



**2010**

# **Annual Report**



# Four Points Federal Credit Union

## 2010 Report of Operations

Highlights of operations:	12/31/2010 Amount	Change From Prior Year	Percent Change
Loans	\$ 59,114,236	(\$ 6,493,857)	(9.9%)
Investments	\$ 45,001,633	\$ 5,908,560	15.1%
Total Assets	\$ 114,639,239	\$ 6,280,487	5.8%
Savings	\$ 102,228,253	\$ 8,299,033	8.8%
Capital	\$ 11,213,891	\$ 519,540	4.9%

### Rates Take a Plunge

It was a dismal year for savers as savings rates plunged further during 2010 with CD yields driving down from the already low returns of 2009. By the end of the year, the national average on 12-month CDs had fallen to about 0.60%.

A cautious public was saving more, and especially so in the safety of insured deposit accounts. People by and large also tightened their belts on spending and borrowed less.

Altogether, it was largely a matter of too much savings in financial institutions and no good place to invest it.

It was a year of opportunity for those who were in the borrowing market. Consumer loan rates declined substantially. The big news in the second half of the year was the sharp decline in mortgage rates that saw 15-year fixed rates at less than 4.0% for an extended period, causing a major wave of mortgage refinancing.

These trends were quite apparent in Four Points' operations.

Savings volume continued to increase in 2010, although at a much lesser rate than during the previous two years. Still, over three years savings was up nearly 70%.

At the same time savings grew, loan volume declined,

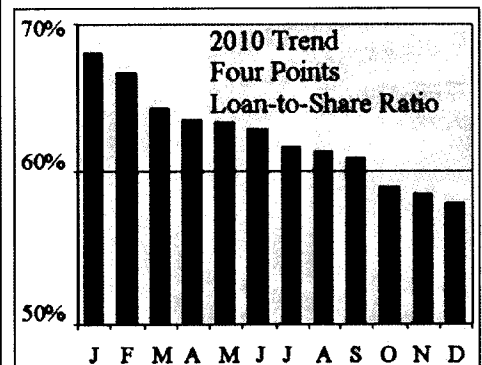
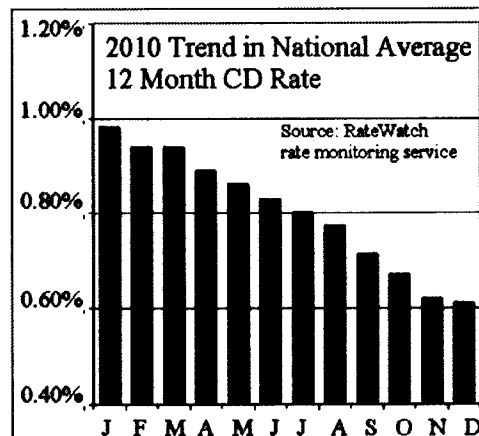
especially the credit union's volume of adjustable rate mortgages.

Because of the interest rate risk associated with holding long-term fixed-rate mortgage, Four Points retains in its loan portfolio only adjustable-rate mortgage, for which there was little demand in the latter part of 2010.

Origination of fixed-rate mortgages was brisk, but the credit union sells these loans to the Federal Home Loan Bank while retaining the servicing.

The combination of savings growth and reduced loan volume was evident in the credit unions loan-to-share ratio, which declined from 70% at the end of 2009 to 58% at the end of 2010. Only three years earlier the ratio of loans to savings was over 100%.

Excess funds (savings in excess of loans) are invested in the jumbo CD market, mostly at one-year maturities. The credit union uses national services to find the best rates in the country, but even those had fallen to less than 0.75% by year end, causing a sharp reduction in yields on rollover investments.



# Insurance Fund and Corporate Credit Union Assessments

While Four Points has maintained its credit quality and financial health, such has not been the case for all of the credit union industry. A relatively small number of credit union failures have caused losses that are now being paid for by all federally insured credit unions.

**Credit Union Insurance Fund:** Deposits in federally insured credit unions are insured to \$250,000. Credit unions have their own insurance fund, similar to FDIC, called the National Credit Union Share Insurance Fund (NCUSIF). Credit unions maintain a deposit in the fund equal to 1% of insured savings. Historically this deposit has been in lieu of paying premiums although the National Credit Union Administration (NCUA) has the authority to also assess premiums if needed.

**Corporate Credit Union Stabilization:** In addition to the regular retail credit unions that people know about, there is a system of Corporate Credit Unions (Corporate CUs). These are wholesale credit unions that do business with retail credit unions, primarily for the investment of excess funds.

Many of the Corporate CUs became heavily invested in mortgage-backed securities, experienced major losses on these investments and several failed. The NCUA initially used

money from the insurance fund to stabilize the Corporate CUs. Later, a Corporate Credit Union Stabilization Fund was established to allow an orderly disposal of assets. Money was borrowed from the U.S. Treasury and will be paid back through credit union assessments, which are expected to continue for 11 years.

**Insurance Fund Stress:** In addition to the problems with the Corporate CUs, a number of regular credit unions got into financial trouble causing major losses to the insurance fund. The NCUA assessed credit unions special premiums to replenish the fund in 2010 and has forecast further assessments for 2011 and beyond.

**Accrual for Assessments:** Four Points has taken the accounting approach of accruing for these assessments when an indication of probable assessments has been made. Separate assessments are made for the Corporate Stabilization Fund and for the insurance fund.

The credit union accrued for 2010 assessments in 2009, expensing and setting aside some \$472,000. Prior to 2010 year-end the NCUA stated its expectation for 2011 assessments. Based on the regulator's forecast, Four Points accrued approximately \$355,000 as a 2010 expense for payment of 2011 assessments.

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## Savings Surge

Member savings increased by \$8.3 million or 8.8% during 2010 to \$102.2 million. Essentially all of this growth was in regular savings accounts. Over the past three years member savings increased by 67.4%.

Regular variable rate savings and IRA accounts continued to represent the largest share of total member savings at 81.1% of the total at the end of 2010. Checking accounts represented 1.4% and Time Certificates 17.4% of total savings.

Savings rates declined throughout the year. The average return to Four Points savers during 2010 was 1.34% compared to 2.07% the previous year.

## Lending Sluggish

Consumer lending was challenging in 2010. The credit union's consumer loan portfolio decreased by 5.3% to \$19.7 million at the end of the year.

There was limited demand for adjustable-rate mortgages in 2010. At year-end, the volume of this major component of credit union loans was \$39.4 million, down 12.0% from the previous year.

Total loan volume at 2010 year-end was \$59.1 million, down 9.9% from 2009.

The volume of loans in a delinquent status at year end was 0.39% of total loans. Net loan charge offs for the year were 0.07% of average volume, compared with 0.29% in 2009.

## **I**ntestments Rise

The objective of the credit union is to convert member savings into loans to members. Savings in excess of loan demand is invested. With the big increase in savings and a decline in loans, the loan-to-savings ratio declined from 69.8% at the beginning of the year to 57.8% at year-end. As a result the credit union's investment portfolio grew substantially during 2010.

At the end of 2009 investments totaled \$45.0 million, and increase of 15.1%. The credit union invests conservatively with the portfolio made up exclusively of short-term federally-insured jumbo CDs in other financial institutions. This strategy avoids the market value risk associated with securities and the short maturities provide flexibility as market interest rates change.

## **A**ssets and Capital

Four Points assets at the end of 2010 were \$114.6 million, which was a gain of \$6.3 million or 5.8%.

The credit union ended 2010 with capital of \$11.2 million, compared to \$10.7 million a year earlier. Capital in a credit union is comprised solely of net earnings retained over the years. Earnings were sufficient to maintain the capital ratio even with a larger asset size. The capital-to-asset ratio at 2010 year end was 9.8% compared to 9.9%.

## **I**nterest Margin & Earnings

Net interest margin is the difference between the yield earned on assets and the cost of funds. In 2010 net interest margin was 2.18%, compared to 2.38% the previous year.

Another measure of margin is overall net margin which adds to interest margin the income from non-interest sources. Net margin in 2010 was 2.42%, compared to 2.49% the previous year. Non-interest income was higher in 2010 due to the premium on the sales of fixed-rate mortgages.

Operating expenses increased by 2.5% during 2010. Expenses as a percent of average

assets were 1.43%, down from 1.56% the previous year. Expenses included an accrual for 2010 Corporate Stabilization and Share Insurance Fund assessment of \$354,931.

Although not required by standard calculation methods, the credit union elected to make economic adjustment additions to the Allowance for Loans totaling \$260,000 in 2010.

Net retained earnings in 2010 were \$519,541 and the ratio of net earnings to average assets was 0.45% compared 0.05% the previous year.

## **M**embership

Membership at year-end was 8,857 compared to 8,822 at the end of 2010. Groups served by Four Points Federal Credit Union include employees of the Farm Credit System, local cooperatives in Nebraska and South Dakota, and Ag Processing Inc (AGP), a regional cooperative.

## **V**olunteers and Management

The credit union is governed by a seven-member Board of Directors elected from within the membership. A three-member Supervisory Committee is appointed annually by the Board to provide independent oversight and supervise the audit function. Volunteer officials serve for the good of the credit union membership and without compensation. Operations of the credit union are managed by the President and senior management team. Volunteer officials and senior management at year-end 2010 were:

### **Board of Directors:**

Don Shippy, Chair  
Steve Hennemann, Treasurer  
Adrain Vinke, Secretary  
Carl Carlson      Becky Haas  
Kelley Johansen Dale Johnson

### **Supervisory Committee:**

Steve Joerg, Chair  
Laurie Krone      Dave Pugh

### **Senior Management:**

Terry Bentley, President  
Verlyn Carlson, Vice President-Lending  
Rita Janak, Vice President-Operations

**Four Points Federal Credit Union**  
**Statement of Condition**  
**December 31**

	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b>ASSETS</b>			
Cash	\$ 9,710,506	\$ 2,703,897	\$ 7,006,609
Interest Bearing Deposits in Financial Institutions (Note 3)	45,001,633	39,093,073	5,908,560
Loans to Members (Note 4)	59,124,236	65,608,094	(6,483,858)
Less Allowance for Loan Losses (Note 4)	<u>(432,423)</u>	<u>(219,299)</u>	<u>(213,124)</u>
Net Loans to Members	<u>58,691,813</u>	<u>65,388,795</u>	<u>(6,696,982)</u>
Accrued Interest Receivable	168,908	202,218	(33,310)
Net Furniture and Equipment (Note 5)	22,990	31,461	(8,471)
Prepaid Expenses	39,300	51,255	(11,955)
Share Insurance Fund Deposit (Note 6)	<u>1,014,089</u>	<u>888,054</u>	<u>126,035</u>
Total Assets	<u>\$ 114,649,239</u>	<u>\$ 108,358,753</u>	<u>\$ 6,290,486</u>
<b>LIABILITIES</b>			
Savings Accounts (Note 7)	\$ 102,228,253	\$ 93,929,219	\$ 8,299,034
Notes Payable (Note 8)	0	3,000,000	(3,000,000)
Accrued Expenses	2,464	1,942	522
Other Liabilities	<u>1,204,631</u>	<u>733,241</u>	<u>471,390</u>
Total Liabilities	<u>\$ 103,435,348</u>	<u>\$ 97,664,402</u>	<u>\$ 5,770,946</u>
<b>RETAINED EARNINGS</b>			
Regular Reserve (Note 9)	\$ 3,228,009	\$ 3,228,009	\$ 0
Undivided Earnings	<u>7,985,882</u>	<u>7,466,342</u>	<u>519,540</u>
Total Retained Earnings	<u>\$ 11,213,891</u>	<u>\$ 10,694,351</u>	<u>\$ 519,540</u>
Total Liabilities and Retained Earnings	<u>\$ 114,649,239</u>	<u>\$ 108,358,753</u>	<u>\$ 6,290,486</u>

The accompanying notes are an integral part of these financial statements.

**Four Points Federal Credit Union**  
**Statement of Income**  
**Fiscal Year Ended December 31**

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Interest Income:			
Interest on Loans	\$ 3,107,909	\$ 3,404,882	\$ (296,973)
Interest on Investments	<u>770,458</u>	<u>764,165</u>	<u>6,293</u>
Total Interest Income	<u>\$ 3,878,367</u>	<u>\$ 4,169,047</u>	<u>\$ (290,680)</u>
Interest Expense			
Interest on Savings	\$ (1,352,654)	\$ (1,824,099)	\$ 471,445
Interest on Borrowings	<u>(13,093)</u>	<u>(78,050)</u>	<u>64,957</u>
Total Interest Expense	<u>\$ (1,365,747)</u>	<u>\$ (1,902,149)</u>	<u>\$ 536,402</u>
Provision for Loan Losses	<u>\$ (260,000)</u>	<u>\$ (138,307)</u>	<u>\$ (121,693)</u>
Net Income After Provision for Loan Losses	<u>\$ 2,252,620</u>	<u>\$ 2,128,591</u>	<u>\$ 124,029</u>
Other Operating Income	<u>\$ 269,345</u>	<u>\$ 140,887</u>	<u>\$ 128,458</u>
Net Income Before Other Operating Expenses	<u>\$ 2,521,965</u>	<u>\$ 2,269,478</u>	<u>\$ 252,487</u>
Other Operating Expenses:			
Payroll and Benefits (Note 11)	\$ 933,153	\$ 874,107	\$ 59,046
Office Operations	359,177	370,957	(11,780)
Office Occupancy (Note 14)	72,858	75,421	(2,563)
Other Expenses	<u>282,305</u>	<u>286,628</u>	<u>(4,323)</u>
Total Operating Expenses	<u>\$ 1,647,493</u>	<u>\$ 1,607,113</u>	<u>\$ 40,380</u>
Net Income From Operations	<u>\$ 874,472</u>	<u>\$ 662,365</u>	<u>\$ 212,107</u>
Loss on Disposition of Assets	\$ 0	\$ (2,379)	\$ 2,379
NCUSIF Premium and Stabilization Expenses (Note 6)	<u>\$ (354,931)</u>	<u>\$ (605,654)</u>	<u>\$ 250,723</u>
Net Income	<u>\$ 519,541</u>	<u>\$ 54,332</u>	<u>\$ 465,209</u>

**Statement of Changes in Retained Earnings**  
**Fiscal Year Ended December 31, 2010**

	Regular Reserves	Undivided Earnings	Total
Balance at 12/31/09	\$ 3,228,009	\$ 7,466,341	\$ 10,694,350
Net Income		519,541	519,541
Statutory Transfers	-	-	-
Other Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 12/31/10	<u>\$ 3,228,009</u>	<u>\$ 7,985,882</u>	<u>\$ 11,213,891</u>

The accompanying notes are an integral part of these financial statements.

**Four Points Federal Credit Union**  
**Statement of Cash Flows**  
**Fiscal year ended December 31, 2010**

Cash Flows From Operating Activities:	
Interest Received From Loans and Investments	\$ 3,901,378
Other Operating Income Received	269,345
Interest Paid to Members	(1,352,654)
Interest Paid on Borrowings	275,241
NCUSIF Transfers	-
Cash Paid to Employees and Suppliers	<u>(1,901,846)</u>
Net Cash Flows provided by Operating Activities	<u>\$ 1,191,464</u>
Cash Flows From Investing Activities:	
Net Decrease (Increase) in Interest Bearing Deposits and Investments	(5,911,533)
Net Decrease (Increase) in Loans to Members	6,436,982
Fixed Asset Purchases	<u>(9,338)</u>
Net Cash Flows from Investing Activities	<u>\$ 516,111</u>
Cash Flows from Financing Activities:	
Net Increase (Decrease) in Savings Accounts	8,299,033
Net Increase (Decrease) in Borrowings	<u>(3,000,000)</u>
Net Cash Flows Provided by Financing Activities	<u>\$ 5,299,033</u>
Net Decrease in Cash:	\$ 7,006,609
Cash at Beginning of Year	<u>2,703,897</u>
Cash at End of Year	<u>\$ 9,710,506</u>

**Four Points Federal Credit Union**  
**Reconciliation of Net Income to**  
**Net Cash Flows Provided by Operating Activities**  
**Fiscal Year Ended December 31, 2010**

Net Income	\$ 519,541
Adjustments to Reconcile Net Income to Net Cash Flows Provided by Operating Activities:	
Depreciation and Amortization	17,809
Provision for Loan Losses	260,000
Amortization and Accretion of Discounts and Premiums on Investments	2,973
Decrease (Increase) in Accrued Interest Receivable	33,310
Decrease (Increase) in Prepaid Expenses	11,955
Increase (Decrease) in Accrued Expenses	95,474
Increase (Decrease) in Other Liabilities	376,438
Decrease (Increase) in NSUSIF	<u>(126,036)</u>
Net Cash Flows Provided by Operating Activities	<u>\$ 1,191,464</u>

The accompanying notes are an integral part of these financial statements.

**Four Points Federal Credit Union**  
**Notes to Financial Statements**  
**December 31, 2010**

**Note 1 - Summary of Significant Accounting Policies**

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**Basis of Financial Statement Presentation:** The financial statements have been prepared in conformity with generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, as of the date of the balance sheet, and revenues and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change in the near-term relate to the determination of the allowance for loan losses. Management believes that the allowance for losses on loans is adequate. While management uses available information to recognize losses on loans, future additions to the allowances may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the credit union's allowance for loan losses. Such agencies may require the credit union to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

**Cash:** For purposes of financial statements, cash consists of cash on hand and on deposit for immediate use in the daily operations of the credit union.

**Interest Bearing Deposits:** Interest bearing deposits consist primarily of amounts on deposit with various financial institutions. The interesting bearing deposits are stated at cost which approximates market value.

**Loans to Members and Allowance for Loan and Lease Losses:** Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest on loans is recognized as it is earned over the term of the loan. The allowance for loan losses is established through a provision for loan

losses charged to expenses. Loans are charged against the allowance when management believes that the collectibility of the principal is unlikely. The allowance is an amount that board and management believe will be adequate to absorb possible losses on existing loans that may become uncollectible based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. Accrual of interest is discontinued when a loan is delinquent for over 60 days.

**Furniture and Equipment:** Furniture and equipment are recorded at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

**Retirement Plan:** The credit union has a defined contribution plan which covers all eligible employees. The credit union's policy is to fund pension contributions on a current basis.

**Off Balance Sheet Financial Instruments:** In the ordinary course of business the credit union has entered into off-balance sheet financial instruments consisting of commitments to extend credit and members' lines of credit. Such financial instruments are recorded in the financial statements when they become payable.

**Taxes:** The credit union has been determined to be exempt from federal income taxes under Section 501(c)(14) of the Internal Revenue Code. As a federally chartered credit union it is also exempt from all state and local taxes except for personal property tax.

**Note 2 - Membership Eligibility**

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Four Points Federal Credit Union has been organized to serve members within a field of membership which has been approved by the National Credit Union Administration and is recorded in its charter. The primary groups served

are employees of the Farm Credit System, Nebraska agricultural supply and marketing cooperatives, and the regional cooperative Ag Processing Inc. Refer to the credit union's charter for a complete listing of

### Note 3 - Interest Bearing Deposits In Financial Institutions

The composition of interest bearing deposits in financial institutions, at cost, as of December 31, 2010 and 2009 was:

	<u>12/31/2010</u>	<u>12/31/2009</u>
SunCorp Credit Union:		
Cash Management Shares	\$ 73	\$ 123
Federal Home Loan Bank of Topeka:		
Overnight Funds Account	0	0
Demand Deposit Account	2,250,910	119,828
Stock Account	469,000	516,500
Certificates of Deposit at other federally insured institutions	<u>\$42,281,650</u>	<u>\$38,456,622</u>
Total Interest Bearing Deposits	<u>\$45,001,633</u>	<u>\$39,093,073</u>

A summary of interest bearing deposits by maturity as of December 31, 2010 and 2009 is:

	<u>12/31/2010</u>	<u>12/31/2009</u>
Maturity within one year	\$40,439,526	\$33,877,707
Maturity within 1-2 years	1,842,124	4,578,915
No contractual maturity	<u>2,719,983</u>	<u>636,451</u>
Total Interest Bearing Deposits	<u>\$45,001,633</u>	<u>\$39,093,073</u>

Cash Management Shares in SunCorp Credit Union are deposits made for the clearing of member debit card transactions. Overnight Funds and Demand Deposits in the Federal Home Loan Bank (FHLB) of Topeka are funds used for credit union liquidity purposes. Stock in the FHLB is an investment required for FHLB membership and to capitalize the credit union's borrowing and mortgage loans sold to the FHLB.

Four Points Federal Credit Union term investments are exclusively in Certificates of Deposit in other federally insured financial

institutions. Investments in individual CDs are made in amounts less than the insured deposit amount so that accrued interest is included in the total amount of insurance coverage for each CD investment. Accrued interest is paid to the credit union monthly.

During 2010 savings volume far exceeded loan volume and the excess was invested in CDs. Together, higher savings volume and reduced loan volume accounted for the substantial increase in investments, which are year-end 2010 were 10.0% higher the investment volume a year earlier.

### Note 4 - Loans to Members

The composition of loans to members at year end 2010 and 2009 consisted of the following:

	<u>12/31/2010</u>	<u>12/31/2009</u>
Real estate loans	\$39,405,745	\$44,798,848
Secured personal loans	19,037,642	20,274,221
Unsecured personal loans	680,849	535,024
Total loans	\$59,124,236	\$65,608,093
Less: Allowance for Loan Losses	( 432,423)	( 219,299)
Net Loans to Members	<u>\$58,691,813</u>	<u>\$65,388,794</u>

#### Note 4 - Loans to Members continued

A summary of the changes in the Allowance for Loan Losses as of December 31, 2010 and 2009 was:

	<u>12/31/2010</u>	<u>12/31/2009</u>
Balance at beginning of year	\$ 219,298	\$ 273,234
Provision charged to operations	260,000	138,307
Loans charged off	( 46,875)	( 192,242)
Recoveries on charged off loans	<u>0</u>	<u>0</u>
Balance at end of year	<u>\$ 432,423</u>	<u>\$ 219,299</u>

Loans more than 60 days delinquent on which accrual of interest had been discontinued totaled \$228,901 as of December 31, 2010, compared to \$421,537 on December 31, 2009. If interest on those loans had been accrued such income would have approximated \$2,849 and \$7,200 at December 31, 2010 and 2009 respectively.

In the ordinary course of business, the credit union makes loans to members who serve on the Board of Directors, Committees, and members who are employees of the credit union. Total loans to these members were \$205,424 at December 31, 2010, compared to \$414,283 at December 31, 2009.

The composition of loans included \$26,168,663 at variable interest rates, \$16,718,454 at adjustable rates, and \$16,237,120 at fixed rates as of December

31, 2010. Rates are established by the Board of Directors based on current and expected future market conditions.

The Allowance for Loan and Lease Losses is determined on the basis of two components. One is the Specific Reserve for loans that have been identified as having a risk of potential loan loss. The other component is the General Reserve which is reserved for inherent but unidentified risk within the loan portfolio, and is calculated on the basis of historic volume and loan loss experience.

Accounting practices permit the Board of Directors to put aside additional reserves if it believes economic conditions suggest that more inherent credit risk exists than is otherwise evidenced by historic losses.

#### Note 5 - Furniture and Equipment

The following is a summary of furniture, fixtures and equipment, at cost, less accumulated depreciation as of December 31, 2010 and 2009:

	<u>12/31/2010</u>	<u>12/31/2009</u>
Furniture, fixtures and equipment	\$ 437,321	\$ 498,471
Less: Accumulated depreciation	( 414,331)	( 467,010)
Net Furniture, fixtures and equipment	<u>\$ 22,990</u>	<u>\$ 31,461</u>

#### Note 6 - National Share Insurance Fund Deposit Corporate Stabilization Fund

This Note to Financial Statements covers both the credit union insurance fund and the recently created Corporate Stabilization Fund.

##### National Share Insurance Fund

Member savings accounts are insured to \$250,000 by the National Credit Union Share Insurance Fund (NCUSIF) administered by the National Credit Union Administration (NCUA), a U.S. Government Agency.

Credit unions maintain on deposit in the NCUSIF an amount equal to 1% of insured members' savings, which is normally in lieu of paying insurance premiums although the NCUA has

authority to also assess premiums as may be needed. The Four Points balance on deposit as of December 31, 2010 was \$1,014,089, compared to \$888,054 as of December 31, 2009. This deposit appears as an asset on credit union financial statements.

Due to NCUSIF losses from failed credit unions the NCUA determined that it was necessary to assess insured credit unions a special premium to return the fund equity to its desired position. The assessment paid by Four Points was \$125,950.

(Note continued on following page)

**Note 6 - National Share Insurance Fund Deposit  
Corporate Stabilization Fund continued**

**Temporary Corporate Credit Union  
Stabilization Fund**

Congress authorized creation of a Temporary Corporate Credit Union Stabilization Fund in 2009 with credit available from the U.S. Treasury. The purpose of the fund is to stabilize the system of Corporate Credit Unions and to provide for orderly disposition of impaired securities and other losses.

Stabilization Fund borrowings and costs to credit unions will depend on actual losses and when they occur. Therefore, the eventual credit union liability for the fund is not currently known. Borrowings from the Treasury will be

repaid through assessments to credit unions. Such assessments may continue through 2021 if necessary.

In 2010 the NCUA assessed credit unions a premium equal to 0.134% of insured deposits as of June 30, 2010. This assessment for Four Points was \$134,029.

**Assessment Accruals**

An accrual account for 2010 assessments was established and expensed in 2009. A further accrual of \$354,931 for anticipated 2011 combined NCUSIF and Corporate Stabilization assessments was expensed and reserved in 2010.

**Note 7 - Savings Accounts**

The composition of member savings accounts as of December 31, 2010 and 2009 was:

	<u>12/31/2010</u>	<u>12/31/2009</u>
Regular savings accounts	\$ 80,496,176	\$74,799,878
Individual retirement accounts (IRAs)	2,431,620	2,251,653
Share draft accounts (checking)	1,461,661	1,415,499
Time certificates	<u>17,838,796</u>	<u>15,462,190</u>
Total Savings Accounts	<u>\$102,228,253</u>	<u>\$93,929,220</u>

Savings by contractual maturity in 2010 and 2009 was:

	<u>12/31/2010</u>	<u>12/31/2009</u>
No contractual maturity	\$ 84,389,457	\$78,467,030
Maturity within one year	12,795,008	11,489,102
Maturity in one to two years	3,244,809	2,805,421
Maturity greater than two years	<u>1,798,979</u>	<u>1,167,667</u>
Total Savings Accounts	<u>\$102,228,253</u>	<u>\$93,929,220</u>

Dividend rates are set by the Board of Directors, based on an evaluation of current and future market conditions. There was approximately \$625,560 in member savings over the \$250,000 insured limit as of December 31, 2010.

**Note 8 - Borrowed Funds**

The credit union maintains an open-end credit agreement with SunCorp Federal Credit Union which is dated November 20, 2002, and provides a maximum credit line of \$2,000,000. Interest is payable at variable short-term market rates and all outstanding advances and accrued interest are due on demand. There were no outstanding borrowings at December 31, 2010.

The credit union also maintains a credit agreement with the Federal Home Loan Bank (FHLB) of Topeka which provides maximum credit

advances up to the lesser of 85% of credit union real estate assets or 25% of total assets. At December 31, 2010, the credit available was \$29,816,677. The amount of available credit applies to the total outstanding balances of all credit advance types that the credit union may have. Interest rates may be fixed or variable depending on the advance type. The credit union has pledged substantially all mortgage loans as collateral for its Federal Home Loan Bank commitment. The credit union had no outstanding borrowings as of December 31, 2010.

## Note 9 - Regular Reserve

The credit union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, belongs to the credit union and is held to

meet contingencies or losses in its business. The regular reserve is not available for the payment of dividends on member savings.

## Note 10 - Regulatory Capital

The credit union is subject to regulatory net worth (capital) ratio requirements administered by the National Credit Union Administration (NCUA). In addition, the NCUA has established Risk Based Net Worth (RBNW) requirements for complex credit unions based on risk weighting formulas on specific assets, liabilities and off-balance sheet items which qualify under the regulations. Failure to meet minimum net worth or RBNW requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the credit union's financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the credit union to maintain minimum ratios (set forth in the following table) of net worth (as defined in the

regulations) to assets (as defined) and RBNW ratios (as defined). Management believes, as of December 31, 2009 that the credit union meets all capital adequacy requirements to which it is subject and no events have occurred since the calculation date, which would change the institution's category. The credit union RBNW ratio is above the 6% minimum requirement to be considered a complex credit union. As of December 31, 2010 and 2009 the credit union RBNW requirements are 4.17% and 4.72%, respectively.

As of December 31, 2010 and 2009 the credit union's net worth is categorized as well capitalized under the regulatory framework for prompt correction action. To be categorized as well capitalized the credit union must maintain a minimum net worth ratio of 7%.

December 31	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2010	\$11,213,891	9.78%	≥ \$6,878,954	≥ 6.0%	≥ \$8,025,447	≥ 7.0%
2009	\$10,694,350	9.86%	≥ \$6,501,525	≥ 6.0%	≥ \$7,585,113	≥ 7.0%

## Note 11 - Retirement Plan

The credit union has a defined contribution employee retirement plan comprised of two components, which covers all regular employees. Annual contributions to the Salary Deferral Plan are made in an amount equal to 5% of employee salaries. There are no employee contributions in this component of the plan. The other component is the 401(k).

The Salary Deferral 401(k) Plan requires the employer to match 100% of employee contributions up to 3% of salary and to further match 50% of employee contributions beyond 3% and up to 5% of salary.

Total retirement and savings plan expense of the credit union was \$55,027 and \$45,341 for the years ended December 31, 2010 and 2009 respectively.

## Note 12 - Commitments and Contingent Liabilities

The credit union is a party to financial instruments with off-balance-sheet risk, in the normal course of its business, to meet the financing needs of its members. These financial instruments include commitments to make loans and open-end revolving lines of credit to members. The credit union's exposure to credit loss, in the event of nonperformance by the other party to the financial instrument, is represented by the contractual amount of those instruments. The credit union uses the same credit policy to make such commitments as it uses for on-balance-sheet items.

The credit union had commitments and unused open-end revolving lines of credit aggregating \$7,262,754 and \$7,390,380 as of December 31,

2010 and 2009. Because certain commitments to make loans and open-end revolving lines of credit expire without being used, the amount does not necessarily represent future cash commitments. In addition, commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract.

The credit union is party to various actions normally associated with financial institutions, the aggregate effect of which, in management's and legal counsel's opinion, would not be material to the financial condition of the credit union at December 31, 2010.

### Note 13 - Concentrations of Credit

All of the credit union's loans, commitments, and lines of credit have been granted to members in the credit union's field of membership. All such members are depositors of the credit union. The

concentrations of credit by type of loan are set forth in Note 5. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

### Note 14 - Office Lease

Four Points Federal Credit Union entered into an office building lease with Ag Processing Inc on July 20, 2009. The term of this lease began the 1st day of September, 2009 and ends the 31st day of August, 2014 (5 years). The total base rent over the term of the lease is \$350,115.

This lease is appropriately accounted for as an operating lease. The lease with Ag Processing Inc contains clauses the base rent will be adjusted annually to equal 2.50% of Ag Processing Inc's building and maintenance costs.

### Note 15 - Fair Value of Financial Instruments

The credit union considers the carrying value a reasonable estimate of fair value for the following financial instruments: cash and cash equivalents; interest bearing deposits; savings deposits payable on demand; and loan commitments and open-end lines of credit. The credit union has determined it is

not economically practicable to estimate the precise fair value of individual loan and member time deposits. The following data is provided to assist in estimating the fair value of these financial instruments as of December 31, 2010:

#### Loan Portfolio

<u>Loan Type</u>	<u>Maturity Range</u>	<u>Interest Range</u>	<u>Balance 12/31/10</u>
Real estate loans	0 to 30 years	4.25% - 7.75%	\$39,405,745
Personal loans secured	0 to 10 years	2.50% - 13.00%	19,037,642
Personal loans unsecured	0 to 3 years and open-end	5.75% - 12.50%	680,850

#### Total loans

The weighted average interest rate for the loan portfolio was 4.73% at December 31, 2010, and contained approximately \$42,887,117 in variable and adjustable rate loans. These loans may reprice

in relation to interest rate trends as a result of pre-established formulas in accordance with loan note agreements.

#### Portfolio of Time Deposits

<u>Savings Type</u>	<u>Maturity Range</u>	<u>Interest Range</u>	<u>Balance 12/31/10</u>
Time Certificate of Deposit	0 to 12 months	1.35% - 5.53%	\$12,795,008
	12 to 36 months	2.15% - 5.50%	4,402,620
	Over 36 months	2.75% - 3.70%	641,167

#### Total time deposits

The weighted average dividend rate for the time deposit portfolio was approximately 2.20% as of December 31, 2010. All other deposit types have no

contractual maturity and are repricable at the end of each dividend period.