SACRAMENTO

CREDIT UNION

Invest in Sacramento

2009

ANNUAL REPORT

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

Board of Directors' and President's Report

The financial crisis triggered in 2008 and subsequent recession have tested the credit union industry nationwide. In March of 2009 the National Credit Union Administration (NCUA) placed two corporate credit unions into conservatorship. Corporate credit unions provide financing, check clearing and other services for natural person credit union members, such as Sacramento Credit Union. Corporate credit unions were severely impacted by the global downturn and mortgage meltdown, causing significant losses in their investment portfolios. This in turn caused corporate credit union members, including SCU, to lose some of their capital invested in corporates. To add stability and strengthen corporate credit unions, in April 2009 the NCUA announced its Corporate Stabilization Program. Under this program, the NCUA took several actions that had a direct financial impact on natural person credit unions. Among these actions were large insurance impairment and premium assessments. Many credit unions, including SCU, experienced losses directly attributable to these NCUA assessments. The NCUA has been working on a corporate restructure plan to prevent the recurrence of the events of 2009, with the final plan expected in 2010. The credit union system continues to be sound, and member deposits are insured up to $250,000. Despite these and local economic challenges, at fiscal year end your credit union remained well capitalized at 11.38%.

The focus of the Board of Directors and management team has remained on serving the financial needs of the membership and maintaining the safety and soundness of Sacramento Credit Union. Steps taken to counter the aforementioned uncontrollable conditions included streamlining operations and reducing expenses. These actions were accomplished with no compromise to the quality of member service or reduction in work force, an element essential to the credit union's success. Although Sacramento Credit Union has consistently observed conservative real estate lending practices, the market decline in our region far surpassed the expectations of the leading experts. The significant loss of property values, coupled with high unemployment, impacted loan performance and necessitated substantial increases to the allowance for loan loss. SCU continued to work with members experiencing personal financial disruptions to keep them in their homes. The credit union again honored state issued warrants during the State of California budget impasse. At the same time, dividends and interest rates were on par with the local competition.

The Board of Directors and management also pursued opportunities to enhance membership in Sacramento Credit Union. SCU assisted its founding employment group, The County of Sacramento, with its payroll conversion, successfully bringing added convenience to County employees. The card processor change in March brought about the ability to launch the new credit card program with options and incentives through rewards and lower rates. The credit union broadened the member base by introducing business products and services. The web site was improved for online fulfillment, with our ongoing commitment to protecting member information via the highest degree of security. eNotices, a new feature available to eStatements subscribers, were implemented to deliver important account information quickly and securely.

Sacramento Credit Union has remained true to its Sales and Service Culture and sustained its integrity during these times of financial turmoil. It is our ongoing goal to add value by saving you time, saving you money, earning you money and giving you peace of mind.

Submitted by: Willie L. Southward III, Chairperson, Board of Directors
Jerrold A. Kinlock, President/CEO

Sacramento Credit Union

Invest in Sacramento

Secretary-Treasurer's Report

Audited net earnings for fiscal year ended September 2009 were negative $4,230,395, equivalent to negative 132 basis points on average assets of $321 million.

Springtime 2009 left little doubt that the mortgage meltdown and economic crisis had dealt severe blows to the corporate credit union network. Natural person credit unions such as Sacramento Credit Union, by virtue of loyalty to and investment in the network, were exposed to collateral damage and were ordered by the National Credit Union Administration (NCUA) to recognize extensive if not complete depletion of capital deposits entrusted to the network.

By September 2009, SCU had written off $3,521,186 in corporate investment plus $400,164 in the first of what will likely be many installments assessed to natural person credit unions to maintain the NCUA Share Insurance Fund. After factoring out these extraordinary, industry wide losses, the "true" SCU fiscal net earnings settled at negative $309,045, equivalent to negative 10 basis points.

Analysis of the "true" net earnings figure reflects continuing contraction in net interest margin, which was down $637,360 or 35 basis points compared to the previous fiscal year. In terms of basis points, yield on assets fell 118, largely due to the negative impact of the "great recession" on both interest rates and loan demand. As a percent of assets, loans dropped to 43% from 56% compared to September 2008. Conversely, investments increased to 53% from 40%. In terms of yield, respectively, loans dropped from 5.9% to 5.7%, while investments withered from 3.36% to 1.79%.

Dividends paid on deposits were trimmed periodically during the fiscal year but only enough to offset approximately 70% of the slide in asset yield. Specifically, compared to prior fiscal year, cost of funds was repriced downward 83 basis points or $2,345,512.

Fee and other income increased around $600,000 but were neutralized by roughly the same increase for provision for bad debt. Reflecting the impact of the recession on loan performance, allowance for loan losses was boosted 81% to $4,598,074 from the $2,538,970 at the previous fiscal year end. Loans classified as uncollectible per FAS114 increased 50%. The unforeseen loan loss estimate per FAS5 jumped from 1.43% to 2.18% including a 0.50% economic factor recommended by CPA.

As a result of the slightly negative "true" net earnings plus the $3,921,350 in losses directly traceable to the corporate network, the net worth ratio dropped from 14.02% to 11.38% at fiscal year end 2009 including the $25 million in CU-SIP arbitrage. Excluding CU-SIP, the ratio remained a very solid 12.30%.

While understandably distracted by the incurrence of large losses beyond our control, SCU remains focused on remaining relevant and resourceful to our 26,649 members with the goal of becoming their primary financial institution.

Submitted by: John Beck, Secretary-Treasurer, Board of Directors

SACRAMENTO CREDIT UNION

Invest in Sacramento

Lending Report

In fiscal year 2009 the loan portfolio continued to recede, dropping nearly 16%. The two major loan types, vehicle and held mortgage, both shrank nearly $10 million. As a percentage of the total portfolio, the former fell from 42% to 36%, while the latter increased slightly from 51% to 52%. The two minor loan types, unsecured and secured, experienced gains of 6% and 128%, respectively. The star performer was the stock secured loan issued to The Permanente Medical Group physicians.

Loan Type	Portfolio Mix	September 30, 2009	September 30, 2008	Variance
Unsecured	5.5%	$ 7,790,021	$ 7,330,606	6.27%
Secured*	4.8%	$ 6,859,181	$ 3,010,596	127.83%
Vehicle	36.1%	$ 51,102,537	$ 70,760,713	(27.78%)
Commercial	1.1%	$ 1,539,500	$ 1,568,476	(1.85%)
Held Mortgage	52.5%	$ 74,390,346	$ 85,357,574	(12.85%)
Total	100.0%	$141,681,585	$168,027,965	(15.68%)

Loan production increased dramatically. Most of the growth pertained to first mortgage origination and reflected lucrative home buying incentives embedded in our nation's fiscal stimulus package. The mortgage department funded 279 first mortgages, up from 138 the prior year. As in the prior fiscal year, interest risk considerations limited first mortgages retained on the books.

Loan Type	Production Mix	September 30, 2009	September 30, 2008	Variance
Unsecured	2.0%	$ 1,622,829	$ 1,367,227	18.69%
Secured*	6.9%	$ 5,489,789	$ 1,624,978	237.84%
Vehicle Retail	8.9%	$ 7,026,244	$ 5,214,620	34.74%
Vehicle Indirect	10.1%	$ 8,059,486	$ 3,293,854	144.68%
Commercial	0.0%	$ 0	$ 0	0.00%
Second Mortgage HELOC	2.8%	$ 2,245,322	$ 2,372,946	(5.38%)
Second Mortgage Fixed	1.6%	$ 1,299,648	$ 2,961,954	(56.12%)
First Mortgage Originated	67.7%	$ 54,064,517	$ 28,643,187	88.75%
Total	100.0%	$ 79,807,834	$ 45,478,767	75.48%

*Share Secured Loans and The Permanente Medical Group Stock Secured Loans

Submitted by: Jerrold A. Kinlock, President/CEO

SACRAMENTO CREDIT UNION
Invest in Sacramento

Supervisory Committee Report

McGladrey & Pullen, LLP, Certified Public Accountants, were retained to perform the 2009 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, 2009, are as follow:

Key Financial Performance Comparison Fiscal Year Ending September 30, 2009

Performance Category	September 2009	September 2008	Variance	
Assets	$338,599,882	$306,797,180	$ 31,802,702	10.37%
Net Loans	137,384,483	165,517,382	(28,132,899)	(17.00%)
Member Deposits	272,426,414	261,227,877	11,198,537	4.29%
Net Capital	38,181,628	42,411,963	(4,230,335)	(9.97%)
Interest Income	12,344,178	15,327,050	(2,982,872)	(19.46%)
Less Cost of Funds	3,643,334	5,988,846	(2,345,512)	(39.16%)
Net Interest Margin	8,700,844	9,338,204	(637,360)	(6.83%)
Less Provision for Bad Debt	4,235,534	3,642,460	593,074	16.28%
Add Non-Interest Income	3,825,163	4,478,094	(652,931)	(14.58%)
Less Operating Expenses	12,520,868	10,711,627	1,809,241	16.89%
Net Income	$(4,230,395)	$(537,789)	$(3,692,606)	(686.63%)

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

Fiscal Year 2008-2009 was not a good year for the Sacramento Credit Union. During this period, had a net loss of $4.2 million dollars. These losses reflect how Sacramento Credit Union has been impacted by the world-wide economic downturn. Particular items of note are:

- A $3.5 million dollar impairment loss on assets invested in central corporate credit unions. This was necessitated by the National Credit Union Administration's (NCUA) determination that the actual market value of central corporate credit unions investments was significantly less than the book value of these assets. Thus, credit unions nation-wide--including Sacramento Credit Union--were required to write-down the value of their investments in the corporate credit unions.

- A net $400 thousand dollar National Credit Union Share Insurance Fund (NCUSIF) deposit impairment and premium expense. The NCUSIF provides a guarantee to credit union members for the value of their deposits up to $250 thousand dollars. The cost of this program is distributed equitably among all credit unions. During the last year, the insurance suffered significant losses. The net impairment in Fiscal Year 2008-09 reflects Sacramento Credit Union's share of the financing needed to retain the long-term economic stability of the NCUSIF.

- A $700 thousand dollar increase in the provision for loan losses. This has been brought about by a number of economic factors. These include but are certainly not limited to extraordinarily high unemployment, the reduction of income for many workers who remain employed, and all the conditions which have accompanied the down-turn in real estate.

In an effort to gain a perspective on this year's operations, the Committee believes that one needs to examine Sacramento Credit Union's financial stability from a historical perspective over the course of the past 7 years.

- SCU ended Fiscal Year 2002-03 with $277 million dollars in total assets and $27.15 million dollars in member's equity. The member's equity was 9.82% of the total assets.

- Fiscal Year 2003-04 through Fiscal Year 2007-08 saw the total assets grow by <u>$30 million dollars</u> to $307 million dollars and the member's equity grow by <u>$15.5 million dollars</u> to $42.7 million dollars. The member's equity at the end of this 5-year period was 13.91% of the total assets.

- In spite of its losses, SCU ended Fiscal Year 2008-09 with $338 million dollars in total assets and $38.1 million dollars in member's equity. The member's equity was $11.24% of the total assets.

- According to the National Credit Union Administration (NCUA), a credit union must have member's equity of 6% in order to be "adequately capitalized" and 7% in order to be viewed as "well capitalized". Sacramento Credit Union's member's equity has consistently far exceeded the "well capitalized" standard throughout the preceding 7 years.

Throughout this period the committee has--as a part of its due diligence--monitored the directions set by and the actions taken by the Board and Management of the Sacramento Credit Union. The Board and Management have unfailingly set directions and taken actions to preserve, protect, and grow members' assets and equity. Thus, it is the opinion of the Supervisory Committee that the Sacramento Credit Union properly discharges its financial responsibilities and operates in the best interests of the membership.

Submitted by: Gene Webb, Chairperson, Supervisory Committee

SACRAMENTO CREDIT UNION

LOCATIONS

Elk Grove	**9160 East Stockton Boulevard, #120**
Fair Oaks	**8100 Madison Avenue**
Sacramento	**3660 Bradshaw Road**
	800 H Street
	3045 Arden Way, Suite 200
	6121 Franklin Boulevard
	Kaiser Hospital, 6600 Bruceville Road