

Members First Credit Union Annual Report 2018

Table of Contents

Directors and Management.....	2
Agenda.....	3
Minutes, 79 th Annual Membership Meeting.....	4
Treasurer's Report.....	8
Statements of Financial Condition.....	9
Statements of Income.....	10
Statements of Members' Equity.....	11
Election Rules.....	12

DIRECTORS

Manuel Esquivel III, Chairman (2020)
Samuel Shores, Vice-Chairman (2019)
Roman Almaguer, Secretary/Treasurer (2021)
Mark Kulwicki (2021)
Hector Garcia (2021)
Yolanda Lozano (2020)
Sabra Morlan (2019)

MANAGEMENT

Greg Fair, Chief Executive Officer
Wanda Muessel, Chief Operations Officer
Belinda Reeves, Member Service Manager
Sherry Hernandez, Financial Service Manager
Eric Flores, Consumer Loan Manager
Debra Garza, Mortgage Loan Manager
Brenda Collins, Harlingen Branch Manager
Paul Besse, Accounting Manager
Blake Kemmis, IT Manager
Chris Vega, Collections Manager
Rachael Storr, Marketing Director
Adriana Crisp, Human Resources Manager

AGENDA

Welcome – Manuel Esquivel III, Chairman

Invocation

Determination of a Quorum

Introduction of Directors

Minutes of the Previous Meeting

Reports:

Treasurer – Roman Almaguer

Chairman – Manuel Esquivel III

CEO - Greg Fair

Unfinished Business

New Business

Election of Directors

Adjournment

MINUTES
79th ANNUAL MEMBERSHIP MEETING
March 1, 2018

The 79th Annual Membership Meeting of Members First Credit Union was held on Thursday, March 1, 2018 at the main office located at 5444 S. Staples, Corpus Christi, Texas.

Chairman of the Board Manuel Esquivel III welcomed members and brought the meeting to order at 5:58 p.m.

The Chairman verified that 41 members had registered. He certified that a quorum was present and declared it a legal meeting.

The Chairman introduced the Board of Directors: Manuel Esquivel III (Chairman), Yolanda Lozano (Vice Chairman, not present), Samuel Shores (Secretary/Treasurer), Larry Dreyer, Mark Kulwicki, Hector Garcia, and Roman Almaguer.

The Chairman stated the board met for 12 regular monthly meetings in 2017 and 1 special meeting.

Secretary/Treasurer Samuel Shores noted a copy of the minutes of the 78th Annual Meeting was provided in the 2017 Annual Report and asked for a motion to dispense with the reading and accept them as written.

MOTION by Judy Dreyer, second by Blake Kemmis to accept the minutes as written. MOTION CARRIED.

REPORT OF TREASURER

Samuel Shores reported that the credit union had a solid year in 2017 with continued financial strength and improved growth. Capital reached 19.17% with balanced growth in loans (3%) and deposits (2%). Net income was strong due to having the lowest operating expense ratio we have experienced in over 10 years. Loan losses were high for the second year in a row, an amount nearly 50% higher than average. However, loss of jobs seemed to be the main contributor and hopefully a strengthened economy would help lower these losses in the future.

Membership growth was 2.1% for the year, the highest experienced in over 5 years. Membership increased to 11,830 and active members, as seen by share draft accounts of 8,364, continue to improve. Mr. Shores thanked the board for contributing their services and commended the staff on a job well done.

MOTION by Blake Kemmis, second by Rachael Storr, approving the Treasurer's Report as written. MOTION CARRIED.

REPORT OF CHAIRMAN OF THE BOARD

Manuel Esquivel III stated our financial reports show that credit union income and capital is strong, member participation increased, and total membership is growing. Profits of the past had been used in upgrading our facilities allowing us to grow, add convenience, upgrade our visibility and presence in the community, and have prepared us for the future. Now resources are mainly being spent on upgrading technology. It allows faster response time, processing of more transactions more quickly, greater storage, and instantaneous access of members to their account information and funds.

Mr. Esquivel reflected that the credit union is doing quite well and our future is even more promising. We are committed to making a positive difference in the lives of our members and being their most preferred and trusted financial institution. He thanked his fellow board members for volunteering and the staff for their dedication in improving the credit union.

REPORT OF THE CEO

Greg Fair reflected the credit union was the result of an AHA moment when our founders discovered a way to avoid higher loan rates and receive higher returns on savings accounts. For most of the life of the credit union, the only two services were personal loans and share accounts with the importance being rates. From the time we added share draft accounts, providing convenience has become an ever increasing priority of operations. Another large change in credit union operations was member expansion. Diversifying added safety as well as increasing in size.

The credit union faces many challenges including increased competition, an up and down economy, new regulations, and keeping up with technological advances. However, the credit union has and will continue to be successful as long as we find answers to member financial problems. Mr. Fair thanked the board for their time and guidance and the staff for a productive year.

UNFINISHED BUSINESS

None

NEW BUSINESS

None

NOMINATING COMMITTEE

The Chairman appointed Larry Dreyer, Samuel Shores, and Yolanda Lozano to the nominating committee in September of 2017. The committee was charged with nominating three or more candidates for three 3 year terms expiring in 2018 (according to Credit Union guidelines, each member must be willing to serve, have an appropriate credit history, donate time and effort for the Credit Union's future, and be a member in good standing).

The Nominating committee reported they received three applicants for the three open positions on the Board. The nominees were:

Roman Almaguer
Mark Kulwicki
Hector Garcia

MOTION by Blake Kemmis, second by Rachael Storr to elect the nominees by acclamation. MOTION CARRIED.

CONCLUSION AND ADJOURNMENT

Chairman Manuel Esquivel III concluded the business of the meeting.

MOTION by Debra Garza, second by Andrea Cadena to adjourn the meeting. MOTION CARRIED.

The meeting was adjourned at 6:14 p.m.

TREASURER'S REPORT

Members First Credit Union had a very successful year in profitability, capital strengthening, loan growth, and account growth. Providing quality service and products as well as account safety are top priorities and results reflect this was reached in 2018. Net income for the year was \$1,691,310 providing a capital contribution ratio of 1.34%. This is up from the previous year of 1.11% and well above peer of 0.73%. Our high degree of profitability was due to a low net operating expense ratio of 1.24% which is only about half that of our peers whose average ratio is 2.29%. Our capital to asset ratio, the main indicator of financial strength, climbed to 20.73%, the highest level in our history.

Current and future success is dependent on making loans to members and growing our loan portfolio. This past year we funded \$22,189,923 in loans and grew our loan portfolio by 7.4% to end the year at \$62,777,327. This is the highest level of loan growth in the past 3 years. The only negative in lending was continued higher than normal loan losses with \$437,052 in loan balances being charged off. Although loan losses were higher than we would like, net income from loans still contributed greatly to overall results and we see no reason to change our current level of loan funding and helping as many members as possible.

Increasing the users of our services is important to us as well as the quality of service and products we provide. Results were positive in this area with membership up 0.7% to end the year at 11,918 members. Accounts that reflect active members all showed positive growth with share draft accounts up 2.8%, check cards 4.3%, and credit cards up 3.9%.

Each year the credit union has a Supervisory Committee Audit performed by a third party to review our accounting practices and records. This past year the audit was performed by Harold Antao & Company LLC and there were no major concerns or findings.

Members First is committed to making a positive difference in the lives of our members as can be seen by our competitive rates and fees. We want to be a trusted financial service provider and feel our continued profitability and strong capital reflects the highest level of financial strength one can expect in a financial institution. I want to thank our members for their loyalty and making 2018 such a successful year. I commend the staff on a great job and to my fellow directors for donating their time and expertise to the success of the credit union.

Respectfully submitted,



Roman Almaguer Jr.
Secretary/Treasurer

MEMBERS FIRST CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
Cash and cash equivalents	\$ 6,281,623	\$ 14,349,361
Investments	51,772,102	49,143,652
Loans to members, net	62,302,033	58,021,069
Accrued interest receivable	302,299	565,789
Property and equipment	4,724,309	4,906,630
National Credit Union Share Insurance Fund deposit	974,202	843,916
Other assets	1,304,413	1,401,396
Total assets	\$ 127,660,981	\$ 129,231,813

LIABILITIES AND MEMBERS' EQUITY

Liabilities		
Members' shares	\$ 100,750,808	\$ 103,903,095
Accrued expenses and other liabilities	1,506,644	1,590,717
Total liabilities	102,257,452	105,493,812
Members' equity		
Retained earnings, substantially restricted	26,464,396	24,773,086
Accumulated other comprehensive income (loss)	(1,060,867)	(1,035,085)
Total members' equity	25,403,529	23,738,001
Total liabilities and members' equity	\$ 127,660,981	\$ 129,231,813

MEMBERS FIRST CREDIT UNION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
INTEREST INCOME		
Interest on loans to members	\$ 3,149,295	\$ 3,174,015
Interest on investments and cash equivalents	1,136,028	933,648
TOTAL INTEREST INCOME	4,285,323	4,107,663
INTEREST EXPENSE		
Dividends on members' shares	457,064	459,718
NET INTEREST INCOME	3,828,259	3,647,945
PROVISION FOR LOAN LOSSES	545,778	523,549
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,282,481	3,124,396
NON-INTEREST INCOME		
Fees and Charges	1,423,400	1,307,239
Other non-interest income	1,164,514	947,967
TOTAL NON-INTEREST INCOME	2,587,914	2,255,206
INCOME BEFORE GENERAL AND ADMINISTRATIVE EXPENSES	5,870,395	5,379,602
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits	2,159,957	2,063,310
Operations	1,562,762	1,564,110
Occupancy	457,764	437,253
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	4,180,483	4,064,673
NET NON-OPERATING GAINS (LOSSES)	1,398	18,413
NET INCOME	\$ 1,691,310	\$ 1,333,342

MEMBERS FIRST CREDIT UNION
 STATEMENTS OF MEMBERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Retained Earnings			Accumulated Other Comprehensive Income (Loss)
	Regular Reserve	Unappropriated	Total	
Balance, December 31, 2016	\$ 1,514,142	\$ 21,925,602	\$ 23,439,744	\$ (984,212)
Net income		1,333,342	1,333,342	
Net change in defined benefit Obligations				(42,320)
Balance, December 31, 2017	\$ 1,514,142	\$ 23,258,944	\$ 24,773,086	\$ (1,035,085)
Net income		1,691,310	1,691,310	
Net change in defined benefit obligations				(25,782)
Balance, December 31, 2018	<u>\$ 1,514,142</u>	<u>\$ 24,950,254</u>	<u>\$ 26,464,396</u>	<u>\$ (1,060,867)</u>

ELECTION RULES

(as printed in the October 2018 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, 2018. 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.