



Annual Report 2020

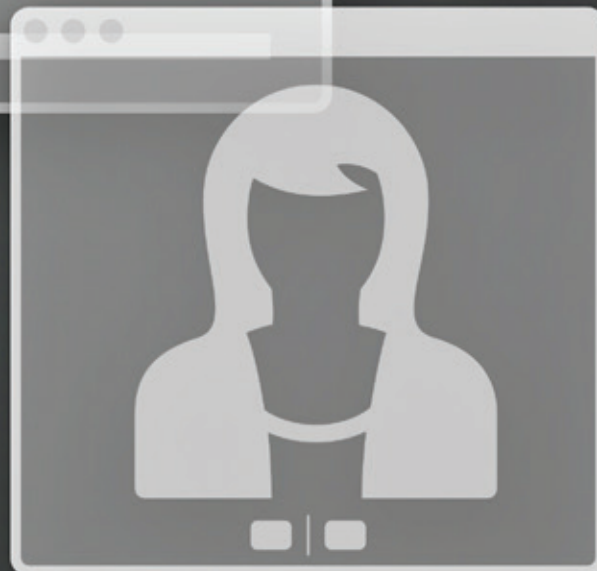


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The Board of Directors

James Kisner
BOARD CHAIRMAN



David Bosman
VICE CHAIRMAN



James Knoff
TREASURER



Linda Kennedy
SECRETARY



Tim Dunne
BOARD MEMBER



David Finerson
BOARD MEMBER



Jason Larter
BOARD MEMBER



Pedro Nájera
BOARD MEMBER



Lisa Parke
BOARD MEMBER



Remodeled lobby at our Pantano branch.

Management

President/Chief Executive Officer
Eric Renaud

SVP/Chief Retail Lending Officer
Cindy Campano

SVP/Chief Financial Officer
Antonio Dias

SVP/Chief Administrative Officer
Angi Griffin

Sr. Vice President of Branch Administration
Celyna Cervantes

Sr. Vice President of Commercial Lending
Adam Coggshall

Sr. Vice President of Operations
Leah Friedenber

Vice President of Human Resources
Sarah Holt

Vice President of Marketing
Jennifer Overpeck

Vice President of Compliance
Aaron Stewart

Vice President of Home Loans
Adam Stewart

The Committees

Supervisory Committee

Victor Thornton, *Chair* Michael Klinicki
Linda Dhaemers Ron Parker, *Emeritus*
David Finerson

Asset & Liability Committee

James Knoff, *Chair* Pedro Nájera
David Bosman Eric Renaud
Cindy Campano Adam Coggshall
David Finerson Celyna Cervantes
Angi Griffin Antonio Dias
James Kisner

Credit Review Committee

Linda Kennedy, *Chair* Eric Renaud
Cindy Campano Adam Coggshall
Ramon Gonzalez Aaron Stewart
Rudy Ingersoll

2020 Annual Meeting Minutes

Mr. James Kisner, Chairman of the Board, opened the official meeting at 5:37 p.m. Dave Bosman, Vice Chair, declared a quorum had been met to be an officially qualified business meeting. Mr. Kisner then announced that due to COVID-19 it was difficult to hold the annual meeting in the same capacity as prior years. He stated that by changing the format to meet CDC guidelines, the cost to the credit union was minimal compared to other years. In lieu of holding the traditional Annual Meeting, Pima Federal will be donating \$20,000 (\$5,000 each) to the following organizations: Community Food Bank of Southern Arizona, Literacy Connects, the Southern Arizona Law Enforcement Foundation, and the Greater Tucson Fire Foundation.

Mr. Kisner called the meeting to order and asked for a motion to approve the minutes from April 16, 2019 as printed. A motion was made, seconded, and the motion carried. Mr. Kisner asked if there was any Old Business and there was none. He then introduced Mr. James Knoff, Treasurer, to deliver the Treasurer's Report.

Mr. Knoff reported that the credit union continued to do very well in 2019, he highlighted year-end assets totaling \$600.6 million, an increase of \$49.2 million from 2018. Loan balances continued to grow, funding \$199 million to members for mortgages, vehicle, and business loans. Mr. Knoff asked to have the Treasurer's Report approved as printed on page 8 of the Annual Report.

As Chair of the Asset & Liability Committee (ALCO), Mr. Knoff stated that the committee oversees the structure and composition of the balance sheet, share deposits, loans, and investments while ensuring sufficient capital levels, and providing value to the membership. He stated the credit union's financial position remains strong and asked to have the ALCO Report approved as printed on page 10 of the Annual Report. Mr. Knoff then introduced Mr. Victor Thornton, Supervisory Committee Chair.

Mr. Thornton reported that the credit union is performing appropriately to sustain a safe and secure future with a strong commitment to serving the membership. Internal controls and procedures of the credit union are well managed and sound. He thanked the Board of Directors, management, and employees for their support and cooperation. He also thanked the owner members for their trust in Pima Federal Credit Union. He then asked to have the Supervisory Committee's Report approved as printed on page 9 of the Annual Report. Mr. Thornton introduced Ms. Linda Kennedy, Credit Review Committee Chair.

Ms. Kennedy thanked members and staff for attending the Annual Meeting. She stated that the committee's ongoing responsibility and commitment is to balance the borrowing needs of the membership with safety and soundness of the credit union's assets. At year-end 2019, the delinquency ratio was .58% versus .67% in 2018,

while year-to-date net charge-off ratio was .81% versus .75% in 2018. Delinquency and charge-offs continue to remain within acceptable and manageable levels. She highlighted the growth in home and commercial lending portfolios while reducing reliance on auto loans and diversifying the credit risk embedded in the total loan portfolio. Ms. Kennedy asked to have the Credit Review Committee Report approved as printed on page 11 of the Annual Report.

Next, Mr. Kisner announced that Ms. Linda Kennedy, Mr. Jim Knoff, and Ms. Lisa Parke were re-elected to the Board by acclamation to a three-year term. He asked if there was any New Business and there was none. He then asked for a motion to approve the 2019 Annual Report. A motion was made, seconded, and the motion carried. Mr. Kisner then introduced Mr. Eric Renaud, President/CEO.

Mr. Renaud spoke of the credit union's commitment to volunteerism and giving back to the community. He reported that in 2019 Pima Federal employees volunteered over 1,700 hours to include teaching financial literacy to over 1,700 students. Credit union donations and sponsorships totaled \$165,000 and overall, 80 organizations were impacted. He briefly touched on the financials highlighting record earnings of \$8.8 million, 9% growth in assets, and a capital ratio of 11.72%.

Mr. Renaud touched on the current environment and processes being put into place due to COVID-19. Membership was encouraged to use the tools available such as online and mobile banking, and ATMs. Drive-thru service remains open, the Contact Center continues to take calls, and branch employees are seeing members by appointment. He reported that the state of the credit union is strong and remains so through these past months and he emphasized the necessity to prepare for what is to come. He then thanked the membership for their understanding, patience, and support during these unprecedented times. Lastly, he thanked the member volunteers, members, and employees for attending the annual meeting. Mr. Renaud reintroduced, Mr. James Kisner, Chairman of the Board.

Mr. Kisner congratulated employees and volunteers for receiving the Credit Union Of The Year award presented by the Mountain West Credit Union Association.

The Chairman then asked for a motion to adjourn the meeting. A motion was made, seconded, and the motion carried. The meeting adjourned at 5:52 p.m.



(Left) I Am Pima 2020 Award recipients; (right) Pima Christmas tree surrounded by gifts from the Pima Elves.



Pima Federal hosted Member Appreciation Days at our Stone and Continental Ranch branches early in 2020.

A Message from Our Chairman & President/CEO



James Kisner
Chairman of the Board



Eric H. Renaud
President & CEO

Our strength and agility were on full display as we navigated a difficult year. The COVID-19 pandemic greatly affected the credit union's operations and our ability to serve the membership and community in the traditional way. Our charitable contributions remained, however, volunteer opportunities declined significantly as opportunities were taken away under stay-at-home orders. As the year progressed, our employees found other ways to serve. Volunteer opportunities also became "work from home/remote"! We found ways to be relevant, of that I am proud.

The management team continued to manage operating expense and increase revenue; strengthening the cooperative, and improving the value of services provided to you, our member-owners.

The following are notable achievements to this end:

- ▶ Maintained the lowest and fewest fees among peers.
- ▶ Maintained strong capital levels given the tremendous growth in total assets.
- ▶ Diversified the loan portfolio by adding business and increasing home loans.
- ▶ Originated a record number of home loan refinance and purchase loans.
- ▶ Enhanced our mobile and online banking features.
- ▶ Expanded services in the drive-thru lanes.
- ▶ Saved local jobs by participating in the Small Business Administration's Payment Protection Program.

Given the economic impact of COVID-19, it was readily apparent that several small businesses in our community needed PPP assistance, and as part of our commitment to serve our members and community

we thought it necessary to participate. As of year-end, total outstanding Payment Protection balances were \$332,000 to 23 different small businesses.

Pima Federal ended 2020 with solid earnings of \$8.6 million, and assets of \$766.6 million, ending the year with a strong capital ratio of 10.31%. Additionally, membership grew to 62,564 members at year-end. The credit union once again received a 5-star rating from Bauer Financial. We were also honored to have been recognized as Best Credit Union/Bank in the 2020 Arizona Daily Star's Readers' Choice Awards by community vote.

Beyond working directly with students in the classroom, Pima Federal provides exciting and valuable youth accounts and education scholarships. In 2020, we awarded a total of \$10,000 to five graduating seniors. Our Youth Savings Account provides a financial reward for good grades and offers a high dividend rate on savings.

Your credit union's commitment to volunteerism is strong, however, the pandemic severely impacted our employees' ability to go out and volunteer. As tough as it was, we were determined to do something; 40 employees found ways to contribute nearly 583 hours assisting 55 organizations. Sponsorships and donations, benefiting several different charitable organizations, totaled more than \$136,000.

Additionally, our teams engaged with several different schools to assist economically disadvantaged families. Marana Unified School District's Holiday Share program allowed us to contact the families who submitted forms for assistance; Sunnyside Unified School District's Angel Tree program provided us with requests from youth on their own of all ages; Amphitheater School's program was dedicated to helping families from their district, some families remained anonymous while others did not; and the Flowing Wells School's Wishing Tree requests came from children in grades K - 6th. Counting individual family members, children, and youth on their own, our employees generously provided holiday gifts for 87 people; some families received gifts and food.

Due to the declaration of a pandemic, the 8th annual Pima Federal Golf Classic was cancelled. Regardless, giving to Literacy Connects, Greater Tucson Firefighter Foundation and Southern Arizona Law Enforcement Foundation continued, as lower expenses in presenting



Pima Federal was proudly recognized as Best Credit Union in the Arizona Daily Star's 2020 Readers' Choice Awards.

the 2020 Annual meeting allowed us to direct funds to these worthy organizations. Each of these entities provide a valued service to our community and we are pleased to be able to support their mission.

On behalf of our entire organization, we are grateful to our Board of Directors, Supervisory Committee, and other committee members for their continued dedication to the credit union. Your credit union's strength relies on active participation and engagement from all members.

The Board of Directors, the Management Team, and all employees strive to provide you, our members, with service excellence at each interaction. We exist because of you, and we remain committed to your success. We know you have many choices as a consumer, and we are thankful that you choose to be a member of Pima Federal Credit Union.

Treasurer's Report

The financial strength of your member-owned financial cooperative continued to improve through 2020, increasing in several key measures year-over-year.

Year-end 2020 assets totaled \$766.6 million, an increase of \$166 million from year-end 2019. The growth in total assets resulted from an increase of \$9.4 million in Equity, a decrease of \$4.9 million in Liabilities, and an increase of \$161.4 million in share (deposit) balances, closing the year at \$682.7 million.

Capital, as defined by the NCUA, grew \$8.6 million resulting in a regulatory capital ratio of 10.31%. Total capital adjusted for unrealized gain/(loss) of securities and a valuation adjustment for the defined benefit pension plan grew \$9.4 million, resulting in a capital ratio of 10.21%.

The Loan-to-Share ratio is an indicator of our credit union's success in meeting member's demand for loans. This ratio is simply a measure of how effective the credit union is in moving a dollar of deposit into a loan. Pima Federal ended 2020 at a ratio of 68.73%, a decrease from 79.28% in 2019 caused by the temporary increase of deposits that resulted from the government stimulus moneys received by the members in 2020. This means that for every dollar on deposit, the credit union lent \$0.69 back out to the membership. Ideally, the greater the loan-to-share ratio, the better value the credit union provides to its membership. When more deposits are put to work, the credit union earns more income, which then can be used to provide higher deposit rates and lower fees. Of course, this is balanced against rising

operating expenses, costs from increased regulatory compliance, and other emerging threats. First and foremost, Pima Federal will invest its resources in ways to protect its future while serving member's needs.

Year-over-year, shares grew 31%, which is much higher than the growth experienced in the industry. Loan balances grew 13.5%, significantly higher than the growth experienced in the industry. In 2020 Pima Federal funded \$221.8 million in loans to its members including \$81.4 million in mortgages, \$65.2 million in business loans, \$36.2 million in vehicle loans, and \$15.2 million in credit cards.

Our credit union completed the year earning \$8.6 million in net income, a return on asset ratio of 1.38%. This is a slight decrease from \$8.8 million, or a 1.52% return in 2019.

With the earnings success attained by Pima Federal Credit Union in 2020 despite the current unfavorable economic environment, the Board and Management approved very competitive loan and share (deposit) rates, thereby sharing its earnings with members.

Pima Federal Credit Union is financially strong and will continue to offer competitive products and services to its membership. As always, the credit union continues to be a steadfast provider and resource for its members. Thank you very much.

James Knoff, *Board Treasurer*



Pima Federal Holiday Donations

In the spirit of giving during the holiday season, Pima Federal Elves teamed up with the below school districts and their respective holiday gift giving programs. Participating departments "adopted" children or families to fulfill their Christmas wish list.



Angel Tree



Individuals Impacted

87



Holiday Share



Wishing Tree

Supervisory Committee Report

The Supervisory Committee is an independent committee that has five volunteer members and one alternate. This committee is appointed by the Board of Directors from among the members of Pima Federal Credit Union. The Supervisory Committee is the credit union's audit committee. It is responsible for ensuring that the financial records are in order and that internal controls are in place to protect the assets of the credit union and its members owners. The committee also determines whether all Board-approved policies and procedures are being adhered to and Pima Federal Credit Union is operating in a fiscally responsible manner.

In order to fulfill its responsibilities, the Supervisory Committee:

- ▶ Engaged the services of CPA firm Nearman Maynard Vallez (NMV) to perform the annual Financial Audit and the bi-annual Verification of Member Accounts.
- ▶ Engaged the services of CPA firm of Clifton Larson Allen LLP (CLA) to perform quarterly internal audits and other oversight activities and regulatory compliance audits.
- ▶ Engaged the services of CPA firm Mansperger Patterson McMullin PLC (MPM) to perform regulatory compliance audits.

- ▶ Engaged CU Business Group (CUBG) to review commercial loans and operations. Along with other Audit firms to perform other oversight activities and regulatory compliance reviews.
- ▶ Developed an annual internal audit plan working with the Compliance Department, and obtaining input from the audit firms, the Board of Directors and Management.

In summary, based on the various reports of public accounting firms, regulatory examinations, internal reviews, meetings with credit union's management and members of the Compliance Department, we believe the credit union is performing appropriately to sustain a safe and secure future. It is well managed with a strong commitment to serving the membership.

On behalf of the Supervisory Committee, I want to thank the Board of Directors, Management and Employees for their dedication to protecting member assets and operating with integrity and sound business practices. I also want to thank our member owners for their trust in Pima Federal Credit Union.

Victor Thornton, *Chair*

Asset & Liability Committee Report

The Board Asset and Liability Committee (ALCO) is chaired by the Board Treasurer. The committee members include board members selected by the Board Chair, the President/CEO, SVP/Chief Retail Lending Officer, SVP Business Services, SVP Branch Administration, SVP/Chief Administrative Officer, and SVP/Chief Financial Officer with support from the Accounting/Finance team. Asset Liability Management (ALM) is about understanding balance sheet structure and behavior, finding a balance between the structure and composition of shares (deposits) and structure and composition of loans and investments. The primary objective of this committee is to oversee the implementation of an effective process for managing interest rate risk, liquidity risk, capital risk, and credit risk inherent in the credit union's balance sheet. ALCO manages the use of assets and cash flow to ensure adequate profitability and liquidity to meet obligations. This committee is tasked with developing strategies and

tactics for loans and investments (assets), and share deposits and borrowings (liabilities), which consider changes in interest rates, economic trends, market demands, and regulations.

The Board ALCO is committed to ensuring that the credit union maintains sufficient capital levels, while providing value to the membership. As we again experience low interest rates, the committee carefully considered different strategies that allowed the credit union to be responsive to interest rate movements, seeking to ultimately enhance member value. The committee actively monitors growth, interest rate risk, asset mix/quality, regulatory requirements, and dividend policies.

The Board ALCO committee is pleased to report that Pima Federal continues to operate with very strong capital and liquidity position, with earnings sufficient to support growth in assets.



2020 Pima Federal Education Award Recipients

(top left to right) Hannah Bahr, Jared Fischer, Isabella Fox, (bottom left to right) Elle Gatewood, and Isabella Rodriguez.

Pima Federal National Day of Giving

On the National Day of Giving, each of our departments and branches donated \$250 to a local organization of their choice. We're excited to support the following organizations who focus on varying causes within our community:

Total Donated

\$5,750

Credit Review Committee Report

The Credit Review Committee is tasked with ensuring appropriate oversight of credit-related products, monitoring loan performance, and assessing management's ability to manage credit risk inherent in any loan portfolio. The committee is staffed with five credit union employees and two volunteers, who meet quarterly.

The committee's ongoing responsibility and commitment is to balance the borrowing needs of the membership with the safety and soundness of the credit union's assets. At a minimum, this includes reviewing and maintaining adequate allowance for loan losses, delinquency trends by product, credit tiers, collateral, commercial credit risk ratings, and underwriter performance. The committee also works with management to monitor economic trends and the potential impact to members.

As of December 31, 2020, as a percentage of total loans outstanding, the delinquency ratio was .17% versus .58% in 2019, while the year-to-date net charge-off ratio was .61% versus .81% in 2019. In 2020, the credit

union anticipated an increase in credit losses due to the hardship caused by the pandemic. The credit union worked with the membership to help work through financial difficulties. The credit union continues to be there for those members that want and need assistance.

Additionally, the credit union continued to see success in growing the home loan and commercial lending portfolio, which is designed to reduce reliance on the auto loans, diversifying the credit risk embedded in the total loan portfolio. This strategy was especially important in 2020 because auto loan volume was lower than prior years, because of the pandemic.

Overall, delinquencies and charge-offs were at acceptable levels during these uncharted times. This reflects our membership's commitment to our credit union, a strong partnership between branch and underwriting personnel, and effectively working with members as they encounter financial difficulties.

Linda Kennedy, Chair

2020 Balance Sheet

	December 31, 2020	December 31, 2019	December 31, 2018
ASSETS			
Loans to Members	470,856,052	414,633,615	347,018,444
Less: Allowance for Loan Losses	4,599,496	3,810,230	3,332,699
Net Loans Outstanding	\$466,256,556	\$410,823,385	\$343,685,745
Cash and Investments	241,769,552	154,885,049	176,528,408
Land and Buildings & Furniture and Equipment	18,925,809	19,347,728	19,533,037
NCUSIF Deposit	5,918,936	5,035,721	4,573,145
All Other Assets	33,747,859	10,569,466	7,100,790
Total Assets	\$766,618,712	\$600,661,349	\$551,421,125
LIABILITIES			
Total Member Shares/Deposits	\$682,679,013	\$521,275,449	\$488,617,080
Notes Payable	-	-	-
Accounts Payable and Other Liabilities	5,644,803	10,512,080	5,942,590
Total Liabilities	\$688,323,816	\$531,787,530	\$494,559,670
CAPITAL			
Undivided Earnings and Regular Reserves	79,041,669	70,418,527	61,882,275
Other Comprehensive Income & Investment Market Valuation	(746,774)	(1,544,708)	(5,020,820)
Total Capital	\$78,294,896	\$68,873,819	\$56,861,455
Total Liabilities & Equity	\$766,618,712	\$600,661,349	\$551,421,125

2020 Income Statement

	2020	2019	2018
Interest on Loans	21,042,137	19,372,152	16,064,432
Interest on Investments	2,880,693	4,678,805	4,056,727
Total Interest Income	\$23,922,829	\$24,050,957	\$20,121,159
Dividend Expense	2,250,591	2,883,283	1,436,901
Funds Purchased	1,118	2,268	268,585
Total Interest Expense	\$2,251,709	\$2,885,550	\$1,705,486
Net Interest Income	21,671,121	21,165,406	18,415,673
Provision for Loan Loss	3,459,654	3,459,025	2,509,990
Net Interest Income after Prov	\$18,211,467	\$17,706,381	\$15,905,683
Fee & Other Income	10,056,103	10,160,844	10,078,958
Operating Expense	19,644,428	19,111,152	19,293,674
Net Income	\$8,623,142	\$8,756,073	\$6,690,967

2020 Community Impact



Education Awards/
Scholarships Provided
\$10,000



Community
Giving
\$136,000



Organizations
Supported
61



Volunteer
Hours
583



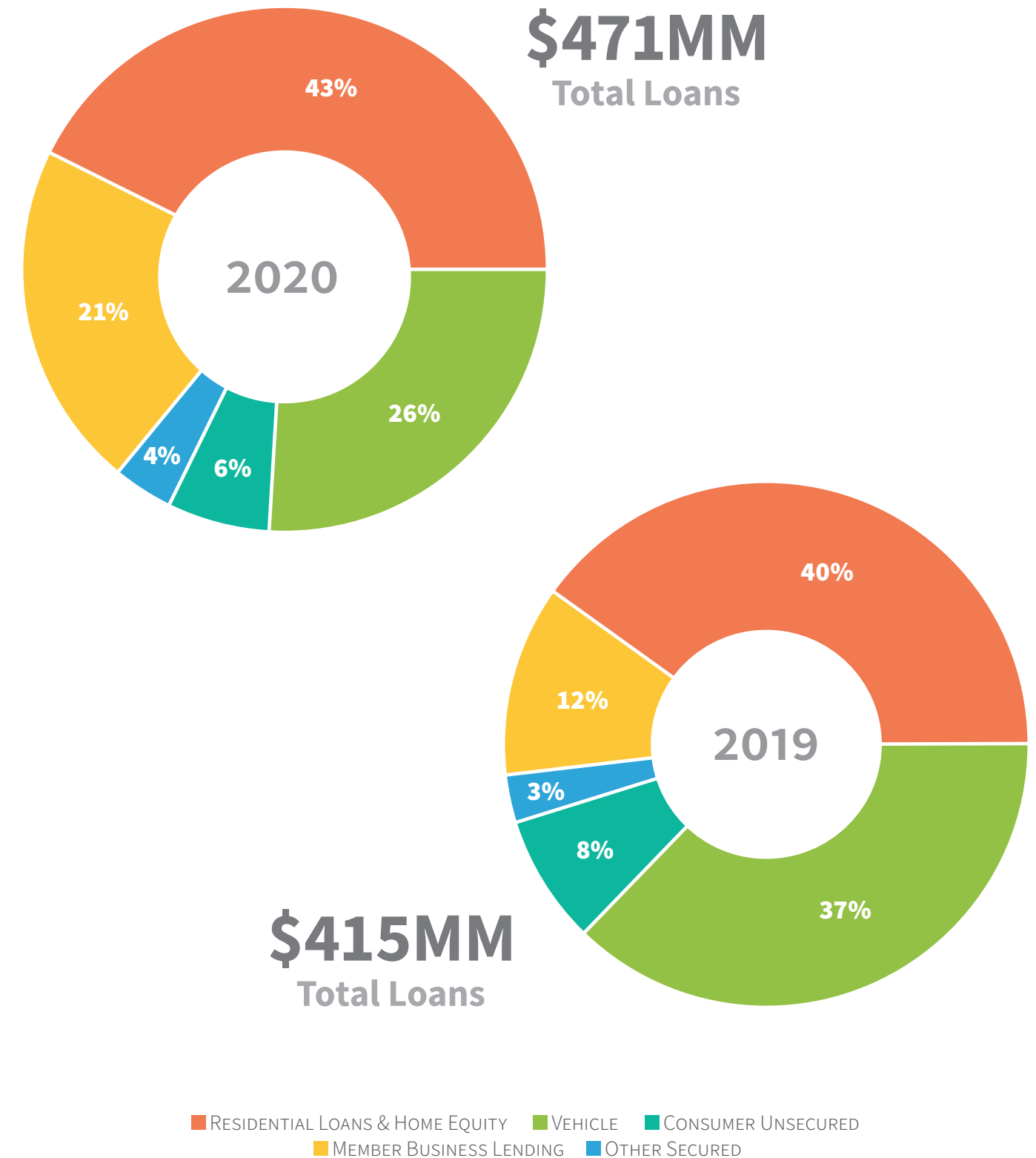
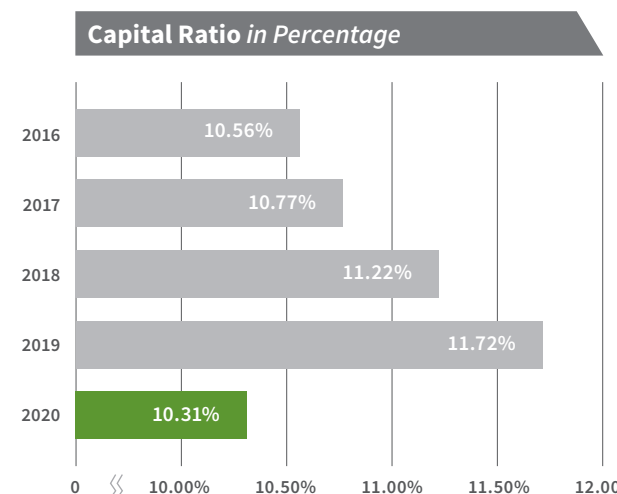
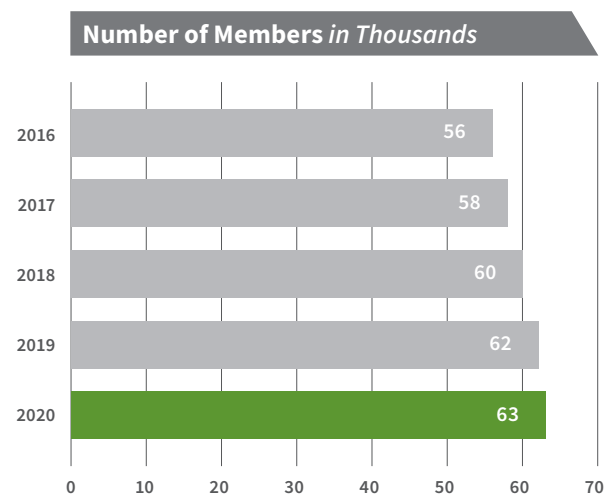
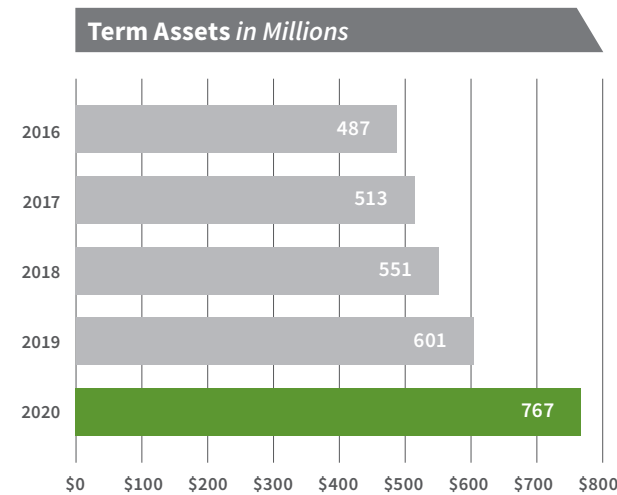
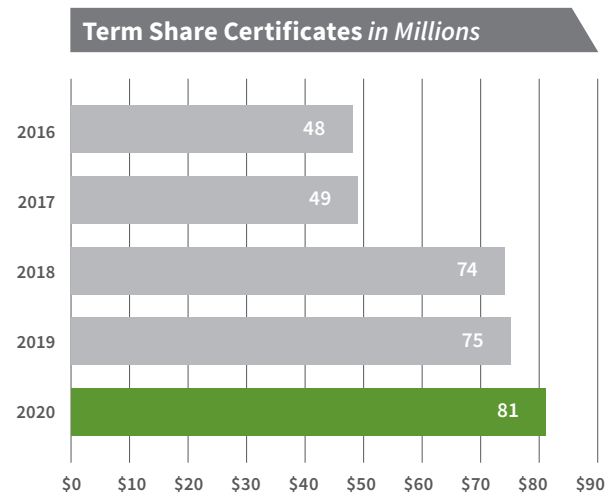
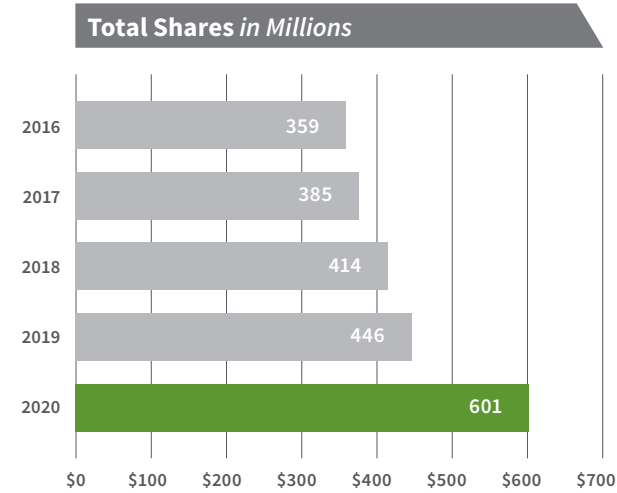
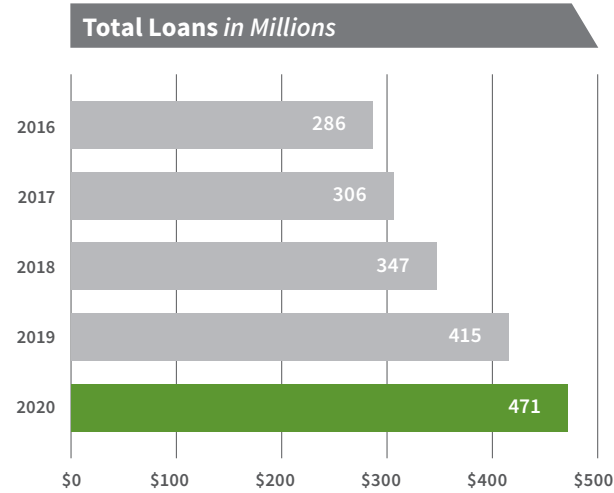
Donation in lieu of
Golf Classic
\$4,500



Online Financial
Literacy Users
9,533

5-Year Financial Trends

Loan Composition



LOCATIONS

Stone

3730 N. Stone Ave., Tucson, AZ 85705

Thornydale

6510 N. Thornydale Rd., Tucson, AZ 85741

Valencia

2455 E. Valencia Rd., Tucson, AZ 85706

Pantano

231 N. Pantano Rd., Tucson, AZ 85710

Silverlake

1177 W. Silverlake Rd., Tucson, AZ 85713

Steam Pump

11025 N. Oracle Rd., Oro Valley, AZ 85737

Sahuarita

18767 S. Nogales Hwy, Suite 115, Green Valley, AZ 85614

Springerville

830 E. Main St., Suite 170, Springerville, AZ 85938

CONTACT US

520.887.5010

pimafederal.org

@pimafederal on  

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May 2021