

# POLAM

## FEDERAL CREDIT UNION



SERVING OUR COMMUNITY SINCE 1974

# 2009 ANNUAL REPORT

## OFFICE LOCATIONS:

### Redwood City Main Office

770 Marshall Street  
Redwood City, CA 94063  
Tel: (650) 367-8940

### Concord Branch

1010 Oak Grove Road  
Concord CA, 95518  
Tel: (925) 609-8500

### San Francisco Branch

5932 Geary Boulevard  
San Francisco, CA 94121  
Tel: (415) 752-7760

### Sacramento Branch

6201 Greenback Lane #F  
Citrus Heights, CA 95621  
Tel: (916) 781-8035

### Hours:

Monday - Thursday: 9am to 4pm  
Friday: 9am to 6pm  
Saturday: 9am to 1pm

### Connecticut Branch

55 Broad Street  
New Britain, CT 06053  
Tel: (860) 223-0200

### Hours:

Tuesday - Wednesday: 9am to 4pm  
Thursday - Friday: 9am to 6pm  
Saturday & Monday: 9am to 1pm

[www.polamfcu.com](http://www.polamfcu.com)



**2009** brought many wonderful opportunities, and some unexpected challenges that few were fully prepared for.

Our prudent approach to lending and operations enabled Polam to continue earning dividends for our members despite the turmoil surrounding the economy and the banking crisis.

Throughout the year, loan demand remained healthy and we saw a great influx of new deposits from members leaving traditional banks out of frustration from diminishing service, increased fees and concerns around stability.

To us, the message you brought was clear; you deserve the best service possible without paying extravagant fees and the comfort of knowing your hard earned money is in a safe place. We want to thank all of our members for your faith and confidence in Polam as we continue to grow.

With so many bank failures the FDIC was strained to the limit with deposit insurance payouts, and to a lesser extent the NCUA also experienced a depletion of the Share Insurance Fund.

As a result of this depletion, the NCUA increased the assessment to all credit unions to rebuild the Share Insurance Fund and will continue to assess at a higher than normal rate over the next few years.

Additionally the NCUA also liquidated a security deposit every credit union maintained as a measure to offset losses at the Corporate Credit Unions. This assessment resulted in a significant decrease in net income at year-end at all credit unions including Polam.

This assessment in no way reflects on the performance and management of the credit unions but was deemed as a mandatory act to bail-out troubled institution since the Credit Unions do not qualify for Government TARP monies or direct assistance.

In short, our prudent management and success resulted in a redistribution of funds to bail-out those which ignored restraint and common sense.

Planning for the future based on past experience is a well proven strategy, and as the year-end approached, the management and directors of Polam elected to transfer \$2.4-million into a special reserve account to be used for potential loan losses as the economy and banking crises continues to struggle.

Although this transfer resulted in a net loss at year-end, the benefit is that 2010 will be started with a clean slate and will not be distorted by pending loan modifications and foreclosures initiated in 2009 and not yet completed.

Despite these unexpected events Polam remains strong, healthy and stable - and we owe it all to you.

*Mark Chrzanowski - CEO*

## SERVICES OFFERED:

- Savings Accounts
- Share Drafts (checking)
- ATM
- IRA
- Time Certificates
- Direct Deposits
- VISA Credit & Debit Cards, Business Debit Cards
- Credit Card & Payroll Processing
- Loans: Personal, Auto, Mortgage, Business, Etc.
- Home Banking
- Bill Payers
- Money Orders

For Additional information please call our office or visit us on the web: [www.polamfcu.com](http://www.polamfcu.com)

## COMMENTS TO BALANCE SHEET

Based on a "Stress Test" of the entire loan portfolio mandated by the NCUA, a practical decision was made at year-end to significantly increase the Allowance for Lease and Loan Loss reserve account by \$2,400,000 funded from undivided earnings to a resulting balance of \$2,579,907 in anticipation of potential loan losses due to foreclosures, bankruptcy and other defaults.

Although this resulted in a negative income for the year, Polam's management, the Board of Directors and the NCUA determined that this measure would result in the most accurate accounting for 2009 and not skew the results going forward.

Polam's cash position significantly increase due to an influx of member deposits as well as several large member loans being paid-off. Because of the decrease in loan demand Polam has invested on a short-term basis in insured deposit accounts to offset change in loan income.

The "Other Assets" category increased to \$3,550,489 as a result of completed foreclosures. These properties are currently being held as O.R.E.O (Other Real Estate Owned) since the market value is less than the balance of the loan at time of foreclosure. Polam has elected to rent / lease the properties rather than liquidate at a loss.

The rental income from these properties is significantly higher than what could be earned by placing the same funds in short-term investment accounts. Polam is actively monitoring the changing values in real estate and may realize a gain on the sale of these properties if the market rebounds in the next two to three years.

## CONSOLIDATED BALANCE SHEET

December 31	2009	2008
<b>Assets</b>		
Allowance for Loan Loss	<2,579,907>	<303,003>
Cash Including Short Term Investments	13,256,919	4,181,746
Building and Equipment	3,398,160	3,440,000
Accrued Interest on loans	170,484	336,226
Deposits in NCUIF	544,336	422,676
Other Assets	3,550,489	1,091,027
<b>Total Assets</b>	<b>\$60,453,646</b>	<b>\$60,371,378</b>
<b>Liabilities</b>		
Accounts Payable	24,045	23,234
Accrued Liabilities	25,302	24,686
<b>Total Liabilities</b>	<b>\$49,347\$</b>	<b>\$47,920</b>
<b>Shares &amp; Equity</b>		
Member Savings Accounts	27,302,922	16,718,886
Time Certificates	16,883,350	24,477,950
Share Drafts (checking)	6,086,949	6,078,483
Individual Retirement IRA	5,480,146	6,017,491
<b>Total Member Savings:</b>	<b>\$55,753,367</b>	<b>\$53,292,810</b>
Regular Reserve	1,605,000	1,605,000
Undivided Earnings	3,045,932	5,425,648
<b>Total Shares &amp; Equity</b>	<b>\$60,404,299</b>	<b>\$60,323,458</b>
<b>Total Liabilities Shares &amp; Equity</b>	<b>\$60,453,646</b>	<b>\$60,371,378</b>

## CONSOLIDATED INCOME

December 31	2009	% Total
<b>Income</b>		
Interest on Loans	2,961,171	91%
Income from Investments	20,420	0.6%
Fees / Charges & Visa interchange	205,432	6%
<b>Total Operating Income</b>		
Income from Rent	71,035	2.2%
Gain on Sale of Assets	5,004	0.2%
<b>Total Income</b>	<b>\$3,263,062</b>	<b>100%</b>
<b>Expenses</b>		
Dividend Expense	1,480,682	45%
Operating Expense	1,556,758	48%
Total Expense	3,037,440	93%
<b>Net Income before NCUA capitalization mandate</b>	<b>\$225,622</b>	<b>7%</b>
NCUA mandated capitalization	<155,338>	
<b>Net Income</b>	<b>\$70,284</b>	
Prior to transfer of \$2,450,000 from undivided earnings to Allowance for Lease and Loan Losses.		

## COMMENTS TO INCOME

The meltdown in the financial markets had a tremendous negative impact on Banks in an unprecedented rate of failures which resulted in the Federal Deposit Insurance Agency becoming insolvent in 2009.

Although Credit Unions, for the most part, were much more prudent in their investment and lending practices, significant losses were driven by mismanagement at the Corporate Credit Unions and these losses were absorbed by the National Credit Union Administration and ultimately funded by the Credit Unions including Polam.

Credit Unions did not receive any Bail-out funds from the Federal Government, and in order to replenish the impairment on the Share Insurance Fund, the NCUA has mandated an assessment to each Credit Union to be taken from their net capital.

In 2009 Polam was assessed \$155,338 and the NCUA will continue to asses on an ongoing basis for a minimum of seven years or until the insurance fund is stabilized to an appropriate level.

It is very important to note that most Credit Unions including Polam did not have any unusual losses, but due to their strong capital position were viewed by the regulators as a readily available source of funds to offset losses at other institutions.

Naturally Polam's management and the Board of Directors is not pleased with this redistribution of capital / assessment but does not have any alternative but to comply with the regulatory mandate.