

TOWER FEDERAL CREDIT UNION

# *Holding a Steady Course*

2006 ANNUAL REPORT



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*Why we're committed  
to the credit union vision . . .*

Tower is in business to provide superior service and value to all our members. Your management sincerely believes the only way to do that is through remaining a federal credit union. Not just any credit union, but one of America's nationally recognized leaders. That's at the core of our vision.

In recent years, several credit unions have converted to mutual savings banks, including some in the Washington/Baltimore region. Others are seeking to change. Many that have already converted to a mutual savings bank subsequently convert to a stockholder-owned commercial bank.

Despite the motivations of other credit unions to convert, your Board of Directors and Senior Management do not want this to happen at Tower. We believe it is in the best interests of our members that Tower retains its charter and remains a credit union.

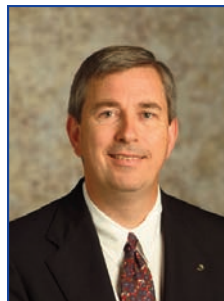
In October 2006, we took steps to demonstrate our commitment to remain a credit union and to make a future conversion to a non-credit union charter more difficult. The change to the bylaws mandates that Tower will only consider a charter change after holding a special meeting, which would be called for in a petition from at least 500 of the credit union's members. Tower also amended its mission statement to incorporate language that highlights its desire to remain a credit union in the best interests of its members and to retain its credit union charter in perpetuity.

We strongly believe that preserving Tower Federal Credit Union's charter is in the best interests of our members. Through our dedication to the financial well-being of our members, we will continue to support and reinforce the fundamental principles of a non-profit, member-owned credit union now and in the future.





*George M. Cumberledge  
Chairman*



*Martin M. Breland  
President & CEO*

## **Leadership Report**

Tower kept on course and finished 2006 in a strong position. The overall performance of the U.S. economy helped, with a real Gross Domestic Product growth of about 3 percent, moderate inflation, and low unemployment. But the housing market was buffeted by sharp declines, auto sales drifted downward, and large increases in energy prices softened consumer spending.

Through it all, we've stayed true to our vision and values while focusing on the steady pursuit of our goals. As a result, we made gains in most of the categories we use to measure success and set new records. Total assets, for example, reached \$1.58 billion, the highest ever, up 3.6 percent. Membership grew from 112,319 to 115,174 members, a gain of 2.5 percent. By year end, 273 organizations offered the benefits of Tower membership to their employees or homeowner association members.

Growth is an accurate barometer of how well we've served you and responded to your needs. We're also proud of our industry leadership as one of America's top 50 credit unions. We continue to be recognized for our financial education initiative by ranking members of the U.S. Congress, the Treasury Department's Financial Literacy and Education Commission, and the National Credit Union Administration.

But perhaps the most important way we served you in 2006 was by strengthening Tower's charter in our determination to remain a credit union and pledging to continue providing credit union advantages for the economic well being of our members.

Last year we continued to expand those advantages by providing more valuable products and services: reliable and secure online services, new mortgage and home equity loan options, competitive rates on savings, low-rate auto loans, a new branch, and financial planning professionals as part of Tower's staff.

*Our membership  
will continue to  
grow and become  
more diverse...*

*Our vision of  
Tower is to be a  
nationally  
recognized leader  
in the credit union  
industry...*



## ***As online use expands, so does security.***

How members gather product information and conduct financial transactions has changed dramatically in the past few years. We've made sure Tower services expanded and improved to keep pace with demand for today's digital technology and online access that's easy, reliable, and secure.

Home Banking users, for example, number over 41,400 members, an increase of almost 4,000. More than 22,300 members receive eStatements, a gain of 5,500 over last year. And over 12,000 members now pay their bills online, an increase of nearly 3,000. For added Home Banking security, we launched SafeLog in the fourth quarter of 2006. SafeLog protects against unauthorized access to a member's online account. It identifies you as the true owner of your account by recognizing not only your password but your computer as well. To date, almost all of Tower's Home Banking users have signed up for this extra layer of protection.

For greater ease of use, we've improved the navigation links and tools of Home Banking and online Bill Payment. We simplified online applications and reconfigured all forms to allow entering of foreign addresses. Over 2,400 members have signed up for Funds Transfer service to quickly and securely move funds between Tower accounts and their accounts at other financial institutions.

We're pleased that the Tower Web site ([towerfcu.org](http://towerfcu.org)) has become practically indispensable for members who want quick, accurate information that's easy to find and use. We've made it easier and simpler to view mortgage information, submit a pre-approval loan letter request, gather figures on new calculators with dynamic graphs and reporting features, and file taxes by improved linking to free filing Web sites. Members' confidence in the ease and security of submitting online applications was solidified: we had received over 71 percent of auto loan and 70 percent of credit card applications electronically by the end of the year.

## ***Loans reach record levels.***

Through our Web site and other channels of communication, we were successful in spreading the word about our competitive loans. We provided a record 17,494 loans and lines of credit, totaling \$508 million, a total loan increase of \$27 million, or 5.6 percent, over last year.

Of that \$508 million total, \$197 million came from mortgages, a 1.8 percent increase. Another \$116 million came from home equity loans and lines of credit.

These gains came despite mortgage industry problems and a sputtering housing market, with prices falling and housing starts dropping sharply. We added longer term mortgages, including interest-only and bi-weekly payment options. We added 10- and 15-year home equity loans, and the longer terms proved popular.

*Through  
technology, we  
enhance our  
members' ability  
to communicate  
with us...*

*We will anticipate  
changing member  
needs and develop  
flexible products  
and services to  
satisfy those  
needs...*



We did this while keeping rates competitive and creating communications that simplified the path from applying to closing. In some cases, we reduced the time from application to settlement to less than 25 days.

To make Tower a better choice for mortgage loans, we launched Tower Title Services, giving members a one-stop convenience, plus the choice of where and when they wished to schedule settlement. For home equity loans, we introduced closings by mail, saving members a trip to the settlement table, and expanded loan availability to all states except Texas.

We lent another \$156 million for autos, \$23 million for other consumer loans, and granted \$16 million in credit card lines of credit. All in all, we experienced a 12.6 increase in consumer lending, despite an economic headwind during much of last year.

### *Attractive rates on savings.*

As the Federal Reserve Board continued to raise interest rates to check inflation, we were able to increase the rates we paid to savers as well. For example, we increased our one-year Share Certificate Annual Percentage Yield from 3.0 percent in January to 5.0 percent by year end. The attractiveness of our higher rates of return gave members a way to increase their earnings and grew credit union certificate savings by 12 percent. During 2006, total member savings increased.

### *Convenience counts.*

Terrific as credit union services are, people don't want to go out of their way to get them. So we keep bringing Tower services closer to the people.

In July, we opened the Arundel Mills branch in Anne Arundel County, Maryland, where roughly one-third of our members live. It's equipped with the latest technology in interactive remote teller stations. The new branch is our fourth in the past 2-1/2 years, a sign of our responsiveness to members' need for convenient locations.

Through our affiliation with the CO-OP Network, members can use Tower debit cards surcharge-free at more ATMs conveniently located in most 7-Eleven stores. For member convenience, we now issue debit cards in our branches in a matter of seconds.

Tower recognizes that finding better ways to manage money and build savings for life's major events takes a plan. That's why we expanded our services to include financial planning professionals to meet with members wherever they feel comfortable and at ease to discuss ways to budget, save, and plan for the future.

*We exist to  
provide  
superior service  
to all our  
members...*



On-staff, non-commissioned CERTIFIED FINANCIAL PLANNER™ practitioners can provide members with objective financial strategies to help meet specific goals.

### ***Giving back to the community.***

Dedication to serving the community is a long and proud tradition at Tower. Every year, Tower employees help raise funds for many important charities. In 2006, our team of volunteers raised over \$4,600 benefiting the Susan G. Komen Foundation and the American Cancer Society. We also took pledges for the annual Children's Miracle Network telethon and presented a check of over \$28,300 to the Johns Hopkins Children's Center of Baltimore, Maryland.

Once again, Tower was named the Best Financial Institution of Laurel, Maryland as voted by community residents. We regard this honor as a testament to our commitment to service excellence.

### ***Remaining true to our vision and values.***

Tower held a steady course and kept on plan to provide superior value and services in response to member needs. At the same time, we remained vigilant to ensure the security and confidentiality of business information and member information in this time of technological expansion and integration that touches so many aspects of our daily lives. Tower is prepared with continuity plans, if extraordinary events ever occur, and to take care of your credit union business with a dedicated staff and secure technology in place. The safety and security of your finances remains our utmost concern at all times.

As the largest federally-chartered credit union in Maryland, we feel obligated to be an industry leader. The best way we can stay true to our vision and values, and keep your trust, is to remain on course as a credit union. We are proud to do so with your support.

*Tower empowers  
our employees  
to ensure excellent  
member value  
and service...*

*We will maintain  
a solid capital  
base that will  
ensure the ongoing  
safety and  
soundness of our  
credit union...*



## 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 establishes and maintains effective internal controls; properly administers plans, policies and control procedures as set by the Board of Directors; and establishes policies and procedures that safeguard against error, fraud, carelessness, conflict of interest and self-dealing.

In addition, the Supervisory Committee, through Tower's external auditors and internal audit staff, performs various compliance exams and information technology initiatives to ensure the security of member 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, Barbara Egmone and the audit staff.

An annual audit of Tower's financial statements is conducted on a contractual basis by Schreiner, Legge & Company. The results can be found in Tower's 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.

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: The Supervisory Committee, Attn: Bobby E. Crouse Jr., Chairman, P. O. Box 5440, Laurel, MD 20726-5440.

## Loan Review Committee Report

*Stuart M. Kohn, 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 risks for credit. This is evidenced by an average delinquency rate of just .1 percent in 2006, a rate far below industry standards.

The Tower Loan Review Committee processed 41 member appeals in 2006, of which three member appeals were approved. Of the three loans approved, all are being paid as agreed.

Members of the Loan Review Committee are Stuart M. Kohn, Chairman, Pankaj R. Belani, Richard G. Bradford, Vince Mettle and Gina B. Roy.



## Treasurer's Report

*Charles C. Nossick, Chairman*

As of December 2006, total assets for Tower grew to \$1.582 billion, compared to \$1.527 billion in the previous year, an increase of \$55 million, or 3.6 percent. During the course of 2006, total member savings increased by \$3 million and total loans increased by \$88 million.

Our members' equity to assets ratio increased to 11.1 percent as of the end of the year, driven by strong earnings coupled with modest asset growth. This ratio 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 continue developing and implementing new delivery systems, while expanding and enhancing 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 2006, market interest rates experienced reduced, and sometimes inverted, margins between short-term and long-term maturities. These rarely occurring reduced margins presented an atypical challenge in interest rate risk management to financial institutions. Tower 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 goals of the credit union, the Board of Directors evaluates the actual versus the expected results on both a long-term and short-term basis. Budget expectations for the current year are compared to our short-term goals. For the long-term goals, we measure the actual results against the strategic objectives as outlined in Tower's Five-Year Business Plan. In 2006, as in previous years, we are pleased to report that our credit union has met, or exceeded, its financial goals.



## Financial Highlights

Tower Federal Credit Union and Subsidiary  
(Dollars in thousands)

	<b>for the years ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>% Change</b>
Members	<b>115,174</b>	112,319	2.5%
Assets	\$ <b>1,581,917</b>	\$ 1,527,127	3.6%
Members' savings	\$ <b>1,314,916</b>	\$ 1,312,059	0.2%
Loans	\$ <b>1,171,743</b>	\$ 1,084,245	8.1%
Members' equity	\$ <b>174,743</b>	\$ 151,377	15.4%
Net interest income	\$ <b>46,396</b>	\$ 43,359	7.0%
Other fees & charges	\$ <b>12,982</b>	\$ 12,028	7.9%
Operating expenses	\$ <b>37,660</b>	\$ 34,812	8.2%
Net income	\$ <b>20,732</b>	\$ 19,601	5.8%
Equity ratio	<b>11.05%</b>	9.91%	
Operating expense to average assets ratio	<b>2.44%</b>	2.32%	
Loans to savings ratio	<b>89.11%</b>	82.36%	



## Consolidated Statements of Financial Condition

Tower Federal Credit Union and Subsidiary  
(Dollars in thousands)

	as of December 31,	
	2006	2005
<b>Assets</b>		
Loans to members, net of allowance for loan losses	\$ 1,171,743	\$ 1,084,245
Mortgage loans awaiting sale	15,439	-
Investment securities:		
Held to maturity	-	-
Available for sale	166,278	309,277
Other investments	8,633	6,871
Cash and cash equivalents	168,018	81,056
Property and equipment-net	25,799	25,627
Deposit in NCUSIF	11,517	11,678
Accrued interest receivable	4,631	4,893
Prepaid expenses and other assets	9,859	3,480
<b>Total assets</b>	<b>\$ 1,581,917</b>	<b>\$ 1,527,127</b>
<b>Liabilities and members' equity</b>		
Members' savings:		
Prime Share & Club Accounts	\$ 691,127	\$ 729,491
Checking & Money Market Accounts	298,443	295,075
Share Certificates	325,346	287,493
Total members' savings	1,314,916	1,312,059
Accrued expenses	10,258	11,691
Notes payable	82,000	52,000
Commitments and contingencies	-	-
Total liabilities	1,407,174	1,375,750
Members' equity, substantially restricted	174,743	151,377
<b>Total liabilities and members' equity</b>	<b>\$ 1,581,917</b>	<b>\$ 1,527,127</b>

*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 and Comprehensive Income

Tower Federal Credit Union and Subsidiary

(Dollars in thousands)

	for the years ended December 31,	
	2006	2005
Interest income:		
Loans to members	\$ 62,377	\$ 51,749
Investments	13,400	12,615
<b>Total interest income</b>	<b>75,777</b>	<b>64,364</b>
Interest expense:		
Dividends on members' savings:		
Prime Share & Club Accounts	13,005	8,579
Checking & Money Market Accounts	2,547	1,868
Share Certificates	11,344	8,928
<b>Total dividend expense</b>	<b>26,896</b>	<b>19,375</b>
Borrowed funds	2,485	1,630
<b>Total interest expense</b>	<b>29,381</b>	<b>21,005</b>
Net interest income	46,396	43,359
Provision for loan losses	1,422	1,110
<b>Net interest income after provision for loan losses</b>	<b>44,974</b>	<b>42,249</b>
Other operating income	12,982	12,028
Gain on the sale of investments, fixed assets and mortgage loans	436	136
Operating expenses:		
Personnel costs	22,171	20,991
Occupancy costs	2,167	1,944
Equipment costs	2,216	2,027
External services	6,912	6,028
Insurance	357	388
Unrealized loss from derivative & economic hedging activities	37	-
Other	3,800	3,434
<b>Total operating expenses</b>	<b>37,660</b>	<b>34,813</b>
<b>Net income before taxes</b>	<b>20,732</b>	<b>19,601</b>
Income taxes	-	-
<b>Net income</b>	<b>20,732</b>	<b>19,601</b>
Other comprehensive income:		
Unrealized gain or (loss) on available for sale securities	2,634	(1,666)
<b>Total comprehensive income</b>	<b>\$ 23,366</b>	<b>\$ 17,935</b>

*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

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### 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 statements of financial condition of Tower Federal Credit Union as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in members' equity (not presented herein), and cash flows (not presented herein) for the years 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 audits and in our report dated April 11, 2007, we expressed an unqualified opinion on those 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.



Schreiner, Legge & Company  
Certified Public Accountants  
Alexandria, Virginia



SCHREINER, LEGGE  
& COMPANY

### 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.



## Board of Directors

**George M. Cumberlandge**

*Chairman*

**Marie E. Rowland**

*Vice Chairman*

**Alan P. Smith**

*Secretary*

**Charles C. Nossick**

*Treasurer*

**Monte S. Dzurenko**

*Director*

**Michael C. Gidos**

*Director*

**David J. Hanko**

*Director*

**Barbara J. Lovett**

*Director*

**Stephen D. Whisler**

*Director*

**Arland A. White Jr.**

*Director*

**Kurt J. Zahnen**

*Director*

## Senior Management

**Martin M. Breland**

*President & CEO*

**Richard L. Brake**

*Senior Vice President*

*Member Services*

**Allen W. Bach**

*Vice President*

*Finance*

**Cynthia C. Scott**

*Vice President*

*Marketing*

**Sean P. Zimmermann**

*Vice President*

*Operations & Technology*

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*2007 Annual Meeting  
Tuesday, May 15, 2007  
5:00 p.m. at Tower Headquarters  
7901 Sandy Spring Road  
Laurel, Md.*

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7901 Sandy Spring Rd.  
Laurel, MD 20707-3589  
301-497-7000 800-787-8328  
[towerfcu.org](http://towerfcu.org)