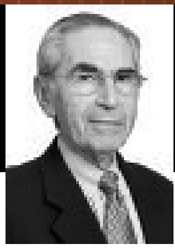
commitment.

Northwest Federal Credit Union **2009 Annual Report**

Table of Contents

Chairman & President Report



Joel Ticknor
Chairman, Board of Directors

We are pleased to report to you, our member-owners, that Northwest Federal Credit Union remains financially strong, secure and growing to serve you even better in the years to come. In this annual report, we measure how well we have performed by comparing our financial results year to year and examining how this relates to our peer credit unions.

The economy struggled to recover from severe recession in 2009 and many financial institutions experienced record losses and deteriorating capital positions. Sadly, many of our members shared in the economic hardship. Thanks to our strong capital position and conservative practices we weathered the storm and **remain financially secure, safe, strong and growing.**

Our credit union celebrated a significant membership milestone when we surpassed 100,000 members in 2009. We are delighted to cross this threshold with a 3.44 percent increase in membership. While our membership growth slowed from previous years, this is consistent with the experience of our credit union peers. It is disappointing that with the financial landscape in turmoil and banks under daily public attack, more of our fellow Americans do not see the advantage of joining with a not-for profit, financial cooperative whose mission is to serve its members. Please help us spread the word and invite your family members and friends to improve their financial lives by joining NWFCU.

Our total assets grew an impressive 17 percent to $1.9 billion, moving us up the ranks from the 70th largest U.S. credit union last year to the 54th in 2009. After dipping into negative territory over the past decade, the national personal savings rate rebounded to 4.3 percent in 2009. Reflecting the national trend, our deposits grew 19 percent, the highest in over five years. This is good news, but it is challenging to manage, since we, along with other credit unions, depend on loan growth to generate income to pay our members attractive dividends. With the economy in recession, consumers shut their pocket books and wallets and "deleveraged" by reducing personal debt and postponing major new purchases, such as cars and home improvements. We anticipate continued weak loan demand as the economy struggles to recover in 2010.

We increased productivity and reduced operating costs to 2.49 percent of our budget, a decrease of 0.35 percent over 2008, despite membership growth and the addition of a new branch in Manassas. We contained compensation costs, our second largest expense after dividends to members, to a modest 2 percent increase over 2008. **Dividends paid to members represented 32 percent of our expenses.** NWFCU ranks 11th out of 159 of the nation's largest credit unions in the *Return of the Member* rating, a measurement used in the industry that compares dividends, loan rates, and services delivered to members.

Many of our members have been affected by record high unemployment and continued declines in home prices, and we experienced an increase in loan delinquencies from 0.53 percent in 2008 to 0.65 percent in 2009. This is uncomfortable, but is much lower than the average delinquency rate of our peer credit unions of 1.91 percent. Net loan charge-offs also showed a small increase from the previous year to 0.68 percent. Despite these challenges, we added $9.2 million to net income, increasing our return on assets ratio, a measure of how efficiently a credit union earns income from its assets, from 0.46 percent to 0.51 percent. We are proud of this accomplishment at a time when one-third of the nation's credit unions finished in the red in 2009.

Historically low mortgage interest rates, dipping below 5 percent at times, provided a silver lining to the bleak economic outlook and we experienced strong growth in first mortgage loans, making over $600 million in new loans. Our mortgage staff and our real estate service organization, CU Realty of VA, MD, DC and WV LLC, teamed up to provide 28 educational seminars to 800 attendees on how to buy and sell a home and avail themselves of the government stimulus and home rebate programs. CU Realty awarded $289,000 in rebates to members who bought or sold a home in 2009. We have rebated more than $2.1 million to our members since the program began in 2005.

NWFCU continued to lend money and extend credit to our members at a time when many financial institutions ceased lending money, reduced credit lines and increased fees to stay afloat. We maintained our low rate credit card options and attracted $18 million in new balances. Over 100 small businesses benefited from our new business deposit accounts, credit cards, and loan services. NWFCU made $2.6 million low-rate student loans in 2009, more than doubling last year's total. Our CU Student Choice loan program received a top rating of 4-stars from independent research and advisory firm, Student Lending Analytics.

We implemented a Member Solutions program to help members rebuild their credit and, in some cases, avoid foreclosure or repossession of their homes. This program helped hundreds of members stay in their homes. More than 1,500 members used our new online financial management tool, Debt in Focus, to help them manage their finances. BALANCE℠, our free financial counseling service, continued

Chairman & President Report

Gerrianne D. Burks
President/CEO

to be a popular resource for members. Usage increased more than 150 percent in 2009, compared to 2008, reflecting the tough economy.

We are continually **looking for ways to serve our members better** by providing them with more convenient account access and service. Our Manassas Branch celebrated its first anniversary, and we plan to open new branches in Gainesville and Leesburg in 2011. We created online tools to help members locate the closest facility to access their money, no matter where they are in the country. We implemented a new mobile banking e-LERT notification system to allow members to receive text messages about their selected account transactions. To make doing business with us even easier, members can now open additional checking, money market, and certificate accounts online through NWLink Internet Banking.

Financial literacy is a big problem in our country and we are committed to helping our younger members establish healthy financial habits early in life. NWFCU's award-winning Youth Club Accounts grew 78 percent to 2,256. We have helped young members save almost $3 million. Our loveable mascot, "Westie" the West Highland terrier, starred in a new children's book, *Westie's Triple-Decker Decision*, written by a staff member. The book is designed to aid parents in teaching their children the importance of saving, spending and sharing wisely.

It was a banner year for our charitable arm, the Northwest Federal Credit Union Foundation, which focuses on **improving youth financial education and service to our community.** We reached more than 6,000 students in 2009 through a variety of financial literacy programs throughout our community. The Foundation coordinated and hosted the first Night of Magic Ball at the Children's National Medical Center which raised $16,000 in individual and corporate donations. The ball was featured on local network television stations, and heartfelt stories from this "prom" touched the hearts of everyone involved. Employees and members donated their time to worthy causes such as the annual Credit Union Cherry Blossom Ten Mile Run for Children's Miracle Network, Dulles Plane Pull for Special Olympics, along with the Susan G. Komen National Race for the Cure and Passionately Pink Day, which benefits breast cancer research. The Foundation awarded $85,000 in scholarships as part of the fifth annual Ben DeFelice scholarship program. Our Foundation has awarded $239,000 in scholarships since the program began in 2005.

Our wholly-owned financial services subsidiary, Northwest Financial LLC (NWF), increased its total revenues 3 percent to $4.2 million and generated $553,000 net income for the Credit Union. NWF added a new line of business, Northwest Title & Escrow LLC, to complement the Credit Union's existing suite of real estate and mortgage services. A leading trade publication recognized Northwest Financial Group as one of the top independent Registered Investment Advisor firms in the U.S. Whether it is retirement, tax planning, settlement and escrow services or wealth management, members continue to turn to NWF for their comprehensive financial services and trusted advice.

We made a major investment in improving service to members in 2009, which is reflected in our **"8 Service Promises."** We are committed to delivering consistent, exceptional service and value to our members. We want to help them improve their financial lives and earn their trust—your trust—as a financial partner for life.

There's never been a better time to be a member of Northwest Federal Credit Union. Thank you for your continued support.

Joel Ticknor
Chairman, Board of Directors

Gerrianne D. Burks
President/CEO

Our Promise to You…

“At NWFCU we are striving to become a first-class service organization. While we are very proud of the strong reputation we have gained in the financial services industry, we understand that it should never be taken for granted. You have many choices for financial services and we stand committed to making a positive difference in your lives. You, our member-owners, are our sole purpose for being. Let us be your trustworthy guide to your improved financial well-being.”

Gerrianne Burks *President/CEO*

We promise to…

1 …place our members first
2 …take ownership of your request
3 …get it right the first time
4 …be a trustworthy guide to your improved financial well-being
5 …treat you with respect
6 …protect the confidentiality of your financial information
7 …thank you for your business
8 …support and participate in our communities

“NWFCU exists for one purpose, your financial well-being. The service and personal guidance we offer to you and your family through our branches, online or at educational seminars, is aimed specifically at helping you save money and achieve your lifelong financial goals. We are committed to placing you first.”

Bill Cook *Senior Vice President of Planning & Member Service*

commitment.

Board of Directors & Executive Staff

Board of Directors

Front row, left to right:

Jeannette Moore *Secretary*

Joel Ticknor *Chairman*

Back row, left to right:

Chuck Molina *Treasurer*

David Eldred *Director*

Cynthia Strand *Director*

Thomas Conroy *Director*

Leo Cardillo *Vice Chairman*

Mary Corrado *Director*

Not pictured:

Dawn Eilenberger *Director*

Executive Staff

Left to right:

Bill Cook
Senior Vice President of Planning & Member Service

Colleen Daly
Senior Vice President of Lending

Chris Meese
Vice President/CIO

Gerrianne Burks
President/CEO

Phyllis Ziakas
Vice President of Human Resources & Organizational Development

“Being a lender our members can trust is a top priority. We’re committed to helping members experiencing financial difficulties and guiding members to an improved state of financial well-being. It’s not about what loans we offer but what loan program is best for each individual member now and in the long-run. In the best and worst of times, we are here to help.”

Colleen Daly *Senior Vice President of Lending*

commitment.

Treasurer & Financial Management Committee Report

Chuck Molina
Treasurer, Board of Directors

Northwest Federal Credit Union retained its sound financial standing throughout 2009 as many financial institutions struggled to recover from the turbulent economy and the financial crisis of 2008. Maintaining a strong capital ratio, a high deposit growth rate, and containing operating expenses ensured a sound financial performance for your Credit Union.

NWFCU continues to be well capitalized with a ratio of 8.88 percent. NWFCU provides financial strength and support to more than 100,000 member-owners who showed their trust in their Credit Union by increasing deposits by 19 percent. We ended 2009 with over $1.9 billion in assets, a growth of 17 percent.

While other financial institutions cautiously pulled back on their lending, your Credit Union continued to lend money to its member-owners at some of the most competitive rates available. Members taking advantage of low rates financed more than $600 million in mortgages with NWFCU. For liquidity and risk management requirements, many of these loans were sold in the secondary market, keeping the loan portfolio near last year's total. However, for the convenience of our members, NWFCU continues to provide servicing on home loans originated with the Credit Union.

Credit unions, although not the cause of the financial crisis, were not exempt from its effects. They suffered increased losses from bankruptcies, foreclosures, and delinquencies. NWFCU's loan portfolio delinquency rate showed a small increase from 0.53 percent in 2008 to 0.65 percent at year's end. Net loan charge-offs increased from 0.61 percent to 0.68 percent. These rates compare more favorably to other credit unions of our size.

In early 2009, credit unions were informed by our regulator, the National Credit Union Administration (NCUA), that the losses incurred by the corporate (non-natural person) credit union system, which is insured by the same share insurance fund as natural person credit unions, would require a partial write-down of our National Credit Union Share Insurance Fund deposit and an increase in the premium for insured shares charged to all credit unions. (Please see Independent Auditors' Report on page 8 for details.) As a member of two troubled corporate credit unions, we recognized losses on our paid-in membership capital investment of $2.2 million. Despite these extraordinary expenses, NWFCU ended the year with a positive return on assets ratio of 0.51 percent—an increase from 2008 and a testament to our sound financial management.

Especially during turbulent times such as these, NWFCU is committed to helping members achieve their financial goals. Our financial strength and stability is due to our members' trust and support. Thank you for choosing Northwest Federal Credit Union.

Chuck Molina
Treasurer, Board of Directors
Chairman, Financial Management Committee

"We are continually looking for ways to serve our members better by providing them with state-of-the-art branch services and convenient account access technologies. You need access to your money from anywhere, anytime and most importantly, in a safe and secure environment. Protecting and safeguarding your financial information and hard-earned money is our uppermost commitment."

Chris Meese *Vice President/CIO*

commitment.

Supervisory Committee Report

Maureen V. Wingfield
Chairperson, Supervisory Committee

Your Supervisory Committee is appointed by the Board of Directors in accordance with the Federal Credit Union Act, and ensures Northwest Federal Credit Union conducts its operations and activities in a safe and sound manner. The Committee, as the members' representative and official auditor, has the responsibility to review and evaluate the overall reliability of financial operations and performance of your Credit Union, including that of its management staff, to ensure the protection of members' funds and interest, the safeguarding of assets and that all the regulations, procedures and policies that govern this institution are properly followed.

To assist the Committee in carrying out its responsibilities we retained the services of a certified public accounting (CPA) firm to perform the annual audit of NWFCU's financial statements and operational practices. The financial statements as of December 31, 2009 presented in this report and the latest certified audit by the firm Orth, Chakler, Murnane and Company, CPAs have affirmed our belief that your Credit Union continues to be one of the soundest financial institutions.

In addition to the third party audit firm, the Committee engages the efforts of the Risk Management Department, which serves as our representative in day-to-day operations. This area reviews processes and activities of the Credit Union throughout the year to ensure operating efficiency and safekeeping of members' assets. We meet regularly to review and discuss internal controls as well as auditing matters.

The National Credit Union Administration (NCUA) reviews the financials on an ongoing basis at regularly determined intervals to ensure that the Credit Union is operating within the appropriate guidelines and in accordance with federal laws and regulations.

The Supervisory Committee is working for the best interest of all Credit Union members. If you have a question relating to the financial soundness or management of this organization, please do not hesitate to contact us. During these difficult economic times, I am pleased to report that NWFCU remains a strong and stable organization, and the Supervisory Committee is proud to be a part of the Credit Union's commitment to serve the membership of Northwest Federal Credit Union.

Maureen V. Wingfield

Maureen V. Wingfield
Chairperson, Supervisory Committee

"In Human Resources, we recruit people who are committed to and talented in helping people. Through our training programs, we provide our employees with the knowledge and resources to best serve our members and their needs. We begin with the fundamentals—members are our number one priority, and providing excellent service is everyone's job, every day."

Phyllis Ziakas *Vice President of Human Resources & Organizational Development*

commitment.

Independent Auditors' Report

Orth, Chakler, Murnane and Company, CPAs
A Professional Association

12060 S.W. 129th Court, Suite 201, Miami, Florida 33186-4582 • Telephone: 305-232-8272 • Fax: 305-232-8388
Website: www.ocmcpa.com

Douglas J. Orth, CPA, CFE, *Managing Partner*
Hugh S. Chakler, CPA, CISA, CITP, CFE
John J. Murnane, CPA
James A. Griner, CPA
Lori J. Carmichael, CPA
Daniel C. Moulton, CPA

February 26, 2010

To the Supervisory Committee of
Northwest Federal Credit Union

We have audited the accompanying consolidated statements of financial condition of Northwest Federal Credit Union, as of December 31, 2009 and 2008, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northwest Federal Credit Union as of December 31, 2009 and 2008, and the results of its consolidated operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Orth, Chakler, Murnane & Co.

Orth, Chakler, Murnane & Company
Certified Public Accountants

OCM&Co
A PROFESSIONAL ASSOCIATION
CPAs

Consolidated Statements of Financial Condition

	As of December 31, 2009	As of December 31, 2008
	(dollars in thousands)	
ASSETS		
Cash and cash equivalents	$ 150,583	$ 62,511
Investments:		
Available-for-sale	368,775	115,199
Other	25,087	18,239
Loans held for sale	548	5,401
Loans to members, net of allowance for loan losses	1,336,136	1,349,731
Accrued interest receivable	6,348	5,415
Prepaid and other assets	14,475	10,517
Property and equipment	34,376	35,131
NCUSIF insurance deposit	13,930	12,603
Total assets	$ 1,950,258	$ 1,614,747

	As of December 31, 2009	As of December 31, 2008
	(dollars in thousands)	
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Members' share and savings accounts	$ 1,697,170	$ 1,423,587
Accrued expenses and other liabilities	24,795	25,898
Borrowed funds	54,000	—
Total liabilities	1,775,965	1,449,485
Commitments and contingent liabilities	—	—
MEMBERS' EQUITY:		
Regular reserve	18,008	18,008
Undivided earnings	155,185	146,021
Accumulated other comprehensive income	1,100	1,233
Total members' equity	174,293	165,262
Total liabilities and members' equity	$ 1,950,258	$ 1,614,747

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

Consolidated Statements of Income

	For the years ended December 31, 2009	2008
	(dollars in thousands)	
INTEREST INCOME:		
Loans to members	$ 75,899	$ 79,814
Investments	6,321	5,298
Total interest income	82,220	85,112
INTEREST EXPENSE:		
Members' accounts and savings accounts	29,898	36,845
Interest on borrowed funds	570	—
	30,468	36,845
Net interest income	51,752	48,267
PROVISION FOR LOAN LOSSES:	10,500	10,261
Net interest income after provision for loan losses	41,252	38,006
NON-INTEREST INCOME:		
Fees and service charges	14,229	14,354
Income from NCUSIF	9,095	—
Gain on sale of mortgage loans, net	4,570	552
Other non-operating income	1,351	2,107
Total non-interest income	29,245	17,013
	70,497	55,019
NON-INTEREST EXPENSE:		
Compensation and employee benefits	27,930	27,663
Operating and occupancy expenses	10,084	9,639
Other expenses	9,955	10,548
Impairment of NCUSIF insurance deposit	9,095	—
Impairment of capital shares at corporate credit unions	2,180	—
NCUSIF insurance premium assessment	2,089	—
Total non-interest expense	61,333	47,850
Net income	$ 9,164	$ 7,169

Consolidated Statements of Comprehensive Income

	For the years ended December 31, 2009	2008
	(dollars in thousands)	
NET INCOME	$ 9,164	$ 7,169
OTHER COMPREHENSIVE (LOSS)/INCOME:		
Unrealized holding (losses)/gains on available-for-sale investments arising during the period	(133)	1,022
Reclassification adjustments for (gains)/losses included in net income	—	—
Other comprehensive (loss)/income	(133)	1,022
Comprehensive income	$ 9,031	$ 8,191

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

Consolidated Statements of Members' Equity

For the years ended December 31, 2009 and 2008

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income	Total
		(dollars in thousands)		
Balance, December 31, 2007	$ 18,008	$ 138,852	$ 211	$ 157,071
Net income	—	7,169	—	7,169
Other comprehensive income	—	—	1,022	1,022
Balance, December 31, 2008	$ 18,008	$ 146,021	$ 1,233	$ 165,262
Net income	—	9,164	—	9,164
Other comprehensive loss	—	—	(133)	(133)
Balance, December 31, 2009	$ 18,008	$ 155,185	$ 1,100	$ 174,293

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

Consolidated Statements of Cash Flows

	For the years ended December 31, 2009	2008
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 9,164	$ 7,169
Adjustments:		
Provision for loan losses	10,500	10,261
Depreciation and amortization	3,201	3,232
Amortization of premiums and discounts	42	(103)
Amortization of servicing rights	1,620	1,229
Capitalization of servicing rights	(3,540)	(617)
Impairment of NCUSIF insurance deposit	9,095	—
Income from NCUSIF	(9,095)	—
Impairment of capital shares at corporate credit unions	2,180	—
(Gain)/loss on sale of mortgage loans, net	(1,030)	65
Changes in operating assets and liabilities:		
Accrued interest receivable	(933)	(510)
Prepaid and other assets	(2,927)	2,076
Accrued expenses and other liabilities	(1,103)	(3,239)
Net cash provided by operating activities	17,174	19,563
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and repayment of available-for-sale investments	111,114	68,962
Purchase of available-for-sale investments	(364,865)	(126,411)
Proceeds from maturities and repayments of held-to-maturity investments	—	146
Change in other investments	(9,028)	13,011
Proceeds from sale of mortgage loans	418,952	47,387
Net change in loans, net of charge-offs	(410,536)	(150,400)
Proceeds from sale of other real estate owned	889	1,301
Recoveries on loans charged off	562	556
Expenditures for property and equipment	(2,446)	(5,585)
Change in NCUSIF insurance deposit	(1,327)	(708)
Net cash used in investing activities	(256,685)	(151,741)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in members' share and savings accounts	273,583	106,838
New borrowings	54,000	—
Net cash provided by financing activities	327,583	106,838
Net change in cash and cash equivalents	88,072	(25,340)
Cash and cash equivalents at beginning of year	62,511	87,851
Cash and cash equivalents at end of year	$ 150,583	$ 62,511
SUPPLEMENTAL CASH FLOWS DISCLOSURES:		
Interest paid	$ 32,232	$ 37,612
SCHEDULE OF NON-CASH TRANSACTIONS:		
Other comprehensive (loss)/income	$ (133)	$ 1,022
Transfer from loans to loans held for sale	$ 413,069	$ 51,781
Transfer from loans to other real estate owned	$ —	$ 1,863

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

Note 1: Significant Accounting Policies

Organization and Nature of Operations: Northwest 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. The principal operations of the Credit Union are located in the Washington, D.C. metropolitan area. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's Charter and Bylaws.

Consolidated Financial Statements/Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated 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 consolidated financial statements, together with certain related information, are summarized below.

Principles of Consolidation: The consolidated financial statements include the accounts of the Credit Union and the accounts of its wholly owned Credit Union Service Organization (CUSO), Northwest Financial, LLC. The CUSO provides insurance and financial services to Credit Union members. All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, due from banks, due from corporate credit unions and federal funds sold. Amounts due from banks and corporate credit unions may, at times, exceed federally insured limits.

Investments: Investments are classified into the following categories: available-for-sale and other. Investment securities classified as available-for-sale are measured at market value as of the consolidated 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 the Statement of Cash Flows Topic of the FASB Accounting Standards Codification. 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 terms of the investments by a method which approximates the interest method. Adjustments are recognized to interest income on investments.

Federal Home Loan Bank (FHLB) Stock: As a member of the FHLB of Atlanta, the Credit Union is required to invest in stock of the FHLB. The Credit Union's minimum stock investment is based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. The FHLB stock is carried at cost within other investments and its disposition is restricted. No ready market exists for the FHLB stock, and it has no quoted market value.

Loans Held for Sale: Loans originated and intended for sale in the secondary market are carried at the lower of cost of estimated market value in 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 an allowance for loan losses and certain deferred loan origination fees. The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). The allowance for loan losses is maintained at a level considered adequate to provide for incurred loan losses in the loan portfolio by applying a historical loan loss rate to loan pools which have similar risk characteristics. Management's periodic evaluation of the adequacy of the allowance for loan losses also considers such factors as changes in the nature and volume of the loan portfolio, review of specific problem loans, and current economic conditions that may affect the borrower's ability to repay. Loans are charged against the allowance for loan losses when management believes that collection of principal is unlikely.

Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding. The accrual of interest is discontinued when a loan exceeds 90 days delinquent or when management believes that collection of interest is doubtful. Direct loan origination costs are recognized in expense when incurred; however, real estate loan origination fees are deferred over the average life of the loan as an adjustment to loan yield using a method that approximates the interest method. Credit card fees are recognized as fee income when assessed. This is not materially different from fees and expenses that would have been recognized under the provisions of the Nonrefundable Fees and Other Costs Topic of the FASB Accounting Standard Codification.

Mortgage Servicing Rights: Servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Service fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Property and Equipment: Land is carried at cost. Property and equipment are carried at cost less accumulated depreciation. Buildings, furniture and equipment, and computer 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. **(See Notes 14 and 15)**

NCUSIF Insurance Premiums: Credit unions are required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board. The NCUA Board waived the 2008 insurance premium. **(See Notes 14 and 15)**

Borrowed Funds: The Credit Union has borrowed funds outstanding from Western Corporate Federal Credit Union as it participates in the Credit Union System Investment Program (CU SIP). Under CU SIP, the Credit Union receives a 25 basis point spread from investing the borrowed proceeds with participating corporate credit unions. Additionally, the Credit Union has borrowed funds outstanding from the FHLB as defined in the FHLB Statement of Credit Policy.

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.

Regular Reserve: The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represents a regulatory restriction and 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.

Changes in Accounting Principles and Effects of New Accounting Pronouncements: The FASB issued Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards of Codification in order to establish a framework for measuring fair value, expand disclosures about fair value measurements, and reduce inconsistencies in applying GAAP regarding fair value measurements. Furthermore, this codification topic defines fair value to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date within its principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

Note 2: Investments

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

	As of December 31, 2009			
Available-for-sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
	(dollars in thousands)			
Federal agency securities	$367,532	$1,652	($552)	$368,632
Mutual fund	143	—	—	143
	$367,675	$1,652	($552)	$368,775

	As of December 31, 2008			
Available-for-sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
	(dollars in thousands)			
Federal agency securities	$113,966	$1,235	($2)	$115,199

	As of December 31, 2009	2008
Other investments:	*(dollars in thousands)*	
Certificates of deposit	$20,100	$13,100
FHLB stock	4,886	2,858
Deposits at corporate credit unions	101	2,281
	$25,087	$18,239

Notes to the Consolidated Financial Statements

The Credit Union maintains deposits at Western Corporate Federal Credit Union and Virginia Corporate Federal Credit Union which normally exceed federally insured limits. Included in these deposits are uninsured restricted membership capital shares which approximated $101,000 and $2,281,000 as of December 31, 2009 and 2008, respectively.

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.

	As of December 31, 2009 *Available-for-sale* Amortized Cost	Market Value
	(dollars in thousands)	
No maturity	$ 143	$ 143
Within 1 year	60,259	60,576
1–5 years	307,032	307,776
Mortgage backed securities	241	280
	$367,675	$368,775

The following table shows the gross unrealized losses and fair value of investments, aggregated by length of time that individual securities have been in a continuous unrealized loss position.

As of December 31, 2009

Available-for-sale	*Less than 12 Months* Fair Value	Gross Unrealized Losses	*12 Months or Longer* Fair Value	Gross Unrealized Losses	*Total* Fair Value	Gross Unrealized Losses
	(dollars in thousands)					
Federal agency securities	$87,899	$552	$—	$—	$87,899	$552

As of December 31, 2008

Available-for-sale	*Less than 12 Months* Fair Value	Gross Unrealized Losses	*12 Months or Longer* Fair Value	Gross Unrealized Losses	*Total* Fair Value	Gross Unrealized Losses
	(dollars in thousands)					
Federal agency securities	$4,998	$2	$—	$—	$4,998	$2

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because the principal balances of these securities are guaranteed by the U.S. Government. Additionally, the decline in these fair values is largely due to inactive markets and the fair values of the securities are expected to be recovered as these securities approach their maturity date and/or market rates decline. Management has the ability to hold these securities for the foreseeable future. *(See Note 14)*

Note 3: Loans to Members

The composition of loans to members is as follows:

	As of December 31, 2009	2008
	(dollars in thousands)	
Loans outstanding:		
Real estate	$ 889,005	$ 896,868
Vehicle	249,622	287,768
Unsecured	158,251	149,813
Commercial	41,780	19,419
Other collateral	8,690	5,762
Net deferred loan origination fees	(825)	(761)
	1,346,523	1,358,869
Less allowance for loan losses	(10,387)	(9,138)
	$ 1,336,136	$ 1,349,731

Loans on which the accrual of interest has been discontinued or reduced approximated $5,211,000 and $9,690,000 as of December 31, 2009 and 2008, respectively. If interest on these loans had been accrued, such income would have approximated $229,000 and $237,000 for the years ended December 31, 2009 and 2008, respectively.

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

	For the years ended December 31, 2009	2008
	(dollars in thousands)	
Balance, beginning of the year	$ 9,138	$ 6,550
Provision for loan losses	10,500	10,261
Recoveries	562	556
Loans charged off	(9,813)	(8,229)
Balance, end of year	$ 10,387	$ 9,138

Note 4: Property and Equipment

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

	As of December 31, 2009	2008
	(dollars in thousands)	
Land	$ 4,271	$ 4,271
Buildings	32,640	32,614
Computer equipment	16,327	15,048
Furniture and equipment	6,965	6,728
Leasehold improvements	8,064	7,446
Construction in progress	552	292
	68,819	66,399
Less accumulated depreciation and amortization	(34,443)	(31,268)
	$ 34,376	$ 35,131

Note 5: Members' Share and Savings Accounts

Members' share and savings accounts are summarized as follows:

	As of December 31, 2009	2008
	(dollars in thousands)	
Share drafts	$ 190,722	$ 157,519
Shares and equivalents	282,559	245,720
Money market	571,197	457,954
IRA shares	56,457	55,094
Share and IRA certificates	596,235	507,300
	$ 1,697,170	$ 1,423,587

The aggregate amount of members' individual time deposit accounts in denominations of $100,000 or more was approximately $312,750,000 and $216,620,000 as of December 31, 2009 and 2008, respectively.

Scheduled maturities of certificates are as follows:

	As of December 31, 2009
	(dollars in thousands)
Within 1 year	$ 352,377
1 to 2 years	138,142
2 to 3 years	30,886
3 to 4 years	23,243
4 to 5 years	51,587
	$ 596,235

Share Insurance: Members' shares are generally insured by the NCUSIF to a maximum of $250,000 for each member. Individual Retirement Accounts are insured by the NCUSIF to a maximum of $250,000.

Note 6: Employee Benefits

401(k) Profit Sharing Plan: Participation in the 401(k) profit sharing plan is available to all employees who are 21 years of age. Effective January 1, 2009, the Credit Union makes matching contributions equal to 100% of employee contributions up to 4% which vest at 33% each year for three years. For the year ended December 31, 2008, the Credit Union made (1) safe-harbor contributions equal to 100% of employee contributions up to 4% which are immediately 100% vested, and (2) matching contributions equal to 100% of employee contributions in excess of 4% up to 6% which vest at 33% each year for three years. The total expense for the plan approximated $565,000 and $991,000 for the years ended December 31, 2009 and 2008, respectively.

Post-Retirement Benefit Plan: The Credit Union has a post-retirement benefit plan which pays for certain medical benefits for employees retiring after age 55 with at least 20 years of service. Participation in the plan is limited to those full-time employees who have participated in the Credit Union's health insurance plan for a minimum of five years prior to retirement. The Credit Union is not required to and has not funded the plan as of December 31, 2009 and 2008. Management has determined that the accrued benefits related to this post-retirement benefit plan are not material to the Credit Union's consolidated financial condition as of December 31, 2009 and 2008; therefore, no amounts have been recognized in the accompanying consolidated financial statements.

Deferred Compensation: The Credit Union maintains a deferred compensation plan covering a certain management employee which will be payable in accordance with terms of the underlying agreement. The liability as of December 31, 2009 and 2008 was approximately $582,000 and $448,000, respectively, and is included in accrued liabilities.

Note 7: Borrowed Funds

The Credit Union is a member of the Federal Home Loan Bank of Atlanta (FHLB). As of December 31, 2009, the Credit Union had access to a pre-approved secured line-of-credit with the capacity to borrow up to a certain percentage of the value of its eligible 1–4 family first mortgage loans, as defined in the FHLB Statement of Credit Policy.

The Credit Union also has borrowed funds outstanding from Western Corporate Federal Credit Union (WesCorp) due to its participation in the Credit Union System Investment Program (CU SIP). Under CU SIP, the Credit Union receives a 25 basis point spread between its borrowed funds and corresponding fully collateralized investments with WesCorp. The following advances were outstanding:

Lender	Interest Type	Interest Rate	Final Maturity Date	Payment Description	As of December 31, 2009
FHLB	Fixed	2.900%	August 21, 2014	Balloon	$20,000,000
FHLB	Fixed	3.430%	August 22, 2016	Balloon	24,000,000
WesCorp	Fixed	0.565%	January 8, 2010	Balloon	10,000,000
					$54,000,000

Note 8: Commitments and Contingent Liabilities

Lease Commitments: The Credit Union leases several branch offices. The minimum noncancellable lease obligations approximate the following as of December 31, 2009:

Year ending December 31,	Amount (dollars in thousands)
2010	$ 668
2011	465
2012	387
2013	393
2014	373
Thereafter	1,313
	$ 3,599

Rental expense under operating leases was approximately $692,000 and $378,000 for the years ended December 31, 2009 and 2008, respectively.

Lines of Credit: As of December 31, 2009, the Credit Union maintained $30,000,000 in unsecured line-of-credit agreements with SunTrust and Wachovia. No amounts were outstanding on these line-of-credit agreements as of December 31, 2009.

As of December 31, 2009, the Credit Union had access to a pre-approved line-of-credit from the FHLB, secured by eligible 1–4 family first mortgage loans, as defined in the FHLB Statement of Credit Policy. The aggregate line of credit under this agreement was approximately $187,140,000 as of December 31, 2009. The aggregate unused line of credit under this agreement was approximately $143,140,000 as of December 31, 2009.

Miscellaneous Litigation: 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 consolidated financial statements.

Note 9: Off-Balance-Sheet Risk and Concentrations of Credit Risk

Off-Balance-Sheet 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 consolidated financial statements.

Concentration of Credit Risk: 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, 2009, the total unfunded commitments under such lines of credit approximated $378,367,000. 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 Washington D.C. area. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk.

Note 10: Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory actions, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain offbalance- sheet items as calculated under generally accepted accounting principles. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in NCUA's Rules and Regulations) to total assets (as defined in NCUA's Rules and Regulations). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2009 and 2008 was 5.68% and 5.69%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.0%. Management believes, as of December 31, 2009 and 2008, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, the most recent call reporting period, the NCUA categorized the Credit Union as *"well capitalized"* under the regulatory framework for prompt corrective action. To be categorized as *"well capitalized"* the Credit Union must maintain a minimum net worth ratio of 7.0% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of Dec. 31, 2009		As of Dec. 31, 2008	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$173,193	8.88%	$164,029	10.16%
Amount needed to be classified as "adequately capitalized"	$117,015	6.00%	$ 96,885	6.00%
Amount needed to be classified as "well capitalized"	$136,518	7.00%	$113,032	7.00%

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter end option, as permitted by regulation.

Note 11: Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans are summarized as follows:

	As of December 31, 2009	2008
	(dollars in thousands)	
Mortgage loan portfolio serviced for:		
Federal National Mortgage Association	$ 795,863	$ 512,641
Charlie Mac	$ 11,252	$ 15,897
Custodial escrow balances:		
Federal National Mortgage Association	$ 3,102	$ 2,331
Charlie Mac	$ 19	$ 38

Note 12: Mortgage Servicing Rights

The components of capitalized mortgage servicing rights, included in prepaid and other assets are as follows:

	As of December 31, 2009	2008
	(dollars in thousands)	
Mortgage servicing rights:		
Balance, beginning of year	$ 2,116	$ 2,728
Additions	3,540	617
Amortization	(1,620)	(1,229)
Balance, end of year	$ 4,036	$ 2,116

As of December 31, 2009 and 2008, the fair value of servicing rights was determined by an independent third party using market value discount rates and prepayment speeds based on the specific characteristics of each pool of loans to be approximately $7,184,000 and $2,176,000, respectively.

Note 13: Fair Values of Financial Instruments

The Credit Union adopted Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards of Codification, which provides a framework for measuring fair value that requires an entity to derive fair value from the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date within its principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability. To increase consistency and comparability in fair value measurements and related disclosures, a three-level hierarchy prioritizes the inputs to valuation techniques used to measure fair value with the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) as further described below:

Level 1: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 assets include securities that are held in the Credit Union's available-for-sale portfolio as of December 31, 2009 and 2008.

Level 2: Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are inactive; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. The Credit Union maintained no Level 2 assets or liabilities as of December 31, 2009 and 2008.

Level 3: Level 3 inputs are unobservable inputs for the asset or liability which reflect the Credit Union's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Assumptions about risk include risk inherent in a particular valuation technique used to measure fair value, typically pricing models and/or discounted cash flow methodologies. The Credit Union maintained no Level 3 assets or liabilities as of December 31, 2009 and 2008.

The methodologies and associated inputs used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Credit Union believes its valuation methods and associated inputs are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Credit Union's financial instruments at fair value as of December 31, 2009 and 2008.

	Assets at Fair Value as of December 31, 2009			
	Quoted Prices in Active Markets Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Total
Assets:		(dollars in thousands)		
Available-for-sale securities	$368,775	$—	$—	$368,775

	Assets at Fair Value as of December 31, 2008			
	Quoted Prices in Active Markets Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Total
Assets:		(dollars in thousands)		
Available-for-sale securities	$115,199	$—	$—	$115,199

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment 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 and Cash Equivalents: The carrying amount is a reasonable estimation of fair value.

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

Mortgage Servicing Assets: Fair values of mortgage servicing assets are obtained from an independent third party evaluation.

Loans to Members: The fair value of loans to members was estimated by discounting the estimated cash flows using the current rate at which similar loans would be issued. The impact of delinquent loans on the estimation of the fair value is not considered to have a material effect and, accordingly, delinquent loans have been disregarded in the valuation methodologies used.

Loans Held for Sale: The carrying amount is a reasonable estimation of fair value.

Accrued Interest Receivable: The carrying of accrued interest receivable approximates fair value.

Borrowed Funds: The estimated fair value of borrowed funds was estimated by discounting the estimated cash flows using the current rate at which similar borrowings would be granted.

Members' Share and Savings Accounts: The estimated fair value of demand deposit accounts is the carrying amount. The fair value of fixed-rate certificates was estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

Commitments to Extend Credit: The fair value of commitments to extend credit is equivalent to the amount of credit extended since the Credit Union does not charge fees to enter into these commitments and the commitments are not stated at fixed rates.

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

	As of December 31, 2009		As of December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(dollars in thousands)		
Financial assets:				
Cash	$150,583	$150,583	$62,511	$62,511
Investments:				
Available-for-sale	$368,775	$368,775	$115,199	$115,199
Other	$25,087	$25,087	$18,239	$18,239
Loans held for sale	$548	$548	$5,401	$5,401
Loans to members, net	$1,336,136	$1,338,088	$1,349,731	$1,351,022
Accrued interest receivable	$6,348	$6,348	$5,415	$5,415
Mortgage servicing assets	$4,036	$7,184	$2,116	$2,177
Financial liabilities:				
Members' share and savings accounts	$1,697,170	$1,704,416	$1,423,587	$1,431,187
Borrowed funds	$54,000	$54,000	$—	$—
Unrecognized financial instruments:				
Commitments to extend credit	$—	$378,367	$—	$352,255

Note 14: NCUA Corporate Stabilization Program

On January 28, 2009, all federally-insured credit unions were informed that actions taken by the NCUA to enhance and support the corporate credit union system would result in a partial write-down of the Credit Union's 1 percent NCUSIF deposit. It was also determined that an insurance premium would be assessed sufficient to return the NCUSIF's equity ratio to 1.30 percent. The Credit Union recognized the 69 percent impairment of the NCUSIF deposit of approximately $9,095,000 and the 30 basis point insurance premium assessment of approximately $3,955,000 during the year ended December 31, 2009.

Another action taken by the NCUA on January 28, 2009, was to provide a temporary guarantee on all deposits in excess of insurable limits maintained at corporate credit unions, other than membership capital shares and paid-in capital, through February 28, 2009. Corporate credit unions were given the ability to voluntarily extend this guarantee on condition that the Board of Directors of the corporate credit union sign a Letter of Understanding and Agreement (LUA) with the NCUA. As a result of signing this agreement, the Credit Union's deposits in excess of insurable limits at WesCorp and Virginia Corporate Federal Credit Union other than membership capital shares are fully guaranteed by the NCUSIF through March 31, 2012.

On March 20, 2009, the NCUA placed U.S. Central Federal Credit Union and WesCorp into conservatorship in an effort to stabilize the corporate credit union system. In connection with this action, the NCUA announced that uninsured deposits maintained by credit unions in membership capital shares and paid-in capital at U.S. Central Federal Credit Union and WesCorp were other than temporarily impaired (OTTI). In addition, the OTTI losses recognized by corporate credit unions on their uninsured investments with U.S. Central Federal Credit Union during the year ended December 31, 2009 had a direct impact on the recoverability of the Credit Union's membership capital shares at Virginia Corporate Federal Credit Union. During the year ended December 31, 2009, the Credit Union recognized OTTI losses on membership capital shares with WesCorp and Virginia Corporate Federal Credit Union of approximately $2,180,000.

As of December 31, 2009, the Credit Union maintained uninsured membership capital shares of approximately $101,000 with Virginia Corporate Federal Credit Union. The impairment of this amount, if any, has not yet been determined; however, it could range from no impairment to 100 percent impairment.

Note 15: New Legislation

On May 20, 2009, President Obama signed into law S.896, the Helping Families Save Their Homes Act of 2009. This legislation created the Corporate Credit Union Stabilization Fund and includes the following provisions with respect to mitigating the costs incurred by credit unions as a result of the NCUA's corporate stabilization program:

- Enables credit unions to spread the cost of the 0.15 basis points NCUSIF insurance deposit impairment over seven years;
- Extends to eight years the restoration period when the NCUSIF equity ratio falls below 1.20 percent. This provision applies to the 0.30 basis point premium assessment that would return the NCUSIF to an equity ratio of 1.30 percent.

On June 18, 2009, the NCUA Board met and approved the following action with respect to implementing the Helping Families Save Their Homes Act of 2009:

- Approved the legal transfer of assets and liabilities associated with the Corporate Stabilization Program to the Corporate Credit Union Stabilization Fund;
- Fully restored the Credit Union's NCUSIF Insurance fund deposit;
- Reduced the 2009 premium assessment from 0.30 basis points to 0.15 basis points.

The financial impact of these actions was to increase the Credit Union's non-interest income by approximately $9,095,000 (the same amount as the impairment of the NCUSIF insurance deposit) and to reduce the NCUSIF insurance premium assessment by approximately $1,866,000 during the year ended December 31, 2009.

NORTHWEST
FEDERAL CREDIT UNION

Your Lifetime Financial Partner

200 Spring Street, Herndon, VA 20170
703-709-8901 • 1-866-709-8901
www.nwfcu.org