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December 31, 2009

Dear Member:

The last two years have been the most extraordinary that I have witnessed since joining the credit union movement almost a quarter of a century ago. This period has been complicated and devastating to our members which I deeply regret.

As you know, Members United endured heavy strains on its balance sheet as a result of the severe dislocation of the mortgage-backed securities market. We take responsibility for our past decisions that resulted in unprecedented depletion of capital, which has hurt our members greatly. Like me, many of the staff members at Members United have spent most, if not all, of our professional careers seeking to help credit unions. Instead, events in 2008 and 2009 harmed our members, a circumstance that we profoundly regret.

I wish that we could say that your capital will not be affected again, but until the housing markets and the economy in general stabilize, that is not possible. Financial institutions, by their nature, are in the business of risk. Under the guidance of our talented volunteers and a committed corporate staff, we are redefining Members United to ensure that once this financial crisis ends, this type of loss does not occur again. We are doing everything in our power to maintain your confidence and reaffirm that we take the job of being responsible stewards of your funds very seriously.

#### **Perseverance in the face of adversity**

In response to this crisis, Members United cut operating expenses for 2009 by \$12 million (a 28% cost savings), and \$16 million annually on an ongoing basis, by taking multiple steps:

- eliminating staff salary increases in 2008 and bonuses for 2008 and 2009
- implementing two reductions in force, which eliminated more than 140 positions
- eliminating discretionary 401(k) contributions
- reducing discretionary expenses by 20 percent
- utilizing internal video conferencing to reduce travel expenses
- closing two payment processing facilities

Never in my credit union career did I think that we would ever implement a major reduction of force other than as a result of a merger. Our layoffs were some of the hardest, most painful decisions I have made. To benefit our membership long into the future, we realigned the

corporate's budget with its current asset size and its revised strategic direction, resulting in the necessity to reduce staff.

Members United and its Board have taken additional concrete actions to manage through the crisis and prepare for the future, including:

- ensuring transparent and timely reporting of financial information
- holding town hall meetings in early 2009 across our markets to gain your input prior to submitting our ANPR response
- responding to the ANPR, including recommending fewer corporates, improved cooperation among corporates, increased capital and additional controls
- conducting member mini-surveys in the fall of 2009 to align our planning for the future with your current thinking
- scheduling town hall meetings in early 2010 to involve members in our future plans

Despite the stormy economic backdrop, Members United experienced some bright spots in 2008 and 2009 – not the least of which is the overarching support of our 2,300 members. In reading the financial statements for both 2008 and 2009, you will see that absent the investment losses, income from operations is strong. Despite our reduced staff, the corporate has, in fact, surpassed many of 2008's service milestones. We are on pace in 2009 to:

<b>2009 statistics</b>	<b>...versus 2008 statistics</b>
process 250 million member share drafts	...192 million
process 200,000 wire transfers	...184,000
process 80 million ACH items	...78 million
process 80,000 Coin & Currency orders	...74,000
implement 500 new product/service contracts	...1,300
make 5,000 credit union visits	...6,000
service 170,000 member calls	...141,000
sign up 10 new credit union members	...56 new credit union members

As you can see, we are still delivering the level of personal service that our members deserve, even with fewer staff. The staff knows that we are part of something greater than ourselves. We are part of a movement – and that inspires all of us, especially in times of crisis.

### **Looking forward**

It is clear that things are broken in the corporate system, and we acknowledge the role we played. But time is marching on and we must now begin the hard work of rebuilding. We recognize that we must re-earn your faith over time, and that journey starts today.

The impact of market events has forever changed the economic, competitive and regulatory environment in which Members United operates. Our 2010 strategic plan reflects these realities and conveys a fundamental shift in our organization's direction. Key shifts include re-focusing on our core markets, rather than on the national market; focusing on financial performance and capital accumulation, rather than on growth; and championing fundamental and rapid reform to improve the corporate credit union network's financial performance, effectiveness, safety and soundness, and relevance.

I realize that some of you may be asking yourself why you should continue to support Members United. We believe that despite the losses incurred during this extraordinary time, we have brought and continue to bring exceptional value to our members, both financially and in helping credit unions successfully serve their members. We provide information, knowledge, back office support, consulting services and evolving products to help you work as efficiently and cost-effectively as possible. These elements allow you to work collectively within the credit union network, rather than turning to your competitors (who would use the revenues from purchased services against you) for assistance.

For 30 years we have provided the vital services and products that have helped our members succeed. We have spent those years trying to give as much money as possible back to you, keeping little for ourselves in the form of retained earnings. Be assured that we will work tirelessly to repay, whenever and in whatever form possible, what has been lost. This will take many years, but with the continued support of our members, we are committed to seeing this through.

Although we will need an infusion of fresh capital, your corporate has a foundation with a solid franchise on which to rebuild. And there is exceptional value in that franchise, recognized both inside and outside the credit union movement. We continue to serve almost one quarter of the nation's credit unions. We have dedicated, talented and highly knowledgeable staff. And our desire to serve you permeates every decision that we make and everything that we do.

During this unprecedented time, I sincerely thank you for your loyalty, your candor and your cooperation.

Sincerely,

**Joseph P. Herbst**  
Chief Executive Officer