

How to Use This Manual

This manual was written with one goal in mind — to help you manage your credit union more effectively. Whether you are called the manager, the president, or the chief executive officer (CEO), you are continually on the go, “putting out fires,” managing the board, developing new services, and so on. You are also the definitive resource in the credit union; questions ultimately land on your desk to answer. The *Credit Union Manager’s Desk Reference* is designed to put one comprehensive source of information at your fingertips. It is also a tool to help you organize your work. In other words, this manual is designed to help make your job easier.

Each chapter contains pertinent information on the topic at hand. And, throughout the manual, a credit union model illustrates the concepts discussed, including a delineation of responsibilities between the board and the manager, a common source of conflict for managers. Emerging trends and current legislative and regulatory issues are also addressed, including the Credit Union Membership Access Act of 1998 (HR 1151). This book, however, is not a textbook of technical, legal, and regulatory detail. That kind of detail exceeds the scope of this manual.

The manual focuses on five principal areas of credit union management:

- Executive management
- Risk management
- Credit union administration
- Loan management
- Developing and implementing strategies

We have added Action Items to the beginning of appropriate chapters. In the Action Items, the chapter is summarized in terms of CEO action steps, regulatory references, and delineation of board and CEO responsibilities for the area of the credit union discussed. These checklists, which list your auditing, monitoring, and planning responsibilities, provide a convenient way to chart your progress.

Part I — Executive Management

The executive management section begins with the recognition that you are the senior executive of the credit union, the paid professional that both the board and the staff rely on for leadership and expertise. This section discusses the principles of organization, the lines of authority, and strategic management through written policies. It will help you set the proper atmosphere (culture) in the credit union to foster excellent member service. After all, member service is the reason the credit union exists.

Chapter 1, *Organization of the Credit Union*, introduces the model credit union's organizational chart to illustrate singular lines of authority and the chain of command in the credit union. A discussion of "governing" versus "managing" clarifies the roles of the board and the manager/CEO. Chapter 2, *Organization of the Board*, reviews the powers and responsibilities of the board and its committees as stated in the Federal Credit Union Act, NCUA's Rules and Regulations, and the credit union's charter and bylaws. Chapter 2A examines the requirements of the Sarbanes-Oxley Act and the PCAOB Auditing Standards that are in place for corporate governance. In Chapter 3, *Management Through Written Policies*, the role of policies in strategic planning as well as the importance of a well-organized policy manual and current written procedures is discussed. In Chapter 4, *Credit Union Culture: Is a Change Needed?*, we offer a method for assessing the culture of your credit union and a strategy for changing the culture if needed. Chapter 5, *Quality Member Service*, gets to the core of why your credit union exists — to provide quality financial services to members — and how to foster service excellence in your credit union. In Chapter 5A, the general and specific responsibilities of management and the security officer are detailed, including risk assessments, raising employee awareness and the credit union bond.

Part II — Risk Management

The second section of the book discusses the risks that your credit union must minimize and manage in order to reduce losses. Regulators insist that the safety and soundness of your credit union must influence every decision you make. Risk management is second in importance only to proper credit union organization.

Chapter 6, *A Risk Management System*, outlines the process of risk identification and prioritization using a risk matrix system. Chapter 7, *Asset/Liability Management*, provides an overview of the basic issues involved in asset/liability management (ALM) and the required elements of an ALM policy. A sample policy is included. In Chapter 8, *The Credit Union's Insurance Program*, we cover

the regulatory requirements for your credit union's bond coverage. Other insurance programs available to credit unions are also discussed. Chapter 9, Fraud Prevention, discusses operational controls and procedures designed to reduce your credit union's exposure to losses. Chapter 10, Member Education for Fraud Prevention, emphasizes the importance of educating members about fraud prevention, both in terms of member service and the credit union's "bottom line." Robbery procedures are also provided. Guidance for the development of a written plan for your credit union's recovery from a catastrophic event is covered in Chapter 11, Contingency Planning. The last chapter of this section, Chapter 12, Managing Regulatory Examinations, advises you in how to prepare for the examiner, from a review of your loan portfolio to the psychological preparation of your staff.

Part III — Loan Management

The main focus of the third section is an examination of the lending function in a model credit union. Loans are the best and most frequent investment your credit union makes; therefore, lending must be well organized and based on sound written policies.

The lending process in our model credit union, from the board setting loan policy to the staff processing the members' loan applications, is examined in Chapter 13, Organizing the Lending Function. Chapter 14, Loan Policies, emphasizes the importance of sound lending policies and well-organized written procedures that undergo continual review for relevance and efficiency. Regulatory constraints are reviewed and nonpreferential treatment of staff and officials' loans is emphasized. Chapter 15, Structuring and Pricing the Loan Portfolio, discusses the factors that you must consider in determining the terms and conditions of the loans your credit union offers to ensure appropriate liquidity and income in your loan portfolio. Chapter 16, The Loan Approval Process, weighs the benefits and disadvantages of both a credit committee and loan officers reviewing loan applications. The chapter also illustrates a system of tiered loan authority utilized in our model credit union, and Chapter 17, Loan Administration, stresses the vital role that loan audits and proper collateralization of loans play in maintaining the quality of the loan portfolio. Application of the Soldiers and Sailors Civil Relief Act is also discussed in the chapter. Audit procedures and forms are provided for your use.

Chapter 17A describes collection activity and recommends elements to include in your collections policy and procedures. Chapter 17B discusses the process for developing a periodic estimate of the ALLL that complies with regulatory guidance. Financial institutions must base their ALLL on estimated credit losses. The term "estimated credit losses" means an estimate of

the current amount of the loan and lease portfolio (net of unearned income) that is not likely to be collected; that is, net charge offs that are likely to be realized for a loan, or pool of loans.

To assist institutions with the complexities of troubled debt restructurings (TDRs) and foreclosures for both residential and commercial properties, Chapter 17C defines when an institution has entered into a troubled debt restructuring process. This chapter discusses the laws and regulations, policies and procedures and accounting guidelines that pertain to managing and accounting for TDRs. The 2008 credit crisis has resulted in an unprecedented number of foreclosures for both residential and commercial properties. To assist institutions with issue, Chapter 17D defines Other Real Estate Owned (OREO) and discusses the laws and regulations, policies and procedures and accounting guidelines that pertain to managing and accounting for OREO properties.

Part IV — Credit Union Administration

In the fourth section of this manual, we address two key issues: controlling expenses and effective human resources management. Your credit union can offer favorable loan rates and attractive dividends only when you control operating expenses. However, good rates attract members only when well-informed, motivated employees provide quality service.

Two separate chapters cover these two key issues. Chapter 18, Controlling Operating Expenses, offers concrete ideas for reducing operating expenses. Calculation of your credit union's cost of services is also discussed. And Chapter 19, Human Resources Management, emphasizes the importance of careful recruitment and orientation of new employees. The chapter also discusses employee motivation and performance management.

Part V — Developing and Implementing Strategies

The purpose of this section is to take you through the planning process, including strategic planning, financial planning, budget preparation, performance analysis and implementation of technological change. Without planning, your credit union would operate with no direction or purpose.

Chapter 20, Developing a Strategic Plan, explains the sequence of activities that take place in strategic planning, from development of a mission statement through preparation of a business plan. An illustration of how financial planning takes the goals and objectives from the strategic plan and sets financial goals upon which the budget is based is presented next, in Chapter 21,

Financial Planning and Budgeting. A series of worksheets are included to help you project income, estimate dividend and operational expenses, and ultimately build your budget. Chapter 22, Performance Analysis, offers a system for assessing and illustrating your credit union's financial condition with the use of performance ratios and reader-friendly financial reports. Chapter 23, Managing Technological Change, begins with the systematic collection of information concerning the rapidly changing technological environment in which your credit union operates and then proceeds through the decision-making process and implementation of the chosen technology at your credit union. Chapter 23A, The Internet, Electronic Commerce, and Computer Security, deals with issues pertinent to today's electronic information systems, and Chapter 23B sets forth procedures for an Incident Response Plan. This section's final chapter (Chapter 24), The Credit Union Charter, reviews charter membership definitions and describes charter change procedures.

Part VI — Management Tools

At the back of the manual are tools designed to make your job easier. We present these tools as Appendixes, summarized as follows:

- Appendix A — Action Items. The Action Items provided as the first page of each chapter are grouped here as one Appendix for easy reference.
- Appendix B — Planner Calendars. The sample CEO planning calendar illustrates one way you can organize your work. And a blank calendar is also included for your use.
- Appendix C — List of Board Committees. A form is provided to help you keep track of the people serving on your credit union's various committees.
- Appendix D — This set of board and committee census forms puts vital information at your fingertips about the terms of service for board members.
- Appendix E — Planning Checklists. These checklists for your audits, operations monitoring, and strategic planning will help you keep track of when tasks are completed.
- Appendix F — NCUA Letter on HR 1151. This document, NCUA Letter No. 98-CU-16 (August 7, 1998) *The Credit Union Membership Access Act*, provides a quick legislative reference.