



The Credit Union That Is 100% Gluten Free!

C U NOTES

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

September 30, 2013

DIVIDENDS ANNOUNCED FOR THIRD QUARTER OF 2013

Yields on deposits continue at record low levels. This condition has lasted longer than most expected and certainly longer than your officers and management expected. We encourage you to review the chart below that provides some comparisons with national averages. Let us assure you that your officers and management continually monitor these indices as well as rates paid by local financial institutions. While we are not proud of the rates we are able to pay, we do note with some satisfaction that Knoxville Teachers Federal Credit Union members are receiving rates superior to those paid for certificates of deposit (CDs) by other institutions and with the added benefit that all funds on deposit with this credit union are available to the owners without penalty or delay.

As in the past several quarters, the dividend for all IRA deposits and all other deposits in excess of \$4,000 earned a dividend of **0.50% APY** and shares under \$4,000 earned a dividend of **0.15% APY**. Rates for DCP 457(b) remain unchanged as well. (See rate chart and "Right Side of the Decimal" below.)

How long will this trough last? We must be candid and acknowledge that we do not know. We had expected it to have passed before this time. However, financial institutions, including banks and credit unions, are under pressure by governmental regulators to increase reserves. Additionally, every credit union in the nation has been assessed annually for enormous amounts to replace losses by the large corporate credit unions. Those large entities endured massive losses in investments. Even though Knoxville Teachers Federal Credit Union has maintained a distance from those corporate credit unions, as a federally insured credit union, we are included in the annual assessments. The most pessimistic projections suggest that these assessments will continue for several more years. Nevertheless, your credit union is positioning itself to escape these low rates at the earliest possible date.

ARE YOU LOOKING AT THE RIGHT SIDE OF THE DECIMAL?

The current dismally low dividend rates have discouraged depositors to such a degree that many do not take note that the rate of return is expressed all on the right side of the decimal. Look at the rate of return on IRA and regular shares in excess of \$4,000. It is 0.50% APY. Most CD rates paid by some other institutions are 0.30% APY or less! We have seen rates as low as 0.05%.

Look closely. Our rates and the lowest rate appear similar. But our rate is *ten times the other rate*. Even though the rates are all dismal, there is no reason to be resigned to bottom feeder rates. You can do better. Tell your friends that they can do better if they are eligible for membership in Knoxville Teachers Federal Credit Union.

WE'VE CHANGED AUDITORS

After many years of very excellent service by Peters and Associates in performing the annual audit for the Supervisory Committee, the principal of that firm has terminated the business to enter another field. The Committee recently engaged Pugh CPAs to perform the annual audits for the credit union. We expect to receive a similar level of expert service from this firm. They are a well established auditing firm and conduct audits for several area financial institutions. We expect the change will be rather seamless for members.

As a further explanation, credit union auditors are separate from regulators, who are employees of a federal agency. The regulators' task is to review the credit union's compliance with the agency's interpretation of federal regulation. Auditors actually work for the credit union's Supervisory Committee. An auditor's task is to confirm the accuracy of records kept by your Treasurer and staff. At least once each year, a quarterly statement is sent out with an auditor's return address to allow any irregularities to be reviewed by a third party. All these functions are to assure members of continued operation at a high ethical standard.

	4th Quarter 2012	1st Quarter 2013	2nd Quarter 2013	3rd Quarter 2013	Yearly Average APY
Credit Union Premium Shares	0.50%	0.50%	0.50%	0.50%	0.50%
Credit Union IRA	0.50%	0.50%	0.50%	0.50%	0.50%
Bank 6 Month CD*	0.18%	0.17%	0.17%	0.17%	0.17%
Bank 1 Year CD*	0.27%	0.26%	0.26%	0.24%	0.26%

(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*

WE'VE GOT PLANS FOR YOU

We think there's a storm coming. The storm that we see is not on a weather map. We believe a significant and sharp rise in interest rates is coming. We don't attempt to give the month or even the year but we firmly believe it's coming to a credit card near you – maybe even the one in your pocket.

We have been making all the noise we can to warn members to take shelter. We can help most members to make an escape from the credit card pit. One of the many things we are doing is to offer a reduced rate on loans that are used to pay off credit card balances in full. Since we are convinced that credit card rates of 17% or higher are going to increase to even higher rates within a couple of years, we are offering to meet you half way. If you are serious enough about getting out of credit card debt to make a three year pay out loan, we will assist you with some astounding low interest rates. Contact us. You have the number.

KNOXVILLE TEACHERS FEDERAL CREDIT UNION

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East/Downtown

711 N. Hall of Fame Drive
Knoxville, TN 37917
(865) 582-2700

Farragut Office

147 West End Avenue
Knoxville, TN 37934
(865) 582-2701

North Office

108 Hillcrest Drive
Knoxville, TN 37918
(865) 582-2702

Powell Office

7315-C Clinton Hwy
Powell, TN 37849
(865) 582-2703

Clinton Office

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

South Office

203 E. Moody Ave
Knoxville, TN 37920
(865) 582-2704

Halls Office

3722 Cunningham Rd
Knoxville, TN 37918
(865) 582-2706

Bearden Office

410 Montbrook Ln.
Knoxville, TN 37919
(865) 582-2707

Carter Office

8709 Strawberry Plains Pk.
Knoxville, TN 37924
(865) 582-2708

Anderson Co. Courthouse

100 N. 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 November 28 (Thanksgiving),
December 24 (Christmas Eve) and December 25 (Christmas)

Virtual Branch - <http://www.ktfcu.org>

THE DEPOSIT WINDOW IS OPEN

Since early 2009, your credit union has taken an unusual step of turning away deposits being transferred to the credit union from other financial institutions. This policy was put into place to protect past depositors from having even further reductions in dividend rates which would have occurred if we had accepted all deposits offered. That policy has paid off. While most places of deposit have been and continue to pay dividend rates much lower than our current 0.50% APY, we have never dipped below that for all IRA deposits and all other deposits in excess of \$4,000. We routinely monitor other places of deposit and see CD rates of 0.30%, and even as low as 0.05% APY.

Our four year policy has paid off for our depositors. In fact, we now cautiously have opened the deposit window. We will now accept transferred deposits up to \$25,000 in addition to the regular monthly savings that we will always encourage.

Perhaps a reminder of the reason behind our past four year policy is in order. Loan applications dropped along with the confidence level. Family members of teachers were adversely affected. Jobs were lost or hours of work reduced. The confidence required to make a major purchase slowed our growth in loans to the point that accepting transferred deposits would have only reduced our ability to pay decent dividends. We quickly will acknowledge that our 0.50% dividend is not anything to cause pride or satisfaction. But when compared to most other insured deposits, we remain ahead of the pack. (See elsewhere comments on "Right Side of the Decimal.")

CHANGE OF YOUR ADDRESS IS IMPORTANT

You know where you live. Why is it important for us to know? It seems even more irrelevant these days since more and more transactions are accomplished by automatic and electronic means. But items such as the information that you will need for tax reporting, new or replacement plastic cards and check orders are still sent by the United States Postal Service to the address in our records. If we use an old address, those items may be held up for weeks while the system works to finally get you the required information. This delay also adds to the work load of your credit union and to the cost of operation. So, to save your credit union from added overhead and you from unpleasant delays, let us know your correct mailing address.

ALL THINGS COME TO AN END

One of the many benefits of membership in Knoxville Teachers Federal Credit Union will end in 2014. The insurance industry has begun to phase out Loan Protection Insurance. This type of insurance coverage is much different than credit life coverage which is sold and paid for at the time of the loan origination. Actually, few members have been aware of the fact that every member under age 70 is automatically covered under our group policy for the amount of any debts up to \$30,000. Your credit union has provided this as a benefit of membership and without additional charges since the early 1930's. The dollar amount of coverage was increased from time to time to keep pace with inflation.

Knoxville Teachers Federal Credit Union is one of only two credit unions in the state that still provides this service. Your officers have continued to believe that members should benefit from the efficiencies that have allowed your credit union to provide this insurance coverage. We are still being conservative in our operations, so why would this coverage end in 2014? The underwriter that has traditionally provided this insurance product to credit unions is ending that program. Their reason is that so few credit unions can afford the premiums that the insurance companies can no longer justify the continuation of this type of insurance.

While most credit unions terminated this expensive service years ago, your credit union will continue to provide it until our present contract ends in the last half of 2014. It is with regret that this announcement is made. The families of many deceased and disabled members have benefited from this service. Of course, we hope no one becomes eligible for this benefit over these next months but we will continue this protection for as long as it is available. To provide full disclosure, we plan to repeat this message in each of the quarterly newsletters during the remaining time of coverage. We recommend that members consider other ways of providing for the uncertainties of life on an individual basis.

DIFFERENT – OR JUST 100% GLUTEN FREE?

If you ever find yourself suffering from insomnia and you wish to remain substance free, you might try reading "The Federal Reserve Board's 2008 HOEPA Final Rule, Sec. 73 FR 44522, 44547, July 30, 2008." That should do the trick. This nifty bit of bureaucratic rule making is based on the much beloved "Dodd Frank Wall Street Reform and Consumer Protection Act." While it may not really reform Wall Street nor protect consumers, it does a good job of bringing uniformity to the financial institutions of our nation. At first blush, uniformity sounds comforting – much like being drafted into the army.

Just as Americans are finding that processing a simple prescription for a sore throat takes much energy and persistence, applying for a loan is much different than it was just a few short years ago when a phone call to the credit union got the job done.

Your credit union has never placed a high value on being "uniform" with other lenders. In fact, this credit union has actively sought ways to conform instead to the wishes and needs of teachers and school employees. We have operated under the strange idea that school employees own the credit union and that it should meet the needs of those people who own the credit union. We also recall John F. Kennedy who is quoted as saying, "Conformity is the jailer of freedom and the enemy of growth."

Over the past few years, pressures continue to push your credit union to conform. In fact, all banks and credit unions seem to have been reduced to treating all loan applications with the same requirements. Will we be reduced to competing over check-wallet cover colors and debit card design?

Yes, we continue to have a veneer of member owned and member directed credit unions but our present level of federal control is not too many steps away from nationalization. We are trying to avoid as much of the institutionalized approach as possible.

We have continued to use "Different – On Purpose" with some hesitation. After a recent discussion on the feasibility of continuing that claim, a staff member suggested we try resorting to "100% Gluten Free" as a way to distinguish ourselves.