SACRAMENTO
CREDIT UNION

# 2022

# ANNUAL REPORT

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

# Board of Directors' and President's Report

2022 was marred by general economic uncertainty brought about by inflation, the likeness and amplitude of which we haven't seen for decades. The persistent supply chain issues due to COVID-19, geopolitical quagmire, and stimulus driven increased money supply provided the fuel to the fire, and Fed's bid to curb it by raising rates at the fastest pace in decades had a profound impact on businesses and consumers. Despite all these challenges, Sacramento Credit Union was steadfast in providing resources, services and support to our members and community, and met its financial, operational, and strategic goals for the year.

Fiscal year 2022 financial performance demonstrated the continued safety and soundness of Sacramento Credit Union. Net earnings were $5.5 million; assets, loans and net worth registered healthy growth. Credit quality remains strong as evident by the low delinquency and charge-off ratios.

One of the major accomplishments in 2022 was the successful upgrade of the data processing system. This investment in technology has not only enhanced our computing and network infrastructure but will allow us to continue to provide superior products and services to our members well into the future.

The Board of Directors and the Supervisory Committee continue to gain education through training as well as conference attendance. This enables our Board of Directors and Supervisory Committee to remain current on industry trends, compliance, technology, and security.

Staff received training throughout the year on trending issues and on refresher courses on topics ranging from standards of conduct, Bank Secrecy Act, and communications etiquette. The better informed we are as a team, the better we can serve our members. We celebrate, support, and promote our diverse member and employee populations by embodying, cherishing, and fostering equality and inclusion.

The Board of Directors, the management team and all staff strive to fulfill the Credit Union's mission to provide prompt, competitive, quality consumer financial services to its members in a friendly, professional, and prudent manner

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

# Secretary-Treasurer's Report

Audited net earnings, or return on assets (ROA), for fiscal year ended September 30, 2022, were $5,504,424 or 80.00 basis points on average assets of $688,066,519. Figures for prior fiscal year were $6,471,596 or 104.65 basis points on $618,410,380. The year over year change in terms of basis points is broken apart across the elements of the financial formula as follows:

| Financial Formula | Sep-22 | Sep-21 | Variance |
|---|---|---|---|
| Yield on Assets | 228.94 | 224.34 | 4.60 |
| Cost of Funds | -18.67 | -22.44 | 3.77 |
| Net Interest Margin | 210.27 | 201.90 | 8.37 |
| Fee and Other Income | 102.03 | 145.73 | -43.70 |
| Operating Expenses | -231.31 | -247.96 | 16.65 |
| Provision for Loan Losses | -0.99 | 4.98 | -5.97 |
| Net Earnings | 80.00 | 104.65 | -24.65 |

After double digit growth for two consecutive years since the pandemic, growth in deposits have slowed down to 6.71%. There was no more Federal, or State stimulus payments made during the fiscal year unlike the prior two. Consumers are starting to dig into their savings accounts due to high inflation, which is affecting all areas including necessities such as rent, food, and gas. All non-term deposit categories experienced growth with core deposit accounts leading at 9.94%, followed by money market accounts at 7.99%, and checking accounts at 3.89%. Certificate of deposits shrunk 1.91%. Assets grew 7.14% compared to 15.50% the prior year.

Gross loans experienced modest growth at 12.75%. Driving the growth in terms of growth rate was Variable Rate First Mortgage loans at 928.41% or $762.3 thousand due it's low starting point of $82.1 thousand. In terms of net dollar growth, Fixed Rate Mortgage loans took the lead at $23.3 million or 19.61%. HELOC loans grew at 36.63% or $4.4 million. Fixed rate first mortgage loan demand dried up immediately as market rates increased throughout 2022 due to inflation and Fed monetary policy tightening. Consumers shifted their demand to either ARM first mortgage loans or to second mortgage products. Vehicle loans grew at 11.12% or $13.3 million after a like growth of 11.30% the prior fiscal year. The commercial portfolio grew 20.08% or $3.0 million, and the credit card portfolio had modest growth at 5.83% or $539 thousand. Negative growth was only encountered on the Other Consumer Loans category, which consists primarily of The Permanent Medical Group stock secured loans at -4.74% or -$2.8 million. As a percentage of assets, loans grew from 49.87% to 52.48%.

With deposit growth slowing down and a steady loan growth, growth in term investments and cash and cash equivalents have slowed down to 5.75% and -7.76%, respectively, with a combined growth of only 3.21%. As a percent of assets, term investments remain flat at 36.34% compared to 36.81%, and cash and cash equivalents decreased to 7.33% compared to 8.51% the prior year.

Growth in net worth finished the year at 6.27%, generating a year-end net worth to assets ratio of 12.98%. This represents a slight decrease from 13.09% the prior fiscal year as assets grew a little faster than net worth.

Submitted by: Aaron Brewer, Secretary-Treasurer

# Lending Report

In fiscal year 2022 outstanding loan balances increased by 12.75%. Fixed Rate First Mortgages and Consumer Vehicle continued to be the strongest contributors to loan growth, with $36,671,125 added to portfolio balances, collectively. The increase in the loan portfolio can be attributed to continuing low mortgage interest rates and low auto loan rates, fueling new and refinance business. Consumer vehicle loan balances increased by 11.12%. The variable rate Mortgage portfolio increased due to a rise in mortgage rates during the latter part of the fiscal year. The HELOC portfolio increased as First Mortgage loan rates rose, causing more borrowers to leverage their equity as opposed to refinancing their full mortgage at a higher interest rate. Credit Card portfolios increased by 5.83% as more consumers nationwide turned to credit use to meet rising price demands. The loan portfolio continued to perform at an optimum level as 30 day and 60-day delinquency and loan charge-offs remained in check. Delinquency of 60 days or greater and net loan charge-offs were at .03% and .00 % of the loan portfolio, respectively.

| Loan Portfolio: Annual Meeting Categories | %% | **Sep-22** | **Sep-21** | **$Var** | **%Var** |
|---|---|---|---|---|---|
| Mortgage: Fixed Rate | 37.78% | 142,406,328 | 119,059,938 | 23,346,390 | 19.61% |
| Mortgage: Variable Rate | 0.22% | 844,353 | 82,103 | 762,250 | 928.41% |
| Mortgage: Heloc (variable rate) | 4.33% | 16,304,530 | 11,933,119 | 4,371,411 | 36.63% |
| Consumer: Vehicle | 35.33% | 133,183,999 | 119,859,264 | 13,324,735 | 11.12% |
| Consumer: Credit Cards | 2.60% | 9,785,104 | 9,246,073 | 539,030 | 5.83% |
| Consumer: Other, primarily Stock Secured | 14.89% | 56,126,466 | 58,917,233 | -2,790,767 | -4.74% |
| Commercial & Participation | 4.85% | 18,292,338 | 15,233,942 | 3,058,397 | 20.08% |
| Gross Loan Portfolio | 100.00% | 376,943,117 | 334,331,672 | 42,611,446 | 12.75% |

The past year was one of the most unusual in recent Federal Reserve history. As inflation proved unexpectedly strong, Feds looked to reign spending by raising rates from zero to over 4% at a faster pace than seen in recent history. This spawned a sharp fall in stock and bond prices that affected the value of retirement accounts, a hike in mortgage loan rates that drastically slowed mortgage loan activity in the second half of the year and weakened consumer sentiment that slowed consumer lending.
The auto industry faced continued impairment of inventory that was insufficient to meet consumer demand. Factors such as fewer choices, higher prices and rising interest rates worked against consumers and slowed lending, while auto companies increased prices and profited handsomely from these same conditions.

The credit union continued to maintain high credit quality on new loan originations, with most newly funded loans falling into our A credit tier.

| Comparative Fiscal Year Loan Production Originated | | | | | |
|---|---|---|---|---|---|
| | R12M SEP22 | | R12M SEP21 | Variance | |
| CPA Loan Categories | %% | $$ | $$ | %% | $$ |
| Total Loans Funded | 100.00% | 159,872,995 | 201,216,859 | -20.55% | -41,343,864 |
| Credit Cards | 1.50% | 2,398,007 | 2,190,171 | 9.49% | 207,836 |
| Other Unsecured | 1.53% | 2,440,476 | 2,157,154 | 13.13% | 283,322 |
| Vehicle CUDL | 27.39% | 43,788,247 | 39,249,436 | 11.56% | 4,538,810 |
| Vehicle Retail | 17.37% | 27,772,691 | 28,796,094 | -3.55% | -1,023,403 |
| Other Secured | 7.42% | 11,861,223 | 13,150,456 | -9.80% | -1,289,233 |
| 2nd Mort Heloc | 10.33% | 16,519,800 | 3,214,901 | 413.85% | 13,304,899 |
| 2nd Mort Fixed | 7.52% | 12,019,202 | 4,746,618 | 153.22% | 7,272,584 |
| 1st Mort Passthru | 3.58% | 5,720,500 | 41,453,095 | -86.20% | -35,732,595 |
| 1st Mort Portfolio | 19.32% | 30,888,950 | 65,340,450 | -52.73% | -34,451,500 |
| Commercial | 4.04% | 6,463,900 | 287,000 | 2152.23% | 6,176,900 |
| Participations | 0.00% | 0 | 0 | | 0 |
| SBA | 0.00% | 0 | 631,483 | -100.00% | -631,483 |

Submitted by: Julie Shepherd, Vice President, Consumer Lending

# Supervisory Committee Report

RSM US LLP, a licensed CPA firm, was retained to perform the 2022 annual audit of the credit union's financial statements. Its 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, 2022, are as follows:

**Key Financial Performance Comparison Fiscal Year Ending September 30, 2022**

| Performance Category | September 2022 | September 2021 | Variance | |
|---|---|---|---|---|
| Assets | $718,298,024 | $670,450,429 | $47,847,595 | 7.14% |
| Net Loans | 376,573,849 | 333,803,892 | 42,769,957 | 12.81% |
| Term Investments | 261,017,838 | 246,820,211 | 14,197,627 | 5.75% |
| Member Deposits | 616,678,560 | 577,876,198 | 38,802,362 | 6.71% |
| Net Capital | 93,233,168 | 87,728,743 | 5,504,424 | 6.27% |
| | | | | |
| Interest Income | 15,752,907 | 13,873,427 | 1,879,480 | 13.55% |
| Less Cost of Funds | 1,284,846 | 1,387,997 | (103,151) | -7.43% |
| Net Interest Margin | 14,468,062 | 12,485,430 | 1,982,632 | 15.88% |
| Less Provision for Bad Debt | 67,877 | (308,080) | 375,957 | -122.03% |
| Add Non-Interest Income | 7,020,178 | 9,011,893 | (1,991,715) | -22.10% |
| Less Operating Expenses | 15,915,939 | 15,333,809 | 582,130 | 3.80% |
| Net Income | $5,504,424 | $6,471,595 | ($967,170) | -14.94% |

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: Gene Webb, Chair, Supervisory Committee

SACRAMENTO
CREDIT UNION

# LOCATIONS

| | |
|---|---|
| **Elk Grove** | **8351 Elk Grove Boulevard, Suite 600** |
| **Fair Oaks** | **8100 Madison Avenue** |
| **Folsom** | **1705 Iron Point Road, Suite 100** |
| **Roseville** | **5005 Foothills Boulevard, Suite 1E** |
| **Sacramento** | **3660 Bradshaw Road** |
| | **800 H Street** |
| | **3102 Arden Way** |