Steve Renock
President/CEO
Kern Schools Federal Credit Union

Chairman Angelides, Vice Chairman Thomas and Members of the Commission. I am Steve Renock, President and CEO of Kern Schools Federal Credit Union (KSFCU). I appreciate the opportunity to be here today to share information on the impact of the current financial crisis on Bakersfield, Kern County and Kern Schools Federal Credit Union.

Kern Schools Federal Credit Union was founded in April, 1940 by a small group of teachers wishing to establish a credit union for the employees of the Kern County school system. Operations started in a small room on the Bakersfield High School campus with a one-person unpaid volunteer staff. By the end of the first year, the credit union had 141 Members with an asset size of $1,337. Today we have over 190,000 Members, eight branch office locations and an asset size of $1.4 billion. While our core membership is still comprised of school employees and their families we also have many Members who work in virtually all segments of the Kern County workplace. We are primarily a retail financial institution servicing the financial needs of our individual Members with deposit and lending products. As a financial co-operative, our Members are both our owners and our customers.

The impact of the current financial crisis on our local economy has similarities to the communities in other so called "sand states" and some aspects unique to Bakersfield and Kern County. Like many sand state communities, we experienced a period of rapid real estate price appreciation and growth fueled by low interest rates and the availability of easy financing terms. Many construction jobs were created by the real estate boom that also increased activity in most segments of the economy. More specific to our area, however, is Kern County's broad involvement in agriculture which is heavily dependent on water flow. This sector of our economy has always been volatile and with the current water shortages, the difficulties for those companies and individuals involved in agriculture have increased. Unemployment for those in the ag business remains extraordinarily high. These issues, added to those created by the financial crisis, have made the situation in Kern County worse.

As we all know, when the economic bubble burst, primarily because of the many excesses in the financial securitization market, the impact was wide spread. In Bakersfield and surrounding Kern County, construction projects slowed and in many cases, stopped. As a result, economic activity slowed in all sectors and many jobs were lost and overtime pay disappeared. Real estate values dropped as quickly as they had risen and many of our residents experienced what we call "economic double jeopardy." That is they lost all or a good portion of their income at the same time the value of their homes declined, in many cases, to less than the amount owed on their homes. As the crisis continued, more home loans became delinquent and ended in foreclosure. In addition many auto loans and other consumer loans could not be repaid.

For Kern Schools Federal Credit Union, the impact of this financial crisis has been dramatic and reflects the impact on our Members. Our delinquency rates and loan losses have increased from historically modest and manageable levels, last seen in 2007, to the much higher levels we are experiencing today, as shown in Exhibit 1. During 2009 and so far in 2010 we have assisted over 1,540 Members with loan modifications, both in consumer and real estate loans, and our Members have shown a true desire to live up to their financial obligations. However, when the income just isn't there, it is very difficult to provide meaningful assistance. Let me stress that at no time did our Credit Union engage in any sub-prime or "Alt A" lending, or aggressive adjustable rate real estate lending with "teaser" rates. We retain all of the consumer loans we make in our portfolio and many of the mortgage loans. We have a lot of "skin in the game". The mortgage loans we do sell, are sold to Fannie Mae under strict underwriting guidelines. The combined impact, however, of all of the other types of financing available in our marketplace contributed to the collective economic problems of our community. KSFCU lost $40 million in 2009. Approximately $38 million was a result of charged-off loans and another $10.3 million was for the write off of our investment in WesCorp, a Corporate Credit Union, and assessments from the National Credit Union Share

Insurance Fund for credit unions. To adjust to our new economic reality, we have reduced expenses by closing 6 of our branch offices, inconveniencing many of our Members. We have laid off approximately 45 team members, and lowered our total employee population from over 600 to approximately 460 team members today through attrition. The overall reduction of our team size comes from all levels of our organization, including a Senior Vice President, a Vice President, Directors and Managers as well as front line team members. Each layoff or position left unfilled affects a family, is painful, and has a further negative effect on our economy. As a Member owned institution we need to be prudent stewards of our Members money, and thus have taken and will continue to take steps to reduce our expenses to be in alignment with our income. Many of our Members are doing this in their personal lives and it is only right that we must do the same.

As one of our community's large employers, we have also tried to be supportive of many of the charitable and educational organizations in Bakersfield. Our financial commitment to these worthy groups has been reduced substantially as shown in Exhibit II. Many of these groups, especially those in the education community, have experienced funding declines from other sources as well. While the dollars we are no longer able to contribute may not seem large by Washington, D.C. standards, every dollar we can no longer provide to scholarships to deserving students, is a negative for our community.

The revenue side of our income statement has also been impacted by the financial crisis. KSFCU receives its revenue primarily from interest on loans made to our Members. Our lending activity has been slow for two reasons. First, our Members are being more cautious with their lending decisions, many choosing to save and wait before making a big purchase, or just not buying at all. Second, in response to the economic difficulties, fewer of our Members who want to borrow, can qualify for a loan. We have tightened our lending requirements and credit profiles of many of our Members has deteriorated. This combination results in fewer loan approvals. Concerning credit availability, we have the funds to lend, but it is more difficult for our Members to qualify for a loan. We will continue to work very hard to provide loans to every qualified member, but we anticipate new loan volumes will continue to be weak until the economy starts to recover. Kern Schools Federal Credit Unions loan portfolio has actually declined over the past two years from $1.4 billion in the beginning of 2009 to $1.0 billion today. We expect loan growth to increase sometime in 2011 as the economy improves.

As far as how California credit unions have fared compared to credit unions in the rest of the country, I have attached Exhibits III through VIII that provide comparisons for a few key pieces of information. California credit unions have lagged behind credit union national statistics. In fact in 2009, loan growth was a negative (7.17%) in California, as compared to the national statistics of a positive 1.92%. California credit unions delinquency and loan charge-off ratios are similarly worse than the national statistics. All this reflects the greater impact the current financial crisis has had on our state.

As a result of all this information, you might think I would have a negative outlook for Bakersfield and Kern County. That is not the case. While there are still issues that must be overcome in our economy, I have confidence in the resilience of the people and businesses of Bakersfield and Kern County and their ability to come back from adversity. Our credit union Members have demonstrated their willingness to work through their economic difficulties to continue to pay their obligations and to save and invest for the future. With appropriate actions by the state and federal government to stimulate job growth, this economy will stabilize and recover. And beyond recovery, we will all strive for prosperity.

Thank you for allowing me to share this information with you.

Exhibit I

KERN SCHOOLS
FEDERAL CREDIT UNION
"Together, we have something special"℠

Delinquent Loan Analysis

	Dec – 2007	Dec – 2008	Dec – 2009	Jun - 2010
# of Delinquent Loans	5	12	42	32
Delinquent Mortgage Balances	$1,232,954	$3,422,818	$9,840,078	$7,387,654
% of Total Delinquent Mortgages	0.57%	1.32%	4.50%	3.53%
# Delinquent Loans	806	1135	959	696
Total Delinquent Loan Balances	$10,846,716	$18,194,035	$23,161,384	$16,888,789
% of Total Delinquent Loans	0.78%	1.30%	2.15%	1.40%
Total Loan Balances	$1,391,904,512	$1,401,794,706	$1,083,838,808	$1,188,142,913

Exhibit II

KERN SCHOOLS
FEDERAL CREDIT UNION
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Community Contribution

Total Annual Contributions

2008	$384,000
2009	$194,700
2010	$160,000

2010 Contributions	% Reduction from 2008
- Kern Economic Development Corporation (Promotes economic development in Kern County)	75% reduction
- Kern High School District – Scholarships Awards	80% reduction
- Rotary Club Student Scholarships	66% reduction
- Boys and Girls Clubs	100% reduction
- County Superintendent of Schools – Teacher of the Year & Programs	75% reduction

Other organization impacted by reduced community contributions:

- Chamber of Commerce
- Arts Council
- Bakersfield Museum of Art
- Downtown Business Association
- California State University - Bakersfield

Exhibit III

Asset Growth

	CA CUs	US CUs
12/31/2007	5.52%	7.11%
12/31/2008	4.40%	8.32%
12/31/2009	3.93%	9.55%

Share Growth

	CA CUs	US CUs
12/31/2007	4.56%	6.12%
12/31/2008	4.42%	8.04%
12/31/2009	4.51%	11.31%

Loan Growth

	CA CUs	US CUs
12/31/2007	6.54%	7.60%
12/31/2008	2.62%	7.86%
12/31/2009	-7.17%	1.92%

Delinquency Ratio

	CA CUs	US CUs
12/31/2007	0.77%	0.88%
12/31/2008	1.59%	1.34%
12/31/2009	2.49%	1.83%

Charge-Off Ratio

	CA CUs	US CUs
12/31/2007	0.54%	0.49%
12/31/2008	1.15%	0.83%
12/31/2009	1.85%	1.21%

Exhibit IV

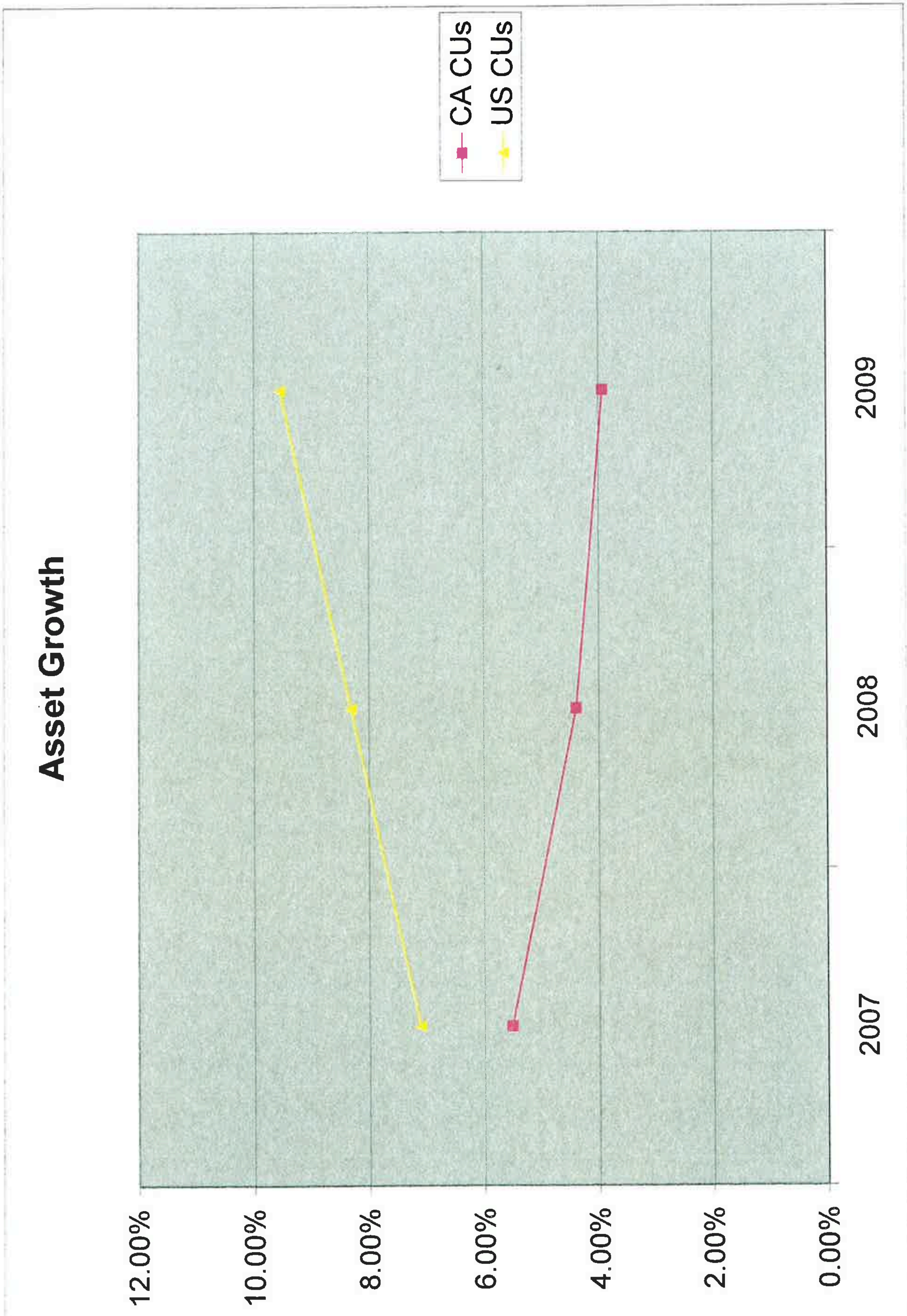
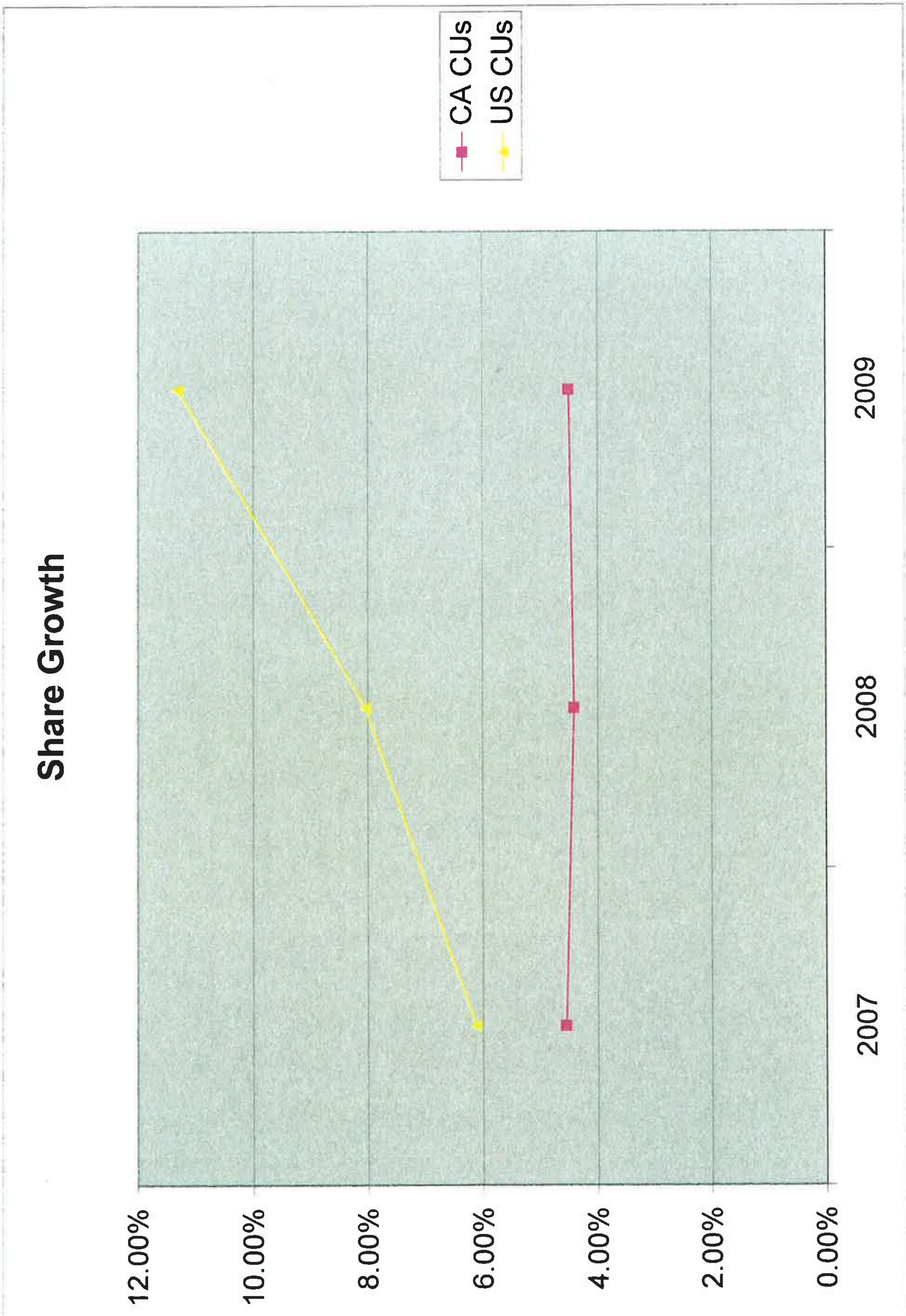

Asset Growth
CA CUs
US CUs
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
2007
2008
2009

Exhibit V



Share Growth
CA CUs
US CUs
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
2007
2008
2009

Exhibit VI

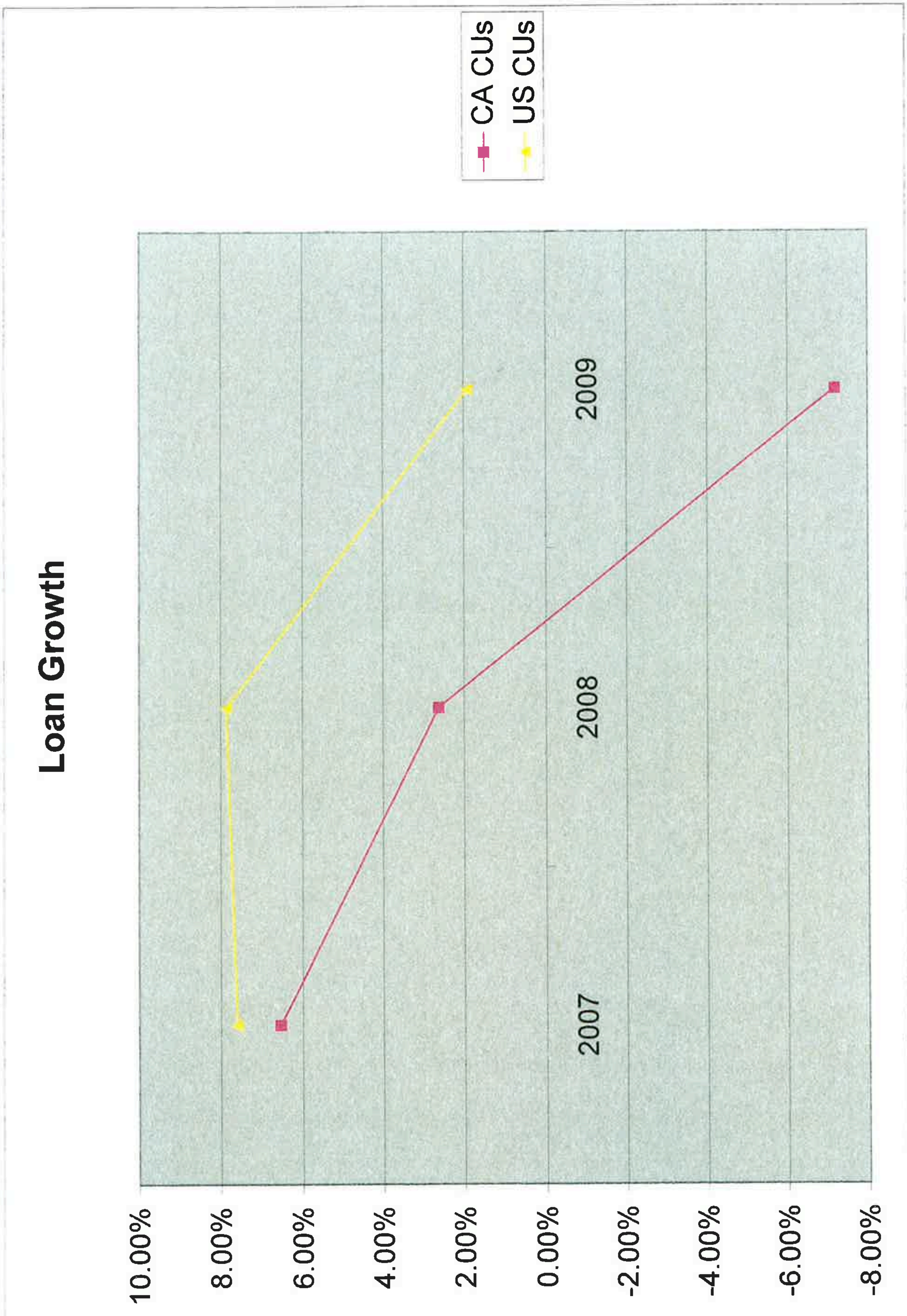

Loan Growth
CA CUs
US CUs
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
-2.00%
-4.00%
-6.00%
-8.00%
2007
2008
2009

Exhibit VII

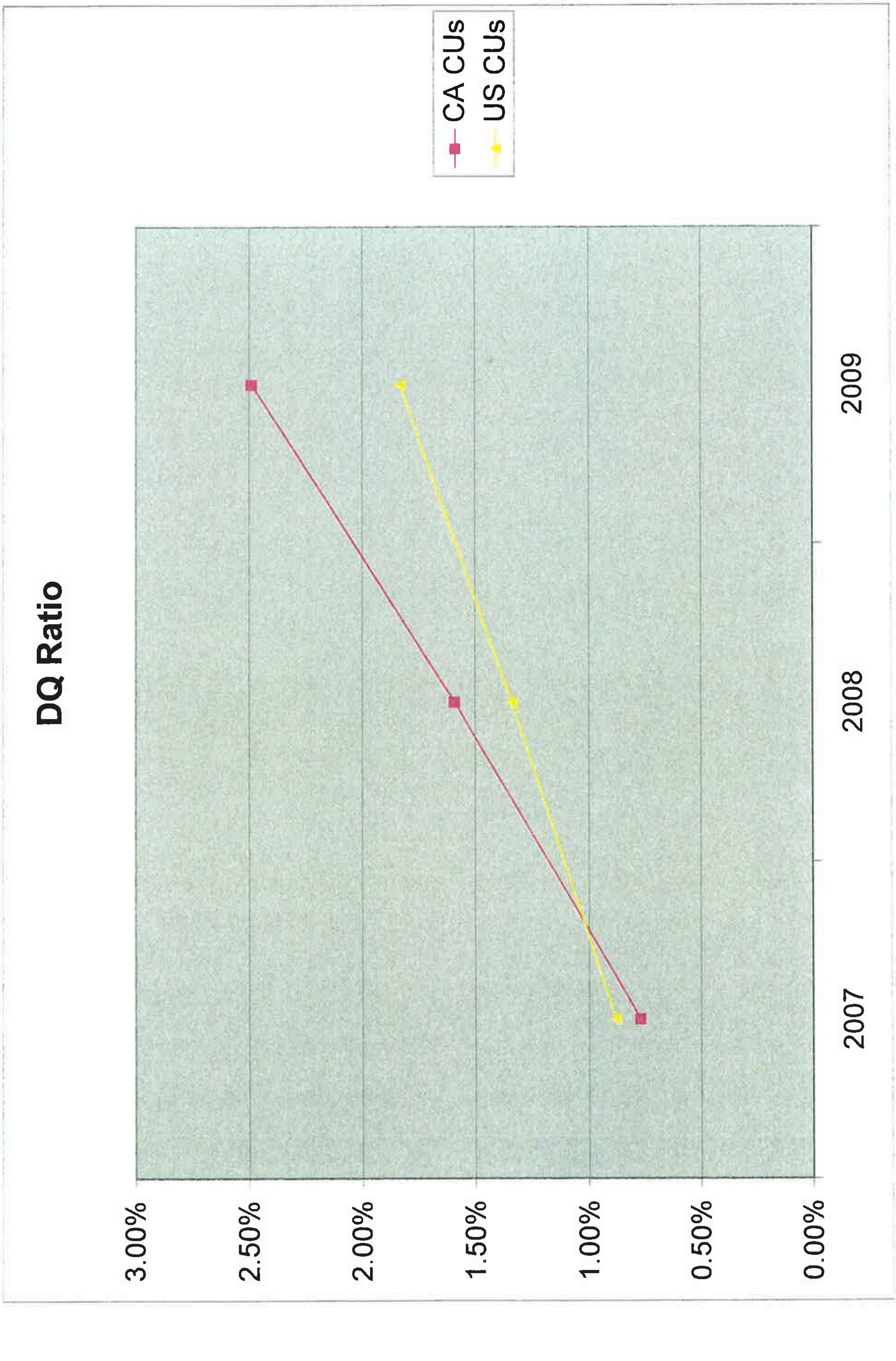

DQ Ratio
CA CUs
US CUs
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
2007
2008
2009

Exhibit VIII