

Members First Credit Union Annual Report 2009

Table of Contents

Directors and Management.....	2
Agenda.....	3
Minutes, 70 th Annual Membership Meeting.....	4
Treasurer's Report.....	8
Statement of Financial Condition.....	9
Statement of Income.....	10
Statement of Members' Equity.....	11
Election Rules.....	12

DIRECTORS

Robert Wenger, Chairman (2011)
Leon Faught, Vice-Chairman (2011)
Larry Dreyer, Secretary/Treasurer (2012)
Michael Cuevas (2011)
Verna Jolley (2010)
Mark Kulwicki (2012)
Hector Garcia (2011)

Yolanda Lozano, Advisory Director

MANAGEMENT

Greg Fair, Chief Executive Officer
Wanda Muessel, Chief Operations Officer
Debra Garza, Loan Manager
Michelle Mendez, Member Service Manager
Chris Vega, Collections Manager
Cassy Slinkard, Accounting Manager
Belinda Reeves, SPID Branch Manager
Brenda Collins, Harlingen Branch Manager
James Rivera, Violet Branch Manager

AGENDA

Welcome – Robert Wenger, Chairman

Invocation

Determination of a Quorum

Introduction of Officers and Guests

Minutes of the Previous Meeting

Reports:

Treasurer – Larry Dreyer

Chairman – Robert Wenger

CEO - Greg Fair

Unfinished Business

New Business

Election of Directors

Attendance Prizes

Adjournment

MINUTES
70th ANNUAL MEMBERSHIP MEETING
March 7, 2009

The 70th Annual Membership Meeting of Members First Credit Union was held on Saturday, March 7, 2009 at the main office located at 5444 S. Staples, Corpus Christi, Texas.

The meeting began at 3:00 p.m. when Chairman of the Board Robert Wenger welcomed members and guests.

The invocation was given by Robert Wenger.

The Chairman verified that 122 members had registered. He certified that a quorum was present and declared it a legal meeting.

The Chairman then introduced the Board of Directors: Leon Faught, Vice Chairman, Larry Dreyer, Secretary/Treasurer, Charles Dunn, Verna Jolley, Yolanda Lozano (absent), and Michael Cuevas.

The Board of Directors met for 12 Regular Meetings in 2008 and 2 Special Meetings.

Secretary/Treasurer noted a copy of the minutes of the 69th Annual Meeting was provided and asked for a motion to dispense with the reading and accept them as written.

MOTION by John Jordan, seconded by John Arguell to accept the minutes as written. MOTION CARRIED.

REPORT OF TREASURER

Larry Dreyer stated that 2008 was another financially successful year for Members First Credit Union. Total assets ended the year at \$73,388,278, an increase of 7.8% from the previous year. Member deposits increase by about \$4 million to end the year at \$58,226,711. Net income was \$908,280, an amount that represents a 1.44% return on assets, which was more than double that of our peers.

Membership ended the year at 12,352 members. Loans increased only slightly during the year with vehicle loans down but real estate loans increasing enough to make up the slack. Loan quality improved with charge-offs decreasing from \$476,344 to \$341,676, nearly a 30% drop. Our capital to assets ratio ended the year at 18.83%, nearly 50% higher than our peers.

Mr. Dreyer noted that with the poor economy, we expected tough times ahead but are confident we will continue to excel and offer financial stability like we have for the past 70 years.

MOTION by Noneita West, seconded by Herman Bell to approve the Treasurer's Report as written. MOTION CARRIED.

REPORT OF CHAIRMAN OF THE BOARD

Robert Wenger noted that we always hear about how different financial institutions are in trouble or even going under. He noted that if you look at many of the failed institutions of the past or the ones under scrutiny today, it was their focus on profits and greed that doomed them. They had a corporate structure that paid huge incentives for more growth and greater profits. It was a numbers game that continually sought to outrun the next guy.

With credit unions, you have a completely different industry where the mission is on servicing members in a not-for-profit spirit. We too have to make profits but they are for the purpose of providing better rates, more products, and better service. Members First has been in existence for 70 years and has strived for growth and profits but they are secondary to service and financial stability. Past profits have recently been used to upgrade all our facilities, our computer system, and by providing some of the best interest rates in our area. Mr. Wenger concluded by reminding the membership that the credit union is run by unpaid volunteers that are focused on providing financial assistance to members and ensuring the credit union is even better positioned in the future.

REPORT OF THE PRESIDENT

CEO Greg Fair stated the financial world we live in is far different than it was just a year ago. Interest rates are currently the lowest we have seen in over 50 years. We are also hearing every day about a different bailout that is using taxpayer dollars for the sake of saving and/or stimulating our economy. However, the money being spent comes at a cost and means we are in for bigger government, more regulation, and eventually more taxes.

During all the turmoil in the financial marketplace, Members First did not stand still. Instead, we were focused on upgrading our data processing system in order to improve the products and services we provide. The new system has so far provided document imaging, bill payer, online check cards, and more saving account options. In 2009, we will offer ChangeSaver accounts and in-house credit cards. All this translates into better security of member and credit union records, more services to members, and a more efficient, productive staff. Mr. Fair concluded stating that Members First is committed to offering the latest in products and improving our level of service. He thanked the members for their loyalty, the board for volunteering, and the staff for their efforts this past year.

UNFINISHED BUSINESS

None

NEW BUSINESS

None

NOMINATING COMMITTEE

The Chairman appointed Leon Faught, Charlie Dunn, and Verna Jolley to the nominating committee in September of 2008. The committee was charged with nominating one or more candidates for the two terms expiring in 2009. (According to Credit Union guidelines, each member must be willing to serve, donate time and effort for the Credit Union's future, and be a member in good standing.)

The Nominating committee reported that they had received two applicants for the two open positions on the Board for 3 year terms. The nominees were as follows:

Mark Kulwicki
Larry Dreyer

MOTION by John Arguell, seconded by Noneita West to have the nominees elected by acclamation. MOTION CARRIED.

Door Prizes were awarded.

MOTION by Herman Bell, seconded by Dorothy Filipp to adjourn. MOTION CARRIED.

The meeting was adjourned at 3:40 p.m.

TREASURER'S REPORT

In 2009, credit union results reflected the state of our economy. Net income for the year was \$309,993 which was well below income in 2008 of \$902,280. The drop in income came mainly from three areas. The first was the fact that our loan losses nearly doubled in 2009 totaling \$711,036. The second was a \$98,120 charge from the National Credit Union Share Insurance Fund. As a participant, we had to absorb losses from corporate credit unions that experienced huge losses due to a drop in value of investments in mortgage backed securities. Finally, as a member of Southwest Corporate Federal Credit Union, the corporate credit union that serves Members First as well as most credit unions throughout Texas, we had to write-down the value of our membership capital share account by \$269,556. Again, this write-down was due to losses in the value of mortgage backed securities. Even though these numbers are troubling, we were still able to produce respectable net income and maintain a very high capital to asset ratio of 17.05%.

Although membership grew slightly to 12,448 members, deposits grew more than they ever have in our history. The credit union proved a safe haven to members as deposits increased 17% to end the year at \$68,205,360. Money market funds were up nearly 60% and IRAs up 44%. Consistent with financial activity taken in a poor economy, lending was down as reflected by a 4.3% drop in loans to end the year at \$35,398,228.

Looking forward, we took a number of actions during the year to help improve our financial position for the future. Credit cards are now being processed in-house with a complete conversion expected to be finished this spring. A number of cost cutting moves were made that lowered our operating expense ratio from 4.73% of assets in 2008 to 4.4% in 2009. We also implemented new check card fees but provided alternatives to avoid these fees and a new service where cardholders could earn more dividends.

Rest assured we are committed to ensuring the credit union is financially sound today and well into the future. We value your membership and thank you for supporting the credit union this past year.

Respectfully submitted,



Larry Dreyer,
Secretary/Treasurer

MEMBERS FIRST CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2009 AND 2008

ASSETS

	2009	2008
Cash and cash equivalents	\$ 7,214,035	\$ 9,142,484
Investments	33,849,765	20,689,435
Loans to members, net	35,207,506	36,675,464
Accrued interest receivable	223,885	238,761
Property and equipment	4,712,840	5,094,799
National Credit Union Share Insurance Fund deposit	650,676	501,745
Other assets	1,093,763	1,045,590
Total assets	\$ 82,952,470	\$ 73,388,278

LIABILITIES AND MEMBERS' EQUITY

Liabilities

Members' shares	\$ 68,205,360	\$ 58,226,711
Accrued expenses and other liabilities	1,047,045	1,942,790
Total liabilities	69,252,405	60,169,501

Members' equity

Retained earnings, substantially restricted	14,314,085	14,004,092
Accumulated other comprehensive income (loss)	(614,020)	(785,315)
Total members' equity	13,700,065	13,218,777
Total liabilities and members' equity	\$ 82,952,470	\$ 73,388,278

MEMBERS FIRST CREDIT UNION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
INTEREST INCOME		
Interest on loans to members	\$ 2,724,078	\$ 2,757,186
Interest on investments and cash equivalents	889,975	860,984
TOTAL INTEREST INCOME	3,614,053	3,618,170
INTEREST EXPENSE		
Dividends on members' shares	1,074,419	1,181,688
NET INTEREST INCOME	2,539,634	2,436,482
PROVISION FOR LOAN LOSSES	711,036	452,346
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,828,598	1,984,136
NON-INTEREST INCOME		
Fees and Charges	1,893,503	1,986,462
Other non-interest income	456,560	485,943
TOTAL NON-INTEREST INCOME	2,350,063	2,472,405
INCOME BEFORE GENERAL AND ADMINISTRATIVE EXPENSES	4,178,661	4,456,541
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits	1,602,365	1,642,115
Operations	1,550,479	1,465,322
Occupancy	348,148	440,824
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	3,500,992	3,548,261
NET INCOME BEFORE NCUSIF EXPENSE/SWC LOSS	677,669	908,280
NCUA Corporate Stabilization Expense	98,120	0
Southwest Corporate FCU Capital Shares Write-down	269,556	0
NET INCOME	\$ 309,993	\$ 908,280

MEMBERS FIRST CREDIT UNION
 STATEMENTS OF MEMBERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Retained Earnings			Accumulated Other Comprehensive Income (Loss)
	Regular Reserve	Unappropriated	Total	
Balance, December 31, 2007	\$ 1,514,142	\$ 11,581,670	\$ 13,095,812	\$ (467,093)
Net income		908,280	908,280	
Net change in defined benefit obligations				(283,550)
Net change in unrealized gains (losses) on available-for-sale investments				(34,672)
Balance, December 31, 2008	\$ 1,514,142	\$ 12,489,950	\$ 14,004,092	\$ (785,315)
Net income		309,993	309,993	
Net change in defined benefit obligations				171,295
Balance, December 31, 2009	<u>\$ 1,514,142</u>	<u>\$ 12,799,943</u>	<u>\$ 14,314,085</u>	<u>\$ (614,020)</u>

ELECTION RULES
(as printed in the October 2009 newsletter)

Members interested in running for a position on the Board of Directors must submit a resume for background information and a completed “Director Application and Agreement to Serve” form. A credit history of the applicant and current standing with the credit union will also be reviewed as part of the approval process. All interested parties that receive approval by the Nominating Committee based on these criteria will be included as candidates for upcoming vacancies on the Board of Directors.

Any applicant that the Nominating Committee does not approve will be referred for review by the Board of Directors. These members may be selected if approved by the Board. Any applicant not selected will receive a written explanation describing the reason for disapproval. This information will also be communicated to the Credit Union Department. Interested parties must submit their application no later than December 15, 2009. No nominations will be accepted after this deadline and no nominations may be placed from the floor at the Annual Meeting.

These rules were changed so that all candidates or potential Directors would be in good standing with the Credit Union, would be insurable for bonding purposes, and would receive approval from the Credit Union Department.