



SACRAMENTO

CREDIT UNION

2014

ANNUAL REPORT

P.O. BOX 2351, SACRAMENTO, CA 95812-2351
(916) 444-6070 www.sactocu.org

FEDERALLY INSURED BY NCUA



Board of Directors' and President's Report

Entering its eighth decade, Sacramento Credit Union remains a strong, reputable institution, serving members in the cooperative spirit. Strength is evidenced by fiscal net earnings of more than \$3,000,000 and the ascending ratio of net worth to average assets of more than 13%. SCU's net worth ratio again exceeded that of California and nationwide peers. Deposit growth of nearly 4% and loan growth of 23% illustrate not only member trust and satisfaction, but also product pricing in the cooperative spirit. The credit union's 2014 performance supported infrastructure projects that are now enriching the member as well as the employee experience, and have laid the groundwork for future improvements.

Loan portfolio growth was the result of not only the overall return of consumer confidence, but also credit union designed promotions and services. Discounted auto loan rates and zero percent introductory credit card rates saved members money and increased SCU loan balances. Growth was managed across consumer loan segments and business and participation loans to minimize interest rate risk and loan concentration risk. At the same time, credit quality was maintained as reflected by the credit union's delinquency ratio of 0.37% and charge off ratio of 0.16% which were among the lowest in the industry.

As lending declined during the economic downturn, financial institutions looked to other sources to bolster earnings. Sacramento Credit Union has continued this practice, although loan growth exceeded deposit growth last year. Committing first mortgage loans to secondary market investors, which also limited interest rate risk, was again a major source of non-interest income. The Investment Services Department continued to provide members valuable financial planning and retirement guidance, also bringing significant non-interest income to the credit union. Ongoing efforts to reduce operating expense brought the ratio of operating expense to assets down to 2.73%, lower than most area peer credit union ratios at fiscal year end.

The most tangible infrastructure project last year was the Bradshaw Branch remodel, reflecting the style of the credit union's retail network. Members and staff alike are enjoying the office aesthetic and functionality. In 2014 the SCU web site upgrade freshened the look of the site, simplified navigation and enabled the launch next year of a new, improved online banking platform and a business banking platform. Instant issue of debit cards was expanded to all branches over the course of the last year. Sacramento Credit Union will be among the first of the local credit unions to introduce ApplePay and chip technology credit cards in 2015.

The Board of Directors and management have ensured the soundness of Sacramento Credit Union as it has grown in complexity and sophistication with the goal of improving the financial well being of the membership. As a locally operated institution having a branch network with personalized service and offering state of the art technology, the credit union is positioned to serve the diverse financial needs of the community for many years to come.

Submitted by: Les Brown, Chair, Board of Directors, and Bhavnesh Makin, President/CEO



Secretary-Treasurer's Report

Audited net earnings for fiscal year ended September 2014 were \$3,211,874, equivalent to 87 basis points on average assets of \$370 million. Figures for the prior fiscal year were, respectively, \$4,622,122 or 131 basis points on \$353 million.

Net worth, the accumulated net earnings since Sacramento Credit Union's founding on March 18, 1935, has increased the same \$3,211,874 or 7.00% to \$49,077,068. As a percentage of average September assets, net worth has improved to 13.09% from 12.72%.

Member deposits finished the year at just under \$330 million, up nearly 4.00%. Most of the increase was in core deposits, which surged \$12.4 million or 12.70%. Share drafts (checking) increased \$4.2 million or 4.80%, while expanding from 15,921 to 16,199 accounts. Money markets shrank \$2.1 million or 2.60%. Non-maturity IRA deposits edged downward \$80,000 or 1.60%. Certificates of deposit receded \$2.4 million or 5.30%, well in line with national trends with savers hesitant to lock in funds at the lowest rates in decades.

Showing vibrant growth was the loan portfolio, up 23.00% or nearly \$30 million. Leading the way were auto loans, up \$16.9 million or 48.30%, propelled by promotion of discounted rates. Commercial loans increased \$6.5 million or 4.60%. TPMG and share secured lending grew \$5.3 million or 24.20%. Through promotional campaigns, VISA credit card and other unsecured lines of credit grew \$1.5 million or 9.70%.

With growth in loans outpacing that of deposits, the key ratios of loans-to-deposits and loans-to-assets have trended favorably. The former increased from 43.00% to 51.00%, the highest since December 2009. The latter ratcheted up from 37.00% to 44.00%, the highest since June 2009. Both trends show progress well underway in the restoration of loans as the dominant earning asset in the Sacramento Credit Union balance sheet.

Submitted by: Jan Reeves, Secretary-Treasurer, Board of Directors



Lending Report

In fiscal year 2014 outstanding loan balances increased by 22.48% to continue for the fourth consecutive year a trend of loan portfolio growth. The HELOC, commercial/participation, vehicle and TPMG portfolios collectively added \$31,177,099. The mortgage fixed rate portfolio (first and second mortgages) receded by a total of 7.68%. The reduction in this segment can be attributed to early pay-offs and a lack of demand for fixed rate second mortgages. The continued growth of the FannieMae subserviced loan portfolio represented \$155,615,350 in loan balances at fiscal year end.

<u>Loan Type</u>	<u>Portfolio Mix</u>	<u>September 30, 2014</u>	<u>September 30, 2013</u>	<u>Variance</u>
Mortgage: Fixed Rate	17.40%	\$ 28,624,235	\$ 31,004,302	(7.68%)
Mortgage: Variable Rate	0.90%	\$ 1,455,264	\$ 1,501,672	(3.09%)
Mortgage: HELOC Variable Rate	10.90%	\$ 18,087,506	\$ 15,586,046	16.05%
Commercial & Participation	12.50%	\$ 20,564,379	\$ 14,116,433	45.68%
Consumer: Vehicle	31.50%	\$ 51,843,599	\$ 34,950,626	48.33%
Consumer: Credit Card	6.70%	\$ 10,947,621	\$ 10,347,461	5.08%
Consumer: Other & Stock Secured	20.10%	\$ 33,055,001	\$ 26,866,309	23.04%
Gross Loan Portfolio	100.00%	\$164,577,605	\$134,372,849	22.48%

New loan production experienced growth in several consumer loan segments including: indirect vehicle, credit card, HELOC and TPMG share secured. Combined production in these segments represented a 140% increase over 2013, attributed primarily to the solid execution of promotions, increased focus on indirect lending and concerted efforts of SCU personnel. Credit quality remained strong with 92% of consumer loans funded representing Tier 1 and 2 credit quality. The first mortgage segment fell 65% from the previous fiscal year, the result of reduced demand for refinances and weaker than expected home sales in the region. As in the previous year, first mortgages were primarily committed to secondary market investors to limit interest rate risk, as well as generate non-interest income and subservicing revenue.

<u>Loan Type</u>	<u>Production Mix</u>	<u>September 30, 2014</u>	<u>September 30, 2013</u>	<u>Variance</u>
Credit Card	3.50%	\$ 3,442,178	\$ 2,775,785	24.00%
Other Unsecured	1.50%	\$ 1,475,658	\$ 1,404,819	5.00%
Vehicle Indirect	23.50%	\$ 23,381,955	\$ 8,505,942	175.00%
Vehicle Retail	12.20%	\$ 12,167,767	\$ 11,891,542	2.00%
Other Secured	13.00%	\$ 12,879,561	\$ 5,018,611	157.00%
2nd Mort-HELOC	5.40%	\$ 5,387,328	\$ 2,491,548	116.00%
2nd Mort-Fixed	0.30%	\$ 336,670	\$ 1,037,197	(68.00%)
1st Mort-Orig & Sold	29.70%	\$ 29,467,875	\$ 84,635,109	(65.00%)
1st Mort-Orig & Portfolioed	2.20%	\$ 2,149,200	\$ 4,932,000	(56.00%)
Commercial	5.40%	\$ 5,349,250	\$ 6,811,500	(21.00%)
Participation	3.30%	\$ 3,300,000	\$ 2,344,842	41.00%
SBA	0.00%	\$ 33,439	\$ 37,336	(10.00%) New Loan
Fundings	100.00%	\$ 99,370,882	\$131,616,231	(25.00%)

Submitted by: Blake B. Cairney, Vice President, Lending Operations



Supervisory Committee Report

McGladrey LLP, a licensed CPA firm, was retained to perform the 2014 annual audit of the credit union's financial statements. Their examination included a study and evaluation of Sacramento Credit Union's accounting systems, procedures, internal controls and other auditing procedures sufficient to provide assurance that the financial statements are accurate.

The comparative highlights from the credit union's audited financial statements for the 12 month period ending September 30, 2014, are as follows:

Key Financial Performance Comparison Fiscal Year Ending September 30, 2014

<u>Performance Category</u>	<u>September 2014</u>	<u>September 2013</u>	<u>Variance</u>	
Assets	\$382,871,359	\$367,863,050	\$ 15,008,309	4.08%
Net Loans	163,161,862	132,319,130	30,842,731	23.31%
Member Deposits	329,866,160	317,959,955	11,906,205	3.74%
Net Capital	49,077,068	45,865,194	3,211,874	7.00%
Interest Income	8,231,251	8,014,269	216,983	2.71%
Less Cost of Funds	668,551	782,766	(114,214)	(14.59%)
Net Interest Margin	<u>7,562,700</u>	<u>7,231,503</u>	<u>331,197</u>	<u>4.58%</u>
Less Provision for Bad Debt	10,698	(665,442)	676,140	101.61%
Add Non-Interest Income	6,020,899	7,254,632	(1,233,732)	(17.01%)
Less Operating Expenses	<u>10,361,027</u>	<u>10,529,454</u>	<u>(168,427)</u>	<u>(1.60%)</u>
Net Income	<u>\$ 3,211,874</u>	<u>\$ 4,622,122</u>	<u>\$(1,410,248)</u>	<u>(30.51%)</u>

The Supervisory Committee meets periodically with management and independent accountants to review the work of each and to satisfy themselves that each person properly discharges his or her responsibilities. Additionally, the Committee reviews and examines various credit union internal policies, internal controls and procedures throughout the course of the year to ensure that members' assets are protected.

Submitted by: Tim Johnstone, Chair, Supervisory Committee



LOCATIONS

Elk Grove

8351 Elk Grove Boulevard, Suite 600

Fair Oaks

8100 Madison Avenue

Sacramento

3660 Bradshaw Road

800 H Street

3045 Arden Way, Suite 200

Kaiser Hospital, 6600 Bruceville Road