

# 15 Key Ratios Your Board Should Know

How do you know what to present to your board and how do you do it in a way that is relevant but still provides a deep perspective and context? Callahan can help.

## Here are two ways to get started.

- **This content download lists 15 key ratios we think your board should be aware of.** We have broken them down by providing definitions and describing how the ratios affect the balance sheet to help you educate your board. This list is intended to get you started, but you will need to add your data and commentary.
- **Request a custom data scorecard to start the conversation.** Callahan's performance benchmarking tools help credit unions compare themselves to relevant peers across the United States. [Request a custom scorecard to get started and see what it's all about.](#)

There are thousands of data points you can share with your board about your credit union, the industry, and the economy. We've narrowed it down to 15 that we think all credit union board members – regardless of tenure, credit union size, location, etc. should know not only by definition but also how their credit union is performing relative to peers.

**Why?** These 15 ratios cover all of the basics across the income statement and balance sheet and give basic insight into the credit unions performance, impact, and overall health.

Okay, let's get started.

## 1. Share Growth

Share growth is calculated as the period-to-period change of total share balances. It is often calculated over a 12-month range. Share growth is driven by several factors, including the state of the economy, the membership socio-economic status, and the credit union's ability to pay market rates and gain deposit market share.

This is an important ratio to monitor in relation to the credit union's efforts to market its deposit products. Although shares are considered liabilities on the credit union balance sheet, these deposits are why cooperatives exist! Bringing in shares is the first step of the credit union business model and allows for more lending.

Helping members save is the primary driver of strong member relationships.

## 2. Loan Growth

Loan growth is calculated as the period-to-period change of loans outstanding. It is often calculated over a 12-month range. Loan growth is driven by several factors, including the state of the economy, membership demographics, the level of risk the credit union is willing to manage, interest rates, pre-payment rates and more.

Lending drives the business model at most credit unions. Lending can act as investment in the local community and generates revenue to benefit membership.

## 3. Member Growth

Member growth is calculated as the period-to-period change of total members. It is often calculated over a 12-month range. Member growth is the result of implementing effective business strategies in the credit union's marketplace. Member growth strategies are driven by the board's philosophy towards service levels, delivery channels, product

pricing, and breadth of services offered.

Simply put, member growth correlates with the value a credit union is providing to their communities.

#### **4. Average Member Relationship**

Average member relationship is calculated by dividing the sum of loans outstanding and total shares, by the number of members the credit union serves. The resulting measure represents the value of combined loans and deposits that the average member holds with the credit union. Larger values tend to equate to a wealthier and more engaged membership. The credit union's pricing strategy, underwriting policies, and product mix all contribute to this measure. In addition, the makeup of the field of membership, the current economic environment, and the credit union's ability to sell loan and deposit products can also have measurable impacts on the average member relationship.

#### **5. Loans per Member (#)**

The number of loans per member is calculated by dividing the number of loans outstanding by total membership. Also known as "loan penetration," this ratio is helpful to calculate how engaged membership is with the credit union, and how effectively the credit union is able to cross-sell products. This ratio can also be thought of as "the percent of membership that hold a loan with their institution." There is strong correlation between a higher loans per member ratio and the percent of members who consider their credit union to be their primary financial institution.

#### **6. Loans-to-Shares**

The loan-to-share ratio is calculated by dividing the total amount of loans outstanding by the total amount of share deposits at the credit

union. This ratio calculates how effectively the credit union is able to distribute dollars of deposits back into the community as productive loans. Higher values generally correlate to greater member engagement and credit union earnings, but this ratio must always be balanced with liquidity and loan default risks.

## 7. Net Interest Margin

The net interest margin is calculated by subtracting dividends paid to members (or to pay down borrowing debt) from the interest income generated through loans and investments, then dividing that figure by average total assets. As interest-earning revenue streams are the primary business models for most credit unions, the net interest margin – also known as the “spread” – represents how much the credit union is making through its core business. *For every dollar of assets under management, the credit union is generating X cents of net interest revenue.*

## 8. Operating Expense Ratio

This measure is calculated by dividing operating expenses by average total assets. Operating expenses are a credit union’s costs of doing business. Nationally, employee compensation comprises about 50% of industry operating expenses. While a high operating expense may seem like an area of improvement, this may not always be the case. Investment in operational infrastructure is a good thing if it provides value to membership. What should be avoided is wasteful or unproductive operational expenses. *Credit unions spend X cents to manage each dollar of assets under management.*

## 9. Non-Interest Income Ratio

This measure is calculated by dividing the sum of fee and other operating income by average assets. Due to the competitive nature

of financial markets, most credit unions are not able to cover their operating expenses purely from net interest revenue. While non-interest income can have a controversial reputation, these channels are often necessary to maintain operations. Are members better off with no fees, or with a non-functional financial institution? Non-interest income strategies must be deployed fairly and morally, but they have a place at most institutions.

## 10. Return on Assets (ROA)

Return on assets (ROA) is calculated by dividing annualized net income by average total assets. ROA is an important gauge of a credit union's profitability. It shows how efficiently management is running the credit union by revealing how much income is generated for each dollar of assets deployed. In general, a high ROA relative to peers reflects management's success at utilizing its assets to generate income. Credit unions, however, should view ROA in light of their institution's strategy. For example, if a credit union's strategy is to pass along more earnings back to members – which should always be the goal in some manner – “success” may result in a lower, but sustainable, ROA.

## 11. Net Worth Ratio

The net worth ratio is calculated by dividing total net worth by total assets. “Net Worth” is a regulatory term for credit union capital, or the money it has saved through its operational earnings (Return on Assets). In the credit union industry, this is also known as “undivided earnings,” because this money belongs to membership in the end. Healthy net worth ratios are required by regulators to insure institutional stability in the event of bad times.

However, too high of a ratio might mean you aren't returning earnings to members. Each dollar of net worth must be consciously utilized to benefit membership.

## 12. Delinquency Ratio

The delinquency ratio is calculated as the percentage of total loan dollars outstanding that are delinquent on payment. It acts as an indicator of the financial health of your borrowers. If a loan is delinquent for too long it becomes charged-off and is no longer delinquent, so the delinquency ratio can act as a proxy for future losses. The delinquency ratio may increase during times of economic turbulence, as members become unable to pay back loans in a timely manner.

## 13. Coverage Ratio

The coverage ratio is calculated by dividing the allowance for loan and lease losses by the amount of delinquent loans. Delinquent loans forecast future losses; the allowance for loan losses are the reserves set aside to cover loan losses. The coverage ratio measures the adequacy of the credit union's reserves to cover potential losses in its loan portfolio. A declining ratio as delinquent loans increase indicates the credit union will have to increase the allowance account as those loans default. The allowance is funded from earnings, and management must ensure it is funded enough to protect the credit union from future loan failures.

## 14. Members Per Employee (FTE)

Members per employee is calculated by dividing the number of members by the number of full-time equivalent employees. This ratio measures how many members each employee is responsible for serving. A high ratio may reflect an efficient and effective workforce OR an overextended operation. Given that human resources costs are typically a credit union's largest expense, this ratio is critical for operating efficiency.

Strategic factors that impact the ratio include organizational service goals, member and balance sheet growth, and product and technology development.

## 15. Efficiency Ratio

The efficiency ratio divides a credit union's operating expenses by its operational revenue. The efficiency ratio can be interpreted as how much the credit union spends on day-to-day operations to generate \$1 of revenue. Because income is generally more sensitive to changes in interest rates than expenses, the efficiency ratio is heavily influenced by the interest rate environment. The lower the efficiency ratio, the better. A high efficiency ratio means that the credit union is losing a larger share of its income to overhead expenses. A low efficiency ratio means that operating expenses are a smaller percentage of income.

### Next Steps

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**Share this list** with your board.

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[Request now to get started.](#)

**If you have any questions, contact us at [support@callahan.com](mailto:support@callahan.com) or 202.223.3920**