



V-News

*"VSECU is an easy choice. I wouldn't go anywhere else."
— Courtney, Member for 7 years*

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Message from Steve Post, CEO

Nobody likes to pay fees and everybody can find a particular fee to really dislike.

The Board of Directors spends considerable time evaluating fee-related issues and recognizes that assessing fees within a member-owned institution may seem counterintuitive to some members. So, below is brief explanation of the financial forces at work that make service charges and fees more and more prevalent in our industry. Next month, I'll continue the discussion by explaining things that can be easily done to reduce or eliminate most fees.

Why are fees important when the bulk of our business is serving members' borrowing and savings needs?

First, services offered at your credit union have grown beyond traditional saving and loan services. These added services such as ATM, online and bill pay services, debit cards, etc., bear additional operational costs. Most of our fees are intended to be sure the users of these services are paying most of the cost.

Second, there's been a fundamental change in the business model. In times past, most net income at the credit union was generated by earning more on loans than was paid on deposits. This "net interest margin," as it is called, used to be sufficient to pay operating

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Special Notice About Your V-News

Beginning with this issue, VSECU is distributing one copy of V-News per household, reducing paper usage and waste as well as our printing and postage costs. You may also view current and archived issues of V-News at www.vsecu.com.

2009 Annual Meeting

The 62nd Annual Meeting of the Vermont State Employees Credit Union was convened on March 30, 2009, at the Barre Civic Center.

After the meeting was called to order by Jerry Diamond, VSECU's Chairman of the Board, the first order of business was to establish a quorum of 1 percent of membership, requiring that 447 members be in attendance. Because only 393 members attended the meeting, Chairman Diamond declared that a quorum was not present and called for the meeting to be reconvened at 5:00 p.m. on April 15, 2009, at VSECU's main office building in Montpelier in accordance with VSECU Bylaws. The business meeting was officially adjourned at 7:35 p.m.

Following adjournment, Chairman Diamond began an informal discussion about the challenge of meeting the required quorum in light of a growing membership and declining interest in the annual meeting, resulting in a steadily shrinking attendance over the past few years. He noted that the Board of Directors and management recognized the trend and decided to include a member survey in the notice of the annual meeting regarding the format of future annual meetings.

Chairman Diamond shared some of the results of the survey:

- 56.8% of respondents indicated that the social event should be eliminated
- 70.7% of respondents indicated that VSECU should not subsidize the dinner cost
- 54.4% of respondents indicated that the quorum requirement should be changed. The respondents further indicated the following:
 - 36.2% Change quorum to 50 members
 - 31.7% Change quorum to 15 members
 - 26.2% Change quorum to 200 members

Chairman Diamond then solicited comments and suggestions from the membership, and several members offered suggestions for the board to consider in the future.

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CEO Message, continued from front

expenses and still have some money left over to build capital. Over the years, pricing on loans and savings has become very competitive. While this is good for the consumers who benefit from lower loan rates and higher deposit rates, it strains the net interest margin for a financial institution. Our net interest margin has declined nearly 15% in the last five years and many institutions have seen an even greater change. This squeeze has led to more institutions looking for other sources of revenue.

So, a shrinking net interest margin along with the added costs to support more services has required institutions — both credit unions and banks — to generate fee income. We sometimes hear that we're becoming just like a bank because we have fees. But the facts offer a more accurate picture. As interest margins have shrunk, VSECU has worked hard to be on the *trailing* edge of this trend towards higher fees. We rely mostly on fee income to cover the operational costs of value-added services like surcharge-free ATM networks and strong online banking security. Our fee income is considerably less than our credit union peers and much less than the for-profit arm of the industry. Our operating expenses continue to be below the norm for institutions our size as well.

With a diverse membership of nearly 45,000 people, we know that different members expect different services from VSECU. One measure of how well a credit union balances these sometime conflicting interests is an industry measurement called the *Return to Member* metric. This "score" takes into consideration the pricing of loans and deposits and the number of total services being used by members and several other factors. Most recently, VSECU rated 26th out of 360 similarly-sized credit unions nationwide in its *Return to Member*.

The Board of Directors remains acutely aware of the financial strains being placed on members during this recession. We are working hard to keep loan rates and fees as low as possible, while earning income to support competitive deposit rates.

To review fees at VSECU, see our Member Choice Plan in the Truth-in-Savings brochure or view it online at www.vsecu.com.

Annual Meeting, continued from front

Chairman Diamond also reported the following: VSECU grew \$83 million in deposits and \$25 million in loans in 2008, a strong showing in a volatile economy. The 2009 operating budget has grown only 2.4% over that of 2008, and staff are working hard to keep operating expenses low and under budget.

Recent action taken by the National Credit Union Administration has placed two of the larger corporate credit unions in conservatorship due to losses in their investment portfolios. Consequently, VSECU and all other retail credit unions nationwide will be required to contribute more funds into the National Credit Union Share Insurance Fund, so a strong possibility exists that VSECU will end 2009 with a net loss for the year. However, VSECU is actively taking steps to minimize loss and maintain its strong position.

Chairman Diamond also recognized Director Randy Loso who served his fellow members 2004–2008 and Vice Chairman Sarah Miller who served 1994–2009. Both were dedicated board members who contributed generously of their time and talents to VSECU.

Reconvened Annual Meeting

On April 15, the 2009 Annual Meeting was reconvened in accordance with VSECU Bylaws. Twenty-three members were present for the business meeting to approve the minutes and reports in the 2008 Annual Report. Other business included the election of the four nominees for the four open positions on the Board of Directors and the one nominee for the single position open on the Credit Committee. M. Jerome Diamond, Robert Morgan, Judy Rosenstreich and Todd Bailey were elected to the Board of Directors, and Helen Weed was elected to the Credit Committee.

Chairman Diamond called for a motion to include the topics discussed during the March 30 meeting in the minutes. Subsequently, the motion was made and approved, and the discussion then continued on the topics of how to attract more members to the Annual Meeting and the possibility of reducing the quorum requirement.

VSECU Rate Board • Third Quarter 2009

The Board of Directors has declared the Share Dividend rates below for the 3rd Quarter of 2009.

	APY
Share Accounts	.50%
Share Draft Accounts	.25%
IRA Share Accounts	.50%

Dividends are disclosed as Annual Percentage Yield as of 7/1/2009 and are subject to change without notice in accordance with applicable regulations. Additional rates and terms may apply and be available. Please inquire for specific information.



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