

Test Your Knowledge

# Answer Key

# 1

*Alphabet Soup:*  
Glossary of Credit  
Union Lingo

1. What does GAAP stand for?
  - Generally Accepted Accounting Principles
  - Generally Accepted Accounting Practices
  - General Annual Account Practices
2. The governing body that determines standard accounting procedures used by credit unions in excess of \$10 million in assets is FASB, which is the Financial Accounting Standards Board.
3. What does BSA represent?
  - Bank Secrecy Act
  - Bank Security Act
  - Bank Secrecy Association
4. What do the initials ROI mean?
  - Return on Investment
5. What is the name of the federal agency that charters and supervises federal credit unions?
  - NCUA
  - NCUSIF
  - OFAC
6. CAMEL is an internal rating system used for evaluating the soundness of credit unions on a uniform basis, the degree of risk to the National Credit Union Share Insurance Fund (NCUSIF), and for identifying those institutions requiring special supervisory attention or concern. What do the letters in the acronym stand for?
  - C apital Adequacy
  - A ssset Quality
  - M anagement
  - E arnings
  - L iquidity
7. What is ALM?
  - Asset Liability Management
  - Accounts Losing Money
  - Asset Lowering Margins
8. This ratio describes the credit union's net income as a percentage of average assets.
  - ROA
  - Net margin
  - FPR

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# Answer Key

# 1

*Alphabet Soup:*  
Glossary of Credit  
Union Lingo

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9. OFAC governs the credit union's requirements to make sure they are not doing business with terrorists. What does OFAC stand for?
- Office of Foreign Activists Citizens
  - Organizations Fooling Around with Citizens
  - Office of Foreign Asset Control
10. This acronym is short for the general ledger account used to reserve money that may not be repaid for loans and leases.
- ALLL
  - OREO
  - ROA

Test Your Knowledge

**2** Balance Sheet  
Structure 101

# Answer Key

1. Assets equal Liabilities plus:
  - Expenses
  - Income
  - Allowance for loan losses
  - Capital and retained earnings
  
2. A liability is something you owe. It's an obligation to pay for a transaction or event in the past. Settlement could require the transfer or use of cash or other assets.
  - True     False
  
3. What is an asset?
  - In its simplest form, an asset is something you own
  - Assets are economic resources
  - Anything tangible or intangible that is capable of being owned or controlled to produce value
  - All of the above
  
4. Typically the largest and highest-earning asset in a credit union is its (choose one)
  - Furniture and fixtures
  - Loans
  - Pre-paid expenses
  - Investments
  - Land and building
  
5. Balance sheet line items should always be compared to prior periods to understand the trends in specific line items.
  - True     False
  
6. \_\_\_\_\_ are considered earning assets. (check all that apply)
  - Accrued income
  - Land and building
  - Investments
  - Loans
  
7. \_\_\_\_\_ are examples of non-earning assets. (check all that apply)
  - Fixed assets
  - Accrued income
  - Prepaid expenses
  - Investments

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## Test Your Knowledge

2 Balance Sheet  
Structure 101

## Answer Key

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8. What line items are considered to be capital of the credit union?
- Regular reserves
  - Undivided earnings
  - Other reserves
  - All of the above
9. Shares and deposits are considered equity.
- True     False
10. The following subtotals make up the right-hand side of the financial statement (check all that apply):
- Land and building
  - Accounts payable
  - Shares and deposits
  - Equity
  - Total member loans

Test Your Knowledge

**3** Income Statements 101

# Answer Key

1. Which of the following is not part of the Income Statement? (choose one)
  - Interest on loans
  - Salaries and benefits
  - Provision for loan loss
  - Allowance for loan loss
2. Which of the following are examples of non-operating income? (check all that apply)
  - Overdraft Fees
  - Delinquency fines
  - Loan origination fees
  - Interest on investments
  - Interest payable
3. Depreciation is the process of spreading the cost of assets (such as wear and tear on equipment) over multiple periods in which they are used.
  - True     False
4. Interest expense is (choose as many as apply):
  - Not applicable to a credit union
  - The opposite of Interest Income
  - The money paid out to members on savings and deposits
  - The money paid out for borrowing from other financial institutions
5. Net interest income is the difference between income earned on interest bearing assets and interest paid on interest bearing liabilities.
  - True     False
6. The provision for loan loss account is used to fund which contra asset account (choose one):
  - NCUSIF
  - ALLL
  - Regular reserve
  - Undivided earnings
7. Interest on loans that are past due greater than 90 days must be deducted from interest income.
  - True     False

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Test Your Knowledge

**3** Income Statements 101

# Answer Key

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8. Net income is defined as (choose one):
- The difference between income earned and total operating expenses
  - The amount of money the credit union makes on loans
  - The value of assets after depreciation is deducted
  - The amount of earnings after the provision for loan loss expense is subtracted
9. What is not considered a revenue source for a credit union? (choose one)
- Interest income on loans
  - Income earned on investments
  - Fees and fines paid by members
  - Salaries and benefits

Test Your Knowledge

**4** Important Ratios

# Answer Key

1. The Return on Assets ratio describes the credit union's net income divided by total assets for the period.
  - True     False
2. The standard set of ratios used by the NCUA is called:
  - Financial performance report (FPR)
  - Credit union ration analysis
  - CAMEL
  - All of the above
3. Which ratio measures the health of the loan portfolio?
  - Charge-off
  - Delinquent loans
  - Net expense to assets
  - Loan to share
4. The \_\_\_\_\_ shows the degree to which member deposits have been loaned to members.
  - Return on assets ratio
  - Loan to share ratio
  - Net expense to assets ratio
  - Charge off ratio
5. The ratio which describes how much the credit union makes on the spread between the yield on earning assets and the cost of funds is:
  - Net interest margin/average assets
  - Net operating income/average assets
  - Yield on average loans
  - Operating expenses/average assets
6. Which of the following ratios describes asset quality?
  - Net worth to assets
  - Solvency evaluation
  - Classified assets to net worth
  - Total delinquent loans to net worth
  - All of the above
7. The best way for a board Director to determine if the credit union's ratios are good or bad is to:
  - Trend them over time
  - Compare them to the peer group
  - Review the FPR ratio analysis from the NCUA site which compares the credit union to a group of peers
  - All of the above
8. The members per employee ratio can be used to determine the credit union's productivity.
  - True     False

Test Your Knowledge

# Answer Key

## 5 Asset/Liability Management (ALM)

1. The GAP is defined as the difference between rate-sensitive assets and rate-sensitive liabilities.  
 True     False
2. What risks are associated with the ALM? (check as many as apply)
  - Credit risk
  - Liquidity risk
  - Market risk
  - Reputation risk
  - Interest rate risk
  - Concentration risk
3. NEV is:
  - Net economic value
  - Net equity value
  - Net earnings value
4. The NEV is important to understand as it compares the value of assets and liabilities based upon current and forecasted interest rate environments.  
 True     False
5. The \_\_\_\_\_ test is designed to help a board understand the possible decrease in earnings and capital when interest rates rise and fall.
  - NEV
  - Pro Forma
  - Income simulation
  - Shock
6. A large negative GAP poses risk to the credit union when interest rates:
  - Go up
  - Go down
  - Stay stable
  - None of the above
7. Which committee of the credit union generally is in charge of reporting to the Board of Directors the results of an ALM review?
  - Credit
  - Supervisory
  - ALCO
8. ALM in financial institutions stands for:
  - Application Lifecycle Management
  - Asset Liability Management
  - American Licensing Module

Test Your Knowledge

**6** Assets 201

# Answer Key

1. Of all assets owned by the credit union, which one(s) contain credit risk?
  - Land and building
  - Loans
  - Investments
  - Prepaid expenses
  - Loans and investments
2. The allowance for loan loss
  - Is based upon an estimate of the potential losses in the loan portfolio
  - Is a contra-asset account
  - Reduces the value of the loan portfolio
  - Is funded through the provision expense account
  - All of the above
3. An increase in the following asset line items should be considered a negative trend and closely monitored:
  - Allowance for loan and lease loss line item
  - Other real estate owned
  - Collateral in the process of liquidation
  - All of the above
4. Classified assets or impaired assets are considered as loans and other receivables due from members whose collectibility is in doubt.
  - True     False
5. A credit union that has “loaned out” all member savings and capital and must borrow from its correspondent must actively manage liquidity risk.
  - True     False
6. Non-earning assets generally (check all that apply):
  - Have a drag on earnings as they have no income associated with holding them
  - Are a good source of income
  - Consist of cash, building, and accruals
7. In general terms a contra-asset account is a credit balance line item on the asset side of the balance sheet that (check all that apply):
  - Is used to reduce the value of a line item
  - Displays loan participations sold
  - Shows the amount in accrued income

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## Test Your Knowledge

6 *Assets 201*

# Answer Key

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8. Except for certificates of deposit held at other financial institutions, credit union investments should be re-priced every month to show their value relative to the going price of like investments.
- True     False
9. A board member should be concerned over a dramatic growth in assets over a short period of time because (check all that apply):
- Without corresponding strong earnings they could dilute the net worth ratio of the credit union
  - May bring in too much cash that cannot be easily lent out
  - This is not actually a concern because this is a good sign that represents a profitable institution
  - May be a sign the credit union's savings rates are too high

Test Your Knowledge

**7** Liquidity, Savings  
and Capital 101

# Answer Key

1. In addition to member savings accounts, what other line items constitute a liability (check all that apply):
  - Suspense and settlement accounts
  - Accounts payable
  - NCUA share insurance
2. Suspense and settlement accounts:
  - Are used for settling transactions which cannot be posted to a member account immediately upon receipt
  - In many cases are necessary to facilitate settling with a third party for amounts owed or due from the third party
  - Generally carry a zero balance at the end of each day
  - All of the above
3. The only source of credit union capital is the earnings generated by the credit union's operations.
  - True     False
4. Regular share accounts do not have a stated maturity as compared to (choose one):
  - Certificates of deposit
  - Checking accounts
  - Money market accounts
5. When a credit union pays for membership dues all at once for the upcoming year, this is an example of (choose one):
  - Accounts payable
  - Prepaid expense
  - Accrued income
  - An asset
6. What factors can have a direct impact on the capital position of the credit union?
  - Earnings
  - Investment valuation reserve adjustment
  - Prior period adjustment required by the credit union auditors
  - All of the above
  - None of the above
7. Accrued dividends represent the amount of money you owe members which has been earned but has yet to be paid.
  - True     False

Test Your Knowledge

# Answer Key



**Questions to Ask  
During a Board  
Meeting**

1. The CEO has made a recommendation to raise rates on specific member savings and deposit accounts. What question(s) should a Board member pose?
  - ✓ Are we in need of liquidity to fund loan demand?
  - ✓ Are we losing deposits due to market differential?
  - ✓ What impact will this have on the overall net income for the year?
2. The CEO is requesting that the Board increase the monthly provision for loan loss expense beyond the budgeted amount. What question(s) should a Board member pose?
  - ✓ Has there been an increase in charge-offs over the last quarter?
  - ✓ Has the management team altered the ALLL calculation?
  - ✓ Has the credit union lending staff underestimated the amount of credit risk in the loan portfolio?
3. You have noticed a dramatic increase in real estate loans on the balance sheet. What questions should a Board member pose?
  - ✓ Is the credit union funding these loans with long term deposits?
  - How much will operating expenses increase?
  - What affect will this increase have on the regular reserve?
  - ✓ Has this increase been evaluated by the ALCO?
4. The ALCO is reviewing the investment portfolio and you noticed a number of new investments made by the credit union. What question(s) should you pose?
  - ✓ Are they within policy?
  - ✓ Are they backed by assets which contain credit risk?
  - ✓ Has the credit union done its due diligence on the brokerage firm?
5. In reviewing the income statement, a Board member should ask questions on line items where (check all that apply):
  - ✓ There is a large variance from the budgeted amount
  - The line item is in line with the budget
  - ✓ The line item is carrying a negative balance or it is going backwards
6. Over the course of the last quarter you begin to see a month after month increase in indirect dealer loans. What question(s) could you pose?
  - ✓ Are we taking on additional credit risk in an effort to grow the portfolio?
  - Are we making sure the dealers are happy?
  - Do loan officers like reviewing dealer loans?

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Test Your Knowledge

# Answer Key



Questions to Ask  
During a Board  
Meeting

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7. Month after month you see suspense items on the balance sheet that do not clear to zero. What question(s) should this prompt?
  - Is the amount in the budget?
  - Is accounting reconciling the account?
8. On this month's balance sheet you see a negative swing in the investment valuation reserve account. What question(s) should this prompt?
  - Which investments are losing market value?
  - Does the portfolio have too much market risk?
  - What controls does the credit union have to manage market risk?
  - This is not a line item you should have to worry about so no questions should come to mind.

Test Your Knowledge

# Answer Key

## 9 Income/Expense Statement 201 Revenue Generation

1. Credit unions make money by lending and investing money at a higher rate than they pay on deposits.
  - True     False
2. A general rule of thumb is that for every \$100 the credit union grows in member deposits it should make \_\_\_\_\_ (to maintain a 10% capital ratio).
  - \$1
  - \$2
  - \$10
3. What ratio dictates the health of a credit union's operational earnings?
  - Delinquency
  - Loan to share
  - ROA
4. Most credit unions do not make enough money on the net interest margin to cover operating expenses and dividends paid to members. Therefore other operating income is very important to a credit union's bottom line.
  - True     False
5. Why does the quality of the loan portfolio affect the credit union's gross revenue? (check all that apply)
  - When a loan goes 90 days past due the credit union cannot show the interest owed by the member as income
  - When charging a loan off the credit union must also charge off the interest owed by the member
  - As the quality of the loan portfolio deteriorates the credit union must increase the provision for loan loss reserve
  - The quality does not impact the earnings
6. Net income is a function of the following (check all that apply):
  - Land and building
  - Gross income
  - Total operating expenses
  - Interest and dividends paid to members
7. The operating expenses are not subject to a rise and fall in interest rates.
  - True     False

Test Your Knowledge

# Answer Key 10

*The Budget Process and Variance Analysis*

1. Which of the following are true of budgets?
  - A budget is a list of all planned expenses and revenues
  - Budgets are completed on an annual basis
  - A budget is an organizational plan stated in monetary terms
  - A budget gives the CEO the authority to spend money on behalf of the credit union
  - All of the above
2. The purpose of budgeting is to (check all that apply):
  - Forecast income and expenses
  - Serve as a tool to measure the performance of the credit union
  - Gauge where the credit union has been financially
3. A variance is the difference between the actual amount earned or spent and the budgetary amount.
  - True     False
4. Budgets are set in stone and should never be revisited or recast throughout the year.
  - True     False
5. In creating a budget, what is generally true regarding the use of historical financial statements?
  - They are the best resource for creating a budget
  - If the standard budget is established by using only historical information, the budget will quickly become outdated
  - Both statements are true
6. Variance Analysis is (check all that apply):
  - A budgetary tool to evaluate performance between the budgeted/planned amount and the actual amount incurred or earned
  - Designed to foster questions at the Board level relating the performance of the credit union
7. It is more important for the Board of Directors to review line items with significant variance from expected or budgeted amounts than to review every line item on the income and expense statement.
  - True     False
8. Which of the following would be considered a healthy ROA ?
  - .25
  - 0
  - .5
  - .1

Test Your Knowledge

# Answer Key 11

**Regulatory Requirements**  
for Financials & Board Members

1. Credit unions over \$10 million in total assets are required by NCUA to follow GAAP.  
 True     False
2. NCUA requires that Board members be financially literate and must have a working familiarity with (check all that apply):  
 Basic finance and accounting practices  
 Understanding the credit union's balance sheet and income statement  
 Asking substantive questions of management regarding the financials  
 Being able to cite all FASB standards
3. The \_\_\_\_\_ Committee is charged with engaging a firm to perform the annual audit of the credit union.  
 Credit  
 ALCO  
 Supervisory  
 Marketing
4. Credit union Board members have 6 months after they are elected or appointed to the Board to become financially literate.  
 True     False
5. How often are credit unions required to file a Call Report?  
 Monthly  
 Annually  
 Quarterly
6. Credit unions are required to display their financial statement in their lobby for the public to review.  
 True     False
7. The \_\_\_\_\_ is the Board officer who is required to examine financial statements and interpret trends.  
 Chairman  
 Vice Chairman  
 Treasurer
8. A Director is expected to understand how the activities of the credit union generate revenue but also the risks associated with these activities that could lead to financial loss.  
 True     False

Test Your Knowledge

# Answer Key 12

**Bonding,  
Understanding  
Risk, and Mitigating  
Losses**

1. Board members are required to understand the risks found in depository institutions including:
  - Credit risk
  - Liquidity risk
  - Interest rate risk
  - Reputation risk
  - All of the above
2. Credit unions are required by statute to obtain fidelity bond coverage to insure for (check all that apply):
  - Losses caused by fraud
  - Losses caused by dishonesty and theft
  - Losses caused by an act of God
3. Some factors to consider with liquidity risk are a sudden, unexpected withdrawal of member savings or extraordinary loan demand in which the credit union does not have the cash or short term assets to fund the demand.
  - True     False
4. Board members must consider credit risk when developing policies related to the acquisition of assets such as loans and investments and the associated policies controlling these activities.
  - True     False
5. To protect Board members from lawsuits brought on by members against the credit union, it is wise for the credit union to carry:
  - Hazard Insurance
  - Directors and Officers coverage
  - Bond
  - Umbrella insurance
6. Compliance Risk (check all that apply):
  - Might be more clearly defined as risk of non-compliance.
  - Is the risk associated when knowledge of regulations isn't solidly integrated into policies and procedures nor translated to best practices.
  - Occurs when regulations are not adopted across the organization.
  - Must be considered by Board members when establishing policies for expense reimbursement.
7. Interest rate risk is the risk to the earnings or the market value of loans and investments due to uncertain future interest rates. Board members must consider interest rate risk during the credit union's ALM review.
  - True     False
8. Reputation Risk is (check all that apply):
  - The factors affecting the organization when compliance regulations are ignored or events occur causing the name of the organization to be blemished or reputation defamed.
  - Considered by Board members when dealing with member data security, embezzlement, and member law suits brought on by non-compliance or inaccurate processing of member transaction activity.