

Signature Federal Credit Union

2016 annual report



Signature
FEDERAL CREDIT UNION

report of the President

Joseph M. Gondola

It has been over a year since we rebranded, changing our name from NAPUS Federal Credit Union to Signature Federal Credit Union. We have had some challenges to meet, including sharpening our appeal to a wider audience of individuals needing financial assistance. It's an ongoing task that we continue to refine as time passes.

Our legacy members are still a primary focus of our efforts. Providing products and services that meet their needs continues to be our goal. Without this important segment of our membership, Signature Federal Credit Union would not have its strong foundation. Postmasters – both active and retired – have always been our target audience. Along with their family members, they have provided the deposits we need in order to fund the lending that others demand. We depend on them and are forever appreciative of their loyalty.

But, over time, as our sponsor organization has also seen, the postal service potential is decreasing. Fewer workers mean less prospective members for both the association and our credit union. For us, that means we must look outside this group for new potential member groups. We have been doing that for a number of years with varying degrees of success.

This year, we partnered with a professional marketing firm to help us enhance our messaging to those new groups. It's important for us to increase membership growth in order to maintain our ongoing success. That has been difficult, hampered by both outside competition and our inability to create an affinity with one of these groups. However, we are optimistic that this new partnership will help us do so.

We continue to focus on creating a relationship with groups or associations that will bring us new members to replace those that we lose. A local business community has been very receptive to our products and, with ongoing marketing efforts in that area, we know the entire community will see the value in our credit union. In addition, a recent partnership with nationwide car dealerships has brought us to the attention of potential members looking for favorable loan rates on vehicles. As we continue to expand this relationship, we are beginning to see the membership numbers improve.



Signature

Financially, the credit union continues to be a safe, strong financial institution. Assets are over \$292 million and we hold a net worth balance of over \$38 million, or 13% of assets. Income and expenses are well within budget and we have earned approximately \$1,500,000 in net income over the past year.

We are working daily on improving technology and convenience for the members. There are various upgrades to our home banking site and mobile app. We have added more online tools, including a mortgage loan application status tool that provides updates throughout the application process. We have increased the benefits to members carrying our Visa credit cards and, in particular, the Visa Signature card. Now members earn 2% back on all purchases or 2 points for every dollar spent. That beats a lot of cards in the industry.

We have improved many of our fraud prevention tools as well. The new mobile app offers biometric technology – using a thumb print to access your accounts – for those smartphones with biometric capabilities. We have moved our Visa fraud monitoring service back to a former vendor who had a better process for notifying and eliminating fraud. Our Visa system now allows SMS text messaging to members' smartphones so that you are aware of any transaction that takes place on your credit or debit card. And, of course, our debit and credit cards now incorporate the EMV chip that should greatly improve your purchasing experience. If you haven't received a new card yet, you will get an EMV equipped card when yours expires.

Looking ahead, we are confident that your credit union will continue to grow and thrive. We're committed to working with the newly merged organization, the United Postmasters and Managers of America, and will do whatever we can to ensure we meet the members' needs. We're as committed to our postal family today as we were the day we were chartered. It's our goal to make sure future credit union members see the benefits that are a product of those loyal members' participation.

On behalf of the officials and staff of Signature Federal Credit Union, thank you for your support and continued loyalty to the credit union. I am honored to have been a part of the credit union and I know my fellow officials feel the same way. We all thank you for entrusting your credit union to us.



report of the Chief Financial Officer

Bob Arsneault


My report covers the period from July 1, 2015 through June 30, 2016.

At the end of this period, the credit union had assets of \$292.9 million, down \$3.1 million from the start of the period. The majority of these assets - loans to members - saw a 4.2%, or \$10 million decline over this period. However, as we have done in the past few years, part of that decline in loans was due to \$5.5 million in mortgage loans that we sold in order to reduce the interest rate risk on our balance sheet and provide liquidity. Without those sales, loans actually would have decreased by only about \$4.5 million. And, as a result of selling those mortgages, we made approximately \$125,000 in income over the past year.

Loan demand has been less than expected this year. Regionally and compared to our peer group, loan growth has slowed. In the extended low rate environment, it seems consumers are in a staying pattern, waiting out the coming election to see what economic impact may result. Internally, we have made several changes to our rate schedule and to the ways we are reaching out to members to get their attention. Our loan rates are highly competitive and remain near the lowest in the industry. We are very confident that those changes will have a positive impact on the credit union's loan portfolio in the coming year.

One result of the lower loan demand is an increased level of liquidity. We have been able to increase our outside investments by over \$12 million in the last year because of it. Therefore, income from government sponsored enterprise investments has increased slightly over last year. Other operating income is slightly lower than last year due to fewer sales of real estate loans. Net income for the past year is healthy at almost \$1.5 million.

Member deposits decreased over \$2 million since June 30, 2015. Sadly, most of this decrease was due to withdrawals associated with deceased members. Over the past year we have had over \$5.8 million in deceased member accounts. While many accounts are transferred within the credit union to beneficiaries and joint owners, we are not able to save every account. Our rates are very competitive, and we are making headway attracting new members to offset these losses.



Our gross income over the past year has been reduced compared to the same period last year. Gross income for this period of July 1, 2015 to June 30, 2016 was approximately \$13.5 million; compared to approximately \$14 million in the previous year. Despite the reduction in income earned on our assets as a result of the extended low rate environment, we have been able to hold member dividends steady. We paid out approximately \$2.7 million in dividends annually each of the past three years.

Expenses increased slightly over last year. With all the new technology, fraud mitigation and enhancements to our online platform, we have made an investment in the future for our members. Additionally, we have dedicated a great deal to our marketing plan. Partnering with an outside marketing firm will give us added experience and knowledge, and we are better able to use our existing staff for more member-related issues.

Delinquencies and loan losses continue to be low for the second year in a row. Delinquency on member loans is still far lower than the national average. Provision for loan loss expense has decreased compared to last year. We saw more losses in the real estate area than in previous years, however, it is still relatively low for our peer group. Delinquency is at 0.17% of total loans. As of June 30, 2016, just over \$400,000 in loan balances were delinquent. Our collectors work hard to keep members in a consistent pattern but there are, of course, financial issues that can affect that consistency.

Our capital remains very strong at 13.03% or over \$38.1 million. This is an increase of 4% over last year. We are well poised to withstand any major problems that may occur in the financial markets and well above the 7% required by our governing agency, the National Credit Union Administration (NCUA).

We remain committed to ensuring our members have a safe and sound financial institution in which to deposit and borrow. Your board is a dedicated group of individuals who understand the workings of the credit union operation and their responsibilities as your representatives. The management and staff at the Credit Union are an innovative, knowledgeable and dedicated group of individuals, devoted to the success of Signature FCU and its members. The bottom line to our success, however, is that our members are using our products and services; therefore your credit union's Elected Officials, Committees and Staff thank you for our success.

report of the Credit Committee

Elroy Bartels, Chair

The Credit Committee is made up of three members of the Credit Union elected by the membership each year. Our responsibility is to review all loan requests that are denied and, if necessary or requested, meet with members to discuss financial issues that may affect their credit. Throughout our deliberations, we must be cognizant of the extremely sensitive nature of the information we receive. In addition, we must make decisions without consideration of race, religion, sex, age or national origin. That means that every member is treated equally based solely on their application.

During the last 12 months, the Credit Committee met weekly by telephone and face to face twice to review more than 487 loan requests that loan officers had denied. The committee overturned several of those denials based on information we obtained in reviewing the applications or in talking with the members. While it is rare that a decision is overturned, each member has the right to discuss their application with the committee. Most often, denials are based on overextended debt, poor credit history or escalating debt.

Over the course of the year, loan officers at the credit union reviewed and approved more than 2,600 requests for credit. Those requests were for mortgages, home equity and consumer loans and credit cards.

Delinquency has fallen dramatically this year to .17; that's just \$400,000 in delinquent loans. It is encouraging to continue to see this ratio fall, indicating that our members are experiencing better financial times than in years past. Bankruptcy accounts for about 32% of all loans we charge off. That is down from 42% last year. Our delinquency and loan losses are much lower than in prior years and much better than our peers.

I had the pleasure of working with Jackie Gurr and our newest member, Ruthie Cauble, on this committee. They are both dedicated individuals who are committed to helping members.

Thanks to the officials for their continued support and guidance and to the staff for their daily efforts on your behalf. Finally, thank you for your interest and involvement in the credit union.

report of the Supervisory Committee

Bill Thomas, Chair

The Supervisory Committee is the members' liaison with the Credit Union, as well as its advocate. Appointed by the Board of Directors, we ensure that the Credit Union complies with Federal and state laws and financial rules and regulations. In addition, we investigate complaints and concerns we received from members regarding their accounts or communications with Signature FCU.

In addition to receiving a Federal examination each year by our regulator, the National Credit Union Administration (NCUA), we are required to have a supervisory audit that examines the entire credit union operation to ensure compliance with federal and state financial regulations, policies and procedures. We contract out for a number of internal compliance audits as well, covering issues like information technology, electronic funds operations, regulations on bank secrecy and anti-money laundering and website rules. As regulation continues, so does our list of audits.

As an added step in oversight, the committee has been tasked with coming together several times a year to discuss the audits, security issues, and any pertinent information that may affect members. I thank my fellow members, Curtis Weed and Ron Block for assisting in this oversight. Signature Federal Credit Union is operated in a safe and sound manner. Members' regular share deposits are insured to \$250,000. IRAs are separately insured to \$250,000. As part of the Supervisory Audit, each year a sampling of members' accounts are audited to ensure transactions are being handled correctly. If there is any discrepancy in a member's account, the committee must have it researched and corrected.

I receive many inquiries, comments and suggestions from our membership over the course of the year. I am very appreciative of all those letters and emails and take each one very seriously. If I can't help or answer the question, I will speak to the management and staff at the office to get a resolution. Often, a quick phone call is all that is necessary. If more is required, I generally get the experts involved and make sure the issue is settled to the member's satisfaction.

I encourage all members to continue to contact me for any issue that they cannot resolve, understand or believe is wrong. Both my email and mailing address appear at the bottom of your statement and inquiries or concerns may be sent to me or to the Credit Union. We are available to assist you in any way necessary. As always, we will keep your best interests in mind as we watch over YOUR Credit Union.

Statement of Income

for the years ended 6/30/2016 and 6/30/2015

	FOR THE YEARS ENDED		
	June 30, 2016	June 30, 2015	Variance
INCOME			
Loan Interest	11,098,173	11,467,097	(368,924)
Investment Interest	320,881	220,790	100,091
Fees & Charges	583,582	644,480	(60,898)
Other Operating Income*	1,494,238	1,680,957	(186,719)
TOTAL INCOME	13,496,874	14,013,324	(516,450)
EXPENSE			
Operations**	8,607,417	8,258,849	348,568
Provisions for Loan Loss	589,278	742,034	(152,756)
NCUA Operating Fee	52,785	51,640	1,145
Dividend Expense	2,711,698	2,738,012	(26,314)
Interest on Notes Payable	40,019	26,993	13,026
TOTAL EXPENSE	12,001,197	11,817,528	183,669
Non-Operating (Loss)#	(7,290)	(84,235)	76,945
NON-OPERATING (LOSS)	(7,290)	(84,235)	76,945
NET INCOME	1,488,387	2,111,561	(623,174)

* Other operating income includes earnings from the sale of mortgage loans, and related products including credit disability, auto warranties, credit card interchange, and insurance.

** Operations expense includes estimated official travel and conference expense of approximately \$68,000 and \$77,000 in the years ended 2016 and 2015, respectively.

Non-operating loss includes adjustments for losses on foreclosed real estate and fraud.

Statement of Condition

as of 6/30/2016 and 6/30/2015

	June 30, 2016	June 30, 2015	Variance
ASSETS			
Loans, net of allowance for loan losses	232,177,371	242,247,844	(10,070,473)
Cash	32,662,235	38,647,767	(5,985,532)
Investments	23,002,688	10,565,524	12,437,164
NCUSIF Deposit	2,194,798	2,158,090	36,708
Property & Equipment, net	1,364,762	1,147,551	217,211
Accrued Interest Receivable	680,146	740,135	(59,989)
Prepaid and Other Assets	819,485	512,311	307,174
TOTAL ASSETS	292,901,485	296,019,222	(3,117,737)
LIABILITIES			
Accounts Payable	404,456	465,477	(61,021)
Notes Payable*	6,166,667	7,166,667	(1,000,000)
Dividends Payable	235,697	257,165	(21,468)
Accrued Expense	1,157,950	1,262,150	(104,200)
Other Liabilities**	1,185,598	638,391	547,207
Member Shares and Deposits	231,301,487	233,380,983	(2,079,496)
Non-Member Shares and Deposits	14,283,946	16,213,729	(1,929,783)
TOTAL LIABILITIES	254,735,801	259,384,562	(4,648,761)
MEMBERS' EQUITY			
Regular Reserves	3,768,665	3,768,665	0
Appropriated Undivided Earnings	1,350,000	1,350,000	0
Undivided Earnings	32,998,802	31,510,415	1,488,387
Accum. Other Comprehensive Income	48,217	5,580	42,637
Total Members' Equity	38,165,684	36,634,660	1,531,024
TOTAL LIABILITIES & MEMBERS' EQUITY	292,901,485	296,019,222	(3,117,737)

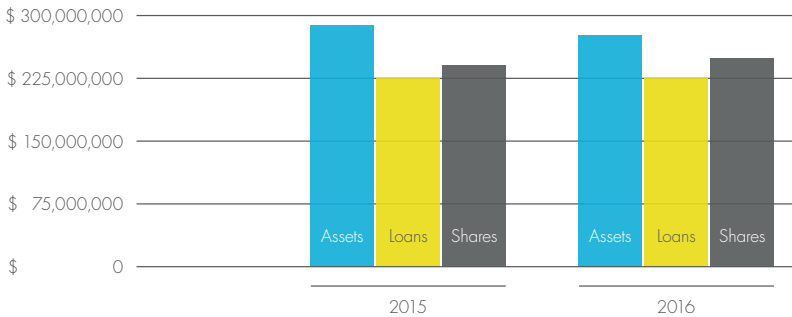
* Notes Payable include 2 loans from the FHLB Atlanta obtained in 8/2012 and 2/2016 to supplement liquidity needs.

** Other Liabilities include clearing and suspense accounts for various transaction classes.

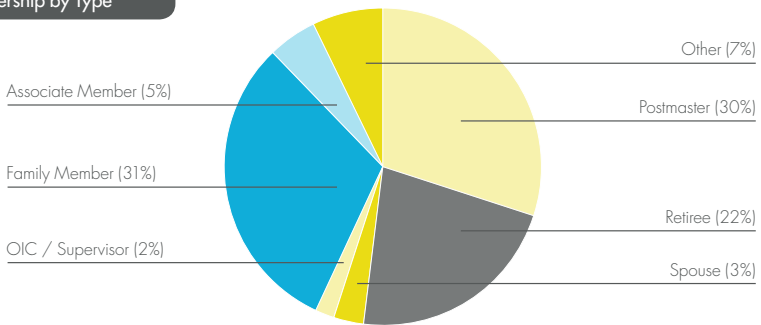
Annual Report **Graphs**

6/30/2015 and 6/30/2016

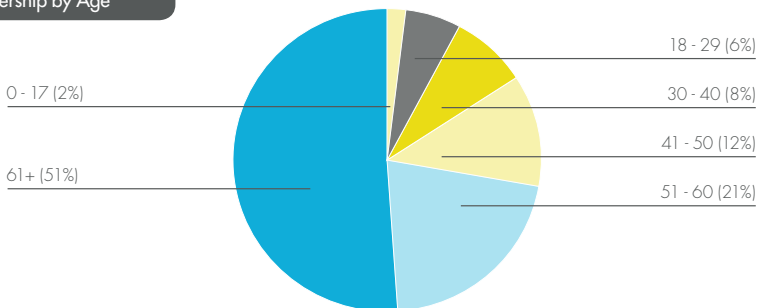
Assets, Shares & Loans



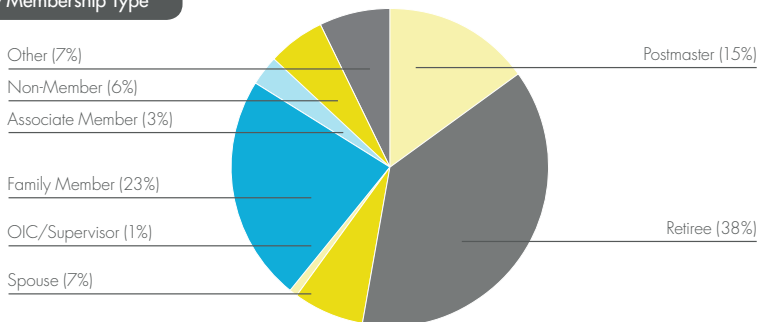
Membership by Type



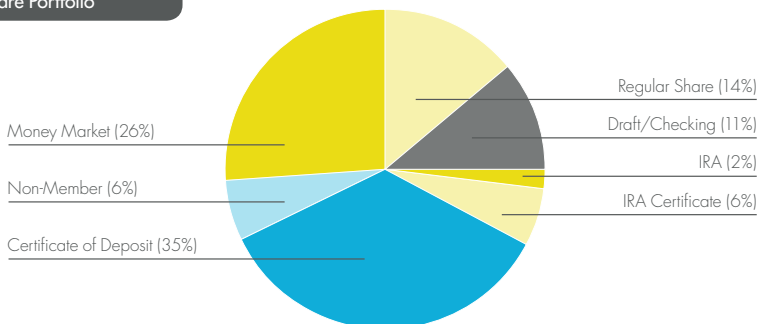
Membership by Age



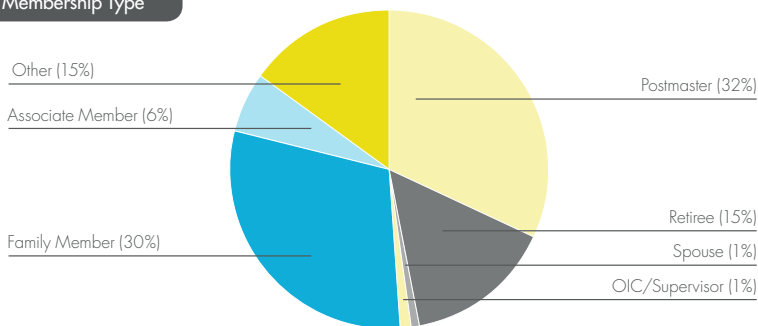
Shares by Membership Type



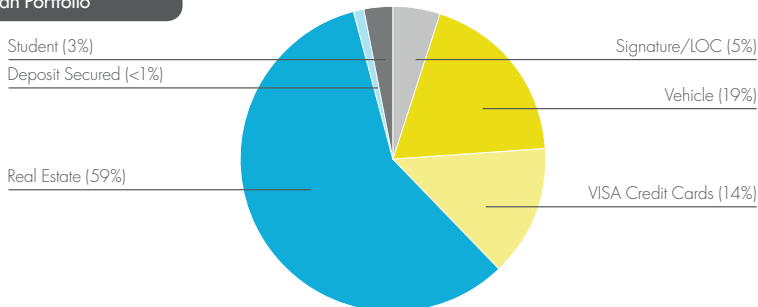
Share Portfolio



Loans by Membership Type



Loan Portfolio



BOARD OF DIRECTORS

Joseph M. Gondola, President
Ted Carrico, Vice President
Bob Arsneault, Chief Financial Officer
Carol Sue Carnes, Secretary
David Games, Director
O. Dale Goff, Director
Jackie Gurr, Director

CREDIT COMMITTEE

Elroy Bartels, Chair
Ruthie Cauble, Secretary
James Fusco, Member

SUPERVISORY COMMITTEE

Bill Thomas, Chair
Ronald Block, Member
Curtis Weed, Member

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Federally insured
by NCUA



Signature
FEDERAL CREDIT UNION