Tips For Avoiding Overstating Loan Income In The Budget Process

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Loan interest income may be overstated in the budget if there is a large balance of non-performing loans. This occurs if loan income is budgeted based on what the members are contractually obligated to pay rather than the actual payments received on performing loans.

Here are the two most common ways credit unions are adjusting for this:

- Code the non-performing loans to separate them from performing loans so that non-performing loans do not overstate the yield on the overall portfolio. Additionally, this information is helpful in making assumptions as to whether the budget for non-performing loans should show an increase, decrease or stay at current levels over the budget timeframe
- Calculate, by category (e.g., new auto, used auto, etc.), the difference between current contractual obligations and the current yield on loans and factor this into the budget. General ledger income can be useful in obtaining the data for this calculation

The decision between the two paths often comes down to how you handle non-performing loans in your database, data processing/reporting capabilities and the style of budgeting that is used.

We welcome your questions and comments.
If we can assist you with this process or help you with other budget issues, please feel free to call us at 800.238.7475.

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