Credit Unions

Credit unions are member-owned, not-for-profit financial cooperatives that were founded on the premise of providing trustworthy, reliable financial services and education to local communities, families, and workers.

Unlike banks and other for-profit financial institutions that are owned by stockholders, credit unions are mutually owned by their accountholders (members) and lead by a volunteer board elected by the membership.

Credit unions provide a safe place for consumers to save and borrow, offering reasonable rates and positive terms. As members make deposits (savings), those funds are used to make loans to other members. Income from the loans, together with fee and other income, are used to pay dividends (interest) on savings and fund operations. The remaining earnings become statutory required capital reserves.

Capital

Capital is the safety net that allows a credit union to operate. Without it, credit unions could not exist. Capital reserves are needed to manage growth, invest in the products and services that support the financial needs of its members and communities, and to sustain the institution in times of economic stress. Credit unions are required by law to maintain a minimum amount of capital in order to operate as a safe and sound financial institution.

Generated through earnings (net income):
Interest on Loans & Investments + Service Fees – Operating Expenses & Dividends

By statute, credit unions must maintain appropriate levels of capital or risk regulatory action and possible failure.

Unlike banks and for-profit institutions that can issue stock to raise capital, credit unions can only raise capital through earnings.

Key Economic Factors

<table>
<thead>
<tr>
<th>Lower Interest Rates</th>
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</thead>
<tbody>
<tr>
<td>Loan Forbearance &amp; Unemployment</td>
</tr>
<tr>
<td>Lower Transaction Volumes</td>
</tr>
<tr>
<td>Keeping Employees Safe &amp; Employed</td>
</tr>
</tbody>
</table>

Effects on Net Income

<table>
<thead>
<tr>
<th>Lower Interest Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher Loss Reserves and Lost Loan Interest</td>
</tr>
<tr>
<td>Lower Service Fee &amp; Other Income</td>
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<tr>
<td>Higher Operating Expenses</td>
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Lower Capital
Liquidity

**Liquidity** is access to cash and cash-equivalents that helps a credit union fund short-term operating needs and make loans to its members.

Liquidity comes from:
- Member Savings & Deposits
- Loan Payments
- Borrowings (ex. NCUA’s CLF, Federal Reserve Bank, and Corporate Credit Unions)
- Selling Loans to Government Sponsored Entities

Healthy Liquidity

Fund Loans to Members

Grow Earnings and Capital

**Regulatory Enforcement and Accounting Standards**

Credit Unions are required to follow rules and guidelines as outlined by federal and state regulators as well as the Financial Accounting Standards Board (FASB). **Strict Compliance Required.** During times of financial stress, enforcement actions are amplified to ensure organizations operate in a safe and sound manner.

**Regulators**

State and Federal regulators are responsible for establishing and enforcing rules, as well as protecting the health of the deposit insurance fund.

**Corrective Actions:**
- Require Higher Loan Quality Standards, Restricting Lending
- Restrict Products and Services
- Take Enforcement Action if Capital Drops Below Prescribed Level

**FASB**

FASB is an independent organization that establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles (GAAP).

**Corrective Actions:**
- Require Additional Loss Reserves on Stressed Assets
- Reclassify Loans as Trouble Debt Restructures

**Leads to:**
- Financially Challenged Consumers Disproportionately Affected
- Loss of Jobs
- Risk of Failure/Merger
- Fewer Local Financial Institutions