



Peer Group Calculation and Financial Performance Report

Many of our clients have asked us how peer group averages are calculated and how to use the Financial Performance Report (FPR) available on the NCUA website (ncua.gov). According to the NCUA's latest FPR, a peer group average is an average of ratios (such as the delinquency, capital, or charge-off ratio) amongst credit unions in a specific peer group based on total asset size. The grouping of the asset size is based on the structure below.

- <\$2,000,000
- \$2,000,000 -- <\$10,000,000
- \$10,000,000 -- <\$50,000,000
- \$50,000,000 -- <\$100,000,000
- \$100,000,000 -- <\$500,000,000
- \$500,000,000 or more

“NCUA no longer calculates peer average ratios for non-federally insured credit unions.”

The peer group averages on the FPR are calculated by gathering data for a particular ratio from all the credit unions within your peer group and dividing by the number of credit unions within that group. However, before the calculation is performed, the NCUA trims the data for extreme values. The top five and bottom five values, as well as null or zero values that are not valid results, are eliminated from the population base to minimize distortion. Once the population is purified, the values are broken into peer groups and the averages are calculated as described above. It is also important to note the peer group averages only include federally insured credit unions (federal and state chartered). NCUA no longer calculates peer average ratios for non-federally insured credit unions.

The most recent FPR released in September of 2005 also includes percentile rankings in conjunction with peer averages for up to sixty ratios. “The new process orders the ratios from high to low in each peer group and then ranks accordingly based upon how many credit unions in the peer group have lower/higher values. For example, if your delinquency ratio is 1.0%, your rank is 20, and your peer group average is 3.0%. This translates to the following: roughly 20% of the credit unions in your peer group have lower ratios and roughly 80% of them have higher ratios (NCUA 2005).” However the FPR does not correlate good or bad performance to the rank, it simply shows where the credit union stands in relation to the peer group. This allows users to draw appropriate conclusions as to good or bad performance based upon the overall performance, as opposed to the results of a single ratio.

As a result, when our firm presents peer group averages during our exit briefing, we purposely make the disclaimer that the averages being referred to, are for discussion purposes only. These averages are only guidance to show where a credit union stands in relation to other credit unions of similar size. No other characteristics (services, branches, membership, etc) besides the asset size of the credit union are used to associate members of a peer group. Thus, we recommend these averages not be the basis of benchmarks for individual credit unions. A credit union should also be mindful when reviewing peer averages that as credit union assets

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grow, the credit union will move within the peer group asset bracket causing some variation among the peer averages.

The best indicator of growth or success for a credit union may be itself. Comparing yourself against the prior year and any target goals and objectives established by the Board is probably a more relevant determination of improvement.

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An additional tool within the FPR is its flexibility. Along with the ability to analyze a credit union's financial data, from financial ratios, graphs, to membership analysis, the FPR now allows users to be selective in the type of report they receive. Users may request a consolidated FPR for a group of credit unions based on select criteria such as region, state, peer group, charter type, field of membership code, etc. These new additions allows for more concise analyses in the areas you choose. The FPR is a great tool that provides a wealth of information; however, that information must be processed with discretion. ♦

Reference: NCUA, (2005) Financial Performance Report, User Guide

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