

# 2019 ANNUAL REPORT



Your savings federally insured to at least \$250,000 and backed  
by the full faith and credit of the United States Government.

**NCUA**  
National Credit Union Administration,  
a U.S. Government Agency.

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**Tom Woods**  
*Director*

## Financial Highlights

Tower Federal Credit Union and Subsidiary  
(Dollars in thousands)

	for the years ended December 31,		
	2019	2018	% Change
Members	\$ 191,654	\$ 186,642	2.7%
Assets	\$ 3,255,247	\$ 3,039,367	7.1%
Members' savings	\$ 2,810,665	\$ 2,640,533	6.4%
Loans	\$ 2,456,496	\$ 2,428,929	1.1%
Members' equity	\$ 434,132	\$ 391,046	11.0%
Net interest income	\$ 108,073	\$ 95,905	12.7%
Provision for loan losses	\$ 11,046	\$ 11,051	0.0%
Non-interest income	\$ 27,380	\$ 30,397	-9.9%
Non-interest expense	\$ 81,321	\$ 75,812	7.3%
Net income	\$ 43,086	\$ 39,439	9.2%

# Report from the Board Chair

Tower is, and has always been, committed to the communities where our members and employees live and work. And we are quick to respond when there is a need. In January 2019, to help those impacted by the government furlough, Tower Federal partnered with the TowerCares Foundation to donate \$15,000 to three local area food banks. Tower also directly assisted nearly 800 members who were affected by the government shutdown.

In February, Tower was honored to receive certification as a “great workplace” by the independent analysts at Great Place to Work®. What makes this award especially meaningful was that Tower earned the credential based on extensive ratings provided by our employees in anonymous surveys. We credit Tower’s mission-driven, people-oriented culture as the reason for the positive survey outcome.

The Tower Car Buying Service powered by TrueCar continues to provide much-needed savings for our members. In 2019, Tower members who used the service to purchase a new or used car in conjunction with a .25% rate discount for TrueCar purchases saved over \$5 million. Last year, 916 Tower members purchased a car through the Tower Car Buying Service and financed that vehicle with the credit union. Tower’s TrueCar related vehicle loans for 2019 totaled \$23 million, with an average loan amount of \$25,000. In recognition of the program’s success, for the fourth year in a row, Tower was named “Credit Union Partner of the Year” by Frost Financial Services.

The security of our members’ accounts and the fight against fraud were once again a top priority in 2019. We hosted Shred Day events in May and October at our Laurel Headquarters, so our members were able to dispose of sensitive documents safely and securely. In October, we partnered with the National Cyber Security Alliance as a Champion for National Cybersecurity Awareness Month (NCSAM). NCSAM is a global effort to promote the awareness of online safety and privacy through cybersecurity best practices. Tower’s Board of Directors and Senior Management team continue to work diligently to ensure Tower has top-of-the-line security measures in place to protect our members’ accounts. We make it a priority to continually raise awareness and educate our members on how they can protect themselves and their accounts online. Tower recognizes that being a large credit union allows us to also help other credit unions, so we share information and techniques to help them protect their members’ assets.

Since our inception in 1953, Tower’s reason for being has never wavered: to enhance the financial well-being of our members by creating and delivering value through the products and services we offer in terms of service, price, honesty, convenience, consistency, variety, safety, confidentiality, and timeliness. Tower’s 2019 year end financial statements are included in this Annual Report. We ended the year with over \$3.2 billion in assets and I am happy to say that Tower is in an excellent financial position. Tower exceeds that which is required by the National Credit Union Administration to be rated “well-capitalized”—the best rating.

In an ever-changing and often turbulent world, Tower’s over 191,000 members around the globe can continue to count on Tower as a trusted financial partner and a safe, secure haven for their financial assets.

**Arland A. White, Jr.**  
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 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 to avoid conflicts of interest.

The Supervisory Committee, through Tower's internal audit staff and consultants, performs assessments of business processes, using a risk-based approach, to ensure policies are effective and properly administered, and that ongoing improvements are being 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 2019 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 controls.

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, 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 0.43% of total loans in 2019, a rate far below industry standards.

The Loan Review Committee received and evaluated seventy loan appeals from members in 2019. Three of those loan appeals were approved and two loans were completed. The one remaining appeal did not complete the process to have the loan funded.

## Treasurer's Report

James F. Kalkbrenner, Treasurer

As of December 31, 2019, total assets grew to \$3.255 billion, an increase of \$ 216 million or 7.1% over the previous year's total of \$3.039 billion. During the course of 2019, total members' loans and savings balances increased by \$28 million and \$170 million, respectively. Loans made to members in 2019 totaled \$850 million, driven primarily by \$600 million in residential mortgage and home equity loans and \$197 million in auto loans.

Tower's regulatory net worth to assets ratio was 13.34% as of December 31, 2019. This ratio significantly exceeds the 7% level required by NCUA regulations to be considered well capitalized. Tower's strong capital base provides the ability for us to compete successfully in a highly-competitive environment, thereby allowing us to expand and improve our product and service offerings, make needed investments in systems and information security, take advantage of future business opportunities and promote the safety and soundness of Tower. These ongoing efforts enable us to respond quickly to members' changing financial needs and to maintain the level of excellent service and information security they have come to expect.

Throughout 2019, market interest rates decreased for both short- and long-term maturities. Tower's management continues to assess the level of interest-rate risk and take appropriate actions to mitigate that risk in this rate environment.

In order to monitor the financial performance of the credit union, Tower's Board of Directors evaluates current year actual results versus prior year actual results on a monthly and year-to-date basis. We are pleased to report that our actual results for the year ending December 31, 2019 exceeded results for the year ended December 31, 2018.

## Consolidated Statements of Financial Condition

Tower Federal Credit Union and Subsidiary  
(Dollars in thousands)

	as of December 31,	
	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 648,042	\$ 494,028
Investments—available for sale	55,795	23,101
Investments—other	202	202
Federal Home Loan Bank stock	2,738	2,669
Loans to members, net of allowance for loan losses	2,456,496	2,428,929
Accrued interest receivable	8,190	7,852
Premises and equipment, net	32,275	30,666
NCUSIF deposit	26,609	24,493
Other assets	24,900	27,427
<b>Total assets</b>	<b>\$ 3,255,247</b>	<b>\$ 3,039,367</b>
<b>Liabilities and members' equity</b>		
<b>Liabilities</b>		
Members' share and savings accounts	\$ 2,810,665	\$ 2,640,533
Borrowed funds	0	0
Interest payable	389	171
Accrued expenses and other liabilities	43,612	33,176
<b>Total liabilities</b>	<b>2,854,666</b>	<b>2,673,880</b>
<b>Members' equity</b>		
Regular reserves	33,371	33,371
Undivided earnings	399,635	356,549
Equity acquired in merger	1,126	1,126
Accumulated other comprehensive income	(33,551)	(25,559)
<b>Total members' equity</b>	<b>400,581</b>	<b>365,487</b>
<b>Total liabilities and members' equity</b>	<b>\$ 3,255,247</b>	<b>\$ 3,039,367</b>

## Consolidated Statements of Income

Tower Federal Credit Union and Subsidiary  
(Dollars in thousands)

	for the years ended December 31,	
	2019	2018
<b>Interest income</b>		
Loans to members	\$ 116,277	\$ 99,239
Securities and interest bearing deposits	11,907	10,426
<b>Interest income</b>	<b>128,184</b>	<b>109,665</b>
<b>Interest expense</b>		
Members' share and savings accounts	20,111	12,460
Interest on borrowed funds	-	1,300
<b>Interest expense</b>	<b>20,111</b>	<b>13,760</b>
<b>Net interest income</b>	<b>108,073</b>	<b>95,905</b>
<b>Provision for loan losses</b>	<b>11,046</b>	<b>11,051</b>
<b>Net interest income after provision for loan losses</b>	<b>97,027</b>	<b>84,854</b>
<b>Non-interest income</b>		
Service charges	14,372	13,973
Card Income	8,137	8,115
Miscellaneous income	4,001	7,149
Gains on sale of loans	823	1,153
Gain on disposition of assets acquired in liquidation, net	47	7
<b>Non-interest income</b>	<b>27,380</b>	<b>30,397</b>
<b>Non-interest expense</b>		
Employee compensation and benefits	50,663	46,644
Office occupancy and operations	17,530	16,157
Other operating expenses	13,128	13,011
<b>Non-interest expense</b>	<b>81,321</b>	<b>75,812</b>
<b>Net income</b>	<b>\$ 43,086</b>	<b>\$ 39,439</b>



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