



NAFCU Certified Volunteer Expert Workshop

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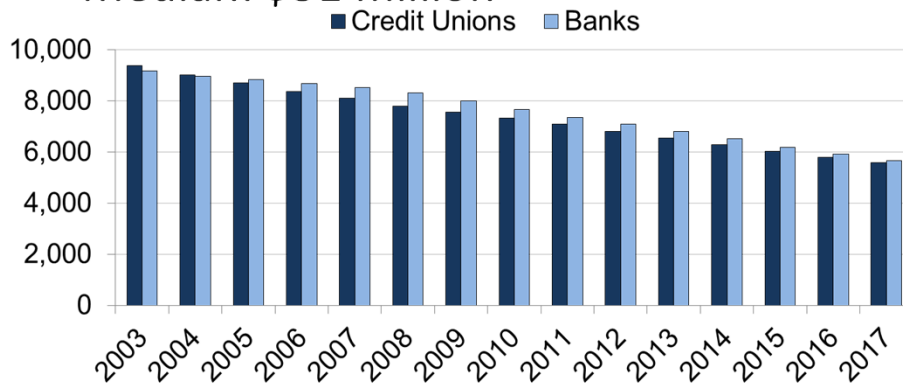
Credit Unions and our Industry

- Credit unions are financial institutions
- *But cooperatives*
 - Voluntary and open membership
 - Democratic member control
 - Member economic participation
 - Cooperatives should remain independent
 - Education and training to membership
 - Cooperation with other cooperatives
 - Development of local communities



Credit Unions and our Industry

- Today: 5,573
 - 63% are federally-chartered
 - Average assets: \$247 million
 - Median: \$31 million



The Credit Union Business Model



Business Model

- State or federal
- Field of membership
 - Association
 - Multiple common bond
 - Community
- Corporate Governance
 - Members
 - Board
 - CEO/Management
 - Supervisory Committee



Business Model

- Regulation
 - Banks and credit unions treated virtually the same
- Share insurance
 - Drives desire of NCUA to ensure that we are safe and sound
- Our tax exemption



In a nutshell...

- Credit unions buy and sell money
 - Buy it by paying dividends to attract shares
 - Sell it by collecting interest on loans
 - Balancing is tough...
- We invest what we can't loan out
- We charge fees
- We must earn a profit



Role of the Board



Role of Board

- Elections (bylaws)
- 5 to 15 directors
- Duties
 - Membership applications
 - Filling vacancies
 - Appointing Sup. Comm. Members
 - Investments
 - Loans
 - Share rates



Most Important Part of Job

- General Direction and Control
- Strategic planning
- Risk management
- Internal controls
- Management of CEO
- The board meeting
 - Review of financials
 - Reading board pack
 - Fulfilling duties



Fiduciary Duties and Ethics



Ever-present Duties

- The Duty of Care
 - Preparation and due diligence
 - Examples: Policies, strategic planning, attendance, background reading
- The Duty of Loyalty
 - Removal of conflicts
 - Examples: Recusal, loan requirements



Fiduciary Duties

- Liability
- Business Judgment Rule
- What about ethics?
 - Sarbanes Oxley and NCUA
 - U.S. Sentencing Commission
 - Bank Bribery Act
 - Setting the tone



How Credit Unions are Examined



Examination of FCUs

- Why?
 - FCU Act
 - Insurance
- How?
 - Risk-Based
- They always look at...
 - 5300
 - Supervisory Committee Audit
 - BSA



Examination of FCUs

- What *can* they review?
 - Board packets, board minutes
 - Business plans, strategic plans, marketing plans
 - ALM documents
 - Third party due diligence
 - Internal controls
 - CUSOs
 - Data processing
 - And the list goes on...



Examination of FCUs

- What are they looking for?
 - Capital adequacy
 - Asset quality
 - Management
 - Earnings
 - Liquidity/ALM
 - Scored on a 1-5 scale
 - Confidential
 - Aggregate score



Examination of FCUs

- Report and exit meeting
- Joint conference
- “Push back”
- Administrative powers
 - Document of Resolution
 - Letter of Understanding and Agreement
 - Administrative actions, including fines



How Credit Unions are Regulated



What regulates Cus?

- Federal Credit Union Act
- NCUA
 - Regulations
 - Guidance
- Other laws
 - Dodd-Frank, SCRA, ECOA
- Other regulators
 - Treasury, CFPB, DOD



What regulates Cus?

- Contracts
- Lawsuits
- Reputation
- Risk
- Internal controls
- Your *modus operandi*



Managing Risk



What Risks?

1. Credit risk
2. Interest rate risk
3. Liquidity risk
4. Transaction risk
5. Compliance risk
6. Strategic risk
7. Reputation risk



Wild cards: Concentration risk, Operational Risk



NCUA Expectations on Risk Management

The What

- Identification
- Measurement
- Control
- Monitoring

The How

- Policies
- Processes
- Personnel
- Control systems

Don't forget about your appetite!



Credit Union Financials



Key Concepts

- What is an asset?
- What is a liability?
- Asset/Liability Management
- Pressures of changing rates (Interest Rate Risk)
- Liquidity Risk
 - Sources of liquidity?
 - Repurchase agreements, loan participations, non-member deposits, member deposits, loans



Management

- Financial reports
- Shock testing
- Fixed versus variable rate products
- Long-term vs. Short-term
- Concentration risk
- Policies



Key Ratios

- Net worth ratio
- Return on assets (ROA)
- Net interest income
- Loan/Assets
- Delinquency ratios
- A word of warning...



The Supervisory Committee





Supervisory Committee

- Chosen by BOD
- Three to 5 members
- Audits and Account verifications
- Member complaints
- Special meetings!
 - Unsafe or unauthorized practices
 - Suspensions!
- Independence



Political Involvement



Political Involvement

- You > Lobbyist
- Education
- Staffers
- Home office
- Don't always ask
- Share what you learn
- Trade associations
- Think outside of the box



Live as if you were to die tomorrow. Learn as if you were to live forever.

- Mahatma Gandhi

I never learn anything talking. I only learn things when I ask questions.

-Lou Holtz

Leadership and learning are indispensable to each other.

-John F. Kennedy