

NORTHEAST CREDIT UNION

ANNUAL REPORT

2008



YOUR  
TRUSTED  
NEIGHBOR

# PRESIDENT'S AND CHAIRMAN'S R E P O R T

We are pleased to report that Northeast Credit Union (NECU) ended 2008 financially safe and sound despite the unprecedented financial challenges surrounding us. We continued our focus in helping members weather this economic storm by providing solid and enduring financial services. As a trusted neighbor, we remained diligent in strengthening our community-focused programs, heightening financial education awareness, and broadening our presence in the areas where our members live and work.

## FINANCIAL AND MEMBERSHIP GROWTH

Results for 2008 are characterized by substantial growth in assets, loans, and membership. We ended the year with \$641 million in assets, growing 22.3 percent; an indication of remarkable success in sustaining competitive product and service offerings.

Loans to members grew 29.7 percent ending the year at \$513 million. Northeast Credit Union's conservative underwriting practices prevented us from being directly affected by the repercussions of sub-prime loans and irresponsible lending practices. While many other financial institutions curtailed lending, foreclosed mortgages and increased fees, we continued to not only meet the borrowing needs of members but also provided them with an even broader array of affordable financial services.

Total membership for the year reached 60,727 an increase of 20.5 percent; far exceeding the national average of 2 percent.

Unfortunately, net income for the year was negative \$874 thousand dollars. This was due to a \$2.2 million dollar National Credit Union Share Insurance Fund (NCUSIF) stabilization expense. This expense was required when the National Credit Union Administration (NCUA) injected \$1.0 billion dollars from the NCUSIF into the corporate credit union network and pledged NCUSIF funds to back any additional losses that may occur as a result of further corporate credit union write downs of their investments.

## NEW PRODUCT AND SERVICE OFFERINGS

In 2008 we continued to evolve our products and services to ensure meeting our members' changing needs. Highlights included:

- ▶ To encourage saving for emergencies, NECU introduced Silver Lining Savings<sup>SM</sup>, a savings account that rewards savers with an attractive rate incentive on the first \$500 saved. This account supports the need for an emergency fund to cover unexpected expenses such as those that come from a job loss, significant medical expenses or home repairs.
- ▶ Responding to member needs for energy efficient alternatives in their daily life, NECU began offering EnergySmart<sup>SM</sup> loans. This attractively priced product is designed specifically to assist members in making affordable home improvements that help them save on cooling and heating costs.
- ▶ Ensuring members continue to receive maximum value from their existing deposit products, NECU enhanced Relationship Checking. Enhancements include features such as higher dividends paid on checking account balances of \$5,000 or more and expanded discounts on consumer loans and RealSmart<sup>SM</sup> home equity loans. We also launched eChecking, designed for members who prefer electronic access and an even broader range of product and service benefits.
- ▶ Financial education continues to be a core focus. In keeping with the credit union philosophy of 'people helping people' we continue to provide our members with unbiased financial resources and tools to include: online educational information, a dedicated financial education center in each branch, and our newsletter, *Neighborhood News*.



## COMMUNITY OUTREACH

We remain steadfast in our commitment to community service and support. As a trusted neighbor NECU understands the unique challenges our neighbors face. We continued our support of local organizations such as The United Way of the Greater Seacoast, the Make-A-Wish Foundation, and Maine Credit Union League's Campaign for Ending Hunger. As neighbors helping neighbors we take pride in bettering the overall health of the communities we serve. In 2008 we proudly accomplished the following:

- ▶ NECU pledged \$10 million to fund loans to eligible student members as part of the New Hampshire Higher Education Assistance Foundation's statewide funding initiative. This ensured students who are dependent on student loans that funds would be available when needed.
- ▶ For the 2nd consecutive year we partnered with the CASH Coalition of Southeastern NH to bring Volunteer Income Tax Assistance (VITA) services to help low-to-moderate income people secure Earned Income Tax Credits.
- ▶ NECU in partnership with United Way of America launched an innovative new program Pennies for Change. The program allows members to donate "one penny" for every debit card transaction. Those "pennies" go to work supporting local United Ways' efforts that address community needs in a lasting way and improve lives.

## 2009 AND BEYOND

As we begin another year we remain dedicated to our mission: Consistent with the principles, philosophy and values of the credit union movement, Northeast Credit Union provides safe, high quality financial services to meet the needs of our member-owners, enhancing their financial well-being while maintaining the strength of the credit union. In the spirit of our mission we are relocating our Manchester branch to improve convenience and accessibility and also plan to open a new branch in the Berwick, Maine community in 2010.

The potential restructuring of all financial institutions sparked by the recent economic downfall of many is of deep concern to us. We strongly believe that we should not be part of a problem we did not create. Currently credit unions have a separate regulator, the National Credit Union Administration (NCUA) and we must seek to preserve that. First and foremost, the credit union segment of the financial service industry remains healthy. The vast majority of credit unions have strong balance sheets and solid capital levels. Decline in financial results stemming from the mortgage crisis or the economic slowdown is not due to credit union practices, but rather collateral damage from other events in the market. Maintaining our separate regulatory status ensures that credit unions can continue to offer important choices to consumers in the financial marketplace.

Our success in 2008 was greatly attributed to our members. Member commitment and loyalty is the driving force behind what we do day in and day out. We appreciate the loyalty from the members we serve, and the dedication and hard work of our employees and volunteers. Without this, our goals would not be accomplished. We're proud to be your trusted neighbor.

Respectfully submitted,



Peter J. Kavalauskas  
President/CEO



Philip W. Sullivan  
Chairman, Board of Directors

# SUPERVISORY COMMITTEE REPORT FOR 2008

## SUPERVISORY COMMITTEE REPORT FOR 2008

Northeast Credit Union's Supervisory Committee's primary function is to ensure the financial soundness and stability of our credit union. Ongoing reviews and audits make sure that credit union records are maintained properly, honestly and accurately; that policies established by law and by the Board of Directors are carried out faithfully; and that members' assets are safeguarded and used properly. To accomplish this, the Committee utilized the services of several outside professional organizations throughout the year.

Credit Unions are facing one of the most challenging economic times in recent history. In 2008 the Supervisory Committee engaged RSM McGladrey, Inc. to conduct an Enterprise-wide Risk Assessment (ERA) for Northeast Credit Union. The overall objective of an ERA is to define and rank the universe of operational and compliance risks in order to facilitate management's ability to allocate audit and compliance resources to where they will provide the greatest value. RSM McGladrey, Inc. also provided professional consulting and assessment services for consumer regulatory compliance and they provided regulatory updates as well. The regulatory updates explain relevant regulatory consumer compliance changes impacting the credit union.

The Committee engaged McGladrey & Pullen LLP to audit and express an opinion on the credit union's financial statements. In their opinion, the consolidated financial statements of Northeast Credit Union and its Subsidiary for the year ended June 30, 2008 presented fairly, in all material respects, the consolidated results of operations, in conformity with accounting principles generally accepted in the United States of America.

Additionally, the Committee engaged CastleGarde to provide a security vulnerability assessment, testing and a security policy, procedures and standards compliance review. We received a positive audit report for our computer systems, network controls and information security.

The past year has been a great example of the Supervisory Committee working for you, the members of Northeast Credit Union. Having shared "what" we have done, it's also important to focus on "why" we do it and that is to help give members the means to make their lives better and applying the credit union philosophy to everything we do as your Supervisory Committee.

Respectfully submitted,



Wanda G. Syphers  
Chairperson, Supervisory Committee

# FINANCIAL HIGHLIGHTS

<b>INCOME</b>	<b>2008</b>	<b>2007</b>	<b>% CHANGE</b>
Interest on Loans	\$28,420,787	\$26,670,003	6.6
Income from Investments	3,332,290	3,730,503	-10.7
Fees & Charges	3,633,197	3,058,557	18.8
Other Income	4,913,730	3,749,770	31.0
<b>TOTAL OPERATING INCOME</b>	<b>\$40,300,004</b>	<b>\$37,208,833</b>	<b>8.3</b>
<b>OPERATING EXPENSES</b>			
Compensation	7,526,209	7,105,328	5.9
Employee Benefits	2,008,722	1,860,151	8.0
Travel/Conference/Training	194,004	194,317	0.0
Association Dues	50,727	50,250	0.1
Office Occupancy	1,343,120	1,163,508	15.4
Office Operations	2,977,520	2,580,083	15.4
Education and Promotions	597,781	834,234	-28.3
Loan Service Expense	1,488,903	1,413,967	5.3
Prof. and Outside Services	2,021,039	1,948,506	3.7
State of NH Examination Fee	(1,622)	45,000	-103.6
Cash (Over) and Short	5,670	(2,774)	-304.4
Annual Meeting Expense	5,707	5,949	-4.1
Misc. Operating Expense	127,207	119,302	6.6
<b>TOTAL OPERATING EXPENSES</b>	<b>\$18,344,987</b>	<b>\$17,317,820</b>	<b>5.9</b>
Non-Operating Gains/(Losses)	(70,825)	1,205,990	-105.9
Provision for Loan Losses	(4,753,005)	(4,224,137)	12.5
NCUSIF Stabilization Expense	(2,196,165)	0	NA
Income Before Dividends	14,935,022	16,872,865	-11.5
Less Dividends/Interest Expense Paid	(15,808,846)	(14,285,887)	10.7
<b>NET INCOME</b>	<b>(\$873,824)</b>	<b>\$2,586,978</b>	<b>-133.8</b>

# COMPARATIVE BALANCE SHEET

<b>ASSETS</b>	<b>2008</b>	<b>2007</b>	<b>% CHANGE</b>
Loans to Members	\$513,068,944	\$395,414,297	29.8
Loans in Liquidation	323,315	305,985	5.7
Less:			
Allowance for Loan Loss	(4,110,016)	(3,218,664)	27.7
<b>NET LOANS</b>	<b>\$509,282,243</b>	<b>\$392,501,618</b>	<b>29.8</b>
Cash & Receivables	6,820,628	8,538,254	-20.1
Investments	98,153,821	95,816,539	2.4
Accrued Income	2,505,252	2,365,145	5.9
Prepaid & Deferred Expense	1,000,256	1,012,700	-1.2
Fixed Assets	17,215,063	16,868,039	2.1
Other Assets	3,462,995	2,823,905	22.6
Deposit in NCUSIF	2,110,041	3,795,599	-44.4
<b>TOTAL ASSETS</b>	<b>\$640,550,299</b>	<b>\$523,721,799</b>	<b>22.3</b>
<b>LIABILITIES &amp; EQUITY</b>			
Accounts Payable	1,087,677	635,618	71.1
FHLB Loan	42,337,604	14,408,710	193.8
Accrued Expenses	1,459,460	1,383,843	5.5
Other Liabilities	1,212,277	1,531,072	-20.8
Shares	546,062,875	456,419,745	19.6
Regular Reserve	9,442,618	9,442,618	0.0
Undivided Earnings	38,947,788	39,900,193	-2.4
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$640,550,299</b>	<b>\$523,721,799</b>	<b>22.3</b>

## MEMBERS

2008 60,727

2007 50,392

## SHARE, LOAN AND ASSET CHARTS (\$ MILLIONS)

### SHARES

2008 \$546.1

2007 \$456.4

### LOANS

2008 \$513.4

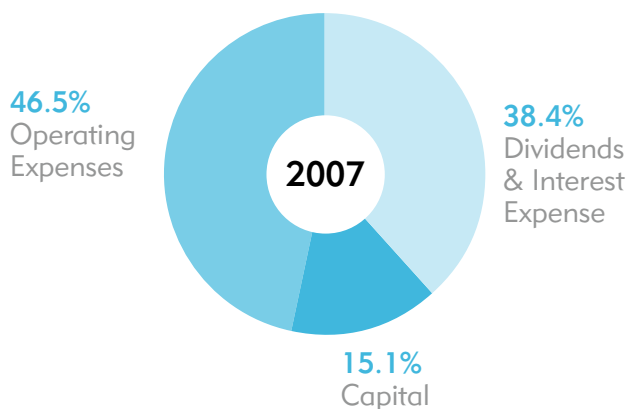
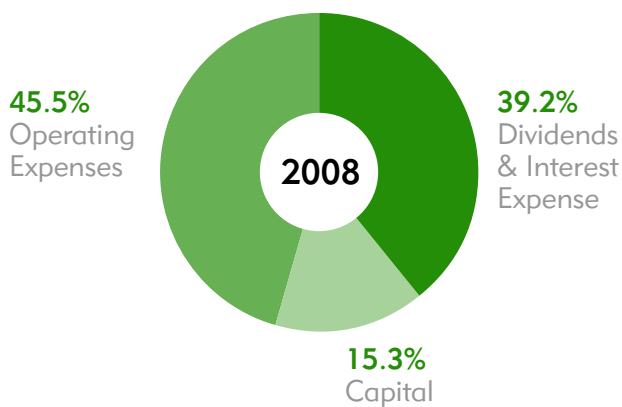
2007 \$395.7

### ASSETS

2008 \$640.6

2007 \$523.7

## OPERATING INCOME DISTRIBUTION\*



\* 2008 Not including NCUSIF stabilization expense

## BOARD OF DIRECTORS

Philip W. Sullivan  
Chairman

John Murtagh, Jr.  
Vice Chairman

Victor Collinino  
Treasurer

Theresa Palumbo  
Secretary

Gerald Gouveia

Raymond Mullaly

Robert W. Young

## SUPERVISOR COMMITTEE

James Biracree

Wanda G. Syphers  
Chairperson

Heather N. Greenwood

## SENIOR MANAGEMENT TEAM

Peter J. Kavalauskas  
President/CEO

Richard D. Parks  
Senior Vice President/  
Chief Financial Officer

Michael T. Chisholm  
Senior Vice President/  
Chief Operations Officer

Michael Gagnon  
Vice President -  
Information Systems

Ramona Dow  
Vice President - Marketing  
and Strategic Initiatives

Robert Wester  
Vice President -  
Operations

Thomas Weaver  
Vice President -  
Lending

Paul J. Colangelo  
Vice President -  
Human Resources

Jonathan Otterson  
Vice President -  
Investment and  
Insurance Services

## BRANCHES

Portsmouth  
100 Borthwick Avenue

Lee  
145 Calef Highway

Manchester  
340 Wilson Street

Dover  
9 Members Way

Northwood  
144 First New Hampshire  
Turnpike

Concord  
55 Pleasant Street  
Federal Building

Rochester  
200 Charles Street

Exeter  
82 Portsmouth Avenue

Portsmouth Naval Shipyard  
Building 14

Consistent with the principles,  
philosophy and values of the  
credit union movement,  
**Northeast Credit Union**  
provides safe, high quality  
financial services to meet the  
needs of our member-owners,  
enhancing their financial  
well-being while maintaining  
the strength of the credit union.



**Northeast**  
CREDIT UNION  
Your Trusted Neighbor<sup>SM</sup>



[www.necu.org](http://www.necu.org)

1.888.436.1847



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