

How to Use This Manual

Risk — the uncertainty whether events, expected or otherwise, will have an adverse impact on your credit union’s capital or earnings — is an essential component of credit union management. Risk management is a continuous process of identifying and capitalizing on appropriate opportunities while avoiding inappropriate exposure in a way that maximizes a credit union’s value to its members.

Recent attention given by finance professionals, academics, Congress, consultants, and journalists to risk management gives the impression that risk management is a new concept. Actually, risk management is both old and new. It is old in the sense that prudent management of member funds has been a cornerstone of the credit union movement since its beginning. It is new in the sense that risk management is now being viewed in more integrated and more quantitative ways than ever before.

In this manual, we will take a close look at the current “state of the art” in risk management for credit unions. This manual is intended to provide you with the guidance you need to evaluate how well your credit union meets today’s competitive challenges and regulatory requirements. The topics covered in the manual will help you create risk management systems that allow you to identify, measure, control, and monitor risks. A thorough knowledge of your risk exposures and a sound risk management system will enable you to properly balance the risk vs. return trade-offs.

In Chapter 1, we begin with a general discussion of risk management concepts and an overview of current risk management practices and trends. Chapters 2 through 8 and 11 take a detailed look at several key risks: credit risk, interest rate risk, liquidity risk, transaction risk, compliance risk, strategic risk, reputation risk, and accounting risk. In Chapter 9, we discuss how to integrate and coordinate risk management across all areas of credit union management. Chapter 10 provides a master list of useful risk checklists compiled from each of the specific risk management discussions in the previous chapters.

This manual will help you coordinate and integrate your risk management efforts. In the past, credit unions have often managed risks individually, without considering the impact that one risk factor can have on other risks. For example, a fair lending issue can impact not only compliance

risk, but also reputation risk and even liquidity risk. This manual helps you evaluate the interrelationships between risks and establish a credit union-wide risk management system.

Instead of quick fixes and easy answers, the risk management discussions in this manual focus on the tools necessary to build useful, long-term risk management techniques. This manual is not a simple recipe book. Rather, we offer a solid mix of background information, descriptions of risk management tools, introductions to quantitative risk management concepts, sample checklists and procedures, and examples and suggestions of risk management techniques. All of these are designed with the goal of preparing you to take advantage of the new risk management tools and techniques.