

# Financial Management

## V409

THIRD EDITION

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**PREFACE**

# Preface

The **Volunteer Achievement Program (VAP)** is a training program for credit union volunteers. The program is divided into six learning tracks—board of directors, credit committee, supervisory committee, credit union services,

credit union technology, and credit union leadership.

There are seven levels of recognition in the program:

1. To be eligible for a *basic* VAP certificate and pin, you must

	<b>Core Courses</b>	<b>Required Courses</b>
<b>Board of Directors</b>	V01 History and Philosophy V02 Financial Reports V03 Managing Risk	V100 Board of Directors' Duties and Responsibilities V101 Board Policies V102 Planning
<b>Credit Committee</b>	V01 History and Philosophy V02 Financial Reports V03 Managing Risk	V200 Credit Committee Duties and Responsibilities V201 Loan Granting V202 Collections
<b>Supervisory Committee</b>	V01 History and Philosophy V02 Financial Reports V03 Managing Risk	V300 Supervisory Committee Duties and Responsibilities V301 Auditing 1 V302 Auditing 2
<b>Credit Union Services</b>	V01 History and Philosophy V02 Financial Reports V03 Managing Risk	V600 Introduction to Mortgage Lending V601 Online Policies and Internet Use V602 Offering Credit Union Youth Programs
<b>Credit Union Technology</b>	Core courses are not required to complete the Technology track.	V500 Credit Union Technology Issues V501 Planning for Technology V502 Electronic Fraud and Security
<b>Credit Union Leadership</b>	Core courses are not required to complete the Leadership track.	V700 Strategic Credit Union Leadership V701 Directing Effective Teams V702 Maximizing Board Performance
<b>Optional Courses</b>		
	V402 Basic Budgeting V403 Marketing V404 Strategic Planning V405 Board/CEO Relations V406 Directors' Liability V407 Bankruptcy V409 Financial Management V410 Credit Union Examinations V411 Board Reports V412 Developing, Writing, and Implementing Policies	V413 Marketing to Generations and Target Groups V414 Recruiting, Orienting, and Retaining Board Members V415 Asset-Liability Management for Directors V416 Understanding Regulations V417 CEO Performance Appraisal and Goal Setting V418 Business Recovery Plans and Policies V419 CEO Compensation V420 Growth Strategies: Pathways to Success V421 Political Involvement V422 CEO and Board Succession Planning V423 Member Business Lending

successfully complete all six courses (core and required) in the learning track you have chosen. Recognition is also granted for the *Credit Union Technology* and *Credit Union Leadership* learning tracks. You will receive a special certificate for completing three required courses in each track. Note that core courses are recommended but not required as part of the Technology and Leadership tracks.

2. To be eligible for the *Edward A. Filene Award*, the second level of recognition, you must complete an additional six courses. These can include the required courses in other tracks or the optional courses.
3. To be eligible for the *Friedrich W. Raiffeisen Award*, the third level of recognition, you must complete eighteen courses. These can include the required courses in other tracks or the optional courses.
4. To be eligible for the *Roy F. Bergengren Award*, the fourth level of recognition, you must complete twenty-four courses.
5. To be eligible for the *Alphonse Desjardins Award*, the fifth level of recognition, you must complete thirty courses.
6. To be eligible for the *Louise Herring Award*, the sixth level of recognition, you must complete thirty-six courses.
7. To be eligible for the *Dora Maxwell Award*, the seventh

level of recognition, you must complete forty-two courses.

This course is one of the optional courses.

## About These Courses

The VAP courses are not intended to provide legal advice, and we do not guarantee the information is appropriate for all state-chartered credit unions. If you have legal or policy questions, contact your credit union president or your credit union league.

## How to Use This Course

If you are sight-impaired and choose to have this course read to you, we suggest that a spouse, partner, friend, or volunteer from your credit union or credit union league assist you. You can also check with your local library regarding reader services available in your community.

If you are participating in a seminar, your instructor will get you started. If you are completing this course through correspondence study, please follow this procedure:

1. Read the course opening objectives to get an idea of what's ahead.
2. Read the text.

**PREFACE**

3. When you have read the text and completed the activities, take the competency test.

## **Competency Test Instructions**

Each course in the program has a competency test of twenty multiple choice questions. Only one answer per question is correct. To successfully complete the course, you must correctly answer at least sixteen questions. You can refer to the text as you take the test, but the test must be completed individually.

If you are participating in a seminar, your instructor will provide directions. If you are completing this course through correspondence study, please follow this procedure:

1. Locate the test in the final appendix of the text.
2. Find a quiet place where you can work undisturbed and at your own pace.
3. Record your answers on the scannable answer sheet that was mailed to you along with the text. Follow the instructions on this sheet for marking answers.
4. Complete the identification section on the answer sheet and make sure you have marked an answer for each question. Only one answer is correct.
5. Mail the answer sheet to CUNA.
6. You may also take your VAP exam online. Register for online exams at *training.cuna.org*. Click on “eLearning,” then on “Self-Study Certificate Programs.”

# Introduction

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Today's world has become increasingly complex. Each of us deals with information bombarding us at work, home, and even while enjoying leisure activities. The pace of life has increased and the variety of data we can select from seems limitless.

Your credit union has also increased in complexity as well as in the variety of information, services, and reports it has available to its staff, members, and volunteers. Sometimes it can be confusing as you sort through the many different reports and financial statistics that are presented to today's volunteers.

This course explains the financial management tools used by most credit unions in a simple, easy-to-understand format. You will find that managing your credit union's finances need not be overwhelming when you consistently use several comprehensive asset-liability management tools.

Chapter 1 provides a brief overview of financial management as well as the heart of financial management for credit unions, asset-liability management. Chapter 2 offers a description of various risks which your credit union may face. Chapter 3 outlines the main components of a good

asset-liability program and explains key concepts in understandable terms. Chapter 4 focuses on the role of the asset-liability committee (ALCO), while Chapter 5 explains the various planning tools the ALCO can employ to oversee the financial management function of the credit union.

Chapter 6 provides an overview of the financial reporting tools commonly used by credit union management to track how the credit union is performing and how well the results are tracking when compared to its fiscal year plan. Chapter 7 explains the forecasting and budgeting component of financial management and why forecasts are an ongoing part of a good strategic business planning process.

Chapter 8 briefly overviews gap analysis, while Chapter 9 explains the valuable tools of "what-if analysis" and net interest income (NII) simulation. Chapter 10 introduces a relatively new concept for credit unions called net economic value (NEV). NEV reflects the effect of interest rate shifts on the credit union's balance sheet and capital position rather than focusing solely on changes to interest income.

**INTRODUCTION**

Finally, two sample asset-liability-management policies are included to guide you as you customize your credit union's own asset-liability-management policy and implement sound financial management practices.

Managing a financial institution in today's world requires information. Yet this information can be presented in a consistent manner that allows you and credit union management to clearly see how your credit

union is performing both now and in changing scenarios.

Together, the ALCO, board of directors, and management can utilize the financial management tools presented in this course to plan for adequate credit union earnings and capital today and in the future.

# Course Objectives

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Upon completion of this course, you will be able to

1. understand what financial management is and why it is so important to your credit union;
2. be aware of the financial management tools and their basic characteristics;
3. know what an asset-liability committee is and what role it will play in your credit union;
4. understand the basic reports that are part of financial management;
5. understand financial modeling and know how it applies to financial management.

