



**A Cooperative  
Initiative for the  
CU\*Answers  
Network**

# System Performance Tracking

## A Proposal

(DRAFT)

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Analyzing Risk  
Sensitivity and  
Performance  
Indicators across  
the CU\*Answers  
Network

## 1 Purpose

To use consolidated monthly CU\*Answers client data to Analyze Risk Sensitivity and Performance Indicators on a more frequent, real time basis, then is currently available. The analysis is first for the whole CU\*Answers system and then for individual CU use.

## 2 Method

Using the ability to consolidate all CU\*Answers clients' financial statements in a combined balance sheet, income statement and activity composite, CU\*Answers would then publish this data monthly for CEO and Board self-referencing to enhance overall performance awareness and accountability.

None of the information-ratios are new. Some data, especially those in \$ amounts, will apply primarily to CU\*Answers as a whole system and will not be readily comparable to an individual CU's numbers. Ratios and % changes will be comparable with an individual credit union's trends.

The initial time periods are all monthly performance, i.e. for the current month only, so the unit of analysis becomes monthly (not YTD). Current month, prior month, and same month one year earlier. This provides a look at performance at the margin and then a comparison with a year earlier, which would be similar to an annual average comparison. Month to prior month comparisons will have season flows that can be misleading (e.g. 40-50% of share growth comes in the first 4 months of the year) but by always looking at the prior year, same month, this seasonality is taken out.

With these 12 data points, the trending (via graphs) of the monthly numbers becomes important for perspective. The other option is annualizing the monthly or year-to-date income numbers which is helpful, but not as specific as 12 data points.

This report format works best with a static number of credit unions; that is, if new clients are added that will make some of the growth numbers in \$ distorted unless the new clients' data can be back loaded into the database.

Key question: Can the technical ability used to pull ratios, produce a complete consolidated balance sheet and income statement as well?

### 3 Implementation Topics

Two areas for additional assessment: One is how difficult is it to produce these consolidated numbers, and how quickly can this be done after month end? Five business days would be ideal, if not sooner.

Secondly, even in this initial draft form there are many ratios and numbers especially if one sees that each one is reported for 3 periods. Therefore it will be critical to have an analyst commentary that points out relevant information.

To assess each of these issues, it might be useful to do a beta: load 12 months prior consolidated data for a static group of clients, print out the information and trends, then ask what is useful and what is not. Modify ratios as appropriate and then show to a group of clients.

### 4 Areas for Reporting

The sections below track the system's collective efforts at intermediation-taking in funds and converting to loans and the resulting changes in balance sheet risk sensitivity (asset quality, liquidity and capital adequacy). The second area looks at income statement (business model) results and productivity-throughput via financial indicators. The final section tries to monitor member activity as a proxy for member participation/engagement.

I am not familiar with all the transaction data you capture and there may be much more useful information readily available that might track channel trends, as an example.

For critiquing this approach, first look at these sections—is this the best framework? Then understanding what each is looking at, are the ratios/\$ data points below the best to produce on a regular basis?

#### 4.1 Balance Sheet Flow Trends

( 20 data points in this section)

	Curr Mo	Prior Mo	Prior Yr Mo
<input type="checkbox"/> Loan/ Share ratio %	X	X	X
<input type="checkbox"/> Loan \$ flows			
• Pay downs \$			
<i>(The \$ information is primarily relevant for CU*Answers as a whole.)</i>			
• Disbursements \$			
<i>(This is not as useful for CUs individually until the % growth ratio.)</i>			
• Net Loan growth \$			
• Net Loan growth %			

## Proposal: System Performance Tracking

- Shares
  - \$ inflow
  - % change
  - \$ Core Deposits/\$ total inflow
- \$ Change in total investments
- % investments > 1 year
- Asset Quality:
  - % Lns Delinquent
  - % Allowance/Delinq Ln Ratio
  - \$ Net charge-offs
- Liquidity
  - Loan/ share % repeated
  - % invest > 1 year
  - % AFS/total investments
  - \$ Borrowings
  - % Borrowings/Total shares
- Net Worth Ratio
  - % Net Worth/Non-Earning Assets
  - \$ Change Net worth

### **4.2 Intermediation: Income Statement and Productivity**

( 10 data points in this section)

- \$ Net Interest Margin
- % NIM/Earning assets (daily average?)
- NIM/Non-Interest Income %
- % Operating Expense/Net Operating income
- \$ Net Income (whole system)
- % Net Income/assets (daily average?)
- Productivity-Throughput
  - \$ Revenue / Mbr
  - \$ Operating Exp / Mbr
  - % \$ Revenue per \$ Salary/Benefits
  - \$ Loans Disbursed / Employee
  - How to measure the output or capacity gap-capability??

### 4.3 Member Activity-Engagement

( 6 data points in this section)

- # New Members
- # Closed Members
- # Total Transactions  
(Requires a definition of a transaction.)
- # Transactions per Mbr
- \$ Ln Disbursed per Mbr
- \$ New Savings per Mbr

## 5 Comments from CU\*Answers

Early in 2013, the CU\*Answers design team will sit down and analyze Chip's challenge in this proposal. The Callahan team has worked from the 5300, as does most of the industry. But that data is based on a report on reports (the 5300 based on balance sheets and income statements). We believe our network has an opportunity to add a new wrinkle to this by tracking many of these numbers through the analysis of member trial balance activity.

When our network wants to understand loan flows or changes in savings relationships, we can measure that instantly through the analysis of member accounts in a macro report. There is a real opportunity here for us to give CU\*Answers CEOs some real insight with real numbers, within minutes or days of the end of the month.

The challenge for all of us as CEOs is how we'll use the data. How will we compare what is happening in one CU\*Answers state to another, or even at the county level? What will we actually do with the data to react to opportunities and challenges in our operations? How will we learn new skills to intuitively understand what the examiner's response might be to our data? How will we prepare our management teams and Boards for how these trends will be perceived by others?

These are big goals and a big opportunity. We hope you'll start pondering what it means to be ahead of the curve, not only with your members at every contact point, but with the examiners, months before they arrive for your next contact.

*Look for a design spec at the June 2013 CU\*Answers Leadership Conference.*