



# BSA & Financial Literacy for Boards

Saturday, April 8, 2017

## Bank Secrecy Act: What is it?

- Common name for a group of laws spanning several government regulators, agencies and departments to prevent, detect and prosecute money laundering and financing of terrorism.
- Has been in place since 1970, but was significantly strengthened by passing of the PATRIOT Act in 2002.
- Applies to many types of financial businesses including banks, credit unions, stock brokers & foreign exchange houses.

# BSA Compliance Program

## Maintain

- Culture of Compliance
- Written Policy
- Current Risk Assessments
- Monetary Instrument Logs
- OFAC/CIP Program

## Report

- CTR
- SAR
- 314a
- Activity to the credit union board of directors.

# Responsibilities

## Board of Directors

- Ultimately responsible for CU's overall compliance with the Act
- Review & Approve BSA policy
- Appoints BSA officer
- Annual training

## CU Staff

- File reports, conduct scans and maintain transaction logs as required by Act
- Retain records of all BSA activities for 5 years
- Report certain activity to the Board

# Responsibilities

- Culture of Compliance
  - Leadership actively supports and understands compliance efforts;
  - Do not put revenue ahead of deficiency correction or risk mitigation;
  - Promote open communication between departments to further BSA/AML effort;
  - Devote adequate resources to compliance function;
  - Submit to independent testing for efficacy;
  - Leadership and staff understand the BSA/AML program and how reports are used.

# Reports

- **Currency Transaction Report (CTR)**

- Must be filed for cash transactions in excess of \$10,000
- Must be filed within 15 days of activity
- Multiple transactions within same business day are aggregated
- Must be filed electronically through FinCen website
- Record of report must be retained for 5 years

- **Suspicious Activity Report (SAR)**

- Filed when CU spots a behavior or pattern of behavior that appears criminal, suspicious or atypical
- Must be filed electronically with FinCen within 30 days of discovery
- Supporting documents must be retained for 5 years
- Non-disclosure: Member may not be notified of SAR filing

# Logged and monitored info

- Negotiable Instruments
  - Log all cash purchases between \$3,000 and \$10,000:
    - Corporate drafts
    - Cashier's checks
    - Money Orders
    - Traveler's Checks
    - Gift cards
    - Tickets/Postage/Misc.
- Wire Transfers
  - All wire transfers in excess of \$3,000 regardless of method of payment
  - Retain all documentation pertaining to the wire for 5 years

## Office of Foreign Asset control (OFAC)

- Division of US Treasury that administers a series of laws, part of the BSA, that impose sanctions against particular foreign countries and persons.
  - Sanctions can be based on a variety of reasons.
    - Congo: Illicit weapons trade
    - Ivory Coast: Human rights violations
    - Belarus: Political corruption
  - Persons may be blocked due to known or suspected terrorist activity, criminal enterprise such as drug trafficking, or affiliation with known or suspected enemies of the state.



# Customer Identification Program (CIP)

## Individual

- Information required at account opening:
  - Legal name
  - Date of birth
  - Address
  - Social Security Number

## Business/Organization

- Information required at account opening:
  - Legal name
  - Tax Identification number
  - Evidence of existence of entity:
    - Articles of incorporation
    - Charter/bylaws
    - Trust agreement
    - Government license

## What is The Board's role?

- Approving the BSA/AML compliance program
- Overseeing the structure and management of the credit union's BSA/AML compliance function
- Setting an appropriate culture of BSA/AML compliance
- Establishing clear policies regarding the management of key BSA/AML risks
- Ensuring that these policies are adhered to in practice
- Ensuring senior management is fully capable, qualified, and properly motivated to manage the BSA/AML compliance risks
- Ensuring that the BSA/AML compliance function has an appropriately prominent status within the credit union

# Financial Literacy

*Must know* basics for a director

# Objectives

- Basic financial skills required
  - High level overview for both financial statements
  - What you must know
  - Questions to ask/consider
- Resources to learn more

Can you  
answer these  
questions?

- What does this line item mean?
- Why is it important to the credit union?
- Is the value of the line item changing over time? If so, what does the change (either positive or negative) mean?
- Is the change important to the credit union?

# Objectives – the must knows

- Identify Key Elements of the Balance Sheet
  - Loans
  - Assets
  - What is *owned* vs. *owed*
- Identify Elements of the Financial Statement
  - Assets
  - Liabilities
  - Income
  - Expenses
- Discuss Key Ratios
  - Net Worth
  - Delinquency/Net Charge Offs
  - Return on Assets (ROA)
  - Capital ratio

# Purpose

## Balance Sheet

- Snapshot of the credit union at any given time.
- Running tally of total assets, liabilities and equity to date.
- For example: As of 12/31/16

## Income Statement

- Summary of net income and expenses over a period of time.
- Not running tallies, but a reflection over a given time frame.
- For example: 1/1/16 – 1/31/16

# Assets – What CU *Owns*

## Definition:

1. Probable future economic benefits controlled by the enterprise;
2. A balance sheet item representing what an enterprise owns.

## Examples:

- Loans
- Investments
- Cash
- Fixed assets
  - Land
  - Buildings
  - Equipment



# Liabilities – What CU *Owes*

## Definition:

1. Enterprise's legal debts or obligations that arise during the course of business operations.
2. Obligations to other entities.

## Examples:

- Member deposits
- Accounts payable
- Taxes payable

# Income

## Definition:

1. Money received on a regular basis, for work or through investments
2. Money received in exchange for a good or service

## Examples:

- Interest paid on loans
- Fee revenue
- Commission from vendors
- Miscellaneous operating income

# Expenses

## Definition:

1. Gross outflows incurred in generating revenue
2. Money spent or cost incurred

## Examples:

- Salaries & benefits
- Office operation
- Professional services
- Marketing campaigns

# Balance Sheet – Key Elements

- Total Loans
- Total Assets
- *What to consider:*
  - Is the loan portfolio growing?
  - Are our assets shrinking or growing?
  - What does this do to our ratio?

# Income Statement – Key elements

- Loan Income
- Investment Income
- Salary and Benefits
- Provision for Loan and Lease Losses
- Cost of Funds – Dividend Expense
- Net Income
  
- ***What to consider:***
  - How does each of these line items compare to budget?
  - How do we get on track if less/more than budgeted for?

How do they relate?

BOD 7-4: Statement Relationships and Discussion Scenarios

# FINANCIAL STATEMENT RELATIONSHIPS

Balance Sheets
•Loans
•ALLL
•Shares
•Equity (Net Worth)



Income Statement
•Interest Income
•PLLL Expense
•Cost of Funds
•Net Income/(Loss)



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## The Bottom Line

The last line of a financial statement report displays the net *profit* or *loss* for the statement period.

Losses are generally expressed with parenthesis or in red ink.

## 4 Key Ratios to Understand

1. Capital or Net Worth Ratio
2. Delinquency Ratio
3. Net Charge Off
4. Expense Ratio – Return on Average Assets (ROA)



## What to Understand - Key Ratios

- What each ratio measures
- If the current trend signals improving or declining financial health
- What factors affect each ratios
- Recommended changes based on above answers

### *How to review:*

- Trend over a period of time (trend analysis)
- How do these ratios compare to peers
- How do these ratios compare to similar sized CUs

## Capital or Net Worth

- **What it Measures:**
  - Capital to cushion losses and invest in member services
- **How to Calculate:**
  - $\text{Total Equity} / \text{Total Assets}$

## Delinquency/ Net Charge Off Ratio

- **What they measure:**
  - How well loan portfolio is managed.
  - Do you have strong underwriting?
  - Do you have effective collections?
- **Calculations:**
  - DQ Ratio – Total \$ amount of delinquent loans/Total loans
  - Net Charge Off Ratio – Total \$ amount of loans written off (minus recoveries)/Average Total Loans

# Earnings/ Return on Assets Ratio (ROAA)

- **Measures:**
  - Profitability of the credit union
- **Calculation:**
  - Net Income or Loss/Total Average Assets
- ***What to consider:***
  - How does the budget compare to the actual results for this period?
  - Was the net loss expected and planned for?
  - What line item trends may provide clues to the problem?
- **Line Items to Review:**
  - Declining loan income or a shrinking portfolio
  - Salary and benefits
  - Provision for loan losses
  - Other operating expenses

## Your Next Step - Resources

- **For Videos and Training**  
<https://www.ncua.gov/services/Pages/small-credit-union-learning-center/services/videos-webinars.aspx>
- **For Peer Analysis -**  
<http://mapping.ncua.gov/ResearchCreditUnion.aspx>
- **League Infosight –**
  - Financial Literacy IQ Quiz -  
[https://mi.leagueinfosight.com/Financial\\_Literacy\\_Requirements\\_27335.html#IQ\\_Test](https://mi.leagueinfosight.com/Financial_Literacy_Requirements_27335.html#IQ_Test)
  - Board of Director Responsibility Quiz -  
[https://mi.leagueinfosight.com/Board\\_of\\_Director\\_Responsibility\\_Quiz\\_1212.html](https://mi.leagueinfosight.com/Board_of_Director_Responsibility_Quiz_1212.html)

# Questions?

Thank you for your time!