



Tower Federal Credit Union

2016

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,		
	2016	2015	% Change
Members	\$ 159,796	\$ 140,299	13.9%
Assets	\$ 2,885,371	\$ 2,758,243	4.6%
Members' savings	\$ 2,477,331	\$ 2,338,309	5.9%
Loans	\$ 1,863,347	\$ 1,330,120	40.1%
Members' equity	\$ 309,362	\$ 292,598	5.7%
Net interest income	\$ 60,686	\$ 49,704	22.1%
Provision for loan losses	\$ 5,661	\$ 3,194	77.2%
Non-interest income	\$ 28,981	\$ 28,178	2.8%
Non-interest expense	\$ 65,663	\$ 61,065	7.5%
Net income	\$ 18,343	\$ 13,623	34.6%

Chair's Report

2016 was an exciting year for Tower. During the second and third quarters, we converted our debit and credit cards to EMV chip cards. EMV or “smart” cards contain a small microprocessor chip that enhances the security of transactions at retailers’ checkouts and ATMs. Despite the challenges that come with any new technology, I am pleased to say that the conversion was successful and we have already seen a reduction in fraud-related expenses. On behalf of Tower, I want to thank our members for their patience throughout both chip card conversions.

Just as protection against fraud is important to our members, so is technology. Our eServices continued to be very popular in 2016. At the end of the year, over 75,000 members—nearly half of our membership—were Home Banking users. Over 43,000 members were enjoying the convenience of mobile banking, a 19% increase over 2015. Our Mobile App continued to be popular, with over 36,000 users managing their accounts on the go; a 15% increase over 2015. Our App store rating in 2016 was 4.5 out of 5, with the App receiving positive feedback in both the Google Play and Apple App Stores: “Easy to use.” “Convenient.” “Safe.” “Simple.” “Keeps getting better and better!” Several enhancements to the App were introduced throughout the year and *MagnifyMoney* named it one of the Best Mobile Banking Apps of 2016 in their annual rankings.

Tower is always looking to help our members save money, and 2016 was no exception. Tower Gold Mastercard® holders earned \$2.8 million in cash-back rebates. Our Debit Rewards program provided another easy way to save, with members earning over \$100,000 in cash-back rewards. Members taking advantage of Tower’s HomeAdvantage® real estate program saved nearly \$260,000 in rebates at settlement. The popularity of Tower’s Car Buying Service, powered by TRUECar®, continued throughout the year. Over 1,700 members used the service to buy a vehicle in 2016, with an average savings of \$3,279 off MSRP. For the second year in a row, Tower was awarded “Credit Union Partner of the Year” by TRUECar.

Looking back over the past six decades, a lot has changed in the financial industry since Tower’s founding in 1953, but one thing that has not changed and never will is our commitment to service excellence. Our reason for being has never wavered: Tower exists to enhance the financial well-being of our members by creating and delivering value in terms of service, price, honesty, convenience, consistency, variety, safety, confidentiality and timeliness. We strive every day to deliver on this promise and our members deserve nothing less.

In closing, I’m proud to report that Tower once again exceeds the net worth to assets ratio required by the National Credit Union Administration, and is rated “well-capitalized”—the best rating. Our members can continue to rely on Tower as a safe, convenient, and competitive member-owned cooperative for their personal financial needs.

If you know friends, family members or co-workers who are not yet Tower members, I invite you to share your experience with Tower with them, and to encourage them to join Tower so they too can reap the savings and benefits of lifetime credit union membership.

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 in accordance with generally accepted accounting principles; and to ensure 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, to minimize the risk of fraud and avoid conflicts of interest.

The Supervisory Committee, through Tower's internal audit staff and consultants, performs various assessments to ensure policies are effective and being properly administered, and that ongoing improvements are implemented to safeguard assets. The Committee engaged the services of the certified public accounting firm Nearman, Maynard, Vallez, CPAs, P.A, to perform the required audit of Tower's 2016 financial statements. The National Credit Union Administration (NCUA), the regulatory agency for all federally-chartered credit unions, performs periodic examinations.

I am pleased to report that, as a result of the various assessments, external audit, and our NCUA examination, Tower continues to be financially sound and has sufficient 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: Chair, Supervisory Committee, P.O. Box 1280, Laurel, MD 20725-1280.

Loan Review Committee Report

Pankaj R. Belani, Chair

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 .22% of total loans in 2016, a rate far below industry standards.

The Loan Review Committee received and evaluated 40 loan appeals from members in 2016. Eleven of those loan appeals were approved and ten loans were completed and funded and are being paid as agreed. One remaining member did not complete the process to have the loan funded and the appeal for that loan has been withdrawn.

Treasurer's Report

Monte S. Dzurenko, Treasurer

As of December 31, 2016, total assets grew to \$2.885 billion, an increase of \$127 million or 4.6% over the previous year's total of \$2.758 billion. During the course of 2016, total members' loans and savings balances increased by \$533 million and \$139 million, respectively. Loans made to members in 2016 totaled \$1.108 billion, driven primarily by \$656 million in auto loans and \$410 million in residential mortgage and home equity loans.

Tower's regulatory net worth to assets ratio was 11.4% as of December 31, 2016. This ratio significantly exceeds the 7% level required by NCUA regulations to be considered well capitalized. Tower's strong capital base provides the ability to compete successfully in a competitive environment, by allowing us to expand and improve our product and service offerings, while continually making investments in our systems and security. These ongoing efforts enable us to respond quickly to members' changing financial needs and to maintain the level of excellent service and information security our members expect.

Throughout 2016, market interest rates remained low for both short- and long-term maturities. The low-rate environment continued to present a significant challenge in managing interest-rate risk for financial institutions. Tower's management continues to assess the level of interest-rate risk and take 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 monthly and year-to-date basis. We are pleased to report that our actual results exceeded budget for the year ended December 31, 2016.

Consolidated Statements of Financial Condition

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	as of December 31,	
	2016	2015
Assets		
Cash and cash equivalents	\$ 462,851	\$ 611,658
Deposits in other financial institutions	-	-
Investments—available for sale	471,172	730,743
Investments—held to maturity	645	1,245
Investments—other	202	202
Loans to members, net of allowance for loan losses	1,863,347	1,330,120
Accrued interest receivable	5,352	4,337
Property and equipment, net	27,696	27,021
Federal Home Loan Bank stock	5,245	6,716
NCUSIF deposit	22,946	21,655
Other assets	25,915	24,546
Total assets	\$ 2,885,371	\$ 2,758,243
Liabilities and members' equity		
Liabilities		
Members' share and savings accounts	\$ 2,477,331	\$ 2,338,309
Borrowed funds	65,000	102,000
Interest payable	417	535
Accrued expenses and other liabilities	33,261	24,801
Total liabilities	2,576,009	2,465,645
Members' equity		
Regular reserves	33,371	33,371
Undivided earnings	294,414	276,071
Accumulated other comprehensive income	(19,549)	(17,970)
Equity acquired in merger	1,126	1,126
Total members' equity	309,362	292,598
Total liabilities and members' equity	\$ 2,885,371	\$ 2,758,243

Consolidated Statements of Income

Tower Federal Credit Union and Subsidiary
(Dollars in thousands)

	for the years ended December 31,	
	2016	2015
Interest income		
Loans to members	\$ 59,868	\$ 50,400
Securities and interest bearing deposits	8,994	9,100
Interest income	68,862	59,500
Interest expense		
Members' share and savings accounts	4,875	5,315
Borrowed funds	3,301	4,481
Interest expense	8,176	9,796
Net interest income	60,686	49,704
Provision for loan losses	5,661	3,194
Net interest income after provision for loan losses	55,025	46,510
Non-interest income		
Other non-interest income	14,088	14,522
Fees and service charges	10,789	10,425
Gains on sale of loans, net	4,104	3,136
Gain on disposition of assets acquired in liquidation, net	-	95
Non-interest income	28,981	28,178
Non-interest expense		
Employee compensation and benefits	39,603	37,133
Office occupancy and operations	14,153	13,427
Other operating expenses	11,907	10,505
Non-interest expense	65,663	61,065
Net income	\$ 18,343	\$ 13,623



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