



2008 ANNUAL REPORT



*Harnessing
the Wind*



Tower Federal
Credit Union



TOWER FEDERAL CREDIT UNION

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*George M. Cumberlandedge
Chairman*



*Martin M. Breland
President & CEO*

Leadership Report

We run a tight ship. A steady hand at the helm and a dedicated crew once again paid off for Tower members.

By staying true to our safe and sound principles of money management, in 2008 Tower accomplished much more than simply weathering economic storms. Keeping a heavy ballast of liquid capital, and keeping expenses trimmed in good times and bad, let us harness the winds of change and opportunity.



Because we don't make subprime loans or engage in substandard practices, we didn't get subpar result. While the federal government was bailing out the banks, then pleading with them to increase their lending, we were making more loans to our members than at any time in Tower's history. By staying fluid, imaginative, and competitive, we also attracted more deposits, signed up more members, and continuously improved the financial solutions we bring you.

Most credit unions are healthy. Unfortunately, some corporate credit unions, which serve other credit unions, not individual members, took investment risks that turned into significant losses, much like the big banks. In January 2009, the National Credit Union Administration (NCUA), the federal regulator for our industry, announced it was taking action to stabilize the corporate credit union system. As a result, all federally insured credit unions would bear the expense of the investment losses via an impairment of their National Credit Union Share Insurance Fund (NCUSIF) deposits. In March 2009, the NCUA placed the two largest corporate credit unions into conservatorship. Tower has never done business with either of these corporate credit unions.

We have calculated our share of this impairment cost to be \$9.2 million and recognized this expense in 2008. Though this expense reduces our 2008 regulatory net worth to assets ratio from 11.4 percent to 10.9 percent, it's still well in excess of the 7.0 percent level that the NCUA requires to be considered "well-capitalized." This means Tower remains financially strong and sound, ready to meet your borrowing needs.

Through all of this rough financial weather, Tower did not need nor seek a single dollar of federal assistance. Not one penny of your deposits has ever been less than absolutely safe and secure. And remember, the federal government now insures your deposits up to \$250,000.



Growing without compromising safety and soundness.

Nothing is more important to Tower's management than the safety and soundness of your credit union. So perhaps it is no surprise that the upheavals in the mortgage market, the bank losses, the "credit crunch," and the overall economic downturn did not hinder Tower from achieving another successful year of deposit, loan, and new member growth.

Tower's assets grew to \$1.85 billion, compared to \$1.68 billion at the end of 2007. That's a healthy increase of greater than 10 percent. Over 7,155 new members joined Tower, and 89 additional organizations began offering the benefits of credit union membership to their employees and associates.

Operating efficiently helps us to continue to provide you favorable rates on savings and loans, even better than average credit union pricing. We keep loan rates affordable, deposit rates attractive, and our focus on operating in the true spirit of a member-owned cooperative.

Loan demand remained healthy, mortgages robust.

Nationally, the troubles in the banking industry and real estate market are not going away soon. Tight bank lending practices and the resulting credit crunch will likely continue, perhaps throughout 2009. Yet despite current economic conditions, Tower's ability to provide you with mortgage and home equity loans, auto loans, and credit cards remains strong.

In 2008, we granted 13,203 new loans for \$640 million, an increase of \$50 million over the previous year. By keeping our costs low and adhering to strict lending guidelines, we could continue offering you low rates and competitive terms.

As it was in 2007, Tower's total real estate lending was up dramatically in 2008. Mortgage loan volume grew by 42 percent to \$403 million—a significant increase compared to a 17 percent average growth rate over the prior three years. Total real estate lending, including home equity loans, grew by 25 percent to nearly half a billion dollars.

Members also continued to take advantage of the convenience and value provided by Tower Title Services. Last year over 1,200 members used our settlement services, prompted in part by a \$300 discount offered on closing costs. Of Tower's Maryland mortgages, 95 percent settled using Tower Title Services.

Since auto sales fell nationally last year, it was no surprise that Tower loans also dipped. We responded with aggressive rate cuts and incentives for fuel-efficient cars, and Tower members borrowed \$112 million to buy new and used vehicles. As the economy rebounds, we expect auto loans to climb again.

We granted \$13 million on Tower MasterCard® lines of credit. As Congress investigated credit card industry practices and abuses, we're optimistic that more of our members will discover Tower's trustworthy alternatives. Unlike many credit cards, Tower's have no annual fee, no hidden fees, an honest 25-day grace period, and account statements that arrive well in advance of payment due dates.



Tower's fixed Annual Percentage Rate remains the same for cash advances and payments, and it doesn't go up if payments are late. Tower's Gold card provides a full 1 percent rebate on all purchases, credited monthly against your balance. In 2008, members received over \$2.6 million in rebates.

Other consumer loans, primarily share-secured loans and unsecured personal lines of credit, accounted for an additional \$23 million in member borrowing.

You're saving more of your money at Tower.

On the deposit side of the ledger, Tower's total average balances in member savings grew by \$117 million in 2008, a 9.0 percent gain. Our members' flight to safety from equity markets, cut-backs in consumer spending, and concerns over job security and retirement all contributed to the gain in Tower's member savings last year.

The Super Savers Sweepstakes gave thousands of you the added incentive you needed. You made the campaign a tremendous success by opening checking accounts, setting up direct deposit, and increasing your savings. Over 12,000 members opened Prime Share, Club, and checking accounts.

At year's end, balances in these accounts totaled \$866.4 million, a growth of 4.3 percent, or \$36.1 million. Member enrollment for direct deposit continued strong through December with over 4,300 new and existing members signed up. Result: direct deposit growth of 33 percent.

Thanks to your great support, and the 9.0 percent overall deposit growth you helped Tower achieve, we will continue offering incentives for savings and new accounts throughout 2009.

eServices climbed among Tower members.

As Tower continued to improve and expand online Home Banking, more and more members enjoyed the convenience, safety, and security it provides.

By year's end, Home Banking users had grown to over 46,700, an increase of more than 2,900. Over 26,900 members were registered for eStatements, an increase of over 1,200. More than 16,500 members had signed up to pay their bills online, up over 2,000.

To encourage members to use eServices, Tower offered a variety of incentives throughout the year. Because you responded to sweepstakes, cash awards, and prizes, look for more throughout 2009.

Last year Tower added a security enhancement to Home Banking: automatic e-mail alerts to verify a change to members' e-mail addresses.



As we continue to introduce new and improved Home Banking services, more members will come to realize how easy and convenient it is to manage accounts in the Internet age.

We keep expanding services for you.

ATM use by many of you continues to grow—despite the occasional expense and irritation of surcharges. As a result, we’ve added over 12,000 new surcharge-free ATMs to our system, including over 450 ATMs in Maryland. With the addition of the Credit Union 24 CUHERE ATM network, you can now get cash at over 37,000 surcharge-free ATMs nationwide. You can easily locate maps and driving directions on our Web site and search for ATM locations from mobile phones using the new Mobile ATM Locator.

Another member convenience is Tower’s debit MasterCard. Stores nationwide are adopting single-swipe technology to let you zip past check-writing or cash-counting. Over 47,100 members now carry the card, a 5.0 percent increase over 2007. In 2008, those members used their cards for greater than 10.6 million transactions worth half a billion dollars.

We opened our eighth community branch last year in Owings Mills, Md., the first in Baltimore County. It’s equipped with the latest technology, including interactive remote teller stations, a 24-hour walk-up ATM, a self-service coin counter, and a computer check-in station.

In 2008, Tower Financial Services offered a series of free monthly seminars led by its full-time staff of professional financial planners. They educated many members on a variety of money-related topics, including retirement planning, investment management, estate planning, college savings plans, and budgeting.

Throughout the year, we held free real estate seminars on topics related to home buying and selling. We also conducted free “lobby days,” where a real estate agent would visit the branches to answer members’ real estate-related questions one-on-one. Tower’s Money Sense Web page provided financial tips on everything from building savings to using interactive planning tools like mortgage and retirement calculators.

Giving back to the community.

Serving others springs from the bedrock credit union philosophy of “people helping people.” It’s hard to find anyone more caring and generous—giving time, talents, and money alike—than our members, staff, and business partners.

For example, every year members and staff give generously through Tower to support Children’s Miracle Network and Baltimore’s Johns Hopkins Children’s Center. This year’s Have-A-Heart campaign, annual golf tournament, and other employee-run events raised nearly \$60,000 to benefit severely ill children.



Last year we raised over \$3,400 for the Susan G. Komen Foundation and the American Cancer Society. We matched the \$1,000 college scholarships awarded to each of three Tower members who won the annual Credit Union Foundation of MD & DC essay contest, and contributed another \$3,000 to the foundation.

Contributions are not always counted in dollars. Tower sponsored a toy, food, and clothing drive at our branches to benefit homeless families through Sarah's House. We conducted four blood drives with the Red Cross and hosted a Book Fair for the community. Through Habitat for Humanity, several Tower employees volunteered for the final phases of home reconstruction to help a low-income family in need of affordable housing.

We also give back to the community through continuing consumer education and financial literacy programs, ranging from credit report verification to credit card education, from college loan tips to student aid options.

Adding value while we live our values.

You own this credit union. Everyone who has an account here has a piece of it. So Tower's success is yours, and helping you better manage your financial life is what drives every one of us who works here.

As your needs change, we try to anticipate them with improved products and services. In rough weather or when the sailing is smooth, we remain committed to creating value for you and delivering it in service, price, honesty, convenience, variety, safety, confidentiality, and timeliness.

Thank you for your continuing confidence in Tower's management and staff. We are optimistic about the future of our country and of our credit union. We believe that sound financial practices are best in the long run for you and for us. We pledge to keep giving you the tools to enhance your financial well-being and help you achieve your goals in life.



Supervisory Committee Report

Bobby E. Crouse Jr., Chairman

The Supervisory Committee has two main goals: to ensure that management's financial reporting is sound and accurate; and that its practices and procedures safeguard members' assets. These goals are met, in part, by making certain that Tower's management properly administers plans and policies as set by the Board of Directors; and establishes and maintains effective policies, procedures, and controls that safeguard against fraud and conflicts of interest. The Supervisory Committee, through Tower's external auditors, consultants, and internal audit staff, also performs various assessments to ensure the security of members' records.

The Supervisory Committee is comprised of volunteer credit union members who are appointed by the Board of Directors. They are supported by Tower's Director of Internal Audit, John Mohler, and the internal audit staff.

An annual audit of Tower's financial statements is conducted by LarsonAllen LLP. The results can be found in this Annual Report. Periodic examinations are made by the National Credit Union Administration (NCUA), the regulatory agency for all federally-chartered credit unions. I am pleased to report that the most recent examination again confirms that Tower continues to be financially sound and has appropriate risk management control procedures.

The Supervisory Committee also serves as an ombudsman for members, responding confidentially to concerns, questions or complaints that have not otherwise been satisfactorily resolved. Write to: Tower Federal Credit Union, Attn: Chairman, Supervisory Committee, P.O. Box 5440, Laurel, MD 20726-5440.

Loan Review Committee Report

Pankaj R. Belani, Chairman

The Loan Review Committee, made up of five volunteers appointed by the Board of Directors, reviews loan appeals on a regular basis. Only credit unions offer the opportunity to appeal prior loan decisions by written request to a committee.

Tower's Loan Review Committee uses an effective communications process that allows Tower members a simple and streamlined way to present their loan review requests to the committee. Tower recognizes that a credit union's best investment is a loan to a member and that the primary security is always the borrowing member. The character and capacity of the member to repay a loan are carefully considered in order to protect the assets of the credit union. Tower members have consistently proven to be good credit risks. This is evidenced by an average delinquency rate of just .25 percent in 2008, a rate far below industry standards.

The Tower Loan Review Committee processed 60 member appeals in 2008, of which seven appeals were approved. Of the seven loans approved, all are being paid as agreed.

Members of the Loan Review Committee are Pankaj R. Belani, Chairman, Kelley Cash, Janice Bauer and Gina B. Roy.



Treasurer's Report

Charles C. Nossick, Treasurer

As of December 2008, total assets for Tower grew to \$1.85 billion, an increase of \$175 million or 10.4 percent over the previous year's total of \$1.68 billion. During the course of 2008, total members' savings increased by \$117 million and total loans increased by \$142 million. Much of this growth can be attributed to reaping the benefits of our ongoing efforts to enhance existing services and expand our membership base. However, a significant portion is also a direct result of the uncertain economic conditions that existed throughout 2008. Many Tower members chose to resolve that uncertainty by returning their excess funds to the safe haven provided by the credit union.

Tower's regulatory net worth to assets ratio was 10.9 percent as of December 31, 2008, after accounting for the NCUSIF deposit impairment cost of \$9.2 million. This ratio still significantly exceeds the 7.0 percent level required by NCUA regulations to be considered well capitalized. Tower's strong capital base provides the credit union with the flexibility to compete successfully in a challenging financial environment. At the same time, it allows us to continue to develop and implement new delivery systems and expand and enhance our products and services. These ongoing efforts enable us to respond quickly to members' changing financial needs and to maintain the level of excellent service that our members expect.

Throughout 2008, market interest rates declined for both short-term and long-term maturities, resulting in a more normal sloped treasury curve. The low-rate environment presents a significant challenge in managing interest rate risk for financial institutions. Tower's management has continued to take appropriate actions to mitigate the level of interest rate risk faced by the credit union.

In order to monitor the financial performance of the credit union, Tower's Board of Directors evaluates actual versus expected results on both a long-term and short-term basis. Budget expectations for the current year are compared to short-term goals. For long-term goals, we measure actual results against the strategic objectives as outlined in Tower's Five-Year Business Plan. In 2008, as in previous years, we are pleased to report that our credit union met, or exceeded, its financial goals.



Financial Summary

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	for the years ended December 31,		
	2008	2007	% Change
Members	116,774	117,723	-0.8%
Assets	\$ 1,851,773	\$ 1,676,652	10.4%
Member' savings	\$ 1,475,086	\$ 1,357,617	8.7%
Loans	\$ 1,473,921	\$ 1,332,138	10.6%
Member's equity	\$ 192,062	\$ 195,221	-1.6%
Net interest income	\$ 46,554	\$ 49,076	-5.1%
Other fees & charges	\$ 14,401	\$ 14,643	-1.6%
Operating expenses	\$ 46,193	\$ 41,433	11.5%
Net income	\$ 3,841	\$ 21,636	-82.2%



Consolidated Statements of Financial Condition

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	as of December 31,	
	2008	2007
Assets		
Loans to members, net of allowance for loan losses	\$1,473,921	\$ 1,332,138
Available for sale investments	195,044	74,700
Other investments	11,999	9,388
Cash and cash equivalents	123,856	208,882
Property and equipment, net	25,087	25,715
Deposit in NCUSIF	4,400	12,624
Accrued interest receivable	5,709	4,469
Prepaid expenses and other assets	11,757	8,736
Total assets	\$1,851,773	\$ 1,676,652
Liabilities and members' equity		
Members' savings:		
Prime Share & Club	\$ 684,751	\$ 651,201
Checking & Money Market	365,164	298,642
Share Certificates	425,171	407,774
Total members' savings	1,475,086	1,357,617
Accrued expenses	22,625	11,814
Notes payable	162,000	112,000
Commitments and contingencies	-	-
Total liabilities	1,659,711	1,481,431
Members' equity, substantially restricted	192,062	195,221
Total liabilities and members' equity	\$1,851,773	\$ 1,676,652

These financial statements do not constitute a complete set. The complete set, including the statements of cash flow, changes in members' equity, and notes to the financial statements, is available at the credit union office.



Consolidated Statements of Income

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	<u>for the years ended December 31,</u>	
	2008	2007
Interest income:		
Loans to members	\$ 76,623	\$ 71,316
Investments	9,534	15,483
Total interest income	86,157	86,799
Interest expense:		
Dividends on member' savings:		
Prime Share & Club	11,970	13,580
Checking & Money Market	3,994	3,278
Share Certificates	17,982	16,879
Total dividend expense	33,946	33,737
Borrowed funds	5,657	3,986
Total interest expense	39,603	37,723
Net interest income	46,554	49,076
Provision for loan losses	2,738	1,689
Net interest income after provision for loan losses	43,816	47,387
Other operating income	14,401	14,643
Gain on sales of mortgage loans and fixed assets	1,003	1,039
Operating expenses:		
Personnel costs	26,834	24,443
Occupancy costs	2,677	2,495
Equipment costs	2,908	2,606
External services	8,072	7,319
Insurance	440	388
Other	5,262	4,182
Total operating expenses	46,193	41,433
Net income before impairment of deposit in NCUSIF	13,027	21,636
Impairment of deposit in NCUSIF	9,186	-
Net income	3,841	21,636

These financial statements do not constitute a complete set. The complete set, including the statements of cash flow, changes in members' equity, and notes to the financial statements, is available at the credit union office.



Report of Independent Public Accountants

To the Supervisory Committee and Board of Directors of Tower Federal Credit Union

We have audited, in accordance with U.S. generally accepted auditing standards, the consolidated statement of financial condition of Tower Federal Credit Union as of December 31, 2008, and the related consolidated statements of income, changes in members' equity (not presented herein), and cash flows (not presented herein) for the year then ended. These financial statements are the responsibility of the credit union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and in our report dated May 11, 2009, we expressed an unqualified opinion on those consolidated financial statements. The consolidated financial statements of Tower Federal Credit Union as of December 31, 2007, were audited by Schreiner, Legge & Company (whose practice became part of LarsonAllen LLP effective July 1, 2008), whose report dated April 23, 2008, expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived. However, the reader of these condensed consolidated financial statements should note that this presentation does not constitute a complete set of financial statements as required to be presented in conformity with U.S. generally accepted accounting principles.

LarsonAllen LLP

LarsonAllen LLP
Arlington, Virginia



Audited Financial Statements

For copies of the audited financial statements, please write Tower Federal Credit Union at 7901 Sandy Spring Road, Laurel, MD 20707-3589 or call 301-497-7000 or 800-787-8328.



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