



The Credit Union That Is Different . . . On Purpose!

# C U NOTES

Your Shares Are Federally Insured To At Least \$250,000

March 31, 2012

KNOXVILLE TEACHERS FEDERAL CREDIT UNION

## DIVIDENDS FOR FIRST QUARTER OF 2012 ANNOUNCED

Shares on deposit received a dividend of **.15%** on the first \$4,000 and **.50%** on all shares above \$4,000 and on the entire deposit in IRA accounts. Yes, this is another new low but these rates compare well to earnings on certificate of deposit but without the restrictions that come with CDs. Further discussion of earnings and some of the reasons for these continued lower rates can be found in "Report to Shareholders" below.

### REPORT TO SHAREHOLDERS

Regulatory pressures and the costs of compliance has taken a toll on the ability of all credit unions to produce income to pay dividends to share holders. Much staff time is directed away from serving members or improving member benefits of any kind. In addition, large assessments have been levied by the governmental agency that charters and oversees credit unions. Over one million dollars have been taken by that federal agency that could have and would have gone to paying dividends to share holders.

Smaller credit unions have been especially hard hit. Late in 2011, Oak Ridge Schools Credit Union conducted a study and concluded that they should find a larger credit union to more efficiently assume the costs of serving their members. After careful consideration of potential merger partners, they contacted Knoxville Teachers Federal Credit Union. They recognized that this credit union and their credit union had similar traditional characteristics.

The process of merging two credit unions is a bit complex. However, after taking all of the steps that seemed appropriate and required, a vote by the membership of the Oak Ridge Schools Credit Union was taken. An overwhelming vote resulted in favor of the action to ask us to accept the merger. You can be assured that your officers and management exercised due diligence in making the decision to accept the merger.

In late March, the final merging action was completed. The result is a growth of total assets and liabilities of about six million dollars and nine hundred new members. These members are school employees, retired school employees and their families. There was one office in the administration building in Oak Ridge. That office will continue to operate with the two staff persons who had been serving Oak Ridge teachers and other school personnel. Oak Ridge teachers will be able to access their member accounts at that location or any of the other locations that we now provide. Additionally, they will have Internet access to their funds just as all other members of this credit union. Every effort will be to minimize the impact on the new members from Oak Ridge except for the expansion of services.

We see no immediate change for other members of Knoxville Teachers Federal Credit Union. However, there is a potential for long term benefits that may result from the added strength of nine hundred educators who have been working "just next door."

### ABOUT THOSE RATES...

Your credit union is jealous of its reputation as being an honest source for financial information. We will never try to sell you on a service if we're not the best option for you. That's why for years we've printed a rate chart that compares our rates to national average bank CDs. Recently, we discovered that the published bank rates appear to be higher than rates that are actually available to depositors. In the coming months, we will be changing the source for our comparison to more realistic rates and we expect that you will see even more reason to count on Knoxville Teachers Federal Credit Union to be not only a safe institution, but one that continues to pay superior rates to the competition.

	2ND Quarter 2011	3RD Quarter 2011	4TH Quarter 2011	1ST Quarter 2012	Yearly Average APY
Credit Union Premium Shares	1.0%	0.8%	0.7%	<b>0.5%</b>	0.75%
Credit Union IRA	1.0%	0.8%	0.7%	<b>0.5%</b>	0.75%
Bank 6 Month CD*	0.68%	0.61%	0.5%	<b>0.45%</b>	0.56%
Bank 1 Year CD*	1.06%	0.89%	0.74%	<b>0.76%</b>	0.86%

*(Rates are as of first of each quarter.)*

*The yield rate printed on your statement is the composite rate of your first \$4,000 and the remainder of your share deposit.*

*\*Published by [www.bankrate.com](http://www.bankrate.com)*

### ANNUAL AUDIT UNDERWAY

There are two officer groups serving this credit union. The Board of Directors makes decisions, sets dividend rates and oversees the management actions. There is a second committee named the Supervisory Committee. The sole responsibility of this group is to monitor the operations of the credit union to assure compliance with law and regulations. This committee is responsible for conducting audits at least annually. The complexity of the credit union long ago dictated that the committee must engage a CPA firm. Peters and Associates has conducted this audit for the past several years.

One audit function is to conduct a 100% confirmation of accounts. This is where members must act in concert with the auditor. You will notice that the statement mailing is under the control of the auditor. Please review your account carefully. If you do not agree with the statement or have a concern, you should contact the auditing firm at the address shown on your statement. *Please do not send payments or deposits to the CPA firm.* It will only delay the receipt of those funds.

## KNOXVILLE TEACHERS FEDERAL CREDIT UNION

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**Clinton Office**  
125 Leinart St  
Clinton, TN 37716  
(865) 582-2705

**Anderson Co. Courthouse**  
100 Main St, Room 123  
Clinton, TN 37716  
(865) 582-2709  
*(10 - 4:30, Mon - Fri)*

**Oak Ridge Office**  
304 New York Ave  
Oak Ridge, TN 37831  
(865) 582-2710

All locations are open 9-5 weekdays,  
except May 28 (Memorial Day)

**Virtual Branch - <http://www.ktfcu.org>  
24-Hour Telephone Teller - (865) 582-2800**

## DIFFERENT? REALLY? HOW?

For many years we have added a tag line on to many of our promotional materials, including this newsletter, that reads: "The Credit Union That is Different --- On Purpose."

We don't recall being challenged on this. Maybe it's because those members who have been members for some time know and see the difference. On the other hand, perhaps you have been polite and have not wanted to inquire into "differences."

But, since you haven't or won't ask, we insist on telling you. First, it is a mind set. We really believe what the charter and organizational documents of this credit union tell us. The owners are THE MEMBERS! Maybe it is a bit old fashioned thinking but if the MEMBERS are the owners then we should operate the credit union for the benefit of the members. This may seem a bit archaic since most financial institutions are operated for profit of the institution. We acknowledge that this sounds like an idea from another era but this credit union is much like a business that is owned by shareholders. It should be operated for the benefit of those shareholders. Yes, we know it is as out of date as milk in a milk bottle but we still hold on to the idea as how things really are.

The results of this old fashioned thinking include: (a) Income is distributed to shareholders in the form of dividends after all bills are paid. (b) Loans at a rate that is fair to the borrower and to the member whose money is being used to make the loan. (c) Development of services that can be provided to members at cost or at no costs if provided uniformly to all members. (d) When a service is offered that not all members can benefit, then a fee only sufficient to cover the cost will be assessed. (e) Fees will be avoided whenever possible.

Another difference that is easily detected is what we "sell." Most financial institutions attempt to encourage you to increase debt to provide profit for the institution. Knoxville Teachers Federal Credit Union relies on loans to provide the funds to pay dividends and meet the costs of operation. However, you will not find your credit union "selling" debt to members. We do not issue credit cards. The world has enough credit cards, doesn't it? We know that people will sometimes discover a need for a loan but they will do it without our prodding. We don't remind you to borrow money for vacation or for Christmas even though many members do rely on the credit union for both expenditures. We do encourage savings.

Is your credit union different? We think so and we believe it begins with knowing the owners of the credit union are THE MEMBERS!

## YOUR STATEMENT SHOWS YOUR YIELD

Just about every quarter, a member will call in to point out that the yield (APY) on their statement is slightly below the yield announced for the funds in excess of \$4,000. The yield on the statement is the combined yield on the first \$4,000 and on all the remainder of the deposit, which are paid at different dividend rates. By now, most members have come to understand that this allows your credit union to comply with federal disclosure guidelines while actually paying the full announced dividend rate on each portion of shares members have had on deposit. Further, members understand that the higher the amount on deposit, the higher the disclosed yield becomes. This arrangement, while very different from most other institutions, has the advantage of allowing larger depositors to benefit in direct relationship to the size of the deposit. An unfortunate side effect of being "Different" is that complying with the law doesn't guarantee an easy to grasp disclosure.

## BAIL OUTS -- A RECENT HISTORY

Since the last days of 2008, "bailouts" have been popular, unpopular, used and abused. We won't go into the dreary examples of those bail-outs but will quickly point out that Knoxville Teachers Federal Credit Union has not asked for or received a single dollar from any of those "bailout" schemes.

However, we have been in a process of sending money to the federal agency that regulates credit unions. Yes, we have been, in a sense, bailing out one agency of the federal government.

That agency provides the federal insurance on your deposits with the credit union. Like all credit unions, and corporate credit unions, we pay an annual premium for that insurance. Corporate credit unions do not serve individuals; they serve other credit unions. Your credit union has had only minimal involvement with one corporate credit union and has taken steps to eliminate that involvement entirely. (Our philosophy has been to participate with local financial institutions in the belief that supporting local institutions elevates the community's ability to support education thereby completing a circle.)

Following massive failures by some corporate credit unions, the federal agency that insures shares had to impose an extra assessment on credit unions. These assessments have devoured credit unions' ability to pay dividends that members have grown to expect. While these assessments will continue for several more years, we believe they may become less as those years go by.

Just as when you find yourself in a leaky boat, we had no choice but to participate in bailing. We will continue to bail until the federal boat can reach dry land and be repaired. Our advice to members is "keep on bailing."

December 31, 2011

<u>ASSETS</u>		<u>LIABILITIES</u>	
Loans (Net)	\$111,537,013	Shares & Deposits	\$166,092,531
Securities	63,742,461	Regular Reserves	8,543,299
Share Ins. Deposits	1,641,674	Undivided Earnings	7,442,552
Equipment & Fixed Assets (net)	230,756	Dividends Payable	0
Other Assets	4,986,258	Misc. Liabilities	59,780
<b>Total</b>	<b>\$182,138,162</b>	<b>Total</b>	<b>\$182,138,162</b>