

CDCI ANNUAL USE OF CAPITAL SURVEY - 2012



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Butte Federal Credit Union

Person to be contacted regarding this report:	David Morgan	RSSD: (For Bank Holding Companies)	
UST Sequence Number:	1408	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	1,000,000	FDIC Certificate Number: (For Depository Institutions)	
CPP/CDCI Funds Repaid to Date:	0	Credit Union Charter Number: (For Credit Unions)	00643
Date Funded (first funding):	09/24/2010	City:	Biggs
Date Repaid ¹ :	N/A	State:	California

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

<input type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	
<input type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	
<input type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	

<input type="checkbox"/>	Make other investments	
<input type="checkbox"/>	Increase reserves for non-performing assets	
<input type="checkbox"/>	Reduce borrowings	
<input type="checkbox"/>	Increase charge-offs	
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	Our primary purpose for 2010, as well as future years, in obtaining funds under the CDCI program was to utilize these funds as secondary capital for our Credit Union. These funds allow our Credit Union to be classified as well-capitalized under the National Credit Union Administrations guidelines

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

During 2008, 2009, and 2010 the economic issues that affected the entire financial industry, also affected our Credit Union. With many of our members facing unemployment, loss of income, increasing delinquency, loss of their homes, our Credit Union was not shielded from the effects, and as a result, our loan losses dramatically increased over prior years. As a result, the Credit Union saw a decrease in its overall capital levels, as losses far outpaced net income. To counterbalance these losses, operational changes resulted, including the closure of two small branch offices, and a reduction in staffing by 25%. Additionally, our lending policies became more restrictive, as we were not able to assist as many high credit risk individuals that we normally would have.

By obtaining these funds in the third quarter 2010, our Credit Union was able to no longer focus on the regulatory requirements imposed by the National Credit Union Administration, but instead start to return to focusing on serving our membership. Additional reductions in employees, services, products were no longer required, as our capital levels are now sufficient to manage growth and any continuing losses from the economic turmoil still affecting the country. Additionally, we have been able to become less restrictive in our lending policies, reaching out to more of our under-served, credit-challenged members.

In 2011, losses from delinquent loans continued to drop, with our overall delinquency reaching levels not seen in over 20 years. Additionally, we have continued to expand our lending services reaching out to more and more under-served, high-credit-risk individuals. Loan demand was almost twice the demand as seen in 2010.

For 2012, losses from delinquent loans continues to decline, as does overall delinquency. While loan demand and overall loan volume has not yet returned to pre-recession times, loan demand continues to slowly increase. Marketing efforts are under way to increase loan demand and volume. Interest income from loans is the Credit Union's primary source of income to cover overall operations, pay dividends, and continue providing member services. The CDCI funds allow the Credit Union the ability to continue to operate our Credit Union in a member-oriented focus, without the need to cut services, products, or Credit Union benefits, even with the reduced lending income.

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

Without the CDCI capital infusion in 2010, additional member services and benefits may have been reduced, eliminated, or delayed in implementation of new products and services. With the capital infusion, we were able to continue operations and the member-oriented services Credit Union membership provides, without having to raise loan rates, service fees, or reduce services to the detriment of our membership.

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.