

F&A Federal Credit Union
2014 ANNUAL REPORT

IN LOS ANGELES, IT'S ALL ABOUT CONNECTIONS.



**F&A Federal
Cred** |
For Them it's Business,
For Us it's Personal



William "Blackie" Blackburn,
Board Chairman

CHAIRMAN'S REPORT

The 2014 books are closed and what a year it has been. Despite one of the most volatile years in both the national and world economies, F&A Federal Credit Union has continued its long history of success and service to our members. Moving forward the Credit Union Board and Management will reflect on the experiences and lessons learned this past year in preparation to make 2015 an even more rewarding experience for members.

We recognize that if we do not learn from history that we may be destined to repeat it. The Credit Union has always learned by building on the success we have while keeping a close eye on economic indicators that guide the future. Our last examination by our federal examiner NCUA (National Credit Union Administration) provided a clear indication of our fiscal strength and management. We take great pride in their formal comments summarized here:

Management has focused on the efficient use of funds and has prepared to anticipate problem areas rather than reacting to them later. Further they observe; that the business model that management has adopted has been well executed as is evident by our unparalleled success over this term of economic toil and by not trying to be "all things to all people" but by serving fully the needs of the majority of our members.

On behalf of the Board, Management and Staff Members, we wish you a prosperous new year.

*William "Blackie" Blackburn,
Board Chairman*



Andy Doyle,
Supervisory Committee Chair

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee is appointed by the Board of Directors as stipulated by the *Federal Credit Union Act and the Federal Credit Union Bylaws*. As outlined by the Act and Bylaws, the Supervisory Committee is responsible for an annual audit, verification of members' accounts every two years, reviewing the performance of the officials and employees, and making recommendations to the Board of Directors for improving operations within the Credit Union.

Our goal as your Supervisory Committee is to ensure that all operational and financial functions are performed accurately and in compliance with federal and state regulations and Credit Union policies and Board directions. Supervisory Committee members attend the monthly Board of Directors' meetings and serve as members on multiple committees.

The Supervisory Committee is actively involved in all phases of internal and financial auditing functions which are utilized to assist management and the Board to make decisions that best serve our members' interest while maintaining effective and efficient practices. The Supervisory Committee reviews the financial records and results from internal audits to ensure that F&A remains financially strong, acts in compliance with federal regulatory requirements, and operates within our charter and by-laws.

This past year the Supervisory Committee conducted an extensive search for a new independent audit firm. As a general practice it is good to change audit firms every few years to allow for a fresh set of eyes, unfamiliar with our practices, review and share their findings. The Committee researched three audit firms specializing in financial institutions, reviewing their proposal responses and various client size experience. The Committee met with the final two candidates in person and made a final selection of the audit firm Turner, Warren, Hwang and Conrad AC (TWHC).

TWHC is a certified public accounting firm with expertise in the credit union industry; they perform required audits of our financial statements, in accordance with Generally Accepted Accounting Principles (GAAP), and will provide operational audits to ensure compliance with regulations and Credit Union policies. The audits are performed in addition to regulatory examinations performed by the National Credit Union Administration.

The Supervisory Committee is pleased to inform our members that after careful review of our most recent audits and accounting records, F&A remains strong and in compliance with federal regulatory requirements. On behalf of me and my fellow Committee Members Teresa Barrera, David Carnes, Randall Harper, Mike Takeshita, I want to thank the Board and Management for their commitment to the success of F&A.

Andy Doyle,
Supervisory Committee Chair



Rene Rigaud,
Board Secretary/Treasurer

TREASURER'S REPORT

It is with great satisfaction and pride in F&A management, volunteers and staff members that I report another successful year in 2014. F&A's overall assets grew 10 percent with a healthy return on assets (ROA) of 1.22 percent. Net income shared a substantial increase of 137 percent, which contributed to our growth in member equity of slightly above 15 percent.

The continued financial growth and success of our credit union allows us to return funds back to members in the form of new technology, convenient services, higher yields on savings products and lower rates on loan products.

The more members use our services, savings accounts and loan products, the better value we can provide back to you. I encourage you to invite your co-workers and immediate family members to join F&A to take advantage of our exceptional products and services.

*Rene Rigaud,
Board Secretary/Treasurer*

2014 FINANCIAL STATEMENT

F&A Federal Credit Union Statement of Financial Condition At December 31, 2014 (Unaudited)

Assets

Outstanding loans	\$ 274,459,788
(Less) allowance for loan losses	<u>(2,688,613)</u>
Total net outstanding member loans	271,771,175
Cash and deposits in credit unions	\$ 36,329,011
Securities available-for-sales	\$ 868,925,217
Securities held-to-maturity	173,791,112
Other investments	<u>12,438,164</u>
Total investments	1,055,154,493
Accrued interest on loans	\$ 847,202
Accrued interest on investments	3,841,518
Land and building, net	6,657,860
Other fixed assets, net	775,124
Deposit in NCUSIF	10,361,047
Other assets	<u>2,979,761</u>
Total Assets	<u>\$1,388,717,191</u>

Liabilities, Members Deposits and Equity

Accounts payable and other liabilities	\$ 69,187,591
Member Shares:	
Regular shares	\$ 176,576,743
Share drafts	135,737,327
Money market accounts	470,938,562
Share certificates	265,194,343
IRA shares and certificates	<u>71,166,031</u>
Total member shares	1,119,613,006
Members Equity:	
Regular reserves	\$ 15,021,792
Undivided earnings	186,420,117
Market value reserve	<u>(1,525,315)</u>
Total members equity	199,916,594
Total liabilities, members deposits and Equity	\$1,388,717,191

F&A Federal Credit Union Statement of Income & Expense For the Year Ended December 31, 2014 (Unaudited)

Interest Income

Interest on loans to members	\$ 13,140,463
Interest on investments	<u>22,157,142</u>
Total interest income	35,297,605

Interest Expense

Dividends on members' shares and savings account	\$ 9,014,565
Interest on borrowed funds	<u>164,100</u>
Total interest expense	9,178,665

Provision for loan losses	\$ <u>(99,193)</u>
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Net interest income after provision for loan loss	\$ 26,218,133
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Non-interest Income	\$ 5,524,314
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Non-interest Expense	<u>15,529,435</u>
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Net Income	<u>\$ 16,213,012</u>
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F&A Federal Credit Union continues to remain financially strong with a capital ratio of 14.51% at December 31, 2014. From December 31, 2013 to December 31, 2014 members equity increased 15.01% and operating income increased 31.66% primarily driven by the performance of our investment portfolio.

We remain committed to providing our members some of the highest dividend rates available in the market while maintaining some of the lowest loan rates. We continue to invest resources into providing our members quality services and products such as new Online Banking, Mobile Banking, redesigned website, and Apple Pay™ to name a few.



Michael Harden,
Executive Vice President/Chief Investment Officer

CREDIT COMMITTEE REPORT

2014 surprised most of the economic and financial experts as interest rates, which were expected to climb during the year, plunged to levels not seen since the 2nd quarter of 2013. While there is continued improvement in the US economy, the weakness in economies throughout the World implanted their influence on our interest rates as they seek the safety and soundness of the United States. The Credit Union quickly responded by lowering auto loan rates to our lowest levels ever and equity loans rates back to our previous lows.

Despite the drop in our interest rates, members have been slow to take advantage of the opportunity either due to a lack of need, caution or awareness; and coupled with a significant slowdown in real estate volume our loan balances closed 2014 up only \$399,000 from the prior year at just over \$274 million. During the year, the Credit Committee assisted loan officers in approving 83 percent of the 5,394 applications received, totaling \$107,951,415 in loans approved. These totals represent an increase in volume of 1 percent and a 16 percent decrease in amount approved.

Our new auto loans led the way in our loan growth as balances increased by 19 percent in 2014. Fixed rate equity loan, unsecured loans and used autos also had strong growth of 10 percent, 5 percent and 5 percent, respectively. Fireline loan balances (home equity lines-of-credit) fell by 9 percent and first trust deed mortgage balances dropped by 3 percent. Credit card balances also showed a decline of nearly 3 percent.

The Credit Union has continued to prosper on behalf of our members during difficult times. As we move into 2015 and beyond, as our membership grows and technology changes, we must focus our efforts on expanding awareness of our highly beneficial products and services. As we near completion of the conversion to our new online and mobile banking, we can turn our attention to bringing these advancements to a quicker and easier borrowing process for our members on these advanced technologies. While we move forward with these efforts, our commitment remains to provide the best possible value to our members.

*Michael Harden,
Executive Vice President/Chief Investment Officer*

BOARD OF DIRECTORS



William
"Blackie"
Blackburn,
Board Chairman



Richard Russell,
Board Vice
Chairman



Rene Rigaud,
Board Secretary
/Treasurer



Jesus Burciaga,
Board of
Directors



Ed Dahlen,
Board of
Directors



Mary Gutierrez,
Board of
Directors



Michael F. Idol,
Board of
Directors



Van Mark
Madrigal,
Board of
Directors

SUPERVISORY COMMITTEE



Andy Doyle,
Supervisory
Committee
Chair



Theresa Barrera,
Supervisory
Committee
Member



David M. Carnes,
Supervisory
Committee
Member



Randy Harper,
Supervisory
Committee
Member



Mike Takeshita,
Supervisory
Committee
Member

SENIOR MANAGEMENT



Rich Andrews,
President/
Chief Executive
Officer



Michael Harden,
Executive Vice
President/Chief
Investment
Officer



Chris Burns,
Chief Financial
Officer



Pam Chick,
Chief
Electronic
Services Officer



Bruce Hull,
Chief
Operations
Officer



Yong Whang,
Chief
Technology
Officer



Melia Keller,
Vice President
Marketing



Aymee Yanes,
Vice President
Member
Services



Gail Yarbrough,
Vice President
Human
Resources



Board of Directors

MISSION AND VISION

To provide our members with the highest quality service on a wide range of products and services, continue our competitive status and remain on the leading edge of technology while maintaining a sound financial position.

For our Members we commit to:

- Continually consult with them in order to provide quality products and services that focus on their needs
- Assist them in achieving success through a wide range of products and services
- Outperform the marketplace in innovation, creativity and performance
- Maintain our integrity and respect for all people



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