



TOWER FEDERAL CREDIT UNION



# 2014 ANNUAL REPORT



Federally insured by NCUA

## Financial Highlights

Tower Federal Credit Union and Subsidiary  
(Dollars in thousands)

	for the years ended December 31,		
	2014	2013	% Change
Members	\$ 133,714	\$ 132,162	1.2%
Assets	\$ 2,642,123	\$ 2,609,559	1.2%
Members' savings	\$ 2,206,025	\$ 2,154,327	2.4%
Loans	\$ 1,181,854	\$ 1,158,214	2.0%
Members' equity	\$ 276,920	\$ 276,618	0.1%
Net interest income	\$ 44,856	\$ 42,619	5.2%
Provision for loan losses	\$ 3,550	\$ 2,641	34.4%
Non-interest income	\$ 24,556	\$ 34,683	-29.2%
Non-interest expense	\$ 56,072	\$ 57,786	-3.0%
Net income	\$ 9,790	\$ 16,875	-42.0%

# Chairman's Report

**F**or over six decades, members have come to Tower for affordable loans, convenient banking services and financial guidance. Our members continue to have confidence in Tower as a safe place to house their savings. In fact, in 2014, members' savings increased by \$52 million. Tower is now a \$2.64 billion financial institution with over 133,000 members around the globe.

In 2014, Tower granted almost \$207 million in mortgages, home equity loans and lines of credit. Registrations for our HomeAdvantage™ program, a free online real estate hub, increased more than 75 percent. Tower made the *Baltimore Business Journal* list of top mortgage lenders in the Baltimore area, ranking 8th for number of loans (917) and 11th for volume (\$124 million). Others on the list included large lenders such as Wells Fargo, Bank of America, and Navy Federal Credit Union.

Tower MasterCard® balances set a new record at \$123 million. New MasterCard accounts totaled almost 3,500 with credit lines totaling \$21 million. Tower Gold Card holders, recognizing the value of our 1 percent purchase rebate, earned close to \$2.9 million in cash-back rebates last year.

Many members took advantage of our historically low auto loan rates, resulting in over \$143 million in new and used car loans, a 31 percent increase. The Tower Car Buying Service launched in October and quickly became very popular with our members for the convenience, savings, and hassle-free way to buy a car. By the year's end, the new online service resulted in 274 members purchasing vehicles from TRUECar® Certified Dealers. Over 70 percent of these members turned to Tower for their loans totaling more than \$5 million. Auto loans increased 74 percent in the fourth quarter as compared to the same period in 2013.

By the end of 2014, over 66,000 members were enjoying the convenience of Home Banking. Over 32,000 members were banking on the go with Mobile Banking. *Magnify Money*, an online blog, evaluated mobile banking apps provided by the 50 largest banks and 50 largest credit unions, and reported Tower's as the 6th best-rated app nationally. Last year, over 10,300 members took advantage of Tower's app to deposit checks remotely using their mobile device.

I am proud to report that Tower consistently exceeds the net worth to assets ratio required by the National Credit Union Administration—an important measurement of safety and soundness—and is rated "well-capitalized," the best rating. Tower remains committed to providing you with low, affordable rates for loans, safe and secure savings accounts to invest your money, and access to the latest technology for convenient online and mobile banking services.

## George M. Cumberledge

Chairman of the Board of Directors

## **Supervisory Committee Report**

Gregory V. Miklusak, Chairman

The Supervisory Committee has two main purposes: 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 ensuring that Tower's management properly administers policies, established by the Board of Directors, and maintains effective procedures to comply with laws and regulations and minimize risk of fraud and conflicts of interest. The Supervisory Committee, through consultants and Tower's internal audit staff, also performs various assessments to ensure the security of members' records.

The Committee engaged the services of the certified public accounting firm Nearman Maynard Vallez to render an opinion as to whether Tower's financial statements are fairly presented in all material respects. I am pleased to report Nearman Maynard Vallez issued an unqualified opinion as of and for the years ended December 31, 2014 and December 31, 2013. The National Credit Union Administration (NCUA), the regulatory agency for all federally-chartered credit unions, performs periodic examinations. 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 1280, Laurel, MD 20725-1280.

## **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 a net charge-off rate of .33% of total loans in 2014, a rate far below industry standards.

The Loan Review Committee received and evaluated 32 loan appeals from members in 2014. Of the five appeals that were approved, only two loans were completed and funded and are being paid as agreed. The other three members did not complete the process to have their loans funded and their appeals have been withdrawn.

## Treasurer's Report

Charles C. Nossick, Treasurer

As of December 2014, total assets for Tower grew to \$2.64 billion, an increase of \$33 million or 1.2% over the previous year's total of \$2.61 billion. During the course of 2014, total members' savings increased by \$52 million and total member loans increased by \$22 million. Total loan production for 2014 was \$389 million, \$134 million of which was residential mortgage loans. During the same period, Tower sold \$99 million of residential mortgage loans as part of its interest-rate risk management strategy. As has always been our promise, Tower continues to be the servicer for all sold loans.

Tower's regulatory net worth to assets ratio was 11.24% as of December 31, 2014. This ratio significantly exceeds the 7% level required by NCUA regulations to be considered well capitalized. Tower's strong capital base provides the credit union the ability to compete successfully in a challenging financial environment. At the same time, it allows us to develop and implement new delivery systems and to expand and improve our product and service offerings. These ongoing efforts enable us to respond quickly to members' changing financial needs and to maintain the level of excellent service that members expect.

Throughout 2014, market interest rates remained low for both short-term and long-term maturities. The low-rate environment presents a significant challenge in managing interest-rate risk for financial institutions. Tower's management continues to assess the level of interest-rate risk and undertake appropriate actions to mitigate that risk in this challenging environment.

In order to monitor the financial performance of the credit union, Tower's Board of Directors evaluates actual results versus budget on a month and year-to-date basis. We are pleased to report that our actual results exceeded budget for the year ended December 31, 2014.

## Consolidated Statements of Financial Condition

Tower Federal Credit Union and Subsidiary  
(Dollars in thousands)

	as of December 31,	
	2014	2013
<b>Assets</b>		
Cash and cash equivalents	\$ 387,540	\$ 552,163
Deposits in other financial institutions	696	1,936
Investments—available for sale	984,565	804,808
Investments—held to maturity	1,835	3,680
Investments—other	202	1,552
Loans to members, net of allowance for loan losses	1,181,854	1,158,214
Accrued interest receivable	4,370	3,613
Property and equipment, net	27,902	28,849
Federal Home Loan Bank stock	8,289	10,314
NCUSIF deposit	21,231	20,489
Other assets	23,639	23,941
<b>Total assets</b>	<b>\$ 2,642,123</b>	<b>\$ 2,609,559</b>
<b>Liabilities and members' equity</b>		
<b>Liabilities</b>		
Members' share and savings accounts	\$ 2,206,025	\$ 2,154,327
Borrowed funds	132,000	162,000
Interest payable	767	941
Accrued expenses and other liabilities	26,411	15,673
<b>Total liabilities</b>	<b>2,365,203</b>	<b>2,332,941</b>
<b>Members' equity</b>		
Regular reserve	33,371	33,371
Undivided earnings	262,448	252,658
Accumulated other comprehensive loss	(20,025)	(10,537)
Equity acquired in merger	1,126	1,126
<b>Total members' equity</b>	<b>276,920</b>	<b>276,618</b>
<b>Total liabilities and members' equity</b>	<b>\$ 2,642,123</b>	<b>\$ 2,609,559</b>

## Consolidated Statements of Income

Tower Federal Credit Union and Subsidiary  
(Dollars in thousands)

	for the years ended December 31,	
	2014	2013
<b>Interest income</b>		
Loans to members	\$ 48,568	\$ 50,539
Securities and interest bearing deposits	8,482	7,023
<b>Total interest income</b>	<b>57,050</b>	57,562
<b>Interest expense</b>		
Members' share and savings accounts	6,556	8,121
Borrowed funds	5,638	6,822
<b>Total interest expense</b>	<b>12,194</b>	14,943
<b>Net interest income</b>	<b>44,856</b>	42,619
Provision for loan losses	3,550	2,641
<b>Net interest income after provision for loan losses</b>	<b>41,306</b>	39,978
<b>Non-interest income</b>		
Service charges and fees	10,188	10,708
Other non-interest income	12,215	16,650
Gains on sale of loans, net	2,024	7,325
Gain on disposition of assets acquired in liquidation, net	129	-
<b>Total non-interest income</b>	<b>24,556</b>	34,683
<b>Non-interest expense</b>		
Employee compensation and benefits	34,174	35,247
Office occupancy and operations	11,621	10,705
Other operating expenses	10,277	11,834
<b>Total non-interest expense</b>	<b>56,072</b>	57,786
<b>Net income</b>	<b>\$ 9,790</b>	\$ 16,875



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