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President & CEO*

One Travis Way, Vacaville, CA 95687  
(707) 449-4000 or (800) 877-8328  
[www.traviscu.org](http://www.traviscu.org)

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# 2010 Annual Report



# Chairman's and President's Report

We are happy to report that 2010 was a positive year financially for Travis Credit Union after managing through three difficult years. Declining loan losses were a primary factor in helping the credit union achieve positive net income of almost \$24 million. This was a welcome trend and we are cautiously optimistic about the coming year as we see our members consistently saving more and paying down their debts.

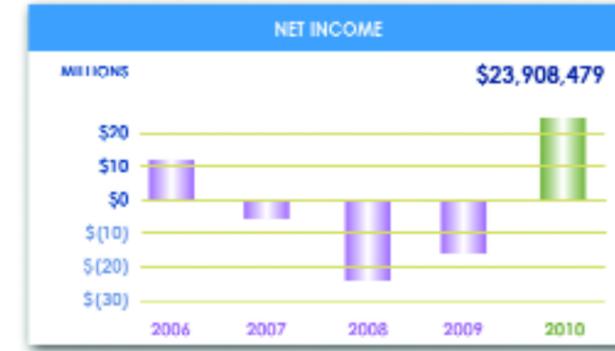
In 2010, factors outside of Travis Credit Union management's control continued to require decisive action and a focus on operational efficiencies and cost savings. We were required to pay an assessment of \$3.4 million to the National Credit Union Administration to help cover losses in the industry when other credit unions failed. The credit union industry is self-contained. Taxpayer dollars have never been used to bail out a credit union.

Even with this added financial burden, our focus on efficiency and leveraging opportunities helped us establish reserves of 9.71 percent; far above 7 percent, considered "well-capitalized", or 6 percent, which is considered "adequate" reserves by our regulators. The ability to sustain this level of capitalization is due to exceptional leadership from our board of directors, the TCU management team, very knowledgeable, caring staff, and our members using the credit union's products and services.

## Changing Practices

Challenging new regulations related to credit cards, mortgage loan disclosures, and overdraft practices were introduced in 2010. The Dodd-Frank Act, which introduced debit overdraft coverage, was designed to overhaul banking practices, but it also had a significant impact on credit unions. Implementing the practices required significant TCU resources, and simply overwhelmed some credit unions, causing them to seek merger partners.

Travis Credit Union has the necessary expertise and talent to stay abreast of these rule changes and will continue to devote resources needed to keep pace in this new and more expensive era of financial compliance. Due to our long-term strength and



Throughout the year, we encouraged our members to consider low-cost activities to help stay on track with long-term financial goals.



security, we have met every challenge and leveraged every opportunity while receiving accolades along the way from industry peers and the communities we serve.

## The Merger Environment

At a time when dividends are generally low across the industry, seeking opportunities for growth is keenly important. Healthy credit unions, such as TCU, can achieve improved levels of operational efficiency by merging with smaller credit unions, while helping to ensure sustainability of the American credit union movement. Cost savings and efficiency gains from mergers mean that smaller credit unions can continue serving their members as part of a larger, combined organization.

In November 2010, regulators selected Travis Credit Union to partner with First Metropolitan Credit Union (aka, Metro 1), which served teachers in Contra Costa County. The regulators wanted the financials for both credit unions to be combined by December 31, 2010. This annual report contains those consolidated financials in an abbreviated form.

The benefits of the merger for TCU are great: three more branches in Antioch, Benicia and Richmond; retention of experienced staff who have deep relationships with 19,000 loyal Metro 1 members; greater operational efficiency for both credit unions; and a slightly healthier bottom line overall. Together we are a larger, better capitalized organization that offers a broader selection of products and services, lower fees overall, and more branch locations.

The consolidation of member records of both credit unions concludes April 30, 2011 and Metro 1 members will officially start using TCU branches May 2.

## Financial Review

Like so many Americans, many TCU members are still under-employed, accounting for loan losses of \$26 million in 2010, which is nevertheless a 32 percent improvement over 2009. Most of our credit losses were

realized on vehicles due to loss of employment and other issues related to the economy.

These greatly reduced loan losses contributed significantly to profitability in 2010. This important trend allowed the credit union to show positive income for the first time since 2006—a good sign that we've turned the corner and that the economy is in recovery.

Because of new resolve and general belt tightening among our members, credit card use was flat throughout 2010 and vehicle loan balances declined by almost 12 percent. These trends are understandable as members intentionally worked to pay down debt and protect their liquid assets in our various stable deposit accounts.

A refinancing boom occurred in 2010 that allowed homeowners to take advantage of valuable savings in interest paid over the life of their mortgages. However, across the

board, loan balances grew very little from 2009.

### Assets & Membership Growth

The merger with Metro 1 Credit Union positively impacted asset and membership growth. In 2010, assets grew 16 percent and membership increased by 11 percent.

The merger, coupled with members saving more, resulted in share growth of 18 percent.

### Merger Accounting

In prior mergers, credit unions simply combined their balance sheets. However, new rules now require credit unions to use acquisition accounting—a method that for-profit firms have used for decades. As a result, there are some lengthy footnotes in "Travis Credit Union Financial Statements, December 31, 2010 and 2009," the full report on our audited financials,

describing the new merger accounting requirements. You can view the audited financials on our Web site or by phoning our member service center to request a copy. To briefly summarize, the valuation of Metro 1 Credit Union's balance sheet contributed \$3 million in net value to TCU. This is rare in today's merger environment and speaks well of Metro 1's management team and board of directors.

### Summary

Even after the worst recession in 30 years and activities associated with the merger, Travis Credit Union's net worth ratio remained extremely high at 9.71 percent, indicating that TCU remains financially sound and safe. As a result, we have been able to help our members set new priorities for achieving their long-term financial goals.

Thank you for your membership and for the opportunity to serve you for many years to come.



Curt Newland  
Board Chair



Patsy Van Ouwerkerk  
President & CEO



It's never too late or too soon to start saving.

Stay fit



Watch TV together

Save more by eating in

## Statements of Financial Condition

December 31, 2010 and 2009

ASSETS	2010	2009
Cash and cash equivalents	\$134,476,851	\$57,619,875
Investments		
Trading	2,677,317	1,262,648
Available-for-sale	475,337,721	343,956,597
Other	133,401,392	85,748,100
Loans held for sale	1,021,549	1,597,397
Loans, net	979,819,588	995,845,528
Accrued interest receivable	6,730,578	6,385,402
Property and equipment	37,532,975	36,916,151
National Credit Union Share Insurance Fund deposit	15,011,918	13,499,625
Other assets	12,422,929	10,442,526
<b>Total assets</b>	<b>\$1,798,432,818</b>	<b>\$1,553,273,849</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Liabilities		
Shares	\$1,609,384,860	\$1,367,938,640
Borrowed Funds	—	25,000,000
Accrued Dividends Payable	880,134	957,752
Accrued expenses and liabilities	10,680,336	7,220,581
<b>Total liabilities</b>	<b>1,620,945,330</b>	<b>1,401,116,973</b>
Members' equity		
Retained earnings	\$171,763,430	\$147,854,951
Accumulated other income	5,724,058	4,301,925
<b>Total members' equity</b>	<b>177,487,488</b>	<b>152,156,876</b>
<b>Total liabilities and members' equity</b>	<b>\$1,798,432,818</b>	<b>\$1,553,273,849</b>

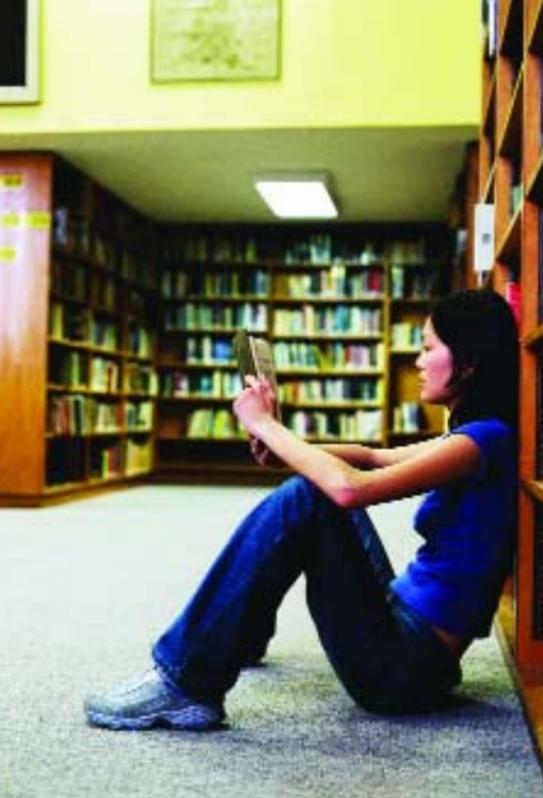
The financial statements included in this annual report are condensed for readability and do not meet full disclosure requirements of generally accepted accounting principles, and are not presented in their audited format. The full report, "Travis Credit Union Financial Statements, December 31, 2010 and 2009," is available through TCU's Web site or by calling the credit union's member service center.

www.traviscu.org or (707) 449-4000 or (800) 877-8328

## Statements of Income and Statements of Comprehensive Income

For the years ended December 31, 2010 and 2009

STATEMENTS OF INCOME	2010	2009
Interest income		
Interest on loans	\$67,777,454	\$75,237,741
Interest on investments and cash equivalents	13,064,061	15,255,792
<b>Total Interest Income</b>	<b>80,841,515</b>	<b>90,493,533</b>
Interest expense		
Dividends on shares	10,558,074	16,694,685
Borrowed funds	40,993	970,790
<b>Total interest expense</b>	<b>10,599,067</b>	<b>17,665,475</b>
<b>Net interest income</b>	<b>70,242,448</b>	<b>72,828,058</b>
Provision for loan losses	12,809,021	46,624,377
<b>Net interest income after provision for loan losses</b>	<b>57,433,427</b>	<b>26,203,681</b>
Non-interest income		
Fees and charges	8,723,863	9,198,392
Gain on acquisition of First Metropolitan Credit Union (Metro 1)	3,131,441	—
Realized gains (losses) on trading investments	180,972	242,815
Realized gains (losses) on available-for-sale investments	147,143	1,191,008
Other non-interest income	10,887,739	9,622,624
Pass-back and recapitalization of NCUSIF deposit	—	8,205,790
<b>Total non-interest income</b>	<b>23,071,158</b>	<b>28,460,629</b>
Non-interest expense		
Salary and benefits	28,712,831	27,277,812
Operations	19,936,688	20,207,400
Occupancy	4,503,708	4,465,729
NCUSIF deposit impairment loss	—	8,205,790
NCUSIF premium assessment	3,442,879	2,024,502
Loss impairment of investment on WesCorp capital shares	—	8,849,572
<b>Total non-interest expense</b>	<b>56,596,106</b>	<b>71,030,805</b>
<b>Net Income/Loss</b>	<b>\$23,908,479</b>	<b>\$(16,366,495)</b>
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>		
Net income (loss)	\$23,908,479	\$(16,366,495)
Other comprehensive income		
Net change in unrealized gains on available-for-sale securities	1,569,276	2,591,909
Less: reclassification adjustment for gains (losses) recognized in income	(147,143)	(1,191,008)
<b>Other comprehensive income</b>	<b>1,422,133</b>	<b>1,400,901</b>
<b>Comprehensive income</b>	<b>\$25,330,612</b>	<b>\$(14,965,594)</b>



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## Supervisory Committee Report

The Supervisory Committee's major responsibilities are to safeguard our members' assets, ensure an independent audit is performed annually, and verify members' accounts. In 2010, the committee performed its duties in collaboration with the credit union's internal audit department, certified public accountants, the National Credit Union Administration (NCUA), and the California Department of Financial Institutions (DFI). The Supervisory Committee engaged the auditing firm of Turner, Warren, Hwang & Conrad to perform the annual independent audit of Travis Credit Union's financial statements. We are pleased to inform you that the audit for 2010 was completed successfully. Travis Credit Union's financial statements comply with generally accepted accounting principles and fairly represent the financial condition of the credit union.

Based on the results of the annual financial audit, TCU's internal audits, and examinations conducted by the NCUA and DFI, the committee finds that Travis Credit Union is a financially sound organization, dedicated to serving its members. In addition, the committee commends the management team and board of directors for their diligence and support.

The Supervisory Committee continues to fulfill its duties to protect your interests in strict compliance with policy and all relevant laws and regulations.

Respectfully submitted,

Arturo Reyes, Supervisory Committee Chair



L to R: Arturo Reyes, chair; Mark Dupree, secretary; and Thom Watkins, member



Do it yourself.

Play games

Clip coupons

Share your talents

## Reaching out to our members and communities



### Products and services

With our focus on efficiency in 2010, we encouraged members to take advantage of the time and cost savings gained by using TCU's electronic services. We introduced our iPhone application so that members can bank from their hand-held devices. We interviewed members and published their testimonials about the savings they have enjoyed by using our services. We owe Ana, Monica, Ted, Gib, and others our thanks for bringing new members to TCU!

We embraced social media as a way of connecting with members, too. We have about 1,000 people who follow us on Facebook and Twitter because of our contests and customized messaging.



*Mad City Money, a free workshop for teens, was offered twice in 2010 to help participants experience the choices that are required to manage a fixed budget against adult needs.*

### Community involvement

Economic uncertainty in 2010 did nothing to slow down our community involvement. In fact, we broadened our presence in many of the communities we serve, including Richmond and Benicia, where we now have branches since merging with Metro 1. We also partnered and collaborated on new initiatives for bringing financial literacy to the underserved and disadvantaged.

Much of our community presence depends on a sincere spirit of volunteerism among our staff. In 2010, the management team and staff volunteered 4,700 and 12,000 hours of personal time, respectively, to approximately 175 programs and 300 local organizations. That's quite something, given the daily time demands for work and family needs.

### Financial literacy efforts

Our 2010 calendar of free seminars presented topics, tips, tools and coping skills to help members deal with today's economic challenges. From home-buying and investment strategies to budgeting, we encouraged all of our neighbors to rethink how to reach their financial goals, including college for the kids and retirement planning.

*Smart Money Matters*, our quarterly newsletter, consistently presented articles that promoted living simply and within one's means while paying down debt and building essential savings for the future. We

encouraged parents to teach their children about money early, and coached teens about what it means to manage a checking account and credit in the real world.

For the seventh consecutive year, we had the honor of presenting \$1,000 scholarships to 21 TCU members who graduated high school in 2010. We are very pleased to help deserving young members with college tuition, knowing that these young people will become our future leaders.

### Local business partnerships

We engaged local businesses with an offer of credit union membership as a benefit of employment. TCU branch managers and a full-time business development officer regularly attended their employee orientation meetings to share the good news about the overall annual savings that can be had by banking at Travis Credit Union. We currently have 90 businesses offering their employees banking services with Travis Credit Union.

### On the national level

In February, five TCU leaders joined 4,000 other credit union representatives from around the country at the annual Government Affairs Conference (GAC) in Washington, DC. We lobbied legislators to support two bills that would ultimately help create local jobs. One of these bills proposed raising

## National & state awards

### National Desjardins Youth Financial Education Award

This prestigious award recognizes leadership within the credit union movement on behalf of youth financial literacy.

### 2010 CUNA Technology Council Best Practices Award

For data warehousing improvements that were designed and implemented by TCU's information technology team.

### California Youth Financial Education Award

For promoting personal financial education of young people and promoting use of the National Endowment for Education's High School Financial Planning program.

### California Credit Union League 2010 Community Outreach Award

In recognition of policies, procedures, programs or services that encourage understanding and respect for diversity and disability.

### The Richard Myles Johnson Foundation Beacon Award

The foundation's highest honor, recognizes promising or exemplary financial education programs or projects for the broader credit union community and the general public.

the overall percentage of funds that credit unions could make available for business loans. Raising that cap could mean more members would benefit from TCU business loans in the future.

In June, we returned to DC, joining 1,200 other credit union representatives, to lobby for retaining current interchange income to cover the costs of debit cards. Passage of these bills remains a priority of the credit union industry and we will continue to do our part to ensure their approval.

### Local & national accolades

For the time, talent and resources we gave to financial literacy and our communities in 2009, and for the quality of service we consistently deliver to TCU members, we were honored with some very prestigious awards in 2010 (see the box, above).

We were especially pleased to, once again, be named the best place to bank by newspaper readers in Brentwood, Fairfield and Vacaville.

As we approach our 60th anniversary in October 2011, we are reminded of how far we have come, but also mindful of what must be done to remain competitive in a world where instant feedback is expected. We look to our members for helpful suggestions to ensure that banking with us will be their preference, now and always.

We thank you for your membership and look forward to helping you reach your financial goals.



*Build a basic budget seminar*