



**Key things to look for to determine if your financial institution is sound:**

1. Obtain a copy of the institutions **Annual Report**. Along with the company's financial data, it will include footnotes that can be very revealing as the institution explains how they performed over the past year.
2. **Net Income** should be a good indicator of an institutions health. Of course, the more profitable the better. However, it normally does not explain everything. An example would be if an institution sold an asset and the gain was applied toward income and eventually profitability. If they did not sell the asset, would the institution still be profitable?
3. **Return on Assets** is good to know. The higher ratio, the better. A well run bank should consistently be in the 2% plus range. A well run credit union would have a consistent ROA of 1% or more. The annual report will indicate what the ROA is.
4. **Delinquency and Charge-Off Ratios** are also a good indicator. The larger number, the harder it will be for the institution to make a profit. Banks and credit unions usually try to keep that number at less than 1%.
5. Determine the institutions **Capital Reserves**. Capital Reserves are calculated by taking restricted reserves plus undivided earnings from the liability section of the financial institutions balance sheet and divide it by total assets. The larger the number, the better capitalized your financial institution is. A well capitalized financial institution has cash set aside to sustain an institution in times of weakness (like we are experiencing today) such as loan losses and negative profitability.
6. **Price to Earnings Ratio** is used to determine if a stock price is trading at a reasonable level in relations to the company's earnings. Take the price of the stock and divide it by the year end earnings. A good range would be 8% to 12%. A higher number would mean the stock price is trading too high and a lower number would mean it could be selling a bargain price.
7. Determine if the institution is having **Positive or Negative Trends**. If there are negative trends, the annual report should state what the institution is doing about it. Also, as with most businesses today, banks are suffering from a recession. Are their problems due to external conditions beyond their control or is the issue poor management decisions that existed before the recession?

As with all of the aforementioned information, determining what financial institution will be safe in difficult times is not an exact science. There are also agencies that will provide basic info on a bank's safety and soundness such as [www.bankrate.com](http://www.bankrate.com). They are a good indicator of where your institution stands. However they do not give the details of why the institution was profitable or sustained a loss. Sometimes it would be best to just call and ask and then you be the judge. These are just a few things to look at. And regardless of what condition the institution is in, **your deposits are insured up to \$250,000 by the FDIC (banks) and NCUA (credit unions.)** Please feel free to ask me any questions concerning the above. I am happy to be of service.

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