

Avoid Common Policy Mistakes

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While many may consider policies to be a “necessary evil,” it is important to remember that they serve as a driving force behind your credit union. They are your opportunity to set the direction and tone for the credit union for years to come. Yet, when left to just a yearly review, it is common to glance over the policies without questioning some longstanding procedures or overlook items that don’t really apply to the credit union anymore. Through our work with credit unions over the years, we have run into some common mistakes from credit unions all over the country that are easy to avoid.

Are your policies in sync with each other?

Many of your credit union policies will refer to similar concepts – ratios, meeting schedules, etc. Review these key data items in all policies to make sure they all align with each other. An examiner can easily question why your lending policy refers to a 90% maximum loan/share ratio, yet the ALM policy references an 80% loan/share threshold. Creating an appendix for key ratios may be an easy way to do a quick cross reference among the various policies.

“Are you actually doing this?”

If your policy has not been thoroughly reviewed in a long time, it’s a good idea to go through the document line-by-line to ensure it actually reflects your current procedures. For example, you may have listed a group of reports that are to be reviewed at the monthly asset-liability committee (ALCO) meeting, but over the years, this list has changed. Has the list also been revised in your policy? This again, is an easy thing for an examiner to catch. If something is stated in your policy, be sure that you are actually doing it.

Are you utilizing generic policies?

Using a generic template provided by a vendor or league can be a great starting point to building a policy. However, examiners will want to see that you have personalized this document to accurately reflect your credit union. Therefore, it is especially important to go through each policy item and tailor it to reflect how you want your credit union to handle certain functions. Every credit union is unique and their policies should be as well. Build upon the generic policy to show how your credit union will manage concerns, such as liquidity or interest rate risk. The generic policy may offer ideas on risk thresholds, but only you and your board really know how you want to set these guidelines.

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Final Review

One great way to review your policy is to have a new set of eyes read the document. Encourage a junior staff member who is familiar with the operations of the credit union to review the policies and recommend changes. If you are in need of an intensive review of your policies, many brokers (including Balance Sheet Solutions) offer policy review services.

Remember that policies play a key role in introducing an examiner or new staff member to your institution. A well thought out, clearly defined policy will show that you have put time and effort into managing your credit union now and into the future.