



2020 Annual Report



**clearwater**  
CREDIT UNION

# Contents

- 3** Letter From the CEO and Board Chair
- 4** Balance Sheet
- 5** Income Statement
- 6** Our Financial Performance
- 7** Helping Businesses Navigate the PPP Loan Process
- 8** Responding in Times of Need
- 11** Our Path to Carbon Neutral

# Letter From the CEO and Board Chair

As we look back on 2020, we feel gratitude for the partnership and patience of our members, and pride in the work of our staff.

2020 was a year when we all felt personal and professional stress under the weight of a dual public health and economic crisis. Yet, the credit union thrived. It did so because our staff put mission and the interests of our members first and foremost. They also looked out for one another. Similarly, our members deepened their partnership with the credit union and demonstrated patience as we navigated through what felt like constant operational change and uncertainty.

On top of these operational challenges, credit union growth was unprecedented. Deposit growth was 36%, nearly 5 times what we would expect in a normal year. That suggests higher savings rates as our members reduced spending in the pandemic. It is also a function of the fiscal stimulus provided to our local economies by the federal government. Loan growth was an impressive 32%, about 50% higher than in recent years. Mortgage refinance and PPP lending played a role here. But even stripping these “one-off” opportunities out, our lending performance was record-breaking.

The total balance sheet expanded by about one third. Net earnings were very strong at 98 basis points. But that still wasn't strong enough to prevent a decrease in the credit union's net worth ratio, which declined almost two percentage points as a result of balance sheet growth. We remain a well-capitalized credit union at 9% of net worth as of December 31, 2020. But we need to put significant attention into stabilizing the net worth ratio. Our goal is to do so in ways that have as little direct impact on members as possible.

Clearwater also grew its market presence in 2020. Our permissible Field of Membership was increased from 7 counties in the southwest corner of Montana to all 20 counties making up the mountainous western side of Montana.

In August of 2020, we opened a new branch in Butte. We have a great team of co-workers now working from 34 East Granite Street in Uptown Butte. And we are very proud to now serve more than 425 members in Silver Bow County.

We know the crises have not completely passed. And we know that our members are feeling the pain of these crises unevenly. Some businesses have flourished; some have struggled mightily. Some families have managed well; some have had financial difficulties, and some have lost loved ones. As we press forward, it is our values-based banking mission that will anchor us: to be a force for good in banking, in the lives of our members, and in the communities we serve.

Thank you very much for your membership in and support of Clearwater.

Jack Lawson  
President & CEO

Tony Boote  
Board Chair

# Balance Sheet

<b>Assets</b>	<b>2019</b>	<b>2020</b>	<b>% Change</b>
Loans (Net of Allowance for Loan Losses)	314,688,479	414,157,312	32%
Cash & Investments	218,991,481	306,451,846	40%
Land & Buildings	17,731,937	18,566,187	5%
Other Fixed Assets	2,047,301	2,224,338	9%
All Other Assets	10,944,633	11,360,777	4%
<b>Total Assets</b>	<b>564,403,831</b>	<b>752,760,460</b>	<b>33%</b>
<b>Liabilities</b>			
Notes Payable	4,361,061	2,463,518	-44%
Dividends Payable	50,286	57,251	14%
Other Liabilities	5,923,515	7,295,678	23%
<b>Total Liabilities</b>	<b>10,334,862</b>	<b>9,816,447</b>	<b>-5%</b>
<b>Deposits</b>			
Regular Savings	223,745,048	299,047,236	34%
Checking	166,276,332	237,504,980	43%
IRAs	13,335,207	14,061,163	5%
Certificates	37,221,642	48,994,983	32%
Money Market	49,163,074	65,466,985	33%
<b>Total Deposits</b>	<b>489,741,303</b>	<b>665,075,348</b>	<b>36%</b>
<b>Equity</b>			
Regular Reserves & Undivided Earnings	61,502,560	67,933,284	10%
Unrealized Gain (Loss) on Investments	2,825,106	9,935,380	252%
<b>Total Equity</b>	<b>64,327,666</b>	<b>77,868,664</b>	<b>21%</b>
<b>Total Liabilities, Deposits, &amp; Equity</b>	<b>564,403,831</b>	<b>752,760,460</b>	<b>33%</b>

# Income Statement

<b>Interest Income</b>	<b>2019</b>	<b>2020</b>	<b>% Change</b>
Interest on Loans	14,448,158	16,272,678	13%
Investment Income	5,900,868	4,984,870	-16%
<b>Total Interest Income</b>	<b>20,349,027</b>	<b>21,257,548</b>	<b>4%</b>

<b>Interest Expense</b>			
Dividends	1,285,624	1,634,088	27%
Interest on Borrowed Funds	234,501	182,452	-22%
<b>Total Interest Expense</b>	<b>1,520,125</b>	<b>1,816,540</b>	<b>19%</b>

Net Interest Income	18,828,902	19,441,008	3%
Provision for Loan Losses	1,600,703	2,454,117	53%
Net Interest Income (After Provision for Loan Losses)	17,228,199	16,986,891	-1%
Other Operating Income	8,554,161	10,974,098	28%
<b>Total Operating Income</b>	<b>25,782,360</b>	<b>27,960,989</b>	<b>8%</b>

<b>Operating Expenses</b>			
Compensation & Benefits	10,684,747	12,749,535	19%
Travel & Conferences	288,873	93,201	-68%
Association Dues	128,168	142,416	11%
Office Occupancy	1,209,865	1,482,596	23%
Office Operations	2,951,459	3,462,641	17%
Educational/Promotional	1,151,322	765,991	-33%
Loan Servicing	679,773	911,093	34%
Professional Services	3,000,750	2,985,369	-1%
NCUA Operating Fee	141,280	153,772	9%
Other Expenses	483,519	603,450	25%
<b>Total Operating Expenses</b>	<b>20,719,756</b>	<b>23,350,065</b>	<b>13%</b>

Non-Operating Income	693,605	1,819,799	162%
----------------------	---------	-----------	------

<b>Net Income</b>	<b>5,756,210</b>	<b>6,430,724</b>	<b>12%</b>
-------------------	------------------	------------------	------------

# Our Financial Performance

## Signs of Growth

Clearwater realized extraordinary balance sheet growth in 2020. Total assets closed the year 33% greater than YE 2019. Balance sheet growth was driven by increasing internal member saving, not external borrowing. Total member deposits grew by \$175 million, or 36% on the year. This is close to 5 times what we would expect in a “normal” year. Loan balance growth was also strong, increasing by \$100 million, or 32%.

## Asset Quality

With growth we have not sacrificed asset quality. As the size and complexity of the loan portfolio has grown, we have been careful to help members into loans appropriate to their circumstances. The credit union’s loan loss rate (actual losses) plus its delinquency rate (loans that are paying late) declined from 0.53% at YE 2019 to 0.33% at YE 2020.

At the end of 2020, the credit union’s allowance for loan losses account stood at \$6.7 million, or 1.6% of total outstanding loan balances. This is about 5 times larger than the summation of the loan loss rate and the delinquency rate described above, indicating a very well-funded allowance for loan losses protection. This is appropriate to the current economic environment.

## Earnings

The credit union’s net earnings performance continues to be strong. As interest rates declined in the US economy, the credit union’s net interest margin decreased sharply from 3.46% in 2019 to 2.95% in 2020. But two counter-forces supported net earnings. First, operating expenses were well managed and even decreased relative to total assets. Second, total income was higher than anticipated. As a result, the credit union recorded a strong return on assets of 98 basis points in 2020.

## Net Worth

The net worth to total asset ratio declined to 9.02% at YE 2020, down from 10.89% at YE 2019. It is important to recognize that the credit union’s net earnings were higher than budgeted and higher than industry peer averages. The decline in the net worth ratio was due to the extraordinarily high rates of deposit growth experienced in 2020. That is, the balance sheet expanded faster than we could increase profitability. Clearwater remains well-capitalized (our regulator, the NCUA, defines well-capitalized at 7% and above). Even so, stabilizing the net worth ratio has become a strategic priority for the credit union.



## Consumer Loans

**\$75,668,290**

4,257 Loans



## Mortgage Loans

**\$245,950,768**

1,145 Loans



## Mortgage Servicing Portfolio

**\$433,030,224**

2,677 Loans

---

**Business Loans**  
**\$43,488,030**



**737 Loans**

---

**Paycheck Protection  
Program Loans**

**\$13,816,750**



**496 Loans**

---

**“The PPP was essential for us and is what helped us to continue to pay staff wages and keep staff impacted by the shutdown employed.”**

**Ruth Burke**  
**Associate Director**  
**Human Resource Council**

## **Helping Local Businesses Navigate the PPP Loan Process**

In the early days of the COVID-19 pandemic, the Human Resource Council (HRC) found itself navigating difficult times while trying to keep people employed and provide essential services to clients.

The HRC typically employs 55 staff across their programs which serve Mineral, Missoula, and Ravalli counties. In March of 2020, the State of Montana notified the HRC that they would have to pause their energy conservation program because it was not safe to send their employees to do on-site home visits. This meant that in the first two weeks of the stay-at-home order, about 15 HRC employees would need to be laid off as a result.

That’s where Clearwater’s Payroll Protection Program lending came in. When the HRC applied for a PPP loan with Clearwater, HRC Associate Director Ruth Burke notes that they received regular updates from the team at Clearwater about what was going on, when they could apply for forgiveness, and that the communication made the entire process easy.

“It’s a pretty sudden thing to lose your job. Then when you add up all the anxiety, all the unknowns, and questions about how long it will last – it creates a tremendous amount of stress for everyone,” said Burke. “The PPP was essential for us and is what helped us to continue to pay staff wages and keep staff impacted by the shutdown employed.”





# Responding in Times of Need

## Supporting our...



### Members



**1,500**  
Loan Payment  
Extensions

### Emergency Funding



- + Credit Card Emergency Line Increases
- + 496 SBA PPP Loans for Small Business
- + Emergency Personal Loans



**Russell Branch**  
Designated  
for Vulnerable  
Populations

## Supporting our...



### Co-Workers



**Expanded Paid  
Time Off**  
COVID Self-Care  
Holiday



**Interest-Free  
Loan for Daycare**

**Commitment  
to Paying a  
Living Wage**



**Personal  
Protective  
Equipment**

- + Custom Reusable Face Masks
- + Reusable Thermometers
- + Hand Sanitizer



# Our Path to Carbon Neutral

In 2018 Clearwater conducted its first Environmental Impact Assessment – an annual audit that determines our impact and guides our environmental sustainability approach. In that work, we set a goal to arrive at carbon neutrality by 2020.

To achieve this goal, we focused first on reducing the greenhouse impact of our own business operations. But the purchase of carbon offsets has also had a role to play. Clearwater joined forces with Climate Smart Missoula, MMW Architects, and the Missoula Housing Authority on a pilot project that would enable us to purchase carbon offsets by supporting local projects like the recently completed Cornerstone Apartments.

Cornerstone Apartments is a 12-unit apartment complex built and operated by the Missoula Housing Authority (MHA) to house those most in need. Budgets are tight on affordable housing projects, and after pricing the project the MHA was forced to face the reality that they would have to sacrifice energy efficiency measures in order to control costs.



Working together with the MHA and MMW Architects, Clearwater provided funding for air-source heat pumps in exchange for the carbon offsets generated by the more efficient system. This new carbon offset partnership offset Clearwater’s greenhouse gas emissions for two years and will save the MHA \$5,000 in operating expenses each year.

“Clearwater and Climate Smart really stepped in at a critical moment when bids came in too high, and we had to value engineer our mechanical system down to something that we didn’t want to do,” said Colin Lane, Principal Architect at MMW Architects.

By partnering with the MHA, MMW, and Climate Smart, Clearwater met our goal of carbon neutrality by 2020 and paved the way for the creation of a local carbon offset market that everyone can benefit from.





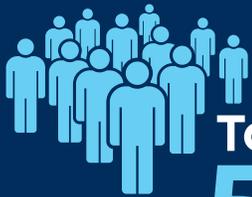
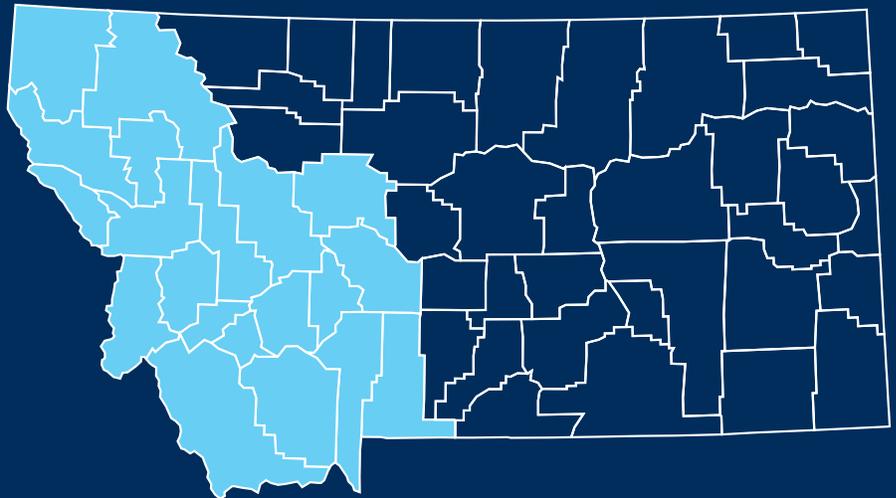
**BEST OF** 20  
20  
**MISSOULA**

**#1 Best Bank/Credit Union**

**#2 Green Business**

**#3 Best Employer**

Montana's  
**2<sup>nd</sup>**  
largest  
credit union



Total Members  
**52,408**

New Members

**4,602**

**Philanthropy**  
**\$335,682**



5.22% of Net Income  
151 Organizations



Empowering  
People

**\$131,938**



Protecting the  
Planet

**\$61,100**



Building Inclusive  
Economies

**\$142,644**



**Scholarships**

**\$10,000**  
to 9 Students



**Financial  
Counseling**

**466** Sessions



(406) 523-3300  
clearwatercreditunion.org

Federally Insured by NCUA.



Global Alliance for  
Banking on Values

/ inclusiv /

