

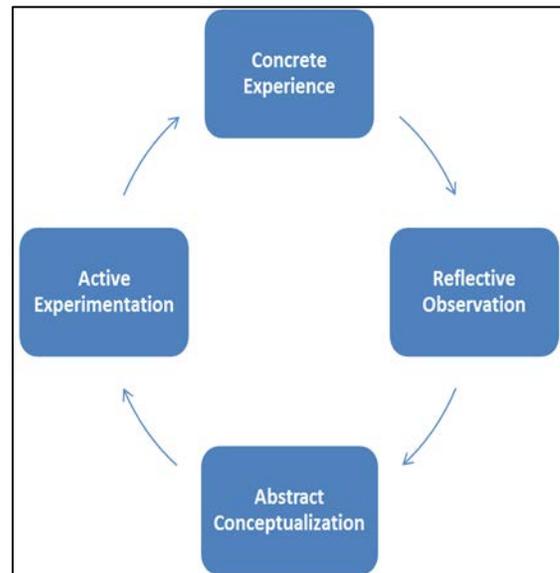
## Helping Your Board Become Comfortable with ALM

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Asset Liability Management (ALM) may not be one of your board's favorite topics. Most ALM reports, especially for those board members without a financial background can be overwhelming. However, understanding the interest rate risk that your credit union faces is a key component of their role as a board member. Therefore, credit union management needs to get the board involved in the ALM process to become comfortable with the reports.

This is increasingly important as credit unions face an aging board member demographic and a critical need for new board members. To best have a group understand an unfamiliar topic, it is important to understand how we learn as adults and incorporate that into the ALM training process.

Researchers use the graphic to the right, known as Kolb's Cycle of Experiential Learning, to show how adults learn new information. Applying this to the ALM training process may help you focus on where your credit union needs to spend time bringing members up to speed:



**Abstract Conceptualization:** This is perhaps the hardest step for a new board member as they are exposed to new concepts and terminology. Training is important at this stage, whether on an individual basis or in a group setting. Due to the broad nature of ALM, it is important to stress that the board member will probably not pick up the entire concept in one session. Experience has shown that ALM is a concept best learned over time.

**Active Experimentation:** This is when the board member can apply the basics of ALM to your actual modeling results. Combining the training learned in the abstract conceptualization phase with the actual ALM reports should start bringing the concepts together.

**Concrete Experience:** It is too easy for us to think that the learning stage has stopped after the first two stages, but to bring the concept more to life for the member, it is important to carry through to this next step. The concrete experience phase takes the board member into what trends are occurring at the credit union to drive the actual ALM results. Management discussion is the key component of this phase. It is vital that management discuss the reports and not just review the numbers and quickly file the report away. Consider bringing in an outside party, such as an ALM vendor or loan officer that can shed light on activity during the last measurement period. What caused a change over the quarter? Are you facing more risk in the future? These interactive conversations should help to bring some newer board members into the discussion and help them become comfortable with the topic.

**Reflective Observation:** This is when the board member is comfortable enough to ask questions. At this point, management should feel that the board member is well acquainted with ALM topics and can understand the risk/return trade-offs that the reports reflect.

Everyone learns at a different pace, but patience for both management and the board member is important because of the complexity of ALM. Over time, through continuous exposure to ALM, the board member should gain a comfort with the concepts that will help guide your credit union through the future.

*For more information, including ALM Board Training, please contact your Balance Sheet Solutions representative or email Kristina Muller at [kristina.muller@balancesheetsolutions.org](mailto:kristina.muller@balancesheetsolutions.org).*