Testimony
Before the Financial Crisis Inquiry Commission

SAFE CREDIT UNION

Helping Members Improve Their Financial Well-Being After The Damaging Effects Of The Financial Crisis

Statement of
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September 23, 2010

Chairman Angelides, Vice Chairman Thomas, and Members of
the Committee,

I appreciate the opportunity to be here today to present the challenges experienced by SAFE Credit Union, and to discuss the strategies SAFE continues to employ to support our members during this economic crisis.

SAFE Credit Union (SAFE) was formed in 1940 as a Federal Credit Union to serve the civilian employees of McClellan Air Force Base. SAFE merged with McClellan Federal Credit Union in 1996 to also serve the Base's military employees. In 1998, SAFE converted to a community-based state-chartered credit union to serve those who lived and worked in the six-county area surrounding Sacramento. This change was driven by the announcement of the closure of McClellan Air Force Base scheduled for 2001. SAFE subsequently added six additional counties to its field of membership and now serves residents and businesses in the 12 counties surrounding Sacramento. SAFE currently provides services to more than 3,000 small businesses and we are ranked #2 by the Small Business Administration in serving small business owners in our market area with SBA loans.

SAFE has assets in excess of $1.7B and serves approximately 150,000 members. Our members are from every level of society. SAFE is headquartered in North Highlands, California and two of its 21 branches are located in that community.

We have about $1 billion outstanding in loans to members: 33% in auto loans, 46% in mortgage loans, 11% in business loans, and 10% in unsecured loans *(see Chart 1)*. SAFE is second only to Wells Fargo in originating the highest number of SBA loans in our service area. When the financial crisis slowed lending, SAFE stepped up to make real estate loans and small business loans in our community.

SAFE has always been a conservative but prudent lender. We have never qualified borrowers for a mortgage loan based on a teaser rate, nor have we ever offered "pick-a-payment" loans. These types of products are contrary to SAFE's efforts to promote financial literacy and to help improve our members' financial well-being. We make loans based on the borrower's character, credit, and capacity to repay. Making a loan to a member who can't or won't repay the loan is against our principles.

The financial crisis has resulted in the following issues which impact SAFE's lending program:

Unemployment
Sacramento County's unemployment rate has increased from 4.5% in 2006 to 13.1% today *(see Chart 2)*. We don't think the economy has hit bottom yet. We expect to see state, city, county, and school employee layoffs that will further hurt housing prices and the local economy.

Declining Home Values
Sacramento's median home price has decreased 48% since December 2006, from $355K to $185K *(see Chart 3)*. SAFE's mortgage loans were made at 80% loan-to-value and are currently underwater by $39MM.

Declining Credit Scores

Job losses and reduced hours have impacted members' ability to repay and in turn hurt their credit scores. SAFE's rescore of its loan portfolio in early 2008 showed that the decline in members' credit scores for real estate loans resulted in SAFE's non-prime 2nd mortgage loans to increase from less than 1% of the portfolio to just over 8%, or $10.9MM. A 2009 rescore of SAFE's 1st mortgage portfolio showed an increase in non prime loans from 10% to 18%, or $33MM. Again, these loans were written at loan-to-values of 80% or less.

Increased Defaults

SAFE's 4-year comparison of delinquent dollars shows a significant increase from just over $6MM in 2006 to $32MM in 2009 *(see Chart 4)*. The most significant increase is in real estate, which increased from less than $20K in 2006 to $16MM in 2009.

Increased Loan Losses (Charge-Off)

SAFE's 4-year comparison of charge-off shows a significant increase; from $4MM in 2006 to $33MM in 2009 *(see Chart 5)*. All products, auto, credit card, and real estate loans show significant increases.

Loan Production

Based on fewer borrowers having the capacity to qualify for loans, SAFE's loan production has decreased 20%; from just under $500MM in 2006 to $400MM in 2009 *(see Chart 6)*. SAFE gave up market share rather than compete with unsound business practices. SAFE sold very few loans in 2007 and 2008. The loans we did sell were to FNMA to reduce interest rate risk, were outside of SAFE's underwriting criteria, and/or for liquidity. Most of our loans were kept in our portfolio until 2009 when the interest rate environment forced SAFE to sell all new production.

We were always surprised by the advertisements from mortgage brokers and thrifts offering loan payment terms or interest rates that we could not match. The high risk lenders forced prudent lenders like SAFE to lose market share because we would not make unsound loans. Thrifts like World Savings and Washington Mutual and mortgage brokers created competitive problems by practicing unsound underwriting and by creating faulty loan products like "pick-a-payment" loans. Many prudent lenders made bad decisions trying to keep up with the high risk lenders.

We have paid for the abuses of others twice. First, we watched our borrowers go to the competition. Then, beginning in 2007, we suffered above-trend loan losses. The abuses in the financial system that gave our competitors market share caused the economy to collapse. The economic collapse caused high unemployment and low housing prices. The combination of high unemployment and low home prices has forced our members into delinquency and eventually to charge-off.

In past recessions, members did everything possible to keep their homes. In this recession, many members have negative home equity and they just walk away even if they can afford the monthly payment. The suspension of taxes on forgiven debt, intended to help homeowners who lost their home, has increased the number of borrowers who walk away from their home even though they agreed to repay the loan and they have the capacity to make monthly payments. Because the loan balance is higher than the value of the home, borrowers are making an economic decision to walk away. When home values were increasing, borrowers did not provide the lender with the excess funds they received over the loan amount at the time of sale. The decisions borrowers are making to simply walk away from Promise-to-Pay agreements erode the character of the American citizen and impact the health of all financial institutions.

SAFE has dedicated a great deal of effort to helping members improve their financial well-being after the damaging effects of this financial crisis.

1. We post members' payroll at least one day before we receive funds from the employer.

2. We do not charge any fees for covering debit card overdrafts for less than $25.

3. We have modified more than $41 million in member loans to help them retain their homes and vehicles *(see Chart 7)*. SAFE's default rate on these loans is 16%, which is much less than the national average of 50%. The important distinction in our loan modification program is that in many cases we proactively contact the at-risk member to suggest we meet and work out a solution. Members have told us that their other financial institutions will not assist them until they are delinquent. We proactively help members.

4. We refer our members to the non-profit consumer credit counseling service, ClearPoint Financial Solutions, which is located in our Watt Avenue Branch. SAFE fully cooperates with ClearPoint to resolve members who have debt problems.

5. We have many programs directed at high school students to teach them financial literacy so that the next generation does not experience a repeat of this crisis. Financial literacy should be taught in high school. We actively support that goal.

6. In 2010, SAFE launched its Community Banking initiative to work directly with local businesses to offer free services including financial literacy programs for their employees. These financial workshops include topics such as basic and advanced budgeting, surviving financial setbacks, wise use of credit, buying your first home, understanding mortgage options, and the nuts and bolts of car buying.

7. For many years, SAFE has provided the State Employee Loan Program to support our members during budget impasses. This year, we expanded the State Employee Loan Program to include the same interest-free, fee-free loans to new members.

And, the loan issues related to the financial crisis have impacted SAFE's performance, which has resulted in an impact to our employees. During the past three years, SAFE has not provided employees with merit increases, 401(K) matching, performance incentives, or profit sharing. Employees have been very understanding and thankful for their jobs, as they work with members who are struggling to make ends meet on a daily basis.

SAFE is not unique in the challenges presented by our strained economy. Our peers have also experienced an exponential rise in delinquency and its associated costs (see *Chart 8 through Chart 11)*.

Our members, as well as our community are paying for this crisis with low rates on their savings, lost home equity, lower 401(K) plan values, higher numbers of unemployed and underemployed, and eventually could face higher taxes. For 70 years, SAFE has remained committed to the well-being of the communities that we serve. We're here to help however possible.

Chart 1

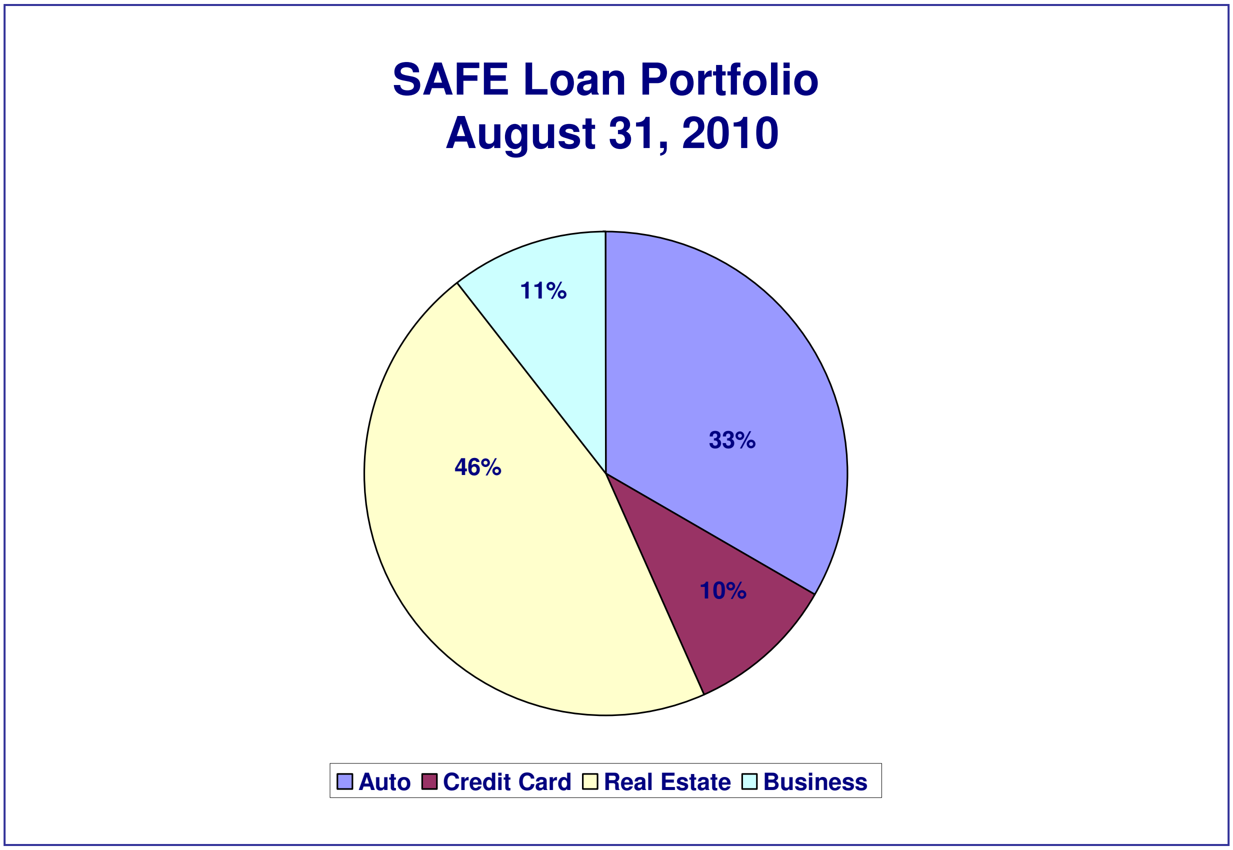


Chart 2

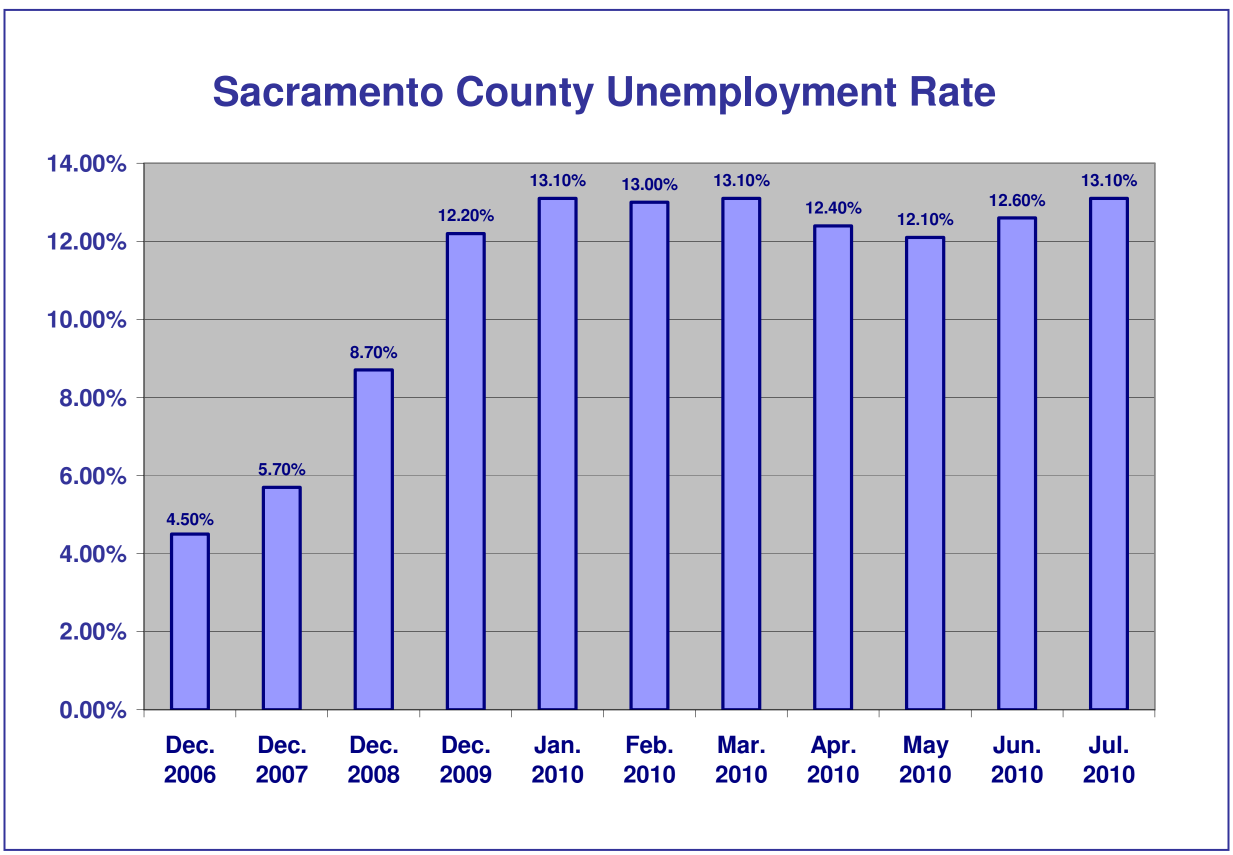


Chart 3

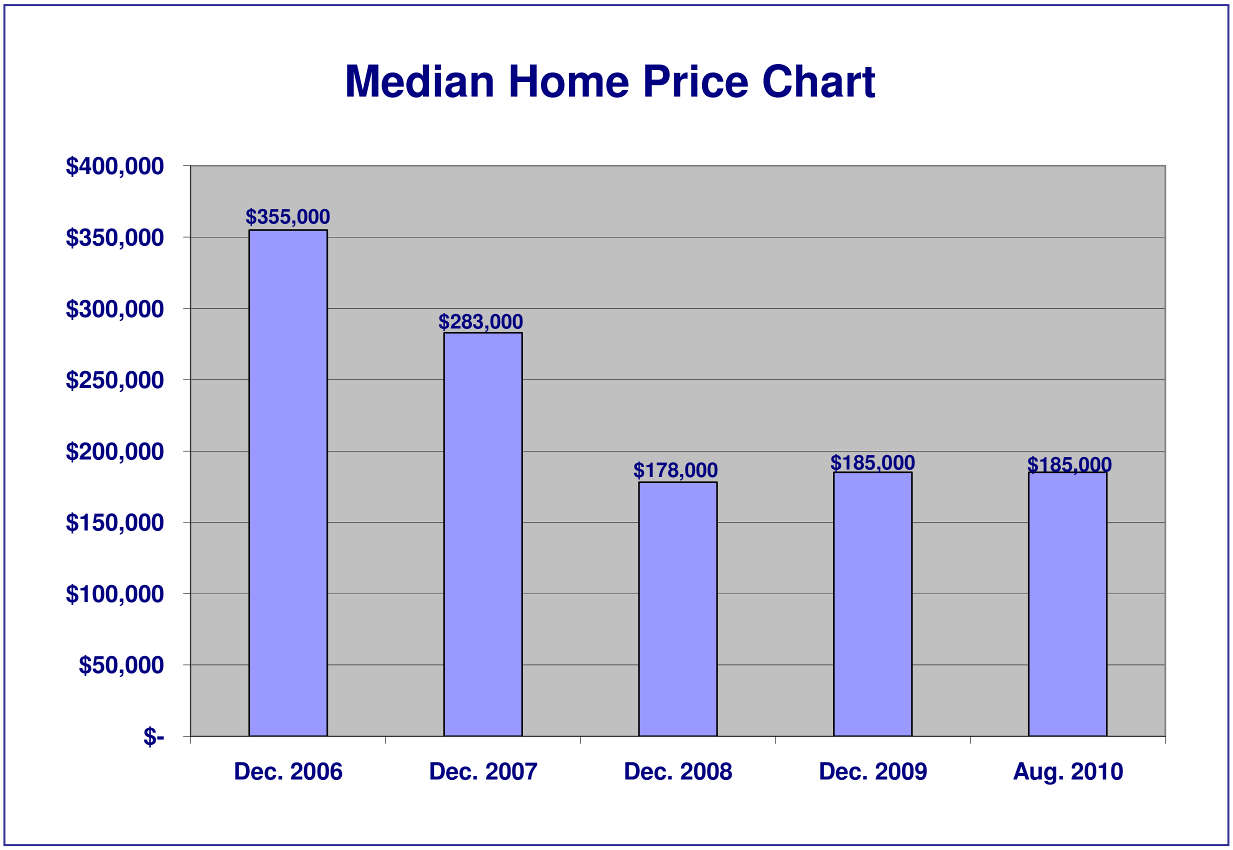


Chart 4

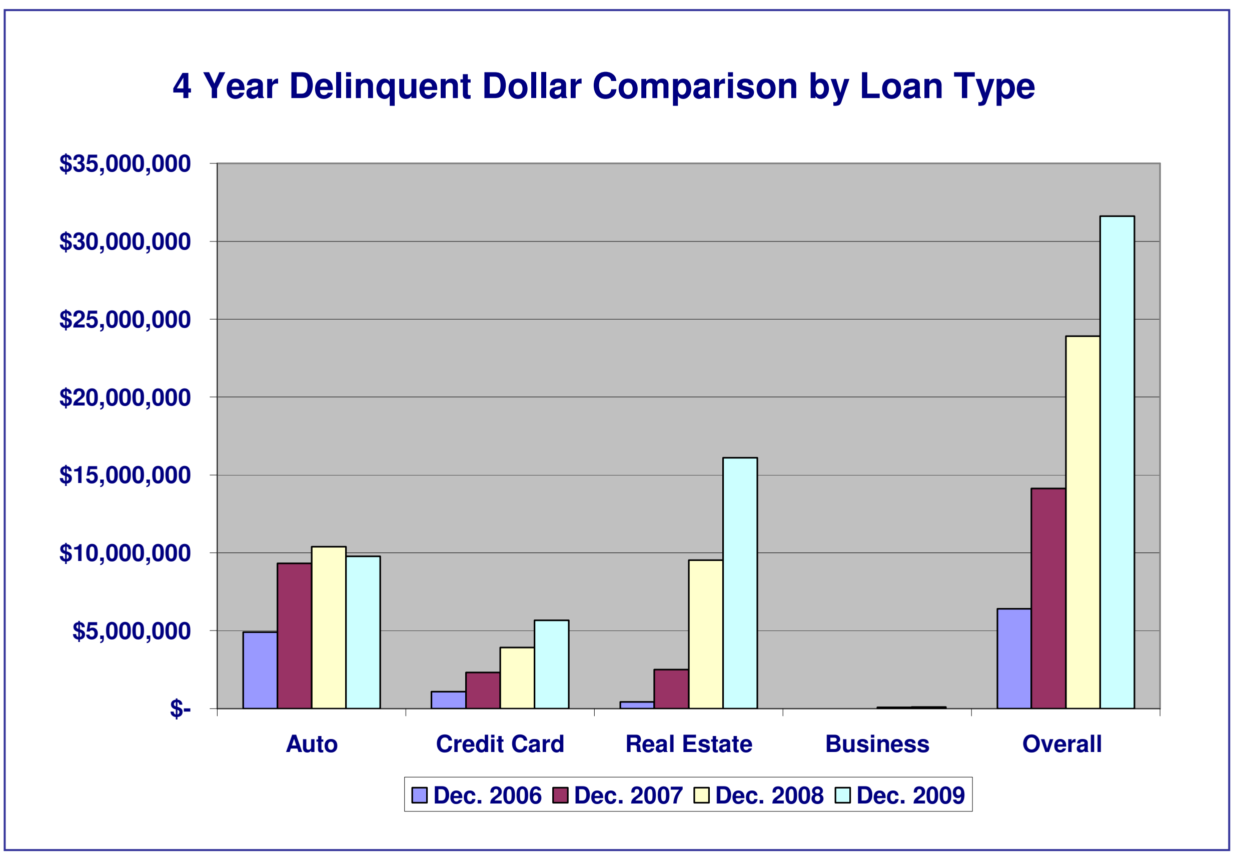


Chart 5

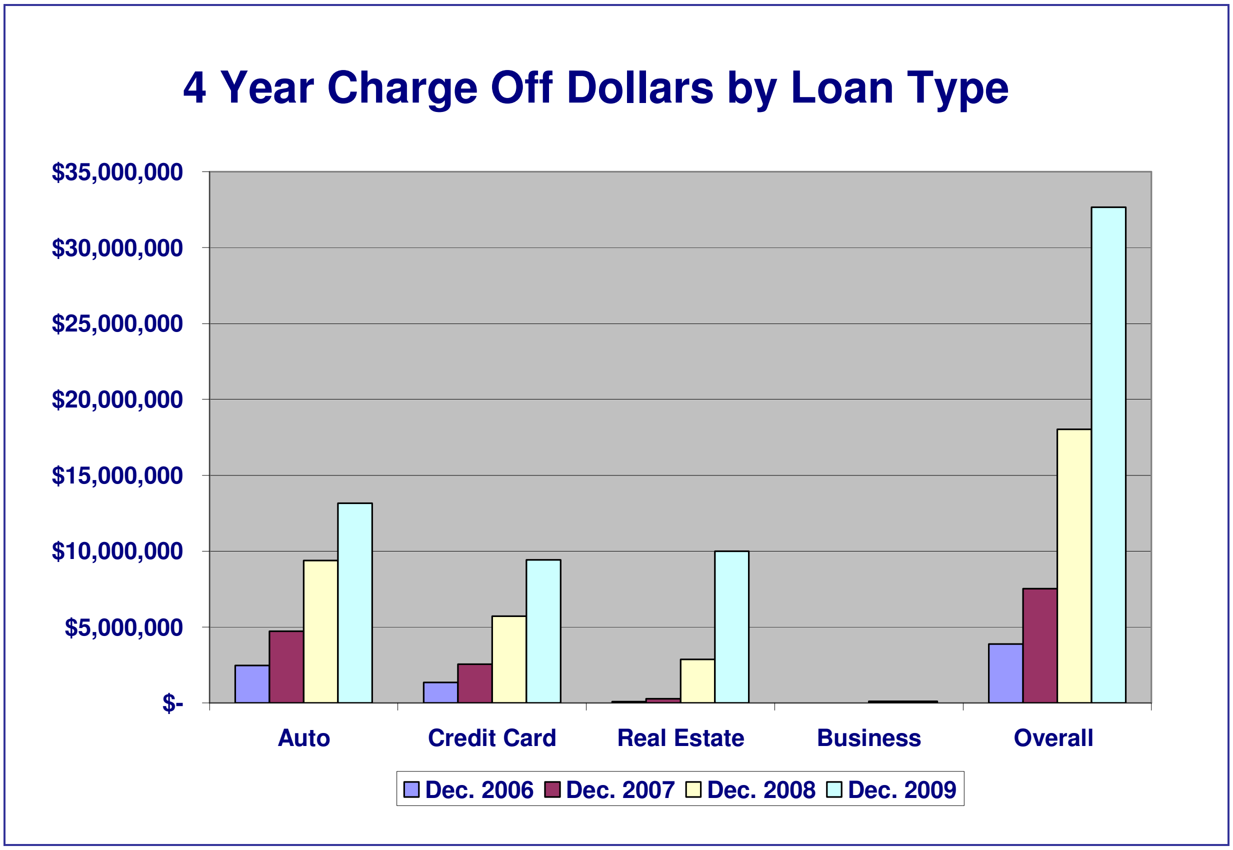
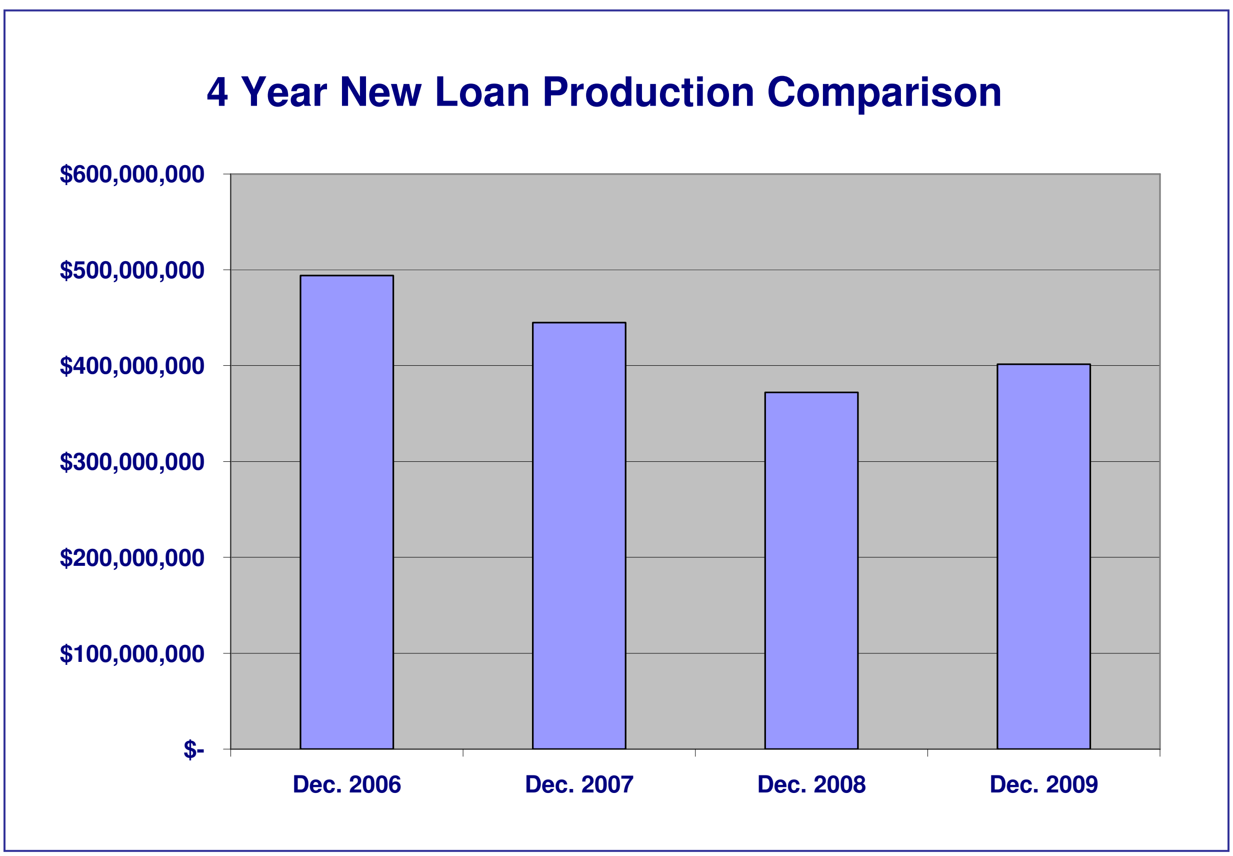


Chart 6



SAFE Credit Union

Workout Loan Performance From 12/07 to 8/10

	Total Workouts		Charged Off		%	%	Avg Months
Product	**#**	**$**	**#**	**$**	**#**	**$**	**to Default**
1st Mortgages	82	$24,279,688	2	$861,708	2.44%	3.55%	2
Equity Loans	119	$8,057,639	16	$991,498	13.45%	12.31%	9
All Real Estate	**201**	**$32,337,327**	**18**	**$1,853,206**	**8.96%**	**5.73%**	**5.5**
Auto	375	$9,184,532	28	$642,191	7.47%	6.99%	8
Grand Total	**576**	**$41,521,859**	**46**	**$2,495,397**	**16.42%**	**12.72%**	**13.5**

Chart 8

Report for : Credit Union Delinquency
2010/Q2
Program : Peer to Peer 2.0
Date :9/15/2010 2:16:31 PM

Rank	Name	Total Delinquent Loans June 2010	Total Delinquent Loans June 2006	Dlq Ratio June 2010	Dlq Ratio June 2006	Growth in Dlq $ Since 2006
1	The Golden 1	$120,791,641	$10,021,302	3.12%	0.20%	$110,770,339
2	SAFE	$32,496,558	$3,723,146	3.17%	0.43%	$28,773,412
	Sac Chapter	$10,309,728	$1,002,249	2.73%	0.23%	$9,307,480
3	Schools Financial	$9,658,068	$1,052,179	1.47%	0.16%	$8,605,889
4	Sierra Central	$7,624,122	$480,271	1.71%	0.14%	$7,143,851
5	Yolo	$3,235,339	$153,854	2.44%	0.12%	$3,081,485
6	Heritage Community	$2,728,556	$485,030	2.06%	0.22%	$2,243,526
7	49er	$1,762,832	$358,611	8.77%	1.01%	$1,404,221
8	Sacramento	$1,610,893	$205,488	1.27%	0.08%	$1,405,405
9	Big Valley	$1,326,326	$152,301	3.29%	0.28%	$1,174,025
10	California Community	$1,214,971	$379,582	4.57%	1.29%	$835,389
11	First U.S. Community	$1,161,012	$0	0.68%	0.00%	$1,161,012
12	Sacramento District Postal Emps.	$680,903	$153,439	4.61%	0.70%	$527,464
13	CAHP	$567,359	$257,974	1.02%	0.34%	$309,385
14	Butte	$478,311	$452,791	1.72%	1.71%	$25,520
15	McClatchy Employees	$155,060	$19,951	2.26%	0.21%	$135,109
16	Western Valley	$60,418	$0	0.85%	0.00%	$60,418
17	S.T.A.R. Community	$22,740	$5,318	0.24%	0.05%	$17,422
18	Vision One	$0	$940	0.00%	0.00%	($940)
	Average Value for Selected Credit Union	$10,309,728	$1,002,249	2.73%	0.23%	$9,307,480
	Total Value for Selected Credit Union	$185,575,109	$18,040,478			$167,534,631

Report for : **2009 vs 2006 Loans Subject to Bankruptcy**
2009/Q4
Program : Peer to Peer 2.0
Date :9/16/2010 8:01:10 AM

Rank	Name	2009 Bankrupt Loans	2006 Bankrupt Loans	Increase In Bankrupt Loans
1	The Golden 1	$55,131,502	$6,460,317	753.39%
2	SAFE	$17,596,471	$336,698	5126.19%
3	Schools Financial	$8,425,360	$813,983	935.08%
	Chapter	$6,311,168	$582,915	982.69%
4	Sierra Central	$5,587,135	$477,573	1069.90%
5	Heritage Community	$5,362,112	$484,104	1007.64%
6	Sacramento	$3,332,894	$234,276	1322.64%
7	Big Valley	$1,491,464	$135,721	998.92%
8	Yolo	$1,442,993	$21,317	6669.21%
9	CAHP	$1,260,204	$120,600	944.95%
10	California Community	$525,701	$103,483	408.01%
11	49er	$380,905	$46,891	712.32%
12	Sacramento District Postal Emps.	$195,928	$40,773	380.53%
13	Western Valley	$137,281	$0	
14	Vision One	$49,257	$384	12727.34%
15	First U.S. Community	$36,376	$15,748	130.99%
16	McClatchy Employees	$23,108	$34,765	-33.53%
Average Value for Selected Credit Union		$6,311,168	$582,915	982.69%
Total Value for Selected Credit Union		$100,978,691	$9,326,633	

Report for : Net Charge-offs 2009 vs 2006
2009/Q4
Program : Peer to Peer 2.0
Date :9/16/2010 7:42:31 AM

Rank	Name	Net charge-off 2009	2009 Charge-off Ratio	Net Charge-off 2006	2006 Charge-off Ratio
1	The Golden 1	$77,849,483	1.88%	$27,154,497	0.56%
2	SAFE	$31,591,675	3.10%	$3,561,703	0.39%
3	Schools Financial	$14,039,146	2.01%	$1,470,110	0.21%
4	Sierra Central	$10,421,429	2.19%	$832,282	0.22%
	Sac Chapter	$8,394,799	2.09%	$2,021,424	0.46%
5	Heritage Community	$4,447,861	2.95%	$1,176,869	0.52%
6	Sacramento	$2,938,467	2.14%	$608,556	0.25%
7	Yolo	$2,300,149	1.69%	$300,284	0.24%
8	First U.S. Community	$2,043,696	1.16%	$37,335	0.03%
9	Sacramento District Postal Emps.	$1,629,592	10.03%	$112,397	0.51%
10	Butte	$1,494,764	4.65%	$386,799	1.30%
11	California Community	$752,765	2.76%	$278,975	0.95%
12	49er	$596,795	2.69%	$211,095	0.60%
13	CAHP	$484,261	0.79%	$121,270	0.18%
14	Big Valley	$329,331	0.70%	$96,921	0.18%
15	McClatchy Employees	$85,657	1.16%	$7,228	0.08%
16	S.T.A.R. Community	$41,840	0.40%	$6,472	0.06%
17	Vision One	$35,756	0.10%	-$1,262	0.00%
18	Western Valley	$23,706	0.32%	$24,093	0.26%
	Average Value for Selected Credit Union	$8,394,799	2.09%	$2,021,424	0.46%
	Total Value for Selected Credit Union	$151,106,373		$36,385,624	

Report for : **2009 Net Income versus 2006 Net Income**
2009/Q4
Program : Peer to Peer 2.0
Date :9/16/2010 8:03:57 AM

Rank	Name	2009 Net Income	2006 Net Income	2009 Return on Assets	2006 Return on Assets
1	SAFE	$8,213,270	$8,183,082	0.52%	0.62%
2	Sacramento	$1,859,977	$3,250,314	0.54%	1.00%
3	First U.S. Community	$1,015,095	$1,417,713	0.45%	0.81%
4	Heritage Community	$756,672	$1,074,283	0.38%	0.43%
5	Vision One	$423,971	$424,629	1.06%	1.31%
6	Big Valley	$89,639	$79,061	0.15%	0.12%
7	49er	$269	$488,564	0.00%	1.14%
8	Western Valley	($142,540)	$41,716	-1.32%	0.32%
9	McClatchy Employees	($161,944)	$22,460	-0.94%	0.14%
10	Sacramento District Postal Emps.	($1,004,155)	$213,247	-4.34%	0.63%
11	Yolo	($1,103,765)	$2,102,482	-0.61%	1.30%
12	California Community	($1,114,436)	$418,322	-2.31%	0.83%
	Chapter	($1,820,857)	$6,222,008	-0.23%	0.95%
13	CAHP	($1,855,340)	$329,146	-1.69%	0.37%
14	Sierra Central	($4,798,765)	$6,612,572	-0.76%	1.33%
15	Schools Financial	($8,239,211)	$11,061,662	-0.58%	0.91%
16	The Golden 1	($23,072,448)	$63,832,869	-0.30%	1.03%
	Average Value for Selected Credit Union	($1,820,857)	$6,222,008	-0.23%	0.95%
	Total Value for Selected Credit Union	($29,133,711)	$99,552,122		