



**SACRAMENTO**  

---

**CREDIT UNION**

**2017**

**ANNUAL REPORT**

**P.O. BOX 2351, SACRAMENTO, CA 95812-2351**  
**(916) 444-6070** **[www.sactocu.org](http://www.sactocu.org)**

**FEDERALLY INSURED BY NCUA**

# Board of Directors' and President's Report

The mission statement of Sacramento Credit Union is to provide prompt, competitive, quality consumer financial services to its members in a friendly, professional and prudent manner. By living this statement, the Board of Directors, management and staff work continually to build a stronger team to better serve the membership and to preserve the safety and soundness of the institution.

Again during fiscal year 2017, financial performance demonstrated the strength of Sacramento Credit Union. Net earnings were \$4.9 million; assets grew 6.65%; loans grew 6.08%; and net worth grew 8.64%. Cost of funds was prudently managed in an uncertain rate environment to best serve members. Loan underwriting standards continued to accommodate member needs yet mitigate credit risk, as evidenced by the low delinquency and charge-off ratios.

Sacramento Credit Union opened its first branch in the Roseville market during the year. This new location has furthered convenience for existing members and has attracted new members to build the membership base. The relocation of the Arden Branch has made it easier to do business for existing and new members by improving access, parking and privacy. Both branches were staffed with seasoned and newly hired personnel trained to provide friendly, professional service. Plans were developed to upgrade the Madison Branch and to refresh the headquarters branch located at 800 H Street in the coming fiscal year.

The security and functionality of technology are ongoing priorities. IT infrastructure security was upgraded from the standpoint of both member and employee users. Management engaged a third party to audit the IT function and is now in the process of implementing the audit recommendations for improvement. Various types of testing are performed monthly and annually to maintain the most secure infrastructure possible. An upgrade of the Sacramento Credit Union website made the site more modern, fresh and responsive. Steps were taken to enable account opening and loan applications on the mobile platform. Management is working through the process of selecting a new digital banking platform in 2018.

Training and education are key to not only staff, but also the Board of Directors and Supervisory Committee. Officials keep current on industry trends, compliance, technology and security and communicate regularly with management. Staff receive training throughout the year on trending issues and as refresher courses on topics ranging from standards of conduct, to elder abuse prevention, Bank Secrecy Act and communications etiquette. The better informed we are as a team, the better we can serve the members.

We remain committed to the mission statement and the membership of Sacramento Credit Union and the communities we serve.

Submitted by: Linda Foster-Hall, 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, 2017, were \$4,933,682 or 106.5 basis points on average assets of \$463,401,454. Figures for prior fiscal year were \$3,688,403 or 86.7 basis points on \$425,550,604. The year over year improvement is broken apart across the elements of the financial formula as follows:

- + 4.50 basis points yield on assets
- - 3.50 basis points cost of funds
- + 1.00 basis point net interest margin (sub-total)
- - 6.00 basis points fee and other income
- + 2.00 basis points operating expenses
- + 22.80 basis points inverted provision for bad debt
- + 19.80 basis points net earnings

Growth in deposits remained strong with increases in all major categories except certificates of deposit, which receded 1.70%. The strongest growth took place in money markets at 10.15%, followed by core savings at 6.27% and checking at 6.05%. Supported by 6.26% growth in deposits, assets grew 6.65% compared to 8.00% prior year.

Loans grew 6.08%, composed of 8.77% growth in mortgage loans, 8.93% in vehicle loans, and 12.42% in other consumer loans consisting primarily of The Permanente Medical Group stock secured loans. The source of the mortgage growth was the addition to the portfolio of 37 loans totaling \$8,257,700. Conversely, 18.80% shrinkage was encountered in commercial loans, chiefly the result of significant premature payoffs. Credit cards loans remained unchanged.

Term investments surged 6.70%. However, as a percentage of assets, term investments remained unchanged at 31.52%. Cash and cash equivalents increased 2.88% but as a percent of assets decreased modestly to 11.88% from 12.32%.

Growth in net worth, also known as return on equity (ROE), finished the year at 8.64%, generating a year-end net worth to assets ratio of 13.60%. Figures for prior year were 6.90% and 13.35%, respectively.

Submitted by: Les Brown, Secretary-Treasurer

# Lending Report

In fiscal year 2017 outstanding loan balances increased by 6.08% to continue loan portfolio growth for the seventh consecutive year. The consumer vehicle, fixed rate first mortgage, and consumer other and stock secured loan segments collectively added \$18,587,521 to the loan portfolio balance. This increase is attributed in large part to a continued commitment to The Permanente Medical Group share loan program and competitive vehicle loan rates. The commercial and participation portfolios receded 18.80%. The decrease is a result of the pay-off of several commercial loans and a slowdown in originations of member business loans. 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 remained low at 0.17% of the loan portfolio and was down from 0.32% prior year.

<u>Loan Type</u>	<u>Portfolio Mix</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>	<u>Variance</u>
Mortgage: Fixed Rate	16.83%	\$ 40,209,514	\$ 34,984,537	14.94%
Mortgage: Variable Rate	0.20%	\$ 479,762	\$ 697,028	( 31.17%)
Mortgage: HELOC Variable Rate	8.32%	\$ 19,884,668	\$ 20,007,851	( 0.62%)
Commercial & Participation	8.23%	\$ 19,655,345	\$ 24,206,991	( 18.80%)
Consumer: Vehicle	42.57%	\$101,678,670	\$ 93,344,243	8.93%
Consumer: Credit Card	4.79%	\$ 11,449,088	\$ 11,454,121	( 0.04%)
Consumer: Other & Stock Secured	19.05%	\$ 45,498,865	\$ 40,470,746	12.42%
Gross Loan Portfolio	100.00%	\$238,855,910	\$225,165,517	6.08%

New loan production increased significantly in the other unsecured and fixed second mortgage portfolio segments. Combined production represented a 99% increase over 2016, attributed primarily to promotions and a greater focus on and demand for fixed personal loans and fixed second mortgages. Indirect vehicle and commercial loan production were significantly less than the previous year. This is attributed to a lower demand for commercial real estate financing and a drop in production of vehicle loans that were submitted through the indirect channel. As in previous years, first mortgage loans were primarily committed to secondary market investors to limit interest rate risk, as well as to generate non-interest income and subservicing revenue. 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>September 30, 2017</u>	<u>September 30, 2016</u>	<u>Variance</u>
Credit Card	1.91%	\$ 2,153,983	\$ 2,216,801	( 2.83%)
Other Unsecured	3.54%	\$ 3,985,477	\$ 2,898,209	37.52%
Vehicle Indirect	27.98%	\$ 31,527,456	\$ 43,607,531	( 27.70%)
Vehicle Retail	11.61%	\$ 13,081,621	\$ 14,931,534	( 12.39%)
Other Secured	12.77%	\$ 14,384,672	\$ 11,874,543	21.14%
2nd Mort-HELOC	2.79%	\$ 3,146,599	\$ 4,295,289	( 26.74%)
2nd Mort-Fixed	2.95%	\$ 3,323,626	\$ 737,500	350.66%
1st Mort-Orig & Sold	27.06%	\$ 30,494,175	\$ 31,602,274	( 3.51%)
1st Mort-Orig & Portfolioed	7.33%	\$ 8,257,700	\$ 11,050,300	( 25.27%)
Commercial	0.33%	\$ 375,500	\$ 6,173,978	( 93.92%)
Participation	1.73%	\$ 1,943,779	\$ 2,000,000	( 2.81%)
SBA	0.00%	\$ 0	\$ 852,500	(100.00%)
New Loan Fundings	100.00%	\$112,674,588	\$132,240,459	( 14.80%)

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

# Supervisory Committee Report

RSM US LLP, a licensed CPA firm, was retained to perform the 2017 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, 2017, are as follows:

## Key Financial Performance Comparison Fiscal Year Ending September 30, 2017

<u>Performance Category</u>	<u>September 2017</u>	<u>September 2016</u>	<u>Variance</u>	
Assets	\$455,974,243	\$427,524,150	\$ 28,450,092	6.65%
Net Loans	238,168,364	224,093,116	14,075,248	6.28%
Term Investments	143,726,784	134,707,325	9,019,459	6.70%
Member Deposits	391,310,887	368,264,222	23,046,665	6.26%
Net Capital	62,003,637	57,069,955	4,933,682	8.64%
Interest Income	10,752,437	9,682,145	1,070,291	11.05%
Less Cost of Funds	979,543	750,569	228,975	30.51%
Net Interest Margin	9,772,893	8,931,577	841,316	9.42%
Less Provision for Bad Debt	( 418,139)	586,168	( 1,004,307)	(171.33%)
Add Non-Interest Income	6,454,564	6,183,104	271,460	4.39%
Less Operating Expenses	11,711,915	10,840,100	871,816	8.04%
Net Income	\$ 4,933,681	\$ 3,688,413	\$ 1,245,268	33.76%

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**

**Roseville**

**5005 Foothills Boulevard, Suite 1E**

**Sacramento**

**3660 Bradshaw Road**

**800 H Street**

**3102 Arden Way**

**Kaiser Hospital, 6600 Bruceville Road**