



# 2008 Annual Report

Vermont State Employees Credit Union

## Chairman's Report



This is the time of year when I look back and reflect on the accomplishments, successes and challenges we experienced during the previous year. As much as our 2008 milestones deserve some celebration, I can't help but be somber, knowing that the external forces that started to rear their ugly head in the middle of the year will likely have some kind of bearing on our future, more about that later.

Your Board welcomed four new Directors in 2008, each of whom brought a fresh and new perspective to the table. We spent time last year looking inward at Board governance, strategic planning, transparency and member communication. Your Board is in sync with a pledge to be engaged with our members. We are working to provide more, not less information, and to resurrect outreach activities with our members. Efforts are underway to develop advisory committees or groups around the state to get more input from our members. We're making progress in involving more member participation as part of the decision making process that happens each month at our Board meetings. We encourage our members to share their thoughts and opinions with us by e-mail, letter writing or in person at the member "open forum" at the beginning of each Board meeting.

The first half of the year started off with business as usual. We're in the business of loaning money to members who have borrowing needs and paying members a premium (dividend) for depositing and saving at VSECU. During the first half of the year, loans were strong and a flight to safety brought in over \$62 million in new deposits from members — a record amount in one year. Then the news came that we were officially in a recession since December 2007. Add on top of that the subprime mortgage disaster and the domino effect began to ripple through the entire financial services industry.

VSECU was not a participant or contributor to this economic meltdown. Our business model calls for an investment in our members — not some speculative, keep your fingers crossed investment strategy. Our lending practices call for responsible, prudent and down-to-earth lending — not unrealistic practices that provide for a corporate monetary gain at the expense of putting a member and his or her family at risk. But despite our aversion to this type of greed, our institution was not, and is not, immune from the practices of others.

We began to see the impact of instant and repetitive media coverage that credit markets were frozen and that the ability to borrow had all but vanished. Immense fear that families would not be able to borrow to purchase a home, car, or send a child to college paralyzed many. Towards the end of 2008, through advertisements and direct member communications, we tried our best to send a message that we had money to lend. We are not a bank. We are a credit union. We have money to lend.

Our efforts were somewhat fruitful, although we did see a slowdown in consumer borrowing towards the end of the year. Undoubtedly, some of the slowdown is a result of member responsibility. A recession, unstable stock market, rising unemployment, business closings, government bailouts, etc., paints an erratic and overwhelming picture. Times of uncertainty should cause all of us to pause and manage our finances responsibly. Know however, that if you do have a true need to borrow, your credit union does have money to lend. There is no credit crunch here and we will continue to follow underwriting practices that protect you and our membership.

Our biggest challenge in 2008 was to find ways to offset the consequences of these new external factors. Keeping our operational expenses below budget was an important goal that we accomplished. Your management team and all staff at VSECU worked hard to make that happen. Simple things like turning off lights and eliminating unnecessary business items helped us to achieve that goal.

Promoting and reassuring our members that their savings are safe at VSECU was at the top of our list. Deposits at VSECU are now federally insured up to \$250,000. Members looking for safety can, and should, rely on us.

The most proactive measure we took was an action to protect our membership from the uncertainty that lies ahead. This is where I want to address the future.

I don't have a crystal ball. But I do know that the ground rules are changing and the future is unclear. Your Board of Directors has had many "what if" discussions to ensure that every possible scenario is being covered. We will have members that find themselves in dismal situations and we must be prepared for that. Recognizing that scenario, we put aside over \$800,000 from our earnings in 2008 into a reserve to cover future potential losses. Is that too much? Not enough? It's difficult to know.

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In hindsight, the introspective look by your Board of Directors could not have come at a better time. We are realistically and financially poised to ride out the storm. Our most important relationship is with you. Being open and engaged is going to be imperative. We will keep you informed. And we are in a strong financial position with capital and reserves ready to fulfill the need for which each was created. We haven't needed to tap into somebody else's bailout fund. We are self-reliant.

Although somber, I remain confident that now more than ever, VSECU is the right place for you to be. We are a local, home grown, member-owned cooperative guided by not-for-profit principles ... an advantage that you will not find at any bank.

## Treasurer's Report

Despite the financial and economic changes that began to transpire in 2008, our credit union had a very good year from an operational perspective. Our earnings were stronger than anticipated, expenses were below budget and we experienced outstanding asset growth increasing nearly \$75 million from the previous year.

Most of our asset growth was driven by an increase in deposits. We offered very competitive rates on certificates of deposit for most of the year and attracted over \$30 million in certificates, representing nearly one half of our total deposit growth. Members were seeking liquid funds in 2008 and we saw an influx back into money market share accounts where another \$18 million in new monies came to VSECU. In total, our deposits grew nearly \$63 million — phenomenal growth for a one year period, especially during a falling interest rate environment.

While VSECU continued to offer some of the lowest loan rates in the market for its members, borrowing grew modestly. We began to see a shift in lending as members became more observant and cautious as the year unfolded with news of economic distress. Borrowing for auto loans and other secured and unsecured loans dropped significantly towards the end of the year resulting in a somewhat stagnant consumer loan portfolio. The upside of the economic state brought mortgage rates down and members began to take advantage of refinancing opportunities. We closed \$67 million in first mortgages in 2008. So despite a slow down on the consumer side, our total loan portfolio grew a healthy 9.0% due to the high mortgage activity.

Earnings were solid and exceeded our 2008 forecast by 17%. We ended the year with a gain of \$1.5 million. Given this strong revenue position and suspecting that external factors

In closing and on behalf of the Board of Directors, thank you for being a part of the Vermont State Employees Credit Union. We will be here for you in the future.

*Respectfully submitted,  
M. Jerome Diamond, Chairman*

in 2009 could bring more economic stress to our members, your Board of Directors made an allowance for loan loss provision from our 2008 earnings. A total of \$880,000 was allocated from earnings to loan loss reserves for added protection against potential loan losses. Subtracting the loan loss provision from earnings resulted in a net gain of \$667,166.

Our capital position remains healthy. Our goal was to decrease our 10% capital position to 9% by year end. We are well capitalized at 8.64% at the end of the year.

Your credit union is financially strong and solvent. As we look to the future you can feel good about a few things:

One, although we have made a provision to protect against possible future losses, our delinquency is lower than our peers and down from 2007 from 0.37% to 0.29%. This is a testament of our responsible underwriting and our members' commitment to VSECU.

Two, your Board is committed to offering some of the highest savings and lowest loan rates in the marketplace. As the margin between the two narrows, our ability to be effective and efficient in the management of operations is crucial. We will continue to look for ways to be lean without sacrificing service to you.

And lastly, we are a growing member-owned financial institution that has positive earnings. We are a \$440 million credit union serving over 44,000 members who believe that our cooperative model will bring greater peace of mind with financial security. This is the right place for you to be, today and tomorrow.

*Respectfully submitted,  
Paul Hill, Jr., Treasurer*

# 2008 Financial Statement

## Statement of Financial Condition

	2008	2007
Cash and Cash Equivalents	\$ 19,640,812	\$ 14,471,445
Investments	\$ 85,635,043	\$ 41,746,710
Loans to members, net of the allowance for loan losses	\$ 315,182,867	\$ 290,012,210
Loans held for sale	\$ 2,869,194	\$ 1,108,810
Property and equipment	\$ 9,647,331	\$ 9,185,354
National Credit Union Share Insurance Fund deposit	\$ 3,565,515	\$ 3,073,800
Other Assets	\$ <u>3,819,230</u>	\$ <u>6,173,872</u>
<b>Total Assets</b>	<b>\$ <u>440,359,992</u></b>	<b>\$ <u>365,772,201</u></b>

## Liabilities and Equity

Liabilities	\$ 2,403,156	\$ 2,227,217
Borrowed Funds	\$ 10,000,000	\$ 0
Commitments and contingent liabilities	\$ 0	\$ 0
Members' shares	\$ 388,799,694	\$ 325,958,271
Equity		
Retained earnings, substantially restricted	\$ 38,053,322	\$ 37,386,156
Other Comprehensive Income	\$ 68,695	\$ 85,785
Net unrealized gains (losses) on available-for-sale investments	\$ <u>1,035,125</u>	\$ <u>114,772</u>
<b>Total Liabilities and Equity</b>	<b>\$ <u>440,359,992</u></b>	<b>\$ <u>365,772,201</u></b>

## Statement of Income

	2008	2007
Interest Income		
Interest on loans to members	\$ 18,552,037	\$ 17,240,914
Interest on investments and cash equivalents	\$ <u>2,713,060</u>	\$ <u>2,269,382</u>
	\$ 21,265,097	\$ 19,510,296
Interest Expense		
Dividends on members' shares	\$ <u>9,886,364</u>	\$ <u>8,371,269</u>
Net Interest income	\$ 11,378,733	\$ 11,139,027
Provision for loan losses	\$ <u>880,000</u>	\$ <u>120,000</u>
Net interest income after provision for loan losses	\$ 10,498,733	\$ 11,019,027
Non-interest income	\$ <u>3,405,156</u>	\$ <u>3,670,943</u>
	\$ 13,903,889	\$ 14,689,970
General and administrative expenses	\$ <u>13,236,723</u>	\$ <u>13,688,030</u>
<b>Net Income</b>	<b>\$ <u>667,166</u></b>	<b>\$ <u>1,001,940</u></b>

## Supervisory Committee Report

In accordance with the provisions of Title 8, Vermont Statutes Annotated, Chapter 221, Section 31306, the Supervisory Committee oversaw a comprehensive audit of the books and affairs of the Vermont State Employees Credit Union for the twelve months ending August 31, 2008, performed by Wolf and Company, of Boston, Massachusetts. We have reviewed the audited financial statements and supporting footnotes to the financial statements. The Committee has presented the results of the audit to the Board. The Committee is satisfied that the work of the audit firm is accurate and complete.

A copy of the opinion and financial statement audit report presented by Wolf and Company is available upon request. Please contact the credit union for more information.

*Respectfully submitted,*  
*Normand Desrochers, Supervisory Committee Chair*

# Chief Executive Officer's Message



It's quite amazing to look back and reflect on 2008. One might think that extraordinary financial and economic events of the year would have made 2008 difficult for VSECU. In fact, just the opposite is true. We had one of our strongest years ever.

All year long we provided credit to members who had borrowing needs. Total loans grew to over \$319 million. And members

seeking insurance and safety for their savings helped to grow our deposit base more in one year than any other during my 18 years here. We attracted over \$62 million in new deposits.

Our credit union is financially sound. We returned as much of our earnings to members as possible while retaining capital and preparing cautiously for the difficult times ahead. We have never engaged in sub-prime lending or other speculative activities like some other institutions. Member deposits are safe and now insured up to \$250,000. But it's not just our business operations, practices or policies that continue to make us successful ... it's also our members and our commitment to invest in our members.

This past year we demonstrated this commitment by offering more money saving opportunities:

- Our mortgage rates were at an all time low to help members refinance and save on their monthly mortgage payments.
- Our fuel buying program, VHeat, saved members anywhere from \$0.50 – \$1.30 per gallon on home heating fuel.
- We eliminated the monthly service fee on checking accounts so that free checking is now a standard at VSECU.
- Auto loan rates were kept low throughout the car buying season so that more members could take advantage of combined dealer rebates and low interest rate loans.

- And we offered very competitive rates on our Term Share Certificates and Money Market Accounts so that members could earn more on their insured deposits.

Also this past year our members demonstrated their commitment to VSECU. There's no doubt that some of our members have begun to feel the financial stress of these economic times. But between our prudent and responsible lending and our members' commitment to their credit union, our delinquency on loans remains low by industry standards. That's good news for the entire membership.

And lastly, we took time this year to reconnect with our members and conducted a comprehensive member satisfaction survey. In the summer of 2008 over 7,000 member surveys were mailed and members took the time to complete an exhaustive survey to help us understand our strengths and weaknesses. You can be assured that everyone at VSECU is aware that our professionalism, friendliness, knowledge, accuracy and ability to resolve problems are the most important attributes for our members to experience. We are working hard to make sure those core fundamentals are at work each time you contact us.

When we look back at 2008, there's an abundance of indicators that should make us feel good about our cooperative – VSECU is a good place to be. When we look ahead to 2009, we do so with keen awareness that we will not be immune to the economic difficulties ahead. As always, the staff and Directors are dedicated to providing realistic and responsible solutions to your financial needs.

I thank each and every member for their reliance, commitment and trust in our financial cooperative.

*Respectfully submitted,*  
Steven D. Post, CEO

## Credit Committee Report

We have money to lend! That was our mantra in 2008 amidst the credit crunch that so many of us heard or read about in the media as a result of tightening or frozen financial markets in the banking industry.

The reason VSECU was able to fulfill member borrowing needs is because our approach to lending to members has always been pragmatic, responsible and independent of outside resources. We have not participated in sub-prime lending or other outside speculative activities that have prevented some lenders from being able to make loans. Just over 8,000 members came to VSECU in 2008 for some type of consumer loan and 7,591 of those loans were approved.

Members of the Credit Committee are pleased to see that our cooperative business model of pooling member resources along with prudent business practices has enabled us to help so many members. As always, we encourage members to use their credit wisely and use their credit union first.

*Respectfully submitted,*  
Nellie Gillander, Credit Committee Chair

Type of Loan	Total Loans	Total Dollar Amount
Signature	3,040	\$10,152,991.10
New Vehicles	432	\$7,500,545.31
Used Vehicles	2,247	\$23,105,289.93
Preferred	411	\$2,094,114.46
Credit Card	776	\$2,318,265.00
Energy Efficient	37	\$211,072.80
Other	416	\$3,627,400.97
ODLOC	232	\$148,700.00
First Mortgages	462	\$67,571,460.00
Home Equity Loans	522	\$19,725,270.00
Home Equity Lines of Credit	156	\$7,517,100.00
<b>TOTAL</b>	<b>8,731</b>	<b>\$143,972,209.57</b>

# Minutes *of the Sixty-First Annual Meeting of the Members of the Vermont State Employees Credit Union — March 31, 2008*

The Sixty-First Annual Meeting of the members of the Vermont State Employees Credit Union was held at the Barre Civic Center, Barre, Vermont, on March 31, 2008.

Board Chairman Jerry Diamond called the 61st Annual Meeting of the VSECU to order at 7:35 PM.

Chairman Diamond then introduced the volunteer members of the Credit Committee, Supervisory Committee, and Board of Directors:

#### **Credit Committee**

Nellie Gillander, Chair  
Richard Cron  
Helen Weed

#### **Supervisory Committee**

Normand Desrochers, Chair  
Joseph Healy  
Jana Bagwell

#### **Board of Directors**

Sarah Miller, Vice Chairman  
Paul Hill, Jr., Treasurer  
Randall Loso, Secretary  
Kimberly Cheney  
Agnes Hughes

Robert Morgan  
Robert Murphy  
Allen Ploof  
Judith Rosenstreich

#### **Determination of a Quorum:**

Article 5; Section 1 of the VSECU Bylaws states that 1% of the membership must be present at the meeting in order to constitute a quorum. As of the meeting date, there were 43,084 members of the Vermont State Employees Credit Union and therefore 431 members needed to be present to officially conduct the business of the Annual Meeting. All members of the Credit Union were asked to stand to determine if there was a quorum. Chairman Diamond noted for the record that 533 member tickets had been sold and that it appeared most were in attendance.

Chairman Diamond declared that a quorum was present.

#### **Proof of Notice of Annual Meeting:**

Chairman Diamond stated that, in accordance with Article 5; Section 2 of the VSECU Bylaws, notice of the meeting had been mailed to all members and posted in the offices of the Credit Union. Certification will be kept on file at the credit union that both the posting and the mailing were done within the time frame set forth in the Bylaws.

#### **Appointment of Parliamentarian:**

Chairman Diamond proposed the meeting be conducted under Robert's Rules of Order and appointed Jackie Hughes as Parliamentarian. There were no objections.

#### **Reading of the Minutes of the 60th Annual Meeting:**

Chairman Diamond entertained a motion to dispense with the reading of last year's minutes and accept them as printed.

*Joe Healy moved to approve the 60th Annual Meeting Minutes, the motion was seconded by Jennie Brown and carried.*

#### **Officer Reports and 2007 Annual Report:**

Chairman Diamond stated that copies of the 2007 Annual Report had been distributed prior to the meal at each place setting. The Annual Report contained written reports from the Chairman, Treasurer, Supervisory Committee, Credit Committee, and the CEO.

Chairman Diamond called for a motion to accept the reports as printed.

*Shirley Stickell moved to accept the Reports as printed. Richard Cron seconded the motion. The floor was then opened for discussion.*

Leroy Carlson questioned the cancellation of the post-retirement health benefit for retired VSECU employees. He said he was disappointed with the decision and felt that it was unfair and degrading to employees. He said a better course of action would have been to continue the benefit as an example to other companies of how to fairly treat their employees. Chairman Diamond explained the reasons the post-retirement health benefit and the employees' defined benefit pension plan had been phased out. Both plans were expensive to maintain and often required expenditures that were difficult if not impossible to predict and therefore could not be properly planned for.

Carmen Barone asked whether the decision to end the benefits had been put forward to employees before it was made. Chairman Diamond explained that a benefit survey had been done that suggested employees would be receptive of the changes, but no binding vote had been taken.

There being no additional discussion, Chairman Diamond called for a vote. *The motion carried.*

#### **Election of Officers:**

Chairman Diamond stated there were four three-year positions up for election this year. Additionally, another opening was created when Donald Rockwell resigned from the Board to take a job out of state. Thus there was a fifth seat to be filled for a two-year term this year. Once the balloting was complete, the four candidates with the most votes will serve the four three-year terms and the candidate with the fifth-highest vote total will serve the two-year term.

He expressed his appreciation to the three members who served on the Nominating Committee: Chair Will Belongia, Robert Shattuck, and Brian Woods. He thanked them for their work, noting that the Report of the Nominating Committee was printed on the bottom of the front side of the Agenda for the night's meeting. The Committee had nominated the following eight members: Kimberly Cheney, Bennett Evans Greene, Wayne Hersey, Robert Hooper, Thomas Joslin, Randall Loso, Terence Macaig, and Giovanna Peebles. He explained that the Bylaws also provide an alternate means by which a member can be nominated to serve as Director: submission of a petition to the Supervisory Committee. The Report of the Supervisory Committee also appeared on the bottom of the front side of the Agenda. One member, Vincent Illuzzi, had submitted a petition this year and was also a candidate for election.

Because there had only been one candidate nominated for election to the single open position on the Credit Committee, a balloted election for that seat was not necessary. Chairman Diamond called for a motion for the Secretary to cast one ballot for Richard Cron to be elected to a three-year term on the Credit Committee. *Ed Miller moved to have the Secretary cast*

