supervisory committee or their designate should review several months of bank reconcilements. In the review the committee is to review that all outstanding items are legitimate, especially deposits in transit and, that any adjusting entries are cleared in a timely manner. Under no circumstances should a deposit in transit be carried from one month to the next. Reconciling amounts should not continue past one month end. The committee also should ensure that there is no "lapping of deposits" (delaying the actual deposit for a few days, especially at month end). The committee should determine not only that the deposit in transit was received by the bank, but also that it was received on a timely basis. The committee randomly is to review all

canceled and voided checks. In the review, look for checks to unusual payees. Review payroll and insider expense checks for proper signature authorization.

Change Fund-

Is the total amount of cash kept on hand to handle all credit union business on a daily basis.

1. Only enough cash to handle daily operational needs is to be kept on hand. To determine the necessary amount, management should perform a periodic cash flow analysis.
2. The daily change fund activity must be properly recorded and identified in the Journal and Cash Record on a daily basis.
3. How does the credit union replenish the change fund? If it is by check, the check should be made payable to the credit union. If it is replenished by a direct cash shipment from the bank, the credit union must promptly receive a debit slip from the bank.
4. Currency shipments are to be received and counted under dual control.
5. The board of directors is to establish an amount for the change fund:
   Permanent ______________
   Temporary ______________ (for high cash volume days)
6. Management is to be made aware of all adjustments to the change fund.
7. Adjustments of a substantial size should be approved by the board of directors.
8. With regards to the opening of the vault, more than one employee is always to be present when the vault is opened and closed.
9. The vault combination is given only to designated employees. These employees are to be kept at a minimum.
10. Upon replacement of those personnel in charge of the vaults and safe combinations, these combinations are to be changed.

Teller Drawers-

1. Teller drawers will contain only a working fund (the minimum needed for daily transactions), and other cash is to be locked in the vault.
2. All tellers will be responsible for the daily balancing of their cash drawers. Under no circumstances will teller drawers be balanced less than once a day.
3. When opening new accounts, disbursing or returning cash to members the teller must always verify the identity of the member by reviewing the member's identification card and/or drivers license. Whatever identification is used there must be a picture of the member and their signature.
4. The tellers are responsible for any loss or out of balance situation resulting from transactions performed by them. The following is an example of the procedures used to find an error when the teller is out of balance.
   - If on closing a teller is out of balance on cash, continue with other teller closing procedures to see if all other areas balance.

7. Never are tellers to work out of each other's drawers. Each teller is to have their own locking drawer.
8. All spare teller drawer keys are to be kept under dual control and in sealed envelopes with the employees handwritten initials across the sealed part of the envelopes. All of these envelopes are to be kept in a secure place in the vault. When the envelope is opened by that specific teller, a new sealed envelope with initials should be made.
9. All tellers are to have their own controlled cash drawer in the safe or vault to store their cash supply during non working hours.
10. Each teller's cash is to be verified periodically on a surprise basis (at least once a quarter) by the head teller or the supervisory committee.
11. All teller transactions should be identified with their initials or a teller number.
12. The maximum amount of ________________ has been established for tellers cashing checks or disbursing share withdrawals without supervisory approval.
13. Tellers are prohibited from processing their own or any relative's checks and processing transactions on their own or any relative's share and loan accounts. This prohibition extends to transactions for someone with whom the teller has a spouse like relationship even though they are not legally husband and wife. It extends to anyone, even a non-relative, who resides with the employee. These transactions include, but are not limited to the following:
    - Deposits,
    - Withdrawals,
    - Check cashing,
    - Purchase of Money Orders or Traveler's checks,
    - Account Transfers.
14. Tellers can not hold any checks in their drawers from one business day to the next. They are required to clear all checks from their funds daily.
15. Teller duties are to be restricted to teller operations.
16. All mail receipts from members are to be opened and recorded under dual control. A receipt for the deposit is to be mailed or somehow provided to the member.
17. If there is a night depository, all deposits are to opened and recorded under dual control. A receipt for the deposit is to be mailed or somehow provided to the member.
18. If the credit union is computerized, each teller is to have a password known only to that teller.
19. If the credit union is computerized, when the teller leaves their workstation they are required to sign off the computer. This is important so that no other teller can do transactions on another teller's number.
20. If the credit union is computerized, each teller and all other employees are required to change their computer password at least once every 6 months.
21. If the credit union allows phone transfers, the teller must verify the identification of the member on the phone by asking information that only the member should know, such as their mother's maiden name (this information should be obtained on the signature card).
22. After the verification, only transfers between accounts owned by that member are allowed. For example – a husband would not be allowed to transfer money out of his

wife's account into his account. This individual would only be able to transfer funds from one of his accounts to another account in which he has complete ownership.
23. Prior to conducting a transaction, all members must complete a deposit or withdrawal slip. This receipt will be given to and retained by the teller along with the receipt produced by the credit union.
24. All tellers must produce a receipt for all transactions performed. The teller is to retain a receipt and the member is to receive a receipt. If the member receives cash they are to sign the receipt provided by the credit union. All receipts produced by the credit union should be numbered and issued in chronological order.
25. Tellers should never accept checks from members that are dated beyond the current date, issued to a third party, or which are personal checks from employees exchanged for cash.
26. All checks received from members for deposit should have "a hold placed on them" if this is allowed by law to insure that the checks will clear prior to giving the credit union member credit. This will reduce the credit union's losses from uncollectable or "bad" checks.

Credit Union Expenditures-

1. All payments to suppliers should be made by check.
2. All loan disbursements should be documented by a voucher or payment order issued by the loan department and authorized by management.
3. For every credit union expense paid there should be an invoice, purchase order, or payment order that has been signed by management. The following is to be written on the request or invoice: the date paid, the check number used to make the payment, the amount of the check written, the general ledger account that the expense was posted to, and the initials of the employee making the payment. Under no circumstance should one employee be able to authorize an expenditure, write and sign the check, and post the expenditure to the general ledger.
4. All credit union blank checks should be controlled by one individual and kept in a secure place.

RECORDS PRESERVATION PROCEDURES

The goals of these records preservation procedures are:

- To provide control and coordination of all phases of records preservations.
- To establish how long records will be kept on site and when records will be transferred to the off site storage center.
- To provide procedures to initiate control and maintain it.

The primary components of the records preservation program are:

- Determination of the time period for maintaining records in all acceptable media – paper, microfilm, and/or computer disk.
- Specification of proper security procedures for records.
- Specification of procedures for disposition of records.

Time is the focal point of a records preservation program. The determination of time periods is based on:

- Use of records in day to day operations.
- Applicable laws and regulations of state and federal governments and regulatory bodies.

A full records preservation program specifies the following:

- The period of time during which records have operational, legal, or historical value.
- The period of time records must be maintained in the off site storage facility.
- The methods of records disposal.
- The procedures for operating and ensuring compliance with the records preservation program.

The treasurer of the credit union is responsible for the records preservation, but if so desired this responsibility may be delegated. The Records Preservation Program must be operational within 6 months of the credit union's first day of business. Records which could be used to reconstruct vital records in the event the credit union's records are destroyed must be stored in the off site storage facility. A vital records preservation center should be established at any location that is far enough from the credit union's office to avoid the simultaneous loss of both sets of records in the event of a disaster.
The main off site storage facility is ________________________________.
If necessary, the secondary off site storage facility is ______________________.
The board of directors approved these off site storage facilities as of

____________________.

The records preservation schedule is a comprehensive list of records maintained by the credit union. It provides a detailed timetable for maintaining records in primary office space or transferring them to an inactive or secondary records center. The schedule also provides instructions for records destruction. The schedule may be kept on a computer or on a manual ledger. The schedule should consider records in groups of similar or related records that are used and filed together as a unit.

1. Begin by listing all the types of records filed or stored by department.
2. List the legal retention period.
3. Indicate the medium in which the record is to be stored, that is, paper, microfiche, computer disk.
4. Note the off site location.
5. Note when the records were stored, and who stored the records.
6. Specify the date for destruction and method of destruction. Note any special instructions for destruction.
7. Using the records preservation schedule as a guide, prepare labels for file cabinets or file boxes for inactive storage. Include the following information on the label: contents, location, date when the material is to be microfilmed or destroyed, special instructions such as the preferred method of destruction.

The records preservation schedule will indicate when records become inactive and can be moved into storage. The decision concerning where and how records are to be stored is dependent on the value of the records. For maximum protection, valuable records should be kept in steel fire resistant files. Records that are the only surviving records, such as those on microfilm should be kept in safes or vaults. Most inactive records can be stored in sturdy paperboard cartons. These, as well as records in vaults and steel file cabinets, should have clear labels listing the contents. Records with the same retention period should be stored together so that when the period is over they can be destroyed together.

The records preservation program must provide for the destruction of the original and duplicate copies of all records on the retention schedule. Records can be destroyed either immediately following the end of their retention period or on the next annual date if the institution destroys records once a year. The records should first be examined to verify that they are in fact the ones designated for destruction.

The following records must be stored off site if the credit union is using a computer system:

- There should be a full system back up every week and these disks stored off site. Two sets of disks should be used for this procedure so that the previous week's back up disks are not brought back on site until 2 weeks in the future.
- There should be a back up of the daily work at the end of each day. The credit union should have at least 2 sets of disks that are used for this back up, so that the previous night's back up is never brought back on site the next day. For example – Monday's back up should not be brought back to the credit union and used as a back up until Wednesday. If Monday's backup was brought back to the credit union on Tuesday and there was a disaster at the credit union that day, the previous night's back up would be on site and all of the information would be destroyed.
- It is a good idea to have more than 1 copy of the above backups so that a disgruntled employee can not harm the credit union by destroying a backup copy. One copy is to be stored off site and the other in the credit union's vault.

- Collection letters and receipts – 2
- Collection note records – 2 years after close
- Collection Files (closed) – 7
- **Loans-**
- Loan documentation for all official loans – 7
- Loan documentation for all members – 7
- Denied loan applications – 2
- **Savings –**
- Certificates of Deposit – 7 years after term
- Cancelled Pass books – Destroy
- Original deposit tickets – 6
- New and closed account report – 1
- Signature cards – P
- Individual share ledgers - P
- **Personnel Information-**
- Disciplinary action records – 7 years after termination
- Earnings Record –P
- Employee benefit plans – P
- Employee information reports and personnel files – 7
- Employee applications (not hired) – 3
- Employee applications (hired) – 7
- Employee injury reports –5 years after the report

ANNUAL OPERATING BUDGET

Formal credit union budgeting should begin before the credit union doors open. The first credit union budget should be prepared with the business plan used to determine if the proposed credit union is feasible. The annual budget is used to plan for the future. It is a statement of your goals and provides a measure to compare the operating results against.

A good budget reflects the goals and expectations set in the long-range business plan. These goals include specific targets for each of the key performance areas in a credit union, including growth in assets, members, services, and loans. It also reflects financial goals for net income, capitalization, loan losses and more. Figures set for annual budgets are often a portion of a larger goal – the part that board and management believe can be achieved in the coming year. The budget is the link between long term plans and daily operations. It helps everyone connected with the organization to understand leadership's vision for the future, and it helps everyone work together to make that vision a reality.

Credit unions are being forced to watch expenditures more closely with the increased competition in the financial marketplace and the increasing cost of new services. The costs of these new services have to be planned and accounted for. The only way that this can be done is through the budgeting process. The credit union budget is nothing more than a financial road map used to chart where the credit union is and where the credit union wants to be. "The process may be understood more easily if you think of a credit union budget the same way you think of your personal budget, the purpose and the process are basically the same. Many times, we as individuals sit down and put together a wish list of things we want to do. After we realize we can't do it all, we prioritize, cut back, and fit within our limits. It's the same kind of process, whether one is talking about a personal budget or a budget for a credit union"(Bruce Shawkey, page 28).

Many credit unions use a budget mainly to control expenses. But the budget also provides necessary information, for example, on products that are too costly for the credit union or products that are underused by the membership. Budgets can also serve as a financial agreement between the board and the manager. The board commits financial resources to the manager to accomplish goals and objectives the board wants. The budget is a good tool the board can use to measure management performance. Budgets help demonstrate to managers and board members when they are not achieving their goals. When goals are not met, you can review the budget line by line to determine if the cause lies with faulty assumptions (which can be adjusted) or with factors outside the control of the credit union (indicating a need on the part of the budget makers to build in contingencies for uncertainties).

For the budgeting process to be truly effective and worthwhile the board and management can not put numbers down on paper once a year and place the budget in a drawer never to be reviewed. The budget requires periodic monitoring (at least quarterly) and changing, if necessary so that the budget is reflective of the current situation.

TRADITIONAL VERSUS ANALYTICAL BUDGETING

"There are two general approaches to basic budgeting. Sometimes credit union budgeting is done essentially backwards. The budgeter starts with the last year's statement of expenses and projects this ahead into the coming year. Then, based on what expenses are shown, an income figure is derived (usually just slightly above the amount needed to meet the estimated expenses). Next the budgeter works backwards through a blank statement of financial condition for the period ahead and fills in figures adequate to generate the desired income. Adjustments are made until everything comes out evenly.

This process does indeed produce a budget, and one that is usually not difficult to adhere to. Its primary virtue is that everything is based on simple projections of past practices so no complex analysis is required. Salary expense is derived by projecting existing salaries. The office expense is computed by adding to last year's rent a percentage that will likely cover any expected rent increase.

This method of writing a budget also eases the task of deciding what level of loan activity, share growth, or investment return should be set for the upcoming period. Since expenses are the driving factors, the major categories on the statement of financial condition need simply to be adjusted up or down to produce the revenue needed"(James Aho, page 3).

The second more precise form of budgeting is known as analytical budgeting. Because the business environment that credit unions operate in has become more competitive and less predictable, backward budgeting has been replaced by a more decision based, forward looking budgeting.

"The analytical method starts with the decisions about what the credit union wants to do in terms of asset growth, loan and investment activity, share growth, and credit union capitalization. As these decisions are made, three types of dollar figures can be estimated for each item:

- The dollar amount of assets/liabilities represented,
- The income generated, and
- The expenses entailed.

If a credit union decides to increase loans by eight percent over the period, this dictates an increase on the projected Statement of Financial Condition and associated increases in income and in expenses on the Statement of Income. Unfortunately such decisions are not interchangeable on a dollar for dollar basis.

Producing a dollar of income may have associated expenses of \$.80 or \$.90 or \$1.10, depending on the method chosen. The task that the budget planners must accomplish is setting a mix of planned actions for loans, shares, investments, and other assets that achieves the credit union's goals for service (both immediate and loan range) in the most economically efficient way. Seldom is a budget created in the first try and it normally is a continuous process. Therefore the most important aspects and points of analytical budgeting include:

- Uses policies and plans (internal) and economic studies (external) for the base.
- Increases or decreases line items based on analysis of individual items.
- Projects line items by first establishing parameters, then projecting by using appropriate technique.
- Begins with planned actions in regards to loans, shares, assets, and investments. The income and expenses are then derived from these decisions.
- Considers revenue and cost connected with new services.
- Looks ahead at multi-year period.
- Any operational changes are carried forward to the next year.
- Improves as a result of group involvement"(James Aho, pages 5-6).

THE BUDGET CYCLE

1. Planning

You can not have a budget without a plan. It is here where the budgeting process begins. "The manager's role in this process is to:

- Provide the board with specific proposals for long range plans and specific goals. These recommendations will provide a basis for board discussion and approval.
- Incorporate long range plans and goals into the annual budget, and revise the goals or budget as required.
- After budget approval, implement, direct and coordinate credit union operations in accordance with board approved goals and objectives.
- Develop a monthly or quarterly reporting system that will compare actual operating results with the annual budget.

The budget is normally based on a calendar year (from January 1 through December 31). The budgeting process usually starts with the September 30 financial statement. This statement is used as the base for the financial projections. When using these statements, management must first project the last quarter of the year from October 1 through December 31. This can be done by reviewing the last 3 quarters and previous financial statements for the last quarter of the year.

Ideally the budget process will be completed in December and the board will have approved the budget no later than the January board meeting.

2. Evaluation of Internal and External Environment and Establishment of Goals and Objectives

To establish long range plans and goals the manager must understand:

- The needs of the members (services). Review the feasibility of new programs and services. Which new services do you think the credit union could offer? Which services could be improved?
- The current economic environment in which the credit union is operating.

- The strengths and weaknesses of the credit union itself. What goals should the credit union adopt for the coming year? Where should the credit union be five years from now? This can be accomplished with an analysis of the past financial statements, ratio analysis **(see example 30 - Ratios - Calculations and Purpose)**, a member survey, and an annual planning session.

Upon a review of the external environment and the credit union's internal situation the following is an example of the establishment of goals for the upcoming year:

- To have assets grow by 10% with loans increasing evenly from 64% to 69% of assets with an average yield of 14%.
- To have investments decrease evenly from 29% to 25% of assets with an average yield of 9%.
- To have member savings increase by 10% for the year. The average cost of savings is estimated to be 7.25%.
- To reduce delinquent loans from 4.68% to 3.50%.
- Based on the changes in the balance sheet, the credit union would like to have the reserves to total assets ratio increase from 8% to 8.30%.
- Possibly increase fee based income to offset high operating costs and to help meet the above capitalization goal.

3. Develop Action Plans

The purpose of these action plans is to identify the approach that will be followed to achieve the goals and objectives of the credit union. In the next phase the costs connected with these action steps will be combined with other estimated operating expenses and be included in the annual budget"(James Aho, pages 9 –15).

4. Develop Annual Budget

- In general, gather the credit union's current balance sheet and those from the previous three to five years. An analysis is to be performed of the data and trends. The information should be used to see what the current financial status of the credit union is and how it got there. From there, estimate a balance sheet for the coming year based on assumptions and projections you have developed. From the balance sheet forecast, estimate your income (loan interest, investment, and other income) and expenses (operational and dividend). Again, this is done using the objectives you have set. With the balance sheet and income/expense forecasts, you should be able to tell if you can accomplish your objectives. If not, prioritize them until their costs equal your estimated financial resources.
- More specifically, forecast growth in six key areas. These areas include: loans, investments, other assets, savings, capital, and membership. The three areas where you will probably spend most of your time are loans, savings, and membership. To forecast growth of loans and savings gather your balance sheets from at least the last three years and chart your trend in loans and in savings. The membership activity can also be charted along with the loans and shares over time. This will help you analyze trends and predict future growth and decline. With this information the budgeter(s)

should forecast growth for one factor at a time (loans, savings, and members), but remember these factors are interdependent. In reaching these numbers, the credit union balances its goals and objectives with such factors as the national, regional, and local economy along with the health of the sponsor, if there is one. In addition to the trendlines established, know your credit union's potential membership and calculate the current penetration. Then forecast an increase or decrease. Factor any variables in such as:

- Is the credit union planning to increase marketing or have a membership drive to increase membership?
- Is the credit union going to offer a new service that will attract new members?
- Is the credit union planning to merge with any other credit unions?
- Remember, any increases in both loans and savings may be dependent on increases in membership?

For most credit unions, investment forecasting is simply a matter of figuring what is left after subtracting projected loans from projected savings. The other assets category includes land, building, equipment, and miscellaneous assets. For most credit unions, these figures do not change significantly from year to year unless there are plans for a new building, improvements, or a computer system. The last forecast area is capital. Capital represents the credit union's ability to withstand losses. Since capital can only be derived from income the next critical area of forecasting is for income and expenses. With all of this information the credit union can produce the projected balance sheet **(see example 29 – Projected Statement of Financial Condition or Balance Sheet). <u>The importance of placing all of the assumptions used, in writing to develop all of the budgeted numbers can not be stressed enough. Without the written assumptions it is impossible to determine what assumptions were used in deriving the budget during the periodic reviews throughout the year.</u>**

To continue with the above examples given for credit union goals:

- The credit union will project the annual asset growth at 10% from the previous year-end.
- Loans will increase from 64% to 69% from the previous year-end to the current year's end. The investments will be projected to decrease from 29% to 25% in the same time period.
- To complete the asset portion of the balance sheet projection if no new fixed assets are to be purchased, the previous year-end balance will be reduced by the annual depreciation of all fixed assets. Other assets could remain the same if no changes are projected. Often times the asset category used to balance the asset side is cash on hand. But remember the number must be reasonable and based on past history and future projections.
- Member savings are projected to increase by 10% from the previous year-end to the current year end.
- The capital which includes: undivided earnings, regular reserves, any special reserves, and net income must be equal to 8.30% of the assets.

- The liability category which is often used to balance the liability side of the budget is other liabilities. But remember the number must be reasonable and based on past history and future projections.

Setting goals and objectives, and estimating a balance sheet for the coming year, leads to the next step in the budgetary process – estimating income and expenses. This is done by projecting a statement of income and expense **(see example 28 – Projected Income and Expense Statement)**. The projected income and expense statement, in effect, becomes your budget.

In this phase you estimate your income and subtract estimated dividends. The difference becomes your budget for all operating expenses and capital contributions. To estimate income and the cost of dividends, you will need a projected balance sheet as mentioned above. To figure all other expenses, you will need your income and expense statement from the previous year end. Before starting, it is important to mention that if your estimated budget projections yield answers you do not like, it is possible to make changes. You may, for example, go back to your projected balance sheet and raise your loan growth estimate if you need more income, as long as the increase or change is based on realistic assumptions. The budgeter(s) can alter individual line items within the income/expense statement to make other line items come out more on target. This is where prioritizing comes in, as discussed earlier. Is increasing capital more important than a new data processing system? If both are equally important, how much additional loan income do you need to fund them both?

Always remember that everything in budgeting is interconnected. Income, expense, goals, growth, and capital are all interrelated. Planned increases in loan growth, for example, call for planned increases in the costs associated with servicing those loans – personnel, data processing, marketing, collections, and provision for loan losses. One of the most common mistakes is to plan for growth without figuring a corresponding increase in costs.

To continue with the previously used example:

1. Estimate the average loan and investment balances. These are calculated by using the year end loan balance from the previous statement of financial condition and the projected loan balance from the statement of financial condition (or balance sheet) for the end of the budget year. The balance from the previous year is added to the projected loan balance and the total is divided by 2 to obtain the average loan balance. The average investment balance is calculated the same way using the total investment figure from the previous year and the projected amount for the current year.

2. As stated in the goals previously, the average loan and investment yields based on past review of the credit union's income on loans and the future projections are projected to be 14% and 9% respectively. Having both the estimated average loan and investment balances and the expected yields, the manager calculates the

expected revenue on loans and investments. Interest on member loans is the average balance multiplied by the average yield. Interest on investments is the average investment balance times the average yield of 9%. Other income would be based on a review of the past amounts, the effect of any future growth on the fees, and if any fees are to be added, increased or decreased. Once all of the various sources of income have been projected management has the projected gross income amount.

3. For each expense line item management must estimate the expense for the upcoming year taking into consideration past history and any future changes. For example – **Compensation** – this is usually fairly easy to figure. Many credit unions simply take last year's compensation expenditure and add a percentage equal to what they believe salaries will increase. Remember all bonuses must be budgeted for and any increases to staff. **Provision for Loan Losses** – This expense is an example of how budgets, goals, and policies are interrelated. This figure is generally derived through historical analysis as long as there has been no change in lending policy. If the credit union is planning for an increase in loan volume do not forget to plan for a corresponding increase in the provision for loan loss account.

4. To project the estimated dividend expense for the budget year the manager must determine the average projected savings balance. To determine the average saving balance use the savings balance for the previous year-end and add it to the projected savings balance for the budget year-end. These two figures are added and divided by 2 to obtain the average savings balance. The estimated dividend expense is arrived at by multiplying the aforementioned average savings balance by the estimated dividend cost of 7.25%.

5. The budgeted net income is arrived at by subtracting total operating expenses and dividends from the gross income. The budgeted net income should be sufficient to increase credit union capital to the stated goals.

5. Submit Budget to the Directors for Review, Adjustment, and Approval –

After the budget is completed, the manager and the board members must determine if it is consistent with achieving all credit union goals and if it provides for sound financial growth of the credit union. If so, the budget is to be formally approved no later than the January board meeting or the 1st meeting of the new year.

6. Implement Budget Plans

"After budget approval, the manager should discuss the implementation of the budget and action plans with management staff. The staff along with the manager, will be responsible for achieving the goals and objectives set by the directors"(James Aho, page 17).

7. Monitor the Budget Plan

There is no better way to judge the progress of the credit union and/or the effectiveness of management than by periodically reviewing the actual financial results to the budgeted numbers. This analysis should be performed no less frequently than quarterly. The analysis should be formally presented at the next board meeting after the end of the quarter. The manager should present the actual as compared to the budgeted income statement **(see example 28).** The manager should discuss with the board all variances greater than 5% or $500 US or the equivalent amount in the local currency. The reasons for the variances should be discussed, and if the budgeted numbers are still realistic or need to be revised. When economic conditions change the credit union's budget needs to be adjusted to reflect these changes. All of this analysis should be placed in writing in the monthly board minutes. The importance of written assumptions can not be emphasized enough for the review of the actual versus the budgeted numbers. Without the written assumptions, management will be unable to determine how the initial assumptions were arrived at.

Credit unions will only be able to compete and survive if a formal planning and budgeting process is in place. It is the director's responsibility to see that the credit union maintains an effective process that produces a well-prepared budget. They should ensure that the budget is based on realistic, written assumptions and that it is reviewed against the actual results periodically.

CASH FLOW ANALYSIS

Once the credit union has completed the annual budgeting process, management should go one step further and prepare a cash flow analysis. This cash flow analysis is used to predict cash flows in and out of the credit union so there is enough cash on hand to meet demand.

"Not having enough cash means taking costly and/or unpopular measures, such as cutting off loans to your members, borrowing, or redeeming investments before maturity. Having too much cash on hand can result in lost opportunities to put money to work in loans or investments. Cash flow is like traffic. There are rush hours, and there are slow times. You can not avoid them, but you must plan to prevent bottlenecks during rush hours and mountains of cash laying around during slow periods.

To figure how much cash you need and when you need it, gather your share and loan ledgers, as well as your income and expense statements, from the previous 2 years. Establish a trendline for monthly cash inflows on the share side. Subtract net share withdrawals from net share deposits. Do not forget to factor in dividends during the months you post them. Now add income (interest on loans, investments and any fee income). The result will be your trendline for sources of funds.

Establish a uses of funds trendline by plotting cash outflows, including loans and expenses. For both sources and uses it may help to notate material differences or spikes in the trendlines to explain large cash disbursements and influxes.

By placing the two trendlines side by side the manager should be able to predict how much cash you will need on hand and when. The manager will be able to determine times of cash surpluses and develop strategies to place excess cash in investments that will mature at or near the times the credit union will need the cash to meet demands.

In analyzing the trendlines, the manager may find that cash surpluses are almost constant, indicating your credit union is too liquid. Or the manager may find cash shortages are a constant problem, indicating that the credit union is too illiquid. If illiquidity is the problem, you can either decrease cash going out of the credit union or increase cash coming in. To decrease cash outflow, employ such strategies as:

- Restricting large and/or long term loans,
- Increasing loan underwriting standards,
- Requiring additional or higher quality collateral,
- Shortening loan maturities,
- Delaying loans, and
- Cutting off loans altogether.

To increase cash coming in, the credit union could:

- Raise dividend rates to attract deposits,
- Increase marketing efforts with existing share products,
- Introduce new deposit products,
- Shorten loan maturities (this strategy decreases cash outflow by discouraging loans and, at the same, increases cash inflow by increasing loan payments on the fewer loans that the credit union does make), and
- Borrow funds.

In both lists, strategies are ranked from most to least desirable.

Correcting excess liquidity, on the other hand, involves increasing cash leaving the credit union and decreasing cash coming in. Many of the same strategies listed can be used here, only in reverse. You may, for example, increase marketing efforts for existing loan products, or lengthen maturities on loans"(Bruce Shawkey, pages 81-82).

A good indicator of liquidity is the loan to share ratio. The closer this ratio is to 100% the more likely the credit union is to have a liquidity problem. The lower the loan to share ratio, the greater your liquidity. But if the credit union also has long-term investments (such as maturities greater than 3 years) these investments should be considered. If the credit union has an 80% loan to share ratio, and investments with long-term maturities, the credit union could have a potential liquidity problem if loan demand increases. By analyzing the credit union's loan to share ratio for the past couple of years the manager should be able to determine a liquidity cushion at which the credit union can operate smoothly. Also remember the more volatile the credit union's field of membership, the larger the liquidity cushion needed to meet large and sudden cash demands. Normally a credit union with a stable membership base, can afford a smaller liquidity cushion.

ACCEPTABLE ACCOUNTING PRACTICES FOR CREDIT UNIONS

The essential purpose of an accounting system is to provide a credit union's management with the complete and accurate financial information it needs to conduct sound and effective operations. The financial statements produced by the system are used by management to account to the members, creditors, supervisory authority and the WOCCU project office. Therefore, it is essential that the records be accurate, current, and that they show the true financial condition of the credit union. Prompt preparation of reports will aid the credit union in achieving its objectives and fulfilling the purposes for which it was formed.

Each credit union should maintain its accounting records on a conservative basis. It should make reasonable provisions in the accounts for potential losses on assets and for the settlement of liabilities. It should not materially overstate nor understate its assets, liabilities, revenues, or expenses.

Accounting transactions should be recorded on a timely basis so that all material information applicable to each accounting period will be shown in the records. To properly recognize in accounting records and financial reports the reasonable value of assets, liabilities, and equity, each credit union should make provision for estimated loss to be sustained in the collection or conversion of loans and other assets by charges against expenses. Estimated amounts should be used in accruing income or expenses if actual amounts are not known and cannot be readily determined. Differences between the actual and estimated amounts should be absorbed in the operations of the subsequent accounting period.

The effectiveness of the accounting is improved with adequate internal controls. Accounting control is concerned with the day to day functioning of the credit union office, the proper methods for handling members' transactions and recording them on the books and records; receipt and disbursement of funds; and the preparation of financial statements which reflect financial position and the results of operation.

A properly designed accounting system achieves internal checks. It provides the board with data about the actual operations and indicates whether or not the credit union is being managed in accordance with the procedures and policies established by the board. The internal control system must include:

- An organization plan to provide, to the extent feasible, segregations of duties so that different employees will handle the day to day operational and accounting functions. No one employee should be able to perform credit union transactions from start to finish.
- A system of authorization and recording procedures adequate to provide reasonable accounting control over assets, liabilities, income, and expenses.
- Employment of personnel capable of performing duties and responsibilities.
- Effective and timely audits of credit union records and accounts by its supervisory committee including verification of members' accounts, with assistance provided, where needed, by an independent auditing firm.

Modified Cash versus Accrual Based Accounting

There are two acceptable methods for accounting for credit union assets and liabilities – the modified cash basis and the accrual basis. The main difference between the two methods lies in the timing of net income. With modified cash the income and expenses are recognized when received or paid and with accrual basis the income is recognized when it is earned, not received and the expenses are recognized when incurred, not paid.

Modified cash basis accounting is generally easier. As stated above it is based on the actual receipts and disbursements of the credit union except that provisions should be made to reflect:

- Liabilities which are not promptly paid when due,
- Dividends and loan interest refunds applicable to the accounting period but not yet paid,
- Estimated losses to be sustained on loans outstanding and other risk assets, and
- Depreciation on fixed assets.

The aforementioned exceptions are designed to recognize in the accounts certain **significant** financial transactions not involving the concurrent receipt or disbursement of cash and to reflect their effect in financial reports prepared from the accounts. For example - if the credit union did not make an entry or provision for the member dividends payable on a monthly basis the credit union could have a net income when in reality (after the dividend expense was recognized) the credit union would have a net loss. Without the recognition of material expenses the financial statements do not fairly state the financial position of the credit union. Also, financial statements are used to make decisions, and management could make a bad decision using financial statements that did not recognize large expenses owed. For the sake of conservatism when using modified cash basis, only provisions are made for known expenses such as dividends, not for known or expected income.

The concept of conservatism is very important in accounting. It is an effort "to ensure that the risk or uncertainty inherent in business situations is adequately considered. Under conservatism, when two or more accounting alternatives appear to be equally capable of fulfilling financial reporting objectives, the alternative that has the least favorable impact on net income and financial position is chosen. Conservatism does not imply deliberate consistent understatement of net assets and income; it is a method of dealing with uncertainty about future cash flows" (Lanny Chasteen, page 40).

The accrual basis of accounting provides the most complete and informative record of the financial activities of credit unions. It refers to the method under which liabilities and expenses are recorded when incurred, whether or not paid, and income is recorded when earned, whether or not received. For example – Each day of the month the credit union earns interest on all loans outstanding. However, the member normally makes a payment once a method, for instance on the 15th of the month. If the credit union were using accrual based accounting, the credit union would accrue for the 15 days of the month that the credit union had earned the interest but had not been paid for because the member only pays once a month. (In the U.S. it is recommended that credit unions that have over

$2 million U.S. in assets use the accrual basis of accounting. It is recognized that for small credit unions this type of accounting can be burdensome. Therefore, credit union management is to choose between the 2 methods.)

Generally accepted accounting principles (GAAP) require the accrual basis of accounting. Any credit union wanting an "unqualified opinion" for the required annual audit performed by an outside Certified Public Accountant must follow GAAP. Generally accepted accounting principles are used in businesses throughout the world and consist of the financial accounting and reporting assumptions, standards, and practices that a company must use in preparing external financial statements. They represent a consensus among accountants as to what is considered acceptable practice at a given time. These principles evolve and change over time in response to changes in the economic environment. However, credit unions in the United States have the above mentioned option because provisions are made for material expenses (such as dividends) when using modified cash and the financial statements are conservatively stated.

Accounting Debits and Credits

All credit unions are to use a double entry accounting system. In this system each transaction results in at least two entries: a debit (or entry on the left side of an account ledger) and a credit (or entry on the right side of an account ledger). If the transaction requires several debits and credits, the total of the debits and the total of the credits **must be equal.** In other words, for every debit entry there must be an offsetting credit entry and vice versa. By following this rule and determining that the total debits equal the total credits, the records can be kept in balance.

- Assets are debit accounts, although at times such an account may have a credit balance in it.
- Liabilities are credit accounts, although they, too, could at times have a debit balance.
- Equity accounts, including member savings and shares are credit balance accounts. If the credit union has debit balances in the undivided earnings, reserves, and the net income accounts the credit union is insolvent.
- Income accounts are credit accounts.
- Expenses are debit accounts.
- **A general rule for debits and credits is – Debit represents the increase of an asset, the reduction of a liability or equity account, or the payment of an expense. A credit represents the reduction of an asset, increase of a liability or equity account or, receipt of income.**

"Whether to debit or credit an account can be determined by these guidelines:
- To increase a debit account, it must be debited.
- To increase a credit account, it must be credited.
- To decrease a debit account, it must be credited.
- To decrease a credit account, it must be debited"(Credit Union Accounting, page 9).

In preparing the accounting entries, the accountant must decide what accounts are to be debited and credited. A number of questions must be answered:

- What accounts will be affected by this business transaction, both the account numbers and the names **(see example 39 for examples of account numbers and names)**?
- Do the accounts normally have a debit or credit balance?
- Is the account balance to be increased or decreased?

If debit and credits do not balance at the end of the day, the mistake needs to be located before the opening of the credit union on the next business day. The accountant must go back through the days' transactions to determine where the mistake is. To reduce the time it takes to locate errors is one of the reasons that the books and records must be balanced daily. "The first step in the attempt to locate the differences between the debits and credits is to determine the actual difference. Just knowing the actual difference may be helpful in locating the error. If no clue is forthcoming, then it will be necessary to retrace every entry. When trying to locate an error some of the mistakes that may have occurred include:

- A transaction may not have been completed.
- Addition and subtraction errors may be involved.
- A transposition of numbers may have occurred.
- The debit and credit entries may have been incorrectly posted as such.
- The figures on the Cash Received Vouchers (CRVs) and/or journal vouchers could have been misread.

Agreement between the debits and credits is no guarantee that no errors have been made. It just means that the debits and credits are in balance. The following types of errors may go undetected, even if the debits and credits agree:

- Debits and credits may have been posted to the wrong accounts.
- A transaction may have been omitted.
- A transaction may have been posted twice.
- Identical errors may be involved or an error that has a compensating error to offset it" (Credit Union Accounting, page 11).

The Credit Union Accounting Cycle

The following discussion covers aspects of manual and computerized systems. The accounting concepts and process are the same for either system, but for illustrative purposes the manual forms are used because they are fairly consistent, unlike the forms for computerized systems. Some of the steps discussed will be eliminated when a computerized system is used. The computer performs them automatically.

The majority of entries originate with the receipt or disbursement of cash. Other entries are relatively few in number and consist of adjustments or transfers between accounts, establishment and maintenance of an allowance for loan losses, write offs of bad loans, and recording depreciation of tangible fixed assets. Credit unions that are using the accrual basis of accounting (as described in the Modified Cash vs. Accrual Based Accounting section) should make entries to record accrued income and expenses.

The source documents for the original transactions into the Record of Original Entry or the Journal and Cash Record are the Cash Received Voucher or its equivalent and the Journal Voucher or its equivalent **(see example 32, numbers 1 and 2)**. These serve as memorandum records of the original transactions. These vouchers are always retained with all monthly records.

"The Record of Original Entry or the Journal and Cash Record (JCR) as it is more commonly known is a diary of the transactions as they occur. Each day's cash receipts or cash received vouchers, disbursements such as member withdrawal slips, the checkbook record stub, journal vouchers, and any other transactions are entered in the Journal and Cash Record in chronological sequence **(see example 33 – Journal and Cash Record)**. Thus, a running history of each day's transactions is kept and may be summarized as needed"(Credit Union Accounting, page 18).

At the end of a given period, usually the month end, the total of all transactions pertaining to each account can be obtained by totaling the debit and credit columns of the Journal and Cash Record **(see example 33)**. The accuracy of the entries can be proved in part by balancing the debit columns against the credit columns, this process is known as the trial balance. Remember the debits must equal the credit entries.

The Record of Final Entry or the General Ledger as it is more commonly referred to serves as a means of summarizing the entries in a form that will enable the bookkeeper to prepare reports on the results of operations to date. Entries in the General Ledger **(see example 34 – General Ledger)** consist of posting (simply transferring) the debits and credits (either individually or in total at the end of the month) for each account in the Journal and Cash Record to the corresponding account in the General Ledger and computing the net balance for each account. In other words, the entries in the general ledger are posted or transferred only from the Journal and Cash Record. All transactions should be entered in the JCR before being transferred to the General Ledger. No entries should be made in the General Ledger without first having been made in the JCR. The total of each debit and credit column in the JCR is posted to the respective ledger account, except for the total of the miscellaneous columns. These items are posted on an individual basis to the respective General Ledger accounts.

If the General Ledger account is a debit account, it must be remembered that the debit figure from the JCR must be added to the last monthly total on the ledger page and the credit figure must be subtracted in order to obtain the new General Ledger balance. Conversely, if the General Ledger account is a credit account, the debit figure from the JCR must be subtracted and the credit figure must be added to obtain the new credit balance. The result obtained shows the current balances of the credit union's accounts and the results of operations for the period.

Sometimes, when a General Ledger account summarizes a number of transactions, it is necessary to provide detailed information about this account with a record known as a Subsidiary Ledger. In this situation the accounts in the General Ledger are control accounts only, with detail supporting these control accounts carried in the subsidiary ledgers. The subsidiary ledgers are imperative for all accounts with a lot of activity or for accounts where more than one item is being accounted for. A subsidiary ledger has the following advantages:

- "It isolates for the individual member the transactions that affect their account only, all on a single ledger. Not only will the member benefit from a subsidiary but also the customers or creditors who do business with the credit union.
- It eliminates from the General Ledger a great amount of detail relating to assets, liabilities, and equity accounts.
- It permits easier location of errors by grouping accounts and maintaining a control on these groups.
- It aids internal control by separating the different groups of accounts and assigning responsibility for their control and maintenance" (Credit Union Accounting, pages 38-39).

For example – In the general ledger account for furniture depreciation, subsidiary ledgers are necessary for each piece of office furniture because the credit union is depreciating all the office furniture for various lengths of time and for different amounts. A subsidiary ledger is not necessary for a general ledger account that is for one item, such as one of the credit union investments. The subsidiary for this account would be the statement received from the institution in which the investment was made stating the current investment balance and value. The Individual Share and Loan Ledgers are also examples of subsidiary records, which show the detailed share and loan transactions of each member. The Share and Loan accounts in the General Ledger reflect the total transactions with all members. These General Ledger accounts are the Control Accounts since they act as a control or check over the numerous postings to the individual or subsidiary ledgers. Subsidiary records are balanced with related control accounts on a monthly basis and the reconcilement, or other proof of balancing, is retained.

Step by Step Analysis of the Accounting Cycle

Cash Received

If the credit union is using member passbooks (they are used with manual systems only - **see example 21**), members should be encouraged to present the passbooks for each transaction. If a transaction is not entered in the member's passbook because the passbook is not available, a temporary passbook or cash received voucher / receipt should be provided to the member. The member should be instructed to present his passbook for entry as soon as possible. If the passbook is lost, a duplicate should be issued after the member has provided adequate identification.

When a payment is received the payment is entered in the member's passbook, the balance shown in the passbook should be entered in the proper spaces under "Member's Passbook Balances" on the Cash Received Voucher. This will serve as a comparison of the member's passbook with the credit union's records when posting to the Individual Share and Loan Ledger and will often disclose errors which may occur, thus saving time in balancing the individual share ledgers with the General Ledger account at the end of the month.

When a member withdrawal is made the date and the amount of the withdrawal should be entered in the member's passbook under the applicable headings "Shares", "Date" and "Withdrawn." The amount of withdrawal should be deducted from the balance and the new balance remaining in shares should be entered in the column "Balance". The entry should be initialed by the person paying out the money for the credit union.

When cash is received, a cash receipt form should be completed for each transaction. The Cash Received Voucher (CRV) **(see example 32, number 2)** serves as the cash receipt and the posting document for the entries to be made on the Individual Share and Loan ledgers **(see example 20)**. When the member is depositing money into the credit union they will always fill out a deposit receipt **(see example 38)**. This form serves as proof that the member performed the transaction. When a check or cash is received from a member with the aforementioned deposit slip, the CRV is prepared. The total cash received is written in the space opposite "Total" and should equal the actual cash received. The person accepting the cash for the credit union should initial the CRV in the space provided on the voucher and enter the amount of the payment and the purpose in the member's passbook (as described above). Share and loan payments are handled on this same form, the CRV. When a member makes a payment on a loan, credit union personnel must check the date of the last payment and calculate the interest on the unpaid balance for the period of time between payments. The member's deposit slip and the CRV are always retained and stored together for each day's work. The CRV serves as a posting medium from which entries are made in the Individual Share and Loan Ledgers. (NOTE: On-line data processing systems have replaced the need for passbooks and CRVs. They can provide the member with current share and loan balances. All that is used is the deposit / withdrawal slip completed by the member, **see example 38**.)

As mentioned above the CRV is the document used to post to the Individual Share and Loan Ledger. (The posting is automatically performed when the system is computerized.) The purpose of the Individual Share and Loan Ledger is to provide a record for the credit union, which shows, in chronological order and in detail, the transactions between the credit union and the individual members. When an account is opened a separate Individual Share and Loan Ledger is prepared by writing the member's name, address, and account number in the spaces provided. This form includes a record of share and loan transactions. In addition it contains a note record and a "Cosigner on Notes of Others" record. The latter record shows the member's indirect liability because of having signed as a cosigner or endorser on another member's note. This information is especially important where there are a lot of member's co-signing loans for each other. This is a dangerous situation, in most cases a member should be allowed to be a cosigner only for 1 person. Without this information the credit union can not keep track of who is co-signing for whom.

Cash, checks or any other monetary items received will be totaled at the end of the day and compared with the totals of each category of cash received. A summary CRV (use the same CRV as displayed in **example 32, number 2**) for all CRVs written for funds received will be prepared and it should equal the bank deposit. If an adding machine is used to calculate the summary amount on the CRV the tape is to be attached to the summary voucher. The amount of the deposit **should always agree** with the summary. If they do not agree the "Cash Over and Short expense account should be debited or credited for the difference. For security purposes, the CRVs for the day's business should not be stored or kept in the same place as the cash so that the credit union will have a record of the persons who made deposits or payments in case the cash receipts are lost or stolen before they have been deposited in the bank"(Credit Union Accounting, page 19).

Bank deposit receipts should be retained and attached to the summary for the day in which it belongs. It is possible to combine several days receipts in a single deposit if the daily receipts are small and provided the bank deposit is less than the amount established in the bylaws. Bank deposit receipts and CRV summaries should be filed in chronological order for easy tracing and for audit purposes. A duplicate bank deposit slip should be made as part of the regular procedure and retained in the credit union files.

In summary, CRV should be balanced and summarized with the total cash received, on a daily basis always prior to making a bank deposit. When the transactions have been balanced with the cash, a permanent record is made in the JCR daily, which serves as a diary of the transactions as they occur. Journal entries are made in chronological order into the JCR. Posting to the member individual ledger accounts and the General Ledger rounds out the cycle.

Cash Disbursed

To disburse funds the credit union will use a Journal Voucher **(example 32, number 1)** or a withdrawal receipt **(see example 38)** prepared by the member if the member wants to withdraw funds. This form represents the member's authorization to withdraw funds from his share account. The member should always sign the receipt for a withdrawal. Some small credit unions make all disbursements, including member withdrawals by check because they have no cash on site. This, however is an inconvenience to the members because they have to take the check to another financial institution to receive cash. Credit unions could lose their members to these financial institutions, so if possible it is always best to allow the members to withdraw cash. Many credit unions allow members to withdraw a maximum amount daily and anything over that amount is disbursed with a check.

The Journal Voucher is used to make all disbursements within the credit union such as loan funds, member withdrawal checks, and credit union operating expenses. The only time that a Journal Voucher is not used for a withdrawal is when the expense is very small and petty cash is used to make the disbursement. The petty cash fund is usually no more than $25 U.S. and it is used to purchase very small insignificant nonrecurring items. All receipts for these purchases are to be retained with the petty cash. Petty cash can be replenished out of the credit union's cash.

The credit union will issue checks for the payment of expenses upon approval of the management and/or board of directors. A journal voucher **(see example 32, number 1)** must be prepared as an attachment to the invoice or bill for each expense. A paid invoice should substantiate each expense that the credit union has incurred. Expense items will be summarized through posting to the JCR and the Expense Ledger **(see example 37)**, which is a subsidiary of the Expense Control Account in the General Ledger.

With the manual system "besides adding the total that appears in Column 22 of the JCR **(see example 33)** at month end to the total that appears in the Expense Control account in the General Ledger, a posting will also be made of each item recorded in column 22 of the JCR to the separate expense columns listed on the Expense Ledger subsidiary **(see example 37)**. The total of items entered in the "Expense Total" column of the Expense Ledger in any month should equal the total of the items entered in the "Expense Control, " Column 22 of the JCR, in the same month. The amount entered in the "Expense Total" column of the Expense Ledger should equal the sum of all of the totals of the individual expense columns. The totals of these individual expense columns are used to complete the individual expense items on the Statement of Income and Expense. Be sure that the accumulated totals on the Expense Ledger agree with the total amount of expenses shown on the Expense Control account in the General Ledger or there may be some difficulty in making an accurate Income Statement" (Credit Union Accounting, page 39).

Summary of Cash Received and Cash Disbursed

Remember the CRV, the Journal Vouchers, and the member deposit / withdrawal slips are used as follows:

- CRV and member deposit slips used for all cash received,
- Journal / Disbursement voucher and member withdrawal slips used for cash out,
- Journal voucher used for all non-cash items. However, when the form is used for this purpose, it should describe the reason for the entry on the form.

The following is a list of what each of the source documents can be used for:

Cash In	**Cash Out**	**Non-cash Items**
Shares	Shares	Correcting Entries
Loans	Loans	Adjusting Entries
Interest on Loans	Expenses	Closing Entries (depreciation, dividend accrual, accruals for income or expenses)
Payroll Deductions	Investments	Transfers (shares to loans)
Income from Investments		Loan Charge offs
Miscellaneous Income		

The forms used as examples are provided only to illustrate the accounting process. Each credit union may design forms that have variations from the examples or the supervisory authority may want the credit unions to use other forms. If the credit union is computerized, the forms may be different, but the process is always the same. Therefore, it is important that all accounting employees understand the accounting process or cycle.

Summary of Accounting Cycle

A review of the accounting cycle shows that the data flows in a logical sequence **(see page 137 for an illustration of the cycle)**. The steps in the accounting cycle enable the accountant to combine and summarize all of the credit union transactions in two concise statements, which all credit unions must produce at least monthly – the Statement of Financial Condition or Balance Sheet and the Statement of Income and Expenses. The cycle in review is as follows:

- Member completes a deposit slip if funds are being deposited or a withdrawal slip to receive funds **(see example 38)**. This is the same whether a manual or computerized system is being used.
- Complete a CRV for cash received or a Journal Voucher for a cash disbursement or a non-cash item. Ensure that the correct accounts are being debited and credited and that the entry is in balance (the debits equal the credits). Only a journal voucher is used with a computerized system for non-cash items. The computer generated receipt is the evidence used for member deposits and withdrawals.
- Ensure that all entries at the end of the day balance and that the amount of the cash received is equal to the bank deposit. This is the same whether a manual or computerized system is being used.
- Perform all non-cash item entries as necessary, such as corrections, closing entries, loan charge offs, equipment and building depreciation, etc. This is the same whether a manual or computerized system is being used.
- Record all of the information on the CRVs and the Journal Vouchers after the days' work in the Journal and Cash Record. This should always be done on a daily basis to reduce the possibility of making an error and to reduce the time it takes to find and correct and error. This is performed automatically with computerized systems.
- At the end of the month summarize and transfer all of the information in the JCR to the General Ledger for each credit union account. After ensuring all is in balance this is usually performed by the computer with several key strokes.
- Ensure that all subsidiary ledgers (bank reconcilements, individual member share and loan ledgers, investment statement balances) balance with the credit union's general ledger balances. This is the same whether a manual or computerized system is being used.
- Prepare the financial statements (the Statement of Financial Condition and the Statement of Income and Expenses). This is the same whether a manual or computerized system is being used.
- Close the income and expense accounts at the end of the accounting period to the undivided earnings accounts. This is performed by the computer with several key strokes or commands.
- Prepare the final or "after closing" statements (in which the net income has been "closed" into the undivided earnings). This is the same whether a manual or computerized system is being used.

Accounting and Dividend Periods

The fiscal year for all credit unions begins on ____________________ and ends on ____________________. (In the U.S., South and Central America it is from January 1 to December 31 of the same year.)

Credit union accounting periods may be monthly, quarterly (the most common), semiannually, or annually depending on the period selected by the credit union to close its books. Each credit union must close its books at least annually, at the end of the fiscal year. It is recommended that credit unions close their books at the end of each regular savings account dividend period. Prior to paying dividends all required (by the supervisory authority) reserve transfers are to be made.

FINANCIAL STATEMENTS

The Statement of Financial Condition or Balance Sheet

The balance sheet reports the credit union's financial position at a point in time. The balance sheet is best thought of as "a snapshot of the credit union's financial position". The balance sheet is normally prepared as of the last day of each month. The next day the balance sheet numbers are different because of member transactions, purchases of investments, office equipment, etc.

The total of the assets on the Balance Sheet should always equal the sum of the liabilities and equity accounts. This relationship is best expressed by the following equation:

ASSETS = LIABILITIES + EQUITY

The balance sheet lists the assets and liabilities of the credit union and shows its financial condition **(see example 35 – Statement of Financial Condition)**. Assets are things of value that the credit union owns. Typical credit union assets include: loans, cash, investments, building, furniture, equipment, and land. Liabilities represent amounts owed to persons or companies. Typical examples of such items would be accounts and notes payable, taxes, dividends payable, and any accrued expenses. The liability side of the balance sheet also shows the equity accounts. Equity accounts include all member share accounts and the reserves. The reserve accounts represent the accumulated net income / losses since the credit union has been in business. If the credit union were ever liquidated the funds in the reserve accounts would be divided up amongst the members after all credit union liabilities or losses had been provided for.

The Income and Expense Statement

The Income and Expense statement **(see example 36 – Statement of Income)** reflects the gross amount of income earned and the total amount of expenses incurred during the period and allows users to determine if the credit union made a profit. If gross income is greater than the total amount of the expenses, the difference represents a net gain from operations during that particular period and is reflected as an increase in the owner's equity. If the expenses are greater than the income, a loss occurs and there is a decrease in owner's equity. The net gain or income is available for members in the form of dividends. All net gains or losses are closed to the undivided earnings account which is an equity account on the credit union's balance sheet.

At the end of the fiscal year all the income and expense accounts are "closed" or transferred to the net income or loss summary account. This debit or credit balance is then "closed" or transferred to the undivided earnings which is an owner's equity account. Closing accounts is necessary to reduce the income statement account balances to zero so that these accounts can be used to collect the revenue and expense transaction data for the following accounting period. Closing accounts does not occur with balance sheet accounts, they collect transaction data throughout the life of the credit union, not just the accounting period. Three steps are necessary to close the income statement accounts and to transfer the resulting balance in the net income or income summary account to retained earnings:

1. All income statement accounts with credit balances are debited and the income summary account is credited in an amount equal to the total debits.
2. All income statement accounts with debit balances are credited, and the income summary account is debited in an amount equal to the total credits.
3. The balance in the income summary account is transferred to retained earnings. If earnings activities result in net income, income summary is debited and retained earnings is credited. On the other hand, if a net loss results, retained earnings is debited and income summary is credited. If the credit union is automated this is performed by the computer with several key strokes or commands.

The credit union derives most if its income from the interest earned on loans made to its members. Other sources of income include interest earned on investments made and fees earned on various services that are offered to the members of the credit union. Since the income of the credit union in effect belongs to the members, it is added to the balance sheet as an equity account. This however is accomplished indirectly through net income. The credit union's gross income is part of the net income equation.

Expenses are payments or disbursements made by the credit union to pay for the cost of operating the credit union. Examples of typical credit union expenses include salaries, office rent, communications, lawyer and auditor charges, etc. **(see example 37 – Expense Ledger).** Since expenses reduce gross income they therefore reduce the owner's equity by reducing the net income of the credit union. If the credit union did not have adequate income, expenses would have to be paid from past credit union earnings (if the credit union has a credit balance in the undivided earnings account) or in the worse case scenario from the shares of the membership (if the credit union had no undivided earnings and no deposit insurance is available).

The accounting equation can be further expanded:
ASSETS = LIABILITIES + EQUITY + INCOME – EXPENSES

PRINCIPLES AFFECTING THE RECORDING OF ASSETS, LIABILITIES, AND EQUITY AS TO PROVIDE FOR FULL DISCLOSURE

Full and fair disclosure is defined as the level of disclosure a reasonable person would provide to a member of a credit union in order to fairly inform them of the financial condition and the results of operation of the credit union.

The financial statements described above shall provide full and fair disclosure of all assets, liabilities, reserves, and retained earnings including a limited number of valuation allowance accounts as may be necessary to present fairly the credit union's financial position. This also includes all income and expense accounts necessary to present fairly the results of the credit union's operations for the period covered by the report.

The principles and standards of accounting relating to assets for a credit union following the modified cash and accrual basis' of accounting are as follows:

1. **Assets** are normally recorded at their cost to the credit union.
2. **Loans Outstanding** should be recorded to reflect their unpaid balances as of the date of the financial statement.
3. **Accounts Receivable** represents anything that is owed to the credit union by members, creditors, etc. They are to be recorded to reflect their unpaid balances.
4. **Allowance for Loan Loss** is to be maintained to represent all known and potential loan losses. This is a contra asset account, which means that the account has a credit balance instead of a debit balance as the other asset accounts have. The effect of this contra asset account is that it reduces the value of the loans outstanding. There are several methods for funding the allowance for loan loss account. WOCCU's method requires that 35% of the loan's outstanding balance for delinquent loans between 1 and 12 months be provided for in the allowance for loan loss account. One hundred percent of the balance of the loans that are delinquent over 12 months is to be provided for in the allowance for loan loss account. At least on a quarterly basis, management is to determine that the allowance for loan loss account is adequate to provide for the above stated requirement. So as not to have large adjustments to this account on a quarterly basis, the credit union should budget an amount that will be expensed monthly through the provision for loan loss account (an expense account). This amount will be based on past history, a percentage of the outstanding loan balance, supervisory requirements, etc. If for some reason there is an unexpected large increase in the amount needed in the allowance for loan loss account, that amount is to be expensed immediately. The large adjustment may not be expensed over several months to reduce the impact on the credit union's income. The credit union must always realize all loan losses when they are determined. **The allowance account must always have an adequate balance to provide for all known and/or expected loan losses.**
5. **Cash** (teller cash, vault cash, petty cash, credit union checking accounts) is to be recorded at the amount on hand at the credit union as of the date of the financial statement.
6. **Investments** are recorded at the cost of the investment to the credit union. Under no circumstances are the values of investments written up to the current market value. If there is a significant decline in the value of the investment, that decline should be

recognized if the credit union will receive less at the investment maturity or the credit union is going to sell the investment prior to maturity and will have to recognize the loss. If the credit union is going to hold the investment to maturity and will receive the purchase value of the investment then the credit union does not need to recognize the loss. If the credit union is to recognize the loss it is done so by using the **Allowance for Investment Loss account** which is a contra asset. The account has a credit balance. This account reduces the value of the investments. The offsetting or debit entry is to an equity or expense account established just for this purpose.

7. **Income on Investments** should be recorded as income when received. However, if the credit union is using the accrual basis of accounting, the income will be recorded as income based on the time the investments are held for which the dividend income has not been received.
8. **Income earned on loans** should be recorded when received. However if the credit union is using the accrual accounting method, the income that has been earned but not yet received (because the member pays on the 15th of the month, and there are still 15 days left of the month in which the credit union earns the loan income but receives no income) is recorded as a credit union asset in an accrued income account and the offsetting credit is to loan income. Under no circumstances should income be accrued on loans that are 3 months or more delinquent. Their earning potential is very questionable.
9. **Fixed Assets** should be recorded in accordance with the following principles:
   - "The purchase of fixed assets should be recorded at cost. The cost of acquisition is the net purchase price of the asset plus all incidental costs necessary to put the asset in condition for use, such as freight, installation cost, etc. If property is exchanged for the acquired asset, then cost is recorded as the amount of cash paid plus the recorded amount of the asset surrendered. No gain, if any, should be recognized on the transaction; the entire indicated loss on the exchange, if any, should be recognized. If property is acquired through exchange without cost, the fair market value should be used as the cost.
   - Each credit union's board of directors should establish a dollar value limit (for example $100 U.S or the equivalent in the local currency) under which fixed assets will be recorded as a current expense instead of established as a fixed asset and depreciated.
   - Cost of land and any land improvements should be shown separately from the cost of the buildings and other improvements. With combination purchases, the cost of the land should be recorded based on a fair market value estimate"(NCUA Accounting Manual, page 2-7). Normally the land value is not depreciated it remains on the books at cost, only the building and its contents are depreciated monthly.
10. **Depreciation** of credit union fixed assets is the charge allocated to an accounting period under a system which aims to distribute the cost of the fixed assets less salvage value (if any) over the estimated useful life of the asset. Depreciation is an equal amount that is expensed each month; it reduces the value of the asset as the asset is being used by the credit union. Depreciation is a contra account; it reduces the value of a credit union asset. It has a credit balance.

11. **Prepaid Expenses** are costs of a material amount that affect subsequent accounting periods. These costs or expenses are amortized over the accounting periods to which they are applicable. For example- if the credit union has to pay association dues which cover one year's dues in the association during the 1st month of the year, then the accountant will establish a prepaid expense account and expense 1/12th of the expense each month throughout the year until the prepaid account has a zero balance. With this entry the credit union does not have a large expense during the 1st month of the year, the expense is evenly distributed throughout the time period for which the expense is attributable.
12. **Other assets** are all assets that do not fall in the above categories. They are to be recorded at cost.
13. **Liabilities** should be recorded at their actual amounts or, if the actual amounts are not known, they should be recorded based on reasonably accurate estimates.
14. **Accounts Payable** consist of all bills that have been received and are due for payment but as of the date of the financial statement remain unpaid.
15. **Notes Payable** are funds that the credit union has borrowed. The amount recorded is the outstanding amount payable on the notes.
16. **Interest Payable** is the amount of interest that is due on the above notes payable. If the credit union is using accrual based accounting this entry is to be made. If the credit union is using the modified cash method then this monthly entry is not necessary, if it is not material. It will be recognized when the credit union actually pays the interest.
17. **Dividends Payable** should be accrued for whether using the accrual method or the modified cash method on a monthly basis at the anticipated amount or interest rate for all accounts that do not have a stated interest rate, such as a certificate of deposit. The amount of credit union funds is never to exceed the amount of available current net earnings after all expenses and reserve transfers have been made. If the credit union wants to use undivided earnings for the payment of member dividends, permission from the supervisory authority is to be obtained. Normally this practice is discouraged because it reduces the credit union's capital. Also, since dividends are a current expense they should be paid out of current earnings, not past earnings.
18. Member deposits that have a stated or contracted interest rate are to be accrued for in the **Accrued Dividend account**. These deposits are a contract between the member and the credit union. The member must always receive the stated rate and amount. The accrual rate is the stated rate on the member deposit. It is to be accrued for no less than monthly. Accrued dividends are paid out of this account for Certificate of Deposits, etc. not out of the Dividend Payable account.
19. **Accrued Expenses** are accounted for using the accrual method of accounting. Credit unions accrue expenses to allocate costs to the periods benefited. The expenses are known, as the amount was estimated using past history, and are to be accrued monthly. For example – the credit union has the annual meeting in September each year. The credit union should accrue an amount monthly that is 1/12th of the amount anticipated to be spent (from October of the previous year to September of the current year). With this accounting the net income remains level throughout the year instead of a large expense in September when the meeting is held.

prepaid or accrued expenses and amortized over the periods to which they are applicable.

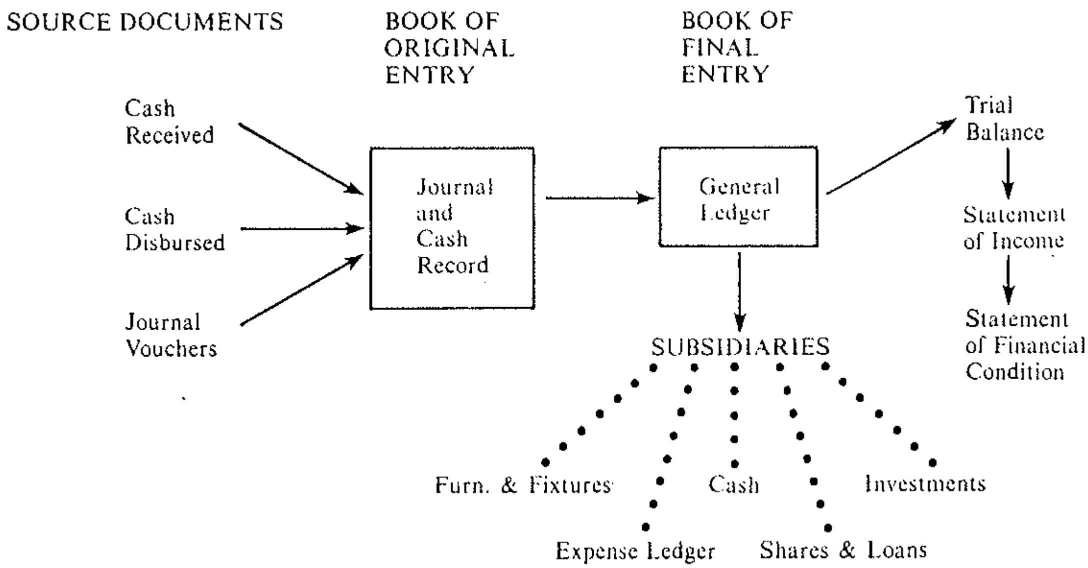
3. **Fixed Assets** as discussed above are depreciated monthly over the life of the asset through an expense account.
4. **Prepaid expenses and accrued expenses** should be included in expenses each month for the amortization of the prepaids as discussed above or the accrual of anticipated expenses such as the annual meeting as discussed above.
5. **Cash Overage and Shortages** arising in the processing of cash transactions should be recorded as debits or as credits to expense daily as the cash difference occurs. Adjustments to the cash over and short expense account should be made whenever the reason for the cash overage or shortage is determined and the proper account should be charged or credited.

CHART OF ACCOUNTS

For ease of comparison and understanding between credit unions and for the supervisory authority it is important that each credit union use a standardized chart of accounts for the accounts in the Statement of Financial Condition or Balance Sheet and for the Statement of Income and Expenses. The chart of accounts should have assigned numbers for each account along with an account title. The credit unions should use a chart of accounts (if established) that is consistent with the local Central Bank or that is suggested or required by the local supervisory authority. Provided, as an example only, is the chart of accounts used by credit unions in the United States. The supervisory authority in the United States **(see example 39 – Chart of General Ledger Accounts)** provides this chart of accounts.

(from Credit Union Accounting, page 23)

CREDIT UNION ACCOUNTING CYCLE



1. Prepare Source Documents.
2. Post source documents to the Journal and Cash Record.
3. Prepare the before-closing entries if not done as part of the regular monthly work. Examples of before-closing entries are depreciation, accruals and amortization.
4. Post end of the month Journal and Cash Record totals to the General Ledger. Check subsidiary totals against appropriate General Ledger control account.
5. Prepare before-closing Trial Balance.
6. Prepare Statement of Income and before-closing Statement of Financial Condition.
7. Close the income and expense accounts to permanent accounts.
8. Prepare an after-closing Trial Balance.
9. Prepare an after-closing Statement of Financial Condition.

CREDIT UNION CAPITAL STRUCTURE

Difference between Credit Union Capital and Member Savings and Deposits

The equity accounts on the credit union's Statement of Financial Condition are composed of:

- Member deposits and savings accounts, and
- Capital accounts - retained earnings, undivided reserves, member paid in capital, donations, and net income.

Credit union capital is defined by WOCCU as "all legal and non-distributable reserves, member paid in capital, capital donations, and the portion of the current year's surplus that will be retained as legal or non-distributable reserves. These reserves are not expended and no member may present an individual claim.

The member savings and deposits **are not considered** credit union "capital". Currently there is a great deal of debate within the credit union movement as to whether member shares are to be considered credit union capital. Member shares are withdrawable upon demand or upon termination of membership in the credit union. Shares can be used to secure a member loan. Shares are not transferable to third persons; the credit union has no claim to these shares. They can not be used to improve earnings, absorb losses, finance non-earning assets, or meet competitive pressures in the future. Therefore these shares are not free of compromise and in no way make up credit union capital.

All member shares **except** for "Member Paid in Capital" shares are thus considered withdrawable share savings which are paid a rate of return declared according to market conditions. "These shares can serve the member as a guarantee for loans and, to the extent that their withdrawal may be limited, can serve the credit union as a source of funds for long term lending."

The credit union capital accounts entitled retained earnings and undivided reserves represent an accumulation of past earnings and losses from credit union operations. These funds are permanent; they are free from compromise. Through proper credit union management these funds have been accumulated. The funds belong to the credit union and no member or individual has a legal claim to these funds. Credit unions should not be allowed to use retained earnings to finance current expenses such as member savings dividend payments. These are current expenses; they are to be paid with current earnings. Undivided reserves is a subaccount of retained earnings. It is an account that is established because of supervisory authority requirements.

Member paid in capital is the amount that each member pays into the credit union when they join the credit union. In order for this to be considered capital these funds are non-withdrawable by the member or any other individual. When the member pays these funds into the credit union as part of the requirements of membership these funds belong to the credit union. Each member will pay in or purchase one share, the value or cost of which is ____________________. This share can not be used to secure loans. The member will receive no dividend or return on this share until the credit union has reached the minimum capital requirement; as all net income is dedicated to the capitalization of the credit union until the credit union meets the capital standards stated below. When the credit union has reached the minimum acceptable capital level, these shares will earn a return higher than the returns paid on member savings and deposits. No member may own more than one share unless the board of directors determines a member can hold more than one share. However, if this is the case, no member may own more than ________________ shares. If a member owns more than one share this does not allow them more than one vote at any credit union meeting.

Donations can be both tangible fixed assets or monetary. When a credit union receives a gift or donation of a fixed asset of material value, the offsetting credit for the recorded value of the asset should be to donated equity. Such amounts will represent equity capital of the credit union but will not be available for dividend payments. Depreciation on donated fixed assets should be recorded and charged to current expenses based on the established value of the assets. Any cash donation will be considered donated equity and therefore capital as long as the donation is not compromised, it is the possession of the credit union. The donator may have no present or future right to reclaim the funds. Often the donating agency or individual may stipulate how the funds are to be used, for example – to make microenterprise loans, to purchase a new computer system, etc. Therefore these funds frequently are not available for payment of dividends or other expenses.

Net income is the remaining portion of gross income once all credit union expenses, any required (by the supervisory authority) reserve transfers to equity have been made, and all dividends have been paid on member savings and deposits. This amount is to be transferred to retained earnings at the end of the accounting period.

The capitalization of all net income is required until the credit union's capital is equal to 10% of the total assets of the credit union (see Financial Discipline section). Once the credit union has met the minimum standard then net income is available for dividends on member share accounts or loan interest refunds, if offered.

The capital equation is as follows:

CAPITAL = Retained Earnings + Undivided Reserves + Member Paid In Capital + Donations + Net Income or – Net Loss

The importance of adequate credit union capital can not be emphasized enough. The more capital a credit union has the safer institution it is for its members. The stronger the overall capital position, the better a credit union is able to deal with future uncertainties such as asset losses and adverse economic changes. Capital has four purposes:

- **Improve Earnings** – The more capital a credit union has, the more profitable the credit union will be. Credit union capital has no interest cost, therefore it has a very powerful effect on the credit union's capacity to generate net income and additional capital. Credit union capital that is loaned to members has a 100% return to the credit union. The return is much less when lending member savings. The credit union must pay a competitive dividend to attract the member funds to the credit union. This dividend paid reduces the loan yield significantly.

- **Absorb Losses (both anticipated and unidentified)** – Each credit union will establish and maintain an Allowance for Loan Loss account and any other type of allowance needed to recognize potential credit union losses. This account is to be maintained as discussed in the Acceptable Accounting section of this guide. The allowance for loan loss account is increased or decreased through the Provision for Loan Loss expense account. This expense reduces net income, it has a direct effect on the credit union's capital level.
- **Finance Non-Earning Assets** – As stated above credit union capital has no explicit financial cost. Therefore credit unions should finance 100% of non-earning assets with the credit union's capital. By using no cost capital to finance non-earning assets, credit union earnings are not unduly affected.
- **Meet Competitive Pressures in the Future** – If the credit union is to remain competitive in a changing financial market place it is important that the credit union is able to finance changes in operations that will provide adequate member services.

Depending on the economic situation in a country and the supervisory authority regulations there may be other types of "capital" accounts. However, they are never considered when determining the credit union's capital position. These types of accounts may include:

- Reserves that are for specific purposes, such as employee benefits, education, travel and conference, or building purchases and/or improvements.
- The Allowance for Loan Loss or the Allowance for Investment Loss or any type allowance account established for a known and probable loss.
- Reserves for the re-evaluation of fixed assets or adjustments for inflation. Re-evaluation of assets do not represent financial capital which can generate earnings or finance expansion. This is an accounting adjustment, which cannot absorb losses unless the credit union is liquidated and the fixed assets are sold.

Minimum Capital Requirement

The minimum capital requirement for all credit unions is 10% of assets. This ratio is calculated by dividing credit union capital (as defined in the above equation) by total assets. All net income is to be retained until the minimum standard is achieved. As stated above, net income is the remaining portion of gross income once all credit union expenses and dividends have been paid and required (by the supervisory authority) reserve transfers to equity have been made.

The board of directors should have a plan for achieving and maintaining an adequate capital level for the credit union. In the business plan the board should establish both short and long-term goals for the capital to assets ratio. These goals are also important to evaluate the effectiveness of management. Short- term goals are semi annual or annual. Long term goals are over a 3 to 5 year time period. Management is responsible for ensuring that the capital to asset goal ratio for the year is addressed in the annual operating budget and is achieved by the credit union. For example – short-term goal capital ratios for a new credit union could be as follows:

Date	**Goal Ratio**
June 30, 199X	1.00%
December 31, 199X	1.50%
June 30, 199X	2.10%
Long Term Goal	**10.00%**

Remember as the credit union accumulates more capital it will easier to make a greater return and therefore a larger net income. As mentioned above capital has not interest cost.

The WOCCU goal of 10% is not thought of as the maximum ratio needed. Depending on the type of credit union and the inherent risk posed by credit union operations, the loan portfolio, and the economic situation, the minimum requirement might be much greater for some credit unions. Credit union management in determining the adequate capital position should take into consideration:

- Size of the credit union,
- Complexity of products and services offered,
- Types of loans offered and concentrations (Are there high risk loans offered such as agricultural, business, signature or unsecured loans? Does the credit union have a lot of one type of loan?),
- Sponsor support given to the credit union (if there is a sponsor),
- Level of management expertise,
- Involvement of officials,
- Potential asset liability management problems (Are short term deposits funding long term loans?),
- Internal control structure,
- Member concentrations in loans and savings (Does any one member have a loan or savings account that has a balance greater than 10%?), and
- Local and national economic situations.

Strategies for the Accumulation of Capital

Adequate credit union capital is attained many ways:

- Management must ensure that credit union gross income is sufficient to cover all operating expenses, member dividends, and any supervisory requirements with enough remaining to increase the capital accounts which is achieved by:
  - Ensuring loan interest rates are high enough to provide for the aforementioned.
  - Offering loan products that the membership desires. (With a larger loan demand there is more loan income.)
  - Charging adequate fees for all services offered by the credit union. The fee should be competitive with other local institutions but cover the associated costs for offering the service.
  - Invest liquid funds in investments with an adequate return.

- Keep credit union expenses at a minimum.
- Keep credit union losses at a minimum. The majority of credit union losses are loans. Management should ensure that loan underwriting is sufficient to minimize credit union loan losses. Borrower creditworthiness must always be assessed to insure that the member has the ability to repay the loan.
- Keep borrowing from outside financial institutions to a minimum.
- Pay local market rates on the member savings and deposit accounts. There is no reason for a credit union to pay above market rates for deposits. In doing this the credit union is "buying" deposits or is attracting "hot" money. Unless management has a plan and a reason for why the credit union needs to pay above market rates, it should never be done. Paying above market rates only increases the cost of funds or the dividends paid and the volatility of the deposits in the credit union. When the credit union can no longer afford to pay the above market rates, the deposits will leave the credit union causing a potential liquidity problem.
- Control the asset growth. If, for instance, management has a very successful marketing campaign, and shares and assets are growing much faster than capital, then the capital to asset ratio will be adversely effected. It is important that all growth in a credit union is steady and in proportion to the other growth areas. Major growth areas are: loans, savings, assets, income, capital, etc.
- Offer the products and services that the members desire and the credit union can afford to offer. Before offering a new product management should analyze the cost and effect the service will have on the credit union.
- Effectively market the products, services and benefits of belonging to the credit union.
- Discuss the importance of capital accumulation at the annual meetings so the members understand. If there is a feeling amongst the membership that the credit union is retaining funds that should be theirs then this will probably adversely effect the capital growth of the credit union.

The importance of capital accumulation can never be stressed enough, especially in considering the competitiveness of today's financial markets. If a credit union does not have the ability to offer its members all of the services that they can obtain at other institutions then the credit union will not grow and prosper in the future. Credit unions were established to serve their members, without adequate capital this is not possible.

CREDIT UNION FINANCIAL DISCIPLINES

The financial statements (Statement of Financial Condition and Statement of Income and Expenses) allow management to measure the performance of a credit union. The best method for analyzing these statements and "bringing the numbers to life" is financial ratios. Ratios allow the analyst to relate two separate pieces of information to measure specific areas of performance. Without financial ratios, credit unions would not be able to set short and long term goals and compare themselves to others within and outside the credit union industry. Most supervisory authorities around the world use some kind of ratio analysis to determine the safety and soundness of all financial institutions.

beginning

For each financial ratio, credit union management and the board officials need to establish both short and long term goal ratios with the WOCCU goals in mind (see PEARLS discussion below). There is no better way to attain these goals and monitor the credit union's progress or lack thereof than by monitoring the goals established quarterly and placing all of the analysis in writing. The manager should make an oral presentation in which the credit union's actual ratios for the stated time period are compared with the WOCCU goals, along with past time periods so that the trends for each ratio can be discussed. Management may present information on all of the WOCCU PEARLS ratios or may present information just on the core ratios identified below. Often when too much information is presented to the officials the point of the presentation is lost. If management concentrates on the most important ratios that evaluate the overall progress of the credit union, the presentation will be more effective and the board can spend their time learning about the most important ratios and improving their understanding.

If the credit union is not attaining the established short term goals then management needs to make immediate changes to operations so that the short term and therefore the long term goals will be achieved. If management has not established goals for the credit union, then it is impossible to monitor and make changes so that the WOCCU goals can be achieved and/or exceeded. In establishing goals management should note in the board minutes, business plan, and annual budget the name of the financial ratio, the dates the goals are to be achieved by, and the ratio that is to be achieved as follows:

Ratio: Institutional Capital / Total Assets

Date	**Short Term Goal Ratio**
6/30/19XX	1.00%
12/31/19XX	1.50%
6/30/19XX	2.10%
12/31/19XX	2.70%
12/31/19XX	3.80%
Long Term Goal	10.00%

Monitoring the progress or lack thereof, towards the financial goals is another way to judge the effectiveness and quality of management. If the manager can not achieve the established goals, or at the very least move the credit union in the direction of the established goals, then the officials should be looking for a new manager who is capable of achieving the established goals.

In analyzing the credit union's progress towards the established goals, it is important to discuss the established financial goal and the trend the credit union is following. Maybe the credit union has not achieved the above institutional capital to total assets goal of 2.10% by 6/30/19XX but, as the financial goals are analyzed quarterly, the officials note a positive trend each quarter. This is much better than a negative trend or a changing trend each quarter (positive trend one quarter, negative trend the next quarter). The officials and management must always be aware of both the financial number and the trends. The officials might want to summarize the goals and the trends at the annual general meeting so that the members understand the financial situation of the credit union and the importance of establishing and monitoring goals.

It is also important to understand that all of the balance sheet and income statement accounts and the PEARLS ratios are interrelated. No one ratio stands alone. For example - If there is a decrease in loan delinquency, many areas are affected. Gross income will increase because more interest income is collected when there is less delinquency. The loans will pay principal back faster, so that unless there is loan demand the amount of loans outstanding will decrease. Salaries and collection costs should decrease because less time and money is being spent collecting delinquent loans. Employees will have more time to do other things besides collect delinquent loans. This could improve member service and their satisfaction. Because of the increase in gross income and the decrease in operating expenses the net income should increase. If net income increases the capital accounts should also increase. So keep in mind that it is impossible to isolate one area and attempt to change only that area.

PEARLS Financial Stabilization Monitoring System

Since 1990, WOCCU has used a financial ratio monitoring system entitled PEARLS. PEARLS is an acronym for:

- **P**rotection,
- **E**arnings,
- **A**sset Quality,
- **R**eturn,
- **L**iquidity,
- **S**igns of Growth.

In each of the above financial areas there are ratios that determine the credit union's financial situation. With these ratios or selected core ratios (as discussed below) credit union management can monitor the financial progress of the credit union and compare the credit union's financial situation to other credit unions.

More specifically the stated objectives of the PEARLS monitoring system are as follows:

1. "Monitoring the performance of the credit union is the most important use of the PEARLS system. It is designed as a management tool that goes beyond the simple

identification of problems. It helps managers find meaningful solutions to serious institutional deficiencies. For example, the PEARLS system is capable of identifying a credit union with a weak capital base, and can also identify the probable causes (e.g. insufficient gross income, excessive operating expenses, or high loan losses)"(David Richardson, page 1).

If the PEARLS ratios are monitored as discussed above, on a quarterly basis, "the system permits managers to quickly and accurately pinpoint troubled areas and make the necessary adjustments before problems become serious. In essence, if monitored quarterly, PEARLS is an early warning system that generates invaluable management information"(David Richardson, page 1).

2. The use of standardized financial ratios and formulas allows credit union management to evaluate the credit union as compared to other credit unions because it eliminates the diverse criteria used in the past to evaluate their operations. If all credit unions are using these financial ratios and defining all of the accounts used in the calculations the same, then credit union managers will be able to discuss problems within their credit unions and the industry and come up with solutions or changes that need to be made, thereby improving the industry as a whole. In other words, credit union management must all use the same accounting chart of accounts **(see example 39)** so that all ratios are composed of the same information.

   "Historically, it was impossible to compare one credit union with another due to the diverse criteria and reporting formats that existed. The standardization of financial information eliminates the diversity and provides an effective tool for comparing credit union performance on a national basis"(David Richardson, page 2).

3. In using these financial ratios, the analysis of the credit union's financial situation is very objective.

4. "In addition to its usefulness as a management tool, the PEARLS provides a standardized framework for the supervisory authority. Supervisory authorities can use the financial ratios generated by PEARLS to conduct quarterly or monthly analyses of all key areas of credit union operations. These evaluations are invaluable for spotting trends and detecting areas of concern among the credit unions. With the standardization of the key financial ratios, all interested parties are looking at the same thing"(David Richardson, page 2).

+ info. received quarterly by 20th of following mo
+ trend anal by SA, more specifically each examiner
+ Keep 2 yrs of data on spreadsheet
+ divide CUs amongst examiners

Who is responsible for district

Components of Pearls

Protection

Adequate protection of assets is paramount if the credit union is to remain a going concern well into the future. "Protection is measured by comparing the adequacy of the allowance for loan loss account against the amount of loans delinquent more than 30 days. Protection is deemed adequate if a credit union has an allowance account sufficient to cover 100% of all loans delinquent for more than 12 months, and 35% of loans delinquent for 1-12 months.

Inadequate loan loss protection produces two undesirable results: inflated asset values and overstated earnings. Most credit unions are not anxious to recognize loan losses, and much less, to charge them off against earnings. That unwillingness leads to widespread abuse of the principles of safety and soundness. Examples would be:

- reported net income is overstated,
- the provision for loan loss expense is not adequate to properly fund the allowance for loan loss account (a balance sheet account),
- asset values are inflated because the allowance for loan loss account is underfunded (as discussed in the accounting section this is a contra asset account, it has a credit balance and therefore reduces the value of the loans by the balance of the account) and,
- the member savings are not adequately protected by the credit union capital.

WOCCU promotes the principle that the allowance for loan loss account is the first line of defense against loan losses. Many credit unions are not concerned about the inadequacy of the allowance for loan loss because they view their capital reserves as the primary source of protection against loan losses"(David Richardson, page 3). However, this is incorrect; loan losses are considered a part of current expenses and should be charged off against current earnings. According to Generally Accepted Accounting Principles all loan charge offs will be recognized as a current expense through the provision for loan loss in the period they were charged off.

Protection Ratios –

(For the calculations of all the PEARLS ratios **see example 40** in the appendix. For the following ratios the asterisk besides the ratio letter and number denotes a core ratio.)

add calculations

***P1. Allowance for Loan Losses / Delinquency > 12 months** – This ratio is used to measure the adequacy of the credit union's allowance for loan loss account for all loans that are delinquent more than 12 months. The account balance is to be adequate for 100% of the loan balances that are more than 12 months delinquent. The importance of this ratio is to ensure management that the allowance account balance is large enough to fund all loan charge offs greater than 12 months delinquent. If the balance is large enough, management will not have to use current income to fund delinquent loans that should have been funded through past earnings. It is best if on an annual basis (during the annual budgeting) management reviews past loan charge offs to determine how much will be needed to fund all the loan charge offs (loans delinquent from 1-12 months and any other known loan losses) for the upcoming year. Management should also take into consideration if any new loan programs have been offered, loan volume has increased overall, or there has been a downturn in the economic environment, and thereby increase the account accordingly. That amount should be divided into 1/12ths and an equal amount expensed each month so credit union net income remains level. If the allowance is inadequate, even with the aforementioned funding, and it has to be increased because of some unexpected loss, it should be done so immediately by expensing the amount to the provision for loan loss account.

***P2. Net Allowance for Loan Losses / Delinquency from 1 – 12 months** – This ratio measures the adequacy of the credit union's allowance for loan loss account for the loans that are delinquent more than 1 month and less than 12 months. The account balance is to be adequate for 100% of loans that are more than 12 months delinquent and 35% of the outstanding loan balances between 1–12 months delinquent.

P3. Complete Loan Charge Off of Delinquency > 12 months – The purpose of this ratio is to measure the credit union's total loan charge off of all delinquent loans > 12 months. Generally speaking all loans that are greater than 12 months should be charged off. They have no value, they are uncollectable, and therefore they are not an asset of the credit union. If a loan is uncollectible and the credit union does not charge the loan off to the allowance for loan loss, the credit union is overstating the value of its assets. When loans are determined to be uncollectible they should be charged off whether they are 1 or 12 months delinquent. If the loan is charged off and the member begins to pay then the recovered amount is credited to the allowance for loan loss account (this increases the allowance account without increasing credit union expenses).

use net loan charges off

***P4. Annual Bad Debt Charge Offs / Average Loan Portfolio** – This ratio measures the amount of loans charged off from the loan portfolio in the current year. The amount charged off represents the outstanding loan balance minus the amount received from the sale of the collateral, if there was any minus any savings the member had in the credit union. It is important to minimize this ratio because when a loan is charged off it has an adverse financial impact on the credit union's capital and financial situation. One must remember that the loans are charged off to the allowance for loan loss account, which is funded by the provision for loan loss expense. Funding the provision for loan loss expense reduces credit union net income, which reduces credit union capital. To minimize loan charge offs management must ensure that:

- loans are granted to members that have the ability to repay,
- any collateral used to secure a loan is not overvalued, and
- credit union collection efforts start no later than 15 days after the missed payment, are consistent and constant, and that collateral is repossessed early in the process before it loses additional value, if the member does not have the ability to repay.

Loans charged off should be maintained in auxiliary ledgers (each charged off loan should have its own ledger card) and are not on the balance sheet. However, this does not mean that management should stop trying to collect the loans. Periodically, management should contact the charged off borrower to determine if their financial situation has changed and they can repay the loan.

P5. Accumulated Recovered Charge Offs / Accumulated Charge Offs – The purpose of this ratio is to measure the accumulated amount of charge-offs that have been recovered through successful collection efforts. This is a historical figure, which includes all previous years. After a loan has been charged off all loan recoveries of the charged off loans are added to the allowance for loan loss account. This indirectly increases the credit union's capital because the allowance was not increased through the provision for loan loss expense (an increase in this account reduces net income and credit union capital). These funds can then be used to fund other loan charge offs.

Earnings

"The financial structure of the credit union is the single most important factor in determining growth potential, earnings capacity, and overall financial strength.

The PEARLS system measures assets, liabilities, and capital, and recommends an ideal structure for credit unions. The following ideal targets are promoted for assets:

- 95% productive assets composed of loans (70%-80%), and liquid investments (10%-20%) and,
- 5% unproductive assets composed of primarily fixed assets (land. buildings, equipment etc).

Credit unions are encouraged to maximize productive assets as the means to achieve sufficient earnings. Since the loan portfolio is the most profitable asset of the credit union, WOCCU recommends maintaining 70%-80% of total assets in the loan portfolio. Excess liquidity is discouraged because the returns on liquid investments (e.g. savings accounts) are significantly lower than those earned on the loan portfolio. Non-productive assets are also discouraged because once purchased, they are often difficult to liquidate. The only effective way to maintain the ideal balance between productive and unproductive assets is by increasing the volume of productive assets.

The following ideal targets are promoted for liabilities and equity:

- 70%-80% member deposit savings, and
- 10% institutional capital.

A healthy percentage of deposit savings indicates that the credit union has developed effective marketing programs and is well on its way to achieving financial independence. It also indicates that members are no longer saving in order to borrow money, but rather are saving because of the competitive rates offered"(David Richardson, pages 4-5).

Capital in credit unions now has 4 main purposes (as discussed in the Capital section of this guide):

- to improve earnings,
- absorb credit union losses (both anticipated and unidentified),
- finance non-earning assets, and
- meet competitive pressures in the future.

Earnings Ratios

***E1. Net Loans / Total Assets** – This ratio measures the percentage of total assets that are invested in the loan portfolio. The more credit union funds that are in member loans the higher the gross income and net income will be (if operating expenses are under control), and the greater the credit union capital will be. It is imperative that the loans are quality loans. If not, loan delinquency will increase and so will the time, effort, and money spent on the collection of these loans. When granting loans management wants to be careful not to have a concentration of loans in any one type of loan. This could pose a risk to the capital and the financial health of the credit union. The WOCCU goal ratio is between 70% and 80%. Management wants to be careful not to exceed this ratio because the credit union could have a liquidity problem and unable to meet future loan demand, savings withdrawal, and operating expenses.

add to liquidity ratios

E2. Liquid Assets / Total Assets – The percentage of total assets that are invested in both earning (savings accounts) and non-earning (cash on hand) liquid assets are measured with this ratio. Liquid assets are defined as those assets that have a maturity of < 30 days. If so desired, credit union management has access to these funds. Normally, liquid assets have a lower yield, because the risk associated with this deposit is perceived to be less, so the credit union receives less income than if the funds had been invested in quality member loans. Because of the lower yield, WOCCU believes that liquid assets should be between 10% and 20% of assets, depending on the loan volume.

E3. Financial Investments / Total Assets – This ratio measures the percentage of total assets that are invested in financial investments. Financial investments, depending on the maturity, normally have a lower yield or interest rate than member loans. The credit union was established to serve members, rather than make investments; for this reason management should keep investments to no more than 10% of total assets. Management must be very careful when making financial investments with member funds to ensure that:

- before any investment is made, management determines that it is in compliance with the credit union investment and asset liability management policies,
- the investment maturity is matched by like maturities on the liability side of the balance sheet,
- the investment principal is guaranteed or insured,
- a reputable broker is used to make the investments,
- there is an established secondary market in which the credit union can sell the investment should the funds be needed,
- an investment is not made that management and the officials do not fully understand,
- the financial condition of the institution that is being invested in is strong (good capital position) and is able to survive an economic downturn or other problems,
- that all investment losses are accounted for properly (see Accounting section of this guide),
- investments all have a short term maturity (<less than 1 year). Investments with a maturity > 1 year should only be made with supervisory authority approval. If a credit union has excess liquidity and makes long term investments (> 1 year) and subsequently the member loan demand increases, there is a chance that the credit union will not have enough liquidity to meet loan demand. Thereby having to liquidate investments at a possible loss or borrow funds from outside sources.

E4. Non-Financial Investments / Total Assets – The purpose of this ratio is to measure the percentage of total assets that are invested in non-financial investments. The credit union was established to serve its members with savings and loan products at competitive rates. It was not founded to make investments in supermarkets, residential housing developments, etc. These investments should be kept at a minimum; the WOCCU goal ratio is 0%.

E5. Member Savings Deposits / Total Assets – This ratio measures the percentage of total assets that are financed by member savings deposits. The most inexpensive way to finance credit union assets is through member deposits (the cost is the average of the credit union's deposit rates to attract savings dollars to the credit union) and the credit union's accumulated capital (which has no interest cost). The spread between gross income and the cost of funds is larger, leaving a greater net income. The more assets that are financed in this manner, instead of using borrowed funds from outside sources, the more profitable the credit union will be, if it is well managed.

***E6. Borrowed Funds / Total Assets** – This ratio measures the percentage of total assets that are financed by external borrowings (i.e. debt obligations that the credit union contracts with another financial institution). In most cases, if credit union management has a well thought out business plan and annual budget the credit union should only have to borrow on rare occasions. Borrowing from outside sources to fund member loans, savings withdrawals, or operating expenses is discouraged because the cost is so much greater than using member savings deposits and credit union capital. Borrowing from outside sources should always be short term in nature to meet a temporary liquidity shortage. Never should borrowed funds be used to fund member loan demand. This is especially dangerous if the borrowed funds have a short maturity and/or a variable rate and they are put out in member loans that have a longer maturity with a fixed rate. In this scenario the interest rate on the borrowed funds could increase dramatically while the member loans made continue to earn interest at the previously lower rate. For example - if management is going to use member deposits to fund a new loan program, it should not "buy deposits" by offering above market rates unless the new loan program that is to be funded has a proportionally higher return with the same maturity of the newly attracted deposits.

***E7. Institutional Capital / Total Assets** – This ratio represents the percentage of total assets that are financed by credit union capital as defined in the Capital section of this guide (Capital = Retained Earnings + Undivided Reserves + Member Paid In Capital + Donations + Net Income or – Net Loss). This is one of the most important PEARLS ratios because it measures the overall financial safety and soundness of the credit union. Remember without capital there is no credit union. The importance of adequate credit union capital can not be stressed enough. The more capital a credit union has, the safer an institution it is for its members, the more profitable it is because there is no cost to attract these funds to the credit union as there is with the member deposits, and the more services the credit union can offer to its members. The stronger the overall capital position, the better the credit union is able to deal with future uncertainties such as asset losses and adverse economic changes.

+ Net Capital / TA

Asset Quality

The return on assets is derived by the quality of the credit union's assets. "A non-productive or non-earning asset is one which does not generate income. An excess of non-productive assets affects credit union earnings in a negative way. The ratios in this section measure the impact of assets which do not generate income such as delinquent loans and non-earning assets"(David Richardson, page 6).

Asset Quality Ratios

***A1. Total Delinquency / Total Loan Portfolio** – This ratio's purpose is to measure the total percentage of loans that are delinquent more than 30 days as compared to total loans, using the outstanding loan balances instead of accumulated delinquent loan payments. This ratio is a very good indicator of not only the quality of the credit union's loan portfolio, but the collection procedures. The age of the delinquent loans that make up this ratio is also important and should be analyzed with the ratio. If there are a lot of loans that are delinquent between 1 –2 months this indicates that:

- the collection department is not starting collection procedures early enough,
- there has been an economic downturn, or
- if the loan's origination dates are recent (in the last couple of months), there has been a change in loan underwriting and it is having an adverse effect on the quality of the loan portfolio (perhaps a lowering of member credit standards to increase loan demand or a new loan officer was hired).

If there are a lot of loans greater than 12 months delinquent, then this is a good indicator that the past problems as discussed have been resolved, however management is not charging the loans off when they are deemed to be uncollectible.

When analyzing this ratio management should simultaneously analyze **P4 – Annual Bad Debt Charge Offs / Average Loan Portfolio.** This is important because the credit union could have a low delinquency ratio but loans are charged off very quickly or vice versa; the credit union could have a high delinquency ratio because rarely ever is a loan charged off. There are only 3 ways in which a loan can be removed from the delinquency list:

- it can be paid current,
- it can be charged off to the allowance for loan loss account, or
- the loan can be refinanced or extended. In this case, management and the officials must ensure that the loans were not extended or refinanced to "hide" or lower delinquency.

***A2. Non-earning Assets / Total Assets** – This ratio measures the percentage of the credit union's total assets that are not producing income. Examples of non-earning assets include: cash on hand, non-interest bearing monetary checking accounts, accounts receivable, assets in liquidation (repossessed member collateral that the credit union is attempting to sell to reduce the member's loan liability to the credit union), fixed assets (land, building, equipment), and prepaid expenses. Because these assets do not contribute to net income or credit union capital they should be kept at a minimum. If too much is invested in these types of assets (especially the long term fixed assets) the credit union may not have sufficient liquidity to meet member loan demand, savings withdrawal, and credit union operating expenses and will be unable to increase credit union capital to achieve the WOCCU capital / total assets goal ratio of 10%.

A3. Institutional Capital + Liabilities without Interest (or Zero Cost Funds) / Non-earning Assets – The purpose of this ratio is to measure the percentage of non-earning assets that are financed with institutional capital and liabilities without interest. Because these assets do not earn a return they should be matched against liabilities that do not cost the credit union anything. If the non-earning assets are matched against these funds then there is not a negative return over the life of the assets. This would not be the case if member deposits or borrowed funds were used to fund the non-earning assets; both have an explicit cost. This cost can also increase or decrease over the life of the asset, therefore increasing or decreasing the cost of financing the assets. In the situation where short term funds with a variable interest rate are used to finance long term assets, there can be a detrimental effect on the financial position of the credit union.

Rates of Return and Cost

"The PEARLS system segregates all of the essential components of net earnings to help management calculate investment yields and evaluate operating expenses. PEARLS calculates yields on the basis of the actual loans and investments outstanding. This methodology assists management in determining which investments are the most profitable"(David Richardson, page 7).

Rates of Return and Cost Ratios

R1. Total Loan Income / Average Net Loan Portfolio – The purpose of this ratio is to determine the yield on the loan portfolio. Loans are the highest yielding asset and credit unions are established to provide credit to the members. The yield on loans and assets overall must be high enough to cover operating expenses, savings dividends, any regulatory reserve requirement, and provide a net income sufficient to meet the established capital goals. When establishing loan rates management must ensure that they are high enough to cover the aforementioned expenses, but that they are competitive with the local market rates for each type of loan offered by the credit union. If the rates offered are materially above the local market rates then the credit union will attract borrowers who can go no where else to get a loan because of past credit problems. The credit union does not want to attract this type of borrower. In most cases delinquency and loan charge offs will increase as will operating expenses due to the cost of collecting delinquent loans and capital will be adversely impacted. Some people feel that if the credit union charges a high enough interest rate on the loans to members with past credit problems that the additional expenses will be offset. This is not the case with a member who has had consistent poor credit in the past and the credit problems were not due to an unforeseen event. There are many individuals that no matter how high the interest rate on the loan, they should not be granted credit. Management must always keep in mind that the credit union was formed to offer credit and savings products to a large group of people.

R2. Liquid Asset Income / Average Earning Liquid Assets – This ratio measures the yield on all liquid assets (bank deposits, etc). Liquid assets are defined as those assets with a maturity of not more than 30 days. If so desired, credit union management has access to these funds. Normally, liquid assets have a lower yield, because the risk associated with this deposit is perceived to be less, so the credit union receives less income than if the funds had been invested in quality member loans. It is important that management keep enough funds in liquid assets to meet member loan demand, share withdrawal, and the payment of credit union operating expenses. The yield earned on these assets is important, but the safety and soundness of the asset and liquidity are primary.

R3. Financial Investment Income / Average Financial Investments – The purpose of this ratio is to measure the yield on all financial investments (i.e. fixed deposits, shares, securities, etc.). When making investments the most important principles are:

- Safety of the invested principal,
- Liquidity of the investment, and
- Yield or return on the invested principal.

Management wants to make investments that earn the highest yield possible, but safety of principal and liquidity are primary. Therefore it is imperative that prior to making an investment management thoroughly understand the investment that is being made and determine:

- the financial position of the entity that is being invested in,
- how the investment is to be accounted for, along with the accounting for any gains or losses,
- if there is a secondary market that the investment could be sold into if the credit union needed liquidity, and
- under what circumstances could the investment yield be reduced.

R4. Non-financial Investment Income / Average Non-financial Investments – Measures the yield on all non-financial investments which do not belong to the above categories in R1 – R3. Typically, this is income from supermarkets, pharmacies, rental properties, and residential housing developments. Normally management and officials do not have the expertise to evaluate and analyze this type of investment. Therefore management has no business investing member funds in investments which they do not understand the ramifications of. Since credit unions were founded to promote savings and loan products to its members, these types of investments are discouraged and are to be kept to the absolute minimum. Usually there is a tremendous amount of risk associated with this type of investment. Because of the risk associated with this type of investment the yield earned should be higher than what is earned on average for the loan portfolio. The yield should increase as the maturity of the investment does. Management should not have the authority to make this type of investment on their own. This type of investment should have the approval of the Board of Directors and it should be a part of the credit union's business plan and annual budget. An investment of this nature should not be made without a long range plan that analyzes the impact of the investment on the credit union's financial position using several different scenarios (including a worse case scenario).

R5. Financial Cost: Member Deposits / Average Member Deposits – This ratio measures the yield (cost) to attract member savings deposits to the credit union. The rates offered by the credit union are to be competitive with the local market rates. Management's goal should be to pay a fair rate of return on member deposits, which protects their nominal value and is competitive. If the rates are significantly above the going market rate then the credit union will attract "hot money". This money will only remain at the credit union while the credit union pays the above market rate. When the credit union can no longer afford to pay the rate or chooses not to, then the money will leave creating a liquidity problem. If the credit union pays above market rates there should be a specific plan for the use of these deposits. For example – The credit union has loan demand that is greater than share deposits. Rates could be increased to attract deposits as long as the rate was less than the rate the credit union could borrow at and there was a use for the funds. It is important that when management "buys" deposits by offering above market rates, that the maturity of the savings is similar to the asset maturity that the deposits are to fund. If not, interest rate risk could be a problem. Interest rate risk occurs when short-term deposits with changing interest rates fund longer term fixed rate assets.

Management should analyze the types and percentages of the different member deposits that make up total deposits. If a large percentage of the deposits are in high cost funds such as certificates of deposit with a 12 month maturity or more this ratio will be above average. To minimize the cost of funds it is important that there is not a concentration of savings in high cost funds.

R6. Financial Cost: Borrowed Funds / Average Borrowed Funds – This ratio measures the yield (cost) of all borrowed funds. As stated previously, borrowed funds are to be kept at a minimum, because the cost to borrow funds is usually much greater than the cost of member deposits. Unlike the dividend paid on member deposits that to some extent the credit union controls, the rate paid for borrowed funds is totally controlled by another financial institution. Credit unions should not use borrowed funds to meet member loan demand. Usually borrowed funds are short term in nature with a variable interest rate and member loans are longer term in nature with a fixed interest rate. This situation can seriously impact the credit union's net income and capital position.

R7. Financial Cost: Member Shares / Average Member Shares – The purpose of this ratio is to measure the yield (cost) of member shares. Member shares are the amount that each member pays into the credit union when they join the credit union. These funds become part of capital and are non-withdrawable, non-refundable. The member will receive no dividends or return on this share until the credit union has reached the minimum capital requirement; as all net income is dedicated to the capitalization of the credit union until the 10% capital to assets goal ratio is obtained. When the credit union has reached the minimum acceptable capital level, these shares should earn a return higher than the returns paid on member savings and deposits. In essence the member is being rewarded with a higher dividend because the shares are non-refundable and the member helped to capitalize the credit union with the share deposit.

R8. Gross Margin / Average Total Assets – This ratio measures the gross income margin (income that is left over after all interest costs are paid) generated which is expressed as a yield on all assets, before subtracting operating expenses, provision for loan losses, and adding or subtracting other extraordinary items. The gross margin is driven by the return on loans and investments. If the return is not great enough to pay all interest costs, operating expenses, regulatory reserve requirements, and increase the credit union capital in order to achieve the capital to assets goal ratio, then the credit union will not be financially sound and its long term future is questionable. To improve the gross margin, management should consider increasing loan and investment yields, increasing fees charged to members for services provided, and/or decrease the interest costs by reducing the amount of borrowed funds or high cost member deposits.

R9. Operating Expenses / Average Total Assets – Measures the expense associated with the management of all credit union assets. The expenses are measured as a percentage of total assets and indicate the degree of credit union operational efficiency or inefficiency. Management and the officials must monitor and work to control the level of operating expenses constantly. They should always be looking for ways to reduce and eliminate unnecessary expenses. This is done by reviewing all expenses on a periodic basis. In small credit unions the percentage of operating expenses to average total assets is usually much greater than larger credit unions because there are less assets to spread the cost over and small credit unions do not benefit from economies of scale. In today's competitive, service oriented environment members want more services such as share drafts that are costly. If the credit union does not have an adequate asset base then it can not afford to offer costly services and members will leave making it more difficult to serve the needs of the existing members.

R10. Provisions for Risk Assets / Average Total Assets – Measures the cost of losses from risk assets such as delinquent loans or uncollectible accounts receivable. This cost is very different than other operational expenses and should be isolated to highlight effective or ineffective credit and receivable administration. Management should review the adequacy of the allowance for loan loss account no less than quarterly to determine that there are sufficient funds to cover 100% of delinquent loans > 12 months and 35% of loans delinquent between 1 and 12 months. The trend of this ratio is very important. If it is increasing then management needs to review and make changes to loan underwriting and/or collection procedures. The more credit union funds that are used to fund loan losses the less there are to increase capital and improve financial soundness.

R11. Non-recurring Income or Expenses / Average Total Assets – This ratio measures the net amount of non-recurring income and expenses. These items typically are inmaterial on the credit union's financial statements. These income and expense items are reported separately on the income statement **(see example 36)** to show the effect of extraordinary events on earnings. Examples include the gain or loss:

- on the disposition of credit union assets (office equipment, furniture, computers, etc.) and
- resulting from events or transactions that are of an unusual nature such as losses or damage to the credit union building resulting from a major casualty such as a flood or earthquake in a locality where the event would be extremely rare.

When analyzing trends and included is a material extraordinary gain or loss it is important that management understand the impact the gain or loss had on the financial position of the credit union and make allowances for it. These kinds of income and/or expenses can skew ratio results and trends.

***R12. Net Income / Average Total Assets** – Measures the adequacy of the credit union's earnings and its capacity to build capital. Along with the capital to asset ratio this is one of the most important ratios to analyze, because if there is not enough net income to sustain or increase the capital position the credit union's survival in the future is questionable. Increasing the gross income and/or decreasing operating expenses, loan losses, and the cost of both borrowed and member funds can increase net income.

Liquidity

Liquidity in a credit union is used to meet member loan demand, share withdrawal, and the payment of operating expenses. Without sufficient liquidity the credit union will have to borrow from outside sources. This usually decreases net income. It is important that there is always sufficient liquidity to meet member needs. If there is not enough money to grant a member loan then the credit union will probably lose good members. Remember that good members can go anywhere and get a loan; only members with poor credit histories will wait to get a loan because they can go nowhere else to obtain one. If the credit union would happen to have excess liquidity, then the funds should be invested so that idle funds earn a return and contribute to the net income.

Liquidity Ratios –

***L1. Liquid Assets – Short Term Payables / Member Deposits** – This ratio measures the adequacy of the credit union's liquid cash reserve to satisfy member savings withdrawals after paying all immediate obligations. As stated above it is extremely important to be able to meet member requests, both loan demands and share withdrawals. If a member's share withdrawal request can not be performed, most members will withdraw all of their funds as soon as possible and close their credit union account. It is imperative that members always have access to their liquid deposit accounts. The goal of successful liquidity management is to have just enough liquid funds to meet all member requests and operating expenses; all the remaining funds are invested in interest bearing accounts and/or investments.

L2. Liquidity Reserves / Deposits (if applicable) – The purpose of this ratio is to measure the credit union's compliance with any obligatory liquidity reserve requirements as prescribed by the supervisory authority. The goal ratio will be different for each country, depending on the existing law.

L3. Non-earning Liquid Assets / Total Assets – This ratio measures the percentage of total assets that are invested in non-earning liquid accounts. Because these assets are non-earning they should be kept to a minimum. They contribute nothing to gross income, net income, or credit union capital.

Signs of Growth

If a credit union is to remain a going concern and serve its member needs then asset, loan, and savings growth are necessary. With adequate growth the credit union can offer additional services to its membership. In inflationary economies, real growth (after subtracting inflation) is a key to the long-term viability of the credit union. Growth rates should always be at least the rate of inflation. If not, the credit union's assets are decreasing and members are actually losing money by having invested it in the credit union. Growth is a good indicator of member satisfaction. Members usually will do additional business only if they are satisfied with the services offered, or there is no other choice.

The key with credit union growth is that it is steady, consistent, and proportional. If, for instance, the credit union increases rates on member certificate of deposits with a maturity of 12 months and attracts a significant amount of deposits but does not have the corresponding loan demand, then net income will be reduced because the funds will have to placed in a lower yielding asset. In this case the growth was not good for the credit union; it should always be proportional.

Signs of Growth Ratios

***S1. Growth in Total Assets** – The purpose of this ratio is to measure the growth of total assets from one year to the next. To have "real" growth this ratio must be at least what the inflation rate is. This is a good indicator of member satisfaction. Without member satisfaction, usually the savings deposits do not increase materially and there is no asset growth. In order to increase asset growth management can:

- increase marketing of credit union products,
- improve member service,
- expand or increase the penetration of the existing field of membership,
- perform a survey and offer the most popular products requested by the members,
- find a market niche which is not being served,
- offer competitive loan and savings rates,
- improve credit union location and business hours, etc.

S2. Growth in Loan – This ratio measures the growth of the loan portfolio from one year to the next. The more funds that are invested in loans, the higher the gross income will be and the greater the member service. However, for liquidity purposes net loans should not exceed 80% of total assets. Normally this is the highest yielding asset. If management wants to improve credit union loan demand it can do so by:

- promoting credit union loans with increased marketing efforts (concentrate on younger members, usually they are borrowers and the older members are savers),
- have a loan sale on one particular loan type,
- survey the membership to ensure the credit union is offering the loan products they need and want,
- cross sell lending services (for example – when an individual applies for membership, talk to them not only about savings accounts but loan products too),
- approve the majority of loans in less than 24 hours (good borrowers can go anywhere to get a loan, only poor credit risks will wait for a loan, they have no other alternative),
- ensure the credit union hours are convenient for members wanting to borrow,
- expand the field of membership and/or increase the penetration of the existing field of membership, etc.

Some individuals have suggested that loan demand can be increased by lowering borrower credit standards. This is true, but it is not a good strategy. When credit standards are lowered delinquency normally increases and so do the loan write offs and the cost of collecting the loans. So any increase in loan income is offset by an increase in collection expenses and the provisions for loan loss expense.

S3. Growth in Member Deposits – The purpose of this ratio is to measure the growth of member savings deposits from one year to the next. The savings growth is the driving factor behind asset growth. Member satisfaction with credit union services promotes deposit growth. Deposit growth can be accomplished by:

- promoting deposits through increased marketing,
- offering competitive rates on deposits,
- cross selling savings products when the member comes to the credit union for other services,
- having credit union employees that constantly explain the importance of savings to the members,
- expand the field of membership (concentrating on the older members who are usually savers),
- offer the savings products that the majority of members want and the credit union can afford to offer,
- ensure credit union hours are convenient and members have access to their money when they want, etc

S4. Growth in Borrowed Funds – This ratio measures the growth of borrowed funds from one year to the next. In most cases management attempts to keep this ratio at a minimum. Because borrowed funds usually cost more than member deposits and credit union capital, management would much rather fund operations with these funds than funds that were borrowed from outside sources. In order to decrease borrowed funds management could:

- increase member savings deposits by increased marketing of the savings products at the credit union,

- assure members that their money is safe in the credit union,
- offer competitive rates on member savings and deposits (if management's plan is to pay off borrowed funds then above market rates could be offered as long as the rate was less than the borrowed funds rate and the maturity of the funds was equal to or less than that of the borrowed funds),
- ensure the credit union is offering the savings products that the majority of the members want,
- offer specials on savings products (increased rate for a limited time and the funds can be used to pay off the borrowed funds),
- decrease loan demand (management wants to be very careful with this option, the credit union could lose good members if they are unable to get a loan),
- grant smaller loans,
- reduce operating expenses, etc.

When offering above market rates on the savings products one of the keys is not to offer rates substantially above the local market rates. If the rates are quite a bit higher then it is likely that "hot money" will be attracted and will only stay at the credit union while high rates are being paid. There is no loyalty in this money and it can not be used to fund anything but very short term assets.

S5. Growth in Member Shares – Measures the growth of member shares from one year to the next. Member shares are paid when becoming a credit union member; they are non-refundable and non-withdrawable. These deposits are part of credit union capital. Unless otherwise specified in the bylaws, each member is limited to the purchase of one member share at a predetermined price. There are no dividends paid on this share until the credit union's capital to assets ratio is 10% or more. After this goal has been attained, the dividend rate paid on the deposit is usually greater than that paid on other savings and deposits. Growth in member shares can be accomplished by:
- expanding the field of membership,
- increased penetration of the existing field of membership through improved marketing,
- increase the number of shares a member may have or the cost of a share,
- ensure that the credit union is offering the products that individuals within the community want.

S6. Growth in Institutional Capital – This ratio measures the growth of the credit union's capital from one year to the next. Growth in this ratio insures the credit union's financial future. The more capital a credit union has the more capable it is to withstand loan losses, economic downturns, costs associated with offering new member services and financing of fixed assets. Capital also makes a credit union more profitable because there is no interest cost to attract the funds for member loans as there is with member deposits. Management can increase capital by:
- increasing gross income with higher loan rates, member fees, and investment yields,
- decreasing loan charge offs, and
- decreasing operating and dividend expenses.

***S7. Growth in Membership** – The purpose of this ratio is to measure the growth of membership in the credit union from one year to the next. Without members, there is no credit union. Management should monitor this ratio along with a breakdown of the ages of the new members. Ages are important if management is attempting to target different age groups for different products. Membership can be increased by:

- improved marketing of the products offered by the credit union,
- improving the credit union's image in the community,
- assuring the membership that it is safe to save at the credit union,
- conducting a survey to ensure that the credit union offers the products that the majority of the members want,
- find a market niche which is not being served adequately,
- offering competitive loan and share rates,
- employing professionals who understand the importance of member service,
- improving the credit union's location, appearance, business hours, etc.

Core PEARLS ratios * add to beginning

All of the above ratios are important and measure different areas of the credit unions financial position, its safety and soundness, and its effectiveness and efficiency. However, the ratios noted above (with an asterisk next to the ratio letter and number) as core ratios can be used to quickly analyze the credit union's financial position. If there appear to be problems or a negative trend with one of the core ratios then management and the officials can review the other PEARLS ratios to pinpoint the root of the problem. For instance – if net income is decreasing, then management can review the other Rates of Returns and Costs ratios to determine the exact source of the problem. Is gross income decreasing? Are loan charge offs or operating expenses increasing?

These core ratios (the numbers and trends) should be monitored no less than quarterly to determine member satisfaction and the safety and soundness of the credit union. Management should present an analysis to the officials of these ratios and additional PEARLS ratios, if necessary or so desired. Time should be spent explaining the meaning and the importance of each ratio, how they are all interrelated and calculated, and what the ratio trends signify. The ratio trends should be analyzed at least over the last 8 quarters. This presentation should be made orally every quarter at the board meeting and the highlights placed in writing. Without this type of analysis and presentation these ratios are worthless to the credit union employees and officials.

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APPENDIX A

MEMBER LOAN AND SHARE PROJECTIONS

	Initial Pledge	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
SAVINGS													
Member Savings Accounts													
Number of New Accounts													
Total Number of Accounts													
Average Amt. Deposited by New Members													
Increase to Existing Savings Accounts													
TOTAL SAVINGS													
Average Dividend Rate paid on Savings													
Average Savings Balance													
Monthly Dividend Expense for Savings													
Non member deposits													
Average Interest Rate paid on Deposits													
Monthly Interest Expense for Deposits													
TOTAL SAVINGS AND DEPOSITS													
LOANS													
Member Loans													
New Loan (Average Size)													
Number of New Loans Granted													
Total Amount of New Loans Granted													
Less- Loan Repayment Amount													
Outstanding Loan Balance													
Number of Outstanding Loans													
Average Size of Outstanding Loans													
Average Monthly Loan Yield													
Loan Interest Income													
% of New Loans placed in Allowance for Loan Loss Account													
Obligatory Share Capital													

NOTES FOR COMPLETING WORKSHEET - Total Number of Savings Accounts is a cumulative amount. From the survey conducted to determine credit union interest - determine an average member savings deposit for new and existing savings accounts (remember it is important to be conservative).
Average amount deposited is equal to the number of new members multiplied by the average deposit. Increase in existing savings accounts is equal to the existing members multiplied by the average monthly deposit determined with the survey results. Total savings is equal to the average amount deposited by new members plus the increase to existing savings accounts.
Monthly dividend expense is calculated by multiplying the average savings balance by the average dividend rate to be paid on savings. The amount calculated for the monthly dividend expense will be used on the pro forma income statement. The same procedure is used when calculating the dividends for non member deposits, if there are any.
Total savings and deposits are equal to total savings and non member deposits.
The average new loan size is to be determined from survey results, along with the number of new loans. The total amount of new loans granted is equal to the number of new loans multiplied by the average loan size. The loan repayment amount will determined by the types of loans to be offered by the credit union and the maturities. An average maturity will have to be determined, if only short term small loans will be offered at first the average maturity will be between 12 -18 months. To calculate the amount repaid each month, you could derive an estimate by dividing the prior month's outstanding loan balance by the average maturity (in months) that has been assumed. For greater accuracy a loan amortization schedule could be used.
The outstanding loan balance is the sum of the total amount of new loans granted minus the loan repayment amount. Loan interest income represents the interest charged on those loans that were outstanding as of the prior month, since you won't receive income from any loans made during the current month. The average loan yield will be an average of the various loan interest rates for the various types of loans.
The % of new loans placed in the allowance for loan loss account represents the percentage necessary (suggested at least 1% of new loans granted) to provide of future loan losses.
Both the loan interest income and the % of new loans placed in the allowance for loan loss account (this represents the provision for loan loss expense) will be used in the pro forma income statement.
Obligatory share capital is equal to the number of members multiplied by the obligatory amount (see bylaws).

PRO FORMA INCOME STATEMENT

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1 Total
INCOME													
Operating Income													
Loan Interest Income													
Investment Interest Income													
Fees and Charges													
Other Operating Income													
TOTAL OPERATING INCOME													
Non Operating Income													
TOTAL GROSS INCOME													
EXPENSES													
Salaries													
Employee Benefits													
Travel and Conference													
Association Dues													
Office Occupancy													
Office Operations													
Educational & Promotional													
Loan Servicing													
Professional and Outside Services													
Provision for Loan Losses													
Insurances													
Regulartory Operating Fees													
Annual Meeting													
Miscellaneous													
TOTAL OPERATING EXPENSES													
DIVIDENDS													
Member Savings Dividends													
Non Member Interest													
TOTAL DIVIDENDS													
Required Reserve Transfer													
NET INCOME													

PRO FORMA BALANCE SHEET
AS OF ____________________

ASSETS	Balance	**LIABILITIES**	Balance
Share Secured Loans		Accounts Payable	
Loans secured by Real Estate		Dividends Payable	
Business and Agricultural		Notes Payable	
All Other Loans		Accruals	
TOTAL LOANS		Other Liabilites	
Allowance for Loan Loss		TOTAL LIABILITIES	
NET LOANS		**SHARES**	
Cash		Regular Savings	
		Club Accounts	
Investments		Certificates of Deposit	
		Retirement Accounts	
Land and Building		Checking Accounts	
(net of depreciation)		Other Member Accounts	
		Non Member Accounts	
Other Fixed Assets		TOTAL SHARES	
(net of depreciation)			
		EQUITY	
All Other Assets		Undivided Earnings	
		Required Reserve	
		Obligatory Share Capital	
		Net Income / Loss	
		TOTAL EQUITY	
		TOTAL LIABILITIES	
TOTAL ASSETS		AND EQUITY	

Example 4

APPENDIX B

LETTER OF UNDERSTANDING AND AGREEMENT

the Board of Directors and Other Officials
__________ Federal Credit Union

Since the purposes of credit unions are to promote thrift and to make funds available for loans to credit union members for provident and productive purposes, and since newly chartered credit unions do not generally have sufficient reserves to cover large losses on loans or meet unduly large liquidity requirements, Federal insurance coverage of member accounts under the National Credit Union Share Insurance Fund will be granted to the above named credit union subject to the conditions listed in this Letter of Understanding and Agreement and in the Organization Certificate and Application and Agreements for Insurance of Accounts. These terms are listed below and are subject to acceptance by authorized credit union officials.

1. The credit union will refrain from soliciting or accepting brokered fund deposits from any source without the prior written approval of the Regional Director.

2. The credit union will refrain from the making of large loans, that is, loans in excess of 5 percent of unimpaired capital and surplus, to any one member or group of members without the prior written approval of the Regional Director.

3. The credit union will not establish or invest in a Credit Union Service Organization (CUSO) without the prior written approval of the Regional Director.

4. The credit union will not enter into any insurance programs whereby the credit union member finances the payment of insurance premiums through loans from the credit union.

5. Any special insurance plan/program, that is, insurance other than usual and normal surety bonding or casualty or liability or loan protection and life savings insurance coverage, which the credit union officials intend to undertake, will be submitted to the Regional Director of the National Credit Union Administration for written approval prior to the officials committing the credit union thereto.

6. The credit union will prepare and mail to the district examiner financial and statistical reports as required by the Federal Credit Union Act and Bylaws by the 20th of each month following that for which the report is prepared.

7. As the credit union's officials gain experience and the credit union achieves target levels of growth and profitability, the above terms and conditions may be renegotiated by the two parties.

We, the undersigned officials of the ________________ Federal Credit Union, as authorized by the board of directors, acknowledge receipt of and agree to the attached Letter of Understanding and Agreement dated ____________________ 19____.

This Letter of Understanding and Agreement has been voluntarily entered into with the National Credit Union Administration. We agree to comply with all terms and conditions expressed in this Letter of Understanding and Agreement.

Should the NCUA Board determine that these terms and conditions have not been complied with or that the board of directors or other officials have not conducted the affairs of the credit union in a sound and prudent manner, the NCUA Board may terminate insurance coverage of the credit union. If actions by the officials, in violation of this Letter of Understanding and Agreement, cause the credit union to become insolvent, the officials assume such personal liability as may result from their actions.

The term of this Letter of Understanding and Agreement shall be for the period of at least 24 months from the date the credit union is insured. This Letter of Understanding and Agreement may, at the option of the Regional Director, be extended for an additional 24 months at the end of the initial term of this agreement.

Dated this _______ day of _______________ 19__.

NATIONAL CREDIT UNION ADMINISTRATION BOARD
ON BEHALF OF THE NATIONAL CREDIT UNION SHARE INSURANCE FUND

____
Regional Director

________________________ Federal Credit Union

By:

____
Chief Executive Officer Date

____
Chief Financial Officer Date

____
Secretary Date

Example 5

THE PROPOSED SAGUACHE COUNTY CREDIT UNION BUSINESS PLAN

* I. MISSION STATEMENT

The mission of the Saguache County Credit Union is to: Provide the people of Saguache County a conveniently located, locally owned and democratically managed financial institution dedicated to serving the financial, banking and economic development needs of the county.

* II. EXECUTIVE SUMMARY

The proposed Saguache County Credit Union will be centrally located in the county in Moffat, Colorado (See Map in Tab 3). The Credit union will be a not-for-profit corporation sponsored by the Crestone-Moffat Business Association in an effort to enhance the economic development of the county. The primary purpose of the credit union is to provide financial services to an area that has been virtually ignored by other financial institutions. The services provided will include low cost loans, savings programs with competitive rates, share draft processing, and financial education programs, with other services to be added as required and feasible. Currently the majority of the membership base finds it necessary to drive more than fifty miles for banking services, or bank by mail.

The membership base is all of Saguache County, with the exception of a 15 mile radius around Center, CO, served by another credit union. Although this potential membership base covers a large geographic area, the input from the initial survey shows significant demand for the services throughout the county. A frequent comment on the surveys returned indicated that the financial institutions available to the area tend to have lending practices biased against the people in these communities. Most community members are involved in ranching or are self-employed. This type of economy makes it difficult to obtain loans from traditional banking institutions, though the communities are very stable. There is a 67% homeowner rate in the area. The population of the county was 4800 in the last census. Projected growth should have the population at around 5,400 by the year 2000. Excluding Center's population of approximately 2500 results in a projection of 2700 for the proposed field of membership. The tourism industry is growing rapidly and is one reason for the projected growth. The credit union will enhance economic growth and provide needed financial services, while financial institution is a branch of a bank that is not locally owned, and is located over twenty miles from Moffat, the center of the county. Local merchants are taking on the responsibility of cashing checks and providing currency for local residents. Consumer and small business loans of the size and type necessary for economic development in this area are currently not available. Most residents are either self-employed or in agricultural based businesses.

The potential membership base is made up of all the residents, permenant or part time, of Saguache County who are interested in joining. This excludes the 15 mile radius around Center because of the existing credit union there.

Credit unions are not-for-profit cooperatives that exist solely to serve the financial needs of their members/owners. They are locally owned and democratically controlled by a member board to provide fair and equitable services to members, not to make a profit for outside stockholders. They exist to encourage member savings, to make loans available at reasonable rates and to provide other consumer financial services at reasonable costs.

The strength of the proposed Saguache County Credit Union exists in several areas but most significantly in the increasing need for financial services in the area. There is a strong base for a credit union in a county that is virtually ignored by other financial institutions. The banks serving the area are located outside the county in other towns such as Alamosa, Salida or Gunnison.

The primary market for the credit union is the group that is not being properly served by any of these institutions. The board consists of members of all the various communities to be served, and a potential manager with many years of financial institution experience is under consideration.

The primary challenge to the Credit Union is the large geographic area the membership base includes. However, the Credit Union will be centrally located in the county and will actually provide closer access to financial services than presently exists. The Credit Union will also enhance economic development through the ability to offer small, cottage industry type business loans that are not currently available through the larger banks.

There is also an opportunity for the local residents to earn a better interest rate on their savings and interest bearing checking (share draft) accounts.

IV. CREDIT UNION SERVICES

Consumer services, not commercial, are typically the basis of credit unions. Historically, credit unions only offered passbook savings accounts and consumer loans. Now credit unions can offer checking, IRA's, money market accounts, travelers checques, credit cards and a number of other services. Credit unions are also expanding the types of loans available and are now offering first mortgage loans, home equity loans and small business loans to members.

The primary services to be initially offered by the Saguache County Credit Union will be savings accounts with competitive interest rates, checking accounts with low monthly service charges and share draft secured loans offered at a reasonable interest rate.

The credit union will also concentrate on offering a personalized, convenient service to the community. The share draft service is in great demand with the lack of other financial institutions in the area. Therefore, this is a service the credit union plans to offer as soon as possible.

IRA accounts are projected to be offered in the second year. This is due to the high interest from the community on the membership survey. The rates for these accounts will be determined by the board in accordance with industry standards.

V. RESEARCH AND MEMBERSHIP PROJECTIONS

The membership base will be all of Saguache County. This will include all permanent and part time residents of the county. The area within a fifteen mile radius of Center is excluded from our prospective field of membership because this area is covered in the charter of the Cooperative Credit Union in Center. The credit union will operate in a cooperative agreement with other credit unions in order to best serve the entire community, but for the purposes of the business plan, Center was not included in the analysis.

DEMOGRAPHIC ANALYSIS

There are currently 4800 people living in Saguache County with projected growth of 12.5% in the next five years.

The demographic composition of Saguache County is very mixed with 36.7% of the population between

25 and 49 years of age, and 24% over 50 years of age. This is a good mix, since the first group represents a basis for loans and growth, and the over 50 group offers a significant base for savings and deposits. These two groups account for sixty percent of the county's population.

The latest census data shows that the median household income is $15,853 and 47.8% of the household incomes fall below $15,000. There is a high percentage of home ownership in Saguache County. Out of 1643 occupied housing units, 1103 are owner occupied. This accounts for a 67% home ownership rate in the county. The demographic information is available in Tab 4.

SURVEY RESULTS

Surveys were sent to all households in Saguache County that were not currently under the field of membership of an existing credit union. This included the entire county with the exception of the area within a fifteen mile radius of Center. A total of 750 surveys were sent and 120 responses were received, a 16% return rate. Approximately 50% of those responding had previously been members of a credit union, and 84% of the respondents indicated they would join the proposed Saguache County Credit Union. 68% of the respondents stated a need for share draft accounts, and 67% requested passbook savings.

The highest demand in the loan area was for auto loans and credit card services. The survey also indicated that most loans currently outstanding were auto loans and home mortgages.

The primary dissatisfaction with a current lender was the location. The majority of those responding (65%) conduct business with their current financial institution by mail, 42% in person. When asked how they would conduct business with a credit union centrally located in the County, the response was significantly different. 72% said they would conduct business in person and only 28% by mail. Most responses were from adults in the 35-44 age group and the survey covered 156 adults.

The average deposit in a pass book savings account was $1,837, a CD $3,862 and an IRA $7,800.

SAVINGS PROGRAMS	NUMBER RESPONSES	AVG BALANCE	TTL
Passbook	71	$1,837	$130,427
CD	37	$3,862	$142,894
IRA	31	$7,800	$241,800
Business Passbook	16	$1,837	$29,392
Total Deposits	156		$544,513

The survey results showed that just 156 people, in a potential field of membership of over 4,000, have over $500,000 in deposits. A high percentage, 84%, said they would join the proposed Credit Union, so there seems to be ample potential members and deposits. Additionally, the survey showed that 83 respondents would deposit an average of $1,379 in share draft accounts, for a total of $114,457. This number does not include the 40 potential business checking accounts that would account for an additional $55,160 in deposits. A sample of the survey is available in Tab 5.

From historical data in the formation of other credit unions, it will be assumed that the average deposit per member will be $1,000. This is a more conservative estimate than the survey results.

The number of residential households and businesses and the associated penetration rate projections are as follows:

Market Area	No. of Households/ Businesses	Penetration Rate	Total
Saguache	800	.30	240
Moffat	200	.50	100
Crestone	200	.50	100
Villa Grove	100	.30	30
Other	100	.30	30
Total	1400		500

With this penetration rate, it is reasonable to assume that there is the potential of 500 residential and business savings accounts with an average beginning balance of $1,000 per account. Therefore, the field of membership is capable of supporting a beginning savings base of approximately $500,000.

COMPETITION

In Saguache County, BankOne has become the primary financial institution. The BankOne Corporation is located in Ohio, causing many Coloradans to look within their communities (especially in rural areas) for locally owned institutions when choosing financial services. The competition is primarily a branch office of BankOne in the town of Center. There is also a branch of BankOne in Saguache. The branch in Saguache, however, is not a full service institution (it can only handle deposits, withdrawals, payments or do limited check-cashing). BankOne generally targets customers willing to pay more for perks and personalized service.

They also target the following markets:
-senior citizens, because elderly people tend to have larger deposits;
-young households, because they typically carry high debt loads and require many bank services;
-upscale consumers.

There is also a small credit union in Center that has a membership base comprised of members of an agricultural coop. This credit union has a chartered field of membership that includes the area within a fifteen mile radius of the town of Center, and this will be excluded from our field of membership.

* VI. MARKETING STRATEGY

The objective of the marketing plan is to determine the initial membership base, increase awareness and usage of services, and enhance the image of the credit union in the community. There is a substantial awareness among Saguache County residents about the absence of banking facilities in the area. It is expected that the establishment of a credit union in the county will attract considerable favorable attention.

Specific initial marketing activities will include the following:

-Credit Union volunteers and board members will make presentations about the credit union to various groups within the service area;

-Shortly after chartering, announcements will be posted throughout the area, encouraging local residents to open accounts;

-Ongoing publicity for the credit union will be provided through a newsletter during the pre-opening period. Press releases will be provided to local newspapers, announcing the opening and subsequent progress of the credit union.

NON-MEMBER AND INSTITUTIONAL MARKETING

The Colorado Credit Union League has indicated that $100,000 will be available in non-member deposits from other credit unions. The Crestone/Moffat Business Association has joined The National Federation of Community Development Credit Unions which is another source for additional non-member deposits.

GOAL SETTING

- A centrally located, physically secure and professionally staffed office, convenient to all residents of the county that are eligible for membership, to be open a substantial number of hours each week;
- Passbook savings accounts with a minimum opening balance of $25.00 ($5.00 for children under 18);
- club accounts without charge to encourage systematic savings to reach a goal (Christmas club, etc.);
- Youth accounts, with associated educational programs in cooperation with local schools;
- Money order sales;
- Small loans, primarily share secured;
- Share draft processing, and;
- Check cashing services for members.
- A gradual expansion of services is planned for the second year, or as soon as the capital investments and management skills necessary make increased services possible including:

- New and used secured auto loans;
- Direct deposits;
- Bill payment services;
- Share Certificates and IRA accounts.

In year three, efforts will be made to increase share secured and auto loan addition small secured loans to members for cottage businesses will be offered

VI. OPERATIONAL PLAN

CAPITAL BUDGET

The opening capital budget for equipment will be funded from a donation from the Crestone-Moffat Business Association, which includes a grant from the Colorado Initiatives Program:

Computer System	3,000
FedComp Software	5,000
Safe (Pike)	10,000
Security System	2,000
Installation	1,800
Phone System	200
Misc. Bldg. Impr.	5,000
Total	27,000

TIMETABLE

The Charter Application will be filed in the Summer of 1994, with the projected opening date of the Credit Union to be during the first quarter of 1995. The application for NCUA Deposit Insurance will be filed once the provisional Charter is granted. During this period, board and committee members and management will take the necessary courses to educate themselves in their roles in the credit union. Fund raising will continue during the chartering process, with the necessary grants and deposits to be received before opening.

PRODUCT DEVELOPMENT

The credit union intends on opening with basic passbook savings accounts and small share secured loans. The strong need for a share draft program indicates this should be implemented as soon as possible, within the first six months. Additional services will be offered as the credit union grows and the staff is able to handle the additional responsibilities.

PLANNED OPERATIONS

1) FACILITIES

The planned location for the proposed credit union is a space in Moffat, Colorado. This is a rental property that will be secured by the Crestone-Moffat Business Association and subsequently leased to the credit union.

2) SERVICE AND SUPPORT

The Colorado Credit Union League will provide share draft clearing services and access to courses that provide training for the manager and board and committee members.

The League also offers access to various marketing programs and assistance in investing and managing funds.

3) OTHER INFLUENCES

The National Federation of Community Development Credit Unions will also provide support and a means of networking with other community based credit unions.

4) REGULATION AND INSURANCE

Credit unions comply with a wide range of regulatory standards and rules. Credit unions adhere to nearly all the regulations that all other financial institutions follow. Eighty-two Colorado credit unions are state chartered and regulated by the Colorado Division of Financial Services. Colorado credit unions are federally insured, and are reviewed by the National Credit Union Administration in Washington, D.C.

Deposits for all Colorado credit unions members are insured by the National Credit Union Share Insurance Fund, administered by the National Credit Union Administration.

VIII. MANAGEMENT AND ORGANIZATION

KEY EMPLOYEES

The manager will have a strong financial background with experience in the banking industry. The manager will also be required to take the entire series of courses offered by the Credit Union League.

The manager will be supported by a part-time assistant and two volunteer positions. These positions are to be filled by members of the community who have expressed interest in working at the credit union. The manager's resume and a professional biography is available in Tab 6.

ADVISORY BOARDS

1) Board of Directors

The Board of Directors will consist of seven members of the credit union and will serve three-year terms. The board will be representative of all the communities served. If a director ceases to be a member of the credit union or fails to attend the regular meetings of the board for three consecutive months, his or her office automatically becomes vacant. The board will vote on the replacement of any board member until such time that a replacement can be elected by all the members.

The board of directors will be responsible for electing an executive committee that will consist of three members that will be able to perform basic board functions between meetings but will not be responsible for policy decisions. The meetings will be scheduled once a month. The responsibilities of the board will include the ability to act upon all applications for membership, to determine the interest rates on all loans or deposits, declare and authorize the payment of dividends on shares and to appoint board and credit committee members. The board will also be responsible for determining the maximum amount for a secured and an unsecured loan, and collecting on loans.

2) Credit Committee

The credit union members shall elect the credit committee or authorize the board of directors to appoint the credit committee. The credit committee will consist of three members who will serve three year terms. The credit committee will meet at least once a month and at this meeting they will review loan applications. Approval of the loans is based on a majority vote by the committee.

3) Supervisory Committee

The credit union members shall elect or have the Board of Directors appoint a supervisory committee which will consist of three members. The supervisory committee will be responsible for annual examinations of the books and the affairs of the credit union in the form of a comprehensive audit. The audit will be submitted to the board of directors within thirty days of completion.

Biographies on all board and committee members are included in Tab 6.

POLICIES AND PROCEDURES

Once the Charter is granted for The Saguache County Credit Union, the Board of Directors will adopt ByLaws and Articles of Incorporation using the standard forms supplied by the Division of Financial Services of Colorado. Where applicable and allowable, the forms will be changed to reflect the unique needs of the Credit Union.

A Policy and Procedures Manual put together by the NCUA has been obtained and will be used as a guide to formulate the policies and procedures of the Credit Union.

IX ~~VIII~~. FINANCIAL PLAN

The Saguache County Credit Union is presently in a conceptual stage and as such does not have a historical record of member loans and deposits. The projected financial plan is, therefore, a projection model and the deposits, revenues, expenses, and profit/loss are estimates based on the demographics and needs of the residents of Saguache County. Please see Tab 7.

Investment management of the Saguache County Credit Union portfolio will be conservative and the income-yielding assets will be risk-minimal. An aggressive position will be taken to place loans in the community, and excess assets will be held in government securities, which are very conservative investments.

All financial management activities will be monitored and directed by the Board of Directors working with the manager of the Credit Union. A member of the board will oversee all investments and associated risks which are being considered by the manager.

The Saguache County Credit Union will be established with an initial capitalization of $100,000 in non-interest bearing non-member deposits from supporting institutional commitments. Initial member deposits in the first quarter are expected to be $50,000 (50 members at $1,000 per member). During the course of the first year, new accounts are expected to increase by 150 members yielding a year-end total of deposits of $208,000. By the end of year two, members share deposits will total $455,000 and by the end of year three, $850,000.

Loan growth will be conservative with only $60,000 in share secured loans projected for the first year. The second year's projections show that share secured loans grow to $175,000, with additional lending in auto loans of $70,000.

The total reserves during the first year will be allocated between required reserves held as non-interest yielding cash on hand (10%), and the excess reserves will be distributed between short-term loans and short term financial capital investments. As a conservative projection, it is expected that the loan yields will average 7% and the yield on financial capital investments will be 3.5%.

The office equipment and space will be leased from the Crestone-Moffat Business Association so as to keep assets as productive as possible. Salaries and expenses for one full-time and one part time employee are estimated at $6,000 quarterly or $24,000 for the first year. Payroll taxes and employee benefits are estimated at 15%, or $6,720 for the first year.

Grant money in the amount of $134,721 will be raised to cover operating expenses for the first three years. This will insure that the Credit Union has three years to "get off to a good start." Additionally, by raising operating funds, the Credit Union will be able to pay dividends on shares for the first three years. By the third quarter of year three, after the Credit Union has had enough time to lend more funds, thereby shifting more funds into higher yielding assets, there should be enough income generated to cover operating expenses. Lastly, because the survey showed that share draft processing capabilities is an important need of the communities to be served, sufficient funds to also cover processing expenses is needed. The Crestone/Moffat Business Association has already raised $15,000 from the Colorado Initiatives Program and approximately $17,000 from in-kind donations. The $15,000 will be used for equipment, supplies and building renovation.

The first three years are the most critical and the grant money will help, if not insure, viability during this start up phase.

The following are the assumptions used in projecting the proforma financial statements that immediately follow this business plan.

Members and Deposits:

Based on the results of the survey and continued polling and canvassing of the communities to be served it is estimated that 50 members will join in the first quarter, 50 in the second, 60 in the third and another 50 in the fourth quarter of the first year. The second year of continued marketing efforts will result in an additional 250 members. By the end of year three, it is estimated that there will be approximately 500 members with an average balance of $1,700. This projections are based on survey results.

Loans:

Loan growth is very conservative the first year with projections of only $60,000 in share secured loans, representing approximately 50 loans. Allowance for loan losses will be $500 per quarter or $2,000 per year.

Loan projections for years two and three show some diversification into auto loans and small member cottage industry type loans. By the end of year three, auto loans are estimated to be approximately 30 loans with an average balance of $6,000. Share secured loans at $320,000 represent about 100 borrowers. Other loans in year three of $37,500, member cottage-industry loans, represent approximately 10 loans for an average of $3,750 per loan. Various guarantee programs for economic development, cottage-industry type loans will be sought to insure the loan portfolio from the additional risks that might accrue from these kinds of loans.

Share Draft Processing:

With so few financial institutions in the county, there is a significant demand for the credit union to offer share draft services from the start. Tab 8 shows the results of a proforma breakeven analysis to determine when the credit union will reach a breakeven point on share draft fee income and expenses. The breakeven number of accounts 89. This indicates that the credit union will begin to break even on share draft processing during the 4th quarter of the second year. The proforma income statement projects the number of share draft accounts to be 20% of member share accounts.

Income:

Loan rates will be 5% for share secured loans, 7.5% for auto loans and 12.5% for other loans. Investment rates are projected to be 3.5%. Share draft fees are projected to equal the processing fees by the 4th quarter of the second year when the number of breakeven accounts is achieved.

Operating Expenses:

By far the largest expense will be the salary and benefits paid to retain a qualified full-time manager and employ a part-time assistant. The second highest is for rent on the space occupied by the Credit Union. Grant money will be raised to cover the first three years of operating expenses.

Cost of Funds:

We believe it is very important to pay dividends on member deposits in the first year. Regulations state that dividends can only be paid from earnings, which is another reason why it is important to raise sufficient operating funds to insure earnings and the ability to pay dividends. The dividend rate paid on member deposits will be 2.5%. Interest will not be paid on non-member deposits.

Regular Reserves:

Regular reserves are calculated by taking 10% of gross income and adding the provision for loan losses each quarter.

~~XI.~~ X SUMMARY

What this business plan is really all about is feasibility and viability. Can Saguache County support a Credit Union? Does it need a Credit Union? And if the answer to those questions is yes, then can the Credit Union work? Can it be a viable, lasting, going concern?

Feasibility:

Is there sufficient population in the prospective field of membership? Are the needs and desires for financial services being met? Are existing financial institutions active in community and economic development of the area? Is there a lot of competition -

banks, savings & loans or credit unions?

There are 4800 people in the prospective field of membership with projections for 5400 by the year 2000. Excluding Center's population of approximately 2500 results in a projection of 2700 for the proposed field of membership. Our survey results showed that there is an extremely strong need and desire for a financial institution that is more accessible and helpful to the people of the county. There are other financial institutions, but they are not centrally located and are not responsive to the needs of the county.

Our survey showed that 84% of the people responding would join the credit union. Also based on survey results, it is conservatively estimated that 500 members with initial deposits of $1,000 each will join the credit union in the first two years.

Viability:

The proposed Credit Union is feasible, but can we go from this possibility to actuality. Will it work? Can it be financially viable?

Competent management will be assured with the people chosen to direct the Credit Union. They are all willing to put in the time to manage and direct the efforts of the Credit Union. They are also willing to get out and market the Credit Union to the various communities in the County. The initial board members were recruited and chosen because of their history of community involvement and service. They will be invaluable to "spreading the word" and recruiting members.

Lastly, with the proposed amount of grant money to be raised, at least three years of operating funds, the Credit Union will have the staying power to be successful.

PROPOSED SAGUACHE COUNTY CREDIT UNION
PROFORMA STATEMENT OF FINANCIAL CONDITION
FIVE YEAR SUMMARY

STATEMENT OF INCOME & EXPENSES	YEAR ONE	YEAR TWO	YEAR THREE	YEAR FOUR	YEAR FIVE
INCOME					
Loan Interest Inc-Auto	$0	$2,969	$12,469	$27,250	$35,000
Loan Interest Inc-Home Eq	$0	$0	$0		$0
Loan Interest Inc-Share Sec	$2,000	$9,250	$20,850	$37,703	$45,125
Loan Interest Inc-Other	$0	$0	$2,148	$6,703	$8,450
Total Loan Int Inc	$2,000	$12,219	$35,467	$71,656	$88,575
Investment Income	$6,676	$10,338	$17,627	$12,495	$3,500
Share Draft Fees	$685	$1,738	$3,685	$4,619	$4,738
Fee Income	$0	$0	$0	$0	$0
Other Income D.I.	$0	$0	$0	$0	$0
GROSS INCOME	$9,361	$24,295	$56,779	$88,770	$96,813
EXPENSES					
Salaries	$24,000	$24,000	$24,000	$24,000	$24,000
Employee Benefits	$6,720	$6,720	$6,720	$6,720	$6,720
Member Insurance	$0	$0	$0	$0	$0
Insurance	$2,000	$2,000	$2,000	$2,000	$2,000
Exam Fee	$0	$0	$0	$0	$0
Audit Fee	$0	$0	$0	$0	$0
Depreciation	$0	$0	$0	$0	$0
EDS Data Processing	$960	$960	$960	$960	$960
Supplies	$465	$465	$465	$465	$465
Cost of Space Occupied	$6,000	$6,000	$6,000	$6,000	$6,000
Education & Communication	$400	$400	$400	$400	$400
Conference & Travel	$0	$0	$0	$0	$0
Supervisory Comm	$0	$0	$0	$0	$0
Annual Meeting	$0	$0	$0	$0	$0
Provision For Loan Losses	$600	$1,850	$2,925	$3,525	$0
Board Expenses	$0	$0	$0	$0	$0
Share Draft Processing	$1,553	$2,059	$2,994	$3,442	$3,499
Credit Bureau	$160	$160	$160	$160	$160
Maintenance	$0	$0	$0	$0	$0
ICU	$0	$0	$0	$0	$0
VISA Expenses	$0	$0	$0	$0	$0
Miscellaneous	$0	$0	$0	$0	$0
TOTAL OPERATING EXPENSES	$42,858	$44,614	$46,624	$47,672	$44,204
Net Operating Income	($33,497)	($20,319)	$10,155	$41,098	$52,609
Other Non-Operating Gain/Loss	$41,598	$38,374	$40,568	$0	$0
NET INCOME BEFORE DIV./INT.	$8,101	$18,055	$50,723	$41,098	$52,609
DIVIDENDS ON SHARES (COF)					
Shares	$3,623	$10,478	$22,772	$30,494	$31,500
High Yield Shares	$0	$0	$0	$0	$0
Certificates	$0	$0	$0	$0	$0
IRA Shares	$0	$0	$0	$0	$0
Interest on Borrowed Money	$0	$0	$0	$0	$0
TOTAL COST OF FUNDS	$3,623	$10,478	$22,772	$30,494	$31,500
NET INCOME OR LOSS	$4,479	$7,577	$27,951	$10,604	$21,109
Regular Reserve Transfer	$936	$2,430	$5,678	$8,877	$9,681
Special Reserve Transfer	$0	$0	$0	$0	$0
UNDIVIDED EARNINGS TRANSFER	$3,543	$5,147	$22,273	$1,727	$11,428

PROPOSED SAGUACHE COUNTY CREDIT UNION
PROFORMA STATEMENT OF FINANCIAL CONDITION
FIVE YEAR SUMMARY

	YEAR ONE	YEAR TWO	YEAR THREE	YEAR FOUR	YEAR FIVE
ASSETS					
LOANS:					
Auto Loans	0	70,000	180,000	350,000	350,000
Share Secured Loans	60,000	175,000	320,000	475,000	475,000
Other Loans	0	0	37,500	65,000	65,000
Gross Loans	60,000	245,000	537,500	890,000	890,000
Allowance for Loan Losses	600	2,450	5,375	8,900	8,900
Total Loans Outstanding	59,400	242,550	532,125	881,100	881,100
Cash	11,999	12,456	11,383	10,512	31,620
INVESTMENTS:					
CCFCU Cash Mgmt.	169,000	207,500	338,000	50,000	50,000
OTHER ASSETS:	2,080	4,550	8,500	9,000	9,000
TOTAL ASSETS:	242,479	467,056	890,008	950,612	971,720
LIABILITIES:					
Accounts Payable	0	0	0	0	0
Non-Member Deposits	30,000	0	0	0	0
Total Liabilities	30,000	0	0	0	0
SHARES & DEPOSITS:					
Shares	208,000	455,000	850,000	900,000	900,000
Certificates	0	0	0	0	0
IRA Shares	0	0	0	0	0
Total Shares/Deposits:	208,000	455,000	850,000	900,000	900,000
CAPITAL:					
Reserves	336	916	3,669	9,021	18,702
Undivided Earnings	4,143	11,141	36,339	41,591	53,018
Total Equity	4,479	12,057	40,008	50,612	71,720
TOTAL LIABILITIES/EQUITY:	242,479	467,057	890,008	950,612	971,720

_______________________________ Credit Union   _______________, 19____

A regular/special meeting of the Credit Committee was held on the above date beginning at

(time) ______________ at (place) ______________ The minutes of the ______________ previous meeting were read and approved with the following corrections:

____

____

____

Members of the committee present were:

____

____

The following applications for loans were approved:

	ACC'T. NO.	NAME	AMOUNT	SECURITY AND REMARKS
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				

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The following applications for loans were rejected:

ACC'T. NO.	NAME	AMOUNT	REASON

Release of collateral was approved in the following cases:

ACC'T. NO.	NAME	BALANCE OF LOAN	COLLATERAL RELEASED

Withdrawal of funds by borrowers, indorsers, and guarantors was approved in the following cases:

ACC'T. NO.	NAME	AMOUNT OF WITHDRAWAL	REMARKS

The following extension agreements were approved:

ACC'T. NO.	NAME	AMOUNT	REASON

The following extension agreements were rejected:

ACC'T. NO.	NAME	AMOUNT	REASON

The following actions were also taken by the committee:

Signed ______________________ ______________________

Chairman Secretary of Committee

LOAN WORKUP SHEET

Borrower
Name____________________

Purpose____________________

Amount Requested____________
Other Credit Union
Loans ____________
TOTAL ____________

Monthly Gross Income
Borrower ________________
Co-Borrower________________
Total Income________________

Debts
Mortgage or
Rent Payment________________
Other Loan
Payments__________________
____
____
____
Insurance
Payments__________________
Other Monthly
Debts____________________
____
____
____
____
New Loan
Payment____________________
Total Debt__________________
Debt to Income Ratio____________
(Total Debts/Total Income)
Is a portion of this loan unsecured? If so how much?____________
Are shares being used to secure this loan? If so how much?__________
Is a co-signer being used? __________
If so, how many outstanding loans is the co-signer signed on? __________
Has all the necessary information on the co-signer been received? __________

Member Account #______________
Share Balance________________

Collateral Information (if applicable)
Description of
Collateral____________________
____
____
____
Age of Collateral________________
Value of Collateral______________
How was value of collateral determined?________________
____

Was income verified and is there proof of the verification? ____________
____
____
Application completely filled out?_____
Application signed by member?______
Credit Report received, if available?________________
Current on existing loans?__________

Credit Committee, Loan Officer, or Employee
Comments____________________
____
____
____
____
____
____
Loan Approved__________________
Loan Denied____________________
Counter offer given (describe)
____
____
____
Signature of approving authority
____
Date ____________________

NOTICE TO THE COSIGNER

You are being asked to guarantee this debt. Think carefully before you do. If the borrower does not pay the debt, you will have to. Be sure you can afford to pay if you have to, and that you want to accept this responsibility.

You may have to pay up to the full amount of the debt if the borrower does not pay. You may also have to pay late fees or collection costs, which increase this amount.

The creditor can collect this debt from you without first trying to collect from the borrower. The creditor can use the same collection methods against you that can be used against the borrower. If this debt is ever in default, that fact may become part of your credit record.

____________(Date) ____________________________________(Cosigner Signature)

______________________________ (Cosigner's Account Number)

_______________________________________(Principal Borrower)

_____________________(Account Number) ________________________(Date of Loan)

_______________________________(Amount Guaranteed)

INSURANCE AGREEMENT

I understand that I must maintain and furnish proof of physical damage insurance on the collateral or real estate securing this loan. The maximum deductible allowable is $____________. The insurance will contain a loss payable clause endorsement naming the credit union as the loss payee. This policy must remain in force for the entire term of the loan.

If I fail to maintain or provide proof of insurance coverage, the credit union may purchase it and add its cost, plus interest, to my unpaid principal balance. The monthly loan payments will be increased to repay the insurance premium over the life of the policy or loan, whichever is shorter. I also understand that if you add insurance coverage, it will not include public liability insurance and will not afford protection against claims relating thereto.

If this type of insurance is not available or management does not feel it would be advantageous to offer, then the credit union can immediately repossess the collateral and sell it to repay the loan proceeds.

____________________________________ (Borrower Signature)
____________________________________ (Date)

____________________________________ (Co-signer Name)
____________________________________ (Date)

COLLATERAL INSPECTION FORM

Date___________________ Borrower Name______________________________________
Account Number____________________ Amount of Loan Request__________________
Description of Collateral Offered:

____

____

Year Collateral Was Made_____________________________________
Identification or Serial Number_______________________________
Color of Collateral (if applicable)____________________________
Equipment included with the collateral that is considered valuable (list the equipment and the estimated value)

____

____

____

____

____

____

____

Overall condition of collateral (if it is a vehicle include comments on the body, tires, seats, paint, etc)

____

____

____

____

Is there any noticeable damage on the collateral? If so, please describe________________

____

____

Estimated Value______________________
If an appraisal was obtained, what was the appraised value?__________________________
If the loan request is greater than the estimated value how will the remaining loan balance be secured?____

Can this collateral be easily and legally repossessed?________________________________
If it were repossessed, could it be easily sold?_____________________________________

This inspection was performed by_______________________________________ on this date____________________________.

INFORMATION NEEDED FROM POTENTIAL BORROWERS TO PROCESS ALL LOAN REQUESTS

Except for share secured loans, anyone requesting a loan must have been a member of the credit union for at least 6 months, before being considered for a loan.

To apply for a loan please provide the following:

- A completed application that has been signed and dated,
- Proof of income (check stubs, letter from employer, etc.),
- Have a deposit in the credit union of at least $____________ (this deposit must remain in the credit union until the loan is paid in full),
- Paid the loan application fee of $____________,
- An appraisal for the collateral that will be used to secure the loan, if applicable.

If you are applying for a loan that will be secured by a vehicle, please provide the following in addition to the above:

- Bring the vehicle to the credit union so that it may be inspected,
- An appraisal, by an expert in the field, of the value of the collateral,
- If you are purchasing the vehicle, provide written proof of the price that will be paid,
- Proof of insurance in an amount adequate to cover the value of the collateral.

If you are applying for a mortgage, please provide the following in addition to the first group of items outlined above:

- An appraisal that is no more than 1 year old if the real estate market is steady or increasing. Otherwise the credit union will obtain the appraisal, however the borrower is responsible for paying any costs.
- Proof of adequate insurance.

THE POTENTIAL BORROWER IS RESPONSIBLE FOR PAYING ALL FEES INCURRED IN THE LOAN PROCESS.

If there are any questions please contact:

The credit union office hours are:

Schedule of Delinquent Loans as of ______________________.

Account Number	Borrower name	Date of Loan	Original Date of Loan	31 to 90 days delinquent	91 to 180 days delinquent	181 to 365 days delinquent	More than 365 delinquent	Date of Last Payment	Amount of Last Payment	Comments including what type of collateral there is
Total unpaid balances of delinquent loans >>>>>>>>>>>>>>>>>										
Total number of delinquent loans >>>>>>>>>>>>>>>>>>>>>>>>										

Due Date ____________ Example 13

Acct. No. ______ Page 31A

Spouse Acct. No. ______

Name ______________________ Phone ______________

Address ______________________________________

____

His S.S. # __________ D.O.B. ______ Her S.S. # __________ D.O.B. ______

Collateral: ___________________________________

____

____

1st Pmt. ______

Opened ______ High $ ______ Terms ______ Balance $ ______ Last Pmt. ______

1st Pmt. ______

Opened ______ High $ ______ Terms ______ Balance $ ______

His Emp. ______________________ Bus. Ph. ______

Her Emp. ______________________ Bus. Ph. ______

Comaker ______________________ Res. Ph. ______

Address ______________________________________

Employer ______________________ Bus. Ph. ______

Personnel Reference ______________________ Phone ______

Personnel Reference ______________________ Phone ______

Personnel Reference ______________________ Phone ______

His Parents: ______________________ Res. Ph. ______

Address ______________________________________

Employer ______________________ Bus. Ph. ______

Her Parents: ______________________ Res. Ph. ______

Address ______________________________________

Employer ______________________ Bus. Ph. ______

Name of Bank ______________________ Acct. No. ______

Address ______________________ Branch ______

Retirement Refund Yes______ No______ Shares______ Loan______ Why Not______

Club Acct. Type: ______________________________

LOAN EXTENSION PAYMENT AGREEMENT

Reason for Loan
Extension____
____
____

Length of Loan Extension ____________
Have there been loan extensions on this loan in the past? ____________
If so, how many? ________________ For how long? ____________

I, _______________________________, agree to pay the __________________
Credit Union $_________________ on loan number ____________ by
____________________ 19____________.

Monthly payments of $______________ will be made thereafter, beginning on
__________________________, 19________.

The final loan payment is to be made on ____________________ 19________ in the amount of $______________.

I realize that failure to make payments as outlined will result in collection action being initiated by the credit union.

______________________________ (Borrower Signature)

______________________________ (Date)

______________________________ (Co-signer Signature)

______________________________ (Date)

Approved by the Credit Committee

______________________________ (Committee Member) ____________ (Date)

______________________________ (Committee Member) ____________ (Date)

______________________________ (Committee Member) ____________ (Date)

COLLECTION NOTICE #1

When a borrower is 15 days late in making their monthly payment they will be contacted by phone or mail if they can not be reached by phone. This first collection notice will be friendly, in hopes that they have just forgotten to make the payment and they are not having trouble making the monthly payment. This first notice requests payment be sent upon receipt of the notice but not more than 15 days from the date of the notice.

DATE ________________

Dear____________________,

We have not received your monthly payment that was due on __________________ 19________ for $_____________ on loan number _____________. We hope this is an oversight and would appreciate payment today, but not later than 15 days from the date of this notice. Please mail the payment today or bring it by the office. If you have already made your monthly payment, we thank you for that payment.

If you are having trouble making your loan payment, please contact our office to set up an appointment to discuss how we can help you make your loan payments on time every month.

Remember there is a late fee of $________________ if your payment is not received within 5 days of the monthly due date.

Sincerely,

COLLECTION NOTICE #2

The second notice is sent and/or phone contact is made after there has been no payment in 30 days. This notice is much more serious in tone. This remainder asks that the borrower remit the payment immediately but not more than 10 days from the date of the notice and/or contact the credit union to discuss the problems causing the delinquency and to establish a workable solution or payment schedule.

DATE ______________________

Dear ______________________,

We still have not received your monthly payment that was due on ________________, 19_______ for $______________ on loan number ______________________. Please remit this payment today but not later than 10 days from the date of this notice.

By making late payments you are adversely affecting your credit rating both with this credit union and other financial institutions. Late payments may cause problems in obtaining future loans.

As stated in the 1st notice, if you are having trouble making your loan payment, please contact our office to set up an appointment to discuss how we can help you make your loan payments on time every month. If you do not contact this office, then it is assumed that you do not want to work with the credit union to solve this problem and this will force us to take further more severe collection actions.

I can be reached at ____________________ (phone number) during these hours ____.

Remember for every missed payment there is a late fee of $________________ if your payment is not received within 5 days of the monthly due date.

Sincerely,

COLLECTION NOTICE #3

The third notice is sent and/or phone contact is made after there has been no payment in 45 days. This notice states that the loan is to be sent to a lawyer or collection agency and the collateral will be repossessed. At this point if shares are available to make the payment, then the amount needed to pay the loan current will be withdrawn from the share account. If the credit union is able to, according to local law, the collateral is to be repossessed before it loses any more value. Otherwise, the lawyer or collection agency will perform all of the collection work and remit the payments to the credit union.

Remember it is very important that the credit union follow through on what the notices say or the member will learn to disregard them.

DATE ____________________

Dear ______________________,

You monthly payment that was due on ___________________, 19______ for $________ on loan number ___________ has still not been received. If we do not hear from you by _____________________ (5 days from the date of this notice) we will take all available legal steps to remedy your past due account.

We have sent you 2 previous notices requesting payment which you have chosen to ignore. Your loan is now more than 45 days delinquent. This situation is considered very serious. We can not allow your loan to become anymore delinquent. In not repaying your loan you harm your credit rating, make it more difficult for other members to obtain loans since funds are not being collected to make additional loans, and you are making it more difficult for the credit union to pay the operational expenses.

Remember obtaining credit is a privilege, if you allow this loan to become anymore delinquent and do not resolve this problem immediately it will be difficult to obtain loans in the future.

Remember you have until _________________________, 19______, to resolve this problem.

I can be reached at ______________________ (phone number) during these hours ____.

As stated previously, for every missed payment there is a late fee of $_____________ if your payment is not received within 5 days of the monthly due date.

Sincerely,

Example 18

SHARE CERTIFICATE

SAN JUAN COMMUNITY FEDERAL CREDIT UNION

Owner :
SOCIAL SECURITY :

JOINT OWNER

ACCOUNT NUMBER:

CERTIFICATE:

ISSUE DATE: 07/31/97
MATURITY DATE: 07/31/98

Your savings insured to $100,000.00

NCUA
A U.S. Government Agency

Issuance in the name of two or more owners indicates joint ownership with full rights of survivorship. THE SAN JUAN COMMUNITY FEDERAL CREDIT UNION is hereby authorized to recognize any of the signatures subscribed hereto in the payment of funds or the transaction of any business for this certificate. Any owner may pledge the certificate as a collateral security for a loan or loans from the Credit Union without the consent of the other owner(s).

TERMS OF CERTIFICATE

Amount	Dividend Rate	Term	Renewable	Method of Payment	Minimum Deposit
$500.00	5.4%	1 year			

TYPE Standard
Dividends: Compound daily paid monthly

METHOD OF PAYMENT _X Add dividends to principal
_Deposit Dividends to Share Account___

Automatically Renewable-Subject to Conditions Below--Not Transferable
On each maturity date the certificate will be automatically renewed for an additional period of the time equal to the original term unless you present to us the original certificate for payment on the maturity date or within 10 days after the maturity date.
The dividend rate which will apply to each renewal term will be the maximum rate we are paying on Share Certificates on the same type and term as this certificate on the renewal date.

PENALTIES FOR EARLY WITHDRAW Up to 6 month term - 90 day dividend penalty
Over 6 month term - 180 day dividend penalty

DESIGNATION OF BENEFICIARY

I/We direct that in the event of my/our death any balance of this account shall be paid to the following beneficiaries or whichever of them survives me/us. The above credit union shall be exempt from all liability for payment to my/our Beneficiary (beneficiaries) of any sums from this account upon proof of my/our death.

Full Name	Relationship	Percentage	Full Name	Relationship	Percentage

I/We have the right to change this designation of beneficiary at any time by writing to the credit union

Member Signature___________________________
Joint Signature___________________________
Joint Signature___________________________

____
Credit Union Representative

____
Redemption Endorsement

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INSURANCE BENEFICIARY DESIGNATION

If life savings insurance is carried in connection with this account, I, the account owner who is insured, hereby agree that any amounts payable to anyone or added to this account by reason of such insurance shall be paid to

Name ______________ Address ______________

if then living whom I hereby designate beneficiary of such insurance. I reserve the right to change or terminate the designation of beneficiary. I further agree that any designation or change of beneficiary, or termination of designation, shall be binding upon the credit union only if filed with the credit union prior to my death on a form supplied by the credit union. In the absence of the filing of such a designation, change or termination, I agree on behalf of myself and my heirs, assigns, personal representatives and all other persons claiming through me to indemnify and save the credit union harmless from all loss or damage by reason of the payment of the proceeds of such insurance to the beneficiary named above. I understand that the credit union has no obligation to continue to provide life savings insurance and that whenever the credit union does provide such insurance, it may, in its sole discretion, cancel the insurance at any time.

Account owner who is insured

Signature ______________

Dated: ______________, 19____

Consent of spouse
(to be completed in community property states if designated beneficiary is someone other than spouse of insured)

Insurance Carrier ______________ Approved and consented to:

Contract No. ______________ Signature of spouse ______________

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APPLICATION FOR MEMBERSHIP

Account Number | Name (To be filled in by credit union)

Type of I.D. ______________ I.D. No. ______________

Complete Address ______________

Husband's first or Wife's maiden name ______________

Employer ______________ Bus. Phone ______________ Home Phone ______________

Dept. or Occupation ______________ Place of Birth ______________

Date of Birth ______________ Mother's maiden name ______________

Membership Eligibility ______________ Soc. Sec. No. or Tax Ident. No. ______________

By signing on the reverse side, I hereby make application for membership in and agree to conform to the bylaws and any amendments thereof in the

______________ CREDIT UNION

I also agree to the terms and conditions of any account that I have in the credit union now or in the future and agree that the credit union may change those terms and conditions from time to time. This application approved by the: (Check one)

( ) Board ( ) Exec. Committee Date ______________

( ) Membership Officer Signed ______________

Reverse side must be completed (Person representing approver of application)

DESIGNATION OF BENEFICIARY

This designation shall only be effective when delivered and filed with the Credit Union duly executed by an insured member and during the lifetime of the beneficiary designated.

Account Number ______________ Date ______________

I, ______________, being a member of the
(Type or Print)

______________ Credit Union, do hereby designate

______________; relationship, if any, ______________,

of ______________
Number Street or Route City State

as my beneficiary, if living, to receive any and all sums of money paid under and by virtue of the terms and conditions of the Life Insurance Contract, Life Savings Plan of the CUNA Mutual Insurance Society to the said Credit Union. I hereby reserve the right to change the beneficiary herein designated. The execution of a subsequent Designation of Beneficiary form shall constitute a change of beneficiary. Payment of proceeds to a designated beneficiary or, if none, to the beneficiary determined by the Credit Union as entitled to such proceeds under said Contract shall discharge the Credit Union from any and all liability to the extent of such payment.

______________ ______________
Witness Signature of Member (DO NOT PRINT)

DOB 5-63 Rev. C-87

Example 19

Example 20

Page 39A

6

NAME ______ ADDRESS ______ ACCOUNT NO. ______

SOC. SEC. NO. TAX IDENT. NO.

______ CREDIT UNION

FORM FCU 103-A REV. 66 - 11065

INDIVIDUAL SHARE AND LOAN LEDGER

		SHARES LEDGER				LOANS LEDGER					DELINQUENCY CONTROL		
DATE	POST REF	PAID IN	WITHDRAWN	BALANCE	FULL SHARES	NOTE NO.	INT. PAID	PRINCIPAL PAID	BALANCE	LATE CHGS.	BALANCE SHOULD BE	ON (DATE)	MEMORANDUM

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NOTE RECORD

NOTE NUMBER	DATE LOANED	AMOUNT	DATE OF FIRST PAYMENT	AMOUNT OF INSTALLMENTS	INSTALLMENT DUE EACH	COMAKERS ACC'T. NO.	COMAKERS NAME	OTHER SECURITY

COSIGNER ON NOTES OF OTHERS

DATE	NOTE NO.	ACC'T NO.	AMOUNT	DATE PAID

xample 21

Page 40A

Member

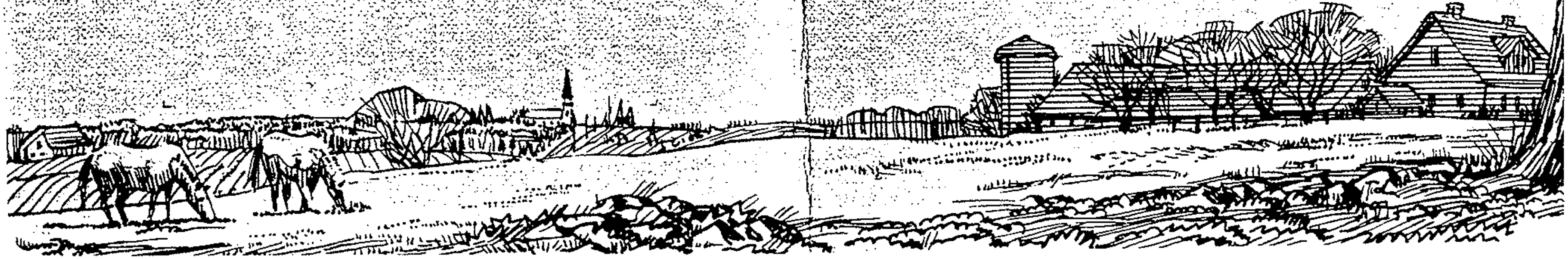
Credit Union

No.

M. ______________________________

IN ACCOUNT WITH THE

______________________ Credit Union



Form 107-A

IMPORTANT

The following is a safeguard to protect the member
and this Credit Union

•

In case this passbook is lost, notify the Credit Union in writing.

•

DO NOT PERMIT WITHDRAWALS
WITHOUT ADEQUATE IDENTIFICATION

•

This book should be verified by the Supervisory or Auditing Committee.

CUNA SUPPLY
Madison, Wisconsin
Printed in U.S.A.

#31166

Always present this book when paying or receiving money

This Book No. ______________ **Certifies that**

M ______________________________

Address ______________________________

has been duly elected a member of the

____

CREDIT UNION

Membership and accounts are subject to the Credit Union's charter and bylaws, applicable laws and regulations, and conditions established by the Credit Union's board of directors. Accounts are not transferable as defined in 12 CFR Part 204. Checks and drafts are credited only subject to collection.

Where payments are forwarded by mail or otherwise, the book should be presented for posting at least quarterly.

Repayments on loans and interest MUST BE MADE as per note and bylaws. Late charges for non-payment of loans as agreed will be levied unless excused by the board of directors.

5

SHARES						LOANS						
DATE	PAID IN	WITHDRAWN	BALANCE	FEE LATE CHGS.	CASHIER	DATE	LOANED	REPAID	BALANCE	INTEREST	LATE CHARGES	CASHIER

SHARES						LOANS						
DATE	PAID IN	WITHDRAWN	BALANCE	FEE LATE CHGS.	CASHIER	DATE	LOANED	REPAID	BALANCE	INTEREST	LATE CHARGES	CASHIER

CREDIT UNION PLEDGE FORM
(this can be used for pledge information only or also as a questionaire)

A credit union is a democratic financial institution that is owned and controlled by the people within a given community. They pool their savings and make loans to each other from the savings fund. Normally, credit union loans cost less than at other financial institutions. Members vote for the management they want – each member gets one vote, regardless of the amount they save. Any profits after all expenses and capital transfers have been made are returned to the membership in the form of dividends.

A local group assisted by the World Council of Credit Unions, whose main purpose is to promote credit unions worldwide, are considering starting a credit union is this area. To get started, pledge forms that will support the formation of this institution need to be gathered.

If you are interested in having a member owned and operated financial institution in this area please help us by answering the following:

_______ Yes. I would be interested in joining this credit union.

I would open a savings account with about:

____$5 ____$10 ____$25 ____$50 ____$100 ____$250 ____$500 ____$1000
____Other (please indicate how much)

I would expect to save about $__________ a month at the credit union.

I would be interested in volunteering my services to support the credit union.
_______Yes _________No ___________Unsure

Name____

Address____

Telephone____

QUESTIONS THAT MIGHT BE ASKED INCLUDE:

1. Do you live or work in this town, village, neighborhood? _____Yes ______No

2. Do you currently belong to a credit union? _______Yes ________No

If Yes, name the credit union ______________________________________

3. If a credit union were formed here, which serves would you use? Please check the services you would use.

_______Savings Accounts	Loans_______(check type also)
_______Club, Associational or Organizational Savings Accounts	Unsecured__________
_______Youth Savings Accounts	Vehicle____________
_______Certificates of Deposit	Jewelry or personal goods ________
_______Retirement Accounts	Savings Secured____________
_______Checking Accounts	Real Estate_______________
_______Business Accounts	Business or Agricultural type loans_________________
_______Check Cashing	Other____________________

4. What hours do you think the credit union should be open?__________________

It is important that the pledge form is designed properly. The answers to the questions will help the organizers develop the business plan. Keep in mind the following when developing the pledge form:

- What needs will the credit union seek to meet? What types of loans, savings accounts, and services is there a need for?
- How many people are likely to become members and/or volunteers? Do they have the necessary skills needed to direct a credit union?
- How large a deposit base can be expected? This information is important for the pro forma statements discussed in the business plan. When gathering this information, the individuals completing the form should understand that they will be asked to make good on their pledges so they should be realistic when making pledges.
- Can any support be expected from local businesses or organizations? This could be in the form of deposits, monetary donations, office space or equipment donations.
- What member usage patterns can be expected? How often will the members use the credit union and what services are needed? When should the credit union be open for business?
- Keep this form simple and short, so that people will be willing to complete the information.

Supervisory Committee Job Prerequisites:
1. Experience in accounting, finance, and/or auditing.
2. Ability to read and interpret financial statements.
3. Understanding of and commitment to credit union philosophy.
4. Basic understanding of laws governing the credit union.
5. Knowledge of all credit union policy and procedures.
6. Ability to work as part of a team.

SUPERVISORY COMMITTEE JOB DESCRIPTION AND TERMS OF AGREEMENT

I fully understand and do hereby agree, that to serve on the supervisory committee, I will conform to and perform to the best of my ability the following:

1. To insure that the credit union complies with the law, regulations, bylaws, and annual general meeting resolutions, and policies of the Board of Directors.
2. To oversee the performance of the Board and the credit union manager. Periodically inspect the credit union's records for accuracy, its assets for security, and its procedures for the proper handling and use of funds. To perform various internal audits to evaluate internal operations and controls (policies and procedures) at least once a month, and make accounting and procedural recommendations regarding the internal controls. These recommendations will be submitted in writing to the board at the monthly board meeting.
3. To audit, or cause to be audited by an outside auditor if the committee is not capable of performing the audit of the financial records and books of the credit union, no less frequently than annually. The audit shall include a 100% verification of the member accounts with the records of the treasurer or manager. The committee shall maintain a record of such verification.
4. To present the annual audit report to the board of directors and give a report at each regularly scheduled board meeting detailing the activities undertaken by the committee since the last meeting.
5. At the annual general meeting give its opinion on the financial statements presented by the Board of Directors.
6. The committee shall receive and investigate any complaint or appeal by members concerning the operations of the credit union.
7. At least monthly, perform a physical count of cash to determine that the amount corresponds to the records, and review and verify securities and investments held by the credit union.
8. Attest to the balance sheet and income statement, which the treasurer and/or the manager are required to prepare by the 20^{th} of the following month.

____
Signature

____
Date

Credit Committee Job Prerequisites:

1. Experience in granting consumer credit and commercial credit (if offered).
2. Established member in the community that the credit union will serve. Familiar with the majority of the potential members.
3. Basic understanding of laws governing the credit union.
4. Knowledge of credit union lending and collection policies and procedures.
5. Understanding of and commitment to credit union philosophy.
6. Ability to work as part of a team.

CREDIT COMMITTEE JOB DESCRIPTION AND TERMS OF AGREEMENT

I fully understand and do hereby agree that to serve on the credit committee, I will conform to and perform to the best of my ability the following:

1. Meet no less frequently than monthly and more frequently as required by the volume of business referred to the credit committee for decision or review.
2. Provide counsel to members in the wise use of credit.
3. Review applications for loans and make decisions upon such applications within the authority delegated to the committee by the board of directors. All loan decisions must be based on the loan policies established by the board. Decisions should not only be fair to the members, but also beneficial to the credit union's health.
4. Act upon the request of a member with respect to amendment of the terms and conditions of a loan provided such amendment falls within the regulations permitted in the loan policy.
5. Review and confirm all loan applications, which have been declined by an employee of the credit union.
6. Give preference to the smaller loan applications if the need and credit factors are equal, should adequate funds not be available to meet all loan demand.
7. Evaluate the credit union's loan performance annually, including a breakdown of the dollar amounts of loans approved, total number of loan approved, a breakout of the number and percentage of loans by purpose and collateral, the total number of borrowers, the average loan size, the ratio of borrowers to members, the ratio of loans to savings, and the number of loan rejected.
8. Review credit union loan policies along with performance. Recommend possible changes to loan policy.
9. Prepare a report for the annual meeting summarizing the loan activity for the year.

____

Signature

____

Date

Board of Director Job Prerequisites:

1. Understanding of and commitment to credit union philosophy.
2. Ability to read and interpret financial statements.
3. Basic understanding of laws governing the credit union.
4. Familiarity with asset liability management.
5. Familiarity with lending and collections.
6. Familiarity with marketing concepts.
7. Knowledge of risk measurement and effective management.
8. Ability to work as part of a team.
9. Strong oral communication skills.

BOARD OF DIRECTOR JOB DESCRIPTION AND TERMS OF AGREEMENT

I fully understand and do hereby agree, that to serve on the board of directors, I will conform to and perform to the best of my ability the following:

1. Attend monthly board and committee meetings, annual membership meeting, any special membership meetings, and annual planning seminar.
2. Read and evaluate monthly financial reports and other board materials before meetings.
3. Provide input and participate in decisions of the board.
4. Represent the credit union to the community.
5. Promote the credit union and its services as appropriate in day to day interactions.
6. Consider the business of the credit union and its members to be confidential in nature.
7. If for any reason that a board member has a conflict of interest with any credit union business, this conflict should be disclosed and the member should refrain from voting on issues related to the conflict of interest.
8. To comply and enforce compliance with the objectives of the credit union. Work with the manager to develop short and long range planning, based on the objectives that meet the needs of members, reflect credit union philosophy, and assure sound operation.
9. Determine from time to time, the minimum share requirement and share value for membership in the credit union and the maximum amount of savings that may be owned by one member provided that no member shall hold more than 10% of the total savings amount.
10. Control the investments of the credit union except to the extent that the board may have delegated this responsibility to the executive committee or to the manager.
11. Determine from time to time the services, loan interest rates, savings dividend rates, and types of deposits and loan accounts, which the credit union shall offer to its members.
12. Approve credit union procedures and policies, financial statements, the annual budget, and the long- term business plan.
13. Perform an annual written appraisal of the manager based on goals established in the budget and business plan.
14. Authority to declare a savings dividend and / or loan interest refund.

15. Designate a safe depository for surplus funds and investment.
16. Approve any external borrowings of the credit union.
17. Employ, establish compensation of, and prescribe the duties of the manager and have the power to remove this employee with due cause.
18. Ensure the safe preservation of the credit union books and records.
19. Authorize the executive officer and treasurer, or such other persons as may be agreed to by the board of directors, to sign all official documents on behalf of the credit union.
20. Supervise the collections of loans, authorize the writing off of bad or uncollectible loans and their removal from the books.
21. Approve loans to directors and committee members by a simple majority vote.
22. Plan, and hold all annual and special meetings.
23. Report to the annual general meeting on: the activities occurring since the last annual meeting, the annual plan and budgets, financial statements audited by the supervisory committee, and the proposed use of profits for the fiscal year.
24. Appoint a security officer and determine the security needs of the credit union.
25. Request amendments to the charter and bylaws as needed.
26. Hold monthly meetings. The minutes of these meetings and all committee meetings shall be in writing and prepared within 10 days of the respective meeting and verified by the recorder or secretary and the presiding officers of the meeting. Such minutes shall contain the names of members present, the date, time, and place of the meeting, and a record of material discussions and all decisions made. The minutes shall become part of the permanent records of the credit union and shall be available for inspection by members at a time(s) prescribed by the board of directors.
27. To appoint an executive committee, specific committees, and task forces as may be necessary to improve the administration of the credit union and its services, and also to appoint or remove delegates representing the credit union in other organizations.
28. Suspend any member of the supervisory committee by a majority vote of the board of directors. The members of the credit union shall decide, at a special meeting held within 14 days after any such suspension, whether the suspended committee member shall be removed from or restored to the supervisory committee.
29. Appoint the credit committee members within 10 days of the annual general meeting, if the committee has not been dissolved.

____

Signature of Board Member

____

Date

What is a Credit Union?

A credit union is a member-owned, not for profit cooperative thrift institution formed for the purpose of encouraging savings by offering a good return, using collective monies to make loans at competitively low interest rates to members, and providing other financial services. Members are united by a common bond of association and democratically operate the credit union under state or federal regulation.

Plans are under way to open a credit union in Saguache County. Please complete and return the following survey as quickly as possible so we can offer services that best fit your needs. **Thank you!**

1. Have you ever been a member of a credit union?
   [ ] Yes [ ] No

2. Would you be interested in joining a credit union?
   [ ] Yes [ ] No If no, why not? ______________________
   ____

3. With a credit union which of the following services would you take advantage of?

PERSONAL SERVICES
[ ] refinancing existing loans
[ ] direct deposit of payroll, SS checks
[ ] to take out an auto loan
[ ] home mortgage
[ ] savings account; IRA, CD, Money Market
[ ] to open a checking account
[ ] credit cards
[ ] financial counseling
[ ] other, please specify ______________

BUSINESS SERVICES
[ ] small business loans
[ ] business savings account
[ ] business checking account
[ ] merchant credit card services
[ ] business credit card services
[ ] business financial counseling
[ ] other, please specify ______________

4. Listed below are some savings programs offered by a credit union. Please check the programs you would use assuming the rates are competitive with the market.

[ ] Passbook savings account
[ ] Certificates of deposit
[ ] Individual retirement accts
[ ] Money market accounts

5. With a credit union what would be your average balance in a:
   Passbook savings $________ CD $________ IRA $________

6. If you open a checking account what would be your monthly balance? $________

7. How many checks would you estimate that you write in a month? ________

8. Do you or other members of your household currently have loans outstanding?
If yes what kind?

[ ] Small business loan
[ ] Agricultural loan
[ ] Line of credit
[ ] Auto loan
[ ] Personal loan
[ ] Home mortgage loan
[ ] Home equity loan
[ ] Other ______________________

9. What do you find unsatisfactory with your current lender?

[ ] Location, availability
[ ] Personal service
[ ] Excessive collateral necessary
[ ] High interest rates
[ ] Other, please specify ______________________

10. What is your annual household income before taxes?

[ ] Less than 10,000
[ ] 10,000-19,999
[ ] 20,000-29,999
[ ] 30,000-39,999
[ ] 40,000-49,999
[ ] 50,000 and higher

11. How do you currently conduct most of your business with your bank?

[ ] In person [ ] By mail [ ] By phone [ ] Direct deposit [ ] Not at all

12. How would you do business with a credit union centrally located in Saguache County?

[ ] In person [ ] By mail [ ] By phone [ ] Direct deposit [ ] Not at all

13. This survey represents the responses of how many adults?

[ ] One adult [ ] Two adults [ ] Three adults [ ] Four or more adults

14. What are the ages of these adults?

[ ] 18-24 [ ] 25-34 [ ] 35-44 [ ] 45-54 [ ] 55-64 [ ] 65 & over

15. Please provide any other comments or suggestions in the space provided below.

____

____

Saguache County Credit Union, P.O. Box 424, Moffat, CO 81143
Thank you for your time spent completing this important survey!!!

______________________________ CREDIT UNION

Minutes of Regular Monthly Meeting of the Board of Directors

The meeting was called to order by ______________________________ at ______________
on the ____________ day of __________, 19_____ at ______________ A.M.-P.M. ______________

The following directors were present:

The minutes of the regular meeting of the directors, held on ______________________, 19_____, were read and approved.

Motion carried: That the following applications for membership be approved and the secretary was instructed to make notation of the date of election on each signature card.

The treasurer made his monthly report showing ______________ new members the past month, __________ members at the end of last month, shares balances of $ ______________, loans balance of $ ______________, and cash in the bank of $ ______________. After a short discussion, the report was accepted by the board.

Committee reports received and the action taken on each was as follows:

Communications received since the last meeting were read and action taken as follows:

The following expense items were approved for payment:

Unfinished business from previous meetings:

Action taken to review delinquent loans:

New business:

Meeting adjourned at ______________ A.M.-P.M.

Signed ______________________________
Secretary

Signed ______________________________
President

PROJECTED INCOME AND EXPENSE STATEMENT

FOR ____________________ (the end of the budget year)

	Annual Budget		1st Qtr. Budget	1st Qtr. Actual	2nd Qtr. Budget	2nd Qtr. Actual	3rd Qtr. Budget	3rd Qtr. Actual	4th Qtr. Budget	4th Qtr. Actual	Annual Budget	Annual Actual	
INCOME													
Operating Income													
Loan Interest Income													
Investment Interest Income													
Fees and Charges													
Other Operating Income													
TOTAL OPERATING INCOME													
Non Operating Income													
TOTAL GROSS INCOME													
EXPENSES													
Salaries													
Employee Benefits													
Travel and Conference													
Association Dues													
Office Occupancy													
Office Operations													
Educational & Promotional													
Loan Servicing													
Professional and Outside Services													
Provision for Loan Losses													
Insurances													
Regulatory Operating Fees													
Annual Meeting													
Miscellaneous													
TOTAL OPERATING EXPENSES													
DIVIDENDS													
Member Savings Dividends													
Non Member Interest													
TOTAL DIVIDENDS													
Required Reserve Transfer													
NET INCOME													

* For an explanation of each income and expense category please see the Business Plan section pages 12-14.

	PROJECTED STATEMENT OF FINANCIAL CONDITION		
	OR BALANCE SHEET		
	AS OF ____________________ (end of budget year)		
ASSETS	Balance	**LIABILITIES**	Balance
Share Secured Loans		Accounts Payable	
Loans secured by Real Estate		Dividends Payable	
Business and Agricultural		Notes Payable	
All Other Loans		Accruals	
TOTAL LOANS		Other Liabilites	
Allowance for Loan Loss		TOTAL LIABILITIES	
NET LOANS		**SHARES**	
Cash		Regular Savings	
		Club Accounts	
Investments		Certificates of Deposit	
		Retirement Accounts	
Land and Building		Checking Accounts	
(net of depreciation)		Other Member Accounts	
		Non Member Accounts	
Other Fixed Assets		TOTAL SHARES	
(net of depreciation)			
		EQUITY	
All Other Assets		Undivided Earnings	
		Required Reserves	
		Obligatory Share Capital	
		Net Income / Loss	
		TOTAL EQUITY	
		TOTAL LIABILITIES	
TOTAL ASSETS		AND EQUITY	

* For an explanation of each balance sheet item please see the Business Plan section of this document pages 14-16.

Ratios: Calculation and Purpose

	Ratio	Calculation	Purpose
1.	Average savings balance	$\frac{\text{savings (in dollars)}}{\text{members}}$	To determine credit union's ability to make loans. With a low savings balance, a credit union can make fewer large loans.
2.	Average loan balance	$\frac{\text{loans (in dollars)}}{\text{number of outstanding loans}}$	Indicates if credit union is meeting the borrowing needs of its members.
3.	Loans to savings	$\frac{\text{loans (in dollars)}}{\text{savings (in dollars)}}$	Indicates the percentage of savings dollars loaned to members and its impact on credit union earnings (greater earnings usually achieved when more member savings are lent to members).
4.	Delinquent loans to loans	$\frac{\text{delinquent loans}}{\text{loans (in dollars)}}$	To determine delinquency and to evaluate collection and lending policies.
5.	Loans to assets	$\frac{\text{loans (in dollars)}}{\text{total assets}}$	Indicates percentage of member loans to total assets.
6.	Investment to assets	$\frac{\text{investments (in dollars)}}{\text{total assets}}$	Indicates percentage of investments to total assets. (Both these ratios provide insight as to how credit union assets are invested. A higher percentage of loans to assets should indicate that there is higher income potential.)
7.	Savings to assets	$\frac{\text{savings}}{\text{total assets}}$	To determine the amount of assets supported by member savings.
8.	Total equity to total assets	$\frac{\text{total equity (reserves and undivided earnings)}}{\text{total assets}}$	Indicates the percentage of "free" capital the credit union has available to invest, loan to members or use to purchase other credit union assets. ("Free" means that there is not a cost connected with the amount such as is the case with dividends paid on member savings.)

Ratios: Calculation and Purpose

(From Basic Budgeting, by James Aho, pages 43-45)

Ratio		Calculation	Purpose
9.	Operating expense to income	$\frac{\text{operating expense}}{\text{total income}}$	Provides trend figures to measure efficiency of operations.
10.	Dividends to total income	$\frac{\text{dividends}}{\text{total income}}$	To determine the percentage of credit union income that is returned to members in the form of dividends.
11.	Return on loans	$\frac{\text{interest income from member loans}}{\text{average loans for the period}}$	Indicates the current overall return on loans outstanding.
12.	Return on investments	$\frac{\text{interest income from investments}}{\text{average investments for the period}}$	Indicates the overall return on investments.
13.	Cost of savings	$\frac{\text{total dividends}}{\text{average savings for the period}}$	Indicates the current average cost of acquiring member savings.
14.	Interest return on assets	$\frac{\text{total interest income}}{\text{average assets for the period}}$	Indicates the rate of asset earnings against which expenses, dividends and reserve transfers will be made. When compared with the return on earning assets, it reveals the burden of non-earning assets.
15.	Interest cost of total funds	$\frac{\text{total dividends and interest expense}}{\text{average assets for the period}}$	Indicates the current overall cost of funds.
16.	Net interest margin to assets	$\frac{\text{interest income less dividends and interest paid}}{\text{average assets for the period}}$	To determine the interest margin available to cover expenses, reserve transfers, interest refunds, and transfers to undivided earnings.
17.	Other income to assets	$\frac{\text{other income}}{\text{average assets for the period}}$	Provides a measure of the effect which fees and other income have on the credit union's net income.

[redacted]

[redacted]

Example 30

Ratios: Calculation and Purpose

	Ratio	Calculation	Purpose
18.	Total operating expenses to total assets	$\frac{\text{operating expenses (excluding interest and provision for loan loss expenses)}}{\text{average assets for the period}}$	Provides another measure of current credit union efficiency.
19.	Provision for loan losses to assets	$\frac{\text{provision for loan losses}}{\text{average assets for the period}}$	To provide a measure of the effect of net credit losses on the credit union's spread.
20.	Net spread	$\frac{\text{net income}}{\text{average assets for the period}}$	To determine the margin available to cover transfers to reserves and increase undivided earnings.

[redacted]

[redacted]

xample 31

CREDIT UNION

(NAME OF BANK) (BANK ACCOUNT NUMBER) (CITY) (STATE)

BANK RECONCILEMENT

DATE ____________

BANK BALANCE PER BOOKS ____________

ADDITIONS
Items added by Bank but not yet entered on books of Credit Union.

TOTAL ADDITIONS ____________

SUB-TOTAL

DEDUCTIONS
Items deducted by Bank but not yet entered on books of Credit Union.

TOTAL DEDUCTIONS ____________

ADJUSTED TOTAL

BANK BALANCE PER BANK STATEMENT ____________

DEDUCTIONS

OUTSTANDING CHECKS

CHECK NO.	AMOUNT	CHECK NO.	AMOUNT	CHECK NO.	AMOUNT	CHECK NO.	AMOUNT
SUBTOTAL		SUBTOTAL		SUBTOTAL		SUBTOTAL	

OUTSTANDING CHECKS — Grand Total of All Columns ____________

SUB-TOTAL

ADDITIONS
Items added by Credit Union but not yet entered on the Bank's records. ____________

TOTAL ADDITIONS ____________

ADJUSTED TOTAL

PREPARED BY: ____________

FORM FCU 108 Rev. 82 Printed in U.S.A. 11097

xample 32

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JOURNAL VOUCHER ______________________________ C. U.

ACCT NO. NAME DATE

	DEBIT				CREDIT	
			SHARES			
			CASH			
			LOANS			
			INTEREST			

CHECK NO. __________ AMT. __________

ENTERED JCR __________ POSTED __________

Form FCU 106-A Printed in U.S.A. by Union Labor 11087

APPROVED OR AUTHORIZED BY

RECEIVED BY

Number 1

CREDIT UNION

CASH RECEIVED VOUCHER

Deposits may not be available for immediate withdrawal

DATE	ACCOUNT NO.
NAME	

	CASH		OTHER	
Shares				
Late Charges				
Interest on Loans				
Loans				
Share Draft				
TOTAL				

RECEIVED BY:

POSTED

MEMBER'S PASSBOOK BALANCES:

SHARES $

LOANS

11078 Rev. 1/89 CHECKS CREDITED SUBJECT TO COLLECTION

Number 2

Example 33

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Page No.______

Month of ________ 19__

________ CREDIT UNION

JOURNAL AND CASH RECORD

	INTEREST ON LOANS CR.	FEES & CHARGES CR.	RECOVERIES CR.					OPERATING EXPENSE CONTROL		ACCOUNT	√	MISCELLANEOUS	
								ACCT. NO.	AMOUNT			DR.	CR.
	COL. 14	COL. 15	COL. 16	COL. 17	COL. 18	COL. 19	COL. 20	COL. 21	COL. 22	COL. 23	24	COL. 25	COL. 26
1													
2													
3													
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33													
34													

3

3

Page No. ________

________ CREDIT UNION

Month of ____________ 19____

JOURNAL AND CASH RECORD

DATE	ACCT. NUMBER	NAME OR ITEM	√	CHECK NUMBER	CASH		DATE CHECK PAID	SHARES		NOTE NUMBER	LOANS		
					RECEIVED DR.	PAID OUT CR.		WITHDRAWN DR.	PAID IN CR.		LOANED DR.	REPAID CR.	
COL. 1	COL. 2	COL. 3	4	COL. 5	COL. 6	COL. 7	COL. 8	COL. 9	COL. 10	COL. 11	COL. 12	COL. 13	
													1
													2
													3
													4
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													34

Example 34

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CREDIT UNION

GENERAL LEDGER

NAME OF ACCOUNT

ACCOUNT No.

DATE	EXPLANATORY REMARKS	FOLIO	DEBIT	CREDIT	DEBIT BALANCE	CREDIT BALANCE

FORM FCU 102 Printed in U.S.A. 11063

ACCOUNT NO. ______

______ CREDIT UNION

FORM FCU 102 Printed in U.S.A. by Union Label 11063

GENERAL LEDGER

NAME OF ACCOUNT ______

DATE	EXPLANATORY REMARKS	FOLIO	DEBIT	CREDIT	DEBIT BALANCE	CREDIT BALANCE

Example 35

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STATEMENT OF FINANCIAL CONDITION AS OF ______________________, 19 ____

Internal Use Only
Report Type ____

Acct. Code No. 100

Chapter # or Ins. Cert. # ________________________________ CREDIT UNION

ASSETS

Ref.*	Item	LOANS & CASH	$ Amount	¢	Acct. Code
	1. a.	Commercial and agricultural loans to members			
	b.	Real Estate loans to members (first lien), original maturity over 12 years			
	c.	Loan balance fully secured by shares			
	d.	All other loans to members (excluding a, b, c, above)			
	e.	Total loans to members (include items a, b, c, and d)			
	f.	All other loan accounts (excluding amts. in 1a, b, c, and d)			
	2.	Total loans (Sum of 1e and f)			
	3.	(Less) Allowance for loan losses			
	4.	Net loans outstanding (Sum of 1e plus 2 less 3)			
	5.	Cash (cash on hand, petty cash, checking accts., etc.)			

INVESTMENTS (A + B = C)	Remaining Maturities A. 1 yr or less		Remaining Maturities B. More than 1 yr.		Total C $	¢	
6. U.S. Gov. Obligations							
7. Federal Agency Securities							
8. Shares, Deposits & Certif. in Corp. Centrals							
9. Shares, deposits & certif. in other CUs, banks, S&Ls, & MSBs							
10. Other investments							
11. NUCSIF Capital Deposit							
12. Shares in Central Liquidity Facility (Direct or Indirect)							
13. (Less) Allowance for Investment securities							
14. Mutual funds, incl. common trust investments							
15. (Less) Allow. for common trust & mutual fund invstmt. losses							
16. Trading securities (at market)							
17. Net Investments (Sum of 6-12, 14 and 16, less 13 and 15)							

Ref.*	OTHER ASSETS	$	¢	
	18. Land and buildings (net of depreciation)			
	19. Other fixed assets (net of depreciation)			
A	20. Monetary control reserve deposits			
	21. All other assets			
	22 TOTAL ASSETS (Sum of 4, 5, 17, and 18-21)			

LIABILITIES AND EQUITY

Ref.*	Item (A + B = C)	Remaining Maturities A. 1 Yr. or less		Remaining Maturities B. More than 1 Yr.		Amount C. $	¢	Acct. Code
	23. Notes Payable							
	24. Reverse repurchase transactions							
	25. Interest payable							
B	26. Accounts payable							
	27. Dividends/Interest on shares/deposits payable							
	28. Unapplied data processing exceptions							
	29. All other liabilities							
	30. TOTAL LIABILITIES (Sum of 23-29)							

		Remaining Maturities A. 1 yr. or less		Remaining Maturities B. More than 1 yr.		Amount C $	¢	
	31. a. Share certificates							
	b. Share draft accounts							
	c. Members' deposits (SCU's only)							
	d. IRA/Keogh & retirement accounts							
	e. Other member savings							
	f. Non-member savings							
	g. Total savings/shares/deposits (Sum of 31a-31f)							

		$	¢	
	32. Regular/statutory reserves			
	33. Investment valuation reserve (SCU's only)			
	34. Special reserves			
	35. Other reserves			
	36. Undivided earnings			
	37. Net Income (loss)			
	38. TOTAL LIABILITIES AND EQUITY (Sum of 30, 31g and 32-27)			

	MARKET VALUES OF INVESTMENTS	Remaining Maturities A. 1 yr. or less		Remaining Maturities B. More than 1 yr.		Amount C $	¢	
	39. U.S. Government Obligations							
	40. Federal Agency Securities							
	41. All other investments							

* Numbers in this column refer to notes in financial statements, letters refer to supplementary schedules which are attached.

Example 36

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Internal Use Only Report Type | Acct. Code No. ____ | Charter # ____ or Ins. Cert. #

STATEMENT OF INCOME FOR PERIOD ENDED ____

____ CREDIT UNION

Refer to the Accompanying Statement of Reserves and Undivided Earnings for the Change in Undivided Earnings.

Ref. *	Item	INTEREST INCOME	Month ____ $ Amount	¢	Period From ____ To Date. $ Amount	¢	Year To Date ____ $ Amount	¢	Acct. Code No.
		42. Interest on Loans (Gross)							
		43. (Less) Interest Refunded							
		44. Income from Investments							
		45. Total Interest Income (Sum of 42-44 less 43)							
		INTEREST EXPENSE							
		46. Dividends							
		47. Interest on Borrowed Money							
		48. Total Interest Expense							
		49. Net Interest Income (Item 45 less 48)							
		50. Provision for Loan Losses							
		51. Provision for Unrealized Mutual Fund Losses							
		52. Net Interest Income after Provisions for Losses							
		(Item 49 less 50 and 51)							
		OPERATING EXPENSES							
		53. Employee Compensation							
		54. Employee Benefits							
		55. Travel & Conference							
		56. Association Dues							
		57. Office Occupancy Expenses							
		58. Office Operation Expenses							
		59. Loan Servicing Expenses							
		60. Professional & Outside							
		61. Member Insurance							
		62. Operating Fees (Exam)							
		63. Misc. Operating Expense							
		64. Total Operating Expense (Sum of 53-63)							
		OTHER OPERATING INCOME							
		65. Operating Income							
		66. Trading Profits and Losses							
		67. Total Other Operating Income (Sum of 65-66)							
		NON-OPERATING INCOME							
		68. Gain (Loss) on Investments							
		69. Gain (Loss) on Disposition of Assets							
		70. Other Non-Operating Income (Expense)							
		71. Total Non-Operating Gains and Losses							
		72. Net Income (Sum of 52, 67 and 71 [illegible]s 64)							

Ref. *	Item	CLASSIFICATION OF LOANS OUTSTANDING	A. Number	B. $ Amount	¢	Acct. Code No.
		73. Degree of Delinquency:				
		a. Current and less than 2 months				
		b. 2 to less than 6 months				
		c. 6 to less than 12 months				
		d. 12 months and over				
		e. Total loans (Sum of 73a thru 73d) (must equal 1e + 2)				
		MISCELLANEOUS INFORMATION				
		74. Number of members at end of month				
		75. Number of potential members				
		OTHER LOAN INFORMATION				
		76. Loans sold and being serviced by credit union				
		77. Real estate loans made during current year				
		78. Total loans made during current year (include real estate loans)				
		79. Total loans made since organization				
		80. Total loans charged-off since organization				
		81. Recovery of loans charged-off since organization				
		82. Net loans charged-off since organization				

We certify, to the best of our knowledge and belief, this statement and the related statements are true and correct and present fairly the financial position and the results of operations for the periods covered.

Certified corrected by: (PLEASE PRINT) ____ Telephone No. ____

Treasurer-Manager (Signature) ____ Date ____

President/Authorized Officer ____ Date ____

*Numbers in this column refer to notes to financial statements; Letters refer to supplementary schedules which are attached

Example 37

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PRINTED IN U.S.A
CUNA SUPPLY COOPERATIVE
MADISON 1, WISCONSIN
FORM FCU 104 - REV. 53

CREDIT UNION

EXPENSE LEDGER

DATE	FOLIO	EXPENSE TOTAL	DISTRIBUTION													
			TREASURER'S SALARY	OTHER SALARIES	BORROWERS' INSURANCE	LIFE SAVINGS INSURANCE	LEAGUE DUES	SURETY BOND PREMIUM	EXAMINATION FEES	SUPERVISION FEE	INTEREST ON BORROWED MONEY	STATIONERY AND SUPPLIES	COST OF SPACE OCCUPIED	EDUCATIONAL EXPENSE	COLLECTION EXPENSE	DEPR. FURN. FIXTURES & EQUIPMENT

Page 61(b)

_________________ CREDIT UNION

EXPENSE LEDGER

DISTRIBUTION												MISCELLANEOUS GENERAL EXPENSE	
SOCIAL SECURITY TAXES	OTHER INSURANCE	RECORDING FEES-CHATTEL LIEN INS.	COMMUNI-CATIONS	LOSSES ON SALE OF BONDS	CASH OVER & SHORT	OTHER LOSSES	BANK SERVICE CHARGE					AMOUNT	EXPLANATION

PRINTED IN U.S.A.
CUNA SUPPLY COOPERATIVE
MADISON 1, WISCONSIN
FORM FCU 104 - REV. 53

DATE ____________

ACCT.NO. ____________

NAME ____________

CASH	Currency		
	Coin		
CHECKS			
TOTAL			

DEPOSIT DISTRIBUTION

MEMBER SHARE (savings)	$	
SHARES (Other) NO.	$	
SHARE DFT. (checking) NO.	$	
LOAN PAYMENT NO.	$	
NO.	$	
MISC.	$	
CASH BACK	$	
TOTAL		

SIGNATURE ____________ Signature acknowledges receipt of cash back.

DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

WITHDRAWAL REQUEST

Date ____________

Account Number ____________

Cash W/D Amount $ ____________

Name ____________

Check W/D Amount $ ____________

Check Payable to:

X ____________

Signature of Member on Account

____

Member must sign check stub, if other than to member.

"PLEASE SEND PROPER IDENTIFICATION WITH THIS SLIP TO TELLER"

Please complete one side only.

xample 39 Page 63A

CHART OF GENERAL LEDGER ACCOUNTS
(From NCUA Accounting Manual, pages GL-1 – GL-9)

The chart of General Ledger accounts includes six main groups of accounts as follows:

OPERATING INCOME ACCOUNTS (100 SERIES)

110 Income from Loans
- 111 Interest on Loans
  - 111.1 Interest on Business Loans
  - 111.2 Interest on Agriculture Loans
  - 111.3 Interest on Consumer Loans
  - 111.4 Interest on Mobile Home Loans
  - 111.5 Interest on Share Secured/Insured
  - 111.6 Interest on Other Member Loans
  - 111.7 Interest on Home Equity Loans
- 112 Interest on Lines of Credit
  - 112.1 Interest on Other Lines of Credit
  - 112.2 Interest on Credit Cards
- 113 Income from Loans of Liquidating Credit Unions
- 114 Interest on Real Estate Loans
  - 114.1 Interest on Real Estate Loans Over 12 Years
  - 114.2 Interest on Real Estate Loans 12 Years and Under
- 115 Interest on Loans and Other Obligations Purchased (100%)
- 116 Interest on Loans Participations Purchased
- 117 Service Income on Loans Sold and Participations
- 118 Interest Income on Other Miscellaneous Nonmember Loans
- 119 Interest Refunds

120 Investment Income
- 121 Income from U.S. Government Obligations
- 122 Income from Federal Agency Securities
- 123 Income form Investment in NCUSIF
- 124 Interest on Trading Securities
- 125 Income from Common Trust Investments
- 126 Income from Shares/Deposits/Certificates of Corporate Credit Unions
- 127 Income from Shares/Deposits/Certificates of Other Credit Unions
- 128 Income from Other Shares/Deposits/Certificates
  - 128.1 Income from Investments in Credit Union Services Corporations (CUSO)
- 129 Income from Other Investments

130 Fees and Charges
- 131 Other Fees and Charges
- 132 Loan Origination Fees

140 Gain (Loss on Sale of Loans and Other Obligations
- 141 Gain (Loss) on Sale of Eligible Obligations

150 Miscellaneous Operating Income
- 151 Other Miscellaneous Operating Income
- 152 Miscellaneous Fee Income
- 153 Credit Card Interchange Income

- 154 Miscellaneous Operating Income Earned on Leases
- 160 Service Income on Loans and Other Obligations
  - 161 Service Income of Loans and Other Obligations
  - 162 Service Income on Credit Card Loans
  - 163 Service Income-Net Commitment Fees
- 170 Trading Profits and Losses

OPERATING EXPENSE ACCOUNTS (200-300 SERIES)

- 210 Compensation Expense
  - 221 Salaries
  - 212 Reimbursement to Sponsor for Services
  - 219 Other Compensation
- 220 Employee Benefits
  - 221 Pension Plan Costs
  - 222 Social Security Taxes (Employers' Share)
  - 223 Unemployment Compensation Taxes
  - 224 Other Employee Benefits
- 230 Travel and Conference Expenses
  - 231 Employees' Travel and Conference Expenses
  - 232 Officers' and Directors' Travel and Conference Expenses
  - 239 Other Travel and Conference Expenses
- 240 Association Dues
- 250 Office Occupancy Expenses
  - 251 Rent
  - 252 Maintenance of Buildings
  - 253 Utilities
  - 254 Depreciation of Buildings
  - 255 Amortization of Leasehold Improvements
  - 256 Real Estate Taxes
  - 257 Depreciation Expense for Leased Assets
  - 259 Other Office Occupancy Expenses
- 260 Office Operations Expenses
  - 261 Communications
  - 262 Rental of Furniture and Equipment
  - 263 Maintenance of Furniture and Equipment
  - 264 Stationery and Supplies
  - 265 Insurance
  - 266 Depreciation of Furniture and Equipment
  - 268 Bank Service Charges
  - 269 Other Office Operations Expenses

270 Educational and Promotional Expense
- 271 Advertising
- 272 Publicity and Promotions
- 279 Other Educational and Promotional Expenses

280 Loan Servicing Expenses
- 282 Collection Expenses
- 283 Recording Fees-Chattel Lien Insurance
- 284 Credit Reports
- 285 Refunds-Real Estate Finance Charges
- 286 Credit Card Program Expenses
- 287 Service Fees on Loans Purchased
- 289 Other Loan Servicing Expenses

290 Professional and Outside Services
- 291 Legal Fees
- 292 Audit Fees
- 293 Accounting Services
- 294 Management Consulting Fees
- 299 Other Professional and Outside Services

300 Provision for Loss
- 301 Provision for Loan Losses-Consumer Loans
- 302 Provision for Loan Losses-Lines of Credit
- 303 Provision for Loan Losses-Real Estate Loans
- 304 Provision for Loan Losses-Mobil Home Loans
- 305 Provision for Loan Losses-Other Loans
- 309 Other Provision for Losses

310 Members' Insurance
- 311 Share Insurance
- 312 Life Savings Insurance
- 313 Borrowers' Insurance
- 319 Other Members' Insurance

320 Federal Operating Fee Expense

330 Cash Over and Short

340 Interest on Borrowed Money
- 341 Inputed Interest Costs
- 342 Other Interest on Borrowed Money

350 Annual Meeting Expenses

360 Truth in Lending Expenses (TIL)
- 361 Truth in Lending Reimbursement of Interest Overcharges
- 362 TIL Restitution

370 Miscellaneous Operating Expenses
- 371 Unexercised Commitment Fees
- 372 Commitment Fees on Borrowed Money

[redacted]

380 Dividend Expenses
- 380.1 Regular Share Dividend Expense
- 380.2 Share Draft Dividend Expense
- 380.3 Club Account Dividend Expense
- 380.4 IRA/Keogh Dividend Expense
- 380.5 IRA/KEOGU Certificate Dividend Expense
- 380.6 Share Certificate Dividend Expense
- 380.7 Money Market Dividend Expense
- 380.8 Other Dividend Expense

385 Interest on Deposits

NONOPERATING INCOME AND EXPENSE ACCOUNTS (400 SERIES)

400 Nonoperating Income (Expense)

420 Gain (Loss) on Investments

430 Gain (Loss) on Disposition of Assets

440 Other Nonoperating Income (Expense)
- 446 Extraordinary Gains and Losses

ASSET ACCOUNTS (700 SERIES)

700 Loans to Members
- 701 Loans
- 701.1 Commercial Loans
- 701.2 Agriculture Loans
- 701.3 Consumer Loans
- 701.4 Other Member Loans
- 701.5 Home Equity Loans
- 701.8 Net Commitment Fees-Loans to Members
- 701.9 Net Origination Fees (Costs)-Loans to Members

702 Lines of Credit to Members
- 702.1 Lines of Credit to Members-Credit Cards
- 702.2 Lines of Credit-Cash Advances in Process
- 702.3 Net Origination Fees (Costs)-Lines of Credit
- 702.4 Net Origination Fees (Costs)Lines of Credit

703 Real Estate Loans Over 12 Years
- 703.1 Net Origination Fees (Costs)-Real Estate Loans Over 12 Yeats

704 Real Estate Loans 12 Years or Less
- 704.1 Net Origination Fees (Cost)-Real Estate Loans 12 Years or Less

705 Mobil Home Loans
- 705.1 Net Origination Fees (Costs) Mobile Home Loans

706 Share Secured/Insured Loans

707 Loans-Collateral in Process of Liquidation

710 Other Loans

Example 39 Page 67A

711 Notes and Contracts Receivable

712 Loans Purchased from Liquidating Credit Unions

- 712.1 Discounts on Loans Purchased from Liquidating Credit Unions

713 Loans Purchased from Liquidating Credit Unions-Collateral in Process of Liquidation

714 Loans or Other Obligations Purchased

- 714.1 Premium on Loans Purchased
- 714.2 Discount on Loans Purchased

715 Loans or Other Obligations Purchased

- 715.1 Premium on Loan Participations Purchased
- 715.2 Discount on Loan Participation Purchased

716 Loan Participations Sold

- 716. 1 Loan Participation Sold (Contra-Asset Account)

717 Other Miscellaneous Nonmember Loans

718 Loans Subject to Repurchase Agreements

719 Allowance for Loan Losses

720 Other Receivables

- 721 Payroll Deductions Receivable
- 722 Receivables from Officials and Employees
- 723 Lease Payments Receivable
- 724 Insurance Premiums LRecievables
- 725 Advance for Taxes, Insurance, and Other Charges
- 727 U. S. Savings Bonds Redeemed Receivable
- 728 Real Estate Loans Receivable
  - 729.1 TIL Bond Claim Receivable
  - 729.2 TIS Bond Claim Receivable

730 Cash

- 731 Cash-Checking Accounts
- 732-735 Reserved for Additional Cash Accounts
- 736 Treasury Tax and Loan Remittance
- 737 Cash-U.S. Bond Installment Payments
- 738 Petty Cash
- 739 Cash Fund

740 Investments

- 741 Held-to-Maturity Securities
  - 741.1 Discount on Held-to-Maturity Securities
  - 741.2 Premium on Held-to-Maturity Securities
- 742 Trading Securities
- 743 Available-for-Sale Securities
- 744 Share, Deposits, Certificates of Corporate Credit Unions
- 745 Shares, Deposits, Certificates of Other Credit Unions
- 746 Other Shares, Deposits, and Certificates
  - 746.1 Commercial Bank Deposits
  - 746.2 Savings & Loans and Mutual Savings Bank Deposits
  - 746.3 Other Investments

747 Loans to Other Credit Unions

748 Investments in Credit Unions Service Corporations

- 748.1 Loans to Credit Union Service Corporations

751 Investment in Central Liquidity Facility

- 751.1 Investment in CLF Membership Stock
- 751.2 Investment in CLF Liquidity Clearing

[redacted]

752 Investment in NCUA Share Insurance Capitalization Fund
753 Investment in Branch
755 Purchased Accrued Interest Receivable

700 Prepaid Expenses and Deferred Charges
762 Deferred Charges-Commitment Fees Paid in Connection With the Acquisition of Borrowed Funds
763 Deferred Charges-Commitment Fees on Loans to be Purchased
764 Prepaid Rent
765 Prepaid Share Insurance
766 Other Prepaid Insurance
767 Deferred Pension Cost
768 Unamortized Organization Costs
769 Other Prepaid Expenses and Deferred Charges

770 Fixed Assets
771 Land
772 Building
773 Allowance for Depreciation of Building
774 Furniture an dEquipment
775 Allowance for Depreciation of Furniture and Equipment
776 Leasehold Improvements
777 Allowance for Amortization of Leasehold Improvement
778 Leased Assets under Capital Lease
779 Allowance for Depreciation of Leased Assets

780 Accrued Income
781 Accrued Interest on Loans
782 Accrued Income on Investments
783 Accrued Credit Card Income
784 Accrued Intrest on Real Estate Loans
785 Purchased Accrued Interest Receivable on Loans (100%)
786 Accrued Interest on Loan Participations Purchased
787 Accrued Interest-Other Lines of Credit to Members
788 Accrued Income on NCUSIF Investment
789 Other Accrued Income

790 Other Assets
792 Insurance Premium Stabilzation
793 Monetary Control Reserve Deposits
797 Advance Payments by Borrowers for TAxes and Insurance on Serviced Loans
798 Assets Acquired in Liquidation on Loans
799 Other Assets

LIABILITY ACCOUNTS (800 SERIES)

800 Accounts Payable
801 Accounts Payable
801.1 Accounts Payable-Traveler's Checks and Money Orders
802 Accounts Payable-Undistributed Payments
802.1 Accounts Payable-Credit Card Payments in Process
802.2 Accounts Payable-Credit Card Adjustments in Process

[redacted]

802.3 Accounts Payable-Credit Card Chargebacks in Process
803 Accounts Payable-Undistributed Payroll Deduction or Allotments
804 Accounts Payable-Check Transmittal
805 Accounts Payable-Drafts Authorized
806 Accounts Payable-Installment Payments on U.S. Bonds
807 Accounts Payable-U.S. Savings Bond Remittances
808 Real Estate Loans Payable
809 Escrow Accounts

810 Notes and Inerest Payable
811 Mortgage Notes Payable
812 Notes Payable-Other
812.1 Notes Payable-Commitment Fees
813 Federal Funds Payable
818 Accrued Interest Payable

820 Dividends Payable
820.1 Dividends Payable on Regular Shares
820.2 Dividends Payable on Share Drafts
820.3 Dividends Payable on Club Accounts
820.4 Dividends Payable on IRA/Keogh Accounts
820.5 Dividends Payable on IRA/Keough Certificate Accounts
820.6 Dividends Payable on Share Certificates
820.7 Dividends Payable on Money Market Accounts
820.8 Dividends Payable on Other Accounts

830 Interest Refunds Payable

840 Taxes Payable
841 Federal Withholding Taxes Payable
842 State Withholding Taxes Payable
845 City Withholding Taxes Payable
846 Social Security Taxes Payable
847 Federal Unemployment Compensation Tax Payable
848 State Unemployment Compensation Tax Payable
849 Other Taxes Payable

850 Accrued Expenses
851 Accrued Salaries
852 Accrued Employee Benefits
853 Accrued Cost of Space Occupied
854 Accrued Dividends Payable
855 Accrued Accounting Service Cash
856 Accrued Loss Contingencies
859 Other Accrued Expense

860 Other Liabilities
861 Liability Under Pension Cost
862 Collection on Loans and Other Obligations Serviced
863 Obligations Under Capital Lease
864 Monetary Control Pass Through Deposits
865 Main Office
866 Undisbursed Loan Proceeds

867 Subordinated CDCU Debt
869 Other Liabilities

870 Unapplied Data Processing Exceptions
871 Unapplied Data Processing Exceptions (Receipts)
872 Unapplied Data Processing Exceptions (Disbursements)

880 Deferred Credits
881 Unearned Interest on Loans
882 Deferred Credits-Insurance Premium Rates
883 Deferred Gain on Liquidation of Loans
884 Deferred Credits-Credit Card Commitments
885 Deferred Credits-Prepaid Interest-Real Estate Loans
886 Unamortized Discount on Sale of Assets
887 Deferred Credits-Fees Received on Loans to be Purchased
888 Deferred Credits-Insurance Premium Stabilization Reserve
889 Other Deferred Credits
890 Deferred Drecits-Net Origination Fees (Costs)-Lines of Credit to Members
891 Deferred Credits-Net Origination Fees (Costs)-Lines of Credit to Members Credit Cards
892 Deferred Credits-Net Origination Fees (Csots)-Home Equity Lines of Credit
893 Deferred Credits-Net Commitment Fees (Costs)-Home Equity Lines of Credit to Members
894 Deferred Credits-Net Commitment Fees (Costs)-Loans to members

Savings/Equity Accounts (900 Series)

900 Shares of Members
901 Regular Shares
902 Share Draft
903 Club Accounts
904 Other Shares
905 Escrow Accounts
906 IRA/Keogh Retirement Service Shares
907 IRA/Keogh Retirement Service Certiricates
908 Share Certificates
909 Shares-Unposted Payroll Deductions
910 Public Unit Shares
911 Money Market Shares
921 Shares of Nonmembers
925 Uninsured Secondary Capital
926 Deposits

930 Reserves
931 Regular Reserves
932 Special Reserve for Losses
933 Other Revocable Reserves
934 Reserve for Loss Contingencies 935 Corporate Central Reserve
935 Corporate Central Reserve

[redacted]

940 Undivided Earnings

- 942 Appropriated Undivided Earnings
- 945 Accumlated Unrealized Gains/Losses on Avaiolable-for-Sale Securities

950 Donated Equity

960 Net Income (Loss)

[redacted]

xample 40

THE "PEARLS" RATING SYSTEM INSTRUCTIONS

QUICK KEY TO THE "PEARLS"

AREA	PEARL	DESCRIPTION
P = PROTECTION	P1	Allowance for Loan Losses / Delinquency > 12 months
	P2	Net Allowance for Loan Losses / Total Delinquency
	P3	Complete Loan Charge-Off of Delinquency > 12 months
	P4	Bad Debt Charge-Offs / Total Loan Portfolio
	P5	Accumulated Recovered Charge-Offs / Accum. Charge-offs
E = EFFECTIVE FINANCIAL STRUCTURE	E1	Net Loans/Total Assets
	E2	Liquid Assets / Total Assets
	E3	Financial Investments / Total Assets
	E4	Non-Financial Investments / Total Assets
	E5	Member Savings Deposits / Total Assets
	E6	Borrowed Funds (External Credit) / Total Assets
	E7	Member Shares / Total Assets
	E8	Institutional Capital / Total Assets
		Net Capital
A = ASSET QUALITY	A1	Total Loan Delinquency / Total Loan Portfolio add NCO/AC
	A2	Non-earning Assets / Total Assets
	A3	(Zero Cost Funds [1]) / Non-earning Assets

[1]Zero Cost Funds is equal to Non-Interest Bearing Liabilities + Non-Institutional Capital + Institutional Capital

AREA	PEARL	DESCRIPTION
R = RATES OF RETURN & COSTS	R1	Net Loan Income / Average Net Loan Portfolio
	R2	Liquid Asset Income / Average Liquid Assets
	R3	Financial Investment Income / Average Financial Investments
	R4	Non-Financial Investment Income / Average Non-Financial Investments
	R5	Financial Cost: Member Deposits / Average Member Deposits
	R6	Financial Cost: Borrowed Funds (External Credit) / Average Borrowed Funds (External Credit)
	R7	Financial Cost: Member Shares / Average Member Shares
	R8	Gross Margin / Average Total Assets
	R9	Operating Expenses / Average Total Assets
	R10	Provisions for Risk Assets / Average Total Assets
	R11	Non-Recurring Income or Expense / Average Total Assets
	R12	Net Income / Average Total Assets
L = LIQUIDITY	L1	Liquid Assets - Short-term Payables / Total Member Deposits
	L2	Liquidity Reserves / Total Member Deposits
	L3	Liquid Assets (Non-Earning) / Total Assets
	L4	CU Deposits in CFF / Total CU Liquidity
S = SIGNS OF GROWTH	S1	Growth in Total Assets
	S2	Growth in Loans
	S3	Growth in Member Deposits
	S4	Growth in Borrowed Funds
	S5	Growth in Member Shares
	S6	Growth in Institutional Capital
	S7	Growth in Membership

HE "PEARLS" RATING SYSTEM INSTRUCTION MANUAL

I. P=PROTECTION

The indicators in this section measure the adequacy of the credit union's (CU's) provisions for loan losses.

P1. ALLOWANCE FOR LOAN LOSSES / DELINQUENCY > 12 MONTHS

Purpose: To measure the adequacy of the CU's provisions for loan losses when compared to all delinquent loans over 12 months.

Accounts:
a. Allowance for Loan Losses (Balance Sheet)
b. Loan Balances of all delinquent loans >12 months

Formula: $\frac{a}{b}$

Goal: **100%**

P2. NET ALLOWANCE FOR LOAN LOSSES / DELINQUENCY FROM 1 - 12 MONTHS

Purpose: To measure the adequacy of the CU's provisions for loan losses after deducting delinquent loans > 12 months.

Accounts:
a. Total Allowance for Loan Losses
b. Total Delinquent Loans >12 months
c. Total Balance of all Delinquent Loans outstanding from 1-12 months.

Formula: $\frac{(a-b)}{c}$

Goal: **35% of loans delinquent 1 - 12 months.**

P3. COMPLETE LOAN CHARGE-OFF OF DELINQUENCY > 12 MONTHS

Purpose: To measure the CU's total charge-off of all delinquent loans > 12 months.

Account: a. Total Delinquent Loans >12 months

Formula: If (a) = 0 (Zero) then Yes, else No.

Goal: **Charge-off of 100% of loans delinquent > 12 months**

P4. ANNUAL BAD DEBT CHARGE-OFFS / AVERAGE LOAN PORTFOLIO

Purpose: To measure the amount of loans that have been charged-off from the loan portfolio in the current year. Note that the loans charged-off should be maintained in an auxiliary ledg-- and are not found on the balance sheet.

Accounts:
- a. Accumulated Charge-offs for current year
- b. Accumulated Charge-offs for previous year
- c. Gross loan portfolio (excluding allowances) as of current year-end
- d. Gross loan portfolio (excluding allowances) as of last year-end

Formula:

$$\frac{(a-b)}{\left(\frac{(c+d)}{2}\right)}$$

Goal: **0%**

P5. ACCUMULATED RECOVERED CHARGE-OFFS / ACCUMULATED CHARGE-O

Purpose: To measure the accumulated amount of charge-offs that have been recovered througl successful collection efforts. This is a historical figure which includes all previous ye: s.

Accounts:
- a. Accumulated Recovery of Charge-offs
- b. Accumulated Charge-offs

Formula:

$$\frac{a}{b}$$

Goal: **100%**

1. E= EFFECTIVE FINANCIAL STRUCTURE

The indicators in this section measure the composition of the most important accounts on the Balance Sheet. An effective financial structure is necessary to achieve safety, soundness, and real growth.

EARNING ASSETS

E1. NET LOANS / TOTAL ASSETS

Purpose: To measure the percentage of total assets that are invested in the loan portfolio.

Accounts:
- a. Total Gross Loan Portfolio Outstanding
- b. Total Allowance for loan losses
- c. Total Assets

Formula: $$\frac{(a-b)}{c}$$

Goal: **Between 70 - 80%**

E2. LIQUID ASSETS / TOTAL ASSETS

Purpose: To measure the percentage of total assets that are invested in Liquid Assets.

Accounts:
- a. Total Earning Liquid Assets
- b. Total Non-earning Liquid Assets
- c. Total Assets

Formula: $$\frac{(a+b)}{c}$$

Goal: **Maximum 20%**

E3. FINANCIAL INVESTMENTS / TOTAL ASSETS

Purpose: To measure the percentage of total assets that are invested in financial investments

Accounts:
- a. Total Financial Investments
- b. Total Assets

Formula: $$\frac{a}{b}$$

Goal: **Maximum 10%**

E4. NON-FINANCIAL INVESTMENTS / TOTAL ASSETS

Purpose: To measure the percentage of total assets that are invested in non-financial investments (i.e., supermarkets, pharmacies, residential housing developments etc.).

Accounts:
a. Total Non-Financial Investments
b. Total Assets

Formula: $\frac{a}{b}$

Goal: **0%**

LIABILITIES

E5. MEMBER SAVINGS DEPOSITS / TOTAL ASSETS

Purpose: To measure the percentage of total assets that are financed by member savings deposits.

Accounts:
a. Total Member Deposits
b. Total Assets

Formula: $\frac{a}{b}$

Goal: **Between 70 - 80%**

E6. BORROWED FUNDS / TOTAL ASSETS

Purpose: To measure the percentage of total assets that are financed by external borrowing (i.e., debt obligations that the credit union contracts with another financial institution.)

Accounts:
a. Total Short-term loan obligations
b. Total Long-term loan obligations
c. Total Assets

Formula: $\frac{(a+b)}{c}$

Goal: **0%**

CAPITAL

E7. MEMBER SHARES / TOTAL ASSETS

Purpose: To measure the percentage of total assets that are financed by member shares.

Accounts:
a. Total Member Shares
b. Total Assets

Formula: $\frac{a}{b}$

Goal: **Between 10 - 20%**

E8. INSTITUTIONAL CAPITAL[2] / TOTAL ASSETS

Purpose: To measure the percentage of total assets that are financed by Institutional Capital.

Accounts:
a. Total Institutional Capital
b. Total Assets

Formula: $\frac{a}{b}$

Goal: **Minimum 10%**

Institutional Capital is defined as all legal and non-distributable reserves, capital donations and the portion of the current year's surplus that will be retained as legal or non-distributable reserves. These reserves are not expended and no member may present an individual claim.

III. A=ASSET QUALITY

The indicators in this section measure the impact of assets which do not generate income: delinquenc loan rates, non-earning assets, and the financing of non-earning assets.

A1. TOTAL DELINQUENCY / TOTAL LOAN PORTFOLIO

Purpose: To measure the total percentage of delinquency in the loan portfolio, using the criterion o outstanding delinquent loan balances instead of accumulated delinquent loan payment

Accounts:
a. Sum of all delinquent loan balances (a non-bookkeeping control)
b. Total (Gross) Loan Portfolio Outstanding

Formula: $\frac{a}{b}$

Goal: **Less than 5%**

A2. NON-EARNING ASSETS / TOTAL ASSETS

Purpose: To measure the percentage of the CU's total assets that are not producing income.

Examples of Non-earning Assets:
1. Cash on hand
2. Non-interest bearing monetary checking accounts
3. Accounts receivable
4. Assets in liquidation
5. Fixed assets (Land, Building, equipment etc.)
6. Prepaid expenses and other deferrals

Accounts:
a. Total Non-earning Assets
b. Total Assets

Formula: $\frac{a}{b}$

Goal: **Less than 5%**

A3. INSTITUTIONAL CAPITAL + LIABILITIES WITHOUT INTEREST[3] / NON-EARNING ASSETS

Purpose: To measure the percentage of non-earning assets that are financed with institutional capital and liabilities without interest.

Accounts:
- a. Total Institutional capital
- b. Total Liabilities without Interest
- c. Total Non-earning assets

Formula: $$\frac{(a+b)}{c}$$

Goal: **Greater than or equal to 100%**

[3] Referred to as "Zero Cost Funds"

IV. R=RATES OF RETURN & COST

These indicators measure the average income yield for each of the most productive assets of the Balance Sheet. In addition, they measure the average cost yield for each of the most important liability and capital accounts. The yields are actual investment returns and not the typical "spread analysis" yields that are figured on the basis of average assets. The results more clearly indicate whether the credit union is earning and paying entrepreneurial rates on its assets, liabilities and capital.

R1. TOTAL LOAN INCOME / AVERAGE NET LOAN PORTFOLIO

Purpose: To measure the yield on the loan portfolio.

Accounts:
a. Total Loan income (including commissions, fees, and delinquent interest penalties) during year.
b. Total amount paid by the CU on insurance premiums for member loans. (If the member pays for the insurance than you would add the income from insurance premiums.) If the credit unions pay an interest rebate, you would net that out of total income also.
c. Net loan portfolio (Net of provisions) as of current year-end
d. Net loan portfolio (Net of provisions) as of last year-end

Formula:

$$\frac{(a-b)}{\left(\frac{(c+d)}{2}\right)}$$

Goal: **Entrepreneurial rates which cover finance, administration and provisioning expenses and contribute to capital levels to maintain *INSTITUTIONAL CAPITAL* at least 10%.**

R2. LIQUID ASSET INCOME / AVERAGE EARNING LIQUID ASSETS

Purpose: To measure the yield on all liquid assets (i.e., Bank deposits, CFF deposits, etc.).

Accounts:
a. Total liquid asset income during year.
b. Total Earning Liquid assets as of current year-end.
c. Total Earning Liquid assets as of last year-end.

Formula:

$$\frac{a}{\left(\frac{(b+c)}{2}\right)}$$

Goal: **Highest rates possible w/o undue risk**

R3. FINANCIAL INVESTMENT INCOME / AVERAGE FINANCIAL INVESTMENTS

Purpose: To measure the yield on all financial investments (i.e., Fixed Deposits, Shares, Securities, etc.)

Accounts:
- a. Total Financial Investment Income
- b. Total Financial Investments as of current year-end.
- c. Total Financial Investments as of last year-end.

Formula:

$$\frac{a}{\left(\frac{(b+c)}{2}\right)}$$

Goal: **Market Rates**

R4. NON-FINANCIAL INVESTMENT INCOME / AVERAGE NON-FINANCIAL INVESTMENTS

Purpose: To measure the yield on all non-financial investments which do not belong to categories R1-R3. Typically, this is income from supermarkets, pharmacies, rental properties and residential housing developments.

Accounts:
- a. Total Non-Financial Investment Income
- b. Total Non-Financial Investments as of current year-end.
- c. Total Non-Financial Investments as of last year-end.

Formula:

$$\frac{a}{\left(\frac{(b+c)}{2}\right)}$$

Goal: **Rate greater than R1**

R5. FINANCIAL COST: MEMBER DEPOSITS / AVERAGE MEMBER DEPOSITS

Purpose: To measure the yield (cost) of Member savings deposits. This is a financial cost to the CU.

Accounts:
a. Total Interest paid on Member Savings deposits
b. Total insurance premium paid on Member Savings deposits
c. Total Member Savings Deposits as of current year-end.
d. Total Member Savings Deposits as of last year-end.

Formula:

$$\frac{(a+b)}{\left(\frac{(c+d)}{2}\right)}$$

Goal: **Rates which protect the nominal value of Member savings deposits and also, which are competitive**

R6. FINANCIAL COST: BORROWED FUNDS / AVERAGE BORROWED FUNDS

Purpose: To measure the yield (cost) of all borrowed funds

Accounts:
a. Total Interest Paid on Borrowed Funds
b. Total Borrowed Funds as of current year-end
c. Total Borrowed Funds as of last year-end

Formula:

$$\frac{a}{\left(\frac{(b+c)}{2}\right)}$$

Goal: **Same or lesser yield (cost) than R5**

R7. FINANCIAL COST: MEMBER SHARES / AVERAGE MEMBER SHARES

Purpose: To measure the yield (cost) of Member Shares. This is also a financial cost to the CU.

Accounts:
a. Total Dividends paid on Member Shares
b. Total insurance premium paid on Member Shares
c. Total Member Shares as of current year-end
d. Total Member Share as of last year-end

Formula:

$$\frac{(a+b)}{\left(\frac{(c+d)}{2}\right)}$$

Goal: **Same or greater yield than R5**

R8. GROSS MARGIN / AVERAGE TOTAL ASSETS

Purpose: To measure the gross income margin generated, expressed as a yield on all assets, before subtracting operating expenses, provisions for loan losses, and other extraordinary items.

Accounts:
a. Loan Interest Income
b. Liquid Asset Income
c. Financial Investment Income
d. Non-Financial Investment income
e. Other Income
f. Interest Cost of Member Deposits
g. Dividend or Interest Cost of Member Shares
h. Interest Cost of Borrowed Funds
I. Total Assets as of Current Year-end
j. Total Assets as of Last Year-end

Formula:

$$\frac{((a+b\ldots+e)-(f+g+h))}{\left(\frac{(i+j)}{2}\right)}$$

Goal: **To generate sufficient income to cover all operating expenses and allowances for loan losses, and provide for adequate increases in institutional capital.**

R9. OPERATING EXPENSES / AVERAGE TOTAL ASSETS

Purpose: To measure the expense associated with the management of all CU assets. The expense is measured as a percentage of total assets and indicates the degree of CU operational efficiency or inefficiency.

Accounts:
a. Total Operating Expenses (exclusive of Provisions for loan losses)
b. Total Assets as of current year-end
c. Total Assets as of last year-end

Formula:

$$\frac{a}{\left(\frac{(b+c)}{2}\right)}$$

Goal: **3%-10%**

R10. PROVISIONS FOR RISK ASSETS / AVERAGE TOTAL ASSETS

Purpose: To measure the cost of losses from risk assets such as delinquent loans or uncollectible accounts receivable. This cost is very different than other operational expenses and shouid be isolated to highlight effective or ineffective credit and receivable administration.

Accounts:
a. Total Risk Assets Provision Expense (Current Year)
b. Total Assets as of current year-end
c. Total Assets as of last year-end

Formula:

$$\frac{a}{\left(\frac{(b+c)}{2}\right)}$$

Goal: **Enough to cover 100% of delinquent loans >12 months and 35% for loans delinquent 1 12 months.**

R11. NON-RECURRING INCOME OR EXPENSES / AVERAGE TOTAL ASSETS

Purpose: To measure the net amount of non-recurring income and expenses. These items typica should not be a significant amount if the CU is specializing in Financial Intermediation.

Accounts:
a. Total Non-Recurring Income or Expenses (Current Year)
b. Total Assets as of current year-end
c. Total Assets as of last year-end

Formula:

$$\frac{a}{\left(\frac{(b+c)}{2}\right)}$$

Goal: **Minimum possible**

R12. NET INCOME / AVERAGE TOTAL ASSETS

Purpose: To measure the adequacy of CU earnings and also, its capacity to build institutional capital.

Accounts:
a. Net Income (After dividends)
b. Total assets as of current year-end
c. Total assets as of last year-end

Formula:

$$\frac{a}{\left(\frac{(b+c)}{2}\right)}$$

Goal: **Enough to attain the goal of E8**

". L=LIQUIDITY

The liquidity indicators show whether the CU is administering its cash so that it can meet deposit withdrawal requests and liquidity reserve requirements, while at the same time, minimizing the amount of idle funds that earn no economic return.

L1. LIQUID ASSETS - SHORT-TERM PAYABLES / MEMBER DEPOSITS

Purpose: To measure the adequacy of the CU's liquid cash reserves to satisfy deposit withdrawal requests, after paying all immediate obligations <30 days.

Accounts:
a. Total Earning Liquid Assets
b. Total Non-earning Liquid assets
c. Total Short-term Payables <30 days
d. Total Member Savings Deposits

Formula: $\frac{(a+b-c)}{d}$

Goal: **Minimum 15%**

L2. LIQUIDITY RESERVES / DEPOSITS

Purpose: To measure the CU compliance with the obligatory CFF (and Other) Liquidity Reserve Deposit requirements.

Accounts:
a. Total CFF Liquidity Reserves (Earning Asset)
b. Total CFF Liquidity Reserves (Non-earning Asset)
c. Total Member Savings Deposits

Formula: $\frac{(a+b)}{c}$

Goal: **10%**

L3. NON-EARNING LIQUID ASSETS / TOTAL ASSETS

Purpose: To measure the percentage of total assets that are invested in non-earning liquid accounts.

Accounts:
a. Total Non-earning Liquid Assets
b. Total Assets

Formula: $\frac{a}{b}$

Goal: **Should be minimized and approach 0%**

L4. CU DEPOSITS IN CFF / TOTAL CU LIQUIDITY

Purpose: To measure the percentage of CU liquidity invested in the CFF.

Accounts:
a. Total CFF Liquidity Reserves (Earning Asset)
b. Total CFF Liquidity Reserves (Non-earning Asset)
c. Total Other CFF Short-term Deposits (Earning Asset)
d. Total Earning Liquid assets
e. Total Non-earning Liquid Assets

Formula: $\frac{(a+b+c)}{(d+e)}$

Goal: **10%**

S=SIGNS OF GROWTH

The indicators of this section measure the percentage of growth in each of the most important accounts on the financial statement, as well as growth in membership. In inflationary economies, real growth (after subtracting inflation), is a key to the long run viability of the CU.

S1. GROWTH IN TOTAL ASSETS

Purpose: To measure the growth of total assets from one year to the next.

Accounts:
a. Total assets as of the current year-end
b. Total assets as of the last year-end

Formula: $\left(\frac{a}{b}\right) - 1 \; x \; 100$

Goal: **Greater than the inflation rate**

S2. GROWTH IN LOANS

Purpose: To measure the growth of the loan portfolio from one year to the next.

Accounts:
a. Loan Portfolio balance as of current year-end
b. Loan Portfolio balance as of last year-end

Formula: $\left(\frac{a}{b}\right) - 1 \; x \; 100$

Goal: **Greater than the inflation rate and greater than the growth of Total Assets, if there is a desire to modify the financial structure and increase the percentage of Member Loans, or less than the growth of Total Assets, if the desire is to reduce the percentage of Member Loans.**

S3. GROWTH IN MEMBER DEPOSITS

Purpose: To measure the growth of Member Savings Deposits from one year to the next.

Accounts:
a. Total Member Savings Deposits as of the current year-end
b. Total Member Savings Deposits as of the last year-end

Formula: $\left(\frac{a}{b}\right) - 1 \ x \ 100$

Goal: **Greater than the inflation rate and greater than the growth of Total Assets, if there is a desire to modify the financial structure and increase the percentage of Member Deposits, or less than the growth of Total Assets, if the desire is to reduce the percentage of Member Deposits.**

S4. GROWTH IN BORROWED FUNDS

Purpose: To measure the growth of Borrowed Funds from one year to the next.

Accounts:
a. Total Borrowed Funds as of current year-end
b. Total Borrowed Funds as of last year-end

Formula: $\left(\frac{a}{b}\right) - 1 \ x \ 100$

Goal: **Greater than the inflation rate and greater than the growth of total assets, if there is a desire to modify the financial structure and increase the percentage of Borrowed Funds, (less than the growth of Total Assets, if the desire is to reduce the percentage of Borrowed Funds.**

S5. GROWTH IN MEMBER SHARES

Purpose: To measure the growth of member shares from one year to the next.

Accounts:
a. Total Member Shares as of current year-end
b. Total Member Shares as of last year-end

Formula: $\left(\frac{a}{b}\right) - 1 \ x \ 100$

Goal: **Greater than the inflation rate and greater than the growth of Total Assets, if there is a desire to modify the financial structure and increase the percentage of Member Shares, o. less than the growth of Total Assets, if the desire is to reduce the percentage of Member Shares.**

S6. GROWTH IN INSTITUTIONAL CAPITAL

Purpose: To measure the growth of the CU's Institutional Capital from one year to the next.

Accounts:
a. Institutional Capital as of the current year-end
b. Institutional Capital as of the last year-end

Formula: $\left(\frac{a}{b}\right) - 1 \; x \; 100$

Goal: **Greater than the inflation rate and greater than the growth of Total Assets, if there is a desire to modify the financial structure and increase the percentage of Institutional Capital, or less than the growth of Total Assets, if the desire is to reduce the percentage of Institutional Capital.**

S7. GROWTH IN MEMBERSHIP

Purpose: To measure the growth in Membership of the CU from one year to the next.

Accounts:
a. Number of members as of current year-end (non-bookkeeping control)
b. Number of members as of last year-end (non-bookkeeping control)

Formula: $\left(\frac{a}{b}\right) - 1 \; x \; 100$

Goal: 5%

APPENDIX B

CREDIT UNION DEVELOPMENT TIME LINE

SUPERVISORY COMMITTEE

3 Months prior to Opening

1. Organizers choose 3 individuals to be on the committee, none of whom may be employed by the credit union, or serve on either the board of directors or the credit committee.

2. It is helpful to appoint individuals to this committee who have a financial, accounting, and / or business background. This committee requires the most technical expertise.

3. The committee from among themselves will choose a chairman and a secretary.

From 3 Months to the Credit Union Opening

1. They are to read and understand the following to learn more about the credit union and their specific duties and responsibilities:
   - The business plan,
   - The credit union bylaws,
   - Their job description (**see example 23 – Supervisory Committee Job Description**), which is to be signed upon reading. Their signature acknowledges that they understand their duties and are willing to perform them to the best of their knowledge.
   - Read all credit union policies, procedures, and internal controls.

2. Read all training materials provided to learn how to perform all specific job duties (see appendix C). There are 3 main job duties:
   - Monthly internal auditing,
   - The annual account verification, performed along with the audit, and
   - The annual audit.

3. Establish an annual work plan. The work plan assigns monthly internal audit duties to the committee members. The work plan should be designed as a grid. It should list the duties to be performed on one axis such as count cash, reconcile bank statement, review sample of loans granted this month, review activity in employee and official accounts, review board minutes, review authorization and necessity of operating expenses, etc. On the other axis should be the months of the year. The committee members should be assigned the duties for the year at a meeting at the beginning of the year and are responsible for completing them and reporting the results in writing to the other committee and board members.

   The committee needs to keep in mind the importance of separation of duties, especially if the manager is the only employee. If the manager is performing all daily entries, then the committee should reconcile the cash account and any bank accounts at month end.

After Credit Union Opening

- Monthly, perform assigned internal audit duties as outlined in the annual work plan. Document in writing what was done to accomplish the assigned duty and what were the results. Documentation is to be kept by month in a binder. This will be part of the supervisory committee minutes that are to be retained for review by the supervising authority.

- Have a representative at each board meeting to report on what was performed during the month. If there are problems or suspicions the supervisory committee is to report them to the board and they are to be addressed and / or corrected immediately.

- All supervisory committee matters are confidential and are not to be discussed with anyone but officials and the manager.

- If a Letter of Understanding and Agreement (**see example 6**) was signed by the officials with the WOCCU office or the supervisory authority, compliance with the Letter should be reviewed on a quarterly basis and reported to the board and management at the next regularly scheduled board meeting.

- Ensure that the financials are completed by the 20th of the next month, prior to the monthly board meeting.

Months after the Opening of the Credit Union

- Choose the annual audit effective date. The audit must be performed within 3 months of the effective date. The effective date is to remain a secret. Only the committee members will know this date. The audit is to be performed on a surprise basis.

- Select an outside auditor to perform the audit and verification if the credit union can afford this. The committee can hire an outside auditor to do the annual audit and the committee itself can perform the member account verification, which is far less technical.

- If the committee is to perform the audit, review all the training materials provided. Divide the audit and verification duties among all the committee members.

Within 3 months after the First 12 Months of Operations

- Complete the annual audit and account verification. This should take from 1 week to 1 month depending on the size and complexity of the credit union and the number of hours worked by the committee members daily. Under no circumstance should it take more than one month to complete the annual audit and account verification.

2. Proof of work performed is to be in writing and retained in a binder for review by the board or the supervising authority.

3. The results and recommendations are to be presented to the board at the next monthly meeting. A copy of these will become part of the board minutes.

The First Annual General Meeting

1. All of the committee members are up for election at this meeting. One third of the members will be assigned a 3 year term, one third a 2 year term, and one third a 1 year term. Thereafter, all members of the committee shall be elected for a term of 3 years. Only 1 member of the supervisory committee shall be elected each year unless the expiration of the term of office and resignations from the committee require the election of more than one member.

2. Within 10 days of this meeting the committee will appoint from themselves a chairperson and a secretary.

3. At the annual general meeting the committee should summarize their internal audit activities performed for the year and the results of the annual audit and account verification.

4. The newly appointed committee will perform on an annual basis all of the activities outlined above from the section entitled "From 3 Months to the Credit Union Opening".

Within 2 Months after the Completion of the Annual Audit

1. Insure that all annual audit exceptions have been adequately corrected where possible. This follow up on the audit exceptions is to be documented in writing and retained in the committee's binder.

CREDIT COMMITTEE

3 months prior to Credit Union Opening

1. Board members will choose the committee. It will be made up of at least 3 members and not more than 7 members, none of which will be on the board or the supervisory committee.

2. The committee should appoint from themselves a chairman and a secretary.

3. The committee is to read and understand the following to learn more about the credit union and their specific duties and responsibilities:
   - The business plan,
   - The credit union bylaws,
   - Their job description (**see example 24 – Credit Committee Job Description**), which is to be signed upon reading. Their signature acknowledges that they understand their duties and are willing to perform them to the best of their knowledge,
   - Training material provided **(see Appendix C)**.

4. Read all lending and collection policies, procedures, and internal controls.

From 3 Months to the Credit Union Opening

1. Review all training materials provided to learn more about job duties and responsibilities as a committee member. Take time to understand the process of making loans.

2. Learn the local laws that will affect lending at the credit union. Ensure that the credit union will be in compliance with all local laws.

3. Assist the manager in obtaining or developing all the necessary loan forms.

4. Learn to fill out all the loan forms correctly, sign up for the credit bureau or credit history service, if available.

5. Practice granting loans on examples (such as officials and the manager).

After Credit Union Opening

1. For the first 3 months – 6 months (depending on the capital reserves) grant only share secured loans. After this time period add new loan products as discussed in the business plan on pages 8 – 9. Along with this take into consideration the amount of risk that can be taken as related to the capital reserves.

2. Meet at least monthly or more frequently to provide timely loan granting to members.

3. All loan approvals, denials, counteroffers, etc. are to be maintained in writing using the credit committee minute form (**see example 6**). These forms are to be retained in the committee's binder by the month. The minute form is to be prepared and placed in the binder no more than 3 days after the committee meeting.

4. At least 1 committee member is to attend monthly board meetings and give a report summarizing their actions for the month. A copy of the summary will become part of the board minutes.

5. At least quarterly, the committee is to perform loan portfolio analysis as described in the loan policy section and place the report in writing. The results are to be presented to the board at the next regularly scheduled meeting. A copy of the analysis is to become part of the board minutes.

The First Annual General Meeting

1. At the annual meeting, present a report (which is to be in writing and maintained in the committee binder) summarizing the committee activity for the year.

2. Within 10 days of the annual general meeting the board will appoint the credit committee members. The committee members will be appointed for terms of 3 years. No more than 2 consecutive terms may be served. After a term or 3 years have passed they are eligible to be appointed again.

3. The newly appointed committee will perform on an annual basis all of the activities outlined above from the section entitled "From 3 Months to the Credit Union Opening".

After the First Full Year of Credit Union Operations

1. Many times the credit committee decides to give loan officer authority to one committee member and employees. This is done so that the loan decision can be made on a timely basis. After the first year, the committee is to evaluate this option and decide if it is necessary and desirable to delegate loan approval authority.
   - The credit committee may, by majority vote of its members, appoint one or more loan officers to serve at its pleasure, and delegate to them the power to approve applications for loans and lines of credit, savings withdrawal, releases and substitutions of collateral, within limits specified by the committee, and applicable law and regulations. Not more than one member of the committee may be appointed as a loan officer.
   - Each loan officer shall furnish to the committee a record of each transaction approved or not approved by them within 7 days of the date of the filing of the application or request, and such record shall become a part of the records of the committee.

- All applications or requests not approved by a loan officer shall be acted upon by the committee.
- No individual may disburse credit union funds for any application or savings withdrawal, which they have approved as a loan officer.

After 2 –3 Years of Operations

1. Depending on loan demand and the number of credit union employees with lending experience, the board may choose to dissolve the credit committee. This is usually done because the credit union can afford to hire an employee who is capable of making loans. Also loan officers will offer more timely service for loan requests. In order to dissolve the credit committee:
   - The board of directors with an affirmative vote of two thirds of the authorized number of members, may vote to eliminate the credit committee and vest power in the board of directors to appoint and delegate authority to one or more loan officers and to review written appeals of members whose loan applications have been denied.

BOARD OF DIRECTORS

9-12 Months prior to Opening

1. Locate a sponsor, (business, association, church, etc.) if possible that could offset some of the start up costs.

2. Develop the business plan including budgets for the first two years. Use the forms included with this guide to formulate the budgets. The information gathered from the surveys, other local credit unions and financial institutions, government offices, chambers of commerce, etc. are to be incorporated in the business plan and used in formulating the budget. Establish short and long term financial goal ratios for the PEARLS ratios (see the Financial Discipline section). They should be a part of the business plan and all annual budgets

6 Months prior to Opening (to be performed by the organizers)

1. Read the Business Plan, Annual Budget, and the Financial Discipline sections of this guide.

2. Adopt the model credit union bylaws, filling in all blanks so the bylaws are reflective of the credit union.

3. Revise so they are reflective of credit union operations and adopt the lending, collections, investment / asset liability management, savings, and personnel policies that are a part of this guide.

4. If funds are available, start searching for an adequate electronic data processing system.

3 Months prior to Opening

1. Organizers are to choose from among themselves and others eligible for credit union membership at least 5 but not more than ________ board members.

2. The board officers shall be comprised of an executive officer, one or more assistant executive officers, a financial officer, and a secretary, all of whom shall be elected by the board and from their number.

3. Appoint the credit committee within 10 days of the board organization.

4. Hire the manager.

5. The board members are to read and understand the following to learn more about the credit union and their specific duties and responsibilities:
   - The business plan,

- The credit union bylaws,
- Their job description (**see example 25 – Board of Director Job Description**), which is to be signed upon reading. Their signature acknowledges that they understand their duties and are willing to perform them to the best of their knowledge,
- Read all credit union policies, procedures, and internal controls,
- Read all training material provided to learn more about the job duties and responsibilities (**see Appendix C**),
- Read the Operating Budget, Capital Structure, and Financial Discipline sections of this guide.

6. Become familiar with all local laws that will govern the operation of the credit union.

7. Select the electronic data processing system, with input from the manager or choose an adequate manual accounting system.

8. Finalize plans for the credit union location.

9. Finalize the credit union logo that will be used on all stationary, forms, signs, etc.

<u>From 3 months to the Credit Union Opening</u>

1. Order or design all necessary forms and stationary, with the assistance of the manager. Be careful not to order any more than is needed for the first 6 months of operations.

2. Open bank accounts and all other necessary accounts. Designate account signers (for example – the board president, the board financial officer, and the manager).

3. Plan the grand opening of the credit union, keeping in mind the promotional value of this.

4. Ensure there is adequate signage for the credit union's location.

5. Obtain fidelity insurance for the officials and employees and business premises insurance, if available.

6. Purchase furniture, vault, computer equipment (if computerized system is to be used), etc.

7. Appoint a membership officer. The officer can be a member of the board or the responsibility may be delegated to an employee (other than an employee with loan approval authority) or credit union member. The membership officer may approve applications for membership and submit to the board at each monthly meeting a list of approved and pending applications for membership since the previous monthly meeting. The membership officer may only approve membership applications, all

applications not approved are considered pending until the board of directors acts upon them.

After Credit Union Opening

1. Continue to assist manager with credit union promotion throughout the community. Because of limited funds this is often difficult. However, attempt to be on local radio broadcasts or in newspaper articles about the credit union's impact on the community.

2. Meet at least monthly and call special meetings as necessary. One week prior to the monthly meeting the agenda is to be sent by the board secretary or manager to all board members along with any new information that will be discussed. Management is to assist the secretary with preparing the additional information that will be sent with the agenda. All items discussed at the meeting(s) are to be noted in the board minutes (**see example 27 – Board Minute Form**).

3. For the first 12 months of operations, on a monthly basis, monitor the actual results to the budgeted numbers and financial ratio goals established. Discuss the results at the regularly scheduled meeting, documenting the highlights of the discussion in writing in the board minutes (for example – operational changes that need to be made to meet the budget, faulty budget assumptions that were made and need to be changed, etc.).

4. Visit the credit union weekly at different times to observe operations and assist the manager where necessary.

After the first 12 Months of Operations

1. Appraise manager's performance on an annual basis based on the achievement of the business plan's stated goals and objectives.

2. Compare 1st year actual results to the budgeted numbers and established PEARLS financial goal ratios. Use this information to assist with developing the 2nd year budget.

3. Have the annual planning meeting for the upcoming year. Develop goals, objectives, and plans for the 2nd year of operations that are in conjunction with the business plan. Discuss new services to be offered, etc.

4. Approve the 2nd year budget. In the business plan, budgets for at least 2 years were to be developed. The business plan's 2nd year budget is to be modified based on the first year of operations and the current economic situation.

5. Commence the annual policy review. Review one policy every other month to ensure that they are reflective of current operations.

6. Appoint a nominating committee 90 days prior to the annual general meeting. Decide on the annual general meeting date. Post notice for the annual general meeting as prescribed in the bylaws.

The first Annual General Meeting

1. At this meeting all the board of directors will be up for election, along with any nominations from the nominating committee and any from the floor. One third of the members will be assigned a 3 year term, one third assigned a 2 year term, and one third assigned a 1 year term. Only 3 directors shall be elected each year unless the expiration of the term of office and resignations from the board require the election of more than 3 directors.

2. Within 10 days of the annual meeting the board members should elect from their own number an executive committee, which shall include a chairperson or executive officer, a vice chairperson or assistant executive officer, a treasurer or financial officer, and a secretary.

3. Appoint the credit committee within 10 days of the annual general meeting.

4. Keep an accurate list of all the official's positions and the length of their terms.

5. The newly appointed board members will perform on an annual basis all of the activities outlined above from the section entitled "After the Credit Union Opening" and numbers 5 and 6 in the section entitled " 3 months prior to the Opening".

MANAGER

3 months prior to the Credit Union Opening

1. The manager is to read and understand the following to learn more about the credit union and their specific duties and responsibilities:
   - The business plan and operational budget,
   - The credit union bylaws,
   - Their job description which is to be signed upon reading. Their signature acknowledges that they understand their duties and are willing to perform them to the best of their knowledge.
   - Read all credit union policies.
   - Draft procedures and internal controls for all areas of credit union operations (**see the policy and procedure section of this report, pages 36 –111**). This will be an evolving process as the manager obtains day to day experience operating the credit union. Ensure all cash internal control procedures of this guide are put in place and respected by all employees and officials.
   - Read all training material provided to learn more about the job duties and responsibilities (**see Appendix C**).
   - Read the Operating Budget, Acceptable Accounting, Capital Structure, and Financial Discipline sections of this guide.
   - Review all job descriptions.
   - Become familiar with all local laws that will govern the operation of the credit union.

2. Assist board in choosing the electronic data processing system (if one is to be used) or the manual accounting system, furniture, and all other necessary equipment. Finalize along with the board, any details concerning the credit union's location and logo. Ensure all purchases are within established budget amounts.

3. Assist in the order and design of all necessary forms and stationary. This includes all the necessary forms if the credit union is to use a manual record keeping system. Be careful not to order an excessive amount.

4. Assist the officials in planning the grand opening, keeping in mind the promotional value of this event.

5. Intern with an existing credit union if possible, preferably for at least a week, and during the month end, to observe all the closing procedures.

6. Obtain the necessary training on the electronic data processing or the manual system, whichever one is to be used. A minimum of 1 other person should receive this training, so there is adequate backup should something happen to the manager.

7. Set up the general ledger accounts on the computer system or in the manual general ledger.

8. If the manager has no previous accounting experience, adequate training is to be obtained (**see Appendix C and the Acceptable Accounting section of this guide**). Accounting is usually the area which causes problems for news credit unions. It is imperative that the new manager and/or book keeper, if one is to be hired, understand how the daily accounting process works at the credit union and how to find and correct errors on a timely basis.

9. Develop a marketing piece that explains the credit union's philosophy , its goals and objectives, the services offered, the savings dividend rates anticipated to be paid, and the loan rates charged to introduce the credit union to the community in which it serves.

10. With the assistance of the officials distribute the above information throughout the community.

11. Insure that the credit union has adequate security to protect the employees, member deposits, and credit union assets. Develop written procedures, which address how to handle security issues such as robbery, when the computer is nonoperational, etc.

12. Draft a cash balancing sheet that is to be used by all employees handling cash to balance daily.

Credit Union Opening

Daily

1. Hire a part time employee if needed and if the credit union can afford it. Keep in mind the busy times during the day when extra help is needed. This employee is to read and understand the credit union bylaws, all policy and procedure, and their job description.

2. Take member applications and open accounts for eligible members who have the net minimum deposit. Procedures for opening accounts are described in the savings procedures pages 76 –79. The different types of accounts offered at the credit union are described in the savings policy pages 69 – 75.

3. If at any time an employee is ever unsure of a member's identity, a picture identification is to be requested, or the copy obtained when opening the account that is kept with the signature card can be used.

4. When opening accounts the manager is to take the time to explain credit union philosophy, purpose, and other products that the member might be interested in. This very personal style of marketing is the most effective and it makes the member feel apart of the credit union along with increasing their trust in the credit union. Also provide each member or potential member that visits the credit union the marketing piece that was discussed in the previous section.

5. Upon request, give loan applications and the information sheet (**see example 11**) to potential borrowers.

6. Prior to submitting the loan applications to the committee, an employee must insure the member has the minimum deposit at the credit union and all the necessary paper work is completed. The employee is to complete the loan workup sheet (**see example 7**) and inspect the collateral to determine the value (**see example 10**), if applicable. Also see loan procedures section pages 48 – 53. Put all the information together and contact the credit committee chairman so the loan can be approved or denied timely.

7. If the loan is approved, inform the member immediately but no later than 1 business day after the decision.
    - An employee is to file all liens with the proper authority and this employee is to insure that all necessary documentation is received.
    - Upon loan approval, make a loan file for each member and place all paper work for each loan together in the file. Active loans are to be on the right side of the file, and inactive or paid loans are to be placed upside down on the right side of the file.
    - All paid notes are to be retained for 7 years or as prescribed by local law, if different (**see Records Preservation Procedures section of this guide**).
    - Depending on the amount of the loan disbursement check, obtain 1 or 2 signatures (**see Bylaws chapter 13 – Investment and Borrowing of Funds**).
    - Only disburse funds when all the necessary documentation has been received.
    - If the loan is denied, the member is to be contacted within 30 days of the denial (**see Loan Policies pages 36 – 47**).

8. Perform collection calls as outlined in the collection policies and procedures (**see Collection Policies pages 54 – 63**).

<u>End of Day</u>

1. The teller or the employee accepting the funds is to balance the cash in the drawer with the computer report that states the ending balance for the teller drawer (the cash balancing sheet developed is to be used). If working with a manual system start with the actual drawer total at the close of business, subtract deposits for the day, add withdrawals for the day and this is to equal the previous day's ending balance for the teller cash.

2. Insure that the daily receipts are equal to the daily deposit.

3. Make a deposit to the credit union bank account as described in the Bylaws chapter 13 entitled Investment and Borrowing of Funds.

4. Post all transactions in the computer or to the Journal and Cash Record (JCR) with a manual system (**see Accounting section of this guide**). Insure that the general ledger is in balance.

5. Any mistakes or errors made are to be corrected prior to leaving the credit union after the close of business. **NO EXCEPTIONS!**

6. Insure the member share and loan ledger cards balance with the general ledger totals.

7. After the close of business, and having corrected all mistakes, the computer system is to be backed up. These back up disks are not to be returned to the credit union until the second business day after the backup was performed. Under no circumstances are the backup disks brought to the credit union the following day for if something were to happen all information would be lost. For this reason at least 2 sets of backup disks are needed (**see Records Preservation Procedures**).

End of Month

1. Perform all general ledger account reconciliations. This is accomplished by insuring that all account subsidiary ledgers are in balance with their respective general ledger accounts. This will involve:
   - Reconciling bank statements,
   - Comparing any investment statements received to the general ledger totals,
   - Performing all month end entries such as depreciating the building, furniture, fixture, equipment, amortizing the prepaid expenses, accruing for member dividends, adjusting the allowance for loan loss account (**see Accounting section and Collection Policy – section entitled Reporting to the Board**), etc.
   - Insure the member share and loan ledger cards (the subsidiary, **see example 20**) are equal to the general ledger amounts.

2. Pay all bills and taxes.

3. If using a computer system, print all monthly reports and retain in a binder for review by the supervisory committee and / or supervising authority.

4. Prepare the balance sheet, the income statement, and the delinquent loan list for the month end by the 20th of the following month. Present and explain this information at the monthly board meeting. This information will become part of the board minutes. Also post this information in the credit union office for member review.

5. For the first 12 months of operations, perform a monthly comparison of the actual results to the budgeted numbers and financial goal ratios established in the business plan and annual budget. Present this comparison at the monthly board meeting. This information will become part of the board minutes. After the first year, perform this analysis quarterly.

6. Present any new business to the board at or before the monthly meeting.

7. Review the rates and services offered at other competing institutions. Suggest to the board changes that need to be made so that the credit union remains competitive.

8. When all the month end entries are made, back up the computer system and store the disks off site in a safe place.

Quarterly

1. Perform all of the above month end entries.

2. Review compliance with the business plan and annual budget. Place this review in writing and present it to the board at the next monthly board meeting. This analysis will become part of the board minutes.

3. If applicable, review compliance with the Letter of Understanding and Agreement that was issued at chartering. It is an agreement between the credit union officials and the WOCCU project office or the supervising authority.

4. Pay member dividends, if they are to be paid quarterly. If not, they will be paid semi annually or annually.
    - Prior to dividend payment all capital reserve transfers are to be made as described in the Bylaws in chapter 15 – Dividends and chapter 16 – Liquidity and Reserves.
    - All funds that remain, after all transfers, are available for dividends.

Semi Annual

1. Perform all of the above monthly and quarterly tasks.

2. Pay member dividends, if they are to be paid semi annually. If they are not paid quarterly or semi annually, then the dividend is to be paid annually.
    - Prior to dividend payment all capital reserve transfers are to be made as described in the Bylaws in chapter 15 – Dividends and chapter 16 – Liquidity and Reserves.
    - All funds that remain, after all transfers, are available for dividends.

Annually

1. Perform all of the above monthly and quarterly tasks.

2. Pay member dividends, if paid annually, otherwise pay the quarterly or semi annual dividend.
    - Prior to dividend payment all capital reserve transfers are to be made as described in the Bylaws in chapter 15 – Dividends and chapter 16 – Liquidity and Reserves.
    - All funds that remain, after all transfers, are available for dividends.

3. Once all expenses and dividends have been paid and all adjustments made the remaining net income is to be transferred to the undivided earnings account. This entry closes the books for the fiscal year. (The effect of this entry is to zero out all income statement accounts. With the first day of business of the new year, income and expenses will once again accumulate in the income statement accounts. The balance sheet accounts are never zeroed out. These accounts represent the outstanding balances of the credit union's assets, liabilities, and equity.)

4. Appraise all employees based on their job descriptions and the credit union's annual achievements. This appraisal is to be in writing and should become apart of their employee file.

5. Two months prior to year end start work on the annual budget. The September 30 financial statements can be used and projections made for the last quarter of the year (October 1 – December 31). The board should approve the budget for the following year no later than January 31 of the new year.

6. Print and mail member statements.

7. Print annual computer reports and / or complete annual reports requested by the WOCCU project office or the supervising authority.

APPENDIX C

Educational Materials for Each Phase of C U Development

Educational Resource	Org.	Mgt.	Bd.	Credit	Audit
C U Interest Development & Early Organizing Stage					
Board of Directors Duties & Responsibilities (V100)	M	M*	M		H
C U Board of Directors Handbook (CUNA Product #761)	M	S	S*		
Credit Committee Duties & Responsibilities (V200) ignore US laws.	M	M*	S	M*	H
Supervisory Committee: Duties & Responsibilities (V300)	M	S	S		M*
Involving C U Volunteers WOCCU C U Success Series	M	M	M	S	S
C U Services Planning & Market Research					
C U Handbook, Ruth Witzeling, WOCCU	M	M*	M*	M*	M*
Savings Mobilization WOCCU C U Success Series	M	M	M	S	S
Chartering & Organizing: A Manual National Federation for CDCUs, Part IV, Appendix B & C ($90)	M	M	S	H	H
Planning (V102) CUNA	M	H	M	H	S
Marketing (V103) CUNA					
Business Plan Building (Includes forecasting & budgeting)					
Membership Promotion WOCCU C U Success Series	M	M*	M*	S	S
Financial Management For CU Managers & Directors , Jim Jerving (CUNA, product # 20326)	M	M*	M	H	S
Principles & Practices of C U Management, Diploma in C U Studies, Irish League of Credit Unions	M	H	H		
Basic Budgeting, (V402) CUNA	M*	M*	S	H	M*
Pricing Concepts, (V401) CUNA	M*	M*	M*	H	S
Pricing CU Products & Services (CUNA Product 20119)	S	H	H		H
Involving C U Volunteers C U Success Series, WOCCU	M	M*	H	H	H
Interpersonal Skills STAR 520 (Part of Teamwork)	M T	S	H	H	H
Basic Accounting (STAR 300)					
C U Accounting (STAR 310) (adjust Chapter 6 for local reserve requirements)	M T	M*	H		S
The Compleat Facilitator (A Guide) CUNA or Howick Associates, Madison , WI (608) 233-3377, $25.45 for 11 - 24	S	H	H		

* Minimum **M** Must know **S** Should know **H** Helpful to know **T** Trainers guide available

Org-Organizer, Mgt-Management Bd-Board Credit-Credit Comm, Audit-Supervisory

Educational Resource	Org.	Mgt.	Bd.	Credit	Audit
Bylaw & Policy Writing					
"A C U's Guide to Managing Consumer Lending Risk" CUNA Mutual	M*	M*	M*	M*	S
Board & Management Policies, (V101) CUNA	M	M*	M*	S	S
Credit Union Policy Manual: A Guide to Understanding & Developing Policies (CUNA, Product # 0703)	M	S	S	H	H
Asset-Liability Management CUNA, (Product # 20203) contains Lotus 1-2-3 spreadsheet for practicing concepts	M	M	S		H
Standards of Operation Manual New South Wales C U Savings Reserve Board	M	M*	S	S	S
C U Credit Committee Handbook CUNA Product #762	M	H	H	S	H
Collections (STAR 220)	M T	M*	H	S*	H
Communications: Issues & Skills, Diploma in C U Studies, Irish League of Credit Unions	S	H	H	H	H
Consumer & Residential Mortgage Lending, C U Institute of Canada	M	S	H	S	H
Agricultural Lending, C U Institute of Canada	M	S	H	S	H
Commercial Lending, CU Institute of Canada	M	S	H	S	H
"Development of A CU Fraud Policy," "Managing Risks of Members Forgery & Fraud," "Proceed with Caution" CUNA Mutual	M	M	S		H
C U Approved - Before C U Opens					
"Understanding Financial Reports: Every Action has a Reaction" C U Directors Newsletter Reprint	M	M*	M*	S*	M*
Credit Union Financial Analysis (STAR 320) (except chapter 7)	M T	M	S		S
Accounting Manual & Workbook (CUNA # 631 & 0001)	M T	M*	H		M
Loan Granting (V201) (exclude chapters 5&6: U S laws)	M	M*	H	M*	H
Lending Process STAR 200 (Start with Chapter 3)	M T	M	S	M	S
C U Productive Lending Curriculum, Glenn Hoyle, WOCCU	M T	S	H	S	
Supervisory Committee Ready Reference (CUNA, product #29326)	M	H	H		M
NCUA Supervisory Committee Guide Revised 5/97, can be downloaded FREE from www.ncua.gov	M	H	H		M
"Audit Control Procedures," "C U Internal Control Considerations" CUNA Mutual	M	M	H		S
"Credit Union Office Safety" CUNA Mutual	M	M	H		H
"Record Storage Program" CUNA Mutual	M	S	H		H

* Minimum **M** Must know **S** Should know **H** Helpful to know **T** Trainers guide available

Educational Resource	Org.	Mgt.	Bd.	Credit	Audit
C U Opens: First 90 days					
Robbery: Before During & After (video, available in English & French) CUNA Mutual/ Co-operators Communications of Canada (800)345-4168 est. $50- each	M	S	H		H
Robbery Trauma - The After Effects (Video, same sources as above)					
"Managing the Risk of Robbery," "Burglary Prevention Methods," and "Post Robbery Trauma" CUNA Mutual	M	S	H		H
C U Opens : Months 4 - 9					
Loan Marketing STAR 420 (Advanced Training)	M T	M	S	S	
Hey, I'm the Customer, Ron Willingham, Prentice Hall, (c) 1992					M*
C U Plans for 2nd Year: Months 10 - 12					
Effective Credit Union Boards (VL10)	M	S	M		
Strategic Planning (V404)	M	H	S	H	H
C U in the Second Year					
Fundamentals of Management, MERIT 01, CUNA	M T	S	H		
How to Run a Successful Meeting in Half the Time, Milo O. Frank, Pocket Books, (c) 1989					
Planning to Survive A C U Disaster, CUNA Mutual	M	S	H		H
C U in the Third Year					
Recruiting, Developing & Retaining Board Members & Volunteers (VL 09) CUNA (H to chairs: Bd., Credit, Audit)	M	H	S		

Key:

*	Minimum Level of Knowledge
M	Must Know
S	Should Know
H	Helpful to Know
T	Teachers Guide Available

Appendix C

Alphabetical List of Materials

Accounting Manual & Workbook (CUNA # 631 & 0001)
Agricultural Lending, C U Institute of Canada
Asset-Liability Management CUNA, (Product # 20203) contains Lotus 1-2-3 spreadsheet
"Audit Control Procedures," CUNA Mutual
Basic Accounting (STAR 300) CUNA
Basic Budgeting, (V402) CUNA
Board & Management Policies, (V101) CUNA
Board of Directors Duties & Responsibilities (V100) CUNA
Chartering & Organizing: A Manual National Federation for CDCUs
Collections (STAR 220) CUNA
Commercial Lending, CU Institute of Canada
Commercial Lending, CU Institute of Canada
Communications: Issues & Skills, Diploma in C U Studies, Irish League of Credit Unions
The Compleat Facilitator (A Guide) CUNA or Howick Associates, Madison , WI
Consumer & Residential Mortgage Lending, C U Institute of Canada
Credit Committee Duties & Responsibilities (V200) CUNA
Credit Union Accounting (STAR 310) CUNA
Credit Union Board of Directors Handbook (CUNA Product #761)
"A Credit Union's Guide to Managing Consumer Lending Risk" CUNA Mutual
Credit Union Credit Committee Handbook CUNA Product #762
Credit Union Financial Analysis (STAR 320) CUNA
"A Credit Union's Guide to Managing Consumer Lending Risk" CUNA Mutual
"Credit Union Internal Control Considerations" CUNA Mutual
Credit Union Handbook, Ruth Witzeling, WOCCU
"Credit Union Office Safety" CUNA Mutual
Credit Union Policy Manual: A Guide to Understanding & Developing Policies (CUNA, Product # 0703)
Credit Union Productive Lending Curriculum, Glenn Hoyle, WOCCU
"Development of A CU Fraud Policy," CUNA Mutual
Financial Management For CU Managers & Directors , Jim Jerving (WOCCU/CUNA)
Involving C U Volunteers C U Success Series, WOCCU
Interpersonal Skills (STAR 520) CUNA
Lending Process STAR 200 CUNA
Loan Granting (V201) CUNA
"Managing Risks of Members Forgery & Fraud," CUNA Mutual
Marketing (V103) CUNA
Membership Promotion WOCCU C U Success Series
NCUA Supervisory Committee Guide Revised 5/97, can be downloaded FREE from www.ncua.gov

Appendix C

Alphabetical List of Materials, Continued

Planning (V102) CUNA
"Proceed with Caution" CUNA Mutual
Pricing Concepts, (V401) CUNA
Pricing CU Products & Services (CUNA Product 20119)
Principles & Practices of C U Management, Diploma in C U Studies, Irish League of Credit Unions
"Record Storage Program" CUNA Mutual
Savings Mobilization WOCCU C U Success Series
Standards of Operation Manual New South Wales C U Savings Reserve Board
Supervisory Committee: Duties & Responsibilities (V300) CUNA
"Understanding Financial Reports: Every Action has a Reaction" C U Directors Newsletter
Supervisory Committee Ready Reference (CUNA, product #29326)
"Record Storage Program" CUNA Mutual
Standards of Operation Manual New South Wales C U Savings Reserve Board
"Understanding Financial Reports: Every Action has a Reaction" C U Directors Newsletter