

arkansas federal credit union

1998
annual report



[*human*]



[*resource*]

[*commitment*]

[m i s s i o n]

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.



[*f o u n d a t i o n*]

[*c o o p e r a t i v e*]





senior management team

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



[report of the board of director] ②



[report of the board of directors (continued)] ③



[report of the supervisory committee] ④



[report of the credit appeals board] ⑤



[statistics] ⑥ ⑦



[your future] ⑧



[1998 employees] ⑨

report of the
board of directors

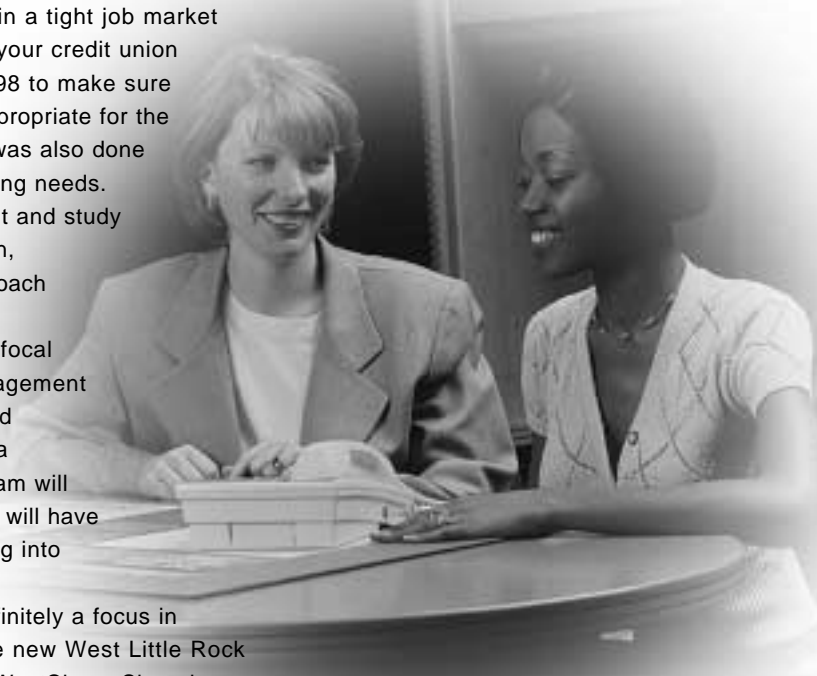
Through the pages of this annual report you will have the opportunity to revisit a very exciting and rewarding year for Arkansas Federal Credit Union. Successful lobbying by the members of our credit union culminated in federal legislation that was the solution to the problem of the banking industry's lawsuit against our federal regulator. The effects of that lawsuit have been felt by our credit union since October 25, 1996. That was when a court injunction stopped our regulator from approving new membership groups for all federal credit unions. The Credit Union Membership Access Act was signed into law by President Clinton on August 7, 1998. Thanks to you, our members/owners, we can get back to the business of spreading the credit union message among governmental and private employers throughout Arkansas.

The primary management focus for 1998 was improving our commitment to human resources. In order to build excellent member service, we must have a solid employee base. The employees who greet members and provide credit union services must have a thorough knowledge of our products and services and be motivated to meet members' needs.

In order to be competitive in a tight job market marked by low unemployment, your credit union conducted a salary study in 1998 to make sure the salaries being paid were appropriate for the jobs being performed. A study was also done on employee turnover and training needs. Through this careful assessment and study of our human resource condition, changes were made in our approach to managing human resources.

Staff training was a strong focal point in 1998. An ongoing management training program was established in the latter part of 1998, and a new management trainee program will ensure that qualified employees will have an organized pathway of training into future management positions.

Staff and facilities were definitely a focus in the early part of 1998 when the new West Little Rock Branch opened its doors in the WestChase Shopping Center in the growing, western part of Little Rock. This conveniently located storefront branch is a full-service facility. It offers new account, teller, and loan services with a 24-hour automated teller machine located at the front of the building.



report of the
board of directors
(continued)

Meeting members' ever-changing borrowing needs is always a focus at Arkansas Federal Credit Union, and 1998 was no exception. Our entire home equity loan program was revamped to be more competitive.

Fueled by a strong advertising campaign, the Consumer's Choice Home Equity Loan, over 300 members were granted home equity loans totaling over \$7 million in the last six months of 1998. Applications for the new home equity loans and all other consumer loans flourished with members using the Internet and Phone-A-Loan, our convenient 24-hour telephone loan service.

As 1998 drew to a close, questions and concerns about Year 2000 preparedness were heating up in the media and in the workplace. What will happen to key community services such as water, electricity, medical and financial services when the clock ticks into January 1, 2000? Your credit union's Year 2000 (Y2K) Task Force, established in 1997, was working throughout 1998 to ensure that all systems used by the credit union will be ready for any problems that may occur. As we enter 1999, our efforts to stay on top of the Y2K issue have been stepped up and member communications have been enhanced to keep you informed of the credit union's preparedness for the new millennium.

Your credit union closed out 1998 with a strong financial finish that resulted in a bonus dividend being posted to every member's Share Savings Account for the fourth quarter of 1998. The sharing of profits with all members is true to the cooperative philosophy of credit unions. We are happy to share the product of a good financial year with you, our members.

Rest assured that Arkansas Federal Credit Union continues to be a strong and vital financial cooperative. The financial statements contained in this report very clearly support our strength and stability. In the future, your volunteer officials, management and staff will continue to focus on our corporate goals aimed at achieving financial security, technological initiative and staff preparedness. Thank you for sharing in our successes and for supporting the credit union philosophy: people helping people.

Garold L. White, Chairman
Board of Directors



board of directors

Left to Right: Art Williams, Vice Chairman;
Garold L. White, Chairman; Robert Batton, Treasurer;
Phillip Boudreaux, Secretary; Fred Van Driesum, CFP, Director

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 procedures 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, CPA, CFSA, has focused on reviewing the operations of the credit union, auditing select functional areas, and verifying member accounts.

In 1998, 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's June 30, 1998, financial statements to be fairly presented and in conformity with generally accepted accounting principles.

The National Credit Union Administration (N.C.U.A.) examiners also conducted an examination in 1998 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 1998 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.

Jerry E. Spratt,
CPA, CFSA, CFE, CGFM
Chairman of the Supervisory
Committee



supervisory committee

Left to Right: Jay Simmons, Member; Don Greene, Member; Kristy Vest, CPA, CFA, Internal Audit Director; Robert Rodgers, CPA, Secretary; William Sprinkle, Member; Jerry Spratt, CPA, CFE, CGFM, CFSA, Chairman

report of the
creditappealsboard

Arkansas Federal Credit Union's Credit Appeals Board is appointed by the Board of Directors and meets on a required basis to review special loan requests. Loans to members are the driving force behind the growth and financial strength and stability of your credit union. In 1998, Arkansas Federal Credit Union continued to set exemplary standards with consistent, responsible lending practices.

Your credit union strives each year to give members the greatest lending options at the lowest lending rates. In 1998 we were successful in offering the very best in consumer loans at highly competitive rates and terms.

One of the headline loan events of 1998 was the total revamping of our home equity loan product. Home equity loans have been a part of our consumer loans all along, but changes were needed to enhance and bring current a sleeping giant in our loan portfolio. With the support and expertise of senior management, staff and volunteers, a brand-new home equity program was introduced in July of 1998 called the Consumer's Choice Home Equity Loan. In the last half of 1998, 300 plus new home equity loans totaling over \$7 million were added to our consumer loan portfolio.

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

Members who refinance their car, truck, van, boat, RV or motorcycle loans financed at another financial institution now enjoy relaxed refinance collateral requirements introduced in July of 1998. No longer are NADA "book" values used to determine the amount the credit union will refinance. Qualifying members can now refinance the entire balance of their collateral loan financed at another lender with their credit union.

In total, 8,175 loans were approved in 1998. Overall, loan growth showed a minimal increase of 2.68%. But, through the concerted efforts of the credit union's Collection Department, delinquency, bankruptcy, and charged-off loans decreased from prior years. As of year-end, the delinquency ratio was 0.54%. That is a 15 basis point decrease from 1997's 0.69% delinquency ratio. Contributing to the decrease in delinquency is lower member bankruptcy filings in '98 of 43 filings totaling a \$586,216 decrease from the previous year. Net charge-offs also decreased a total of 13 basis points in 1998 when compared to the previous year: 0.68% in 1998 and 0.81% in 1997.

The year 1998 can be characterized as another successful year in providing quality, low cost loan services to members. Great emphasis was placed on making loan services convenient for members. By year end, over 60% of member loan applications were being made electronically using either the 24-hour automated telephone loan service, Phone-A-Loan, the Internet or our Telephone Branch.

Thank you for helping us prove that Arkansas Federal is the best source for member borrowing needs.

Dale Duell, Chairman
Credit Appeals Board

creditappealsboard

Left to Right: Dale A. Duell, Chairman;
Pat Hudon, Member;
(not pictured, Pamela Potter, Member)



financial summary

as of December 31, 1998 & 1997

Assets	1998	1997
Loans to Members	\$170,376,129	\$165,926,098
Less Allowance for Loan Loss	(1,635,938)	(1,587,028)
Net Loans \$168,740,191	\$164,339,070	
Cash	1,810,298	1,334,090
Other Accounts Receivable	3,086,023	2,699,156
Investments	60,699,421	47,426,786
Loans held for sale	660,450	579,100
Accrued Interest Receivable:		
Loans	695,542	992,140
Investments	424,796	121,786
Property, Equipment & Leasehold Improvements		
At Cost, Net of Accumulated Depreciation	9,303,892	9,416,788
Prepaid and Other Assets	741,041	526,043
Total Assets	\$246,161,654	\$227,434,959
Liabilities & Members' Equity	1998	1997
Accounts Payable	\$1,403,745	\$483,433
Other Accrued Liabilities	1,642,184	1,515,741
Members' Shares and Share Equivalents	213,707,360	198,474,949
Regular Reserve	5,472,237	5,297,254
Appropriated Undivided Earnings	23,936,128	21,663,582
Undivided Earnings	-	-
Total Liabilities & Members' Equity	\$246,161,654	\$227,434,959

operations summary

for the years ended December 31, 1998 & 1997

Source of Income	1998	1997
Interest on Loans	\$14,243,027	\$13,816,344
Income from Investments	2,672,987	2,459,849
Other Operating Income	3,081,745	2,655,861
Non-Operating Income	17,370	9,900
Total Income	\$20,015,129	\$18,941,954
Distribution of Income	1998	1997
Employee Compensation and Benefits	\$3,436,898	\$3,247,570
Travel and Conference	142,978	119,309
Association Dues	30,929	28,533
Office Occupancy and Operations	3,086,259	2,925,447
Loan Servicing	266,660	196,410
Professional and Outside Services	820,089	718,195
Provision for Loan Losses	1,200,000	1,225,000
Member Insurance	151,900	113,979
Federal Examination and Supervision	60,611	50,967
Miscellaneous Operating Expenses	89,303	106,983
Total Expenses	\$9,285,627	\$8,732,393
(Gain) or Loss on Disposition of Fixed Assets	(1,155)	(7,488)
Dividends Paid	8,283,126	7,482,582
Increase to Reserves and Undivided Earnings	2,447,531	2,734,467
Total Income Disbursed	\$20,015,129	\$18,941,954



member statistics

1998
49,931

1997
48,689

up 2.6%

members

1998
19,204

1997
18,243

up 5.3%

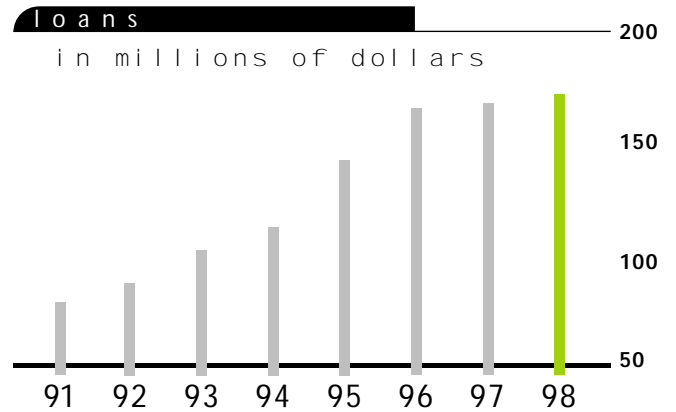
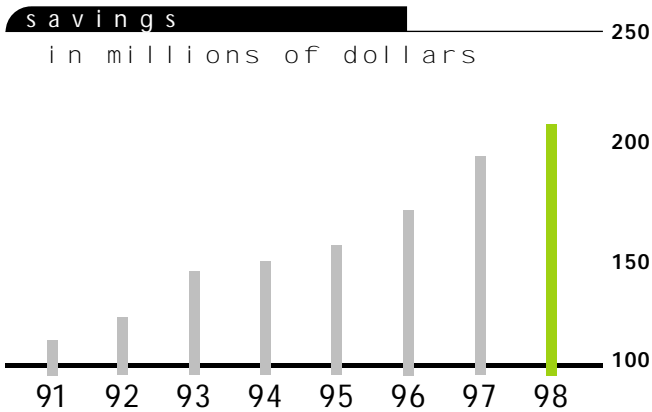
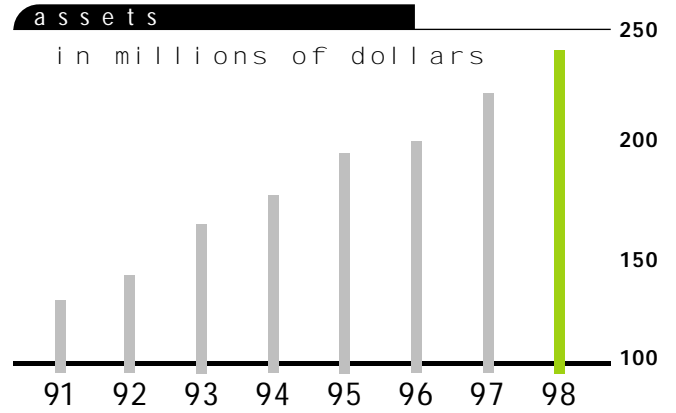
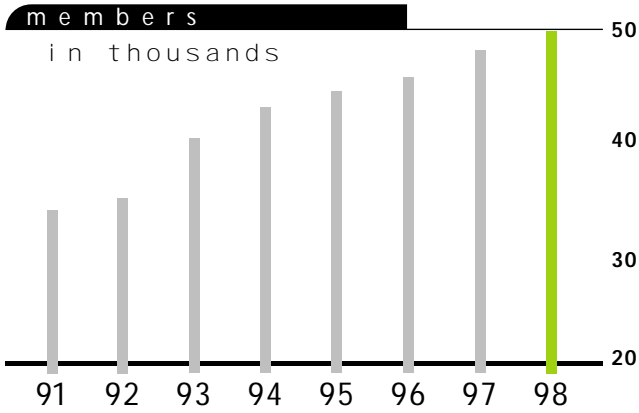
checking
accounts

1998
15,151

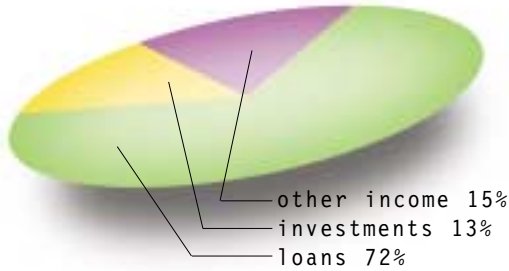
1997
14,750

up 2.7%

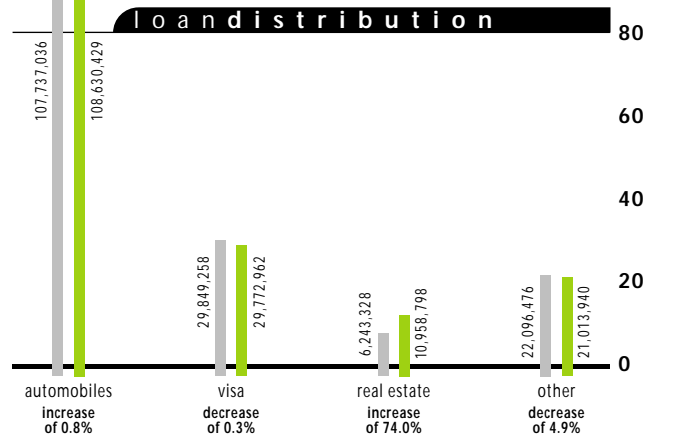
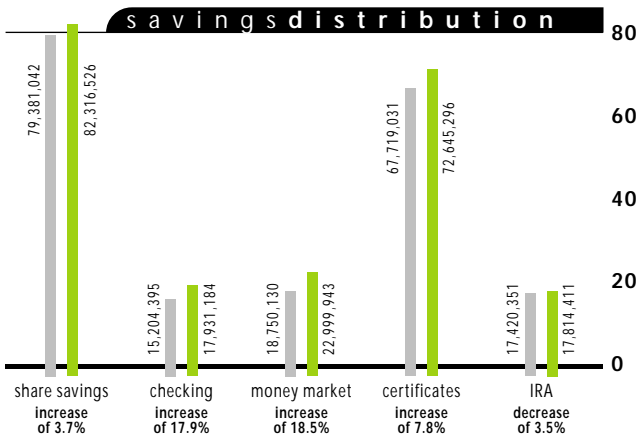
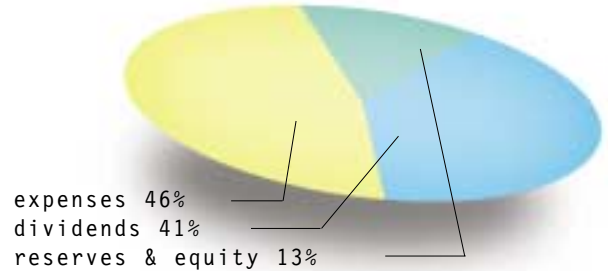
credit card
accounts



source of income



distribution of income



total savings

\$213,707,360
increase of 7.7% over 1997 which totaled \$198,474,949

total loans

\$170,376,129
increase of 2.7% over 1997 which totaled \$165,926,098

creditunionfuture

The clock is ticking. Some businesses are even counting down. What are we all waiting for? The Year 2000 (Y2K)! What else? At Arkansas Federal Credit Union, we've been thinking about, and preparing for, January 1, 2000 since July of 1997.

It is no surprise that during the calendar year 1999, our primary management emphasis will be on finalizing preparations for the new millennium. While no one can predict exactly what will happen New Year's Eve 1999, your credit union has had its best computer system employees working on potential Y2K problems for over two years. Our Y2K Task Force is comprised of the Vice President of Branch Operations, the Information Systems Director, the Network Administrator and the Data Center Operator. This task force is responsible for ensuring that all systems used by the credit union will be ready for any problems that may occur.

The task force began their Y2K compliance process by identifying all critical and non-critical systems. Vendors for these systems were contacted and the committee has been monitoring their progress in achieving Y2K readiness. If necessary, vendor service providers have been changed and equipment replaced to facilitate meeting the credit union's goal of Y2K compliance.

To keep our members informed of the credit union's readiness for Y2K and other key community services, we are sponsoring five free Y2K seminars throughout 1999. These seminars will feature speakers from the different community services: water, electricity, city services, telephone, hospital and financial. We'll have a member of our Y2K Task Force at the seminar to discuss our Y2K readiness. Special information mailings, and even a special issue of the Banner newsletter, will be dedicated solely to Y2K. So watch for more information about Y2K in the months to come.

The Y2K issue is a significant part of your credit union's strategic plan for 1999, but there are other issues addressed in the 1999 strategic plan that will interest members and impact service.

The results of one of our goals is already visible in our Little Rock and North Little Rock Branch drive-through lanes. The next time you drive in to one of these branches, and also the Air Force Base Branch in the near future, you will find a video monitor mounted in your lane. Anytime you talk to the teller handling your transaction in the building, you'll see their face on the screen...and they can see you, too! This "up close and personal" system will bring the employee and members closer together in their conversations in the drive-through lanes. And while you wait for your transaction to be completed, you'll see information about credit union services.

In the lobbies of our branches, there are walk-up kiosks which offer important car buying information through the

Car Facts program. Later this year, these kiosks will be upgraded to provide credit union product and service information and will also allow direct member account access. Need a copy of your current statement of account? Print it yourself from one of our convenient in-lobby kiosks. And while you're in the lobby, try out the new automated teller machines that will be installed in the teller sections of the Air Force Base, North Little Rock and Little Rock Branches.

While we're on the subject of ATMs, the project of upgrading all credit union-owned ATMs will be completed in 1999. By mid-year 1999, all of our machines will be state-of-the-art equipment featuring Y2K compliant software, color screens, check cashing down to the penny, and even voice prompting to help you with your transactions.

Members have enjoyed the ease and convenience of pre-approved auto loans since 1989. In 1999, we will introduce pre-approved auto/boat/recreational vehicle/motorcycle loans! Once in place, members buying any of the collateral mentioned will come to the credit union before they begin shopping to be pre-approved for the highest possible amount. With their pre-approved loan in hand, they will be ready to buy from any dealership in the country. No extra trips to the credit union are necessary. You're pre-approved, then you buy!

It is through your continued support and dedicated use of credit union services that we are able to continue offering new and exciting financial advances. Thank you for participating in the credit union. Your membership is important to us. You are important to us. Let us know how we can serve you better now and in the future.

H.C.Klein,
President/Chief
Executive Officer



1-9-9-8

Lorraine Baisdon, Marketing Director
Kerri Ballard, North Little Rock Branch Teller
Terri Bauman, Payroll/Benefits Specialist
Renee Bennett, Telephone Service Representative
Robin Belcher, Part Time Teller
Betty Bratton, Telephone Service Representative
Evangeline Caples, North Little Rock Branch Teller
David Cavender, Telephone Service Representative
Tammy Christian, Camp Robinson Member Service Representative
Peggy Clark, Little Rock Branch Loan Officer
Patricia Comegna, Part Time Teller
Kim Cowan, Fort Smith Branch Teller
Millie Cross, Mailing Clerk
Don Cypert, Comptroller
Joan Davidson, Account Research Manager
Pat Davis, Collection Clerk
Stacy Davis, North Little Rock Branch Savings Counselor
Claudia Deakin, Air Force Base Branch Head Teller
Alicia Dryden, Telephone Service Representative
Robbin Eilts, Plan America Coordinator
Katie Feldhouse, Loan Disburser
Jennifer France, Air Force Base Branch Teller
Evelyn Frost, North Little Rock Branch Head Teller
Tammy Fuller, North Little Rock Branch Loan Disburser
Nina Furman, Collection Officer
Brad Glass, Data Center Operator
Autrese Gore-Woodfork, Little Rock Branch Teller
Melody Grigg, Fort Smith Branch Teller
Lona Hall, Air Force Base Branch Loan Officer
Sandy Hancock, Telephone Service Representative
Bettyann Hawk, Vice President/Administrative Support
Debbie Hendrix, Head Telephone Service Representative
Tina Higgins, Collection Officer
Vickie Higgins, Air Force Base Branch Savings Counselor
Maurice Hilliard, Little Rock Branch Teller
Connie Holman, Air Force Base Branch Teller
Vanessa Horn, West Little Rock Branch Teller
Patricia Howard, Check Processor
Kelley Jackson, Air Force Base Branch Senior Teller
Erma Jarry-Vier, Telephone Branch Loan Officer
Sharon Johns, Mortgage Shipper
Teresa Johnson, Telephone Service Representative
Christi Kaufman, Administrative Secretary
H. C. Klein, President/CEO
Debi LaFave, Accountant
Pamela Lara, Executive Secretary
Elly Lare, Telephone Service Representative
Damion Lee, Little Rock Branch Teller
Susan Mansfield, Check Processor
Nicole Matsoukas-Eilts, Manager Trainee
Yumiko McCaulley, File Clerk
Angela McLain, Fort Smith Branch Loan Disburser
Tulin Melancon, Accounting Clerk



Michele Mosley, Little Rock/West Little Rock Branch Manager
LaDanna Mowry, Little Rock Branch Head Teller
Cynthia Nash, Telephone Branch Loan Officer
Crystal Painter, West Little Rock Branch Teller
Shelly Parker, Telephone Service Representative
Sherri Patrom, Air Force Base Branch Teller
Angella Perry, Air Force Base Branch Teller
Leslie Perry, Account Research Representative
Gayle Pipkin, ATM Processor
Mary Kay Porter, Part Time Teller
Cheri Prueett, North Little Rock Branch Loan Officer
Andy Reed, Network Administrator
Tythann Rockamore, Mailing Clerk
Angela Rockins, Air Force Base Branch Teller
Silka Rodriguez, Part Time Teller
Koren Rouse-Marcum, Marketing Secretary
Shelly Sefcik, Telephone Branch Loan Officer
Brenda Sharp, Fort Smith Branch Manager
Scott Sims, Information Systems Director
Karen Smith, Electronic Funds Transfer Manager
Patti Smith, Mortgage Underwriter
George Snyder, Accounting Manager
Mary Spotts, Account Research Representative
Carol St. John, Mortgage Manager
Sue Stiles, Account Research Representative
Joan Taylor, Payroll Processor
Stacy Tollett, Membership Coordinator
Theresa Travaglini, Part Time Teller
Vicki Vandever, Account Research Representative
Kristy Vest, Internal Audit Director
Terry Vick, Air Force Base Branch Manager
Rebecca Waldrop, Telephone Service Representative
Lisa Waldrup, File Clerk
Janie Warner, Human Resource Director
Brian West, Little Rock Branch Teller
Brenda Whaley, Courier
Don Whiddon, Collection Manager
Shawna Whitmore, North Little Rock Branch Teller
Bill Williams, Vice President/Branch Operations
April Willis, Telephone Service Representative
Sam Wilson, Purchasing Manager
Evelyn Witham, Air Force Base Branch Savings Counselor
Sandy Wood, Telephone Branch Loan Officer

human resource commitment



1998