Automating Monthly Income for 90-Day Delinquency

INTRODUCTION

Now a time-consuming monthly chore is more comprehensive, more precise, and more consistent…it's now also as fast as pushing a few buttons. No more custom Queries or reports, no more complicated spreadsheets to calculate the amounts, no more manually typing what can potentially be hundreds of individual G/L entries.

In a nutshell, this tool automates the process of calculating and posting journal entries to account for interest due that is likely to be unpaid (loans more than 90 days past due). You can choose whether to post detailed entries to each individual income G/L according to loan category, or to a single designated income account, with an offset to a designated accrual G/L. Entries can be posted consolidated into one branch location or by member branch. And yes, we'll even prepare the reversing entry for you. All you have to do is post!

CONTENTS

A BALANCE SHEET THAT REFLECTS THE TRUE VALUE OF YOUR LOAN PORTFOLIO

Every month credit unions do their very best to present through their balance sheet a *quality* report on the value of their *adjusted* loan portfolio and accrued interest. The adjusted value of the loan portfolio is based on a statement of your members' total outstanding balances minus the balance of the credit union's provision for loan losses. This net number represents the credit union's best estimate of the loan principal you anticipate will actually be paid off by members.

The adjusted value of the outstanding accrued interest is handled in the same way. The balance sheet reflects the total amount of accrued interest owed by members. This is offset by a monthly entry that represents the interest the CU reckons is not likely to be collected. The formula for calculating this is based on any interest owed on loans that are more than 90 days delinquent.

With the loan loss provision, the balance is carried into the future and adjusted only by additional credits or debits approved by the Board, as members either get caught up or you choose to write off their loans. The accrued interest adjustment, on the other hand, is a one-day balance sheet entry based on an estimate of outstanding accrued interest as of the last day of the month. The adjustment is then reflected on your month-end financial reports. Since loan delinquency fluctuates all month long, the number is not carried through the entire month: on the first day of the next month, last month's entry is reversed from the credit union's books.

In the past this was simple: run a report showing loans over 90 days delinquent and make a single G/L entry for the total amount of interest due on all loans (one total applied for all branches). But over the years CUs have become more sophisticated with their loan portfolios and member branch accounting. The simple approach isn't always the best approach anymore.

- For example, say your credit union has 25 loan categories and 4 member branches. Your interest accrual adjustment affects two general ledger accounts, accrued interest and income. That's about 200 different journal entries to post every month (plus 200 more to reverse them!).

AUTOMATING A TIME-CONSUMING CHORE

With this tool, CU*BASE automates the entire process and refines it to include breakdowns by branch and loan category. The G/L entries can then use a more sophisticated and comprehensive approach to identifying which loans, in which categories, in which branches, are over ninety days delinquent. This improves the ability of the CU to calculate yield by product, or even yield by member branch if needed. And it does it in seconds, with all the calculations done automatically, including the corresponding reversing

entry automatically dated for the first day of the new month. Give the figures a quick once over, generate the entries, then post them.

This tool gives a credit union CFO or accountant an automated and quick process while at the same time creating two journal entries and the accounting detail that every complex loan portfolio needs today. It's a time saver and it's precise.

THE PROCESS

CONFIGURING THE ADJUSTMENT

First you will need to select the settings to determine which loans are included in the adjustment (delinquency date range and category), whether to post journal entries by individual branches or a single branch, whether to post the entries by category or G/L, and which offset G/L to post the adjustments to. Enter your criteria and press Enter to move to the next screen to review the adjustments.

- The flexibility of this selection screen allows you to run this adjustment process more than one time, for example for different General Ledger accounts.

Calc/Post Adjustmnt for Delq Loans (Tool #179)

Session 1 CU*BASE GOLD Edition - Calculate/Post Adjustment for Delinquent Loans	
Month/year to process **Nov 2013** [MMYY]	
Calculate adjustment for loans at least **090** days delinquent	
Loan categories to include **Select** ALL selected	
(Written-off loans will automatically be excluded.)	
Post journal entries ● By member branch/location ○ All to branch/location	
Post adjusting entries to income ● Separately by loan category ○ To single income G/L account	
Offset G/L account (contra accrued interest) ____ 🔍	
ⓘ Enter does not post. Next step: Review accounts.	
← → ↑ ❚❚ 🖨 🔗 ⓘ ? @	WU [3988]

Field Descriptions

Field Name	Description
Month/year to process	Select the month/year of the loans to be included.
Calculate adjustment for loans at least X days delinquent	Select the number of days delinquent to be included in the adjustment. Ninety days is entered by default. Interest on loans delinquent greater than or equal to the number of days is included.
Loan categories to include	Select the loan categories to include in the adjustment. Use the Select button to reveal a screen allowing you to select the categories. (Hold down the Ctrl key to select multiple categories.) Use "Select" to return to the first screen. The adjustment screen will then record the number of categories selected. • NOTE: Suspended and written-off categories will appear in this listing. Written-off loans will not be included in the adjustment.
Post journal entries	Select to post the journal entries: • By member branch location

Field Name	Description
	This selection will post separate adjustment entries by branch. This selection assists you to calculate changes to separate G/Ls at separate branches. • All to branch location (this selection will reveal a Branch # field to enter the specific branch – will default to Branch 00). Use this selection to make adjustments for the General Ledger of a single branch.
Post adjusting entries to income	Select from the following: • Separate by loan category This allows you to make individual adjustments for each loan category. • To a single G/L account This selection will reveal a field to enter the single G/L account that the adjustments will be made to.
Offset G/L account (contra accrued interest)	Enter the Offset G/L to receive the adjusted interest amount.

DISPLAYING RESULTS

Once you have configured your settings for the adjustment, press Enter to view the adjustment entries.

On this screen is a listing of the adjustments for which journal entries will be generated.

- The selection on the previous screen for the screen below was by member branch and separately by category.

From this screen, you can select *Print Report* (F14) to print a listing of the entries included on the screen. After review, use *Create J/E* (F5) to confirm the screen and move to the next screen where you can generate the entries.

Report Example from "Print Report" (F14)

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11/03/13  12:49:02                          SUCCESS CREDIT UNION                    LLNDLQARG       PAGE    1
                                   INCOME ADJUSTMENT FOR DELINQUENT LOANS                           USER KARENS

                                            FOR SEPTEMBER 2013
CORP ID 01 SUCCESS CREDIT UNION
LOANS AT LEAST 90 DAYS DELINQUENT

LOAN CATEGORIES INCLUDED (EXCLUDES ALL WRITTEN OFF LOANS): ALL

BRANCH   INCOME  G/L ACCOUNT                       # OF ACCOUNTS    CURRENT BALANCE     INTEREST DUE
  10     11130   INT INCOME - SECURED CLOSED END LOANS       1            583.57             1.80
  11     11130   INT INCOME - SECURED CLOSED END LOANS       2         33,140.48         2,003.53
  01     11104   INT INCOME - SIGNATURE LOANS               27        220,663.19         8,233.47
  03     11104   INT INCOME - SIGNATURE LOANS                6         41,275.76         2,154.89
  04     11104   INT INCOME - SIGNATURE LOANS                6         60,647.81         4,346.53
  05     11104   INT INCOME - SIGNATURE LOANS                9         75,941.86         6,822.76
  06     11104   INT INCOME - SIGNATURE LOANS                4         43,670.29         1,529.40
  08     11104   INT INCOME - SIGNATURE LOANS                6         20,875.54         1,361.12
  10     11104   INT INCOME - SIGNATURE LOANS                3         11,845.80           431.48
  11     11104   INT INCOME - SIGNATURE LOANS                1          3,075.21           188.90
  01     11122   INT INCOME - FIXED RATE MORTGAGES           1         53,219.16         2,077.98


  10     11146   INT INCOME - FIXED RATE MORT 5 YR 30        1        137,684.62         1,539.18
  08     11154   INT INCOME - USED VEHICLE TC                1          3,143.08           967.15
  08     11155   INT INCOME - SIGNATURE LOAN TC              1          7,475.59           258.72
  08     11157   INT INCOME - SEC CLOSED END TC              1          3,264.73         1,090.74

TOTALS                                                     170      2,261,628.51        91,148.83




                                          ***END OF REPORT***
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Note for participation loans

If the credit union has delinquent loans not owned 100% by the credit union, the amount of delinquent interest calculated by the tool may need to be manually adjusted. This includes government investor loans such as Fannie Mae.

Best practice recommendation for zero balance loans

There may be unique situations where the credit union has loans with a zero balance that are included in the delinquent interest calculation. To avoid this, be sure to clear any accrued interest when a loan is brought to a zero balance. Also, review if the loan should be closed or written off, since these zero-balance loans will not be included in normal daily delinquency monitoring.

CREATING THE JOURNAL ENTRIES

Selecting *Create J/E* (F5) from the previous screen allows you to generate the journal entries themselves. Enter the appropriate J/E ID. Then select *Create J/E* (F5) to create the journal entries.

- **NOTE:** This does not post the entries. After generating them, you will also need to post these entries via **Tool #61 *Create/Post GL Journal Entries***. Posting these entries will create a reversal entry to be posted at the beginning of the next month.

Session 0 CU*BASE GOLD Edition - Calculate/Post Adjustment for Delinquent Loans		
Create a J/E Batch Using the Following Settings		
Corp ID 01		
Effective posting date Nov 30, 2013 [MMDDYY]	J/E ID	J/E ID # 131211
Reversal date Dec 01, 2013 [MMDDYY]		
Create J/E		
		FR (3989)

Field Descriptions

Field Name	*Description*
Effective posting date	The last day of the previous month
Reversal date	The first day of the current month
J/E ID	*Defaults to blank.* Enter a two-character identifier used to separate batches posted on the same date. This is generally the initials of the person entering the data, or some other code determined by credit union policy.
J/E ID #	A six-character identifier, also referred to as Batch ID, used to further identify the batch. Although any system can be used, it is generally used to record the date (yymmdd) when the batch was actually typed. • Using this field to record the date that data was entered can be extremely valuable later when searching for specific journal entries or performing other research or analysis. Be sure to use the yymmdd format, so that sorting is performed properly.

Once you have entered your JE/ID, there will be one final confirmation prior to the journal entries being created. Use *Add/Update* (F5) to complete the process.