

F&A Federal Credit Union
2018 ANNUAL REPORT

FOCUS ON MEMBER EXPERIENCE



**F&A Federal
Credit Union**
For Them it's Business,
For Us it's Personal



Andy Doyle,
Board Chairman

CHAIRMAN'S REPORT

On behalf of our Board of Directors and Credit Union Staff, I am pleased to present our Annual Report for the year ended December 31, 2018.

F&A Federal Credit Union continues to be one of the most financially sound credit unions in the nation, with one of the highest capital and efficiency ratios in comparison to credit union peers. Our last audit by the independent CPA firm Turner, Warren, Hwang & Conrad Certified Public Accountants & Consultants, and regulatory examination by the National Credit Union Administration (NCUA), continue to validate that F&A is a safe and secure financial institution.

Highlights from 2018 include extending almost \$100 million in new consumer and real estate loans to members, increasing net loans by nearly 3.6%. F&A was again given top honors and ranked Five Stars by independent financial research firm Bauer Financial. We completed member focus groups this past year which led us to introduce member enhancements such as the earlier credit of direct deposits, new online fraud reporting for faster member credit for fraudulent activity, and a new online home equity loan application for more rapid loan approval.

There are even more exciting things to come in 2019. We are beginning a new service level monitoring program this year called Voice of the Member. The program uses you, our members, to help rate F&A interactions and provide valuable feedback to improve our service to you. On the technology front, we are working on both Samsung and Android/Google Pay and are in development with a new account origination system.

In 2019, F&A is welcoming a new CEO, Tim Green. Mr. Green comes to F&A with more than 12 years of experience in the financial services industry and five years of experience in the financial advisory industry, as an accountant and then an auditor. We welcome Mr. Green and look forward to his leadership moving forward.

On behalf of the Board of Directors, we thank you for your continued support and trust in F&A Federal Credit Union.

Andy Doyle,
Board Chairman



Pablo Valadez,
Supervisory Committee Chairman

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. The Supervisory Committee is responsible for an annual audit, verification of member accounts, reviewing performance data, and making recommendations to the Board of Directors for improving Credit Union efficiency and operations.

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 the Credit Union's policies. The Supervisory Committee are volunteer members who 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 used to assist management and the Board to make decisions that best serve our members' interests while maintaining effective and efficient practices. The Supervisory Committee reviews the financial records and results from internal audits to ensure that F&A Federal Credit Union remains financially strong, acts in compliance with federal regulatory requirements, and operates within our charter and bylaws.

The Supervisory Committee has selected Turner, Warren, Hwang & Conrad Certified Public Accountants & Consultants, a certified public accounting firm with expertise in the credit union industry, to perform the required annual opinion audit of our financial statements, in accordance with Generally Accepted Accounting Principles.

This audit is in addition to National Credit Union Administration regulatory examinations, to ensure F&A remains in compliance with regulations.

The Supervisory Committee is pleased to inform our members that after careful review of our most recent audits and accounting records, F&A remains financially strong and in compliance with federal regulatory requirements.

On behalf of myself and fellow Committee Members, Robert Heinzl, Margaret Kanishock, J. Lopez, and Mike Takeshita, I want to thank the Board of Directors and management for their commitment to the success of F&A Federal Credit Union.

Pablo Valadez,
Supervisory Committee Chairman



Mary Gutierrez,
Board Secretary/Treasurer

TREASURER'S REPORT

In 2018 we saw another successful year for F&A and its members. Net income totaled nearly \$15.6 million, which is virtually the same as our 2017 results. Our return on average assets for the year, which is net income for the year divided by our average assets, was 0.96%.

The success of F&A and our long-term financial strength is displayed through our net worth ratio, which stood at 15.90% at the end of 2018. This not only places us as one of the strongest credit unions in the country, it is more than double the National Credit Union Administration's definition of "well-capitalized" at 7%.

Member deposits grew by nearly \$58 million during the year. Our total assets climbed to over \$1.66 billion, a 4% increase from the prior year.

Our focus remains to create value for our members by offering some of the highest dividend rates in the nation, low or no fees, and the lowest loan rates possible. I am pleased to report that dividends paid to our members rose more than 28% in 2018 from the prior year.

We look forward to another prosperous year in 2019.

Mary Gutierrez,
Board Secretary/Treasurer

2018 FINANCIAL STATEMENTS

**F&A Federal Credit Union
Statement of Financial Condition
At December 31, 2018 (Unaudited)**

Assets	
Loans to members	\$ 310,530,565
(Less) Allowance for loan losses	<u>(1,065,165)</u>
Total net loans to members	309,465,401
Cash and cash equivalents	\$ 115,830,249
Investments:	
Securities available for sale	\$1,186,895,725
Securities held to maturity	4,916,053
Other	<u>15,361,427</u>
Total investments	1,207,173,204
Accrued interest on loans	\$ 704,524
Accrued interest on investments	3,633,076
Land and building, net of depreciation	8,515,235
Other fixed assets, net of depreciation	507,430
National CU Share Insurance Fund deposit	12,872,436
Other assets	<u>2,793,996</u>
Total Assets	<u>\$1,661,495,551</u>

Liabilities, Member Deposits and Equity

Accounts payable and other liabilities	\$ 8,268,233
Member Shares:	
Regular shares	\$ 231,321,262
Share drafts	182,624,556
Money market accounts	566,986,166
Share certificates	350,729,096
IRA shares and certificates	<u>79,662,429</u>
Total member share accounts	1,411,323,509
Member Equity:	
Regular reserves	\$ 15,021,792
Undivided earnings	248,670,454
Accumulated other comprehensive loss	(22,338,064)
Capital arising from acquisition	<u>549,627</u>
Total members' equity	241,903,809
Total Liabilities, Member Deposits and Equity	<u>\$1,661,495,551</u>

**F&A Federal Credit Union
Statement of Income & Expense
For the Year Ended December 31, 2018 (Unaudited)**

Interest Income	
Loan receivable	\$ 12,784,233
Interest-bearing accounts and investments	<u>30,182,393</u>
Total interest income	42,966,626
Interest Expense	
Members' share accounts	\$ 16,354,386
Borrowed funds	<u>1,261,614</u>
Total interest expense	17,616,000
Provision for Loan Losses	<u>\$ -</u>
Net Interest Income after Provision for Loan Loss	\$ 25,350,627
Non-interest Income	\$ 5,955,376
Non-interest Expense	<u>15,720,244</u>
Net Income	<u>\$ 15,585,759</u>

F&A Federal Credit Union's capital ratio increased to 15.90%, as of December 31, 2018, from 15.58%, as of December 31, 2017, further solidifying our financial strength. We remain one of the financially strongest credit unions in the country, which continues our ability to support and serve our members and to provide us with the necessary protection against unforeseen risks.

Our return on assets of 0.96% in 2018 remains strong and demonstrates our success in generating favorable returns for our members. At December 31, 2018, our total assets were \$1,661,495,551, an increase of 4.10% from the prior year's total. Member loans grew 3.56% in 2018. Member share deposits increased by 4.28% from the prior year. With net income of \$15,585,759 for the year ended December 31, 2018, our members' net worth increased by 6.27% from December 31, 2017. We remain committed to providing our members with low loan rates and minimal fees while maintaining very high dividend rates on share deposits.



Michael Harden,
Executive Vice President/Chief Investment Officer

CREDIT COMMITTEE REPORT

The year 2018 appeared like a year from the past as the Federal Reserve increased interest rates four times, marking the end of the ultra-low interest rate environment. Despite these increases, loan rates are still very low and are expected to remain low for quite some time. The Tax Cut and Jobs Act, which went into effect in 2018, changes the tax deductibility of interest on home equity loans, except when used for the improvement of your home. This change has had only a moderate impact on our lending thus far. Overall, while interest rates are higher, they remain low by historical standards and continue to provide members with an opportunity to reduce their interest costs by shifting loans to the Credit Union.

Loans to members ended the year at \$310,530,565, the highest total since June 2009, as loan balances increased by over \$10 million or 3.56% in 2018. During the year, our Credit Committee assisted loan officers in approving over 82% of the 4,549 applications received during the year for \$104,038,532 in approved loans. These totals represent a 1% increase in application volume and a modest increase in the number of approved loans.

We continue to offer among the lowest rates and fees in the state with very favorable terms. This enabled our real estate equity and specialty loan programs to continue to grow by over \$11 million or nearly 9%. Home equity lines of credit, which are generally not the best member option when rates are increasing, declined by 9%. New and used auto loan balances increased by 6% and 5%, respectively, in 2018. Recreational Vehicle loan balances jumped by 18%. Unsecured loans grew by 5%. Credit card balances declined by a little over 1%.

Midway through the fourth quarter, interest rates staged a quick turnaround, dropping by nearly a half percent in just a few weeks. This decline, coupled with our continued financial strength, enables us to provide our members with lower loan rates and fees than other financial institutions, making the Credit Union the best option for our members' borrowing needs. As always, we remain committed to providing the best possible value to our members.

Michael Harden,
Executive Vice President/Chief Investment Officer

BOARD OF DIRECTORS



Andy Doyle,
Board Chairman



Theresa Barrera,
Vice Chair



Mary Gutierrez,
Secretary/
Treasurer



William "Blackie"
Blackburn,
Board Member



Jesus Burciaga,
Board Member



Ed Dahlen,
Board Member



Michael F. Idol,
Board Member



Van Mark Madrigal,
Board Member



Richard Russell,
Board Member

SUPERVISORY COMMITTEE



Pablo Valadez,
Supervisory
Committee Chair



Robert Heinzl,
Supervisory
Committee Member



Margaret Kanishock,
Supervisory
Committee Member



J. Lopez,
Supervisory
Committee Member



Mike Takeshita,
Supervisory
Committee Member

SENIOR MANAGEMENT



Rich Andrews,
President/Chief
Executive Officer



Michael Harden,
Executive Vice
President/Chief
Investment Officer



Pam Chick,
Chief Electronic
Services Officer



Ralph Ramirez,
Chief Operations
Officer



Yong Whang,
Chief Technology
Officer



Melia Keller,
Vice President
Marketing



Gina Salvucci,
Vice President
Risk Management
& Facilities



David Spivack,
Vice President
Accounting &
Finance



Aymee Yanes,
Vice President
Member Services



Gail Yarbrough,
Vice President
Human Resources



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



**F&A Federal
Credit Union**

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Insured by **NCUA**

