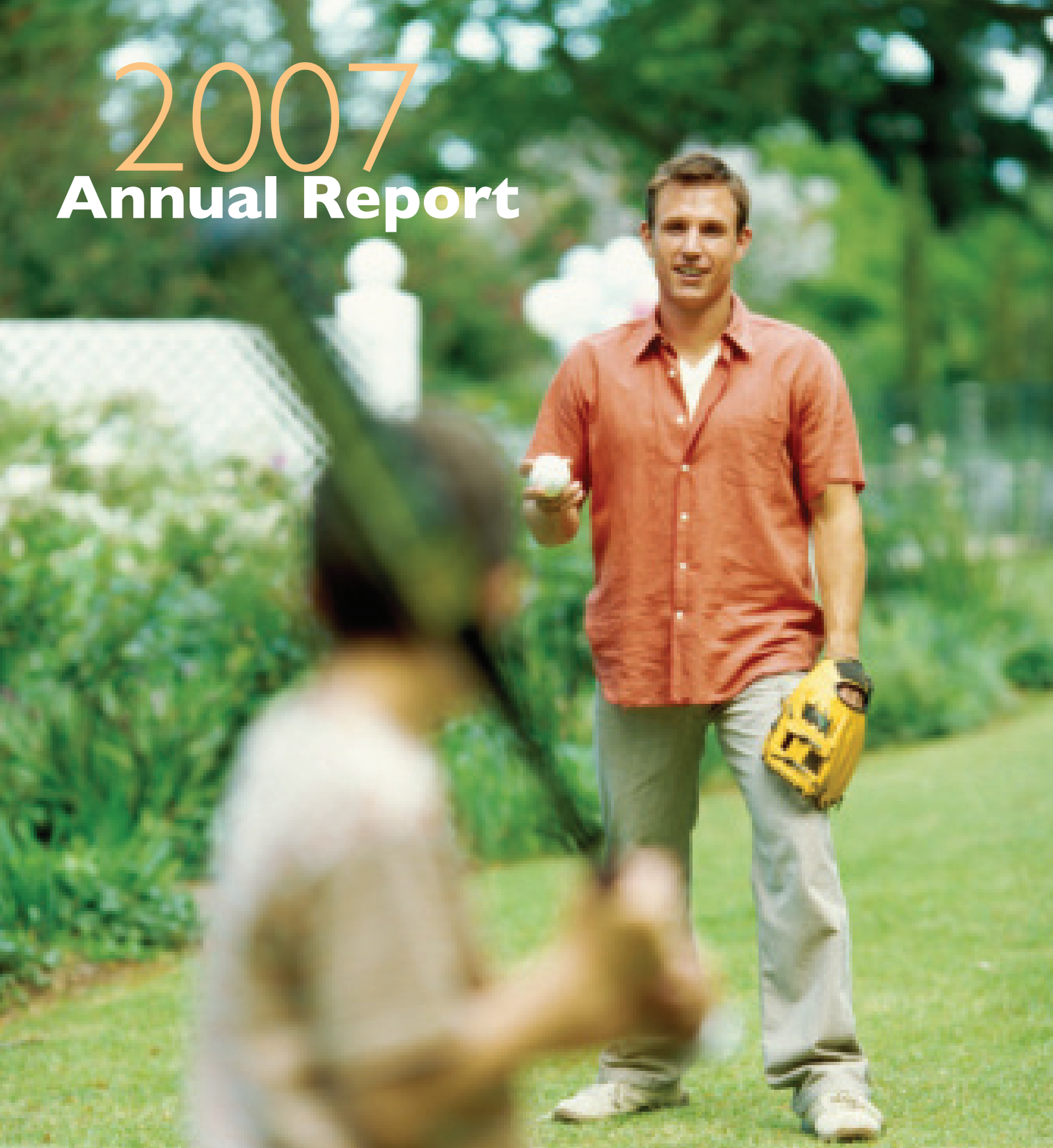


2007 Annual Report





Arthur B. Martinez

Report of the Chairman & President



Tony C. Budet

In its 71st anniversary year, University Federal Credit Union (UFCU) again excelled at meeting the financial needs of its member-owners in the Austin and Galveston higher education communities. While subprime mortgage lending losses and the possibility of federal bailouts dominated 2007 headlines, our focus on consumer education and on doing what's best for our members left our organization untouched by market turmoil and positioned to continue to serve members well. In fact, UFCU membership grew at a rate multiple times that of the national average to 121,000, assets exceeded \$818 million, and financial performance, audit, and examination results were exemplary. Several milestones are worthy of mention:

- After committing to funding renovation and renaming of UFCU Disch-Falk Field in 2005 and to a financial commitment to UT Libraries in 2006, UFCU in 2007 made a substantial financial commitment to Concordia University's library at its new location in Northwest Travis County.
- A new subsidiary, UFCU Real Estate Services, LLC, doing business as Members Home Advisor™, was established in 2007 to extend mortgage loan services to UFCU members as well as to members of other Texas credit unions.
- In 2007, UFCU made available to members several new deposit offerings, including a premium money market account, a high interest "pick your term" CD, a teen checking account, and a children's CD with very attractive rates of return.
- A cross-functional team of employees thoroughly evaluated alternatives to UFCU's existing core data processing platform and concluded a conversion to a superior system, one better capable of supporting strategies and growth well into the future, is appropriate. A conversion to the preferred processing platform is tentatively scheduled May 2009.
- UFCU in 2007 systematically identified many parcels of land well suited to branch expansion, several of which were purchased. Construction of a Ben White facility is well underway and new branches are planned during the next three to five years in Pflugerville, Cedar Park, Round Rock and North Austin. All planned facilities will meet City of Austin Green Building specifications.
- UFCU continues participating in and lending leadership to the Alliance of Austin Credit Unions through which participating Austin credit unions are offering members use of over 200 ATMs at which they can perform transactions at no cost.
- CU Business Solutions, LLC, a partnership of seven Austin credit unions, extends business lending services to members of all participating organizations and performed exceptionally well in 2007.
- UFCU executives continue committed to personally demonstrating strong ethical practices, nurturing a culture of integrity and values alignment to strengthen member trust, branding, and competitive advantage in markets served.

Despite extraordinary changes in the financial services sector and exceptional growth of our cooperative over the last 71 years, much remains unchanged. We are proud to report the

cooperative principles that inspired our founders to create our organization in 1936 remain alive and well today:

- First, we are a **financial cooperative** owned by our members, whereas most banks are owned and controlled by a select few investors.
- UFCU is a **not-for-profit** organization through which members pool their financial resources to help one another, whereas a bank's primary objective is to maximize its return to its investor-owners.
- UFCU members **democratically elect a volunteer board of directors**, whereas banks compensate their appointed directors. Our members have a say in who runs their financial institution and how they run it.
- UFCU membership is available only to those individuals within its **field of membership**, whereas banks serve the general public. No one understands and can meet your financial needs better than we.
- UFCU pays property and payroll taxes, but is **exempt from federal income tax** under Section 501(c)(1) of the Internal Revenue Code, whereas a (non-S corporation) bank's income is generally taxed. Our tax-exempt status enables UFCU to pass those tax savings to its members in the form of dividends and very competitive loan rates.
- As part-owner of UFCU, you trust us to deliver **unbiased consumer educational resources**. After all, as a co-op, we're successful only when we position our members for financial success.

Even though our \$800+ million in assets makes University Federal Credit Union the largest locally-owned financial institution in Austin, we have no Wall Street-types to impress. You, our members, are our only focus. This is *your* financial cooperative. You own us. We are unique in our structure, unique in our mission, and unique in how we've measured success for 71 years. Thank you for your membership and business!

Warm regards,

Arthur B. Martinez
Chairman

Tony C. Budet
President/CEO

2007

Consolidated Statements of Financial Condition (unaudited)

ASSETS	As of December 31,	
	2007	2006
Cash and Cash Equivalents	\$31,271,861	\$39,701,041
Investments	83,576,161	54,402,752
Loans to members (Net of Allowance for Loan Losses)	668,874,350	636,703,938
Property and Equipment	20,076,299	17,242,561
NCUA Insurance Fund Deposit	6,583,088	5,823,586
Other assets	8,077,430	8,485,806
Total assets	\$818,459,189	\$762,359,684
LIABILITIES AND MEMBERS' EQUITY		
Members' share and savings accounts	\$713,856,291	\$673,818,325
Borrowed funds	10,676,009	797,677
Accrued expenses and other liabilities	19,875,865	20,977,589
Total liabilities	744,408,165	695,593,590
Members' equity	74,051,024	66,766,094
Total Liabilities and Members' Equity	\$818,459,189	\$762,359,684

Consolidated Statements of Income (unaudited)

	For the years ended December 31,	
	2007	2006
Interest income from loans to members and investments	\$49,099,098	\$42,724,940
Dividend expense paid on members' deposits and interest on borrowed funds	17,715,419	13,870,520
Net interest income	31,383,679	28,854,420
Provision for loan losses	5,125,944	4,186,327
	26,257,735	24,668,093
Non-interest income	22,952,518	19,554,391
Operating expenses	42,133,750	38,267,837
Net Income	\$7,076,503	\$5,954,647



Report of the Supervisory Committee

Ned H. Burns, Ph.D.

The primary responsibility of the Supervisory Committee is to ensure UFCU's financial statements accurately and fairly report UFCU's financial condition. To accomplish this goal, the committee retained certified public accountants Orth, Chakler, Murnane & Co. to audit the financial statements. We are pleased to announce the auditors expressed an unqualified opinion in their Independent Auditors Report. Copies of the report are available from the President/CEO's office upon request.

In addition to retaining independent auditors, the board-appointed volunteer members of the Supervisory Committee regularly review management practices to ensure issues of safety and soundness are satisfactorily addressed. The committee directs the internal audit activities of Assurance Services and meets regularly with management to review matters regarding internal controls and regulatory compliance. Considerable attention is given management's responses and resolutions to both external and internal audit issues.

Throughout the year, committee members attended meetings of the board of directors and a variety of educational events. We are grateful to the board for its support and exemplary relationship.

We commend management for its responsiveness and commitment with respect to all audit and National Credit Union Administration examination issues and for attention to critical issues of network and information security, member privacy and employee safety.

For their time and efforts, I personally thank committee members Neal Armstrong, Ph.D., Chris Plonsky, and Marilla Svinicki, Ph.D.

Warm regards,

Ned H. Burns, Ph.D.
Supervisory Committee
Chairman



Report of the Treasurer

Mary A. Seng

While the national economy in 2007 experienced declining home values and sales, sharp rises in mortgage loan defaults, and multiple actions by the Federal Reserve Bank to reduce market interest rates and ease a global credit squeeze, the Austin and Texas economies fared considerably better. In fact, Neal Spelce's *Austin Letter* reported early in 2008 that "Austin is now projected to be America's Fastest Growing Metro between 2007 and 2012. Two nationally-respected entities, Moody's Economy.com and *Forbes* magazine, cited the area's tech hub, world-class university, growing population base, low cost of living and doing business when it tapped Austin as the nation's #1 growth spot for the next five years."

That optimism is certainly evident in UFCU's 2007 financial performance, which was exceptional. Loan disbursements to members totaled \$571 million, boosting total loans outstanding to \$673 million, an increase of \$32 million, or 5 percent. Member deposits grew 6 percent to \$40 million, bringing the year-end total to \$714 million. Total assets ended the year at \$818 million, representing annual growth of 7 percent. On total revenue of \$72 million, UFCU generated net income of \$7 million, representing a return on average assets of .90 percent, and increased members' equity by 7 percent to \$74 million. For the first time, UFCU's net worth ended the year in excess of 9 percent.

It's critical that members know UFCU volunteers actively lead and influence UFCU's financial affairs through actions of the Asset-Liability Management/Budget Committee, which is composed of five directors, including the treasurer. This committee meets monthly, reviews national and local economic conditions, develops and recommends financial policies to the board of directors, determines long-term financial objectives and annual financial plans, and monitors ongoing financial performance relative to those objectives.

UFCU is financially strong and remains fully committed to further expanding and enhancing its products and services to meet the evolving financial needs of its 121,000 members.

Warm regards,

Mary A. Seng
Treasurer

Community Involvement

UFCU is proud to provide exceptional financial solutions to the Austin and Galveston communities and serve in a leadership role in the organizations that comprise the social fabric of the cities we call home. Below are the organizations that UFCU financially assisted in 2007.

- Austin Area Urban League
- Austin Chamber of Commerce
- Austin Chapter of Credit Unions
- Austin Economic Development Corporation
- Austin History Center
- Boy Scouts of America
- Concordia University Library
- Dell Children's Medical Center
- Girl Scouts Lone Star Council
- Greater Austin Opportunity Austin
- Goodwill Industries
- Holy Family Catholic School
- Huston-Tillotson Masked Ball
- Jeanette Abbott Memorial Foundation
- Jewish Community Association of Austin
- KUT Radio
- Round Rock Chamber of Commerce

- St. Edward's University
- Star Center Gymnastics Booster Club
- UFCU Disch-Falk Field
- UT Libraries
- UT Neighborhood Longhorns Program
- UT Orange Santa
- UTMB Graduate School of Biomedical Sciences
- UTMB School of Allied Health Sciences
- UTMB School of Nursing
- YMCA
- YWCA

Little League Teams

- Austin Blast, Austin, Texas
- Balcones Youth, Austin, Texas
- Diamond Dolls, Austin, Texas
- Lassie League, Galveston, Texas
- Leander Baseball, Leander Texas
- Northwest Little League, Austin, Texas
- Oak Hill Youth, Austin, Texas
- Pflugerville Youth Sports, Pflugerville, Texas
- Round Rock Select, Round Rock, Texas
- Team Kaos, Austin, Texas

Board of Directors

Arthur B. Martinez, Chairman

Cynthia A. Leach, Vice Chairman

Dana Malone, Secretary

Mary A. Seng, Treasurer

Thomas J. Ardis

Julien Carter

Carl E. Hansen, Ph.D.

D. Michael Harris, Ph.D.

Urton Anderson, Ph.D.

William Guy, Jr., Ph.D., Director Emeritus

George K. Herbert, Ph.D., Director Emeritus

Frank Peters, Director Emeritus

Supervisory Committee

Ned H. Burns, Ph.D., Chairman

Neal E. Armstrong, Ph.D.

Chris A. Plonsky

Marilla D. Svinicki, Ph.D.

Principal Officers

Tony C. Budet, President/CEO

Steve E. Kubala, SVP Operations/COO

James A. Nastars, SVP Lending and Collections

Yung V. Tran, CPA, SVP Finance/CFO

Becky M. LeBlanc, VP Leadership

Sheila Jo Wojcik, Ph.D., VP Membership