

2015

TOWER FEDERAL CREDIT UNION
ANNUAL REPORT



Federally insured by NCUA.

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Financial Highlights

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	for the years ended December 31,		
	2015	2014	% Change
Members	\$ 140,299	\$ 133,714	4.9%
Assets	\$ 2,758,243	\$ 2,642,123	4.4%
Members' savings	\$ 2,338,309	\$ 2,206,025	6.0%
Loans	\$ 1,330,120	\$ 1,181,854	12.5%
Members' equity	\$ 292,598	\$ 276,920	5.7%
Net interest income	\$ 49,534	\$ 44,856	10.4%
Provision for loan losses	\$ 3,194	\$ 3,550	-10.0%
Non-interest income	\$ 28,348	\$ 24,556	15.4%
Non-interest expense	\$ 61,065	\$ 56,072	8.9%
Net income	\$ 13,623	\$ 9,790	39.2%

Chairman's Report

For over 60 years, Tower has existed to enhance the financial well-being of its members. From beginning assets of \$35 in 1953, Tower is now a \$2.8 billion dollar financial institution, with over 140,000 members worldwide.

In 2015, members chose Tower for \$284 million in mortgages, home equity loans and lines of credit. Registrations for Tower's HomeAdvantage™ Program, an online real estate hub, increased 20% over 2014 and members participating in the program received over \$214,000 in rebates at settlement.

In addition to our real estate loans, many members also took advantage of our low auto loan rates, resulting in \$293 million in new and used car loans—a whopping 105% increase over 2014! Members continued to take advantage of the Tower Car Buying Service, powered by TRUECar®, as a convenient and hassle-free way to buy a car. In 2015, 1,292 members purchased vehicles from TRUECar certified dealers. Over 70% of these members turned to Tower for their auto loans.

New Tower MasterCard® accounts totaled over 3,100, with overall credit lines exceeding \$21 million. Tower Gold Card holders, recognizing the value of our 1% purchase rebate, earned over \$2.9 million in cash-back rebates last year.

Our eServices continue to be very popular with members. At the end of 2015, over 71,000 members were enjoying the convenience of Home Banking and more than 24,000 members were paying their bills online. Over 33,000 members were banking on the go with Mobile Banking and our Mobile App. More than 21,000 members deposited checks remotely with their mobile device.

We hope all of our members will continue to look to Tower for affordable loans, convenient banking services and financial guidance throughout their lives. This might not be far-fetched. Last year, Tower was a top scorer in a member satisfaction survey of credit unions and banks by a nationally recognized consumer magazine. Tower received an overall score of 92. To put the 92 score into perspective, a score of 80 represented “very satisfied” and banks on average scored 69. Tower also received the highest rating possible for member service and communication. It makes sense that members stay with Tower.

In closing, I'm proud to report that Tower once again far exceeds the net worth to assets ratio required by the National Credit Union Administration, and is rated “well-capitalized,” the best rating. Our members continue to have confidence in Tower as a safe place to house their savings. In an unpredictable world, Tower brings you the tools you need to reach your financial goals, and a sound financial partnership you can depend on. If you have family members or friends that are eligible to join Tower, I encourage you to invite them to join so they too can take advantage of all the financial products and services we offer.

Marie E. Rowland

Board of Directors, Chair

Supervisory Committee Report

Jason R. Bailey, Chair

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 to minimize the risk of fraud and to avoid 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. Nearman Maynard Vallez issued an unqualified opinion as of and for the years ended December 31, 2015 and December 31, 2014. 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. If any member has such a concern they should 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 a 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. The character and capacity of the member to repay a loan are carefully considered in order to protect members' assets. Tower members have consistently proven to be good credit risks. This is evidenced by a net charge-off rate of just .23% of total loans in 2015, a rate far below industry standards.

The Loan Review Committee received and evaluated twenty-six loan appeals from members in 2015. Four of those twenty-six loan appeals were approved and three loans were completed and funded and are being paid as agreed. The remaining member did not complete the process to have the loan funded and their appeal for that loan has been withdrawn.

Treasurer's Report

Monte S. Dzurenko, Treasurer

As of December 2015, total assets grew to \$2.758 billion, an increase of \$116 million or 4.4% over the previous year's total of \$2.642 billion. During the course of 2015, total members' loans and savings balances increased by \$148 million and \$132 million, respectively. Total loan production for 2015 was \$617 million, driven primarily by \$293 million in auto loans and \$284 million in residential mortgage and home equity loans. During the same period, Tower sold \$154 million of fixed-rate residential mortgage loans as part of its interest-rate risk management strategy. As has always been our promise to ensure members receive the best loan servicing experience possible, Tower continues to be the servicer for all sold loans.

Tower's regulatory net worth to assets ratio was 11.26% as of December 31, 2015. 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, 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 2015, 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, 2015.

Consolidated Statements of Financial Condition

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	as of December 31,	
	2015	2014
Assets		
Cash and cash equivalents	\$ 611,658	\$ 387,540
Deposits in other financial institutions	-	696
Investments—available for sale	730,743	984,565
Investments—held to maturity	1,245	1,835
Investments—other	202	202
Loans to members, net of allowance for loan losses	1,330,120	1,181,854
Accrued interest receivable	4,337	4,370
Property and equipment, net	27,021	27,902
Federal Home Loan Bank stock	6,716	8,289
NCUSIF deposit	21,655	21,231
Other assets	24,546	23,639
Total assets	\$ 2,758,243	\$ 2,642,123
Liabilities and members' equity		
Liabilities		
Members' share and savings accounts	\$ 2,338,309	\$ 2,206,025
Borrowed funds	102,000	132,000
Interest payable	535	767
Accrued expenses and other liabilities	24,801	26,411
Total liabilities	2,465,645	2,365,203
Members' equity		
Regular reserves	33,371	33,371
Undivided earnings	276,071	262,448
Accumulated other comprehensive income	(17,970)	(20,025)
Equity acquired in merger	1,126	1,126
Total members' equity	292,598	276,920
Total liabilities and members' equity	\$ 2,758,243	\$ 2,642,123

Consolidated Statements of Income

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	for the years ended December 31,	
	2015	2014
Interest income		
Loans to members	\$ 50,230	\$ 48,568
Securities and interest bearing deposits	9,100	8,482
Interest income	59,330	57,050
Interest expense		
Members' share and savings accounts	5,315	6,556
Borrowed funds	4,481	5,638
Interest expense	9,796	12,194
Net interest income	49,534	44,856
Provision for loan losses	3,194	3,550
Net interest income after provision for loan losses	46,340	41,306
Non-interest income		
Fees and service charges	10,425	10,188
Other non-interest income	14,692	12,206
Gains on sale of loans, net	3,136	2,024
Gain on disposition of assets acquired in liquidation, net	95	129
Gain on disposition of premises and equipment, net	-	9
Non-interest income	28,348	24,556
Non-interest expense		
Employee compensation and benefits	37,133	34,174
Office occupancy and operations	13,427	11,621
Other operating expenses	10,505	10,277
Non-interest expense	61,065	56,072
Net income	\$ 13,623	\$ 9,790



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