



SACRAMENTO

CREDIT UNION

2020

ANNUAL REPORT

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

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Board of Directors' and President's Report

2020 would be etched in the annals of history for the destruction and despair the COVID-19 pandemic unleashed onto the world; and its impact was profoundly felt at Sacramento Credit Union. As an essential business, Sacramento Credit Union and its employees stepped up and demonstrated an utmost resolve to deliver services to our members.

People helping people was never needed more than this last year, and we proved how we are at our best when things look the worst. We helped our communities to the best of our ability by staying open for business and ensuring that our members had access to credit and payment deferrals, as well as every financial product and service needed to weather this storm. The Credit Union deferred over 450 consumer loans, and participated in the PPP (Paycheck Protection Program) to help our business members.

Another profoundly impactful thing that happened this year were the racial justice protests. They reminded us, yet again, all the work we have to do to create a more equitable world. We, at the Credit Union, embody and cherish diversity. Treating others with kindness and respect is an important part of Sacramento Credit Union's Core Values. We updated our Core Values to include a statement on this critical building block of humanity so that we are reminded of it and will abide by it. In addition, managers went through DEI (Diversity, Equity and Inclusion) training in January 2021.

In spite of all the challenges, we are happy to report that 2020 was another year of growth along with changes that will allow Sacramento Credit Union to continue to provide quality financial services to its members. Fiscal year 2020 financial performance demonstrates the continued safety and soundness of Sacramento Credit Union. Net earnings were \$6.83 million; assets grew 18.75%; loans grew 3.97%; and net worth grew 9.18%. Cost of funds was prudently managed in this unusual environment to best serve members. Credit quality remains strong as reflected by the fiscal year ending delinquency of 60 days or greater at 0.18% and loan charge-offs ratio of 0.18%.

With COVID-19, access via Mobile/Online Banking channels became paramount, and the Credit Union continued to make enhancements to improve the user experience. The technology infrastructure was quickly enhanced to accommodate remote working environment for our back-office employees.

The Board of Directors and the Supervisory Committee continue to gain education through training. Most of the training was held through online platforms due to COVID-19 and travel restrictions. This enables our Board of Directors and Supervisory Committee to remain current on industry trends, compliance, technology, and security.

The Board of Directors, the Supervisory Committee, the management team and all staff, remain committed to the mission statement and the membership of Sacramento Credit Union and the communities we serve.

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, 2020, were \$6,834,028 or 132.11 basis points on average assets of \$517,286,216. Figures for prior fiscal year were \$6,748,025 or 142.95 basis points on \$472,069,661. 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-20	Sep-19	Variance
Yield on Assets	290.69	317.72	-27.03
Cost of Funds	-34.06	-33.07	-0.99
Net Interest Margin	256.63	284.65	-28.02
Fee and Other Income	157.75	139.17	18.58
Operating Expenses	-269.55	-270.39	0.84
Provision for Loan Losses	-12.72	-10.48	-2.24
Net Earnings	132.11	142.95	-10.84

Growth in deposits was significant and unexpected at 17.83%. It was the result of the inflow of Economic Impact Payments in April 2020 and the decreased spending caused by the Covid-19 pandemic. All deposit categories experienced double digit growth with certificate of deposits leading at 20.95% and closely followed by checking accounts at 20.37%. Savings accounts grew at 18.05%, and money market accounts at 12.84%. Assets grew 18.75% compared to 3.90% the prior year.

Loans experienced sluggish growth at 3.97%. Driving the growth was Fixed Mortgage loans at 33.88% with consumers taking advantage of historic low interest rates to refinance and consolidate debt. Commercial, Participation and SBA loans grew 10.93%, and Other Consumer loans consisting primarily of The Permanente Medical Group (TPMG) stock secured loans grew at 7.01%. Negative growth was encountered on the other consumer loan segments as a result of the pandemic affecting the average consumer spending and loan appetite. Home Equity Lines of credit shrunk 17.73% , credit cards 11.77%, and vehicle loans 10.04%. As a percentage of assets, loans shrunk from 59.08% to 51.72%.

With deposit growth outpacing loan growth, term investments and cash and cash equivalents surged 53.45% and 15.23%, respectively. As a percent of assets, term investments increased from 26.47% to 34.20%, and cash and cash equivalents remain flat at 8.76% compared to 9.02% the prior year.

Growth in net worth, also known as return on equity (ROE), finished the year at 9.18%, generating a year-end net worth to assets ratio of 14.00%. Figures for prior year were 9.97% and 15.22%, respectively.

Submitted by: Aaron Brewer, Secretary-Treasurer

Lending Report

In fiscal year 2020 outstanding loan balances increased by 3.97%. The Fixed Rate First Mortgage, Consumer Other & Commercial Loan Programs collectively contributed \$27,717,403 to the loan portfolio balances. This increase is attributed in large part to low mortgage interest rates, SBA Paycheck Protection Program, and a continued commitment to The Permanente Medical Group (TPMG) share loan program. Consumer vehicle loan balances receded by 10.04%. The variable rate HELOC and Credit Card portfolios receded 17.73% and 11.77% respectively due to loan refinances and payoffs. 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 loan charge-offs were at 0.18% and 0.06% of the loan portfolio, respectively.

<u>Loan Type</u>	<u>Portfolio Mix</u>	<u>Sep-20</u>		<u>Sep-19</u>		<u>%Var</u>
Mortgage: Fixed Rate	28.69%	\$	86,136,459	\$	64,340,480	33.88%
Mortgage: Variable Rate	1.33%	\$	3,995,045	\$	4,210,521	-5.12%
Mortgage: Heloc (variable rate)	4.28%	\$	12,865,866	\$	15,637,700	-17.73%
Consumer: Vehicle	35.86%	\$	107,686,206	\$	119,699,795	-10.04%
Consumer: Credit Cards	3.12%	\$	9,380,822	\$	10,632,196	-11.77%
Consumer: Other, primarily Stock Secured	19.97%	\$	59,966,187	\$	56,038,037	7.01%
Commercial & Participation	6.74%	\$	20,228,483	\$	18,235,210	10.93%
Gross Loan Portfolio	100.00%	\$	300,259,069	\$	288,793,938	3.97%

The United States experienced the worst economic downturn since the great depression in part due to a global pandemic. Law makers actions included stimulus packages and small business loans. The mortgage rates hit historical lows for much of 2020 resulting in a strong refinance environment and contributed to increases in both new loan originations and loan payoffs. Despite competitive pricing, unsecured and indirect vehicle loan production was significantly less than the previous year. This decrease is primarily due to consumer recession concerns and a decline in U.S. auto sales. Credit quality of new originations remained strong as new production conformed to Sacramento Credit Union policy and underwriting guidelines.

<u>Loan Type</u>	<u>Production Mix</u>	<u>20-Sep</u>		<u>19-Sep</u>		<u>Variance</u>
Credit Cards	0.72%	\$	1,358,871	\$	1,331,575	2.05%
Other Unsecured	0.89%	\$	1,691,037	\$	2,994,243	-43.52%
Vehicle CUDL	14.65%	\$	27,796,245	\$	34,160,304	-18.63%
Vehicle Retail	6.76%	\$	12,820,654	\$	16,677,915	-23.13%
Other Secured	10.44%	\$	19,798,263	\$	22,860,281	-13.39%
2nd Mort Heloc	1.08%	\$	2,043,514	\$	2,685,863	-23.92%
2nd Mort Fixed	1.11%	\$	2,107,497	\$	5,756,348	-63.39%
1st Mort Sold	36.21%	\$	68,693,425	\$	24,087,700	185.18%
1st Mort Portfolio	25.20%	\$	47,815,170	\$	18,243,200	162.10%
Commercial Real Estate	2.50%	\$	4,750,000	\$	-	
Participations	0.00%	\$	-	\$	2,000,000	-100.00%
SBA	0.44%	\$	834,760	\$	-	
	100%	\$	189,709,437	\$	130,797,429	45.04%

Submitted by: Michael Maxwell, Vice President Consumer Lending

Supervisory Committee Report

RSM US LLP, a licensed CPA firm, was retained to perform the 2020 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, 2020, are as follows:

Key Financial Performance Comparison Fiscal Year Ending September 30, 2020

<u>Performance Category</u>	<u>September 2020</u>	<u>September 2019</u>	<u>Variance</u>	
Assets	\$580,501,131	\$488,838,809	\$91,662,322	18.75%
Net Loans	299,032,683	288,121,571	10,911,112	3.79%
Term Investments	198,536,246	129,384,956	69,151,290	53.45%
Member Deposits	485,277,160	411,832,321	73,444,840	17.83%
Net Capital	81,257,148	74,423,120	6,834,028	9.18%
Interest Income	15,036,963	14,998,594	38,369	0.26%
Less Cost of Funds	1,761,629	1,561,277	200,352	12.83%
Net Interest Margin	13,275,334	13,437,317	(161,983)	-1.21%
Less Provision for Bad Debt	657,859	494,565	163,294	33.02%
Add Non-Interest Income	8,159,988	6,569,594	1,590,394	24.21%
Less Operating Expenses	13,943,435	12,764,321	1,179,114	9.24%
Net Income	\$6,834,028	\$6,748,025	\$86,003	1.27%

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

Kaiser Hospital, 6600 Bruceville Road