

F&A Federal Credit Union
2016 ANNUAL REPORT

FINANCIALLY SAFE AND SOUND



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



Richard Russell,
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, 2016.

F&A Federal Credit Union continues to be one of the most financially sound financial institutions in the nation, with one of the highest capital and efficiency ratios in comparison to credit union peers. Our last audit by an independent CPA firm and federal examiner, National Credit Union Administration (NCUA), continues to validate that F&A is a safe and secure financial institution. In 2016, the Credit Union was ranked as a top 3% nationwide performer by the market research firm Raddon Financial Group. The Credit Union has received a Crystal Performance Award to recognize its efforts in achieving a balanced scorecard measurement of growth, income, efficiency and margin management.

F&A continued to enhance its service and technology in 2016. We introduced several new electronic tools such as P2P (person-to-person) payments, Quick Balance, loan Skip-a-Pay and online loan decisioning. Our new Card Lock and Virtual Card services were also implemented to enhance your financial security.

This past year, F&A renewed its focus on financial education to help you achieve your financial goals. We introduced several free seminars including Personal Finance and Uninsured Investments; additional online tools such as the Kofe Financial Services website; and other resources such as MoneyDesktop and our Money Mammals youth program.

As we look forward to a prosperous 2017, we thank you for your continued support and trust in F&A Federal Credit Union.

Richard Russell,
Board Chairman



Mike Takeshita,
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, biennial verification of member accounts, reviewing performance data, and making recommendations to the Board of Directors for improving Credit Union 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 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 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 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, AC, 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, as well as multiple additional audits and/or reviews performed by various outside professionals, 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 strong and in compliance with federal regulatory requirements.

On behalf of my fellow Committee Members, Theresa Barrera, Randall Harper, J. Lopez, Pablo Valadez and me, I want to thank the Board of Directors and management for their commitment to the success of F&A.

Mike Takeshita,
Supervisory Committee Chairman



Andy Doyle,
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 2016.

F&A's assets grew by 6.50% to nearly \$1.55 billion. Member Equity increased by more than 7%, operating income rose by more than 3% and we paid 9.51% more in dividends to our members.

The continued growth and success of our Credit Union allows us to return funds back to members in the form of higher yields on savings, lower rates on loans, as well as new technologies and services.

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

Andy Doyle,
Board Secretary/Treasurer

2016 FINANCIAL STATEMENT

**F&A Federal Credit Union
Statement of Financial Condition
At December 31, 2016 (Unaudited)**

Assets	
Loans to members	\$ 289,762,503
(Less) Allowance for loan losses	<u>(1,655,761)</u>
Total net loans to members	288,106,742
Cash and cash equivalents	\$ 64,617,495
Investments:	
Securities available for sale	\$ 1,149,685,452
Securities held to maturity	4,829,353
Other	<u>15,912,239</u>
Total investments	1,170,427,044
Accrued interest on loans	\$ 751,732
Accrued interest on investments	3,561,209
Land and building, net of depreciation	6,450,557
Other fixed assets, net of depreciation	842,561
National CU Share Insurance Fund deposit	11,450,164
Other assets	<u>3,440,608</u>
Total Assets	<u>\$1,549,648,112</u>
Liabilities, Member Deposits and Equity	
Accounts payable and other liabilities	\$ 47,412,362
Member Shares:	
Regular shares	\$ 222,742,511
Share drafts	166,841,573
Money market accounts	502,142,278
Share certificates	305,130,260
IRA shares and certificates	<u>77,225,079</u>
Total member share accounts	1,274,081,701
Member Equity:	
Regular reserves	\$ 15,021,792
Undivided earnings	217,465,607
Accumulated other comprehensive loss	(4,882,977)
Capital arising from acquisition	<u>549,627</u>
Total members' equity	228,154,049
Total Liabilities, Member Deposits and Equity	<u>\$1,549,648,112</u>

**F&A Federal Credit Union
Statement of Income & Expense
For the Year Ended December 31, 2016 (Unaudited)**

Interest Income	
Loan receivable	\$ 12,713,144
Interest-bearing accounts and investments	<u>24,857,452</u>
Total interest income	37,570,596
Interest Expense	
Members' share accounts	\$ 10,578,244
Borrowed funds	<u>2,270,527</u>
Total interest expense	12,848,771
Credit for Loan Losses	<u>\$ (281,475)</u>
Net Interest Income after Credit for Loan Loss	\$ 25,003,300
Non-interest Income	
Non-interest Expense	<u>\$ 6,639,015</u>
Net Income	<u>\$ 15,581,337</u>

F&A Federal Credit Union's capital ratio increased to 15.04%, as of December 31, 2016, from 14.93%, as of December 31, 2015, further solidifying our financial strength. Our capital ratio is one of the strongest nationally for a credit union with more than \$1 billion in assets, supporting our long-term ability to serve members and provide protection against unforeseen risks. Our capital ratio is more than double the National Credit Union Administration's (NCUA), the regulatory agency that oversees credit unions, 7.00% requirement to be considered a "well-capitalized" credit union.

Our return on assets of 1.04% in 2016 remains strong and demonstrates our success in generating favorable returns for our members. At December 31, 2016, our total assets were \$1,549,648,112, an increase of 6.50% from the prior year's total. Member loans grew 2.49% in 2016. Member share deposits increased by 7.28% from the prior year. With net income of \$15,581,337 for the year ended December 31, 2016, our members' total equity increased by 7.07% from December 31, 2015. We remain committed to providing our members among the highest dividend rates available in the market while we maintain among the lowest loan rates with minimal fees and charges.



Michael Harden,
Executive Vice President/Chief Investment Officer

CREDIT COMMITTEE REPORT

Long-term interest rates plunged as a result of the Brexit vote, began a slow climb in the third quarter and then rose suddenly and dramatically following the Presidential election. The Federal Reserve also increased rates in December and the economy seems poised for several more increases in 2017. The change in rates has already begun to impact loan demand with a shift away from borrowers refinancing their first trust deed mortgages. This creates challenges for most other financial institutions and raises borrowing costs. However, F&A Federal Credit Union's superior financial strength will allow us to continue to offer some of the lowest loan rates available.

In 2016, we introduced online instant-approval loans with digital signatures to expedite and ease the loan process for members. Loans to members ended the year at \$289,762,503, the highest total since December 2009, as loan balances increased by over \$7 million or 2.49% in 2016. During the year, the Credit Committee assisted loan officers in approving over 83% of the 4,802 applications received during the year for a total of \$119,620,934 in loans approved. These totals represent a decrease in application volume of nearly 13% and 7.6% in the amount approved.

New auto loans once again led the way in our loan growth as balances increased by nearly 15% in 2016 and used autos grew by over 4%. Our fixed-rate real estate equity loan programs continue to offer among the lowest rates and fees in the state and showed growth of nearly 7%. Home equity lines of credit, which are generally not the best member option when rates are poised to increase, declined by over 15%. Unsecured loans and credit card balances also showed declines of nearly 2%.

Despite the recent rise in interest rates, the Credit Union, through the continued support of members, is uniquely positioned to provide superior value to members by offering lower rates and fees than other financial institutions. This makes us 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



Richard Russell,
Board Chairman



William "Blackie"
Blackburn,
Vice Chairman



Andy Doyle,
Secretary/
Treasurer



Theresa Barrera,
Board Member



Jesus Burciaga,
Board Member



Ed Dahlen,
Board Member



Mary Gutierrez,
Board Member



Michael F. Idol,
Board Member



Van Mark Madrigal,
Board Member

SUPERVISORY COMMITTEE



Mike Takeshita,
Supervisory
Committee Chair



Theresa Barrera,
Supervisory
Committee Member



Randy Harper,
Supervisory
Committee Member



J. Lopez,
Supervisory
Committee Member



Pablo Valadez,
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



Cathy Hang,
Vice President
Accounting



Melia Keller,
Vice President
Marketing



Gina Salvucci,
Vice President
Risk Management
& Facilities



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



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Federally insured
by **NCUA**

