



**New England
Federal Credit Union**

2010 ANNUAL REPORT

**STRONG
AND
STABLE**



Mission

New England Federal Credit Union is a member-owned organization committed to promoting and improving our members' economic well-being. Everything we do is guided by our values of integrity, respect, trust, honesty, fairness, excellence and confidentiality. Our primary focus is to provide innovative, responsive and valued financial services to members while maintaining the long-term financial strength and flexibility of the Credit Union.

- ▶ **All persons living, working or attending school in Chittenden, Grand Isle, Franklin, Lamoille, Washington or Addison Counties are eligible to join NEFCU.**

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Message from the Chair, Treasurer and Chief Executive Officer

2010 was another strong year for NEFCU. Despite a sluggish economy, we achieved our third-best year ever for mortgage originations, turned in a respectable performance in auto loans, and made considerable headway in growing our commercial loan portfolio. Our financial performance remains impressive – overall loan balances, including mortgages sold and serviced, increased to nearly \$1.5 billion, deposits grew to \$650 million, and assets grew to \$797 million. Once again we earned the best possible safety and soundness ratings from our regulator.



A reliable indicator of our success was our continued membership growth. In 2010, we welcomed more than 2,000 new members to NEFCU. We believe they were drawn to NEFCU by our experienced and capable staff, and for our reputation for being “Local, Affordable, and On Your Side.” We welcome all new members and will do our best to be your *financial advocate*.

While NEFCU continued to perform well in our core areas of mortgages and consumer lending – supplemented this year by a particularly strong showing in commercial lending – Vermont’s economy continues to face persistent headwinds. A significant percentage of our mortgage originations this year were the result of refinancings, rather than home purchases. Temporary government rebate programs intended to encourage purchasing activity have expired, and purchases of homes and automobiles, our largest areas of lending, are flat or down compared to recent years.

Nevertheless, after several years of strong growth we are well positioned for the future, and we are continually honing our efficiency in anticipation of a more challenging business environment. We have been working hard to develop new ways to make things easy and convenient for our members, recently introducing new services such as Mobile Banking for handheld devices.

We recognize that a locally-based financial institution can only be as strong as the community which it serves, so we have made an increased effort to reach out and be involved in our community, providing financial and other support to worthy causes. We have also been involved in legislative issues in Montpelier and Washington DC.

In 2011, we will be celebrating our 50th Anniversary, and we will mark the occasion with a special event. We realize that NEFCU’s success is the result of the hard work of many dedicated individuals within the Credit Union, and to them we express our special thanks for their excellent performance during these challenging times.

Thank you.

Michael E. Nix
TREASURER

Charles T. DesLauriers
CHAIR OF THE BOARD

John J. Dwyer, Jr.
PRESIDENT &
CHIEF EXECUTIVE OFFICER

2010 in Review

In 2010, NEFCU continued to focus on the needs of our members, increasing our mortgage volume, further developing our business loan capacity and production, keeping fees low and expanding our community involvement.

New England Federal Credit Union delivered another robust performance in 2010, due in large part to continued mortgage activity. Mortgage originations, including home purchases and refinancings, totaled \$410 million. This was a remarkable achievement given the current economic environment.

A significant factor in this success was an influx of new members. People chose NEFCU due to our positive reputation as a trusted local financial institution working in our members' best interest. Membership grew by more than 2,000 in 2010, to 79,000 active members. We remain the largest Credit Union in Vermont.

Our commercial lending business experienced meaningful growth. We expanded our resources in non-residential commercial loans in 2010, broadening our base and expanding our range. Commercial loan balances grew from \$44.7 million to \$60.6 million, on nearly \$27 million in business loan originations. The majority of loans were in commercial real estate.

NEFCU's auto loan portfolio was down slightly despite our competitive rates. In the absence of any kind of "Cash for Clunker" rebate program, automobile purchases are down throughout the country from the highs of several years ago. Nevertheless, we still originated over \$24 million in auto loans for the year.

Our Visa® program is very competitive. With a low rate and no annual fee it is a welcome, local alternative to the national bank cards. We saw modest activity in our Home Improvement Loan, Education Loan, Holiday Loan, Auto Repair Loan and Lifestyle Loan products.

Checking and Savings

Members have many ways to access their checking accounts, and we are constantly introducing new ways to make account access easy and convenient. Mobile Banking is the latest service provided to access these accounts. Members also have PC Banking, My Picture Card, ATMs, BillPay and Accountline to access and manage their checking accounts. While we continue to offer FAIR checking, which makes it less likely for our members to incur fees and penalties, we may need to address our fee structure in coming years to offset potential declines in revenue due to regulation.

Deposit balances in 2010 grew by nearly 9% to \$649.9 million, a dollar growth of \$52.6 million. Money market, CDs and savings accounts all grew significantly.



In 2010, we introduced the "Express Lane" at Harvest Lane to give members more options to conduct their in-person transactions quickly and easily, utilizing two Personal Tellers.

2010 in Review continued

Community Involvement & Giving

As a good corporate citizen, NEFCU supports charitable, non-profit and educational organizations dedicated to improving the overall well-being of the communities in which we do business. We contributed to five main causes in 2010: United Way, Children's Miracle Network, NEFCU Nursing & STEM Scholarships, American Cancer Society (Relay for Life) and financial education. We were also involved in many other community-oriented events and charitable causes including:

NEFCU-led Programs and Events

- Shred Fests at Harvest Lane
- Blankets of Hope
- Vermont Distinguished Writers' Series

Community Events Supported by NEFCU

- The Giant Pumpkin Regatta & Festival
- Team Sporting Events
- Flynn Center for the Performing Arts

Other Events/Donations

- Vermont National Guard Fallen Heroes Memorial
- Multiple Sclerosis Walk
- American Red Cross Blood Drive
- Vermont Maple Festival
- United Way Spring Days of Caring
- Battery Park Concert Series

To ensure fairness and objectivity we have quarterly drawings for other charitable requests. Requests are entered into the drawing as long as they meet Credit Union policy guidelines. Beneficiaries in 2010 included:

- City of St. Albans Annual Sap Run
- Boys & Girls Club of Burlington
- Camp Ta-Kum-Ta
- Essex Memorial Day Parade
- Northwest Vermont Foster and Adoptive Families Association (NWVFAFA)
- Rebuilding Together – Greater Burlington
- Samaritan House
- Spectrum Youth Services
- VT Children's Trust Foundation
- St. Albans Skating Association
- Puppets in Education
- Women Helping Battered Women
- Burlington Meals on Wheels
- Burlington Emergency Shelter
- Green Mountain Habitat for Humanity

Information Security, Privacy and Confidentiality

During 2010, we undertook several initiatives to improve the protection of member data and the information systems used by the Credit Union. This included the implementation of an application management and security update system, enhanced controls for PC and Mobile Banking security, and a security evaluation of the Credit Union telephone system. We continuously assess our systems, internally and externally, to make certain we meet industry norms for safety and soundness.

Member Satisfaction

NEFCU continuously monitors member satisfaction with our program delivery. We identify what members value most, and learn how to anticipate their needs. In 2010, our member satisfaction levels remained high, with 97% reporting that they were satisfied or very satisfied.

Financial Report

- Loan Balances Grew: \$45.8 million
- Deposits Increased: \$52.6 million
- Mortgage Originations Totalled: \$409.6 million
- Capital Ended Year At: 11.34% or \$90.4 million

Preview 2011

IN 2011 we will upgrade our website to make navigation more intuitive and content easier to find. We will introduce a new PC Banking module to provide additional functionality, personal financial management tools, and expedited transfers through BillPay. We will also introduce a new “mobile website” that will automatically display on smart phones and mobile devices, making it easier for members and potential members to access resources on nefcu.com.

SBA lending will be introduced as well as enhanced business services, such as a more robust business checking account and a remote deposit capture program. A new loan product, the “Energy and Efficiency” loan will also be introduced.

We will expand and improve the way we deliver products and services to members, and will invest in Franklin County, a renovated Shelburne Road branch, and a new presence at UHC. We will work with membership on appropriate pricing in which all members contribute to the Credit Union.

Third-party Providers

Baystate Financial Services

Baystate Financial Services, a subsidiary of MetLife, has offices at our Harvest Lane main branch offering investment and protection planning for members. Baystate shares NEFCU's commitment to financial advocacy and education. Registered Representatives and Investment Advisors Roger Webster and Janet Cooper are experienced financial service professionals.

Member Auto & Home Insurance Program

MetLife Auto and Home brings high-quality insurance from a top-rated national carrier to Credit Union members at discounted rates. Travelers Insurance is offered along with MetLife Auto and Home. Both top-rated national carriers are committed to providing group rates and high-quality service and value to members of NEFCU.



In December, we moved our branch at IBM Building 862 to Building 861 and upgraded the technology and privacy at that location.

Report of the Supervisory Committee

The Supervisory Committee is composed of five volunteer members, appointed by the Board of Directors, who are neither officers nor employees of New England Federal Credit Union. The Committee, which held 12 meetings during 2010, oversees the Credit Union's financial reporting process and internal controls on behalf of the members and Board of Directors. In addition to its financial reporting oversight role, the Committee also receives and responds to member comments relative to the financial services offered. The Committee invites such comments from the membership.

In fulfilling its responsibilities the Committee worked with an independent public accounting firm (RSM McGladrey, LLP),¹ a contract regulatory compliance firm (M&M consulting, LLC), a mortgage quality assurance review firm (Mortgage Training Solutions), and an internal auditor. The Committee discussed with the internal auditor, the independent public accountants and other vendors the overall scope and specific plans for their respective audits and reviews.

The Committee met regularly with the Credit Union's internal auditor, independent public accountants and vendors engaged to perform testing of the Credit Union's systems of control, with and without management present. The purpose of these meetings was to discuss the results of their respective audits, their evaluation of the system of internal control and the overall quality of the Credit Union's financial reporting. The meetings were designed to facilitate any private communications with the Committee desired by the internal auditor, independent public accountants or the vendors. During these meetings, no reportable condition(s) indicating a substantive weakness in the Credit Union's internal controls or financial reporting came to the Committee's attention. In addition to its normal work, the Committee's agenda during 2010 included: validation of the loan loss reserve, compliance testing of the Credit Union's adherence to the *Bank Secrecy Act*, monitoring of the Credit Union's *Information Security Program*, testing of the system of controls related to automated teller machines, non deposit product offerings and charitable giving. During these reviews and audits, no matters considered substantive were brought to the Supervisory Committee's attention.

In compliance with National Credit Union Administration (NCUA) procedures, the Committee addresses comments received by regulators, from the Credit Union's membership and others as part of its regular agenda. During 2010, two such comments were brought to the attention of the Committee and resolved.

The Committee fulfilled its regulatory obligation by having a confirmation test of members' share and loan accounts conducted in 2010. During this testing, randomly selected members were sent correspondence asking them to review the Credit Union's balance of their respective accounts. The responses received from the members indicated agreement with the Credit Union's balance, or the member's balance was reconciled to the Credit Union's balance.



Supervisory Committee

*(Standing left to right): William E. Rose, Jr. and Keith G. Turman, Internal Auditor.
(Seated left to right): Henry R. Farmer, John R. Eisenmann, Jr., Glenn F. Enos and Michael J. Flaherty.*

Report of the Supervisory Committee continued

New England Federal Credit Union's bylaws specify a process for the election of directors; the process specified in the bylaws conforms to NCUA's Standard Bylaws. The election of directors during the 2010 Annual Meeting was monitored by the Supervisory Committee for compliance with the Credit Union's bylaws; no exception(s) were noted.

The Committee also performed or had performed agreed-upon procedures for vendors of the Credit Union and certain regulatory agencies. These third-party reviews included quality assurance reviews as required by investors purchasing Credit Union underwritten mortgage loans, a self audit as required by the New England Automated Clearing House and certain loan underwriting reviews required by the Credit Union's Board of Director's Policies. During these reviews, no reportable condition(s) indicating substantive control weaknesses came to the attention of the Committee.

During 2010, New England Federal Credit Union contracted with an outside vendor to conduct regulatory compliance audits and credit quality reviews in various areas of the Credit Union's loan and operational areas. The results of these audits were reported to the Supervisory Committee. In all instances where the consultant noted exception(s), management made responses considered satisfactory to the Committee.

During 2010, the Supervisory Committee continued to maintain a phone number where employees or others could anonymously report action(s) taken by New England Federal Credit Union that the caller considered as wrongful. A policy explaining use of the number is available on the Credit Union's intranet and has been published to the membership in newsletters. The Committee regularly monitored this number for reported incidents. No calls were received through this channel during 2010.

As part of its responsibilities, the Supervisory Committee also proposes to the Board of Directors policies and procedures intended to make the Credit Union compliant with provisions of *The Bank Bribery Act*. During the 2010 administration of these procedures, no instances of non-compliance were noted by the Committee.

The Committee is perpetuated by the volunteer efforts of Credit Union members. Members who are interested in serving on the Committee are encouraged to submit their names to Keith Turman, Internal Auditor (802) 879-8754 for consideration by the Board of Directors and the Supervisory Committee.

Glenn F. Enos

Chair, Supervisory Committee

¹ *The Supervisory Committee on October 8, 2010 signed an engagement letter with the accounting firm of Clifton Gunderson, LLP to conduct an opinion audit of the Credit Union's financial statements for the year ending December 31, 2010.*

Consolidated Statements of Financial Condition

December 31, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 6,988,057	\$ 5,950,937
Short-term investments	37,796,291	39,993,559
Investments		
Available-for-sale	124,000,725	78,823,366
Held-to-maturity	67,501	97,572
Other	12,719,200	37,978,200
Loans held-for-sale	41,242,296	1,715,756
Loans to members, net	546,497,388	541,122,620
Accrued interest receivable	1,817,981	1,918,251
Property and equipment, net	11,419,392	11,779,642
National Credit Union Share Insurance Fund deposit	6,164,481	5,645,439
Other assets	8,506,292	7,033,710
Total assets	<u>\$ 797,219,604</u>	<u>\$ 732,059,052</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities

Members' shares	\$ 649,902,375	\$ 597,345,108
Borrowed funds	40,599,358	41,955,875
Accrued expenses and other liabilities	14,246,929	10,902,221
Total liabilities	<u>704,748,662</u>	<u>650,203,204</u>

Members' Equity

Retained earnings, substantially restricted	90,435,347	80,168,552
Accumulated other comprehensive gain (loss)	2,035,595	1,687,296
Total members' equity	<u>92,470,942</u>	<u>81,855,848</u>
Total liabilities and members' equity	<u>\$ 797,219,604</u>	<u>\$ 732,059,052</u>

Consolidated Statements of Income

For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Interest Income		
Interest on loans to members	\$ 28,157,901	\$ 28,402,249
Interest on investments and cash equivalents	4,181,656	5,492,711
	<u>32,339,557</u>	<u>33,894,960</u>
Interest Expense		
Dividends on members' shares	6,945,092	9,377,970
Interest on borrowed funds	1,823,952	2,665,489
	<u>8,769,044</u>	<u>12,043,459</u>
Net Interest Income	23,570,513	21,851,501
Provision for Loan Losses	<u>1,950,000</u>	<u>1,749,998</u>
Net Interest Income After Provision for Loan Losses	<u>21,620,513</u>	<u>20,101,503</u>
Non Interest Income		
Mortgage origination fees	4,472,409	3,720,448
Deposit fees	3,387,850	3,083,939
Credit card fees	1,428,468	1,269,032
Mortgage servicing fees	3,288,080	4,020,977
Commissions, fees and other income	889,363	686,725
Gain on disposal of equipment and land	-	59,099
Borrowed funds prepayment penalty	(842,989)	(835,937)
	<u>12,623,181</u>	<u>12,004,283</u>
	<u>34,243,694</u>	<u>32,105,786</u>
General and Administrative Expenses		
Salaries and benefits	13,293,039	14,048,018
Operations	5,814,114	5,785,571
General and administrative	1,119,671	1,049,446
Occupancy	1,384,810	1,375,418
Promotional	784,537	786,586
	<u>22,396,171</u>	<u>23,045,039</u>
Net income prior to National Credit Union Share Insurance and Temporary Corporate Credit Union Stabilization Fund Premium	11,847,523	9,060,747
National Credit Union Share Insurance and Temporary Corporate Credit Union Stabilization Fund Premium	<u>1,580,728</u>	<u>846,816</u>
Net Income	<u><u>\$ 10,266,795</u></u>	<u><u>\$ 8,213,931</u></u>

Directors, Officers & Committees



NEFCU Board of Directors

Pictured (left to right): Jeff A. Wasserman, William F. Meyer, Charles T. DesLauriers, Frank G. Harris III, Grace T. Gilbert-Davis and Michael E. Nix. Missing: Ronald D. Mussen, Myron R. Sopher and Geoffrey M. Akiki.

DIRECTORS

CHAIR,
Charles T. DesLauriers

1st VICE CHAIR,
Myron R. Sopher

2nd VICE CHAIR,
Geoffrey M. Akiki

SECRETARY,
Grace T. Gilbert-Davis

TREASURER,
Michael E. Nix

Frank G. Harris, III
William F. Meyer
Ronald D. Mussen
Jeff A. Wasserman

CHAIRS EMERITI,
Martin J. Mara
William F. Meyer

DIRECTORS EMERITI,
Edward Blaise, III
Kathleen S. Ginn
Anna S. Niemiec

BOARD COMMITTEES

Finance and Investment
CHAIR,
Michael E. Nix

John R. Eisenmann, Jr.
Matthew A. Malaney
Ronald D. Mussen
Myron R. Sopher
Jeff A. Wasserman

Marketing and
Business Development
CHAIR,
Myron R. Sopher

Jonathan P. Ebbers
Grace T. Gilbert-Davis

Human Resources
CHAIR,
William F. Meyer

Michael E. Nix

Information Technology
CHAIR,
Frank G. Harris, III
Ronald D. Mussen

Building
CHAIR,
Ronald D. Mussen
Charles T. DesLauriers

OFFICERS

PRESIDENT AND
CHIEF EXECUTIVE OFFICER,
John J. Dwyer, Jr.

SENIOR VP AND
CHIEF FINANCIAL OFFICER,
Susan E. Leonard

SUPERVISORY

COMMITTEE

CHAIR,
Glenn F. Enos

VICE CHAIR,
John R. Eisenmann, Jr.

Henry R. Farmer
Michael J. Flaherty
William E. Rose, Jr.

INTERNAL AUDITOR,
Keith G. Turman

Products & Services

Home Loans

First Time Homebuyer Programs
 Fixed Rate Mortgages
 Adjustable Rate Mortgages
 Jumbo Mortgages
 Second Home Mortgages
 Investment Property Mortgages
 Mobile Home Loans
 Land Loans
 Construction Loans

Home Equity Loans

Home Equity Plus
 Home Equity Line of Credit

Consumer Loans

Auto Loans
 Truck Loans
 Recreational Vehicle Loans
 Motorcycle Loans
 Boat Loans
 Snowmobile Loans
 Personal Loans
 Consolidation Loans
 Education Loans
 Lifestyle Loans

Visa®

Visa Platinum
 Visa Platinum Rewards
 Visa Online Access

Business Loans

Machinery/Equipment/
 Vehicle Term Loans
 Time (or Demand) Notes
 Real Estate Term Loans
 Real Estate Lines of Credit
 Secured Lines of Credit
 Unsecured Lines of Credit

Checking and Deposit Accounts

Share Draft Account (Checking)
 Business Share Draft Account
 Share Account (Savings)
 Power Account (Money Market)
 Term Share Certificates
 Individual Retirement Accounts
 Direct Deposit

Account Access

PC Banking
 Mobile Banking
 BillPay
 Electronic Bill Presentment
 Automated Account Transfers
 eStatements: Periodic and Visa
 Account Alerts
 ATMs
 Debit Card
 Personal Teller Machine
 Accountline
 Wire Transfers

Financial Counseling

Budget Counseling
 Credit Counseling
 Debt Counseling
 Educational Seminars

Insurance

Accidental Death &
 Dismemberment Insurance
 Credit Life and Credit
 Disability Insurance
 GAP Protection
 MetLife Auto &
 Home® Insurance
 Travelers Auto &
 Home Insurance

Securities, Investment and Insurance

Services and products available to NEFCU members through Representatives of Baystate Financial Services, a MetLife Company.



Office Locations

Administrative Offices

P.O. Box 527, Williston, Vermont 05495
(802) 879-8790 / (800) 400-8790

Branch Offices

141 Harvest Lane, Williston, Vermont
74 Pearl Street, Essex Junction, Vermont
IBM Building 969, Essex Junction, Vermont
IBM Building 861, Williston, Vermont
FAHC McClure Branch, Medical Center Campus,
Burlington, Vermont
1000 Shelburne Road, South Burlington, Vermont

Loan Center Office

172 South Main Street, St. Albans, Vermont

Loan Phone

866-80-LOANS

On the Web

nefcu.com

Baystate Financial Services

A MetLife Company

Investment and Insurance strategy services available to NEFCU members through Representatives of Baystate Financial Services, located at the NEFCU Offices at 141 Harvest Lane in Williston, Vermont, (802) 879-8580.



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