Financial Assessment of A Credit Union In West Timor, Indonesia

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Abstract

The study is an assessment of the financial performance of a credit union in West Timor, Indonesia using the PEARLS Monitoring System established by the World Council of Credit Union. The credit union is run by the Catholic diocese that envisioned prosperity to its members coming from different religious denominations and from low income families thus the need to recommend improvements to ensure its sustainability and service to the community. The study analyzed financial performance from 2007 to 2012 and determined members' satisfaction of services rendered. It used semi-structured survey instruments, personal interview, and focus group discussion to gather data. Findings of the study revealed that members' savings were not sufficiently protected. However, members were very satisfied with almost all of the services offered by the credit union. The study concludes that there is a need to improve its portfolio quality and liquidity management as evidenced by a high rate of loan delinquency. To ensure more sustainable operations, it is recommended that management exert effort to increase net loans receivables but at the same time address members' high delinquency rate for loans. Additional investment on liquid assets is suggested for loan portfolio to generate more revenue and increase the net institutional capital. It is further recommended that future studies would include governance and organizational performance particularly on credit management processes to complement the results of this study.

Keywords: credit union, financial performance, West Timor, Indonesia, customer satisfaction

1.0 Introduction

Micro-financing has seen a tremendous development since Muhamad Yunus was awarded with Nobel Prize in 2006. Aghion (2005) showed that credit unions were one of the best-known and earliest forms of microfinance and has undeniably played a significant role in microfinance landscape. Bamba (2010) contended that credit unions were even better in serving the poor because of their unique values and principles such as equality, self-help, democratic control and, open and voluntary membership. His study confirmed that microfinance institutions such as credit unions have a positive impact on the life of the poor and low-income people.

However, credit unions are also susceptible to failures. The absence of benchmarks and performance measuring tools were also among the causes of credit unions' failure (Hall, 2005). Viability is the most crucial issue among credit unions and other microfinance institutions nowadays. Credit unions realize that they can only make real change on members' life if they are sustainable. It is imperative that the concern of credit unions is on viability. The efforts towards the viability of credit unions include strengthening the organization

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and structure of management in general, but most importantly the financial soundness of the institution. Strengthening the financial performance is a must for any credit union. This involves regular evaluation and assessment of credit unions' financial performance. As a major financial and social organization, credit unions need to be constantly developed and sustained, and should be in accordance to industry's financial and administrative performance standards.

In 2007 a credit union was established in West Timor, Indonesia by the Catholic diocese with the vision of prospering its members by providing them with qualify financial service, education and training. West Timor is part of the Indonesian province of East Nusa Tenggara (NTT) – one of the less developed provinces in Indonesia and majority of its population is of Roman Catholic belief. The economy is dominantly agricultural, with rice and maize as the main production. The credit union is open type cooperative with members coming from different religious denominations: Catholic, Protestants and Muslims. The mission of the credit union was to help people coming out of poverty. The presence of the credit union seems to be gladly embraced by the people of West Timor. Since its inception, the credit union has grown rapidly, both in terms of assets and outreach. In six year time of its operation, the credit union has launched variety of services to satisfy its members. As of December 2012, the credit union had a total membership of 12,967, spread in five branches in West Timor. Ninety six percent of the members were eligible for borrowing and 83.07% (10,837 members) of them were active borrowers. Its asset amounted to US $ 12,046,793.45 and the gross loans outstanding were US $ 7,254,185.58 (as of December 2012 with an exchange rate of 1 Rp = .000074 US $). The credit union offered variety of saving deposits and credits to its members. But the question is, after years of operation, has the credit union made impact on West Timorese economic life?

Realizing the growing importance of the credit union to the people of West Timor and driven by desire to contribute to continuity of its services, the researcher decided to conduct this study. Accordingly, this study aimed to assess the financial performance of the credit union for the period of 2007 to 2012 in order to recommend improvements to ensure the sustainability of its existence and services to the people of West Timor. The study also sought to know members' satisfaction on financial services offered by the credit union.

The study attempted to assess the financial performance of a credit union in West Timor, Indonesia, for the calendar year 2007 to 2012 in order to recommend improvements to ensure the sustainability of the credit union.

Specifically, the following are the objectives of the study: 1) Determine the financial performance of the credit union based on the following indicators: portfolio quality, efficiency, stability, structure of assets, signs of growth. 2) Perform a gap and time series analysis using the results of the financial performance indicators. 3) Determine members' satisfaction with regards to financial benefits of memberships. 4) Based on the findings of the study; propose improvements on the financial operations for the sustainability of the credit union.

LITERATURE REVIEW

CREDIT UNIONS & FINANCIAL PERFORMANCE ASSESSMENT

*The Credit Unions Movement in Indonesia***.** The history of credit unions movement development in Indonesia is specifically connected to Catholic Church. In 1970s the Indonesian Bishop Conference invited two Canadian to hold talks and workshops about credit unions movement which gave birth to the creation of the Credit Union Counseling Office (CUCO) to promote credit unions movement (Sabdo & Sumarwan SJ, 2012). Initially, the credit unions operated only as informal savings and credit groups from 1970s to 1998 since the microfinance campaign during the Suharto's era (1966 -1998), favored government-owned or subsidized microfinance institutions and cooperatives such as Bank Rakyat Indonesia (BRI – the people's bank) and Koperasi Unit Desa (KUDs – government subsidized rural cooperatives). Then in 1998 when cooperative regulation were liberalized, the credit unions started to revitalize its movement and there was an increasing number of credit unions and their secondary structures adopting the legal status of savings and credit cooperatives. In 2010 there were 921 primary credit unions registered with more than 1.3 million members and the assets of US $ 5.918 million (at an exchange rate of 1 Rp = .000074 US$). (Cuco Indonesia, 2011).

The Credit Union Central of Indonesia (CUCO) is based in Jakarta, the capital of Indonesia and its function is to foster the development of credit unions movement within the country. Indonesia's credit unions movement is part of the World Council of Credit Unions (WOCCU) and the Association of Asian Confederation of Credit Unions (ACCU).

The World Council of Credit Union (WOCCU) established a standard performance evaluation and monitoring system called PEARLS (Richardson, 2002). PEARLS is a system of 39 financial ratios that to monitor the performance of credit unions and identify deficient operational areas of credit union. Each letter of the word PEARLS, measures key areas of credit union operations - protection, effective financial structure, asset quality, rates of return and cost, liquidity, and signs of growth (Richardson, 2002).

P - Protection refers to 5 financial ratios that determined the adequacy in the protection of a credit union's assets. It is measured by comparing the adequacy of the provisions for loan losses against the amount of delinquent loans. According to PEARLS standard, a credit union should have sufficient provisions to cover 100 percent of all loans over 12 months delinquent, and 35 percent of all loan delinquents for more 1 to 12 months.

E – Effective financial structure consists of 8 financial ratios that measure the credit union's assets, liabilities, and capital structure so as to determine its growth potential, earnings capacity, and its overall financial strength

A – Asset quality (3 ratios). Ratios in this group measure the impact of assets that are not generating income.

R – Rates of return and cost consists of 12 ratios and are used disaggregate the essential components of net earnings to help management calculate investment yields and evaluate operating expenses. The results will indicate whether the credit union is earning and paying market rate on its assets, liabilities, and capital.

L – Liquidity consists of 4 ratios and is used to reveal whether the credit union is administering its cash to meet deposits withdrawal demands and liquidity reserve requirements, while minimizing the amount of idle funds.

S – Signs of growth has 7 ratios and it measure both financial and membership growth. It compares asset growth to other key areas, to detect changes in the balance sheet structure that could have a positive or negative impact on earnings. It also determines the growth of credit union's institutional capital to measure the profitability and success of the credit union. Growth in institutional capital that is proportionately greater than the growth in assets is the best indicator of profitability and success of the credit union.

PESOS is another monitoring system which is very similar to the PEARLS monitoring system for they use the same ratios in the process of evaluation. However, they group them in different ways. PESOS group ratios according to the credit union's portfolio quality, efficiency, stability, operations, and structure of assets. PEARLS group them according to protection, effective financial structure, asset quality, rates of return and cost, liquidity, and signs of growth

Based on literature reviews, the study identified ten interconnected components that affect a credit union's financial management safety and soundness. These components validated the ratios used by the PEARLS system in assessing financial performance of a credit union.

Loan Portfolio Quality Management. Studies have shown that loan portfolio problems are one of the major causes of credit unions' failure (Osterhout and Dzandu, 2009; Adams, 1995). Therefore maintaining a high quality of loan portfolio is crucial to the sustainability of credit unions' financial services (Dhakal, 2012). The international standard for measuring financial institutions' loan delinquency is portfolio at risk (PAR). PAR coupled with an adequate loan loss reserve are two most important components to maintaining a high quality loan portfolio.

Delinquency Management. Delinquency is one of the most crucial components that have direct effect on the sustainability of credit unions operations and its services. There are four critical areas in credit unions operations that are affected by a high delinquency rate - credit union's expenses, liquidity, capital, and image (Tiboutot & Chavez Sr., 2008).

The success and viability of the credit unions depends mostly on how well it is managing its loan delinquency. International best practices consider a loan as delinquent or past due, when two payments have been missed. The World Council of Credit Unions (WOCCU, 2007) goes a step farther and stipulates that loans which are not paid as agreed are considered delinquent, the day after the first missed payment. The entire outstanding loan balance is, then, considered past due. WOCCU promotes less than 5% of the total loan portfolio for loans with more than 30 days past due. Moreover, it says that when a loan becomes delinquent, the credit union should not grant new loans to pay off the outstanding capital and interest for the same borrower (WOCCU, 2007).

Loan Loss Provision. Key part of managing the loan portfolio is to anticipate the amount of losses a credit union might experience on its loans in the future. In order to protect the loans, which are overdue and may not be recovered, a percentage of loans outstanding should be transferred to loan loss reserve. This should be done on regular basis, and based on portfolio at risk (PAR). The number of days in arrears, loan maturity and repayment frequency, and the quality of collaterals are factors that are normally taken into account when making provisioning (Bankakademie. Micro Banking Competence Center, 2004). In credit unions loan loss provision is important to protect savings against identified risks. WOCCU requires credit unions to have at least 35 percent loan loss provision, for loans with 1 to 12 months past due; whereas for loans with over 12 months past due should be 100% provisioned.

Institutional Capital. Credit unions are required to allocate a portion of its earnings each year in reserves, which they call *institutional capital*. "Institutional capital is defined as the total amount of the credit union's regulatory reserve accounts, undivided or retained earnings, special reserves (designated for specific purpose) and net income that yet has to be closed to the retained earnings accounts" (WOCCU, 2002, p. 1). Institutional capital is owned collectively by all members. The purpose is to finance non-earning assets such as land, building and equipments, and to cover loss from unforeseen problems or crisis. Moreover, having a sufficient institutional capital should allow credit union to support high return on savings, maintain low costs on loans, create additional reserves or invest in additional services. WOCCU promotes the capital adequacy level of 10% of total assets; whereas Basel Accord requires credit unions to maintain a capital level of 8 percent of risk weighted assets.

Liquidity Management. Traditionally, for credit unions, liquidity means the availability of cash for loan disbursement. However, as the credit unions shift their financial structures from members share to more volatile deposit savings, liquidity means not only cash available for lending but also cash ready to be withdrawn by savers and a variety of operations (Richardson, 2002). To ensure the stability of credit union's operations, WOCCU (2007) recommends that credit unions should maintain a minimum ratio of 15 percent of withdrawable savings in easily accessible instrument and accounts.

However, it is also argued that liquidity management is not just about determining a single optimal level of cash to hold, but more importantly how to charting a reasonable compromise between the risk of a liquidity shortage and the loss of income from not investing idle resources in interest earning assets (Rural Finance Learning Center (RFLC), 2000).

Non-Earning Assets. Land, building, vehicles, furniture, and idle cash are categorized as *non-earning assets*. Fixed assets are an important part of service to the members. However, these investments must be part of a well-organized, overall strategy and business plan. High rate of non-earning assets will affect the credit union negatively, because these assets are not earning income. WOCCU requires credit unions to limit these non-earning assets to a maximum of 5% of the total assets, and encouraging them to invest 95 percent of their funds into those assets that earn a return greater than the cost of funds and operating costs.

Pricing. Pricing plays a critical role in the survival and healthiness of credit unions. Profitability of a credit union hinges also on how the credit union sets the prices of its products. MicroSave advocates that MFIs can assess the price of their product based on three category: "*First* on the basis of covering the costs of delivering the product; then *second* on the basis of the prices in competitive market within which the MFI is operating; and finally *third* on the basis of the demand for or value provided by the product" (Cracknell, Sempangi, & Wright, 2004, p. 34).

Operating Cost. Adams (1995) reported that one of the biggest weaknesses of credit unions is the problem of transaction cost. He pointed out that credit unions tend to have high transaction costs as they grow big both in number of members and in range of services offered. These costs include the expenses of mobilizing and maintaining deposits, and other expenses associated with extending and recovering loans.

William (2010) in a study about efficiency in community credit unions and community banks reported similar results that community credit unions have higher operating expenses and are less efficient compare with other type of credit unions as well as to banks. William in the aforementioned study identified two factors that responsible for high operating expenses at community credit unions: Branch facilities, and cost of member acquisition and retention. New branch means additional expenses both for branch facilities and hiring new staff.

Moreover, "working to acquire new members with no awareness of the credit union may require more expensive advertising, direct marketing and even sales incentives to drive growth" (Williams, 2010, p.4).

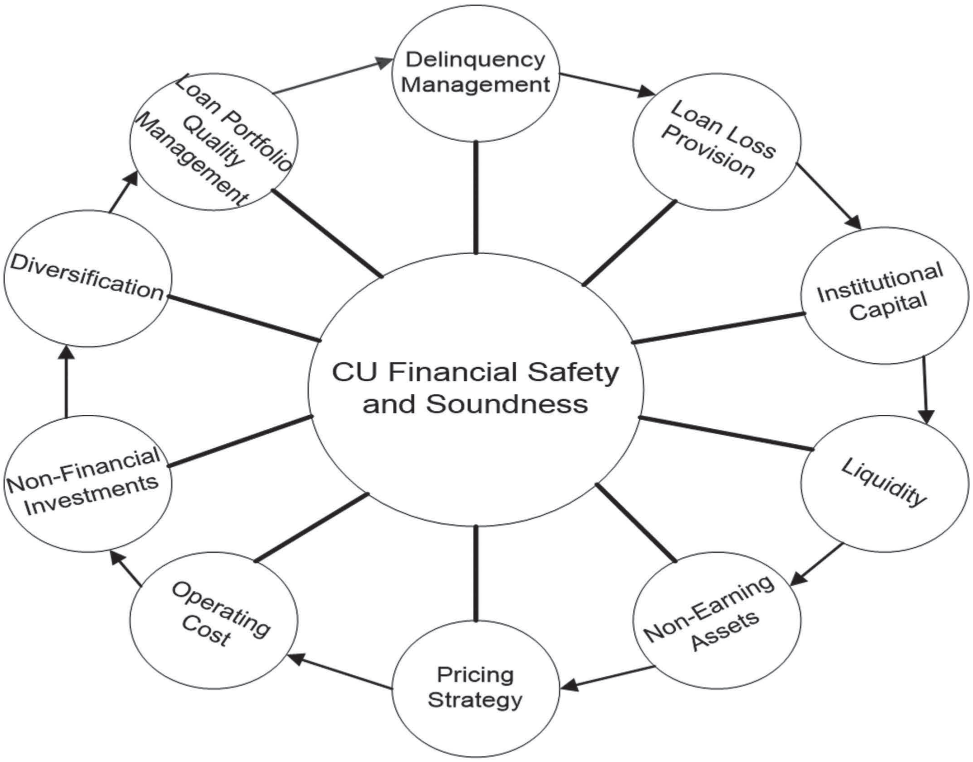

Figure 1: Theoretical Framework

Based on the above-identified factors, William (2010) suggested to the credit unions to make efficiency their top priority, in order for reducing their operating costs. These include key efforts, such as streamlining new member/new accounts, improving of reporting and communication strategies to keep high retention rate among most active members, etc.

Diversification. Diversification is a strategy of reducing the investment risk. Credit union is vulnerable if a large portion of its loan portfolios concentrated on one borrower or a group of affiliated borrowers, or by industry, commodity, or geographic area. Therefore, credit unions should limit this risk by diversifying its loan portfolio. To ensure the safety and soundness of credit unions' operations, WOCCU (2007) recommends that the maximum amount of related aggregate loans or credits should be limited at 5 percent of the credit union's total assets, or 10 percent of its institutional capital.

Non-Financial Investment. Credit unions are financial institutions that specialize in financial intermediation. Therefore, they should not implement non-financial operation such as retail store operations, etc. WOCCU (2007) recommends that the sum of *non-financial investment* should not exceed 5 percent of its total assets.

METHODOLOGY

The objective of the study is two-fold. Part 1was the assessment of the Credit Union's financial performance for the period of 2007 to 2012, and the second part was the determination of the satisfaction level of members regarding financial benefits of membership.

The financial documents namely balance sheets, income statements and cash flows were analyzed to determine the Credit Union's financial performance based on five groups of indicators - portfolio quality, efficiency, stability, operations, and structure of assets. The ratios were computed using the formulas as provided by the WOCCU financial performance standard - PEARLS. A gap analysis combined with time series analysis was deployed to analyze and interpret the results of the ratios and thus to determine the financial performance of the Credit Union.

For determining the satisfaction level of members, the study made use of both quantitative and qualitative method, i.e. survey questionnaire, personal interview, and focus group discussion (FGD). The satisfaction of level of respondents was determined using a 5 point likert scale where 1 is very dissatisfied and 5 very satisfied. The analysis of data was guided by weighted mean average and percentage.

The following scale was used to interpret the data:

Range	Description
1.00 – 1.80	Not at all satisfied
1.81 – 2.60	Slightly satisfied
2.61 – 3.40	Moderately satisfied
3.41 – 4.20	Very satisfied
4.21 – 5.00	Extremely satisfied

The notes and records from interviews and FGD session were summarized and reported in narrative form to support the result of the survey. Recommendation for the improvement of credit union performance and services is supported by member's feedback from survey questionnaire, interview and FGD.

RESULTS AND DISCUSSION

The financial performance of the credit union for the year 2012 vis-à-vis PEARLS financial standards was measured to gauge its viability.

For portfolio quality, four ratios were used to determine loan portfolio quality of the credit union namely portfolio at risk (PAR), allowance for probable losses of loans (APLL) over 12 months past due and APLL for 1 to 12 months past due, and rate of delinquent borrowers. PAR measures the default risk in the portfolio. The PEARLS system set the standard score for PAR ratios at 5 percent or less. This means that any PAR score that is higher than 5 percent is considered risky. The higher the score is, the riskier the loan portfolio. The Credit Union was able to score 10.94% indicating a poor and risky loan portfolio.

The second indicator for portfolio quality is APLL where two period were measured namely beyond 12 months and within 12 months of operation. APLL measures the adequacy of the allowance for probable losses of loans.

For beyond 12 months past due the credit union scored 335 percent which was way beyond the standard rate of 100 percent. However the APLL for within one year period, the score was only 29.36 percent which was lower than the standard score of 35 percent. A 29.36 percent score indicated that members' savings were not sufficiently protected within the one year period. There was no sufficient provision for allowance for probable losses of loans. All these led to a lower total score for loan portfolio quality and indicated low quality of loan portfolio.

For efficiency, the credit union was measured based on its ability to generate income at a minimum costs. Six indicators were used to measure the efficiency of credit unions. The Credit Union did well in some of the ratios such as rate of return on members' share, loan portfolio profitability, however it has not performed to its best in some most important efficiency ratios such as operational self-sufficiency ratio, and assets yield ratio, and administrative efficiency.

For stability, three indicators were used to determine the degree of a credit union's financial stability namely – solvency, liquidity, and net institutional capital. Findings showed that there were gaps between standard performance and the current performance of the Credit Union. The main contributors to this poor performance were solvency ratio and net institutional capital ratio. These ratios have not performed up to the standards. The liquidity was very high but a 'too' high liquidity is also an indication of ineffectiveness in managing liquid assets.

Table 1. Financial Performance of the Credit Union for 2012

Ratios	Ideal Standards	Results (percent)	Interpretation
Portfolio Quality			
Portfolio at Risk – A)1*	5% or less	10.94	Risky
APLL (>12 months) – P)1*	100%	335	Adequate
APLL (1 to 12 months) – P2	35%	29.36	Inadequate
Delinquent borrowers		13.36	
Efficiency			
Asset yield – r)12*	>4.30 (2012 inflation rate)	2.51	Inadequate
Operational Self-sufficiency – R8	>120%	94.16	Inadequate
Rate of Return on Member's Share – R7	>4.30 (2012 inflation rate)	13.9	Adequate
Loan portfolio profitability – r)1*	More than 20%	24.61	Adequate
Administrative efficiency – r9	<=5%	5.88	Inadequate
Stability			
Solvency – P6	> 110%	105.93	Inadequate
Liquidity – L)1*	Not less than 15%	45.4	Adequate
Net institutional capital – e9	At least 10%	1.43	Inadequate
Structure of Assets			
Non-earning assets/total assets-a2	Not more than 5%	2.1	Adequate
Savings deposits/total assets-e)5*	70-80%	79.79	Adequate
Net loans receivables/total assets – e1	70 - 80%	57.77	Inadequate
Members' share capital/total assets -e7	Max. 20%	10.97	Adequate
External borrowing/total assets-e6	5%	0.47	Adequate
Signs of Growths			
Growth in Membership –S10)*	>12%	20.78	Adequate
Growth in Assets-S11	>Inflation Rate	26.72	Adequate
Growth in Loans-S1		17.15	-
Growth in Savings Deposits-S5		27.24	-
External borrowing –s6	Decreasing toward zero	0.47	Adequate

*) P=Protection; E=Effective financial structure; A=Asset Quality; R=Rate of Return and Costs; L=Liquidity; S=Signs of Growth

Table 2. Portfolio Quality Performance from 2007 - 2012

Portfolio Quality Ratios	Ideal Standards	Ratios per Year (percent)					
		2007	2008	2009	2010	2011	2012
PAR	5% or less	n/a	n/a	n/a	n/a	8.72	11
APLL (>12 months)	100%	n/a	n/a	n/a	n/a	284	335
APLL (1 to 12 months)	35%	n/a	n/a	n/a	n/a	9.27	29
Delinquent Borrowers							13.36

The fifth indicator to measure financial performance of the Credit Union was structures of assets which were measured by asset quality, asset structure, net loans receivable over total assets and member's share of capital over total assets, and external borrowing. Generally the Credit Union had a good assets structure. However, it has to work harder to increase net loans receivables – the most important ratio - by investing more funds into loan portfolio, while reducing loan delinquency.

The study performed a gap and time series analysis using the results of financial performance indicators to determine its overall performance. The Credit Union started in June 2007 thus the analysis is for a six years period – 2007 to 2012.

Table 2 showed the performance of the portfolio quality from 2007 to 2012. A multi-year analysis for portfolio quality was not possible due to lacking of data available. Recording during the first years of operation was not efficient. Thus the analysis was made on two year basis. The PAR ratio in 2011 and 2012 were much higher which means higher risk for its loan portfolio. The APLL (>12 months) ratio was all high and showing a positive trend suggesting an ideal condition for the Credit Union in terms of allowance for loans over 12 months past due. The APLL (1 to 12 months) ratio too has made a worth noting improvement on year-to-year basis, but still it has not reached the ideal standard. Specifically to be noted that although APLL ratios have improved as compared to previous year for the same period, however the PAR ratio has increased from only 8.72% in 2011 to 11% in 2012, suggesting an increase in number of loans at risk. This means that the increase in APLL ratios were not high enough to make an impact in reducing the risk. The number of loans in arrears grows faster than the effort made to reduce them.

Table 3 presented the performance of the credit union in terms of efficiency. Findings showed that the credit union did well in some of the ratios such as rate of return on members' share, loan portfolio

Table 3. Efficiency Performance from 2007 - 2012

Efficiency Ratios	Ideal Standards	Ratios per Year (percent)					
		2007	2008	2009	2010	2011	2012
Asset Yield	At least inflation rate	3.16	3.75	3.84	2.96	2.46	2.51
Operational Self-sufficiency	>120%	117.23	108.69	104.43	103.08	96.71	94.16
Rate of Return on Member's Share	Higher than inflation rate	7.73	14.17	n/a	12.56	14.93	13.9
Loan Portfolio Profitability	More than 20%	13.25	23.03	24.9	24.12	25.52	24.61
Administrative Efficiency	5%	10.04	7.7	8.61	7.59	9.38	5.89
Indonesia's Averaged National Inflation Rate		6.57	11.06	2.78	6.96	3.79	4.3

Table 4. Stability Performance from 2007-2012

Stability Ratios	Ideal Standards	Ratios per Year (percent)					
		2007	2008	2009	2010	2011	2012
Solvency	At least 110%	97.5	n/a	n/a	n/a	109.66	105.93
Liquidity	Not less than 15%	20.63	n/a	16.21	25.82	37.86	45.46
Net Institutional Capital	At least 10%	n/a	n/a	n/a	n/a	2.3	1.43

profitability. However it has not performed to its best in some most important efficiency ratios such as self-sufficiency ratio, administrative efficiency, and assets yield ratio.

While admitting that over time there were improvements in some ratios, however those improvements seem not high enough to lift up the ratios to reach the required standards. Moreover, some of the ratios have slumped in recent year as compare to that of last year. Also, some ratio, for example self-sufficiency ratio, tends to decline over time.

Findings in table 4 showed that the Credit Union has not performed up to its best regarding financial stability. Specifically, its liquid assets tended to get higher each year, while solvency and net institutional ratios have not performed up to the standards - even have slumped from the previous year.

Generally the Credit Union had a good assets structure as shown in table 5. Most of the ratios have developed positively through the years of operations. However the Credit Union has to work harder to increase net loans receivables. Specifically the credit union should be aware of year-over-year decreasing of net loan receivables ratios. Lower net loan receivables ratio means lower revenue/ income.

Table 5. Structure of assets performance from 2007-2012

Structure of Assets Ratios	Ideal Standards	Ratios per Year (percent)					
		2007	2008	2009	2010	2011	2012
Non-earning Assets/Total Assets	Not more than 5%	2.37	n/a	1.41	2.35	2.52	2.1
Total Deposits/Total Assets	70 %-80%	83.87	79.6	79.45	8.09	79.47	79.79
Net Loan Receivables/Total Assets	70% - 80%	n/a	n/a	81.75	71.86	61.51	57.77
Total Members' Share Capital/ Total Assets	<=20%	13.96	15.27	12.36	10.3	10.52	10.06
External Borrowing/Total Assets	5%	0%	0%	0%	0%	0.75%	0.47%

Table 6 quantified the signs of growth of the credit unions. Most of the growth ratios were getting smaller over time; however, they were well above the ideal standards. Worth noting is the growth in savings deposits which was always higher than the growth in loans. This explains why the liquidity was always very high. The credit union funded its operation mainly using the members' deposits. It was only in 2011 that the credit union started to borrow funds from an external institution.

Findings of the study showed that the credit union's is within standard as set by PESOS and PEARLS. However, the performance in other groups of ratios such as portfolio quality ratios, efficiency ratios, stability ratios, and operations, were way below the standard performance as set by PESOS and PEARLS. The overall performance of the credit union was just "fair" as rated against PESOS standard.

It was also revealed that members' savings were not sufficiently protected and were at high risk. This may be due to a high number of delinquent loans. As of December 2012, there were 1,388 delinquent borrowers out of 10,387 active borrowers. The high delinquency rate increased loan portfolio risk and weakened portfolio quality. It decreased the credit union loan portfolio profitability – leading to low overall earnings (asset yield). Administrative cost was significantly high. Moreover, the high delinquency rate drained capital reserves since a huge amount of loan loss provision and were written offs. The end result is slump in net institutional capital.

Liquidity ratio was high which can mean inefficient management of liquid assets due to idle or low earnings assets. High delinquency, excess liquidity coupled with inefficiency in operations resulted in low net income causing all other areas to perform below the ideal standards. Results showed that the credit union needed improvements in portfolio quality and liquidity management. Financial performance was rated as 'fair only" according to PESOS performance standard Members'

Members' Satisfaction on Financial Services

The second objective of the study was to determine the level of members' satisfaction on services offered by the credit union. The goal was to seek the opinion and experiences from members regarding the services received. The result of the members' satisfaction survey is presented in this section.

The Credit Union received a rating of very satisfied for all aspects of the shared account service

Table 6. The Credit Union Signs of Growth for the year 2007- 2012

Signs of Growths	Ideal Standards	Ratios per Year (percent)					
		2007	2008	2009	2010	2011	2012
Growth in Membership	>12%	517.21	533.20	76.41	13.21	12.75	20.78
Growth in Assets	>Inflation Rate	878.24	473.04	124.32	40.61	26.11	26.72
Growth in Loans		848.08	511.33	117.84	25.42	8.99	17.15
Growth in Deposits		-	443.90	123.88	41.75	25.12	27.24
Trend in External Borrowing	Decreasing toward zero	0	0	0	0	0.75	0.47

namely: interest rate, minimum amount required, shared savings used as collateral and insured with JALINAN. an insurance program offered by Badan Koordinasi Credit Union Kalimantan (BKCU Kalimantan).

For the credit services, PINTA, a loan product offered to its members to increase capital, was the most availed credit product (54.5 %). For the last three years PINTA has been a compulsory loan for new members. All new members are required to borrow in form of PINTA. The second most availed credit product was consumptive loans (21.2 %), followed by productive loans (20.8 %); educational loans (16 %); housing loans (11.7 %); car/vehicle loans (8.2 %); and group loans (3.9 %). Around 5.6 % of members said they have not availed any loan. Two questions were asked regarding credit collection strategies, i.e. professionalism and courtesy of the staffs and how timely the field-staffs are, in reminding the clients whenever client's loan fell due. Both has a very satisfied rating from the members.

For credit administration, a series of questions were asked to determine the satisfaction level of members regarding credit administration. Findings showed that members were moderately satisfied with the way the Credit Union was administering its credit services. Members were very satisfied with office hours in branch offices but they were only moderately satisfied with transaction time, waiting room facilities, and the distance to the office. In fact many of the members reported their dissatisfaction regarding these three items. Complains such as slow service and transaction at teller, congested waiting rooms, or lacking writing supplies are often reported during the interviews and FGD session.

Members' satisfaction levels on credit investigation were very satisfied. However, a good number of members expressed their dissatisfaction regarding credit investigation. Some members complain about credit disbursement that takes too long time. Others feel that the Credit Union sometimes makes it difficult for those who want to borrow

Members were generally very satisfied with the credit and collection policies. However, in the face-to-face interviews, some members express their dissatisfaction regarding amount of loans granted to them On other services such as insurance programs, death benefits funds and hospitalization benefits funds, members are very satisfied with all non-savings and -credit services, including financial training and education programs. In fact, some members have benefited from these programs and they are very thankful to have joined the program.

The overall satisfaction on the Credit Union's services was rated as very satisfied with weighted mean of 3.81. In the interview and focus group discussion (FGD) members spoke positively about their experience with the Credit Union.

CONCLUSION

From the findings of the study, we can conclude that there is a need to improve portfolio quality and liquidity management of the Credit Union. Members' savings were not sufficiently protected which can be attributed to the high number of loans with delinquency. Overall, the credit union showed positive signs of growth and with members very satisfied with almost all of the services it offered.

The study recommends the following to improve the financial operations for more sustainable operations of the credit union.

1. The management to address the high delinquency rate of members in order to maximize its overall revenue.

2. The management to exert maximum effort to increase net loans receivables considering the year-over-year decreasing of net loan receivables ratios that would result to lower revenue/income.
3. Additional investment of liquid assets into loan portfolio to generate more revenue to increase the net institutional capital.

To get a more comprehensive picture about credit union's performance, the study recommends that future studies would include governance and organizational performance particularly on credit management processes to complement the result of this study.

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