



May 3, 2024

The Credit Union's Together Conference
presents: **Five Important Gauges for a credit
Union**



THE **GARDNER**
AFFECT



5 Gauges

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Focus for Today's Session



Different areas of current credit union environment



Basic Ratio Information



Different ways to analyze numbers

5 Key Gauges (Ratios)

#1 - Inflation

2 Key Factors around Inflation

- Producer Price Index (PPI) – measures the change in selling prices which represents the cost of producing goods.
- Consumer Price Index (CPI) – change consumers pay for everyday items.

Producer Price Index as of April 2024

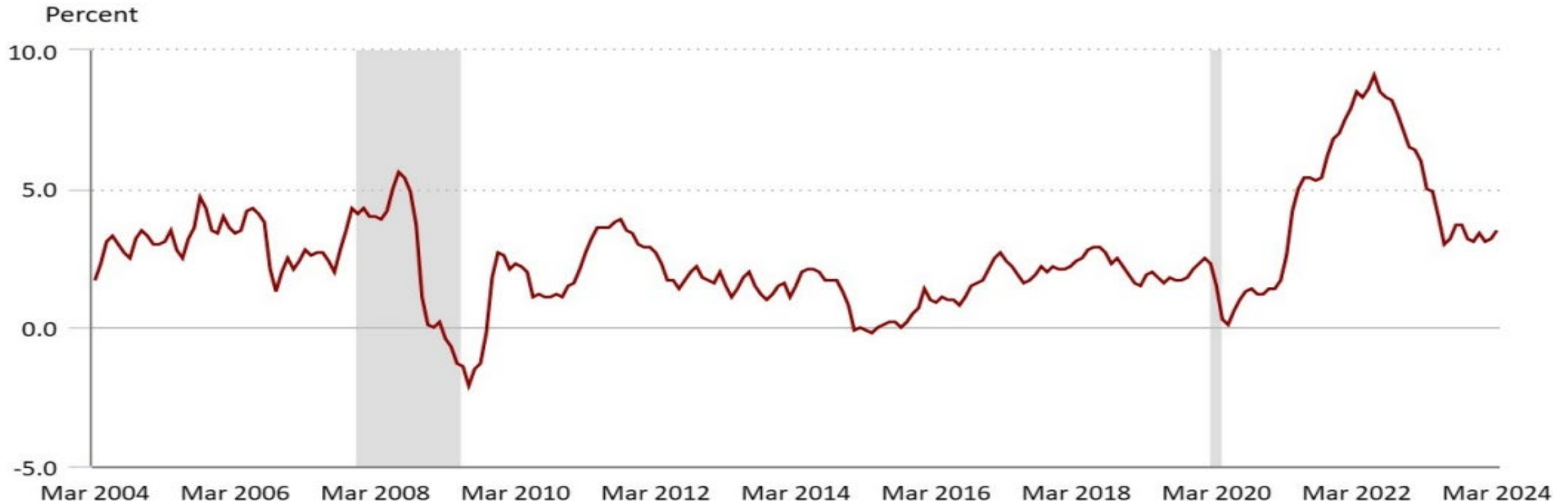
PPI for final demand, 12-month percent change, not seasonally adjusted



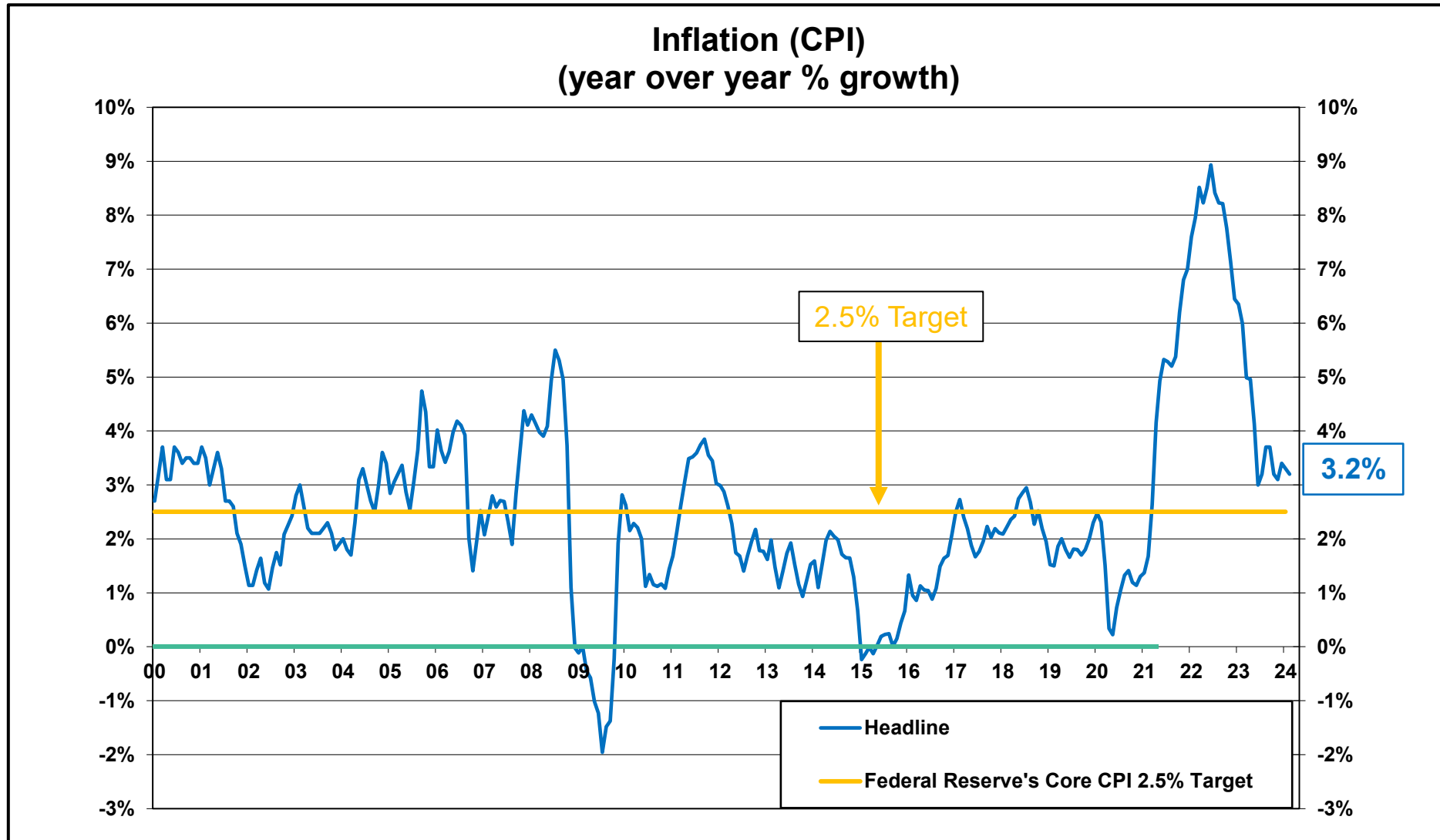
Consumer Price Index as of April 2024

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted

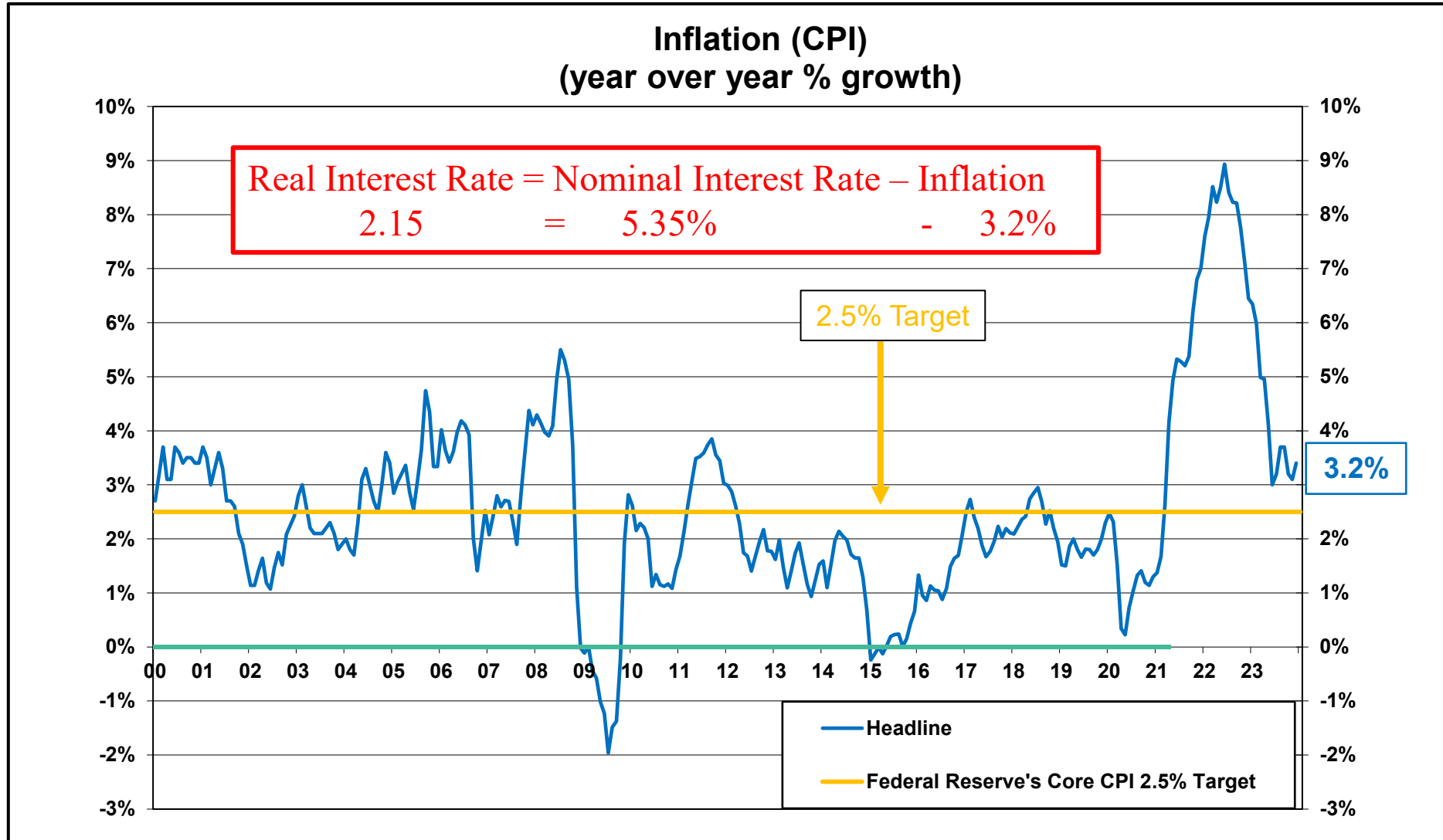
- All items
- Food at home
- Energy
- Electricity
- All items less food and energy
- Apparel
- Medical care commodities
- Shelter
- Education and communication
- Food
- Food away from home
- Gasoline (all types)
- Natural gas (piped)
- Commodities less food and energy com...
- New vehicles
- Services less energy services
- Medical care services



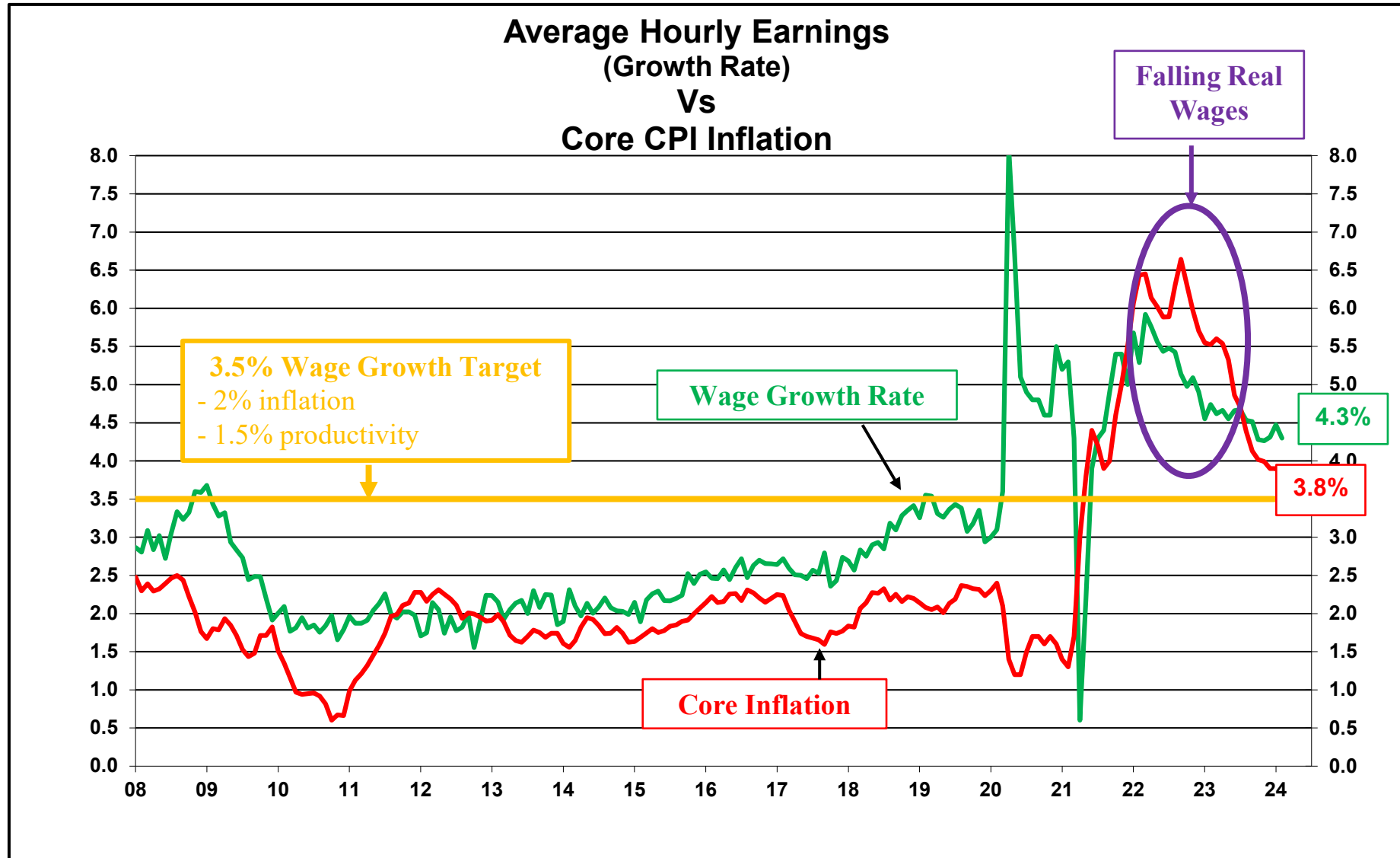
High Inflation for the Next Year



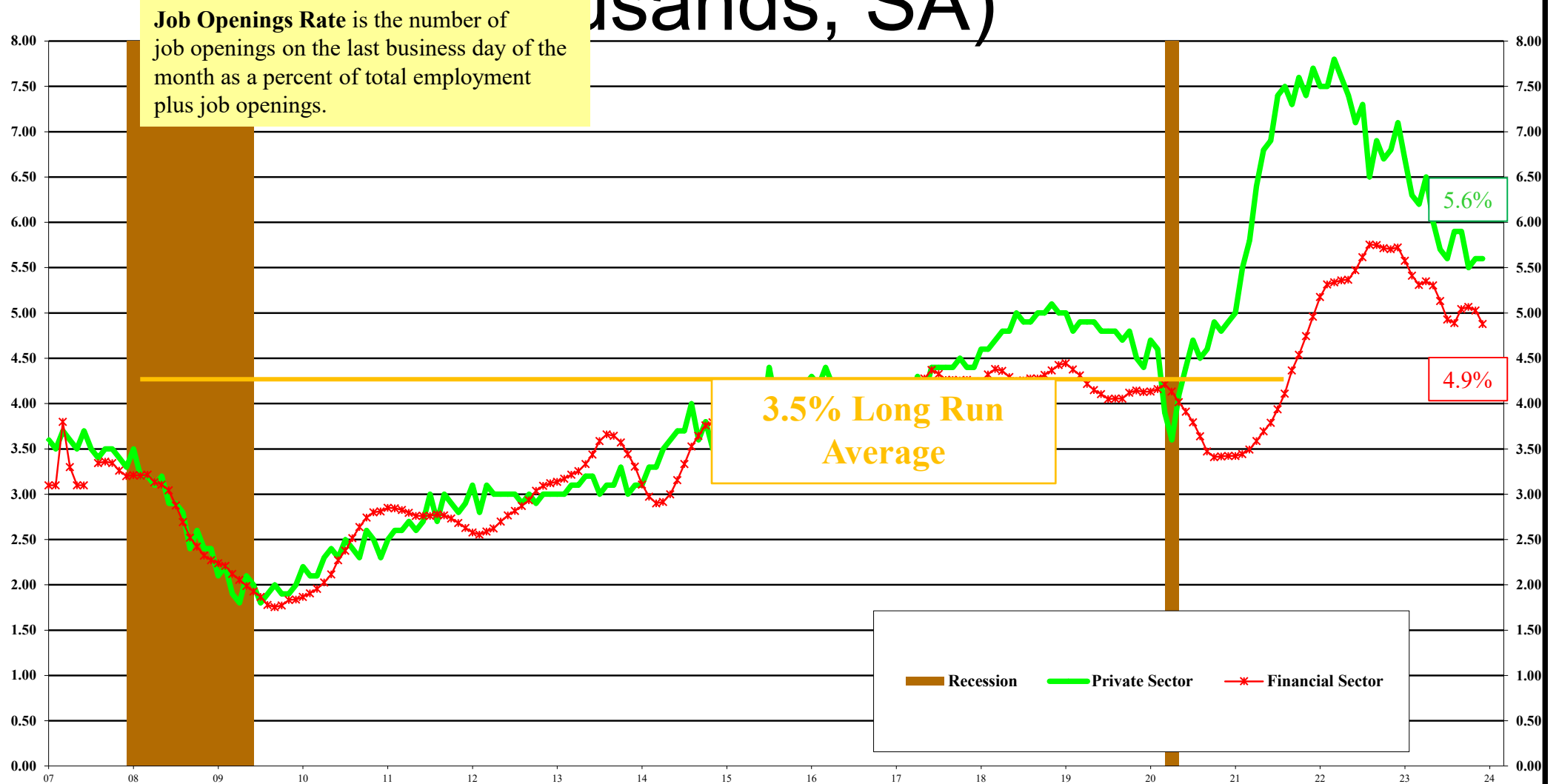
High Inflation for the Next Year



Wage Growth Slowing as Core Inflation Falls

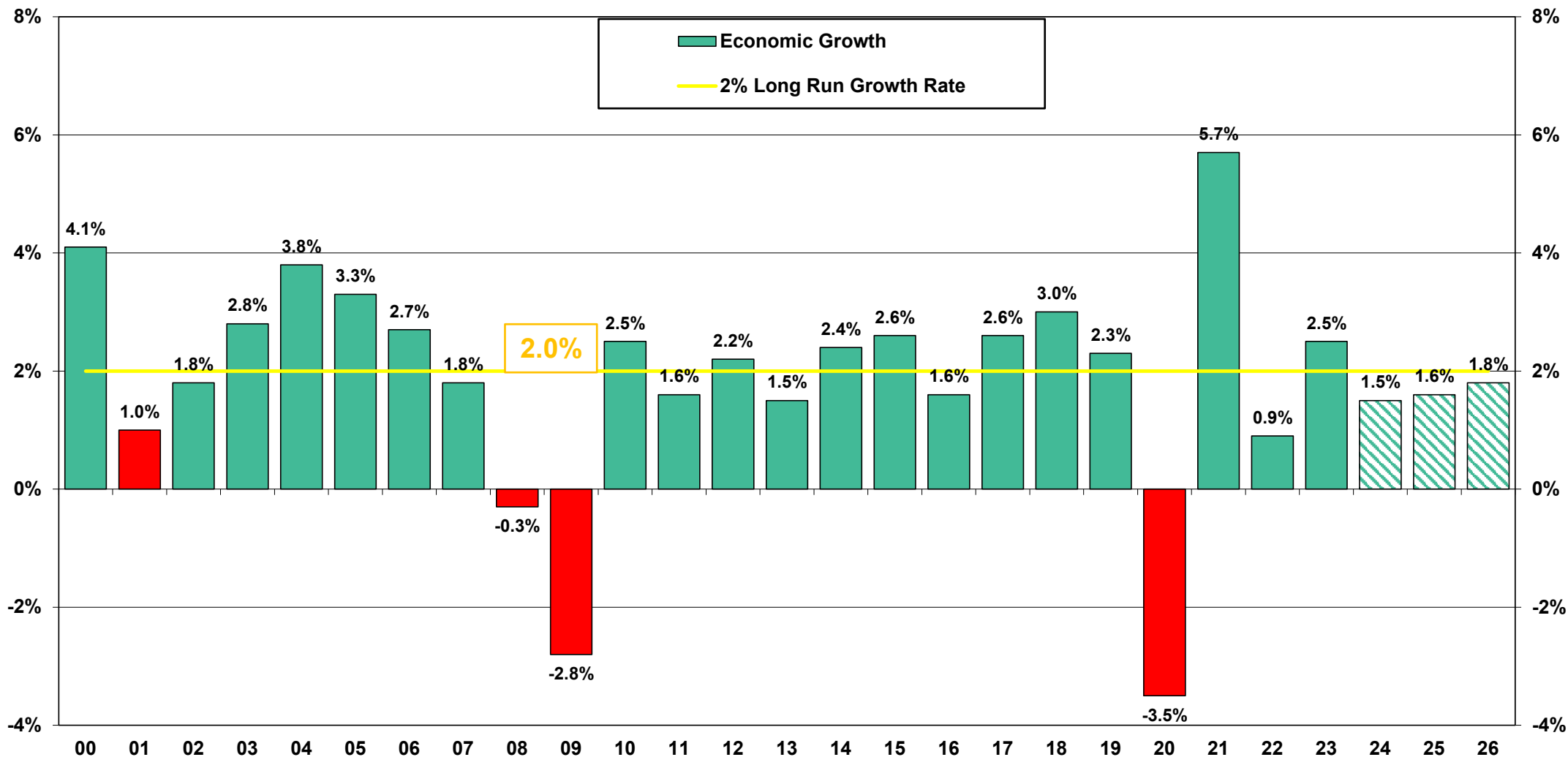


Job Openings Rate (Thousands, SA)



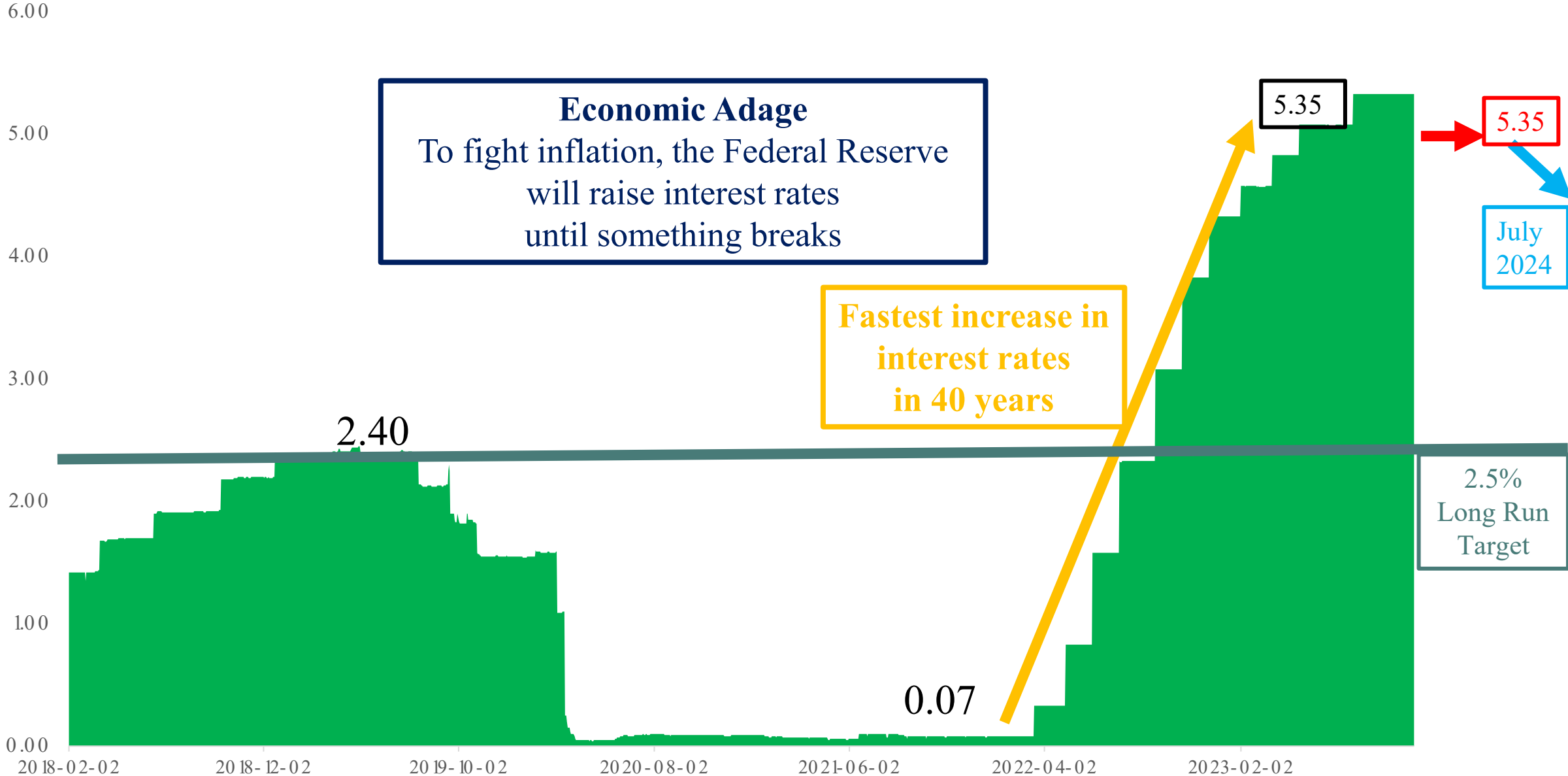
Slower Economic Growth for Next 2 Years

U.S. Economic Growth Rate

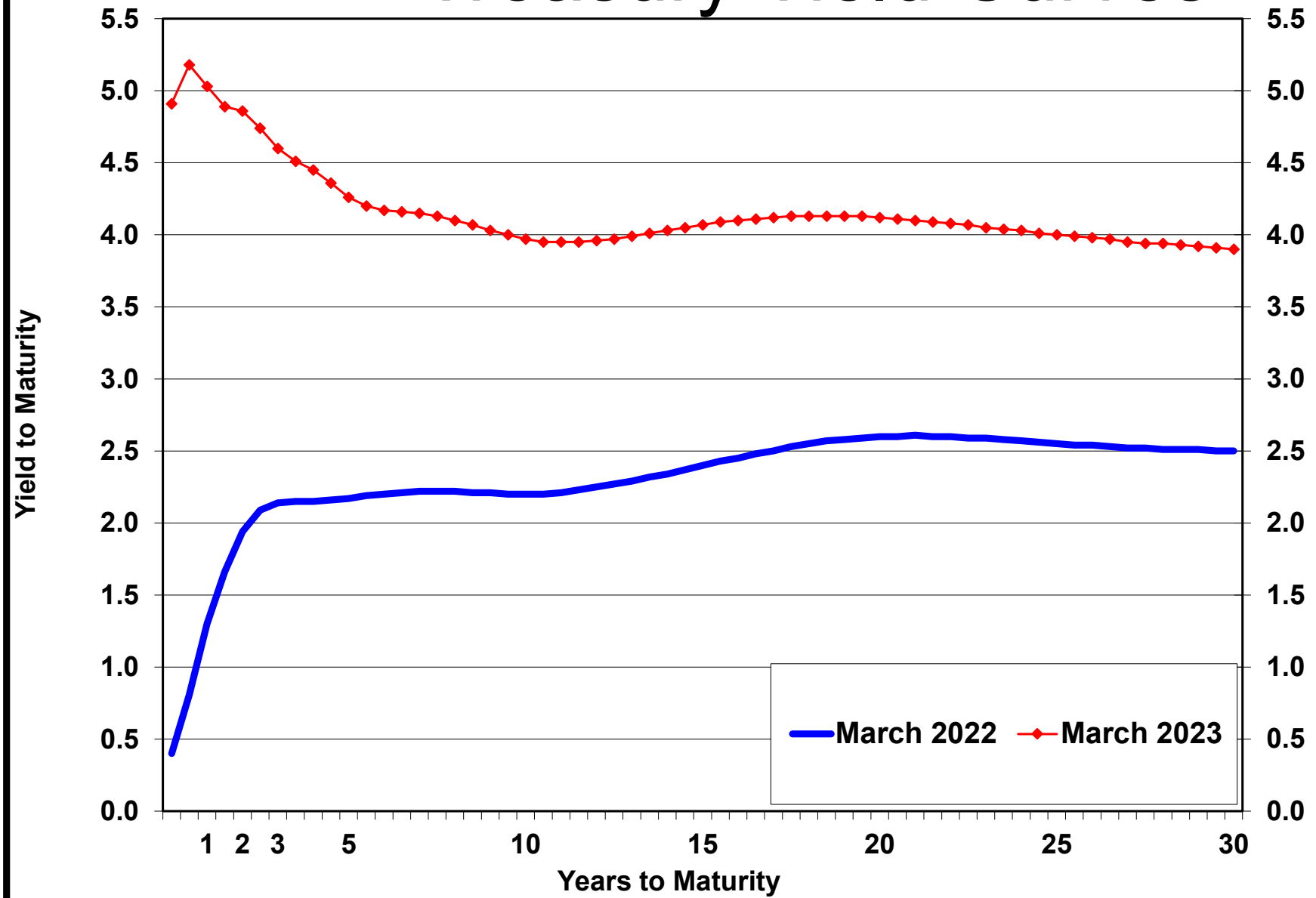


#2 – Interest Rates

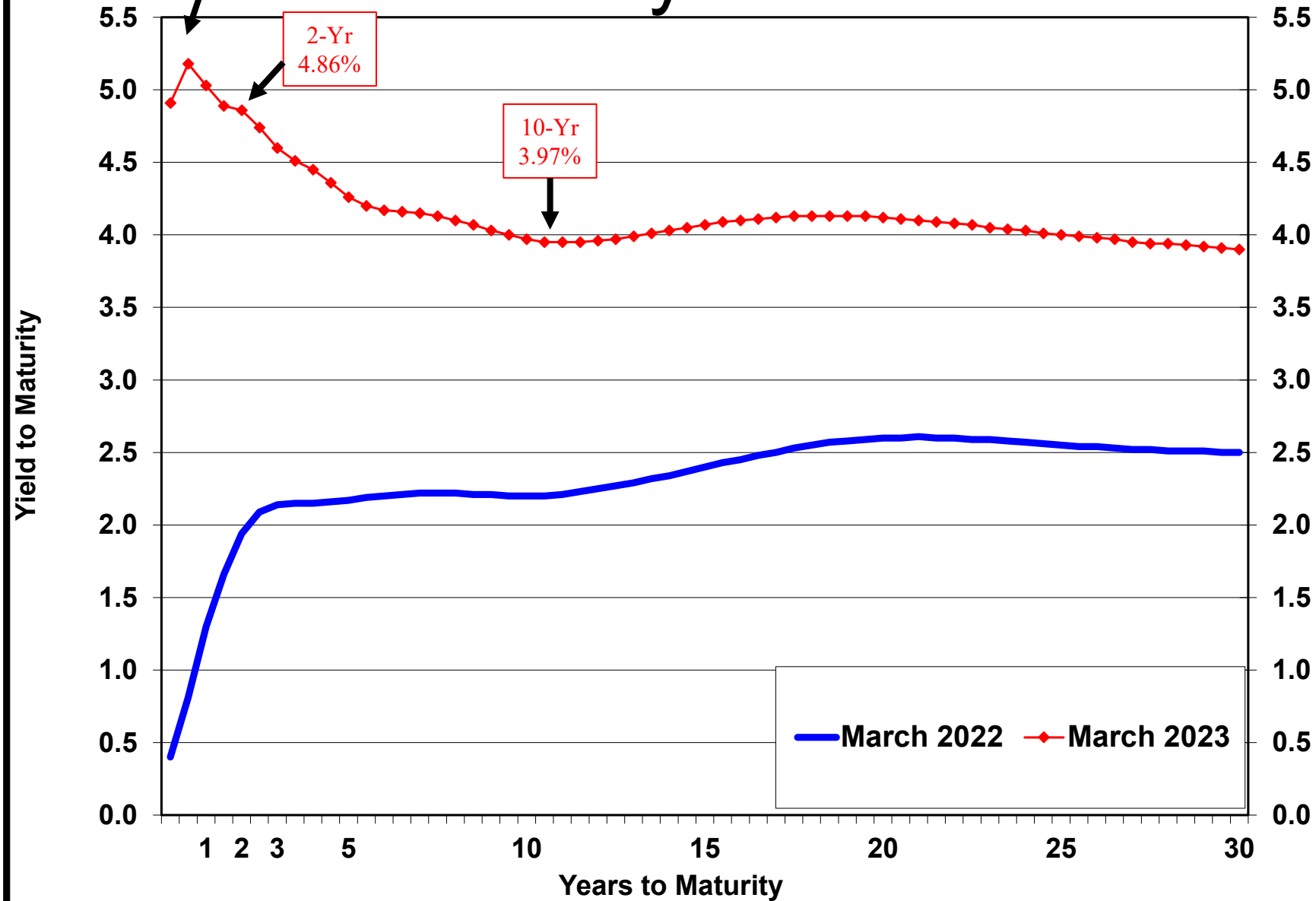
Federal Funds Rate, 2018 - 2023



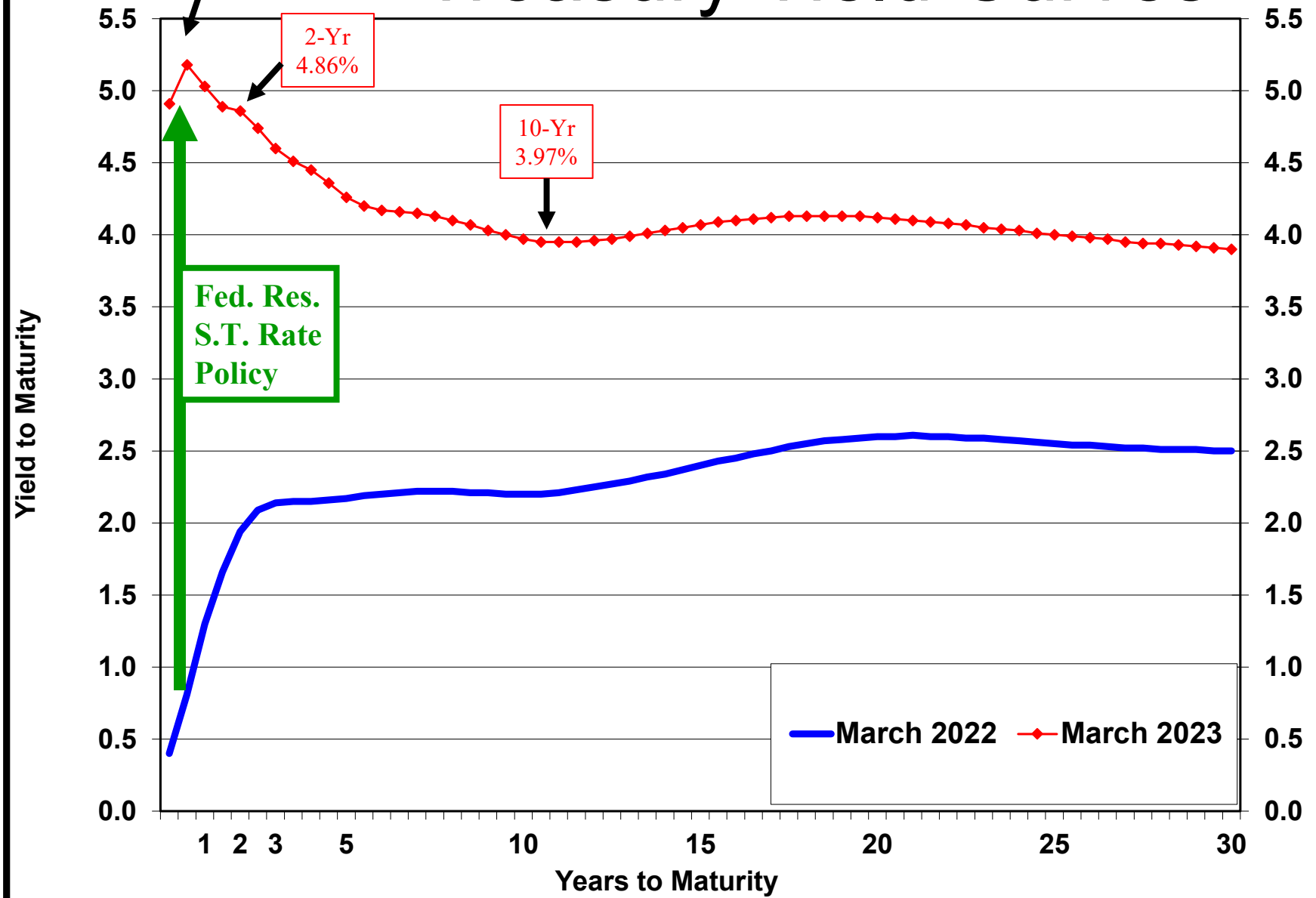
Treasury Yield Curves



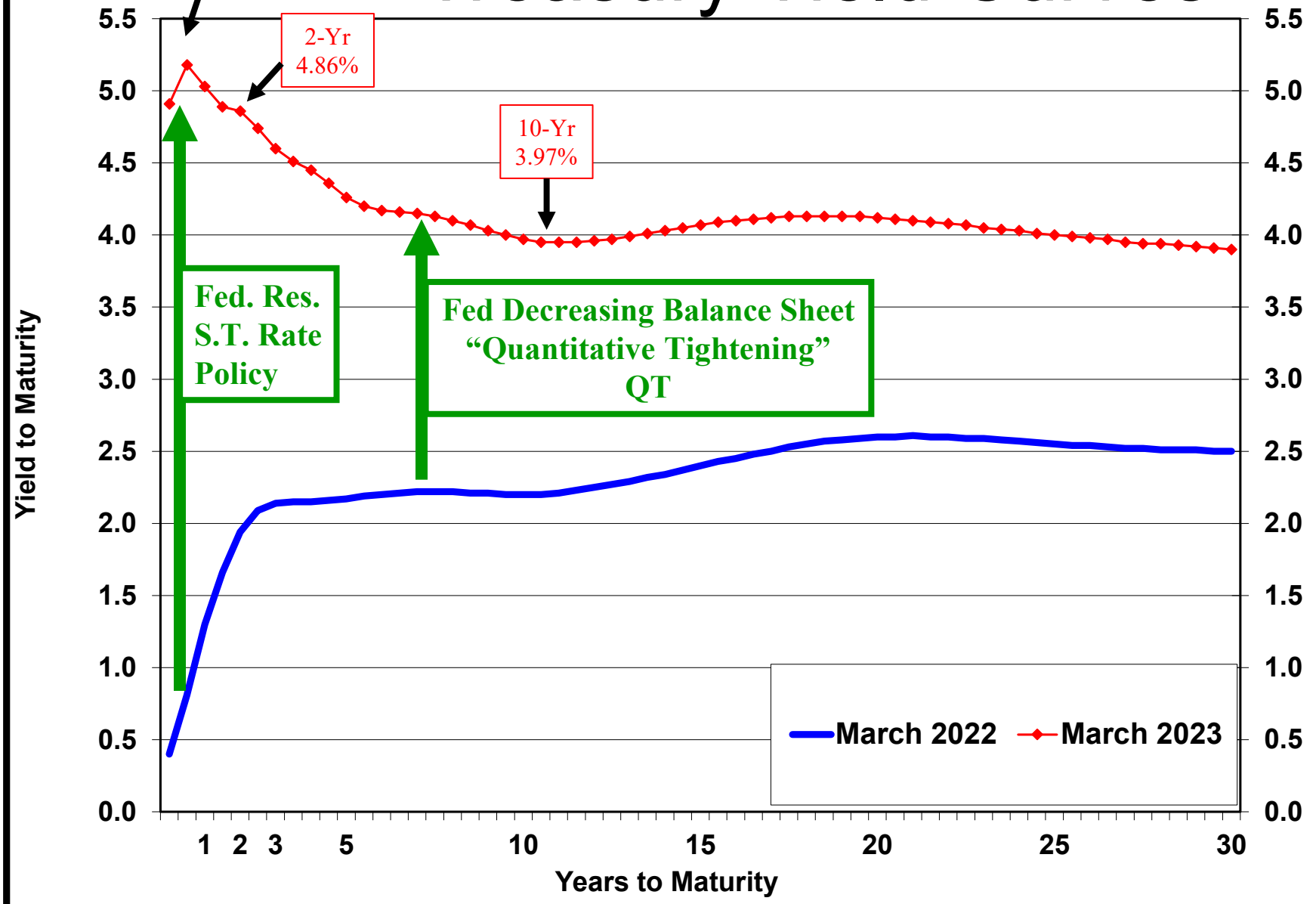
Treasury Yield Curves



Treasury Yield Curves



Treasury Yield Curves



Ratio Analysis

What makes up a ratio

- Numerator is the number on the top
- Denominator is the number down on the bottom
- Ratio is impacted by which number is increasing faster

What makes up a ratio

- $10/10 = 1$ (numerator and denominator are the same)
- $8/10 = .80$ (numerator is not growing as fast as denominator)
- $10/8 = 1.25$ (denominator is not growing as fast)

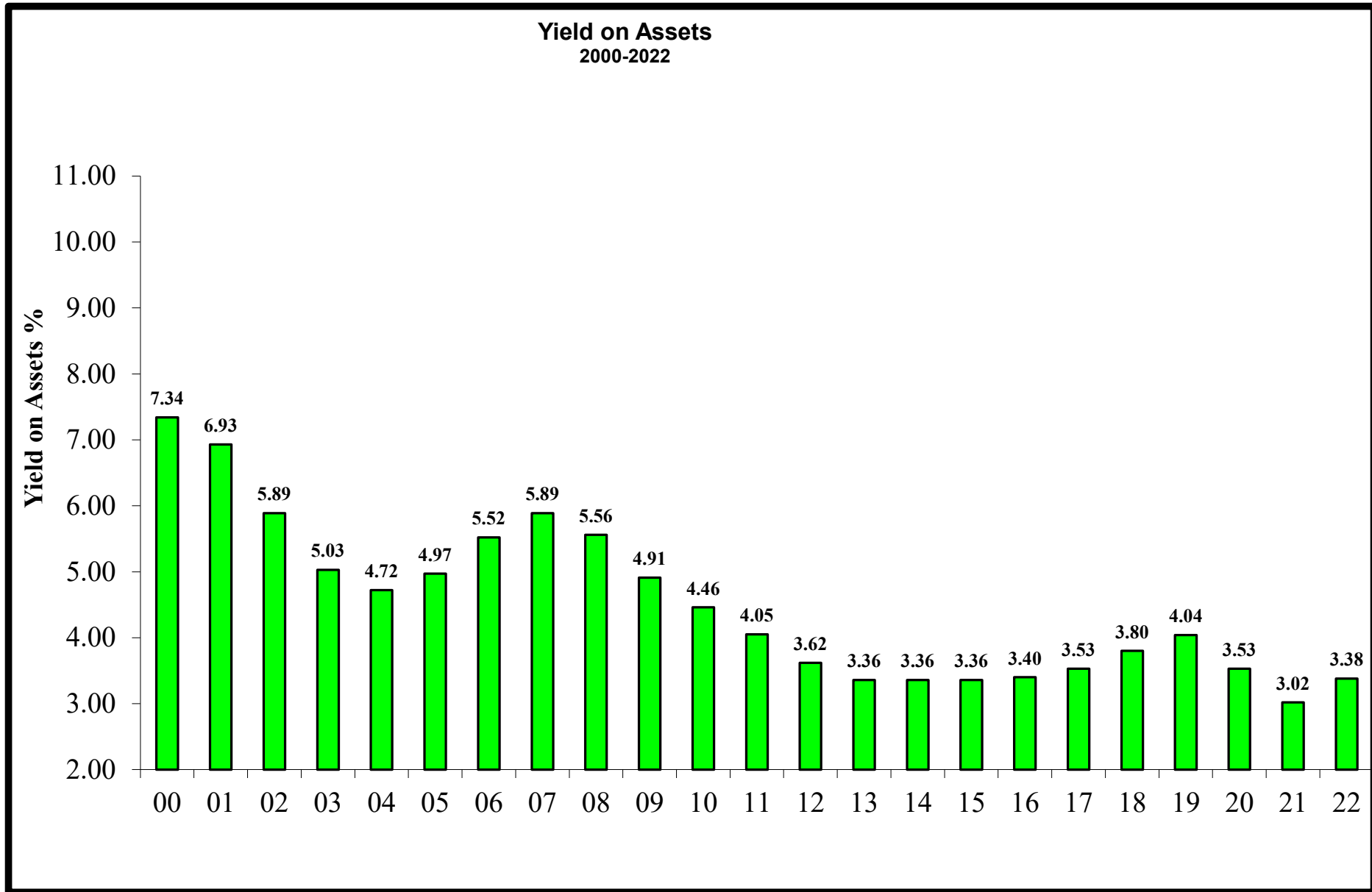
Different ways to compare ratios

- Use trend analysis over a period of time
- Comparison based on asset size
- Compare to other ratios

3 – Net Interest Margin (NIM)

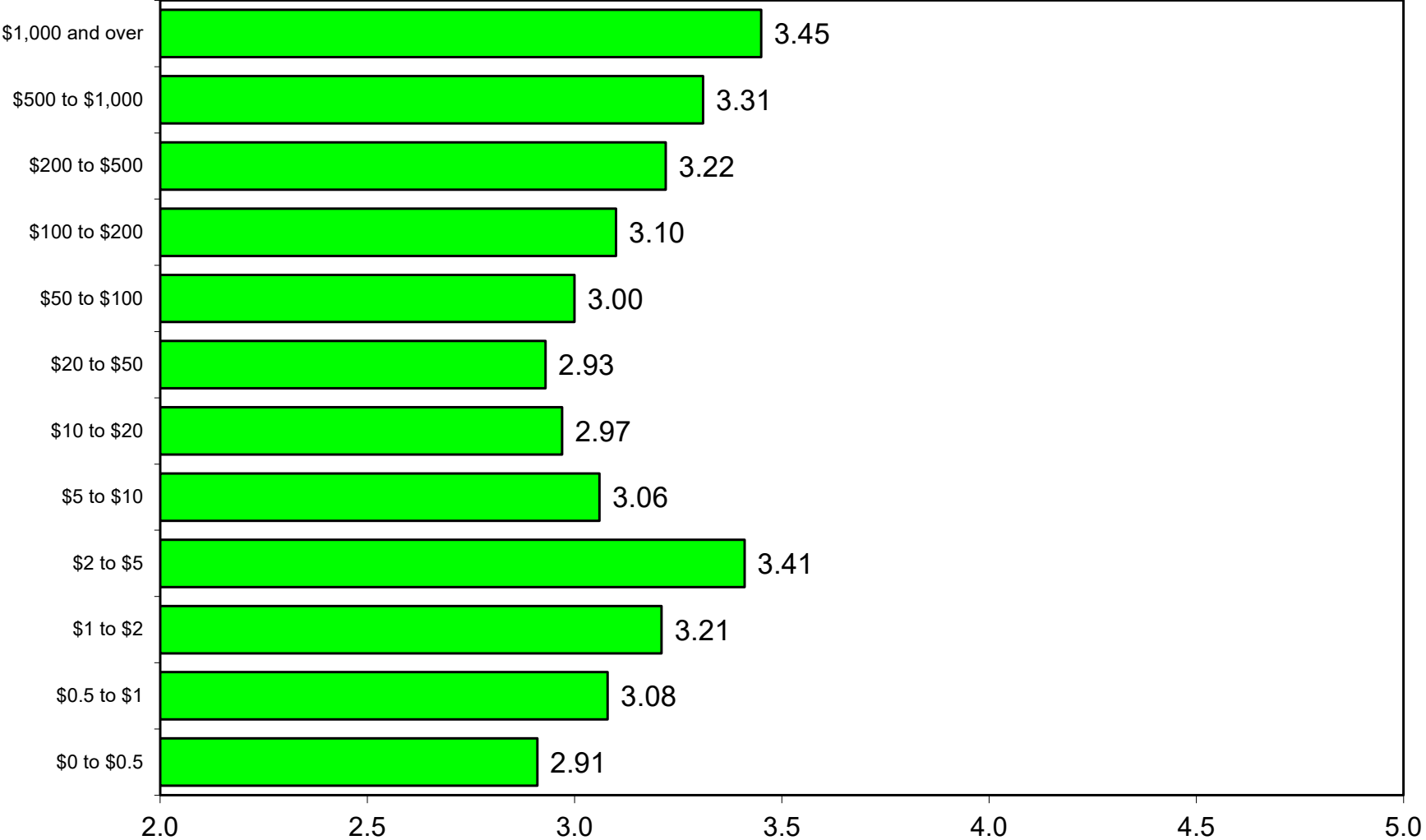
Interest Inc. – Interest Exp.
Average Assets

Yield on Assets



Yield on Assets

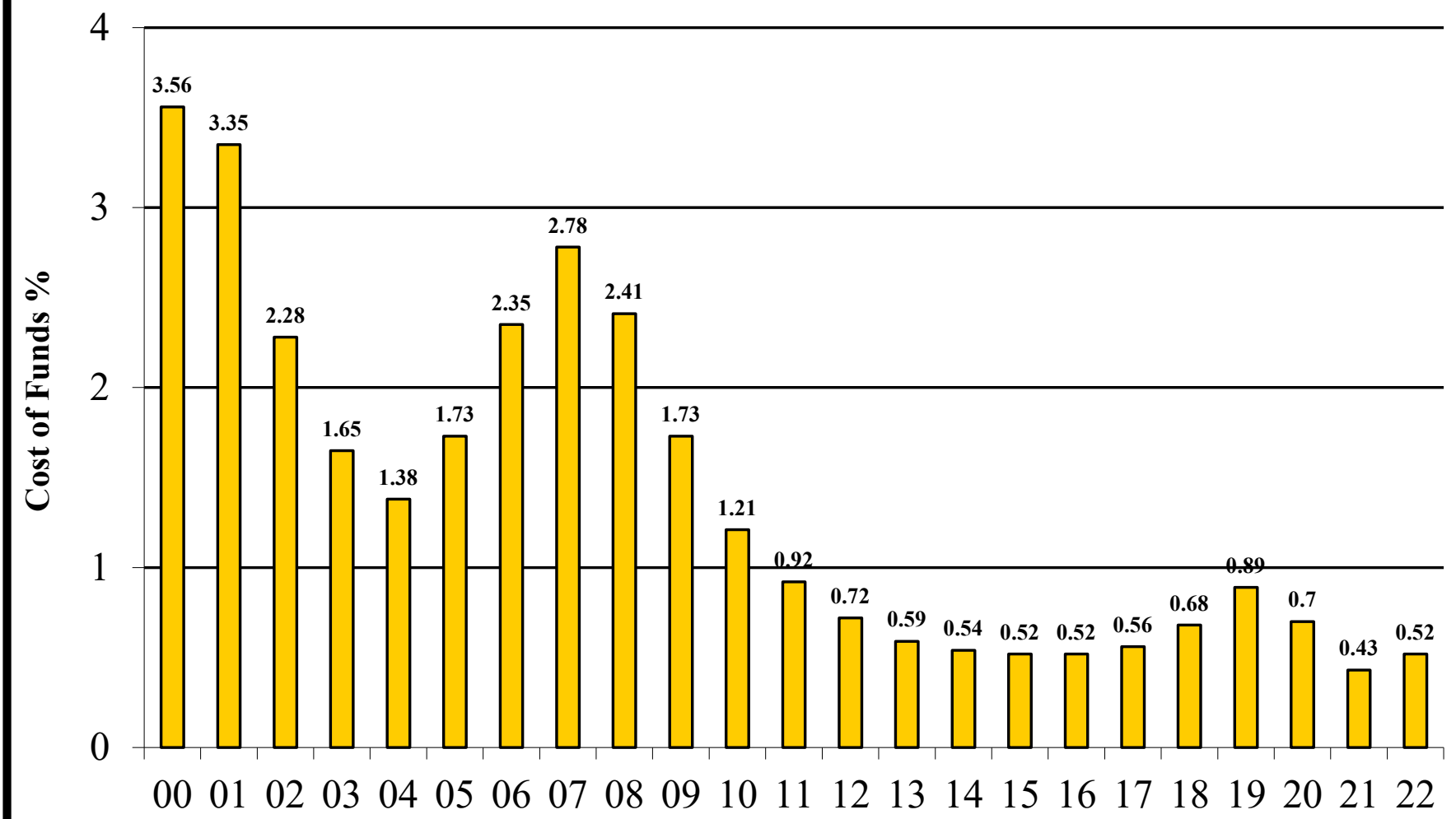
Credit Union Yield on Assets
(By CU Asset Size, \$ millions)



Source: CUNA & NCUA.

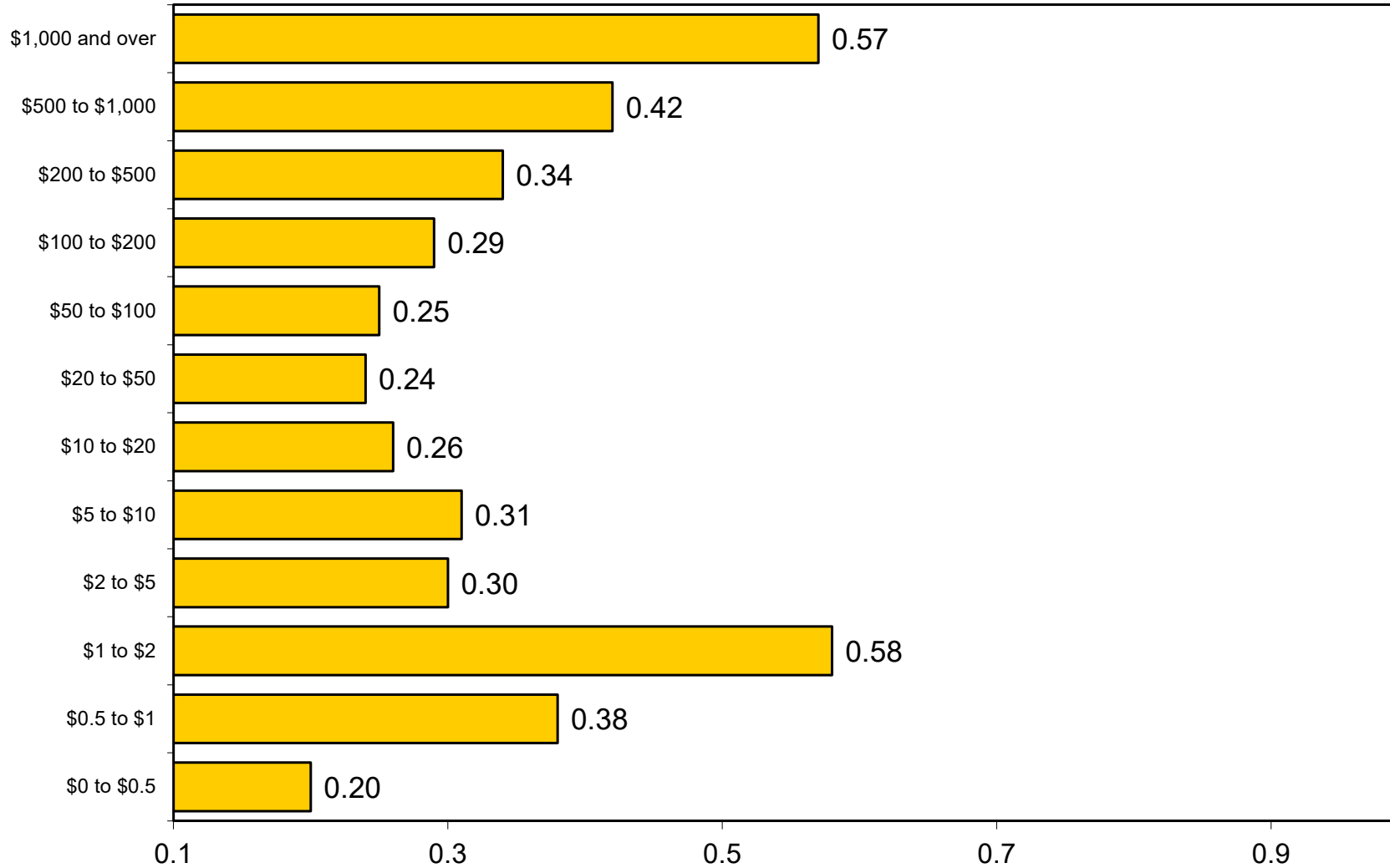
Cost of Funds

Cost Of Funds
2000-2022



Cost of Funds

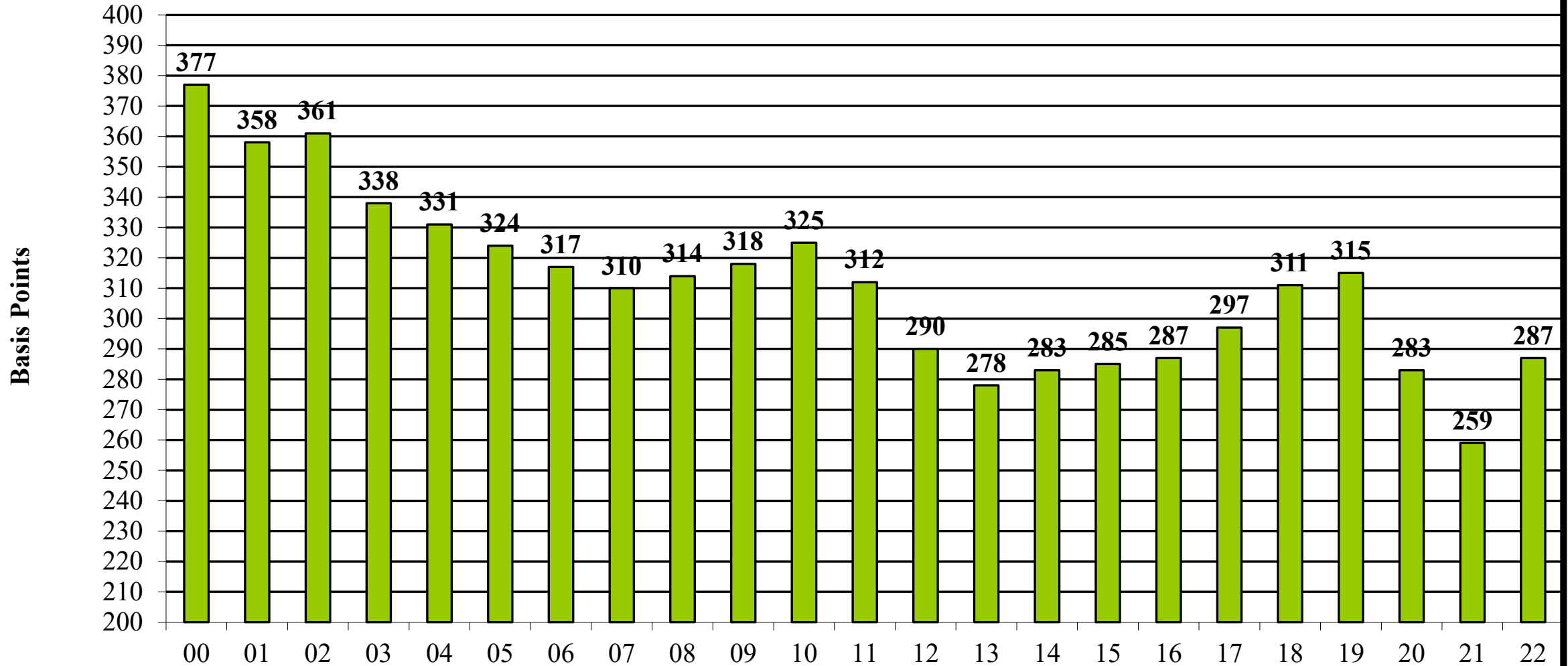
Credit Union Cost of Funds
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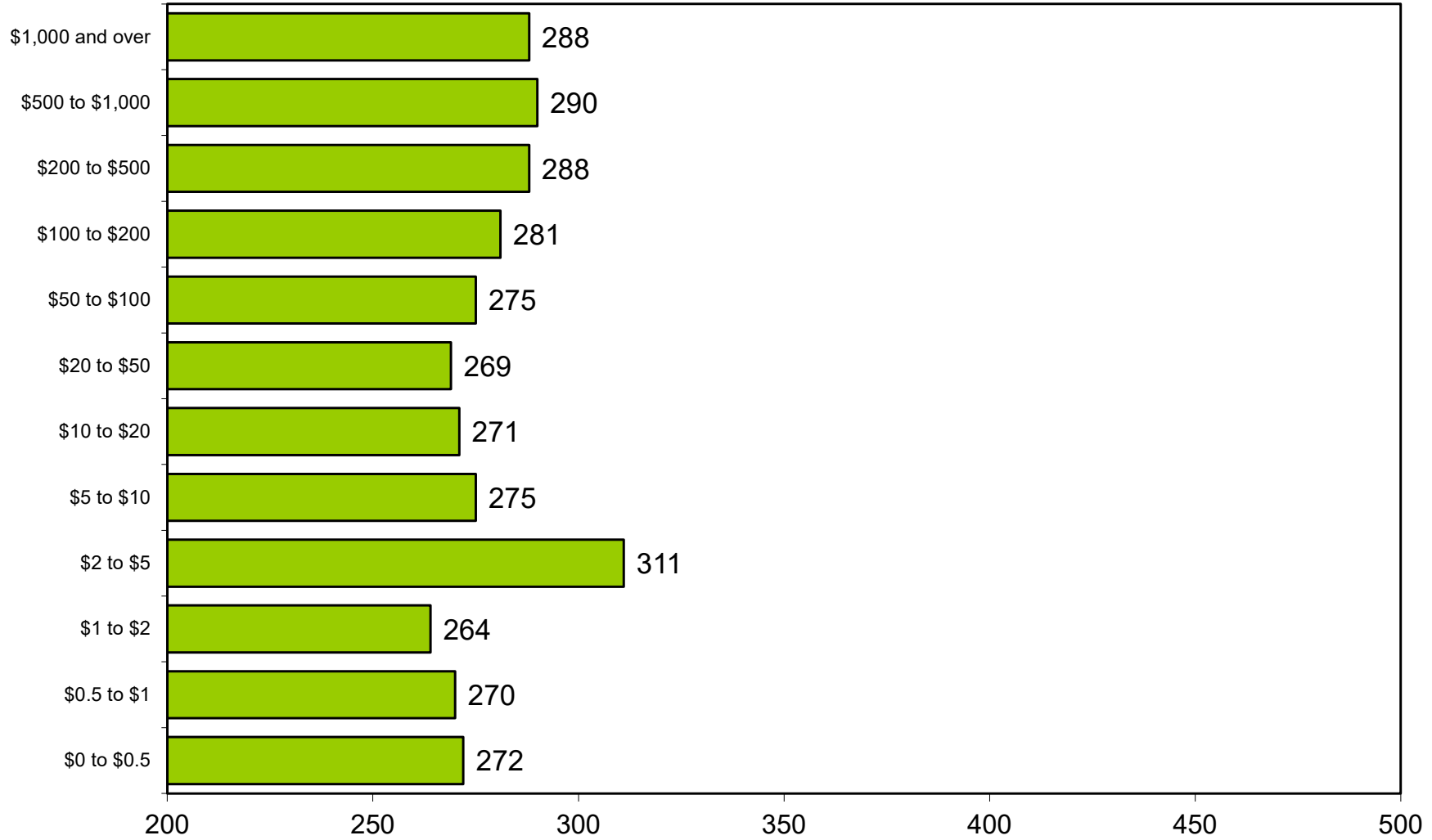
Net Interest Margin

Net Interest Margin (Gross Spread)
2000-2022



Net Interest Margin

Credit Union Net Interest Margin
(Basis Points of Average Assets - By CU Size)

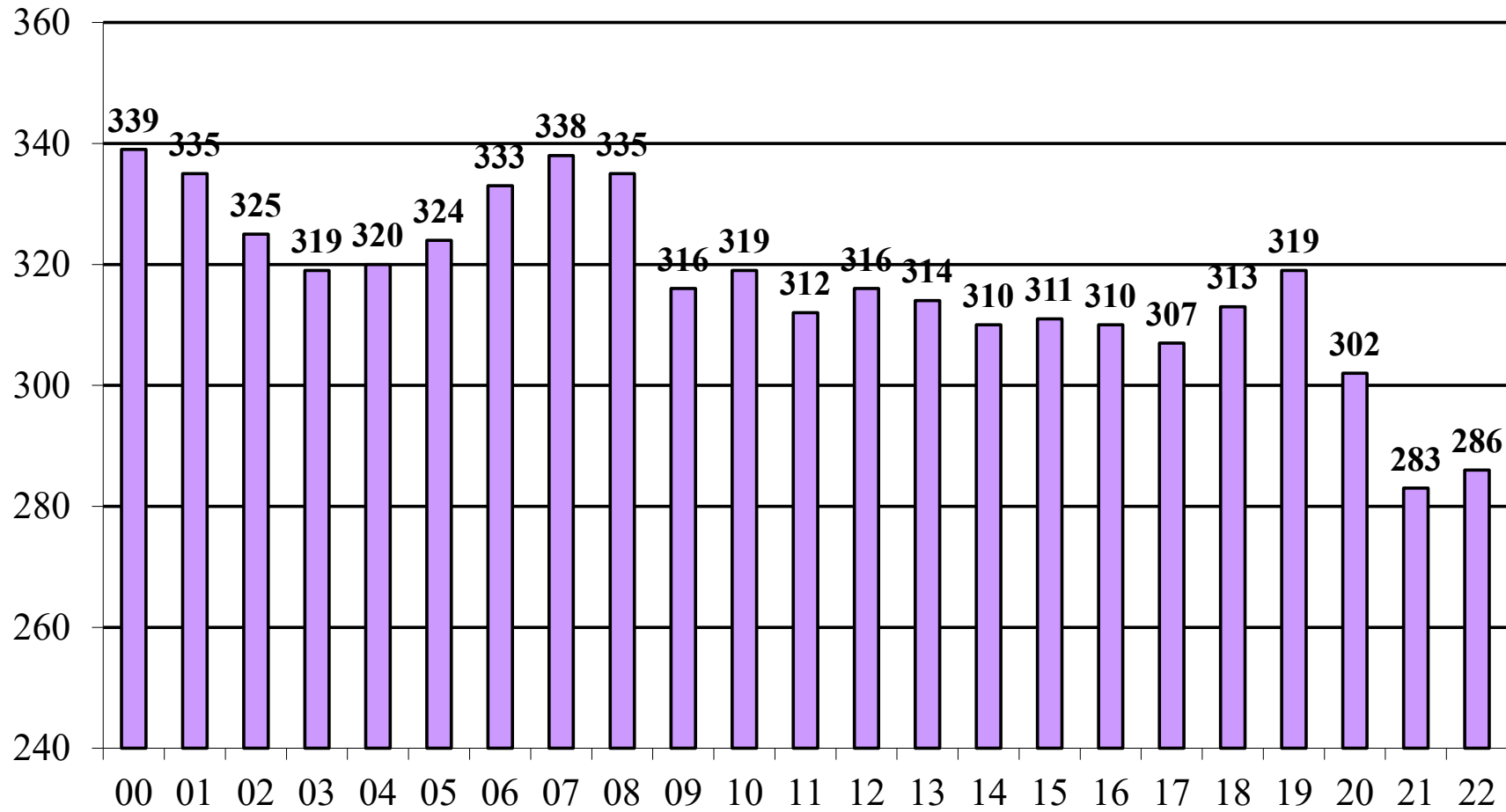


Source: CUNA & NCUA.

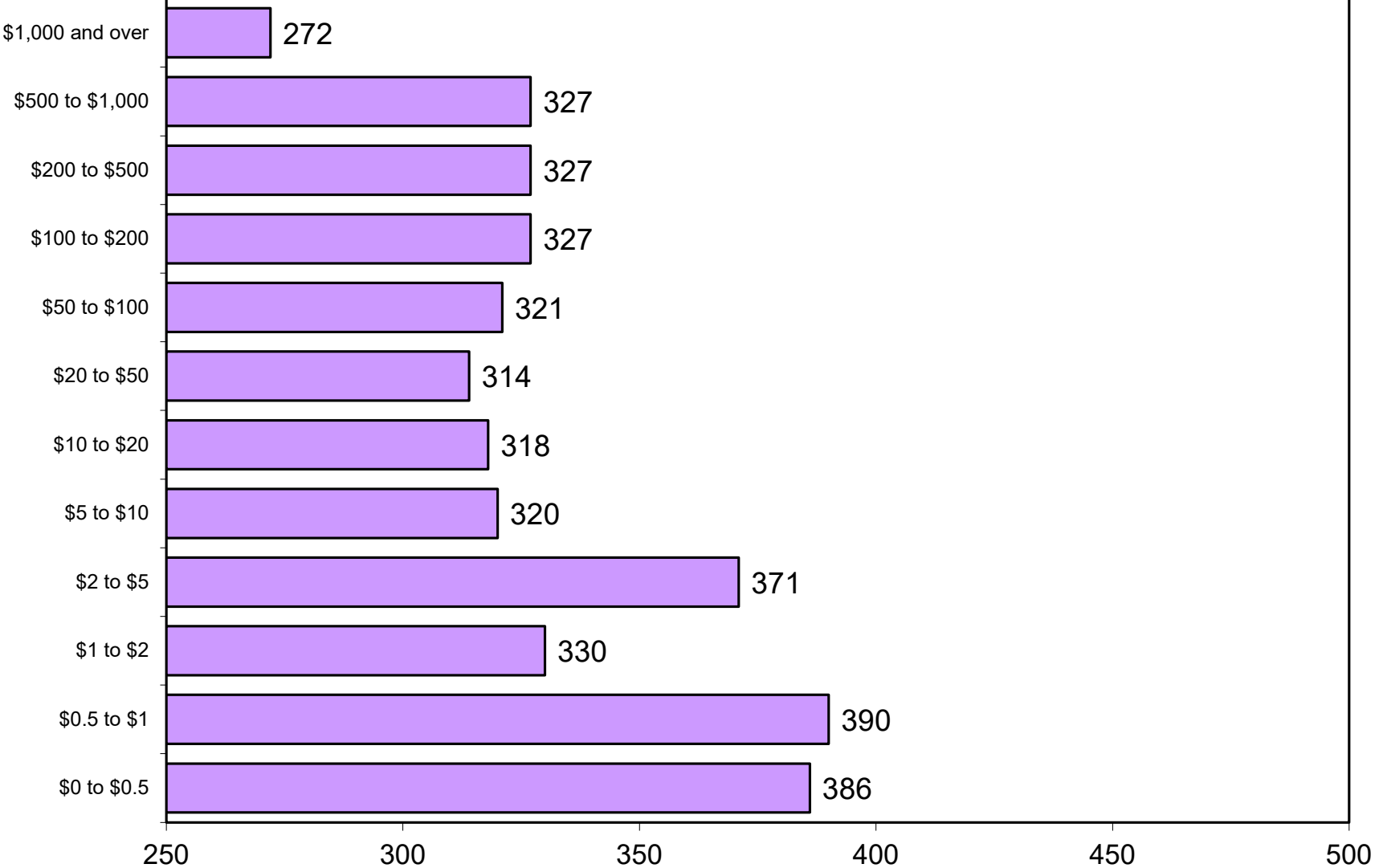
4 - Return on Assets

Net Income
Average Assets

Operating Expense to Average Assets

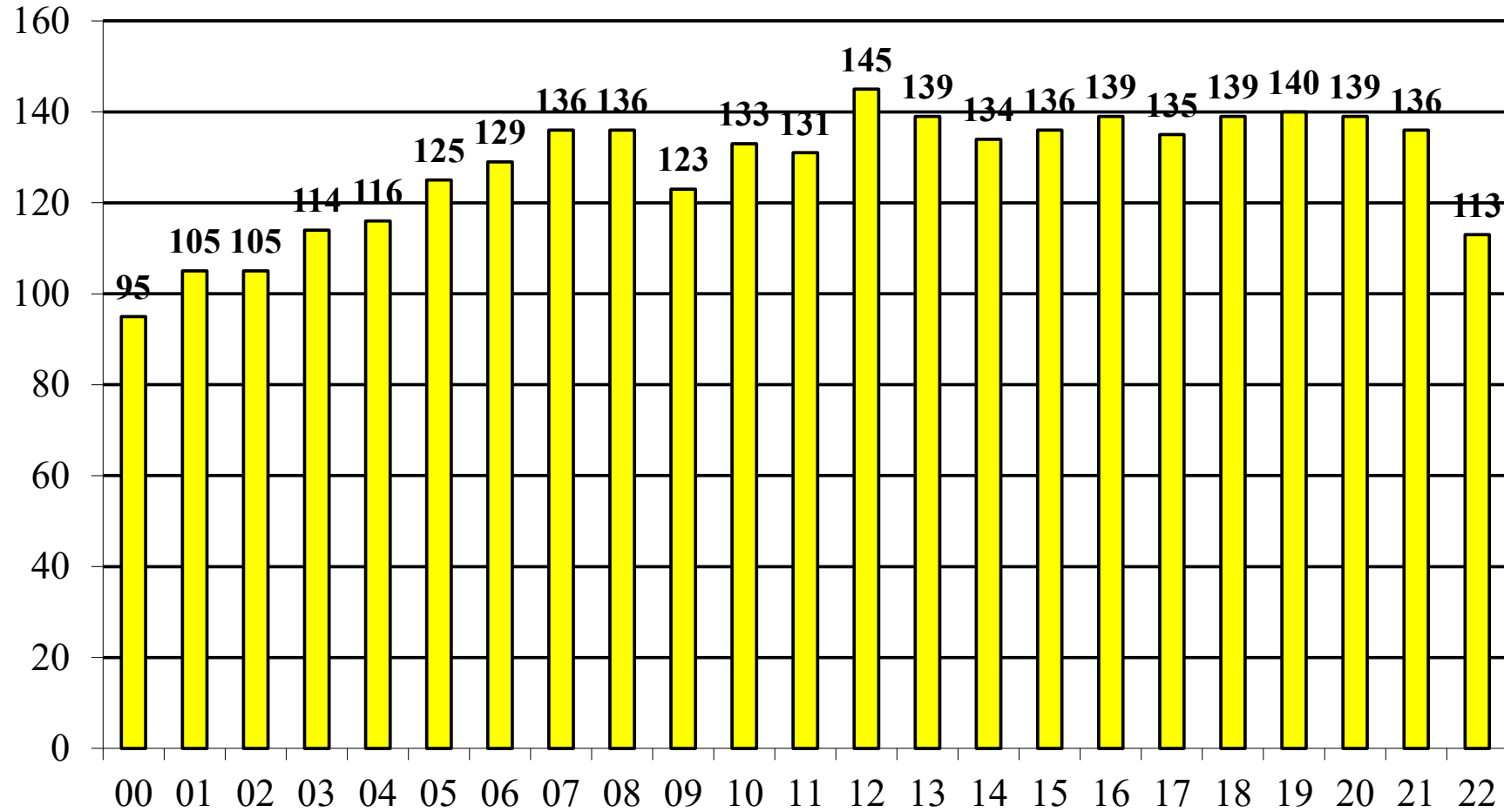


Credit Union Operating Expense (Basis Points of Average Assets - By CU Size)

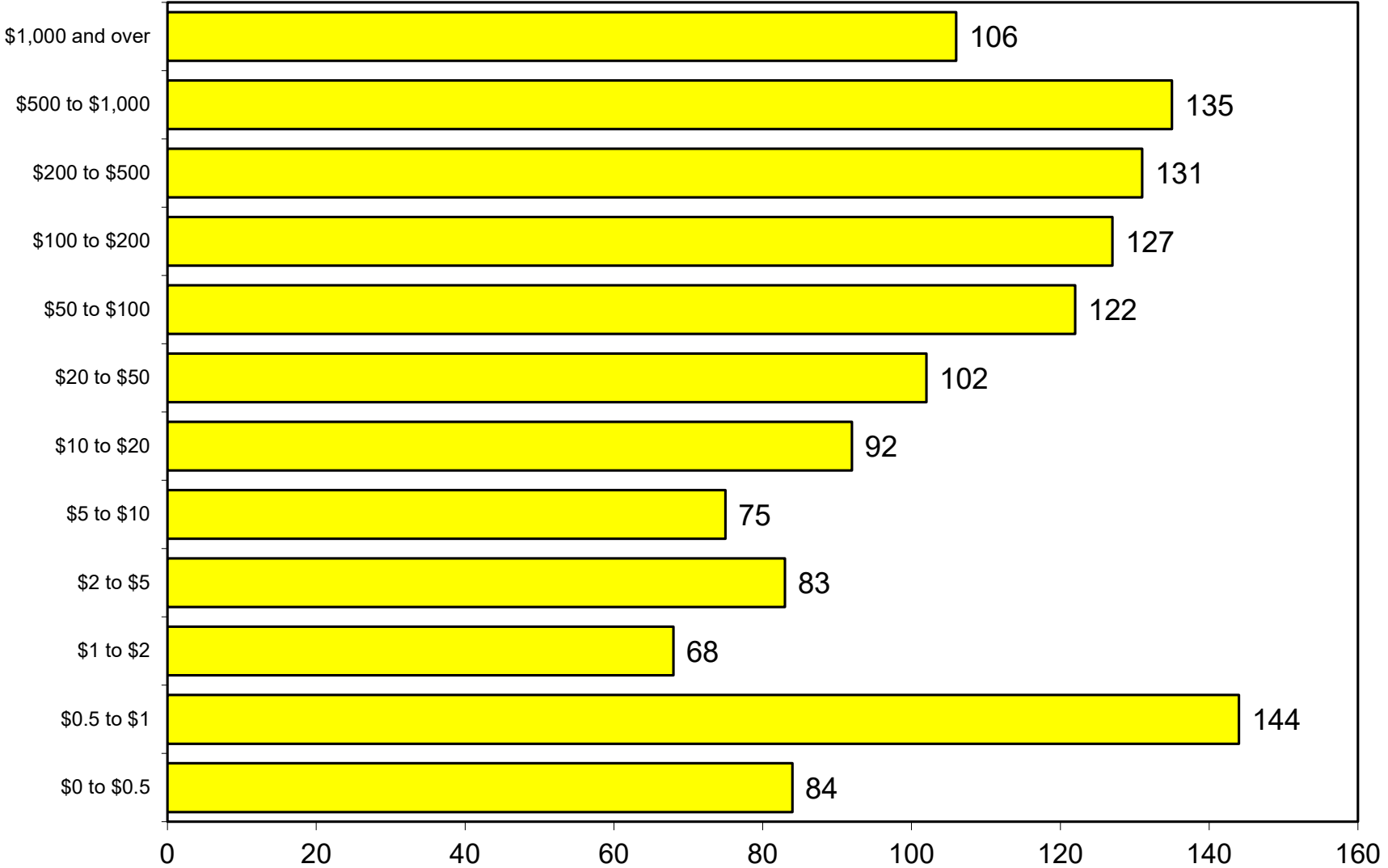


Source: CUNA & NCUA.

Non-Interest Income to Average Assets

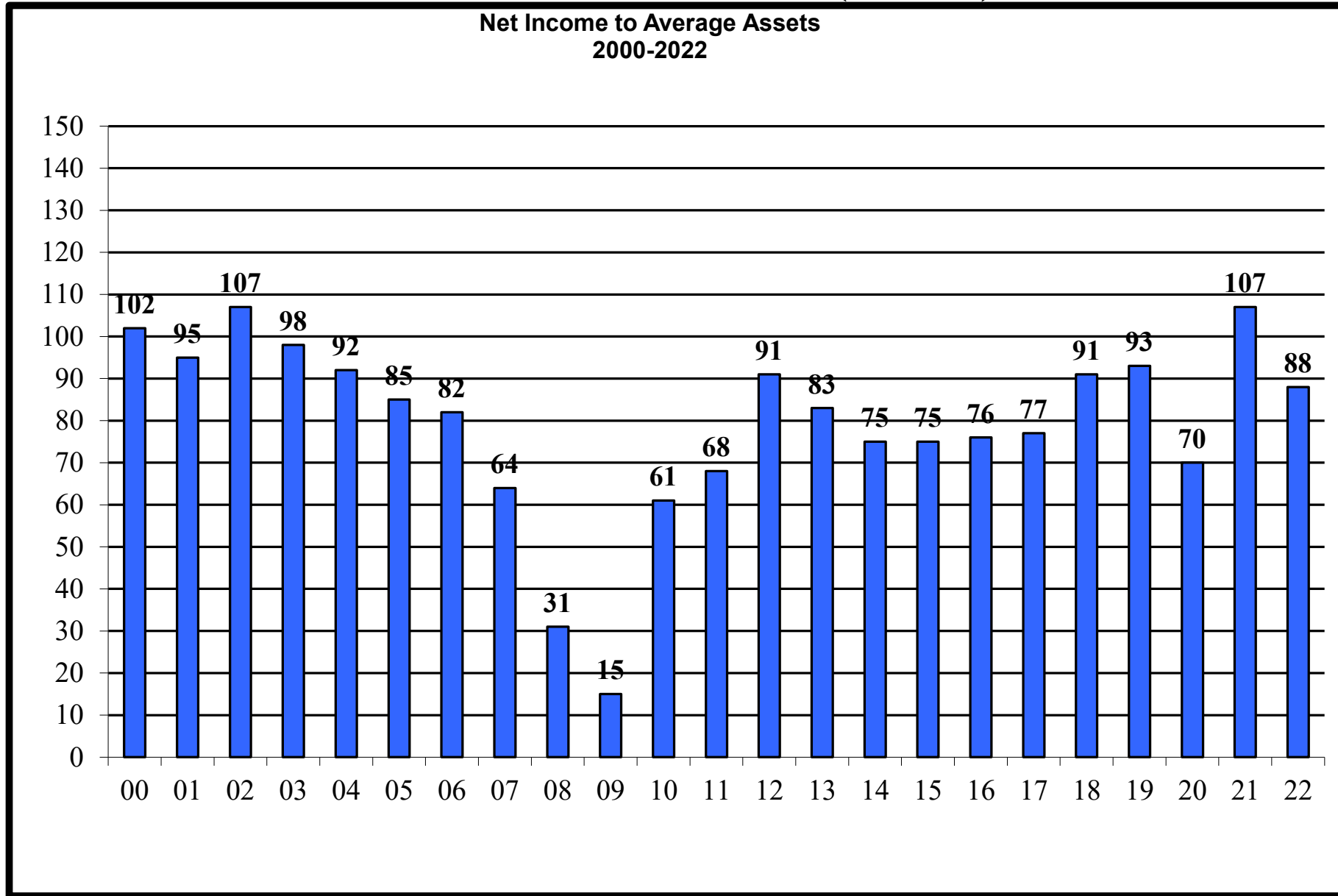


Credit Union Other Income
(Basis Points of Average Assets - By CU Size)



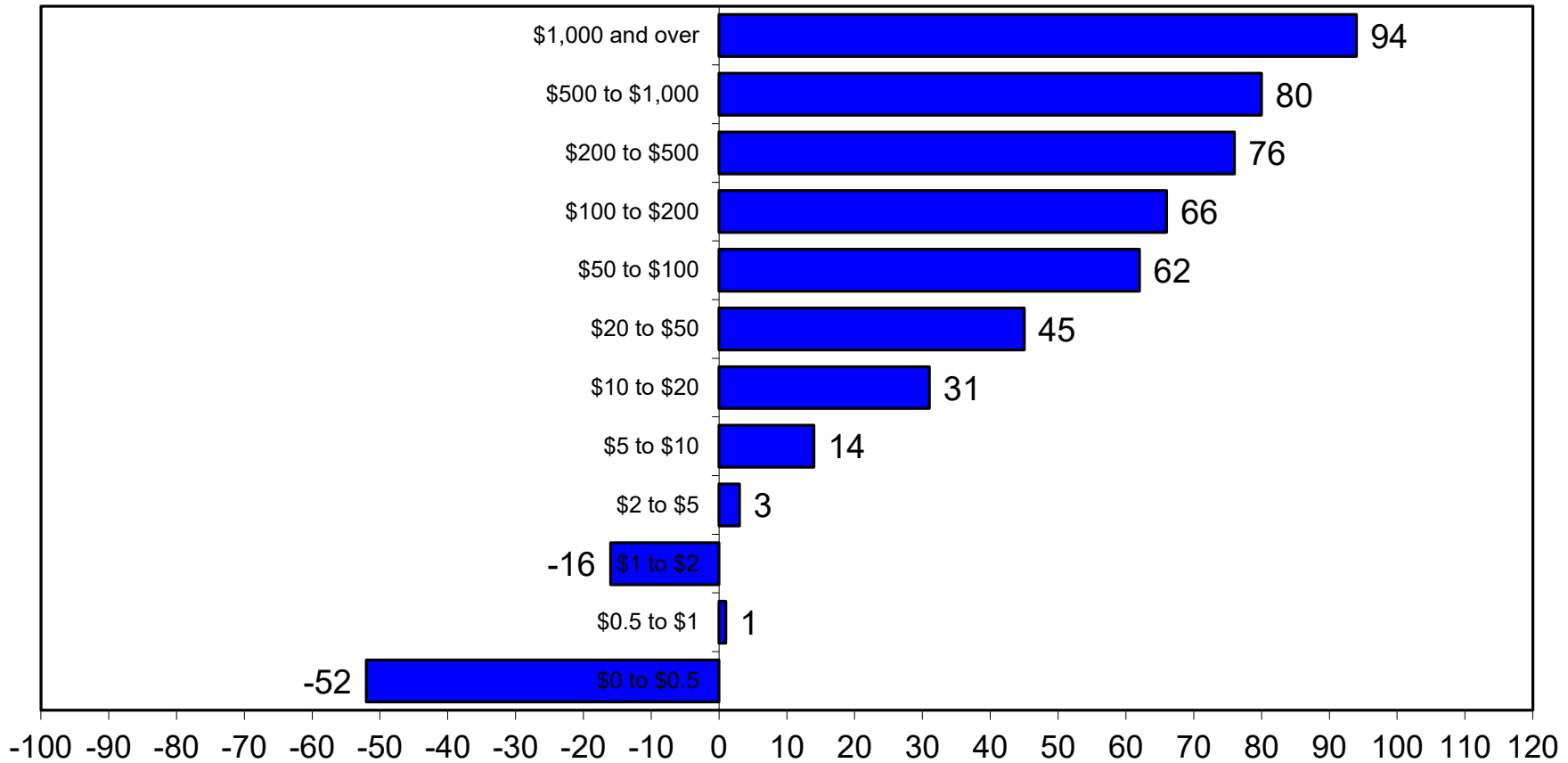
Source: CUNA & NCUA.

Return on Assets (ROA)



Return on Assets (ROA)

CU ROA (before Stab) (Basis Points of Average Assets - By CU Size)



Source: CUNA & NCUA.

5 – Liquidity

8. Out of compliance with ALM policy risk tolerances of *Net Interest Income* and *Net Economic Equity*

Balance Sheet

Assets

Liabilities + Capital

3. Sufficient liquidity to hold Treasuries to maturity

Cash (Reserves)

Fixed Assets

- Land
- Building
- Equipment

Deposits

- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

5. Members' deposit runoff/disintermediation

10. Deposit pricing in a rapidly rising interest rate environment

1. Below par market value of investments

4. New investment Maturities in 2024

9. Investigate market pricing for potential asset sales

Investments

- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

Borrowings

- Federal Home Loan Bank
- Corporate Line of Credit
- Fed Funds Purchased
- Bank Term Funding Program

11. Rely on wholesale borrowings to maintain sufficient liquidity

6. Deposit withdraws > Loan repayments (Liquidity Risk)

Loans

- Commercial
- Auto
- Home
- Credit Card

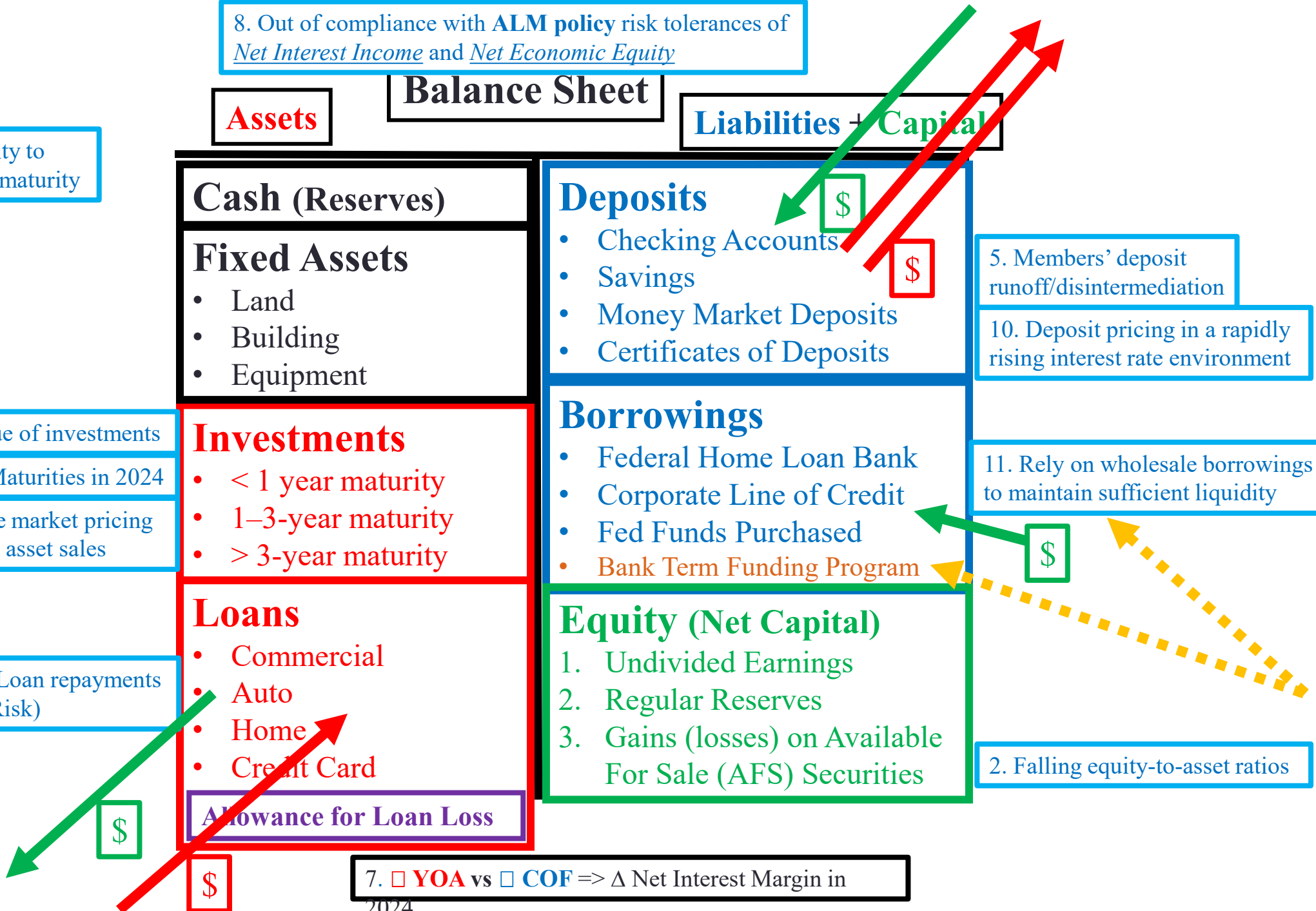
Equity (Net Capital)

1. Undivided Earnings
2. Regular Reserves
3. Gains (losses) on Available For Sale (AFS) Securities

2. Falling equity-to-asset ratios

Allowance for Loan Loss

7. \square YOA vs \square COF $\Rightarrow \Delta$ Net Interest Margin in 2024



What did we accomplish

- Different areas of current economic environment
- Basic Ratio Information
- Different ways to analyze numbers

Other Places to Enhance Learning Like this

- CUNA Southeast Management School – June 16-21, 2024
 - www.srcus.org
- Financial Management School – May 13-16, 2024
 - <https://www.americascreditunions.org/2024-events/>
 - Then search for Financial Management School
- Financial Management eSchool – Various times through 2024

Q & A





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THANK YOU



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