

ARKANSAS FEDERAL  
CREDIT UNION



1 9 9 7

ANNUAL  
REPORT



*mission statement*

ARKANSAS FEDERAL

CREDIT UNION

IS A

FINANCIAL COOPERATIVE

DEDICATED TO BEING

THE PRIMARY FINANCIAL

INSTITUTION FOR ALL MEMBERS

BY PROVIDING QUALITY

SERVICES WHILE MAINTAINING

A STRONG

FINANCIAL FOUNDATION

# SENIOR MANAGEMENT TEAM

*Through the power of partnership, the owners...also known as the members...of Arkansas Federal Credit Union save money that is used by other members who need to borrow. Since there is no one owner of the credit union, or an elite group of stockholders to pay huge dividends to, the 49,000 members of our credit union reap the rewards of cooperative financial services: higher dividends on savings, lower loan rates, and many state-of-the-art financial services that make using the credit union a breeze.*

*So, our greatest strength is our greatest difference. As a credit union, we are member-owned. Through your continued support and active participation in the state's largest financial cooperative, Arkansas Federal Credit Union, we will continue to provide the quality financial services members want and need.*



## **SENIOR MANAGEMENT TEAM**

*Left to Right: H.C. Klein, President/CEO; Bill Williams, Vice President/ Administrative Support; Bettyann Hawk, Vice President/Branch Operations; Don Cypert, Comptroller*

# report of the CHAIRMAN OF THE BOARD

I would have to describe 1997 as a year of teamwork characterized by Arkansas Federal's involvement in the statewide Campaign for Consumer Choice. Harnessing the cooperative energy of our membership was necessary to battle the legal and political power of the banking community and its efforts to put credit unions, like Arkansas Federal, out of business. With the bankers' lawsuit against our federal credit union regulator, the National Credit Union Administration, still affecting membership growth and expansion throughout 1997, Arkansas Federal focused on a federal legislative solution that would put an end to membership attacks by bankers once and for all.

Our members responded to our call to action with enthusiasm, dedication, letter writing, phone calls and lots of pennies! In what has been described as the biggest grass-roots effort ever experienced by the Arkansas Congressional Delegation, credit union members from across the state saturated the Washington offices of our legislators with their "two-cents." Members literally mailed their two-cents (two pennies) to their congressman urging them to support the Credit Union Membership Access Act and making the point that of all the money on deposit in all credit unions and banks combined, credit unions only control two-cents of every dollar on deposit. So, because of their greed, bankers aren't content with the 98 cents they already have. They want our two-cents, too!

To date, only one Arkansas Congressman, Vic Snyder, has signed on as a co-sponsor of HR1151. But credit union members are continuing efforts to sway the other members of the Arkansas delegation's support.

While a large part of 1997 was dedicated to the Campaign for Consumer Choice, Arkansas Federal's dedication to member service through the day-to-day operations of the credit union continued on.

Our Little Rock Branch moved to a new location on the corner of Capitol and Chester and opened on schedule in April of 1997. Members living and working in the Little Rock area were treated to new and improved automatic teller machines (ATMs) at the new Little Rock Branch, the State Capitol lobby, and a new ATM was installed in the Donaghey Building South. All have attractive color screens and enhanced capabilities to dispense coins and cash checks to the penny. The most important and exciting service enhancement of the year was the debut of Account Access and Bill Payment to the Arkansas Federal Internet Branch. These two new services harness the power and convenience of the Internet to provide round-the-clock access your credit union accounts from anywhere in the world and convenient bill payment service via the Internet Branch.



## BOARD OF DIRECTORS

*Left to Right: Art Williams, Vice Chairman; Phillip Boudreaux, Secretary; Garold L. White, Chairman; Jim Doyle, Treasurer; Robert Batton, Director*

Advertising campaigns throughout the year focused on key services such as checking, mortgage loans, home equity loans, and VISA credit cards. Auto loans experienced a surge in growth in the latter part of the year with a private new car sale in August and a one-day National Car Sale in October.

As we move toward the next millennium, we are faced with incredible challenges and opportunities. We must continue to work together to win the legislative battle that still faces us in 1998. Cooperation is the founding principle of the credit union movement. I am proud of the cooperative spirit that has always been a part of the Arkansas Federal service standard.

On behalf of the board, volunteers, management and staff of your credit union, I submit this 1997 Annual Report. Thank you for sharing in our successes and supporting the credit union service-oriented philosophy. We look forward to a bright, exciting future for Arkansas' largest financial cooperative.

Garold L. White, Chairman  
Board of Directors

# report of the CREDIT APPEALS BOARD

The best investment your credit union can make is in loans to its members. Arkansas Federal Credit Union continued to set an exemplary standard for financial strength and stability in 1997 with consistent, responsible lending practices.

Loan growth in 1997 was considerably less than expected resulting in a loan-to-share ratio decrease of 440 basis points from 88.0% at December 31, 1996 to 83.60% at December 31, 1997. The latter half of 1997 produced the largest growth in loans and in member charge-offs:

Automobile loans continue to take up the highest percentage of Arkansas Federal's overall portfolio with VISA credit cards and other collateral type loans (boats, recreational vehicles, motorcycles, and other collateral) in second and third place respectively.

In July of 1997, Arkansas Federal's unsecured loan program was improved with increased credit limits available on the VISA credit card resulting in easier access to unsecured credit lines. The Board of Directors approved a VISA maximum credit limit increase from \$5,000 to \$10,000. At the same time, Line of

|                      | 1997  | 1996  |
|----------------------|-------|-------|
| Loan Growth          | 3.31% | 3.27% |
| Delinquency Ratio    | 0.69% | 0.78% |
| Net Charge-Off Ratio | 0.81% | 0.54% |



Credit (LOC) Signature Loans were phased out with an option for members to transfer their existing LOC balance to their VISA with a combining of the LOC credit limit with that of the VISA. Over 6,000 members took advantage of the new, higher credit limit on their VISA and the enhanced convenience of credit card access versus the outdated LOC "checkbook" access.

With the phase out of LOC loans, the VISA is now the preferred method of overdraft protection for members with an AFCU Checking Account. And with the new higher credit limits, protection for inadvertent overdrafts is only limited by the credit available on a member's VISA.

As in 1996, bankruptcies were still on the rise. There was a slight decrease in delinquency as exemplified by the chart above, but net charge-offs increased 27 basis points, to 0.81% in 1997.

The year 1997 can be characterized as another successful year of providing quality, low cost loan services to members. Great emphasis was placed on making loan services convenient for members. By year end, over half of member loan applications were being made electronically using either the Internet or by telephone using Phone-A-Loan. Thank you for helping us prove that Arkansas Federal is the best source for member borrowing needs.

Dale Duell, Chairman  
Credit Appeals Board

## CREDIT APPEALS BOARD

Left to Right: Fred Van Driesum, Member;  
Pat Hudon, Member; Dale A. Duell, Chairman

# report of the SUPERVISORY COMMITTEE

The role of the Supervisory Committee is to ensure the financial health of Arkansas Federal Credit Union and to protect the credit union's assets. It serves as the official auditor and member representative in the review of overall financial operations of the credit union. Through this review, it ensures that all regulations, policies, and procedure governing the credit union are followed.

The Internal Audit Department has made further advances in automating many of the internal audit processes. The Internal Audit Director, Kristy Vest, has focused on reviewing the operations of the credit union, auditing select functional areas, and verifying member accounts.

In 1997 the committee retained the services of McGladrey and Pullan, a certified public accounting firm, to perform its annual audit. The audit found Arkansas Federal Credit Union to be well-managed and financially sound.

The National Credit Union Administration (N.C.U.A.) examiners also conducted an examination in 1997 and found your credit union to be in compliance with federal rules and regulations and the by-laws of this credit union.

Bauer Financial Reports, an independent firm that measures the financial practices of financial institutions across the country, assigned Arkansas Federal Credit Union a five-star rating in 1997, identifying it as one of the strongest and safest credit unions in the country.

Arkansas Federal Credit Union has proven to be well-managed and ready to meet the challenges of the future through its strong financial performance. The financial report herein represents the financial condition of your credit union.



Robert Trippe, Chairman  
Supervisory Committee

## *SUPERVISORY COMMITTEE*

*Left to Right: Robert Rodgers, Secretary;  
Robert Trippe, Chariman; Don Greene, Member;  
Kristy Vest, Internal Audit Director;  
Jerry Spratt, Member; William F. Sprinkle, Member*



# MEMBER STATISTICS:

## Members:

|        |        |
|--------|--------|
| '96    | '97    |
| 46,469 | 48,689 |

**4.7%**

## Checking Accounts:

|        |        |
|--------|--------|
| '96    | '97    |
| 16,529 | 18,243 |

**10.4%**

## Credit Card Accounts:

|        |        |
|--------|--------|
| '96    | '97    |
| 14,014 | 14,750 |

**5.3%**

# Financial Summary: as of December 31, 1997 & 1996

| Assets   | 1997                 | 1996                 |
|--|----------------------|----------------------|
| Loans to Members   | \$165,926,098        | \$160,608,938        |
| Less Allowance for Loan Loss   | (1,587,028)          | (1,639,582)          |
| Net Loans  | \$164,339,070        | \$158,969,356        |
| Cash   | 1,334,090            | 1,233,811            |
| Other Accounts Receivable  | 2,699,156            | 2,391,279            |
| Investments  | 47,426,786           | 36,386,503           |
| Loans held for sale  | 579,100              | 166,649              |
| Accrued Interest Receivable:   |                      |                      |
| Loans  | 992,140              | 894,542              |
| Investments  | 121,786              | 81,049               |
| Property, Equipment & Leasehold Improvements<br>At Cost, Net of Accumulated Depreciation | 9,416,788            | 8,418,948            |
| Prepaid and Other Assets   | 526,043              | 424,086              |
| <b>Total Assets</b>  | <b>\$227,434,959</b> | <b>\$208,966,223</b> |

| Liabilities & Members' Equity                  | 1997                 | 1996                 |
|--|----------------------|----------------------|
| Accounts Payable                               | \$483,433            | \$258,006            |
| Other Accrued Liabilities                      | 1,515,741            | 1,970,199            |
| Members' Shares and Share Equivalents          | 198,474,949          | 182,511,650          |
| Regular Reserve                                | 5,297,254            | 4,629,049            |
| Appropriated Undivided Earnings                | 21,663,582           | 19,597,319           |
| Undivided Earnings                             | —                    | —                    |
| <b>Total Liabilities &amp; Members' Equity</b> | <b>\$227,434,959</b> | <b>\$208,966,223</b> |

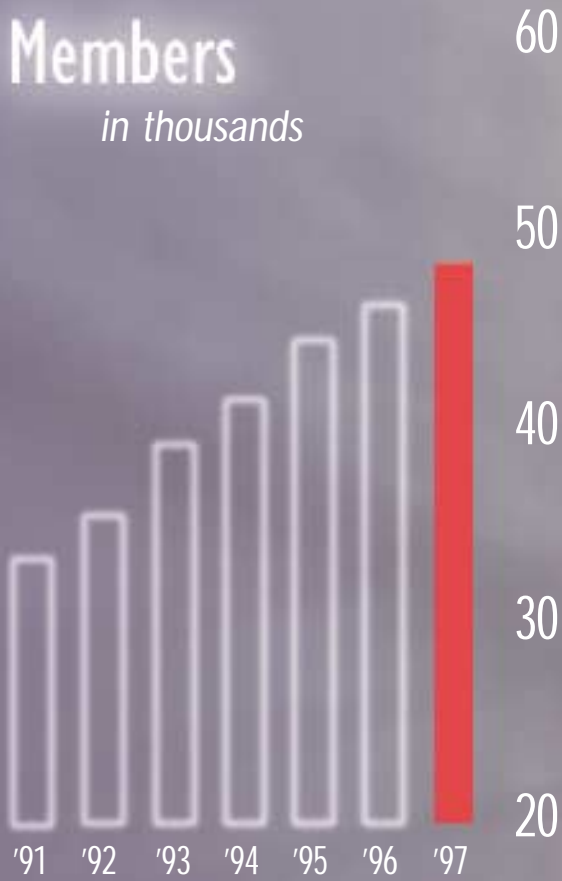
## Operations: for the years ended December 31, 1997 & 1996

| Source of Income        | 1997                | 1996                |
|-------------------------|---------------------|---------------------|
| Interest on Loans       | \$13,816,344        | \$13,468,224        |
| Income from Investments | 2,459,849           | 1,775,056           |
| Other Operating Income  | 2,655,861           | 2,477,878           |
| Non-Operating Income    | 9,900               | 8,325               |
| <b>Total Income</b>     | <b>\$18,941,954</b> | <b>\$17,729,483</b> |

| Distribution of Income                        | 1997                | 1996                |
|---|---------------------|---------------------|
| Employee Compensation and Benefits            | \$3,247,570         | \$2,987,503         |
| Travel and Conference                         | 119,309             | 86,247              |
| Association Dues                              | 28,533              | 26,171              |
| Office Occupancy and Operations               | 2,925,447           | 2,672,422           |
| Loan Servicing                                | 196,410             | 179,730             |
| Professional and Outside Services             | 718,195             | 752,699             |
| Provision for Loan Losses                     | 1,225,000           | 823,666             |
| Member Insurance                              | 113,979             | 114,630             |
| Federal Examination and Supervision           | 50,967              | 49,092              |
| Miscellaneous Operating Expenses              | 106,983             | 67,100              |
| <b>Total Expenses</b>                         | <b>\$8,732,393</b>  | <b>\$7,759,260</b>  |
| (Gain) or Loss on Disposition of Fixed Assets | (7,488)             | (7,168)             |
| Dividends Paid                                | 7,482,582           | 7,244,635           |
| Increase to Reserves and Undivided Earnings   | 2,734,467           | 2,732,756           |
| <b>Total Income Disbursed</b>                 | <b>\$18,941,954</b> | <b>\$17,729,483</b> |

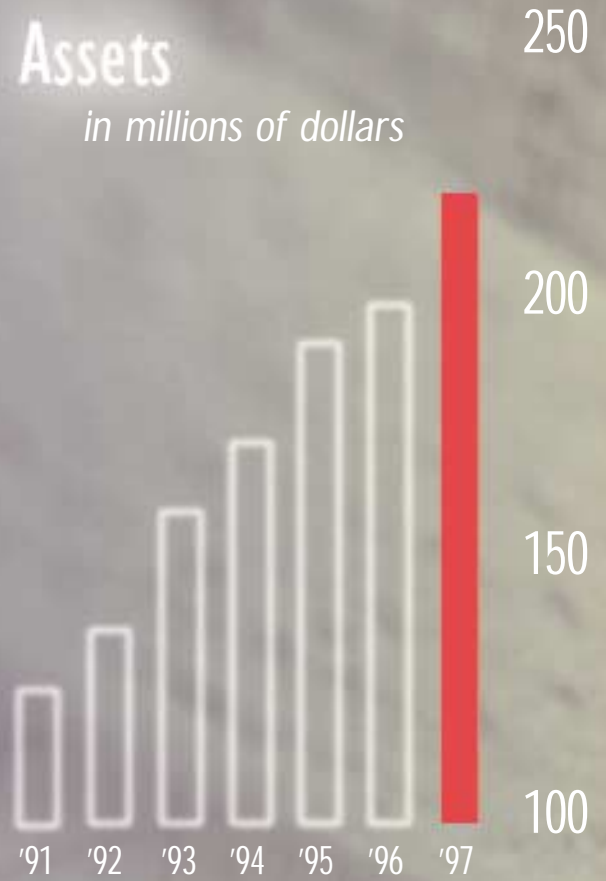
## Members

*in thousands*



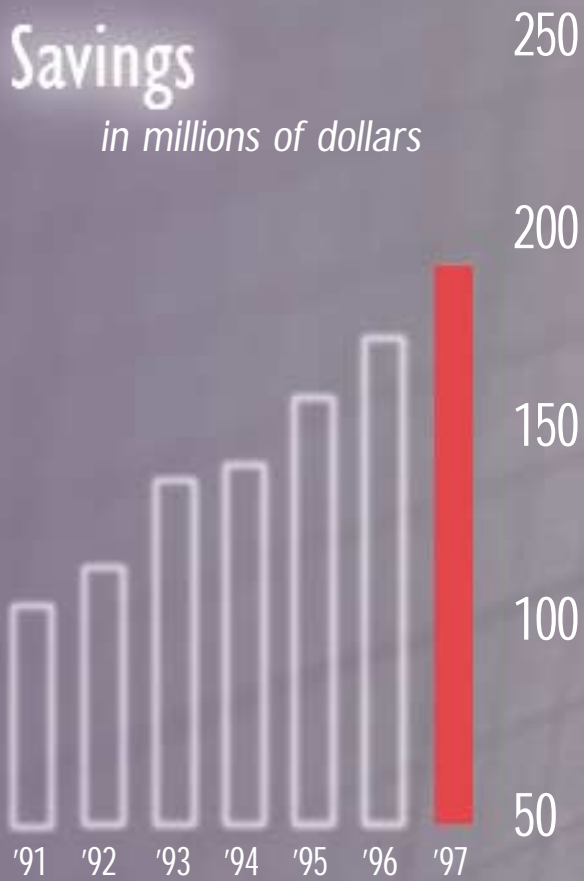
## Assets

*in millions of dollars*



## Savings

*in millions of dollars*

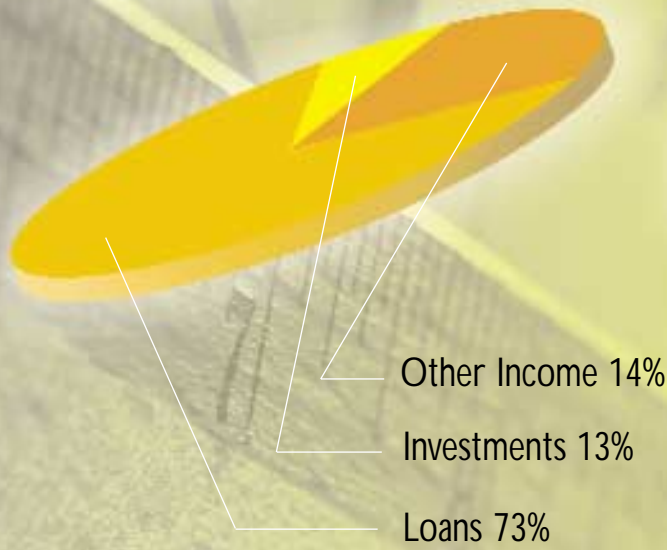


## Loans

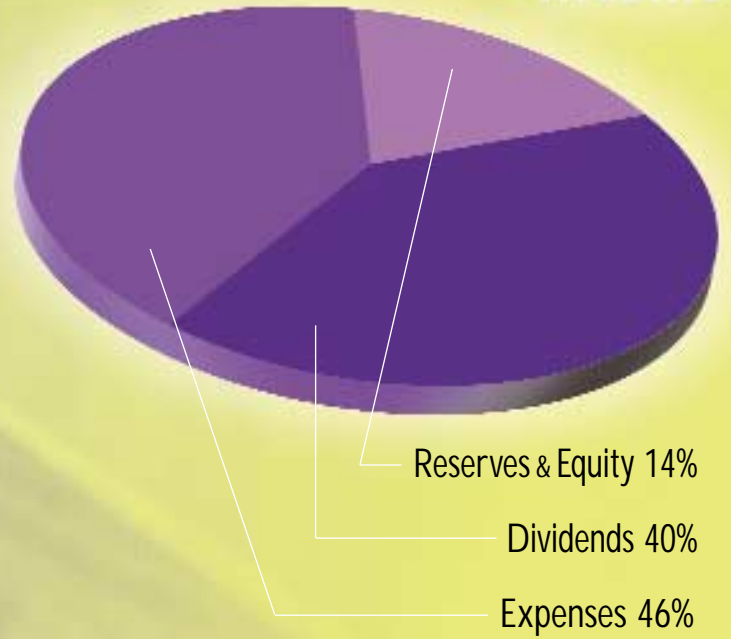
*in millions of dollars*



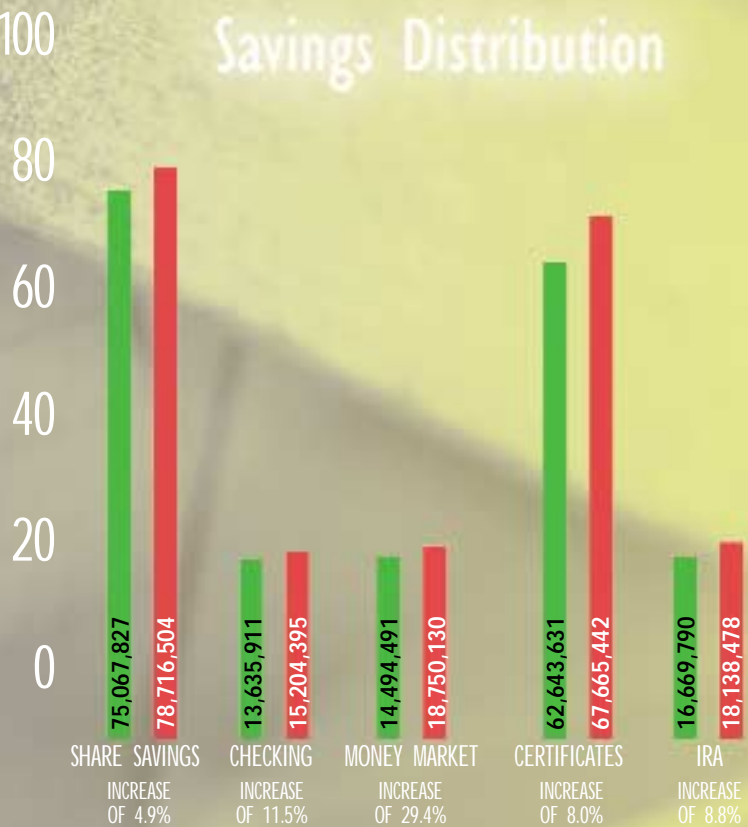
## Source of Income



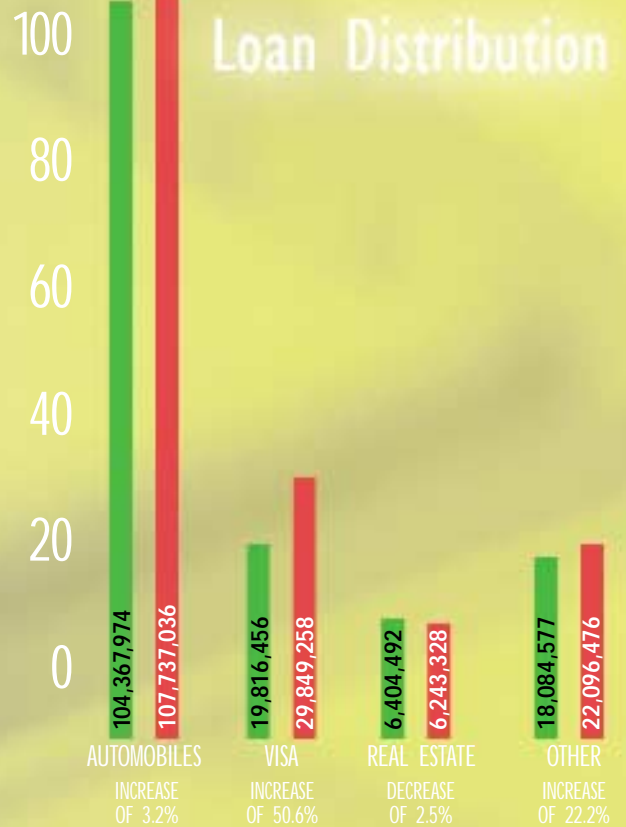
## Distribution of Income



## Savings Distribution



## Loan Distribution



## TOTAL SAVINGS

**\$198,474,949**

INCREASE OF 8.7% OVER 1996 WHICH TOTALED \$182,511,650

## TOTAL LOANS

**\$165,926,098**

INCREASE OF 3.3% OVER 1995 WHICH TOTALED \$160,608,938

# YOUR CREDIT UNION FUTURE

As we look to the new millennium, we see changes and challenges on the road ahead that will definitely make our journey to the year 2000 an interesting one.

In adherence to Arkansas Federal's strategic plan, some very important corporate objectives have been developed for 1998 and beyond. These objectives were developed to uphold the mission statement and core values of your credit union, and they are as follows: to strengthen your credit union's financial position; to strengthen your credit union's technological position; to have Arkansas Federal Credit Union be every member's primary financial institution; and to create a work environment that enables each employee of the credit union to maximize their own potential.

Our volunteers and management team have been working overtime on the development and implementation of specific goals to help us achieve the objectives listed above. I'd like to share with you a synopsis of this, our strategic plan, to help you better understand the corporate direction of your credit union.

To strengthen your credit union's financial position, two goals have been set. One, is to grow reserves 25 basis points by the end of 1998. The second goal is to reduce net charge offs to below 0.68% by year end.

To strengthen your credit union's technological position, objectives have been developed to utilize office automation (our corporate theme for 1997) even more to save employee and member time and money. Office records are being converted through the scanning process to optical disk and employees are being trained on the integrated MicroSoft Office set of software to streamline many office processes. Plans are underway to install the new, state-of-the-art automatic teller machines (ATMs), such as the ones we have at our Camp Robinson and Little Rock Branches, at all branches - ATM installation is even planned for the inside of some branches to speed up the processing of member transactions on the teller line. Our telephone system will be audited and enhanced in 1998, and to prepare our computerized equipment for the year 2000, a task force of credit union staff has been working for over a year and continues to work to prepare Arkansas Federal for a smooth transition into the millennium.

The goal of Arkansas Federal, being every member's primary financial institution, will be furthered through the review and improvement of all facets of the loan process and stronger marketing and sales skills by branch personnel. Both internal and external service standards are being developed, and the establishment of our new West Little Rock Branch places branch convenience closer to our members living and working in the West Little Rock area.

The objective of creating a work environment that enables each employee of the credit union to maximize their own potential has the following actions planned: High employee turnover will be evaluated and addressed. A professional salary study will be conducted.

Our employee handbook will be updated and converted to provide on-line access. A comprehensive cross-training program will be developed. A management training needs assessment will be developed and an ongoing management training program developed. A new Management Trainee program will be initiated and many of our current training systems will be converted to CD-ROM. Additionally, our commitment to technology will continue to improve our employees access to information and our members access to their accounts and our services.

At the writing of this report, we have the unfavorable news of the Supreme Court's decision to side with the banking community furthering their efforts to stop credit unions from serving employees of small companies across America - and right here at home, in Arkansas.

We are dedicated to convincing the Arkansas Congressional Delegation that they must come out publicly in support of consumers and credit unions with their co-sponsoring of the Credit Union Membership Access Act (HR 1151). This bill would slightly alter the wording in the Federal Credit Union Act to protect credit unions from lawsuits by the banks or any entity trying to stifle membership growth in a credit union. To date, only one Arkansas congressman, Vic Snyder has agreed to co-sign the bill. But we will persevere. We may have lost this one particular legal battle, but we will ultimately win the war because we have the best possible support: our members/owners.

Thank you for supporting your credit union through these challenging and exciting times. Those of us honored with the job of serving you, the membership, want to assure you of our dedication to member service and the founding tenant of the credit union movement-people helping people. Through your continued support and active participation as a member/owner, we will continue to provide the financial services you want and need and to uphold the right of consumers to choose a credit union as their financial institution.



H. C. Klein  
President/CEO



# 1997 EMPLOYEES

|                     |                                       |                        |                                       |
|---------------------|---------------------------------------|------------------------|---------------------------------------|
| Kay Adams           | Loan Officer                          | H. C. "Hank" Klein     | President/CEO                         |
| Amy Amy             | Training Specialist                   | Debra Kraemer          | Telephone Services Representative     |
| Ashley Ayers        | PT Teller                             | Debi LaFave            | Accountant                            |
| Paula Bartelt       | Loan Disburser                        | Cassie Mackey          | Teller                                |
| Terri Bauman        | Personnel Secretary                   | Susan Mansfield        | Account Research Representative       |
| Renee Bennett       | Telephone Services Representative     | Cody Massey            | Information Systems Director          |
| Charlotte Borcherdt | Executive Secretary                   | Nicole Matsoukas-Eilts | ATM Processor                         |
| Betty Bratton       | Telephone Services Representative     | Yumiko McCaulley       | File Clerk                            |
| Peggy Clark         | Loan Officer                          | Angela McLain          | Loan Disburser                        |
| Patricia Comegna    | Telephone Services Representative     | Tulin Melancon         | Accounting Clerk                      |
| Kellie Cook         | Telephone Services Representative     | Michele Mosley         | Camp Robinson Branch Manager          |
| Kim Cowan           | Teller                                | LaDanna Mowry          | Head Teller                           |
| Ann Craig           | Air Force Base Branch Manager         | Cynthia Nash           | Loan Officer                          |
| Millie Cross        | Mail Clerk                            | Sherri Patrom          | PT Teller                             |
| Don Cypert          | Comptroller                           | Leslie Perry           | Account Research Representative       |
| Joan Davidson       | Account Research Manager              | Tina Peters            | Telephone Services Representative     |
| Patricia Davis      | Collection Clerk                      | Gayle Pipkin           | Check Processor                       |
| Stacy Davis         | Savings Counselor                     | Cheri Pruett           | Loan Officer                          |
| Claudia Deakin      | Head Teller                           | Jennifer Pusha         | Teller                                |
| Alicia Dryden       | Telephone Services Representative     | Virginia Redden        | Personnel Director                    |
| Layne Epperson      | Little Rock Branch Manager            | Andy Reed              | Network Administrator                 |
| Lynanne Everman     | PT Teller                             | Angela Rockins         | Teller                                |
| Katie Feldhouse     | Teller                                | Silka Rodriguez        | Teller                                |
| Evelyn Frost        | Head Teller                           | April Roper            | Teller                                |
| Tammy Fuller        | Teller                                | Stephen Rounsaville    | Mail Clerk                            |
| Nina Furman         | Loan Disburser                        | Koren Rouse-Marcum     | Savings Counselor                     |
| Sharon Gamet        | Telephone Branch Manager              | Shelley Sefcik         | Account Research Representative       |
| Linda Gannon        | Loan Officer                          | Brenda Sharp           | Fort Smith Branch Manager             |
| Kerri Gerth         | Teller                                | Angie Simpson          | Collections Officer                   |
| Tammy Gill          | Teller                                | Karen Smith            | EFT Manager                           |
| Brad Glass          | Computer Operator                     | Patti Smith            | Mortgage Loan Underwriter             |
| Autrese Gore        | Teller                                | George Snyder          | Accounting Manager                    |
| Melody Grigg        | Teller                                | Allison Soderlund      | Savings Counselor                     |
| Lona Hall           | Loan Officer                          | Mary Spotts            | Telephone Services Representative     |
| Sandy Hancock       | Telephone Services Representative     | Carol St. John         | Mortgage Manager                      |
| Bettyann Hawk       | Vice President/Branch Operations      | Sue Stiles             | Account Research Representative       |
| Debbie Hendrix      | Sr. Telephone Services Representative | Marya Tarkington       | Telephone Services Representative     |
| Lori Hensel         | Marketing Secretary                   | Joan Taylor            | Payroll Processor                     |
| Vickie Higgins      | Loan Disburser                        | Stacy Tollett          | Membership Coordinator                |
| Tina Higgins        | Collections Officer                   | Geri Trezise           | Loan Officer                          |
| Deborah Holman      | Mortgage Loan Processor               | Christy Tucker         | PT Teller                             |
| Vanessa Horn        | Teller                                | Vicki Vandever         | Account Research Representative       |
| Lorraine Howard     | Marketing Director                    | Kristy Vest            | Internal Audit Director               |
| Patricia Howard     | Check Processor                       | Rebecca Waldrop        | PT Teller                             |
| Kelley Jackson      | Senior Teller                         | Lisa Waldrup           | Teller                                |
| Tarsalon Jackson    | PT Teller                             | Brenda Whaley          | Courier                               |
| Susan Jarboe        | File Clerk                            | Don Whiddon            | Collections Manager                   |
| Erma Jarry-Vier     | Loan Officer                          | Shawna Whitmore        | Teller                                |
| Sharon Johns        | Telephone Services Representative     | Bill Williams          | Vice President/Administrative Support |
| Teresa Johnson      | Teller                                | Lee Williams           | Loan Officer                          |
| Jessica Johnston    | Teller                                | Jo Williams            | Senior Savings Counselor              |
| Diana Justice       | North Little Rock Branch Manager      | Sam Wilson             | Purchasing Manager                    |
| Christi Kaufman     | Administrative Secretary              | Evelyn Witham          | PT Teller                             |



# Arkansas Federal CREDIT UNION

Air Force Base Branch  
2424 Marshall Road, Jacksonville

Little Rock Branch  
1001 West Capitol Avenue

West Little Rock Branch  
301 North Shackleford (at Markham)

North Little Rock Branch  
4848 North Hills Boulevard

Camp Robinson Branch  
Bldg. 5400, Camp Robinson Canteen

Ft. Smith Branch  
1301-C South Waldron Road

Telephone Branch  
P.O. Box 9  
Jacksonville, AR  
72078-0009

|                    |  |
|--------------------|--|
| Local              | 501-982-1000                                   |
| Ft. Smith          | 501-782-1000                                   |
| Toll free services | 800-456-3000                                   |
| TDD                | 501-982-8732                                   |
| Internet Branch    | <a href="http://www.afcu.org">www.afcu.org</a> |