



U.T. Campus - 1937



University Federal Credit Union

branches

dobie mall

2025 Guadalupe St., Austin, Texas

downtown

702 Colorado St., Austin, Texas

galveston

428 Postoffice St., Galveston, Texas

highway 79 (opening summer 2000)

201 West Taylor Avenue., Round Rock, Texas

jollyville

5114 Balcones Woods Dr., Austin, Texas

north guadalupe

4611 Guadalupe St., Austin, Texas

south mopac

5033-B U.S. Hwy. 290 W. at MoPac
Austin, Texas

steck

3305 Steck Ave., Austin, Texas

taylor

407-A N. Main St., Taylor, Texas

you can reach us by dialing

Austin: (512) 467-8080

Galveston: (409) 797-3300

TDD Number: (512) 421-7477

Toll Free in US: (800) 252-8311

mailing address

PO Box 9350, Austin, TX 78766-9350

www.ufcu.org

The end of a century...

...The beginning
of our
future

University Federal
CREDIT UNION
Easy To Join Easy To Use.

University
Federal
Credit
Union

1999 Annual Report

The end of a century...

...The beginning
of our
future



The end of
a century...

University Federal Credit Union employees

The beginning
of our
future



Jeanette Abbott ♦ Todd Adams ♦ Benson Adediji ♦ Karri Almquist ♦ Lydia Anderson
Melissa Andrade ♦ Jennifer Applewhite ♦ Brooks Bailey ♦ Donna Balke ♦ Amy Barnard ♦ Amy Bean
Felicia Benavides ♦ Bill Berglund ♦ Pamela Beverly ♦ Kay Bishop ♦ Sloan Boaz ♦ Betty Boecker
Kimberly Boles ♦ Nancy Boling ♦ Paul Bonham ♦ Tracey Brecht ♦ Cecelia Brooks ♦ Jim Brown
Matthew Brown ♦ Tony Budet ♦ Bambi Bunce ♦ Marisol Cantu ♦ Cathy Castro ♦ Deila Castro
Teresa Chapa ♦ Stephanie Chapman ♦ Debbie Chesnutt ♦ Terry Cockerham ♦ Linda Coleman
Dru Cook ♦ Lawrence Cook ♦ Freddy Coy ♦ Joyce Crouser ♦ ChaCha Cruz ♦ Sylvia Cruz
Mary Jo Cummings ♦ Josephine Davidson ♦ Bruce Davis ♦ Rosalyn Davis ♦ Malinda De La Rosa
Christeen DeLeon ♦ Vivian Derden ♦ Lisa DeShay ♦ Pat Dispensa ♦ Curly Echelmeyer
Evelyn Edmondson ♦ Heather Edwards ♦ Ariana Elizondo ♦ Cynthia Escobedo ♦ Jennifer Estrada
Burton Eubanks ♦ Tammy Everhart ♦ Kay Fisher-Irwin ♦ Nita Franks ♦ Jo Freeman ♦ Jason Furr
Rebecca Garcia ♦ Regina Garza ♦ Sandy Gaskamp ♦ Ashley Gault ♦ Mewael Ghebremichael
June Gillingham ♦ Iris Glaab ♦ Diane Glowacki ♦ Cynthia Gomez ♦ Pat Gregory
Sharon Gregory ♦ Roseanne Gripentrog ♦ Brigitte Guilmenot ♦ Lyanna Han ♦ Sherry Han
Bettie Hansson ♦ Linda Hawkins ♦ Amy Herboek ♦ Holly Herrin ♦ Brandie Hight ♦ Michael Hintz
Scott Hoffman ♦ Chuck Hosek ♦ Jane Huang ♦ Birgit Huskey ♦ Kevin Hute ♦ Diana Isham
Daphne James ♦ Melani Jayasekera ♦ Janice Jennings ♦ Jennifer Johnson ♦ Rosalinda Johnson
Alice Kain ♦ Darrell Kalina ♦ Tracy Keen ♦ Evelyn Kerr ♦ Edwina Kizzee ♦ Joyce Klockgether
Joyce Koppenhaver ♦ Steve Kubala ♦ James Landry ♦ Glenda Lane ♦ Harris Latchman
Susan Leach ♦ Brook Lester ♦ Marilyn Leuty ♦ Rose Liu ♦ Jason Longoria ♦ Rosalinda Lopez
Lora Louviere ♦ Leann Lovelady ♦ Rebecca Luis ♦ Nancy Mach ♦ Nina Mahan ♦ Clarissa Martinez
Maria Martinez ♦ Regina Martinez ♦ Veronica Maxey ♦ Karen Mazerac ♦ Robin McAninch
Vince McConnell ♦ Kathryn McCoy ♦ Jason McGee ♦ Christian Mears ♦ Shannon Meiron
Cheryle Mobley ♦ Dora Montoya ♦ Yolanda Moore ♦ Pamela Morgan ♦ Sean Murphy
Lance Nagayama ♦ James Nastars ♦ Lisa Newman ♦ Shirley Normand ♦ Trina Norris
Tracy Olson ♦ Brian Ortiz ♦ Kim Otnes ♦ Sherri Owens ♦ Carrie Parker ♦ Lana Parker
Linda Passell ♦ Linda Payn ♦ Liz Peer ♦ Donette Peevey ♦ Katherine Perez ♦ Esther Perrill
Alicia Perry ♦ Christine Petersen ♦ Carlos Ramirez ♦ Tammy Ray ♦ Rose Reames ♦ Ilene Reyes
Darra Rightmer ♦ Marie Rivers ♦ Rachel Roberson ♦ Wanda Roberson ♦ LaurieAnn Rodriguez
Raquel Rodriguez ♦ Pam Roethel ♦ Tony Rosas ♦ Rhea Ruiz ♦ LaVetta Salisbury
Leticia Sanchez ♦ Laurie Seiner ♦ Tasha Shackles ♦ Brad Shoff ♦ Ellen Simpson
Jenny Smart ♦ Marla Smith ♦ Andrea Sobeck ♦ Randi Sonnen ♦ Donna Soria
Marianne Spencer ♦ Meena Sreenivasan ♦ Darrell Stark ♦ Pauline Stranathan ♦ Krisha Streety
Rhonda Summerbell ♦ Klaas Tadema ♦ Frances Taylor ♦ Terrie Thibodeaux ♦ Jessica Thornton
Michael Thurmond ♦ Cheryl Torn ♦ Melaini Touchstone ♦ Yung Tran ♦ Debbie Tucker
Lois Turner ♦ Adela Valdez ♦ Denise Valdez ♦ Robin Vaughn ♦ Joseph Villarreal
Sonia Villarreal ♦ Linda Wait ♦ Amy Watson ♦ Corina Watts ♦ Daniel Webster
Kimberlie Welch ♦ GiGi Whitehead ♦ MaryRuth Wiley ♦ Jeanette Williams
Brenda Wilmot ♦ Madrile Wilson ♦ Eric Wise ♦ Sheila Wojcik ♦ Catherine Wong
Jennifer Yantes ♦ Heather Yarny ♦ Becky Yim ♦ Wendi York ♦ Venessa Zapata ♦ Erni Zimmermann

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The end of
a century...

The beginning
of our
future

University

Federal

Credit

Union

1999

Annual

Report



Chairman's report

Your Board of Directors consists of nine men and women who are elected by and from the membership to serve three-year staggered terms. Our most important duties are to employ a Chief Executive Officer, set major policies regarding loans, deposits, investments and our various consumer financial services and to carefully monitor results. Your directors, then, are stewards of this organization that is owned by you, the members.

All directors serve as unpaid volunteers and your Board held 12 regular meetings in 1999, plus several special meetings. The Board is organized into five standing committees: Asset Liability Management, Human Resources and Professional Development, Facilities Management, Legislative Action and Retirement Plan Administration.

As your chairman, I sincerely appreciate the dedication and the large amount of time regularly contributed by our volunteer officers.

A major milestone in our sixty-four year history was moving in 1999 toward total membership of 100,000. That was achieved in January of 2000. This magnitude of members, and the financial business they bring to our credit union, has taken us to total assets of \$387 million at the end of 1999. Quite a trip from the initial deposits of less than \$100 by our 11 charter members in 1936.

Your credit union now offers a full array of contemporary financial services, many of which are conveniently available electronically. Internet Banking has been available for several years and we anticipate introducing electronic Bill Payment later this year. To meet member demand for convenience and speed, we have invested heavily in technology and have assembled an outstanding staff for its support.

The Treasurer's Report, which follows, will include detailed information about financial performance in 1999. But I must personally take this opportunity to confirm that 1999 was an extraordinary year of growing strength in our net income and total retained earnings which represent the financial strength of your organization.

In 1999, your Board also began the process to select a new President and Chief Executive Officer to replace E. Burton Eubanks, who will retire in 2000 after twenty-five years. This is Mr. Eubanks' final Annual Membership Meeting as President of University Federal Credit Union. His retirement date will be more formally announced in coming months.

I close with my thanks for the privilege of serving as your Chairman these past two years. And on behalf of the entire Board, I assure you that this organization is financially sound and, more important, it nurtures within its volunteers and its entire staff a sensitivity to personal, thoughtful service to each and every member.

John Camden

John M. Camden
Chairman

Dr. Charles Timm,

First UFCU

Board Chairman,

1936.

University Federal Credit Union officers

board of directors

John M. Camden, Chairman
Thomas J. Ardis, Vice Chairman
Gilbert O. Gallegos, Secretary
Mary A. Seng, Treasurer
Fred J. Scott,
William T. Guy, Jr.
Carl E. Hansen
Frank J. Peters
Marilla D. Svinicki

supervisory committee

Ned H. Burns, Chairman
Doris F. Constantine, Secretary
George K. Herbert, Director Emeritus
Richard J. Markle
Arthur B. Martinez

principal officers

President/CEO:
E. Burton Eubanks

Executive Vice President/COO:
Tony C. Budet

Vice Presidents:
Steve E. Kubala, Information Systems
James A. Nastars, Lending
Yung V. Tran, CPA, Finance/ CFO
Sheila J. Wojcik, Human Resources

administration

Senior Managers:
William R. Berglund, Consumer and Real Estate Lending
Michael T. Hintz, Information Systems
Alice M. Kain, Human Resources
Glenda D. Lane, Business Development
L. Vincent McConnell, Direct Delivery Systems
Ellen S. Simpson, Internal Audit
Marianne B. Spencer, Remote Delivery Systems

Field of membership

Austin, Texas Area

Abbott Laboratories
American Institute of Architects, Austin Chapter
Applied Research Laboratories, UT Austin
Austin Area Chapter National Assoc. of Certified Public Accountants and employees of members
Austin Association of Remodeling Contractors
Austin Board of Realtors and employees of members
Austin Chapter of the Texas Society of Certified Public Accountants, Chapter Office employees
Austin Coca-Cola/Dr. Pepper Bottling Company
Austin Diagnostic Clinic
Austin Presbyterian Theological Seminary and Graduate Students
Austin Software Council
Austin Surplus Lines Agency, Inc.
Austin Technology Incubator
ASAP Cargo, Inc.
Better Business Bureau, Austin
Brazos Higher Education Service Corporation
Concordia University: Faculty, Staff, and Students
Crossroads Systems

Episcopal Seminary of the Southwest and Graduate Students
Gold Tower Club - for members age 55 and over
Goodwill Industries of Central Texas
Harte-Hanks Direct Marketing
High End Systems, Inc.
Holt, Rinehart and Winston
Huston-Tillotson College: Faculty, Staff, and Students
J.C. Evans Construction Company
J.J. Pickle Research Center
Kachina Wafer Services Company
Lone Star Infosystems
MCI Consumer Markets
Mechanical Interiors, Inc.
Mental Health Assoc., Austin Area
Microelectronics Computer Corporation (MCC)
Northwestern Mutual Life Insurance Agency, District Office
Pro-Ed
Resources for Living
Samuels Jewelers
SEMATECH, Inc.
St. Edward's Alumni Association, Austin Chapter
St. Edward's University: Faculty, Staff and Students
State Credit Union Commission
Steck-Vaughn Publishing Company
Texas Council on Family Violence
Texas District of The Lutheran Church, Missouri Synod. This includes all full-time employees serving the Texas District office which is located in Austin
Texas Electric Cooperatives, Inc., employees who work in or are paid from Austin, Texas (including employees who work in Jasper, Texas)
Texas Guaranteed Student Loan Corporation
Texas International Education Consortium
Texas Medical Liability Trust
Texas Society of Psychiatric Physicians, members of the Austin and Galveston/Jefferson Chapters, and employees and staff members of each respective dues-paying member
Tower Records
Turner Collie & Braden, Inc.

Select Employee Groups

The following companies, organizations, associations, colleges and universities are included in the field of membership of University Federal Credit Union.

University Co-op Bookstore, UT Austin
University of Texas at Austin: Faculty, Staff and Students
University of Texas at Austin:
Longhorn Foundation Members
University of Texas at Austin:
Offices, Bureaus, Divisions, and Activities occupying facilities of UT Austin and listed in the UT Directory
University of Texas Ex-Students' Association - Austin Chapter
University Federal Credit Union employees and their family members
University of Texas System Office
University United Methodist Church employees
Wheatsville Co-op, employees and members
YWCA of Greater Austin employees

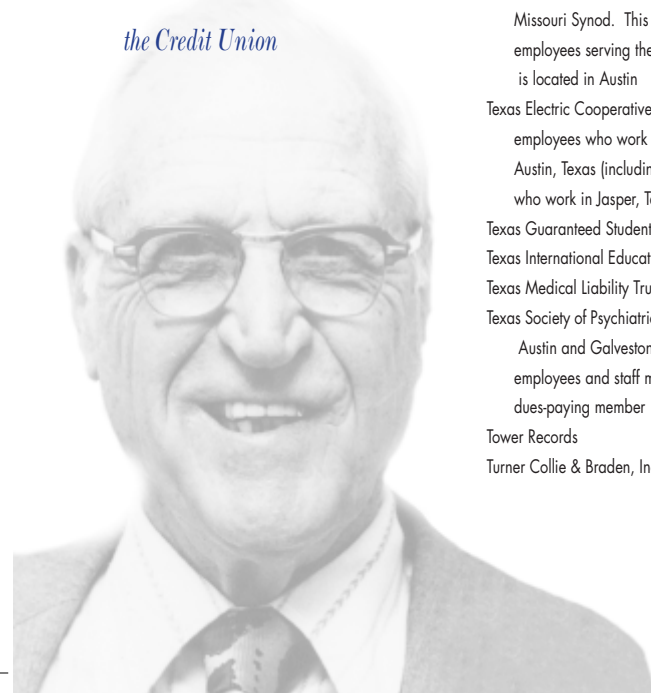
Galveston, Texas Area

Edgewater Retirement Center
Family Health Care Centers
Galveston College: Faculty, Staff, and Students
O'Connell High School: Employees Only
Shriners Burns Institute
St. Mary's Hospital
Texas A & M University, Mitchell Campus
Texas Department of Corrections
Transitional Learning Community
University Area Association
University of Texas Medical Branch: Faculty, Staff, and Students

Taylor, Texas Area

Taylor Community - all persons who live or work in the city of Taylor, Texas

Dr. Emmette S. Redford,
Served on the Credit Committee
during the early years of
the Credit Union



Board of directors

Thomas J. Ardis
vice chairman



Carl E. Hansen



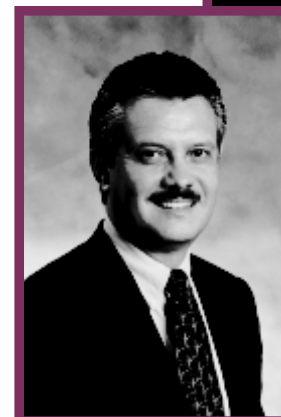
Mary A. Seng
treasurer



Frank J. Peters



John M. Camden
chairman



Gilbert O. Gallegos
secretary



William T. Guy, Jr.



Marilla D. Svinicki

Fred J. Scott

President's report

This is my twenty-fifth and final annual report to the membership. I will retire this year. All of my previous reports have been filled with reflections of a single prior year (usually good results; sometimes not so good) and great enthusiasm for the future. Now it's time to place the duty for the future in someone else's hands. But the future of an organization never rests in only one pair of hands. Perhaps one person has the highest duty to guide and inspire but the results never come from any one person alone. University Federal Credit Union has a long history of dedicated, effective volunteer leadership and a team of executives, managers and staff whose performance is unsurpassed.

A strong thread of recollection over actually a forty-year credit union career is seeing the pride and self-confidence achieved by many members through systematic saving over a period of years. And - the other side - the wise, careful use of personal credit to make dreams come true sooner than if we had to wait until we could pay cash.

And there's been some humor along the way. In the 60's, I ran a small credit union in Waco. One day a member came in with his ten-year old daughter in tow; bib overalls, blonde ponytail, cute as a bug. He privately told me she wanted to buy a donkey and he wanted me to make her a \$50 loan to pay for it. And, he insisted I put the fear of the Lord in her that if she didn't pay the loan I would repossess the donkey. Well, I brought the child up to the desk, did my best to keep a straight face, filled out the loan papers and then pointed through the window to a tree. I told her if she didn't pay the loan, I would have to come for the donkey, tie him to that tree and wait for someone to come along and buy him. Mercifully, she paid the loan and I didn't have to go out to the ranch in a pickup truck with a piece of rope. That child is probably a grandmother by now.

But my greatest satisfaction at the close of a career is the personal and professional growth I have seen in many, many fellow employees of the credit union. I have watched some mighty struggles to grow in a job, promote to a better job and then reach down to help another make the same journey. We have several employees with ten, fifteen and twenty years of service here. We have helped each other strengthen our common commitment and strengthen the credit union's reputation by caring deeply for the Quality of the Delivery of Service. It's not just the product (a loan, a credit card, a checking account) but the urgency of our commitment to the Quality of the Delivery of Service.

And it's urgent to know just what this statement means, the Quality of the Delivery of Service. It means absolute devotion to our motto, Be Polite and Get It Right the First Time; you could hang an entire career under those nine short words. It means knowing the Income Statement and Balance Sheet will take care of themselves if we take care of the member. It means a friendly wave to someone driving off in a brand new Pontiac. Big deal. That Pontiac drops \$10,000 in value before you get to the corner. Anyone can wave to someone driving away in a new car.

Far, far more important is our sensitivity to those men and women for whom life has taken an unexpected and painful turn. Something has happened where money is needed that hasn't been saved, or money is desperately needed that one is not really prepared to borrow. Here is where the soul of a credit union works its magic. Here is where we look beyond one's financial statement, gaze behind the surface and minister with care, concern, guidance and financial help.

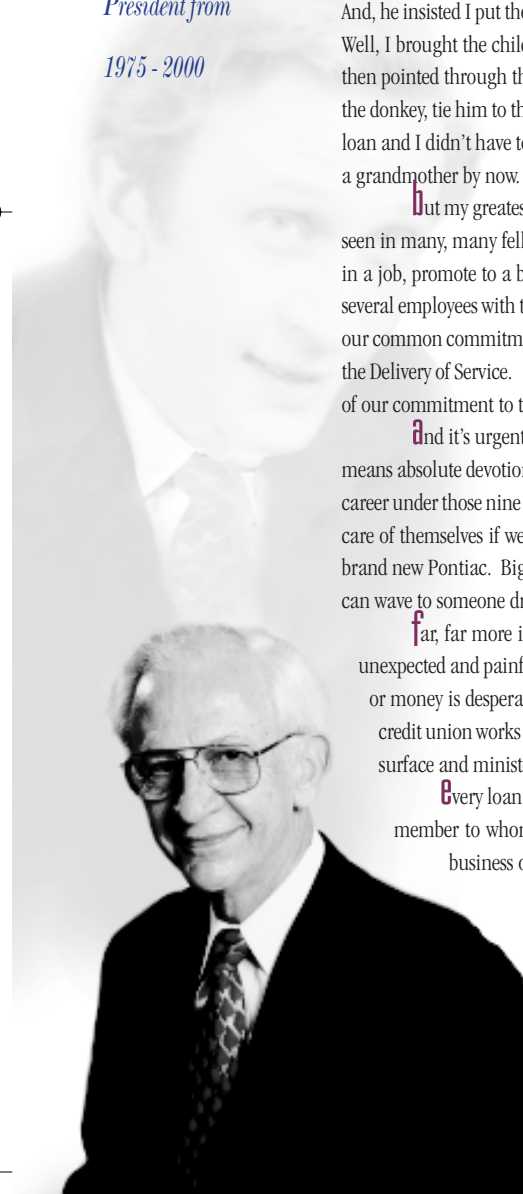
Every loan does not require these skills but even one member with a distinct, critical need is a member to whom we feel commitment. We are a financial institution but we are really in the business of life more than the business of money.

So, my work closes. May University Federal Credit Union's new leadership keep this flame alight and held high.

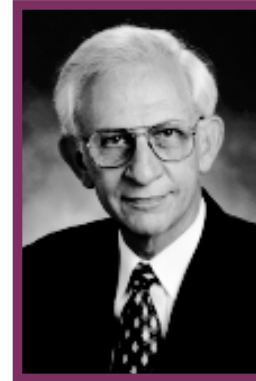
E. Burton Eubanks

E. Burton Eubanks
President/CEO

E. Burton Eubanks,
President from
1975 - 2000



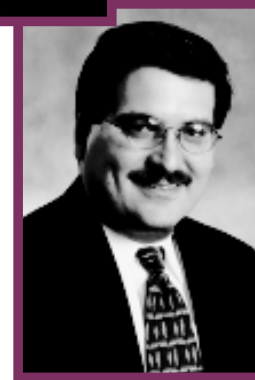
Credit Union officers



E. Burton Eubanks
president/ceo



Tony C. Budet
executive vice
president/coo



James A. Nastars
vice president - lending



Sheila J. Wojcik
vice president -
human resources



Yung V. Tran
vice president -
finance, cfo



Steve E. Kubala
vice president -
information systems



UNIVERSITY FACULTY
MARCH 10, 1936



note eight: OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statements of financial condition. The Credit Union's exposure to credit loss in the event of nonperformance by its members is represented by the contractual amount of those instruments.

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. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

As of December 31, 1999, the members' total lines of credit approximated \$124,381,000, of which approximately \$92,921,000 had not been funded. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the member.

The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the Austin, Texas area. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk.

note nine: FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of amounts that could be realized in a market exchange. The use of different assumptions and estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate fair value of each of the financial instruments for which it was practicable to estimate.

Cash

The carrying amount is a reasonable estimation of fair value.

Investments

Estimated fair values for investments are obtained from quoted market prices where available.

Loans to Members

The estimated fair value of variable-rate loans is the current carrying amount. For estimation of fair value purposes, credit card loans are considered variable-rate loans since interest rates may be changed by the Credit Union. The fair value of fixed-rate loans should be estimated by discounting the estimated cash flows using the current rate at which similar loans would be issued, however, management has determined that the fair value of these loans would not be materially different from the carrying amount. Therefore, the fair value of fixed-rate loans is the carrying amount. The impact of delinquent loans on the estimation of the fair value described above is not considered to have a material effect and, accordingly, delinquent loans would have been disregarded in the valuation methodologies used.

Members' Share and Savings Accounts

The estimated fair value of demand deposit accounts is the carrying amount. The fair value of fixed-maturity certificates of deposit should be estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued, however, management has determined that the fair value of fixed-maturity certificates of deposits would not be materially different from the carrying amount. Therefore, the fair value of fixed-maturity certificates of deposit is the carrying amount.

The carrying value and estimated fair value of the Credit Union's financial instruments are as follows:

	As of December 31, 1999		As of December 31, 1998	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets:				
Cash	\$ 28,322,062	\$ 28,322,062	\$ 19,981,478	\$ 19,981,478
Investments:				
Available-for-sale	\$ 116,865,219	\$ 116,865,219	\$ 100,621,566	\$ 100,621,566
Held-to-maturity	\$ 2,289,586	\$ 2,265,035	\$ 6,711,638	\$ 6,698,952
Other	\$ 3,091,800	\$ 3,091,800	\$ 1,904,400	\$ 1,904,400
Loans held for sale	\$ 18,955,494	\$ 18,955,494	\$ 19,438,694	\$ 19,438,694
Loans to members, net	\$ 198,978,881	\$ 198,978,881	\$ 187,263,162	\$ 187,263,162
Financial liabilities:				
Members' share and savings accounts	\$ 338,718,835	\$ 338,718,835	\$ 325,359,224	\$ 325,359,224
Unrecognized financial instruments:				
Commitments to extend credit	\$ —	\$ 92,921,000	\$ —	\$ 87,593,000

Treasurer's
report

Nineteen ninety nine (1999) was an exceptionally strong year financially for University Federal Credit Union, one in which earnings generated a Return on Assets of 1.19%, well above the industry standard. On Total Revenue of \$34.2 million, University Federal generated Net Income of \$4.4 million, 43% more than in 1998, enabling Net Worth to grow 20% to \$26.3 million. As a result of an exceptional economy, good underwriting, and strong collection efforts, loan delinquency and net loan charge-offs fell to just .63% and .59% of the loan portfolio, respectively. More importantly, membership grew over 6% to just shy of 100,000, confirming University Federal continues to meet the financial needs of its member-owners and solidifying its position as Austin's largest locally-owned financial institution.

The Asset Liability Management Committee, chaired by the Treasurer and comprised of several other members of the Board and executive management, met biweekly during the year, carefully reviewing financial performance, market interest rates and economic conditions, deposit growth trends, the quality and mix of the loan portfolio, and the competitiveness of University Federal's array of loan and deposit rates. Additionally, on a quarterly basis, the Statement of Financial Condition was carefully analyzed using a proven asset-liability management model to ensure fluctuations in market interest rates will not substantially impact future earnings of the Credit Union.

Philosophically, it is University Federal's goal to offer competitive savings opportunities to its members and to put as much of those funds as possible back in the hand of members in the form of loans to buy autos, finance educations, purchase homes, and take advantage of a host of other options which increase our members' quality of life. As an educational-based credit union, University Federal is proud it continues to fund more education loans to University of Texas students than any other financial institution. Additionally, whereas only auto loans were previously priced according to the quality of each member's credit history, this approach was expanded in 1999 to include most other consumer loan types. While our previous credit standards may have prevented members with past credit problems from qualifying for loans at University Federal, forcing them to pay extraordinarily high rates elsewhere, this expanded program can accommodate these members at competitive rates consistent with their credit histories. Because it's rare, however, for all of our members' savings to be loaned to other members at any point in time, the Credit Union finds it necessary and prudent to invest the excess funds to maximize earnings. Our investment philosophy continues to be extremely conservative, with most of our invested funds in U.S. government agency securities with an average portfolio duration of just 2.53 years. The soundness of these investments was confirmed in 1999 through a review by our regulator, the National Credit Union Administration, and by our external auditor, the firm of Orth Chakler & Murnane, which specializes in credit union auditing.

Just as the Board of Directors gave considerable attention throughout 1999 to work required to ensure a smooth year 2000 transition, the Asset Liability Management Committee positioned the Statement of Financial Condition, established a special reserve to ensure more than adequate liquidity, and strengthened relationships with financial partners to ensure University Federal was fully capable of meeting the financial needs of its membership. The prospects for economic growth in Texas and in Austin, in particular, continue exceptional and University Federal remains well positioned to share in the prosperity as it continues its strong tradition of service to its members.

Mary A. Seng
Mary A. Seng

Treasurer

Dr. John Stockton

First UFCU

Treasurer,

1936 - 1941



Supervisory Committee report



2nd floor
of the
Steek Branch
1999

The Supervisory Committee's primary responsibilities are to ensure the Board of Directors and management team operate in accordance with National Credit Union Administration regulations and to supervise an annual, independent certified audit of the books and records of the Credit Union.

During the course of the year, this volunteer Committee: Retained the services of Orth, Chakler, Murnane & Company, a Miami, FL-based certified public accounting firm which specializes in credit union auditing, to perform our audit as of the close of the 1999 fiscal year. A copy of this report is on file at University Federal's Steck branch and is available for viewing by interested members;

Directed and reviewed initiatives of the Internal Audit function, ensuring its effectiveness in assessing and addressing risk within the organization, and in giving appropriate attention to regulatory compliance and matters requiring strong internal controls;

Solicited and reviewed formal written responses by management to all audit exceptions and recommendations, ensuring resulting commitments by management were fully met;

Assessed effectiveness of the Board and management in development and execution of business contingency plans necessary to ensure a smooth transition to the year 2000;

Required at least one Committee member be present at each Board meeting and reviewed the minutes of those meetings in order to remain fully informed of all critical issues;

Attended several conferences and educational events focused on critical industry issues and the "watchdog" role the Committee holds within the Credit Union.

The Supervisory Committee wishes to thank the Board of Directors, management, and staff for their support and cooperation during what was a very productive and rewarding year.

Ned Burns
Supervisory Committee
Chairman

Galveston Branch
Opening, 1953



notes to the financial statements

note five: MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are summarized as follows:

	Weighted-Average rates as of December 31, 1999	As of December 31, 19991998	
Share drafts	1.15%	\$ 88,789,839	\$ 80,136,250
Money market accounts	3.15%	66,437,358	46,032,431
Shares and equivalents	2.72%	82,199,961	82,870,723
IRA shares	4.51%	14,953,987	14,361,609
		252,381,145	223,401,013
Certificates:			
3.40% - 4.00%		\$ 2,780,896	\$ 3,214,461
4.01% - 5.00%		59,985,972	16,806,705
5.01% - 6.00%		20,708,399	77,272,694
6.01% - 6.85%		2,862,423	4,664,351
		86,337,690	101,958,211
		\$ 338,718,835	\$ 325,359,224

The aggregate amount of members' share and savings accounts over \$100,000 was approximately \$51,274,000 and \$51,422,000 as of December 31, 1999 and 1998, respectively.

Scheduled maturities of certificates are as follows:

	For the year ended December 31, 1999
Within 1 year	\$ 69,578,088
1 to 2 years	9,513,989
2 to 3 years	3,230,012
3 to 4 years	2,794,013
4 to 5 years	1,221,588
	\$ 86,337,690

Share Insurance

Members' shares are insured by the NCUSIF to a maximum of \$100,000 for each member. Individual Retirement Accounts carry an additional \$100,000 coverage.

note six: EMPLOYEE BENEFITS

Target Benefit Retirement Plan

The Credit Union has a target benefit retirement plan. Participation is limited to all employees who meet specific age and service year limitations. Employer contributions are set by a predefined formula. Employees become fully vested upon completion of six full years of qualifying service. The total plan expenses approximated \$367,000 and \$338,000 for the years ended December 31, 1999 and 1998, respectively.

401(k) Retirement Plan

Participation in the 401(k) plan is limited to all employees who meet specific age and service year limitations. Employees may contribute up to a maximum of \$10,000 per year to the plan. The Credit Union does not contribute into this plan.

note seven: COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 1999, the Credit Union had an unused line of credit demand loan agreement with Southwest Corporate Federal Credit Union. The agreement is unsecured and provides a credit limit of \$15,000,000.

The Credit Union also has a secured line of credit with Southwest Corporate Federal Credit Union. The terms of the agreement provide for borrowings up to the amount of pledged securities. The total value of the pledged securities as of December 31, 1999, was approximately \$33,610,000. As of December 31, 1999, there was no outstanding balance under this agreement.

Year Ending December 31,	Amount
2000	\$472,164
2001	405,154
2002	391,388
2003	378,891
2004	378,912
Thereafter	—
	\$2,026,509

The Credit Union also has an available line of credit with the Federal Home Loan Bank of Dallas. The terms of the agreement provide for borrowings up to the amount of pledged securities. The total value of the pledged securities as of December 31, 1999, was approximately \$60,000,000. As of December 31, 1999, there was an outstanding balance of \$17,053,000 under this agreement.

As of December 31, 1999, the Credit Union also has an unused available line of credit with Bank of America. This agreement is unsecured and provides a credit limit of \$6,000,000.

The Credit Union leases certain office space and equipment. The minimum noncancellable lease obligations as of December 31, 1999, are shown to the left.

The related rental expense was approximately \$659,000 and \$473,000 for the years ended December 31, 1999, and 1998, respectively.

The Credit Union is a party to various miscellaneous legal actions normally associated with financial institutions, the aggregate effect of which, in management's opinion, would not be material to the Credit Union's financial condition.



notes to the financial statements

As of December 31, 1999					
	AVAILABLE-FOR-SALE		HELD-TO-MATURITY		
	AMORTIZED COST	MARKET VALUE	AMORTIZED COST	MARKET VALUE	
No contractual maturity 1-5 years	\$ 8,758,041	\$ 8,451,327	\$ —	\$ —	
	74,344,868	72,240,060	—	—	
	83,102,909	80,691,387	—	—	
Mortgage-backed securities	36,962,068	36,173,832	2,289,586	2,265,035	
	\$ 120,064,977	\$ 116,865,219	\$ 2,289,586	\$ 2,265,035	

note three: LOANS TO MEMBERS

The composition of loans to members is as follows:

	As of December 31,	
	1999	1998
Loans outstanding:		
Vehicle	\$ 134,048,936	\$ 126,532,627
Unsecured	39,796,661	37,551,974
Real estate	20,760,488	21,779,923
Shares and other collateral	6,302,142	4,087,085
	200,908,227	189,951,609
Deferred fees and costs	1,389,398	1,354,884
	202,297,625	191,306,493
Less allowance for loan losses	(3,318,744)	(4,043,331)
	\$ 198,978,881	\$ 187,263,162

Loans on which the accrual of interest has been discontinued or reduced approximated \$1,313,000 and \$1,582,000 as of December 31, 1999 and 1998, respectively. If interest on these loans had been accrued, such income would have approximated \$84,000 and \$105,000 for the years ended December 31, 1999 and 1998, respectively.

A summary of the activity in the allowance for loan losses is as follows:

	As of December 31,	
	1999	1998
Balance, beginning of the year	\$ 4,043,331	\$ 4,122,912
Provision for loan losses	431,326	2,562,333
Recoveries	691,929	225,432
Loans charged off	(1,847,842)	(2,867,346)
Balance, end of year	\$ 3,318,744	\$ 4,043,331

note four: PROPERTY AND EQUIPMENT

A summary of the Credit Union's property and equipment is as follows:

	As of December 31,	
	1999	1998
Land	\$ 1,436,426	\$ 1,662,738
Buildings	6,089,134	7,425,856
Furniture and equipment	8,940,862	6,650,877
Leasehold improvements	947,310	920,351
	17,413,732	16,659,822
Less accumulated depreciation and amortization	(6,176,276)	(6,308,536)
	\$ 11,237,456	\$ 10,351,286



Auditor's report

Independent Auditors' Report

January 28, 2000

To the Supervisory Committee of
University Federal Credit Union

We have audited the accompanying statements of financial condition of University Federal Credit Union, as of December 31, 1999 and 1998, and the related statements of income, comprehensive income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

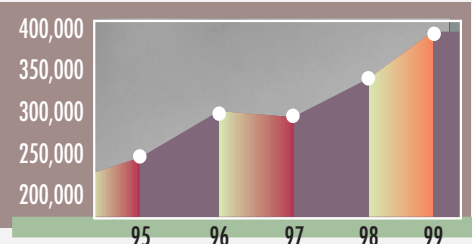
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Federal Credit Union as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Orth, Chakler, Murnane & Company
Certified Public Accountants

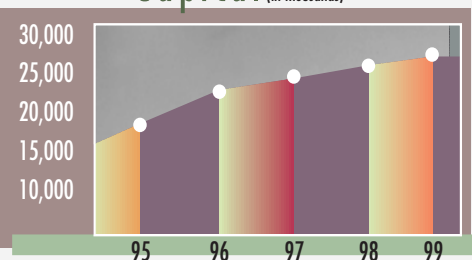


Financial highlights

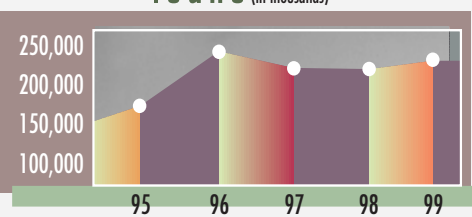
assets (in thousands)



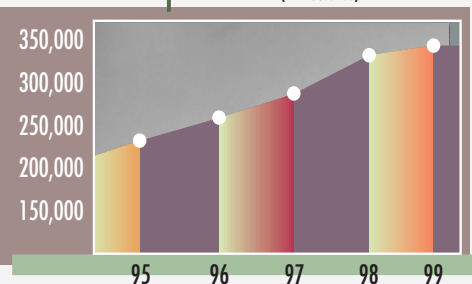
capital (in thousands)



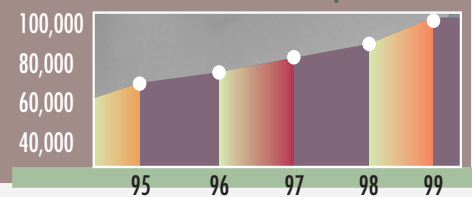
loans (in thousands)



deposits (in thousands)



membership



STATEMENTS OF FINANCIAL CONDITION

ASSETS

	As of December 31,	
	1999	1998
Cash and cash equivalents	\$ 28,322,062	\$ 19,981,478
Investments:		
Available-for-sale	116,865,219	100,621,566
Held-to-maturity	2,289,586	6,711,638
Other	3,091,800	1,904,400
Loans held for sale	18,955,494	19,438,694
Loans to members, net of allowance for loan losses	198,978,881	187,263,162
Accrued interest receivable	2,621,313	2,077,252
Prepaid and other assets	1,300,656	1,283,596
Property and equipment	11,237,456	10,351,286
NCUSIF deposit	3,126,044	2,706,337
Total assets	\$ 386,788,551	\$ 352,339,409

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES:		
Members' share and savings accounts	\$ 338,718,835	\$ 325,359,224
Accrued expenses and other liabilities	7,898,092	5,372,570
Notes payable	17,133,520	27,214
Total liabilities	363,750,447	330,759,008
Commitments and contingent liabilities	—	—
MEMBERS' EQUITY:		
Regular reserve	5,537,140	4,017,920
Undivided earnings	20,700,722	17,803,467
Accumulated other comprehensive loss	(3,199,758)	(240,986)
Total members' equity	23,038,104	21,580,401
Total liabilities and members' equity	\$ 386,788,551	\$ 352,339,409

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

notes to the financial statements

note two: INVESTMENTS

The amortized cost and estimated market value of investments are as follows:

AVAILABLE-FOR-SALE:	As of December 31, 1999			
	GROSS		GROSS	
	AMORTIZED	UNREALIZED	UNREALIZED	MARKET
	COST	GAINS	LOSSES	VALUE
Federal agency securities	\$ 74,344,868	\$ —	(\$2,104,808)	\$ 72,240,060
Mutual funds	8,758,041	136	(306,850)	8,451,327
Mortgage-backed securities	36,962,068	15,484	(803,720)	36,173,832
	\$ 120,064,977	\$ 15,620	(\$3,215,378)	\$ 116,865,219

AVAILABLE-FOR-SALE:	As of December 31, 1998			
	GROSS		GROSS	
	AMORTIZED	UNREALIZED	UNREALIZED	MARKET
	COST	GAINS	LOSSES	VALUE
Federal agency securities	\$ 52,354,786	\$ 17,055	(\$62,578)	\$ 52,309,263
Mutual funds	20,619,495	—	(128,784)	20,490,711
Mortgage-backed securities	27,888,271	51,013	(117,692)	27,821,592
	\$ 100,862,552	\$ 68,068	(\$309,054)	\$ 100,621,566

HELD-TO-MATURITY:	As of December 31, 1999			
	GROSS		GROSS	
	AMORTIZED	UNREALIZED	UNREALIZED	MARKET
	COST	GAINS	LOSSES	VALUE
Mortgage-backed securities	\$ 2,289,586	\$ 459	(\$25,010)	\$ 2,265,035

HELD-TO-MATURITY:	As of December 31, 1998			
	GROSS		GROSS	
	AMORTIZED	UNREALIZED	UNREALIZED	MARKET
	COST	GAINS	LOSSES	VALUE
Mortgage-backed securities	\$ 6,690,404	\$ 2,783	(\$15,469)	\$ 6,677,718
Federal agency securities	21,234	—	—	21,234
	\$ 6,711,638	\$ 2,783	(\$15,469)	\$ 6,698,952

OTHER INVESTMENTS:	As of December 31,	
	1999	1998
Federal Home Loan Bank Stock	\$ 2,214,300	\$ 1,026,900
Capital shares in Southwest Corporate Federal Credit Union	750,000	750,000
Stock in credit union service organization	127,500	127,500
	\$ 3,091,800	\$ 1,904,400

The Credit Union maintains deposits at Southwest Corporate Federal Credit Union which normally exceed federally insured limits. Included in the deposit with Southwest Corporate Federal Credit Union is a restricted capital share base which is required for membership. This amount was \$750,000 as of December 31, 1999 and 1998.

The amortized cost and estimated market value of investments by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

Proceeds from the sale of investments classified as available-for-sale approximated \$16,163,500 for the year ended December 31, 1999. Gross gains of approximately \$5,100 and gross losses of approximately \$93,500 were realized for the year ended December 31, 1999.



notes to the financial statements

note one: SIGNIFICANT ACCOUNTING POLICIES

Organization

University Federal Credit Union (the “Credit Union”) is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members.

Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses and the fair value of financial instruments. The significant accounting principles and policies used in the preparation of these financial statements, together with certain related information, are summarized below.

Comprehensive Income

Effective January 1, 1998, the Credit Union adopted Statement of Financial Accounting Standards (SFAS) No. 130, “Reporting Comprehensive Income,” which establishes new rules for the reporting and display of comprehensive income and its components. SFAS No. 130 requires unrealized gains or losses on securities classified as available-for-sale to be included in other comprehensive income. Prior to adoption, unrealized gains or losses on available-for-sale securities were only included in members’ equity. The adoption of SFAS No. 130 had no impact on the Credit Union’s net income or members’ equity. Prior year financial statements have been reclassified to conform to the requirements of SFAS No. 130.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and non-term share deposits in Southwest Corporate Federal Credit Union. Amounts due from banks and the corporate credit union may, at times, exceed federally insured limits.

Investments

Investments are classified into the following categories: held-to-maturity, available-for-sale, and other. Investment securities classified as held-to-maturity are measured at amortized cost. This classification is based upon the Credit Union’s intent and ability to hold these investment securities to full maturity. Investment securities classified as available-for-sale are measured at market value as of the statement of financial condition date. Unrealized gains and losses for available-for-sale investments are reported as a separate component of members’ equity. The Credit Union has elected to classify certain cash equivalents as other investments. This election is available to the Credit Union according to the terms of SFAS No. 95, “Statement of Cash Flows.”

Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for amortization of premiums and accretion of discounts over the term of the investment by a method which approximates the interest method. Adjustments are recognized to interest income on investments.

Loans Held for Sale

Educational loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. All sales are made without recourse.

Loans to Members and Allowance for Loan Losses

Loans to members are stated at the amount of unpaid principal net of certain deferred fees and costs, and an allowance for loan losses. An allowance for loan losses is maintained at an amount management believes will be adequate to absorb potential losses on the existing loan portfolio. Management’s periodic valuation of the adequacy of the allowance is based on the Credit Union’s past loan-loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, and current economic conditions. Loans are charged against the allowance for loan losses when management believes that collection of the principal is unlikely. Recoveries on loans previously charged off are credited to the allowance for loan losses.

Interest on loans is calculated on principal amounts outstanding. The accrual of interest is discontinued when management believes that collection of interest is doubtful. Loan fees are recognized in income when received and certain direct loan origination costs on loans to members are recognized in expense when incurred. Credit card fees are recorded as fee income when assessed. This is not materially different from fees and expenses that would have been recognized under the provisions of Statement of Financial Accounting Standards (SFAS) No. 91, “Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases.”

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Buildings, and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

National Credit Union Share Insurance Fund (NCUSIF) Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

Members’ Share and Savings Accounts

Members’ shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members’ share and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members’ share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Members’ Equity

The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve is not available for the payment of interest.

Federal and State Tax Exemption

The Credit Union is exempt from most federal, state, and local taxes.

Reclassifications

Certain 1998 financial statement amounts have been reclassified to conform with classifications adopted in 1999.



UNIVERSITY FEDERAL CREDIT UNION

STATEMENTS OF INCOME

	For the years ended December 31,	
	1999	1998
INTEREST INCOME:		
Loans to members	\$ 17,719,500	\$ 18,077,283
Investments	7,355,297	5,853,947
Total interest income	25,074,797	23,931,230
INTEREST EXPENSE:		
Members' share and savings accounts	10,365,711	10,362,370
Borrowed funds	165,721	6,208
Total interest expense	10,531,432	10,368,578
Net interest income	14,543,364	13,562,652
PROVISION FOR LOAN LOSSES	431,326	2,562,333
Net interest income after provision for loan losses	14,112,038	11,000,319
NON-INTEREST INCOME:		
Fees and service charges	7,406,133	6,828,885
Gain on sale of loans, net	1,664,851	1,755,867
Gain on sale of available-for-sale investments	—	189
Total non-interest income	9,070,984	8,584,941
	23,183,022	19,585,260
NON-INTEREST EXPENSE:		
Compensation and employee benefits	8,994,688	8,065,685
Other operating expenses	7,193,445	5,937,313
Occupancy	1,330,704	1,147,841
Marketing and business development	860,540	887,360
Professional and outside services	278,140	449,400
Loss on disposition of assets	20,657	10,360
Loss on sale of available-for-sale investments	88,373	—
Total non-interest expense	18,766,547	16,497,959
Net income	\$ 4,416,475	\$ 3,087,301

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

STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31,	
	1999	1998
NET INCOME	\$ 4,416,475	\$ 3,087,301
OTHER COMPREHENSIVE INCOME:		
Unrealized holding (losses)/gains on available-for-sale investment arising during the period	(2,958,772)	(197,577)
Other comprehensive loss	(2,958,772)	(197,577)
Comprehensive income	\$ 1,457,703	\$ 2,889,724

STATEMENTS OF MEMBERS' EQUITY

For the years ended December 31, 1999 and 1998				
	REGULAR RESERVE	UNDIVIDED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL
Balance, December 31, 1997	\$ 3,969,387	\$ 14,764,699	(\$43,409)	\$ 18,690,677
Net income	—	3,087,301	—	3,087,301
Other comprehensive loss	—	—	(197,577)	(197,577)
Transfers:				
Statutory	2,610,866	(2,610,866)	—	—
Provision for loan losses	(2,562,333)	2,562,333	—	—
Balance, December 31, 1998	4,017,920	17,803,467	(240,986)	21,580,401
Net income	—	4,416,475	—	4,416,475
Other comprehensive loss	—	—	(2,958,772)	(2,958,772)
Transfers:				
Statutory	1,950,546	(1,950,546)	—	—
Provision for loan losses	(431,326)	431,326	—	—
Balance, December 31, 1999	\$ 5,537,140	\$ 20,700,722	(\$3,199,758)	\$ 23,038,104

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

STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,416,475	\$ 3,087,301
Adjustments:		
Provision for loan losses	431,326	2,562,333
Depreciation and amortization	1,408,622	1,175,434
(Accretion) amortization of investment premiums/discounts	(122,561)	(93,810)
Amortization of deferred fees and costs	1,095,806	1,299,333
Loss on disposition of fixed assets	20,657	—
Loss (gain) on sale of available-for-sale investments	88,373	(189)
Changes in operating assets and liabilities:		
Loans held for sale	483,200	1,452,772
Accrued interest receivable	(544,061)	11,497
Prepaid and other assets	(17,100)	(185,181)
Accrued expenses and other liabilities	2,049,166	1,188,810
Net cash provided by operating activities	9,309,903	10,498,300
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, sales, and repayments of available-for-sale securities	73,670,678	74,836,406
Purchase of available-for-sale securities	(92,818,059)	(140,628,690)
Proceeds from maturities and repayments of held-to-maturity securities	4,401,193	12,787,261
Net change in other investments	(1,187,400)	2,398,084
Proceeds from sale of building	2,658,110	—
Net change in loans, net of charge-offs	(13,934,774)	(4,848,731)
Bond claim settlement for loans	446,323	—
Recoveries on loans charged off	245,606	225,432
Expenditures for property and equipment	(4,497,206)	(1,469,268)
Change in NCUSIF deposit	(419,707)	(298,652)
Net cash used in investing activities	(31,435,236)	(56,998,158)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in members' share and savings accounts	13,359,611	45,485,910
Net change in borrowed funds	17,106,306	12,203
Net cash provided by financing activities	30,465,917	45,498,113
Net change in cash	8,340,584	(1,001,745)
Cash at beginning of year	19,981,478	20,983,223
Cash at end of year	\$ 28,322,062	\$ 19,981,478
SUPPLEMENTAL CASH FLOWS DISCLOSURES:		
Interest paid	\$ 10,376,698	\$ 10,390,677
SCHEDULE OF NONCASH TRANSACTIONS:		
Change in unrealized gain/loss on investments	\$ 2,958,775	\$ 197,577
Deferred gain on sale of building	\$ 476,353	\$ —

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