

Members First Credit Union Annual Report 2010

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DIRECTORS

Robert Wenger, Chairman (2011)
Leon Faught, Vice-Chairman (2011)
Larry Dreyer, Secretary/Treasurer (2012)
Michael Cuevas (2011)
Verna Jolley (2013)
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 – Michael Cuevas, Chairman

Invocation

Determination of a Quorum

Introduction of Officers and Guests

Minutes of the Previous Meeting

Reports:

Treasurer – Larry Dreyer

Chairman – Michael Cuevas

CEO - Greg Fair

Unfinished Business

New Business

Election of Directors

Attendance Prizes

Adjournment

MINUTES
71st ANNUAL MEMBERSHIP MEETING
March 6, 2010

The 71st Annual Membership Meeting of Members First Credit Union was held on Saturday, March 6, 2010 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 154 members had registered. He certified that a quorum was present and declared it a legal meeting.

The Chairman introduced the Board of Directors: Leon Faught, Vice Chairman, Larry Dreyer, Secretary/Treasurer, Michael Cuevas, Verna Jolley, Mark Kulwicki, and Hector Garcia. The chairman recognized advisory director Yolanda Lozano.

The Board of Directors met for 12 Regular Meetings in 2009 and 1 Special Meeting.

Secretary/Treasurer Larry Dreyer noted a copy of the minutes of the 70th Annual Meeting was provided and asked for a motion to dispense with the reading and accept them as written.

MOTION by Judy Dreyer, seconded by John Seibert to accept the minutes as written. MOTION CARRIED.

REPORT OF TREASURER

Larry Dreyer stated that in 2009 credit union results reflected the state of the economy. Net income for the year was \$309,993 which was well below income in 2008. The drop in income came from loan losses of \$711,000 that were nearly double the amount of the previous year, a \$100,000 charge from NCUSIF, and a write down in the value of our membership capital account with Southwest Corporate Federal Credit Union for \$270,000. Even though these numbers were off previous

years, the credit union was still able to produce respectable income compared to our peers as well as maintain a very high capital to asset ratio of 17%.

Although membership showed little change, deposits grew more than they have in our history. The credit union was a safe haven in troubled times as deposits increased 17% to over \$68 million. Money market funds were up 60% and IRAs were up 44%. Consistent with the economy, loans dropped 4.3% but it appears that the quality of our portfolio has improved.

A number of changes were made to improve the efficiency and productivity of the credit union. Cost cutting moves resulted in lowering operating expenses from 4.73% in 2008 to 4.4% in 2009. Check card fees were implemented but members were offered alternatives to avoid them and a way to earn extra dividends. Credit cards were being brought in-house that will allow the credit union to further cut costs while providing members better service. Mr. Dreyer concluded that we are committed to ensuring the credit union is financially sound today and in the future.

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

REPORT OF CHAIRMAN OF THE BOARD

Robert Wenger reflected that financial institutions had a very rough year last year. In the banking industry, failures were up from an average of 4.5 from 2000 – 2007 to 25 in 2008 and 140 in 2009. This trend does not appear to be over as 15 banks already failed in January. For credit unions, closures were not as much a concern but those identified as troubled increased from 271 in 2008 to 351 in 2009. These credit unions had \$16 billion in deposits in 2008 increasing to \$42 billion last year. Corporate credit unions were even more troubled due to the fact they had invested heavily into mortgage backed securities. This fact resulted in major losses that were passed on to natural credit unions. Losses that wiped out any income in 2009 for a great deal of credit unions and unfortunately the crisis is still not over.

These facts were a concern that would make one look at two areas to determine the health of a credit union. The first was net income and the

second was their capital position. Although most credit unions our size showed little if any income in 2009, Members First was still able to generate a profit of over \$300,000. For the average credit union, the average capital to asset ratio is 10.82%. Members First, however, has a ratio of 17.05%, or more than 50% higher than the average. We are in tough times but Members First is well positioned to handle whatever comes our way.

REPORT OF THE PRESIDENT

Greg Fair stated that there are many common phrases that we use every day without realizing where they came from. We also act repetitively to the point where we may not be conscious of what we are doing and why. People mindlessly say and do things but it also happens to credit unions as well. As a result, they could suddenly find themselves with low income, poor capital, or negative growth.

Last year, we found ourselves in a situation where we had to stop and challenge what we were doing and why. The poor economy was making it hard to get loans, losses were up, fee income was down, and there was more competition than ever. We realized we could not do what we have done in the past and expect to prosper. We also could not copy what larger institutions were doing without regard to the impact it would have on our capital position. We had to look at what worked and understand why. We had to take advantage of our strengths, adopt new products only when advantageous, and review all areas to make sure each activity was contributing to the overall success of the credit union.

The credit union effectively made changes in all these areas this past year. Looking forward, we expect to lower loan losses while still making more loans. We know new regulations are coming that could change our operations but we are ready to adapt. We have an able staff and are committed to providing superior service and being the financial institution our members turn to first for all their financial needs.

After his report, the President noted that Robert Wenger had now served the credit union for 40 years. Mr. Wenger was provided a gift reflecting the gratitude of the credit union and hope that he would serve for many years to come.

UNFINISHED BUSINESS

None

NEW BUSINESS

MOTION by John Arguell, seconded by Leon Faught to award Robert Wenger the title of Director Emeritus. MOTION CARRIED.

NOMINATING COMMITTEE

The Chairman appointed Larry Dreyer, Michael Cuevas, and Mark Kulwicki to the nominating committee in September of 2009. The committee was charged with nominating one or more candidates for the two terms expiring in 2010. (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 received one applicant for the two open positions on the Board for 3 year terms. The nominee was as follows:

Verna Jolley

MOTION by Camest West, seconded by Martha Fair to have the nominee elected by acclamation. MOTION CARRIED.

Chairman Wenger stated that since we had one applicant for two open positions, the board was responsible for finding a volunteer to fill this open position until the next Annual Meeting. Last month, Hector Garcia applied to fill this position, was approved by the board and will begin serving at their next regular monthly meeting.

Door Prizes were awarded.

MOTION by Erasmo De La Rosa, seconded by Baldemar Garcia to adjourn. MOTION CARRIED.

The meeting was adjourned at 3:50 p.m.

TREASURER'S REPORT

The credit union drastically improved its financial position in 2010. While 2009 was an off year with net income of \$309,993, net income more than doubled in 2010 increasing to \$668,347. This increase was achieved in spite of a \$181,100 charge from the National Credit Union Share Insurance Fund and a \$415,745 write-off of our remaining Membership Capital Share Account with Southwest Corporate Federal Credit Union (these charges were a result of corporate credit unions writing down the value of mortgage backed securities in which they had heavily invested). Our return on average assets for 2010 was 0.68% compared to our (9/30/10) peer ratio of 0.04%. These results show that numerous changes in operations were successful allowing the credit union to remain financially sound. Our net worth ratio which reflects the overall health of the credit union ended the year at 16.91% compared to peer of 12.13%. This denotes that we are well positioned for the future.

Total assets increased 6.8% during 2010 to end the year at \$88,619,458. Member deposits were the reason for the growth which are now \$73,195,488. The brightest spot for the year points to the improvement of our loan portfolio. Loans experienced one of the largest growth periods in many years with an increase of 11.4% to end the year at \$39,742,271. In addition, our delinquency ratio improved from 1.39% to 0.82% and our loan charge-off ratio dropped from 1.76% to .045%. Both of these ratios are better than they have been in the last 10 years. We are especially pleased with these results considering the state of our economy and the fact that unemployment is so high.

Credit union membership has stayed constant in recent years and is now 12,017 members. However, members using our services continue to grow. At year end, we had 6,365 share draft accounts, 762 money market accounts, 420 IRAs, 1,035 Kids Club accounts, 6,171 VISA check cards, 1,012 credit cards, and 9,467 members using our CU Online service.

Looking back, this past year was very challenging for financial institutions. We had to absorb huge losses from the ramification of the drop in mortgage values, become more efficient and productive, provide financial assistance to our members, comply with increasing government regulations, and remain competitive in service, rates, and fees. To this end, 2010 was a big success.

Respectfully submitted,



Larry Dreyer,
Secretary/Treasurer

MEMBERS FIRST CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2010 AND 2009

ASSETS

| | 2010 | 2009 |
|--|-------------------|-------------------|
| Cash and cash equivalents | \$ 6,589,072 | \$ 7,214,035 |
| Investments | 36,316,116 | 33,849,765 |
| Loans to members, net | 39,310,109 | 35,207,506 |
| Accrued interest receivable | 235,847 | 223,885 |
| Property and equipment | 4,213,501 | 4,712,840 |
| National Credit Union Share Insurance Fund deposit | 701,457 | 650,676 |
| Other assets | 1,253,356 | 1,093,763 |
| Total assets | \$ 88,619,458 | \$ 82,952,470 |

LIABILITIES AND MEMBERS' EQUITY

Liabilities

| | | |
|--|---------------|---------------|
| Members' shares | \$ 73,195,488 | \$ 68,205,360 |
| Accrued expenses and other liabilities | 937,810 | 1,047,045 |
| Total liabilities | 74,133,298 | 69,252,405 |

Members' equity

| | | |
|---|-------------------|-------------------|
| Retained earnings, substantially restricted | 14,982,432 | 14,314,085 |
| Accumulated other comprehensive income (loss) | (496,272) | (614,020) |
| Total members' equity | 14,486,160 | 13,700,065 |
| Total liabilities and members' equity | \$ 88,619,458 | \$ 82,952,470 |

MEMBERS FIRST CREDIT UNION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

| | 2010 | 2009 |
|--|--------------|--------------|
| INTEREST INCOME | | |
| Interest on loans to members | \$ 2,707,369 | \$ 2,724,078 |
| Interest on investments and cash equivalents | 877,729 | 889,975 |
| TOTAL INTEREST INCOME | 3,585,098 | 3,614,053 |
| INTEREST EXPENSE | | |
| Dividends on members' shares | 862,893 | 1,074,419 |
| NET INTEREST INCOME | 2,722,205 | 2,539,634 |
| PROVISION FOR LOAN LOSSES | 249,482 | 711,036 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 2,472,723 | 1,828,598 |
| NON-INTEREST INCOME | | |
| Fees and Charges | 1,667,525 | 1,893,503 |
| Other non-interest income | 594,449 | 483,485 |
| TOTAL NON-INTEREST INCOME | 2,261,974 | 2,376,988 |
| INCOME BEFORE GENERAL AND ADMINISTRATIVE EXPENSES | 4,734,697 | 4,205,586 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Salaries and benefits | 1,507,864 | 1,602,365 |
| Operations | 1,530,634 | 1,550,479 |
| Occupancy | 368,221 | 348,148 |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | 3,406,719 | 3,500,992 |
| NET NON-OPERATING GAINS (LOSSES) | 62,786 | 26,925 |
| NET INCOME BEFORE NCUSIF EXPENSE/SWC LOSS | 1,265,192 | 677,669 |
| NCUA Corporate Stabilization Expense | 181,100 | 98,120 |
| Southwest Corporate FCU Capital Shares Write-down | 415,745 | 269,556 |
| NET INCOME | \$ 668,347 | \$ 309,993 |

MEMBERS FIRST CREDIT UNION
 STATEMENTS OF MEMBERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

| | Retained Earnings | | | Accumulated Other Comprehensive Income (Loss) |
|---|--------------------|----------------|---------------|--|
| | Regular Reserve | Unappropriated | Total | |
| 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 | \$ 1,514,142 | \$ 12,799,943 | \$ 14,314,085 | \$ (614,020) |
| Net income | | 668,347 | 668,347 | |
| Net change in defined benefit obligations | | | | 117,748 |
| Balance, December 31, 2010 | \$ 1,514,142 | \$ 13,468,290 | \$ 14,982,432 | \$ (496,272) |

ELECTION RULES
(as printed in the October 2010 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, 2010. 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.