2011 Annual Report of VSECU

VSECU
REDEFINING BANKING

Federally Insured by NCUA

WELCOME VERMONTERS

Chairman's Report

M. Jerome Diamond
Chairman, Board of Directors

2011 was an exciting year. It began with a demonstration of the power of ordinary people. Who would have thought that Egypt's government would find itself overthrown by millions of protestors fueled and accelerated by...social networking? And right here in our own country, we witnessed a similar awakening that was created by the unity of ordinary people joining together to make their voices heard.

People's voices rose above the politics, the for-profit entities, the Wall Street behavior and the status quo demanding change in our economic and financial systems. Around the country we witnessed protests, months-long demonstrations and local sieges on big bank premises. Two years after the Great Recession, people were still looking for specific examples of change and were not interested in lip service. A sense of unrest existed with an eagerness for return to American core values.

I believe that the year could go down in history as a tipping point where change and reinvention emerged as a result of people power. At VSECU, our mindfulness and appreciation for the voices of fairness, stability and opportunity led us down a path of change in 2011. We turned the traditional banking model up on its head and began to redefine banking.

It took creativity, an open mind, some letting go and simple courage to deviate from the norm in order to prototype a better way to help people become financially secure.

At our core, we believe that every member should have the same opportunity, and be encouraged, to save, with every hard-earned dollar treated the same. We chose to simplify and reinvent savings. We eliminated our Money Market Account and short-term Certificates and created the one savings account that we believe every Vermonter should have. At VSECU every saver will always earn the highest premium rate on their first $1,000 saved. The premium rate is not reserved just for those with the greatest capacity to save.

We focused on the importance of local community and reinvented our credit card by introducing the VERMONT Platinum card. It's the only credit card that reduces the interest rate when used to make a purchase at a Vermont-based business. It helps supports our local economies, helps keep more Vermonters employed and keeps Vermont strong and vibrant.

Mother Nature challenged us with not one, but two floods in 2011. We were quick to respond and help communities and individuals overcome some of the challenges they faced as a result of these disasters. We too were displaced when Tropical Storm Irene flooded our Waterbury branch. Our staff quickly worked to find a mobile RV unit and equipped it with the right technologies so that we could continue serving our members. We parked the RV on a side street and "banking on wheels" became a new norm for us.

It's only been two years since we became the first, and still the only, credit union open to everybody in Vermont. We're working to expand our presence in more regions around the state and were thrilled to solidify our presence in Southern Vermont with our new Brattleboro branch at the end of the year.

Our not for profit banking alternative is a unique model that in and of itself, offers greater opportunities and benefits than the for-profit bank model. But we understand that we can't afford to hang our hat on an infrastructure difference alone. We need to be able to demonstrate our ability to walk the talk of change.

I encourage people to continue to use their voices to raise awareness and concern. We're listening and eager to explore other ways we can redefine banking for more Vermonters.

Respectfully submitted,
M. Jerome Diamond, Chairman, Board of Directors

Treasurer's Report

Judy P. Rosenstreich
Treasurer, Board of Directors

Your Board of Directors works closely with credit union management to monitor the financial results of our credit union on a monthly basis throughout the year. Overall, 2011 was a positive year.

VSECU is well poised to support the financial needs of our members and to maintain a healthy balance sheet while the national and Vermont economies continue to work their way back from the financial crisis of over three years ago.

Three fundamental financial metrics determine our financial stability and healthy growth: total assets, deposit growth and loan balances.

Our asset growth continued to grow as it has for the past few years. Assets grew $35 million in 2011 and ended the year at $573 million.

Deposit growth directly affects asset growth. Actions of the Federal Reserve to keep interest rates at an all-time low during the year have not necessarily had a rewarding impact on savers. However, our members continue to value safety for their savings, and deposit balances still grew $33 million despite the low interest rate environment.

Demand for new loans was low again in 2011. Members focused on deleveraging existing debt wherever possible by paying off loans earlier than the maturity date and also allocated additional dollars for extra payments to their outstanding loans. This conscientious behavior combined with the slower than normal demand for new borrowings resulted in our total loan portfolio decreasing $10 million from the previous year.

Management and staff worked hard to keep operational expenses low while expanding into new service areas and offering innovative products, resulting in positive membership growth. After paying dividends of $6,716,000 to members on their deposits, VSECU ended the year with $2,415,000 in net earnings, allowing the credit union to maintain its net worth ratio of 8% in 2011.

The Board of Directors and management look forward to the full participation of members in 2012 and another successful year.

Respectfully Submitted,
Judy P. Rosenstreich, Treasurer, Board of Directors

Supervisory Committee Report

Normand Desrochers
Chair, Supervisory Committee

According to the provisions of Title 8, Vermont Statutes Annotated, Chapter 221, Section 31306, the Supervisory Committee oversaw an extensive audit of the books and affairs of VSECU for the twelve months ending August 31, 2011, 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 received from 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, Chair
Joseph Healy
Sarah Miller

Statement of Financial Condition

ASSETS	2011	2010
Cash and Cash Equivalents	$32,435,653	$19,220,008
Investments	$163,573,052	$138,204,574
Loans to members, net of the allowance for loan losses	$344,090,652	$342,321,110
Loans held for sale	$6,946,842	$18,604,342
Property and equipment	$13,061,025	$9,622,308
National Credit Union Share Insurance Fund deposit	$4,887,158	$4,574,763
Other Assets	$8,480,570	$6,095,200
Totals Assets	**$573,474,952**	**$538,642,305**
LIABILITIES AND EQUITY		
Liabilities	$4,237,361	$3,140,187
Borrowed Funds	$8,692,834	$9,282,394
Commitments and contingent liabilities	0	0
Members' shares	$513,736,646	$480,946,093
Equity		
Retained earnings, substantially restricted	$45,984,979	$43,569,220
Other Comprehensive Income	$(63,273)	$33,808
Net unrealized gains (losses) on available-for-sale investments	$886,405	$1,670,603
Total Equity	**$560,544,757**	**$526,219,724**
Totals	**$573,474,952**	**$538,642,305**
STATEMENT OF INCOME		
Interest Income		
Interest on loans to members	$18,053,988	$17,545,876
Interest on investments and cash equivalents	$2,046,495	$2,809,521
	$20,100,483	$20,355,397
Interest Expense		
Dividends on members' shares	$6,716,323	$6,547,899
Net interest income	$13,384,160	$13,807,498
Provision for loan losses	$955,758	$400,000
Net interest income after provision for loan losses	$12,428,402	$13,407,498
Non-Interest income	$7,227,305	$5,912,575
	$19,655,707	$19,320,073
General and administrative expenses	$17,239,948	$16,415,612
Net Income	**$2,415,759**	**$2,904,461**

Credit Committee Report

Nellie Gillander,
Chair, Credit Committee

The low interest rate environment in 2011 was most favorable to those who needed to borrow. However, between low consumer loan demand and the conscientious member deleveraging personal balance sheets, VSECU was challenged to develop favorable programs and outreach to help generate loan volume.

With purchasing behavior for new homes and automobiles lower than normal, we focused on helping members save money by refinancing their existing loans to VSECU with a lower rate loan.

In the mortgage arena, 40% of the loans generated came from refinanced mortgages held at other institutions. Purchase activity was up to 20% of the total mortgage volume. At the end of the year we closed $121.4 million in first mortgages and another $21.7 million in home equity loans and lines of credit for a total of $143.1 million in 2011.

Our consumer loan production for the year was $61.7 million. Automobile lending was very strong from our indirect dealer vehicle financing program. This allows members and non-members to finance vehicle purchases from VSECU right at the dealer location. We also experienced great success in reaching out to members and refinancing their existing auto loans to VSECU. And we introduced some value-added products to supplement our auto loans. VSECU now offers Guaranteed Asset Protection to cover the difference between a vehicle's value and loan balance when a loss may occur and Mechanical Breakdown Protection, extended warranty coverage for vehicles.

We developed what we think is Vermont's best credit card, the VERMONT Platinum Card late summer, which provides a discounted interest rate for Vermont-based purchases.

Lastly, staying true to our environmental mission, we continue to expand our loan programs to support energy efficiency, alternative and renewable energy financing. We expanded our solar loan program in 2011 which yielded $1 million in loans for solar hot water heaters and solar ground mounts and roof panel heating systems.

Just like individual consumers who are cautious in borrowing, Vermont-based businesses too are exercising caution. Although the economy continues to struggle to rebound, our business loan portfolio continued to grow. We ended 2011 with outstanding drawn loan balances of nearly $18 million and total balances including undrawn commitments of $22 million.

Without having a crystal ball, it's tough to determine when the pent up demand for loans will break. When it does break, we hope that our members will turn to us for their new borrowing needs. In the meantime, we encourage members to let us review all their loans from other institutions and credit card companies to determine if we can help them save money by refinancing current loans to VSECU.

Respectfully submitted,
Nellie Gillander, Chair, Credit Committee
Richard J. Cron
Helen Weed

President/Chief Executive Officer's Report

Steven D. Post,
President/CEO, VSECU

Looking back there has probably not been any year in the past twenty as productive and focused for VSECU as 2011. Our Board of Directors, management and staff worked cohesively to bring redefining banking to life for more Vermonters.

Our development of new products and services, branch expansion and consumer sentiment for something different than a typical bank attracted more new members in one year than any other year in our history. Almost 5,000 people joined VSECU bringing our total membership to just below 50,000 for 2011.

Some might say that peoples' loss of confidence in Wall Street and Washington helped drive our growth, or that the national media's effort to educate consumers about credit unions made the marketplace more receptive to our local, cooperative model. Those circumstances certainly opened the door for us to demonstrate our mission to help improve the quality of life for Vermonters. Some highlights of our accomplishments in 2011 included:

- The development and introduction of our redefined savings account
- The creation of the VERMONT Platinum card
- Our responsiveness to the loss of our Waterbury branch by mobilizing a temporary RV branch on wheels
- The creation of an employee managed community giving program
- The modification of member loans due to flood hardship
- Our gift of over $150,000 to support and sustain communities and people around Vermont
- Our partnership with VPIRG Energy and other resources to help members fund renewable energy home projects
- Helping members save money on fuel and heating through our fuel co-op program
- Offering free secure shred services around the state to community residents
- Partnering with a property and casualty insurer offering member discounts on auto and home insurance
- Expanding access in southern Vermont with our new Brattleboro branch
- Improving our presence in Rutland with our new environmentally friendly green branch and community room
- The speedy construction of our new Waterbury branch on Main Street
- The implementation of back office technologies and redundancies to protect members' online information

Add to this extraordinary list the day-to-day normal activities of meeting and reaching out to members to help them reach their financial goals. None of this could have been accomplished without the commitment, focus and spirited willingness of our staff. It was a very ambitious, busy and successful year. Thank you to everyone who helped to keep us on course!

Ultimately our success is measured by how many members rely on our solutions to help them save, borrow or reach a financial goal or overcome a financial hurdle. We believe that we have just begun the journey of redefining banking and hope to bring more examples of our commitment to this concept in the future. Based on our experience in 2011, I think we've got it right and hope to see even more Vermonters turn to VSECU. We are the credit union for Vermont!

Thank you for being a member and participating in our financial cooperative.

Respectfully Submitted,
Steven D. Post, President/CEO

Minutes of the Sixty-Fourth Annual Meeting

Convened March 28, 2011
Reconvened April 20, 2011

The Sixty-Fourth Annual Meeting of the members of VSECU was convened at the Montpelier High School auditorium in Montpelier, Vermont, on March 28, 2011.

Board Vice Chairman Kimberly Cheney introduced himself and explained that Board Chairman Jerry Diamond was out of state and regretted being unable to attend the meeting. He thanked everyone for attending and said the meeting represented a change for VSECU with a greater focus on the business aspect of the Annual Meeting and less of a focus on the social aspect. He noted that feedback from members is always welcome and said that, in addition to speaking at the Annual Meeting, members were welcome to call or email the Board or come to a Board meeting to let the Directors know what could be done to serve the needs of VSECU's increasingly diverse and widespread membership.

Cheney thanked Bill Shontz for his pre-meeting entertainment and also expressed his appreciation to Susan Olander Catering for providing the refreshments. He 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
Sarah Miller

Board of Directors
M. Jerome Diamond, Chairman
Wayne Hersey, Treasurer
Judy Rosenstreich, Secretary
Jana Bagwell
Todd Bailey
Edward Friihauf
Thomas Joslin
Terence Macaig
Robert Morgan
Giovanna Peebles

He noted that Directors Hersey and Peebles had chosen not to run for re-election to the Board and thanked them for their contributions over the past three years.

Cheney then called the 64th Annual Meeting of the VSECU to order at 6:35 PM.

Determination of a Quorum:
Article 5; Section 5 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 48,041 members and therefore 481 members needed to be present to officially conduct the business of the Annual Meeting. Cheney stated that 119 members had made reservations to attend the Meeting. He estimated that there were no more than 150 people in attendance and declared that a quorum was not present for the third year in a row.

Cheney announced that the Annual Meeting would reconvene at 5:30 PM on the evening of Wednesday, April 20, 2011, on the third floor of the VSECU main office in Montpelier. He called for a motion to adjourn the meeting and set the date and time for the reconvened Annual Meeting. *At 6:41 PM, Robert Murphy moved to adjourn the 64th Annual Meeting and reconvene at 5:30 PM on Wednesday, April 20, 2011, on the third floor of VSECU's Montpelier Office. The motion was seconded by Edward Miller and carried.*

Call to order of Reconvened Meeting:
At 5:30 PM on the evening of April 20, 2011, in the Third Floor Conference Room at the Montpelier Office of VSECU, Board Chairman M. Jerome Diamond reconvened the 64th Annual Meeting of the VSECU and called it to order.

He then asked if any of the members in attendance wished to cast a ballot. There being no requests for ballots, Diamond declared the voting closed.

Proof of Notice of Annual Meeting & Determination of Quorum:
Diamond stated that the Annual Meeting had been reconvened in accordance with Article 5; Section 5 of the VSECU Bylaws. Notice for the date originally set for the meeting, March 28, 2011, 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. A quorum was not present at that time, and the time, date and location for the reconvened Annual Meeting was announced prior to the meeting being adjourned on March 28. Therefore, the notice requirement for the reconvened Annual Meeting had also been met. He asked all members in attendance to raise their hands and announced that 26 members were in attendance when the meeting was called to order. In accordance with the Bylaws, Diamond declared that a quorum was present.

Minutes

Continued

Appointment of Parliamentarian:
Diamond proposed the meeting be conducted under Robert's Rules of Order and would appoint a Parliamentarian if the need arose. There were no objections.

Reading of the Minutes of the 63rd Annual Meeting:
Diamond entertained a motion to dispense with the reading of last year's minutes and accept them as printed.

Kimberly Cheney moved to approve the 63rd Annual Meeting Minutes, the motion was seconded by Giovanna Peebles and carried.

Officer Reports and 2010 Annual Report:
Diamond stated that the Annual Report contained written reports from the Chairman, Treasurer, Supervisory Committee, Credit Committee and the CEO.

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

Richard Cron moved to accept the Reports as printed. Sarah Miller seconded the motion, which carried.

Elections:
Diamond stated there were four three-year positions up for election this year. He expressed his appreciation to the three members who served on the Nominating Committee: Chair Paul Hill, Jr., Anita Ancel and Jane Lendway. He thanked them for their work, noting that the Report of the Nominating Committee was printed on the front side of the Agenda. The Committee had nominated the following five members: Kimberly Cheney, Lucas Herring, Heather Jarvis, Terence Macaig and Kate Paine. 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 front side of the Agenda. No members had submitted a petition.

The Nominating Committee had selected one candidate for the single open position on the Credit Committee: Richard Cron. Since a balloted election was not necessary to fill this position, Diamond called for a motion to instruct the Secretary to cast one ballot in favor of Richard Cron to serve a 3-year term on the Credit Committee. *Joe Healy moved that the Secretary cast one ballot in favor of Richard Cron to serve a 3-year term on the Committee. The motion was seconded by Lucas Herring and carried.*

Diamond noted that, in addition to the election of Directors, there was also a ballot item this year concerning amending the credit union's Bylaws. The proposed amendment would set the quorum requirement for the Annual Meeting and Special Meetings of the Members at 15 instead of 1% of the membership. No member present had requested a paper ballot, so Diamond reported that the Supervisory Committee would tally the result of the balloting to determine which of the nominees had been elected and whether the Bylaw amendment had been accepted. The results would be announced within 48 hours.

Other Business:
Diamond said there were two Directors who had chosen not to run for another term: Wayne Hersey and Giovanna Peebles. He presented Peebles with a framed certificate that read: "Presented to Giovanna Peebles, Director 2008-2011, in appreciation of your dedicated service and outstanding contribution to VSECU." A similar certificate for Hersey will be presented to him as well.

Diamond then asked if there was any other business that members wished to discuss. Robert Murphy asked what the Board's plans were if the Bylaw amendment didn't pass. President/CEO Steven Post replied that Management and the Board remained optimistic that the amendment would pass and they planned to wait for the results of this vote before making any new plans.

In 2010 when VSECU held its last reconvened Annual Meeting, the discussion from the original meeting date, although not part of the official Minutes, was included for informational purposes. That practice will be continued in 2011.

Adjournment:
A motion was made by Judy Rosenstreich and seconded by Robert Murphy at 5:45 PM to adjourn the Sixty-Fourth Annual Meeting. The motion received unanimous approval.

Respectfully submitted,
Perry H. Thompson, Recording Secretary

Approved:
M. Jerome Diamond, Chairman
Judy P. Rosenstreich, Secretary

Minutes

Continued

The following summary of the discussion on March 28, 2011, is included in the Minutes of the 64th Annual Meeting, although the discussion did not occur during the Annual Meeting.

Vice Chairman Cheney asked if anyone had any questions regarding the Annual Report or other topics. Bernadette Rose asked about "loans held for sale." President/CEO Steven Post explained that they are mortgage loans that have been made to members and are committed to be sold on the secondary mortgage market but that had not yet been sold. He noted that VSECU retains the servicing on the loans it sells on the secondary market so that members make their payments to VSECU. Rose added that she liked the new format of the Annual Meeting, but felt that 15 was too small of a number for the proposed change in the quorum requirement. Cheney noted that all members will continue to receive ballots for Director elections and other matters put to the membership for a vote regardless of the size of the quorum requirement.

An unidentified member also stated that he felt 15 was too small of a number and too great of a change from the current requirement of 1%. He asked for a description, in general terms, of the state of the credit union. Post replied that the credit union was doing very well. He said that last year the Board had undergone a thorough Strategic Planning process and identified opportunities for VSECU to build on its past successes. Cheney said that having such a strong Management Team contributed greatly to VSECU's resilience during the recent economic turmoil.

Robert Murphy noted that the 15-member quorum is the size recommended in the model bylaws published by the National Credit Union Administration. It is the sizemost credit unions in the country use as their quorum. If VSECU were to adopt that number for its quorum requirement, it would ensure that there would be no need to adjourn and reconvene its Annual Meeting every year. Yvonne Garand reiterated that a change in the quorum size to 15 would not impact the right of all members to vote.

Charlie Dickerson asked if the ballot measure had passed or failed. Cheney said that since the current quorum requirement had not been met, the Annual Meeting had not officially occurred, and balloting must continue until the Annual Meeting occurs. Therefore, balloting remains open and the results will not be known until after the Annual Meeting has reconvened on April 20.

Post talked about the two Directors who were stepping down from the Board. Giovanna Peebles had served for three years. She was instrumental in implementing several online initiatives and was very dedicated to serving the members. Wayne Hersey had also served for the last three years. His expertise was invaluable and the fact that he had served nine years on the Board in the past certainly helped provide him with a valuable perspective to help VSECU navigate three of the most turbulent years the U.S. economy has ever experienced.

Door Prize Winners:

Cheney introduced Recording Secretary Perry Thompson to conduct the drawings for the door prizes. Thompson entertained the crowd as he drew the winning numbers and the various prizes were distributed. The prizes and their winners were as follows:

Spring Garden Package	Dawn McCall
Handcrafted Coffee Mugs	Valerie Beaudin
Wall Clock with Pendulum	Alice Silva
Vermont Teddy Bear & Travel Mug	Emily Swenson
Vermont Specialty Food Assortment	Rob McIntyre
$500 Cash	Paul Irons

Thompson noted that everyone who voted was eligible to win the Grand Prize, one of two iPads. However, since balloting was still open, the winners of those prizes could not be determined until after the meeting reconvenes on April 20.

Follow Up Note: The winners of the iPads were Carol Lane and M. Elizabeth Woods.

VSECU
REDEFINING BANKING

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