



2019 CEO Report

ADDENDUM

December 1, 2020

Due to the Annual Meeting being postponed until December 4, 2020, I felt it necessary to provide an update on the CEO Report normally given at the Annual Meeting. This year has undoubtedly been unique and unprecedented. This year the nation's economy has hit record highs and lows. In my original report, I discussed some things to expect and I would like to give an update on those first.

The first expectation was for delinquency to increase. Delinquency will always be present in a lending financial institution. Most delinquency occurs due to things outside of the member's control such as sickness (member or spouse), job loss or income impairment. It is understandable that some members will face some hardships even on normal years. Our delinquency levels have stayed at a manageable level. WCCU has not experienced a surge in delinquency. The staff has done a great job in contacting the members early and discussing options. This will remain an area that must be closely monitored.

The second expectation was an increase in charge off loans. While we did see an increase in our charge offs, these were primarily loans that were distressed before the pandemic and they have run the natural course. Charge off loans will happen but rest assured that once a loan gets to that point, WCCU has exhausted all other options for that member. We do not want to take a loss nor do we want to impact that member, but sometimes we have to repossess vehicles or homes in order to recoup funds for the membership. These are unfortunate but necessary for the operation of the Credit Union.

The last expectation was for loan growth to slow. I can happily report that this has not occurred. In the last several months, WCCU has closed record numbers of consumer loans and mortgages. The rate structure that was approved by the board is generating larger volumes of loan applications. While the interest rates are lower, more loans must be made to generate the income. WCCU is exceeding expectations as far as loan growth. **This is a tremendous effort by the staff and our members in promoting the loan products that WCCU offer.**

As we look forward to the end of 2020 and into 2021, there are some things that we can responsibly expect. The Federal Reserve has announced that it will not entertain a rate increase until 2022. This has an impact on 2021 planning due to the negative impact on our investment income. With rates continuing to stay low for 2021, we can expect our investment income to continue to lower. This will have an impact on our net income. While our loans grow, the speed at which the investment income

lowers will be faster than the speed of our loan income increasing. So next year, the net income will be a challenge.

What does this mean for your Credit Union? Throughout all the good years, WCCU put aside funds for potential bad years. WCCU has built up over 9 Million in earnings over the years to insulate itself against any economic downturns. The recession cause by the pandemic that we are currently experiencing is an example of an economic downturn. Forecasting for 2021 will be difficult, but WCCU remains well capitalized. With the level of undivided earnings (9 Million), WCCU can easily sustain a negative economic environment for a few years. We are budgeting conservatively next year with the expectation of a loss in net income. We hope to minimize the loss with loan growth and expense monitoring, but WCCU is budgeting for a loss next year.

Right now, the economic environment is not one credit union's issue. All financial institutions are caught up in this recession. Some credit unions are experiencing large losses while others are seeing less loan applications. Most financial institutions are lowering, or have already lowered, their rates to as close to zero as they can in order to keep expenses down. The economy moves in ups and downs, and right now it is a downward time. Regardless WCCU remains strongly reserved for any losses or negative economic events, prolonged or short.

There are some steps that WCCU will be taking in order to minimize expenses. We will have to restructure our deposit rates. While we are lowering some, they still remain at the top of the market. The goal is keeping these rates at this level, no lower, for as long as possible. This is part of an effort to keep expenses in check while increasing our loan growth.

Weyco Community Credit Union remains financially strong and well capitalized. The membership's money is safe and sound. Even with all the negative components of this year's economy, WCCU has not reduced services or products, increased or added fees; or reduced staff or branches. WCCU's focus is safety of your deposited funds; liquidity to ensure you have cash to meet member's needs; and yield to maximize our return on our investments. Our focus is to grow Weyco Community Credit Union with these as our guides – in good times or bad.