

ANNUAL REPORT



Bethpage
Federal Credit Union

Commitment to extraordinary

OUR VISION

value and **service**, anytime, anywhere.



Main Office

899 S. Oyster Bay Road | Bethpage, NY 11714
1.800.628.7070 | www.bethpagefcu.com

Corporate Information

Board of Directors

Richard B. Turan, Chair
Robert F. Kelly, Vice Chair
Don Balducci, Secretary
Philip Gandolfo, Treasurer
Francis E. Campbell
Thomas D. Gill
John C. Komst
Dr. Michelle Nearon
Sam Piazzola

Associate Directors

Jeffrey Alter
Jaci Clement
Jorge A. Martinez

Supervisory Committee

Joseph Moliterno, Chair
John Scano, Secretary
Ann Butera
Les Poinelli

Executive Team

Kirk Kordeleski
President & Chief Executive Officer

Wayne N. Grossé
Chief Operating Officer

Brian Clarke
Senior Vice President & CFO

Robert Hoppenstedt
Senior Vice President, Operations & Marketing

Michele Dean
Senior Vice President, Lending
& COO, CUSO Operations

Linda Armyn
Vice President, Corporate Development
& Government Affairs

Gary Jendras
Vice President, Internal Audit

James Breen
Vice President, Information Technology

Gerard Schmitt
Vice President, Marketing

Kevin Kavanah
Vice President, Branch Administration
& Business Services

Douglas O'Neill
Vice President, Human Resources

Directory

Public Access Branches

Bethpage (Main Office)
899 South Oyster Bay Road

Bay Shore
591 Montauk Highway

Central Islip
233 South Research Place

Commack (King Kullen Supermarket)
120 Veterans Highway

Elmont
1633 Dutch Broadway

Farmingdale
1033 Route 109

Freeport
210 West Merrick Road

Glen Cove
111 School Street

Hempstead
170 Fulton Avenue

Huntington
33 Gerard Street

Levittown (King Kullen Supermarket)
3284 Hempstead Turnpike

Lynbrook
613 Sunrise Highway

Massapequa
6257 Sunrise Highway

Melville
722 Walt Whitman Road (Rte. 110)

Mineola
131 Jericho Turnpike

North Babylon
1350 Deer Park Avenue

Port Jefferson
4802 Nesconset Highway

Riverhead
1095 Old Country Road

Smithtown
240 Middle Country Road

Coming in 2009

Roosevelt
405 Nassau Road

Westbury
750 Old Country Road

Limited Access Branches

Islandia (CA employees only)

Local Shared Service Centers

Amityville, Teachers FCU
Bay Shore, Teachers FCU
Briarwood, Melrose FCU
Brookville, Nassau Educators FCU
Central Islip, Teachers FCU
Commack, Suffolk FCU
Commack, Teachers FCU
East Meadow, Nassau Financial FCU
East Northport, Teachers FCU
Farmingdale, Sperry Associates FCU
Farmingville, Teachers FCU
Flushing, Qside FCU
Garden City, Nassau Financial FCU
Garden City, Sperry Associates FCU
Garden City Park, Sperry Associates FCU
Hauppauge, Island FCU
Hauppauge, Long Island State EFCU
Hicksville, Island FCU
Holbrook, Teachers FCU
Islandia, Suffolk FCU
Manhattan, First Entertainment CU
Manhattan, Justice FCU
Manhattan, Skyline FCU
Massapequa, Nassau Educators FCU
Medford, Suffolk FCU
Miller Place, Suffolk FCU
Mineola, Winthrop-University Hospital CU
Nesconset, Teachers FCU
North Babylon, Teachers FCU
Oceanside, Nassau Financial FCU
Oceanside, Oceanside Christopher FCU
Plainview, Nassau Educators FCU
Port Jefferson Station, Teachers FCU
Riverhead, Suffolk FCU
Riverhead, Teachers FCU
Rockville Centre, Nassau Educators FCU
Rocky Point, Teachers FCU
Sayville, Island FCU
Seaford, Oceanside Christopher FCU
Selden, Teachers FCU
Smithtown, Teachers FCU
South Setauket, Teachers FCU
Syosset, Nassau Educators FCU
Valley Stream, Nassau Educators FCU
West Babylon, Suffolk FCU
Westbury, Nassau Educators FCU



We do business in accordance with the Federal Fair Housing Law and the Equal Credit Opportunity Act.



Your savings are federally insured to at least \$250,000 and backed by the full faith and credit of the United States Government.

President's Message



Last year was an eventful one to say the least. As global financial markets began to unravel and the country headed into recession, your credit union remained true to its vision of providing extraordinary value and service, anytime, anywhere. Bethpage Federal Credit Union continues to grow because its members recognize it as a safe and strong institution that has not been involved in sub-prime mortgages or the toxic investments which have embroiled many of the nation's largest financial institutions.

In 2008, our membership increased by 9% for a total of 152,000 members, and deposits increased 15% or \$378 million. That trend continued into 2009 as more and more Long Islanders realized that Bethpage is a strong alternative to traditional banks.

We will continue to support our members and the local economy with funds for mortgages, auto loans and business loans, and by providing great rates and a safe haven for members' hard earned dollars.

Protecting members from financial exposure is of the utmost importance of all of us at Bethpage Federal Credit Union. Member deposits are federally insured for at least \$250,000 and we continue to be vigilant stewards of our members' savings and investments. Part of that responsibility is to continue to monitor market conditions and respond, wisely, while controlling expenses and protecting our members.

Thank you for banking at Bethpage Federal Credit Union and for your continued confidence.

Kirk Kordeleski
President and Chief Executive Officer

Chairman's Message



Long Island, like the rest of the country, is facing significant economic challenges. For each of you, the members of Bethpage, I am pleased to report that your credit union remains a safe alternative to other financial institutions. Last year Bethpage grew and expanded to better meet the needs of our member-owners and to provide a financial safe haven for all Long Islanders.

Bethpage is committed to being your financial partner and to doing what is in your best interest. We can do that because as a credit union we don't answer to stockholders looking for return on their investment. Instead, we return value to our members in the form of better rates, lower fees, extraordinary service and more convenience.

Bethpage puts members first and invests in Long Island. As a financial cooperative, we have a direct responsibility to our members. By putting members first, we have been able to grow steadily while avoiding the pitfalls that led to the current financial crisis. We are committed to helping Long Islanders weather today's economic storm.

Bethpage invests back into communities across Long Island by reaching out to our neighbors through local community support and Island-wide programs. Such programs include the annual Bethpage Federal Credit Union Air Show at Jones Beach, the Oyster Festival each fall and local community fairs and festivals.

Bethpage is the heart of Long Island. Bethpage was built on the foundation of community service as a not-for-profit institution. Toward that end, Bethpage provides support to many Long Island charities and other worthy causes. Through our Heart of Bethpage program in 2008, we supported essential Long Island charities including Island Harvest, United Way of Long Island, the Education and Assistance Program and the Mentoring Partnership of Long Island.

Our employees share that belief. Through the Bethpage volunteer program, the credit union's employees provide volunteer hours and skills to charities across Long Island. We have donated over 1,400 hours to volunteer with a variety of not-for-profit groups.

Bethpage is a place you can trust. We have heard Long Islanders say loud and clear that they want a different place to bank—a place that will give them the best rates, the lowest fees and, equally important, a place they can trust. Bethpage Federal Credit Union is that place.

Richard Turan
Chairman of the Board

Supervisory Committee's Message

The Supervisory Committee is composed of independent volunteers who are appointed by the board of directors, but are not members of the Board.

The Committee's major responsibilities are to you, the members of Bethpage Federal Credit Union. The committee:

- Ensures compliance with NCUA Guidelines and Regulations.
- Monitors the financial reporting by management.
- Oversees the role of the Internal Audit department.
- Makes sure that Bethpage Federal Credit Union responds to the concerns of the members.
- Retains an outside independent public accounting firm to perform an audit of Bethpage Federal Credit Union's annual financial statements.

During 2008, Bethpage Federal Credit Union engaged the services of Grant Thornton LLP to conduct the annual audit of the credit union's financial statements.

The year 2008 was once again a year of branch growth for Bethpage Federal Credit Union. The branch network was expanded by four branches in 2008—with locations in Central Islip, Elmont, Freeport and Massapequa. We will see further branch growth in 2009, with construction beginning in Roosevelt and Westbury.

Extraordinary service provided to our membership is something Bethpage Federal Credit Union has excelled at. Bethpage continues to measure the effectiveness of the service provided to members through surveys, making changes where improvements are needed the most.

All of these accomplishments show Bethpage's continued commitment to providing extraordinary value and service to each of you. These steps ensure the members' needs are being addressed while providing assurance that Bethpage Federal Credit Union's financial condition is accurately stated and presented.



Joseph Moliterno
Supervisory Committee Chair

Independent Auditor's Report

To the Members of Bethpage Federal Credit Union
Bethpage, New York

We have audited the accompanying consolidated statements of financial condition of Bethpage Federal Credit Union and Subsidiaries (the "Credit Union") as of December 31, 2008 and 2007, and the related consolidated statements of income, members' equity and comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the

financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bethpage Federal Credit Union and Subsidiaries as of December 31, 2008 and 2007, and the consolidated results of its operations and its consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



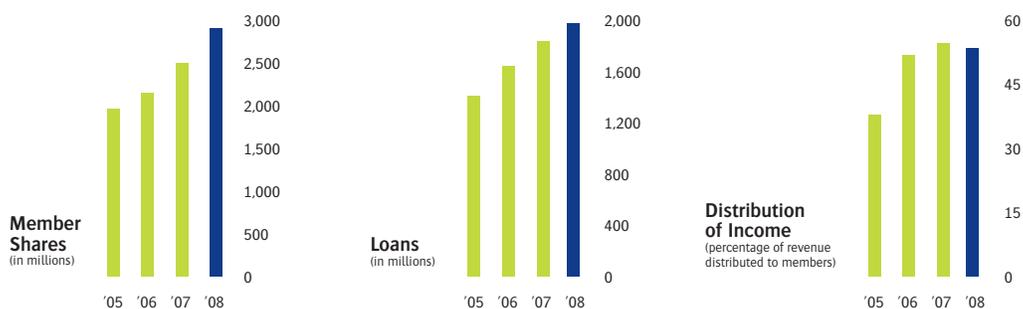
Grant Thornton LLP
New York, New York
August 14, 2009

Consolidated Statements of Financial Condition

December 31, 2008 and 2007 (in thousands)

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 35,575	\$ 41,324
Investments		
Available-for-sale	1,066,616	843,304
Other	107,952	235,816
Loans held for sale	6,158	715
Loans receivable, net	1,927,299	1,834,540
Mortgage servicing rights, net	4,446	5,029
Accrued interest receivable	13,482	15,429
Property and equipment	20,147	17,742
National Credit Union Share Insurance Fund deposits	23,466	20,396
Other assets	<u>3,948</u>	<u>3,566</u>
Total assets	<u>\$ 3,209,089</u>	<u>\$ 3,017,861</u>
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	\$ 2,874,179	\$ 2,496,231
Borrowed funds	38,226	241,031
Accrued expenses and other liabilities	<u>59,621</u>	<u>38,048</u>
Total liabilities	2,972,026	2,775,310
Commitments and contingent liabilities		
Members' equity		
Retained earnings	249,351	237,701
Accumulated other comprehensive (loss) income	<u>(12,288)</u>	<u>4,850</u>
Total members' equity	<u>237,063</u>	<u>242,551</u>
Total liabilities and members' equity	<u>\$ 3,209,089</u>	<u>\$ 3,017,861</u>

The accompanying notes are an integral part of these statements.



The above graphs are unaudited.

Consolidated Statements of Income

For the years ended December 31, 2008 and 2007 (in thousands)

	2008	2007
INTEREST INCOME		
Interest on loans receivable	\$ 109,392	\$ 112,268
Interest on investments and cash equivalents	49,021	41,938
	<hr/>	<hr/>
Total interest income	158,413	154,206
INTEREST EXPENSE		
Dividends on members' shares	85,906	90,895
Interest on borrowed funds	4,098	4,529
	<hr/>	<hr/>
Total interest expense	90,004	95,424
NET INTEREST INCOME	68,409	58,782
PROVISION FOR LOAN LOSSES	11,451	9,289
	<hr/>	<hr/>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	56,958	49,493
NON-INTEREST INCOME		
Members' shares service charges and other fees	8,185	8,113
Mortgage servicing and loan fees	332	1,203
Gain on sale of mortgage loans	2,567	615
Investment services and insurance fees – commissions	5,074	4,370
Other non-interest (loss) income	(1,348)	1,855
	<hr/>	<hr/>
Total non-interest income	14,810	16,156
Net income before expenses	71,768	65,649
	<hr/>	<hr/>
NONINTEREST EXPENSES		
Salaries and benefits	28,214	24,179
Operations	26,622	24,038
Occupancy	5,282	4,457
	<hr/>	<hr/>
Total noninterest expenses	60,118	52,674
NET INCOME	<u>\$ 11,650</u>	<u>\$ 12,975</u>

Consolidated Statements of Members' Equity & Comprehensive Income (Loss)

For the years ended December 31, 2008 and 2007 (in thousands)

	Regular Reserve	Undivided Earnings	Total	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
Balance, December 31, 2006	\$ 21,384	\$ 203,342	\$ 224,726	\$ (6,460)	\$ –
Net income		12,975	12,975		12,975
Net change in unrealized holding gains on available-for-sale investments				11,310	11,310
Comprehensive income					<u>\$ 24,285</u>
Balance, December 31, 2007	21,384	216,317	\$ 237,701	4,850	–
Net income		11,650	11,650		11,650
Net change in unrealized holding losses on available-for-sale investments				(417)	(417)
Net change due to pension				(16,721)	(16,721)
Comprehensive income					<u>\$ (5,488)</u>
Balance, December 31, 2008	<u>\$ 21,384</u>	<u>\$ 227,967</u>	<u>\$ 249,351</u>	<u>\$ (12,288)</u>	

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007 (in thousands)

	2008	2007
OPERATING ACTIVITIES		
Net income	\$ 11,650	\$ 12,975
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and impairment of servicing rights	2,664	1,598
Amortization of net premium on investments	559	891
Provision for loan losses	11,451	9,289
Other-than-temporary impairment	4,399	—
Gain on sale of available-for-sale investments	(569)	—
Gain on sale of mortgage loans	(2,567)	(615)
Depreciation and amortization	3,350	2,819
Increase in loans held for sale	(5,443)	(375)
Decrease (increase) in accrued interest receivable	1,947	(2,851)
(Increase) decrease in other assets	(382)	122
Increase in accrued expenses and other liabilities	4,852	300
Net cash provided by operating activities	<u>31,911</u>	<u>24,153</u>
INVESTING ACTIVITIES		
Purchases of available-for-sale investments	(1,093,955)	(1,099,927)
Proceeds from maturities of available-for-sale investments	214,365	245,454
Proceeds from sale of available-for-sale investments	655,871	573,435
Net decrease (increase) in other investments	123,465	(137,540)
Net increase in loans receivable	(103,724)	(209,222)
Increase in the National Credit Union Share Insurance Fund deposit	(3,070)	(4,740)
Purchases of property and equipment	(5,755)	(5,486)
Net cash used in investing activities	<u>(212,803)</u>	<u>(638,026)</u>
FINANCING ACTIVITIES		
Increase in borrowed funds	1,615,477	695,369
Repayment of borrowed funds	(1,818,282)	(489,829)
Net increase in members' shares	377,948	310,467
Net cash provided by financing activities	<u>175,143</u>	<u>516,007</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(5,749)	(97,866)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>41,324</u>	<u>139,190</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 35,575</u>	<u>\$ 41,324</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Dividends paid on members' shares and interest paid on borrowed funds	\$ 90,303	\$ 95,121

Notes to Consolidated Financial Statements

December 31, 2008 and 2007 (Dollars in the thousands)

A. SIGNIFICANT ACCOUNTING POLICIES

Organization: Bethpage Federal Credit Union (the "Credit Union") is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act.

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, Bethpage Management Services, LLC. The Credit Union owns 51% of Land Bound Services, LLC, and CU Settlements Services, LLC. All material intercompany balances and transactions have been eliminated in consolidation. Other affiliates in which there is at least 20% ownership are accounted for by the equity method; those in which there is less than 20% ownership are carried at cost.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

The principal estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and temporary impairment of investment securities. The evaluation of the adequacy of the allowance for loan losses includes an analysis of the individual loans and overall risk characteristics and size of the different loan portfolios, and takes into consideration current economic and market conditions, the capability of specific borrowers to pay specific loan obligations, as well as current loan collateral values. However, actual losses on specific loans, which also are encompassed in the analysis, may vary from estimated losses.

The Credit Union periodically evaluates each individual investment for impairment. Based upon the impairment testing completed as of December 31, 2008, the Credit Union determined that certain investments in corporate member capital accounts were other than temporarily impaired. The Credit Union recorded an other-than-temporary impairment charge of approximately \$4.4 million at December 31, 2008. Given changes in the market place, including further deterioration of the economy, future evaluations may indicate further impairment charges may need to be recognized through the consolidated statement of income.

Cash, Cash Equivalents and Cash Flows: Cash and cash equivalents consist of cash on hand, demand deposits, overnight investments, and nonterm share deposits in a Corporate Credit Union. For purposes of reporting cash flows, loans receivable, other investments, and members' shares are reported net.

Investments: Investments that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive income.

Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

Amortization of premiums and discounts are recognized in interest income over the period to maturity. Declines in the fair value of individual available-for-sale securities below their costs that are other than temporary result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. Other investments are classified separately and are stated at cost.

Federal Home Loan Bank Stock: The Credit Union as a member of the Federal Home Loan Bank of New York ("FHLB") system is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its outstanding mortgage loans or 4.5% of advances from the FHLB.

No ready market exists for the FHLB stock, and it has no quoted market value. Therefore, the Credit Union's investment in FHLB stock is carried at cost and tested for impairment. At December 31, 2008, management did not believe the stock was impaired.

The Board of Directors of each FHLB can increase the minimum investment requirements in the event it has concluded that additional capital is required to allow it to meet its own regulatory capital requirements. Any increase in the minimum investment requirements outside of specified ranges requires the approval of the Federal Housing Finance Board. Since the extent of any obligation to increase the Credit Union's investment in FHLB depends entirely upon the occurrence of a future event, potential future payments to the FHLB are not determinable.

Loans Held for Sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. All sales are made without recourse. Mortgage loans held for sale are sold with the mortgage servicing rights retained by the Credit Union.

Loans Receivable and Allowance for Loan Losses: Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and increased by deferred net loan origination costs. Interest on loans receivable is recognized over the terms of the loans and is calculated using the simple interest method on principal amounts outstanding. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

The Credit Union determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date.

The Credit Union maintains its allowance for loan losses in accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies," and SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" (as amended). Both statements require the Credit Union to evaluate the collectability of interest and principal loan payments. SFAS No. 5 requires the accrual of a loss when it is probable that a loan has been impaired and the amount of the loss can be reasonably estimated. SFAS No. 114 (as amended) requires that impaired loans be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loan's observable market price of fair value of the collateral. As the majority of the Credit Union's loans are collateral dependent, impairment is usually measured using the lower of cost or fair value of the collateral.

A loan is defined under SFAS No. 114 (as amended) as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the provisions of SFAS No. 114 (as amended), the Credit Union considers its investment in residential loans and consumer loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. These homogeneous loan groups are evaluated for impairment on a collective basis under SFAS No. 5. With respect to the Credit Union's investment in commercial and other loans, and its evaluation of impairment thereof, management believes such loans are adequately collateralized and as a result impaired loans are carried as a practical expedient at the lower of cost or fair value of the collateral.

It is the Credit Union's policy to charge off unsecured loans that are more than ninety days delinquent. Similarly, collateral-dependent loans which are more than ninety days delinquent are considered to constitute more than a minimum delay in repayment and are evaluated for impairment under SFAS No. 114 (as amended) at that time.

The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb estimated losses on existing loans. Management's periodic evaluation of the adequacy of the allowance is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes in economic conditions.

Transfers and Servicing of Financial Assets: The Credit Union accounts for the right to service mortgage loans sold to others under SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB statement No. 140." The cost allocated to the mortgage servicing rights retained has been recognized as a separate asset and is being amortized in proportion to and over the period of estimated net servicing income.

SFAS No. 156 requires the Credit Union to recognize as a separate asset the right to service mortgage loans for others. An institution that acquires mortgage servicing rights through either the purchase or the origination of mortgage loans and sells those loans with servicing rights retained must allocate a portion of the cost of the loans to the mortgage servicing rights. Under SFAS No. 156, the Credit Union could elect to either amortize the mortgage servicing rights over the life of the loan or carry the mortgage servicing rights at fair value. Under both methodologies, the mortgage servicing rights would be tested for impairment. Management elected to continue with the amortization method of accounting for mortgage servicing rights.

Mortgage servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market rates of interest and current expected future prepayment rates. For purposes of measuring impairment, the rights must be stratified by one or more predominant risk characteristics of the underlying loans. The Credit Union stratifies its capitalized mortgage servicing rights based on the type of loan, term, investor, interest rate, maturity date and origination date of the underlying loans. The amount of impairment recognized is the amount, if any, by which the amortized cost of the rights for each stratum exceed their fair value.

The mortgage servicing rights recorded by the Credit Union, were segregated into pools for valuation purposes, using as pooling criteria the loan type, loan term, investor, interest rate, maturity date, origination date, and coupon rate. Once pooled, each grouping of loans was evaluated on a discounted earnings basis to determine the present value of future earnings that a purchaser could expect to realize from each portfolio. Earnings were projected from a variety of sources including loan servicing fees, interest earned on float, net interest earned on escrows, miscellaneous income, and costs to service the loans. The present value of future earnings is the economic value of the pool, i.e., the net realizable present value to an acquirer of the servicing rights.

The valuation of mortgage servicing rights is influenced by market factors, including servicing volumes and market prices, as well as management's assumptions regarding mortgage prepayment speeds and interest rates. Impairment is measured based on the fair value of each pool. Management utilizes periodic third-party valuations by qualified market professionals to evaluate the fair value of its capitalized mortgage servicing assets.

Accrued Interest on Loans: Interest is accrued as earned unless the collectability of the loan is in doubt. Accrual of interest on loans is discontinued when management believes that, after considering economics, business conditions, and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. The Credit Union's policy is to stop accruing interest when the loan becomes 90 days delinquent. All interest accrued but not collected for loans that are placed on nonaccrual status or subsequently charged off are reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal and future payments are reasonably assured, in which case the loan is returned to accrual status.

Property and Equipment: Land is carried at cost. Building, furniture and equipment, data processing and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings, furniture and equipment and data processing 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 terms of the related leases.

National Credit Union Share Insurance Fund 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 federally insured Credit Union in an amount equal to 1% of its insured members shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, if it converts its insurance coverage to another source, or if management of the fund is transferred from the NCUA board. See Note N for further information.

Members' Shares: Members' shares are the deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's management.

Income Taxes: The Credit Union is exempt, by statute, from Federal and state income taxes.

Pension Plan: The Credit Union has a qualified, noncontributory defined-benefit pension plan covering substantially all of its employees. The Credit Union's policy is to fund an amount in excess of the minimum amount required under ERISA. The Credit Union adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)," effective January 1, 2007. SFAS No. 158 requires an employer to (a) recognize in its balance sheet the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan's assets and its obligations that determine its funded status as of the date of its year-end balance sheet; and (c) recognize as a component of other comprehensive income the actuarial gains and losses and the prior service costs and credits that arise during the period. SFAS No. 158 does not change how an employer determines the amount of net periodic benefit cost.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007 (Dollars in the thousands)

Comprehensive Income/Loss: The Credit Union records unrealized gains and losses on available-for-sale securities in other comprehensive income in the members' equity section. Gains and losses on available-for-sale securities reclassified to net income as gains or losses are realized upon the sale of securities. Unrealized losses arising during 2008 approximated \$986 and are recorded in other comprehensive income net of a reclassification adjustment of approximately \$569 for gains included in net income. There were no reclassification adjustments for the year ended December 31, 2007.

The Credit Union recorded \$16,721 in comprehensive losses related to the pension plans and related activity that arose during the period. See Note J for further information.

Recent Accounting Pronouncements: In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement shall be effective as of the beginning of each reporting entity's first fiscal year after November 15, 2007, or January 1, 2008, as to the Credit Union. The Credit Union adopted SFAS No. 159 as required without material effect on the statement of financial condition or statement of income, as management did not identify any financial assets or liabilities to which to apply the fair value option.

In December 2007, FASB issued SFAS No. 141R, "Business Combinations." It broadens fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. SFAS No. 141R expands on required disclosures to improve the ability to evaluate the nature and financial effects of business combinations. The statement is effective for the first annual reporting period beginning on or after December 15, 2008. The Credit Union does not anticipate a material impact as a result of this statement on its consolidated statements.

In December 2007, FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements: an amendment of ARB No. 51." The statement establishes the accounting and reporting of noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. The statement calls for consistency with the requirements of SFAS No. 141R. The statement is effective for fiscal years beginning on or after December 15, 2008. The Credit Union does not anticipate a material impact as a result of this statement on its consolidated statements.

In February 2008, FASB issued FASB Staff Position ("FSP") FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions," which provides guidance on accounting for a transfer of a financial asset and a repurchase financing. The FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." However, if certain criteria are met, the initial transfer and repurchase shall not be evaluated as a linked transaction and therefore evaluated separately under SFAS No. 140. The FSP is effective for repurchase financing in which the initial transfer is entered in fiscal years beginning after November 15, 2008. The Credit Union does not anticipate a material impact on its consolidated financial statements as a result of this statement.

In February 2008, FASB issued FSP FAS 157-2 which provides a one-year deferral of the effective date for SFAS No. 157 with respect to all nonfinancial assets and liabilities, except those items recognized or disclosed in the financial statements on a recurring basis (that is at least annually). The FSP was effective upon issuance.

In September 2008, the FASB issued a press release clarifying fair value measurement practices in the current market environment. The key issues discussed in the press release include the use of internal assumptions to estimate fair value when no relevant market data exists, use of market (broker) quotes to measure fair value, consideration of how transactions from distressed sales or inactive markets impact fair value, and factors to consider in the assessment of other-than-temporary impairment.

In October 2008, FASB issued FSP FAS 157-3, "Determining the Fair Value of A Financial Asset When the Market for the Asset is Not Active." Although FSP FAS157-3 does not prescribe any new accounting treatment or disclosure, the FSP does emphasize the key considerations in determining the fair value of a financial asset in an inactive market. The FSP stresses the following principles from SFAS No. 157, "Fair Value Measurements": (a) the objective of the fair value, i.e., to determine a price that would be received to sell the asset even if there is little or no market activity, (b) treatment of distressed sales, (c) the relevance of observable data, (d) management's assumptions about nonperformance and liquidity risk, and (e) reliance on third-party service quotes. FSP 157-3 is effective upon issuance with any resulting revisions in the valuation technique accounted for as a change in accounting estimate. Adoption did not have a material effect on the Credit Union's consolidated financial statements.

In December 2008, FASB issued FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets," which amends SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits," to require more detailed disclosure about employer plan assets, including employer's investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. The new disclosures are required to be included in financial statements for fiscal years ending after December 15, 2009, with early application permitted. This FSP only requires additional disclosures and will not have any effect on the Credit Union's consolidated financial statements.

In January 2009, the FASB issued a FSP on Emerging Issues Task Force ("EITF") 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20." This FSP amends the impairment guidance in Issue 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to Be Held by a Transferor in Securitization Financial Assets." The FSP serves to more closely align its other-than-temporary impairment guidance with paragraph 16 of SFAS No. 115 which enables greater judgment to be exercised in determining whether an other-than-temporary impairment needs to be recorded. The impairment model previously reported in EITF 99-20 limited management's use of judgment in applying the impairment model. This FSP is effective for annual reporting periods ending after December 15, 2008, and has been applied accordingly.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments." FSP FAS 115-2/124-2 requires entities to separate an other-than-temporary impairment of a debt security into two components when there are credit-related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security, and it is more likely than not that it will not be required to sell the security before recovery of its cost basis. The amount of the other-than-temporary impairment related to a credit loss is recognized in earnings, and the amount of the other-than-temporary impairment related to other factors is recorded in other comprehensive income (loss). FSP FAS 115-2/124-2 is effective for periods ending after June 15, 2009. Adoption of FSP FAS 115-2/124-2 is not expected to have a material impact on the Credit Union's results of operations or financial condition.

In April 2009, the FASB issued FSP 157-4, "Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are not Orderly." Under FSP FAS 157-4, if an entity determines that there has been a significant decrease in the volume and level of activity for the asset or the liability in relation to the normal market activity for the asset or liability (or similar assets or liabilities), then transactions or quoted prices may not accurately reflect fair value. In addition, if there is evidence that the transaction for

the asset or liability is not orderly, the entity shall place little, if any weight on that transaction price as an indicator of fair value. FSP FAS 157-4 is effective for periods ending after June 15, 2009. Adoption of FSP FAS 157-4 is not expected to have a material impact on the Credit Union's results of operations or financial condition.

In May 2009, the FASB issued FASB Statement No. 165, "Subsequent Events." SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. Adoption of SFAS No. 165 is not expected to have a material impact on the Credit Union's results of operations or financial condition.

In June 2009, the FASB issued FASB Statement No. 166, "Accounting for Transfers of Financial Assets—an amendment of FASB statement No. 140," to improve the reporting for the transfer of financial assets resulting from (1) practices that have developed since the issuance of SFAS No. 140, "Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities," that are not consistent with the original intent and key requirements of that statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This statement must be applied as of the beginning of the entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. Adoption of SFAS No. 166 is not expected to have a material impact on the Credit Union's results of operations or financial condition.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, "Amendments of FASB Interpretation No. 46(R)," to amend certain requirements of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. Adoption of SFAS No. 167 is not expected to have a material impact in the Credit Union's results of operations or financial condition.

In June 2009, the FASB issued Statement No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162." Under the statement, the FASB Accounting Standards Codification ("Codification") will become the source of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Adoption of SFAS No. 168 is not expected to have a material impact on the Credit Union's results of operations or financial condition.

B. INVESTMENTS

Investments classified as available-for-sale consist of the following:

December 31, 2008	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	\$ 92,103	\$ 2,962	\$ —	\$ 95,065
Mortgage-backed securities/collateralized mortgage obligations	725,084	11,352	(330)	736,106
Municipal bonds	129,746	1,406	(980)	130,172
Auction rate securities	115,250	—	(9,977)	105,273
	<u>\$ 1,062,183</u>	<u>\$ 15,720</u>	<u>\$ (11,287)</u>	<u>\$ 1,066,616</u>

December 31, 2007	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations and federal agencies securities	\$ 233,148	\$ 1,149	\$ (243)	\$ 234,054
Mortgage-backed securities/collateralized mortgage obligations	326,261	3,511	(375)	329,397
Municipal bonds	45,883	808	—	46,691
Auction rate securities	233,162	—	—	233,162
	<u>\$ 838,454</u>	<u>\$ 5,468</u>	<u>\$ (618)</u>	<u>\$ 843,304</u>

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2008 and 2007 are as follows (in thousands):

December 31, 2008	Fair Value	Continuous Unrealized Losses Existing For:				Total Unrealized Losses
		No. of Securities	Less Than 12 Months	No. of Securities	More Than 12 Months	
U.S. government obligations and Federal agencies securities	\$ —	—	\$ —	—	\$ —	\$ —
Mortgage-backed securities/collateralized mortgage obligations	80,784	22	(254)	6	(76)	(330)
Municipals	70,920	29	(980)	—	—	(980)
Auction rate certificates	63,373	11	(9,977)	—	—	(9,977)
	<u>\$215,077</u>	<u>62</u>	<u>\$(11,211)</u>	<u>6</u>	<u>\$ (76)</u>	<u>\$(11,287)</u>

Notes to Consolidated Financial Statements

December 31, 2008 and 2007 (Dollars in the thousands)

December 31, 2007	Fair Value	Continuous Unrealized Losses Existing For:						Total Unrealized Losses
		No. of Securities	Less Than 12 Months	No. of Securities	More Than 12 Months	No. of Securities		
Available-for-sale								
U.S. government obligations and Federal agencies securities	\$105,576	—	\$ —	21	\$ (243)	21	\$ (243)	
Mortgage-backed securities/collateralized mortgage obligations	51,356	7	(48)	13	(327)	20	(375)	
	<u>\$156,932</u>	<u>7</u>	<u>\$ (48)</u>	<u>34</u>	<u>\$ (570)</u>	<u>41</u>	<u>\$ (618)</u>	

The unrealized losses associated with these investments are considered temporary as the Credit Union has the ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value. Management believes that the temporary unrealized loss is due to the interest rate and credit environment.

Other investments consist of the following:

December 31	2008	2007
Certificates of deposit in banks and savings institutions	\$ 23,996	\$ 12,367
Share certificates in a corporate credit unions	75,000	202,000
Federal Home Loan Bank stock	3,556	12,115
Member capital account in a corporate credit union	5,400	9,334
	<u>\$ 107,952</u>	<u>\$ 235,816</u>

Certificates are generally nonnegotiable and nontransferable, and may incur substantial penalties for withdrawal prior to maturity.

The member capital account is an uninsured equity capital account with a Corporate Credit Union. No ready market exists for the equity capital, and there is no quoted market value. The Credit Union's investment in the Corporate Credit Union is carried at cost and tested for impairment. An other-than-temporary impairment charge was recorded during the year ended December 31, 2008, to fully write off approximately \$3,800 of a member capital account and partially write off approximately \$600 of a second member's capital account. See Note N for further information.

The Credit Union held \$3,556 and \$12,115 of Federal Home Loan Bank of New York ("FHLBNY") stock as of December 31, 2008 and 2007. FHLBNY stock is a restricted investment and is carried at cost, which is par value, and evaluated for impairment.

At December 31, 2008 and 2007, there were approximately \$103,044 and \$239,368, respectively, in Credit Union and bank deposits with individual balances in excess of the insured limit.

Investments by maturity as of December 31, 2008 are summarized as follows:

	Available-for-sale		Other
	Amortized Cost	Fair Value	
No contractual maturity	\$ —	\$ —	\$ 8,956
Less than 1 year maturity	48,279	48,955	57,186
1-5 years maturity	161,886	163,672	41,810
5-10 years maturity	11,684	12,610	—
Mortgage-backed securities	725,084	736,106	—
Auction rate securities	115,250	105,273	—
	<u>\$1,062,183</u>	<u>\$1,066,616</u>	<u>\$ 107,952</u>

Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to prepay the obligations and are, therefore, classified separately with no specific maturity date. Member capital accounts have been classified with no contractual maturity.

There were \$67,461 in available-for-sale securities and \$3,556 in FHLBNY stock pledged to the FHLBNY as collateral for potential borrowings. There were no amounts borrowed at December 31, 2008. There were \$255,129 in available-for-sale securities and \$12,115 in FHLBNY stock pledged as collateral for borrowed funds at December 31, 2007.

3. LOANS RECEIVABLE

Loans receivable consist of the following:

December 31	2008	2007
Real estate loans:		
Fixed rate mortgages	\$ 470,392	\$ 490,429
Hybrid/balloon mortgages	402,727	284,300
Home equity line of credit, variable rate	444,188	388,067
Home equity loans	215,619	234,911
Commercial loans	21,372	10,849
Commercial participation loans	84,715	103,001
	<u>1,639,013</u>	<u>1,511,557</u>

December 31	2008	2007
Vehicle loans	186,806	217,097
Vehicle participation loans	5,085	11,528
Consumer loans	52,832	51,527
Business loans	11,690	11,692
Credit card loans	35,604	32,379
	<u>1,931,030</u>	<u>1,835,780</u>
Deferred net loan origination costs	6,478	6,666
Allowance for loan losses	(10,209)	(7,906)
	<u>\$ 1,927,299</u>	<u>\$ 1,834,540</u>

The Credit Union has purchased commercial loan participations originated by various other Credit Unions. All of these loan participations were purchased without recourse and are collateralized by real property. The Credit Union also purchased vehicle participation loans originated by various other Credit Unions that consist of pools of vehicle loans. These loans were purchased nonrecourse, full recourse and limited subordination. In limited subordination, the Credit Union is responsible for loan losses that exceed thresholds varying between 3.5% and 5%. The originating Credit Unions perform all servicing functions on these loans.

The Credit Union offers nontraditional hybrid/balloon mortgage loans to its members. Hybrid/balloon loans consist of loans that are fixed for an initial period of three, five or seven years. After this period, the mortgages are converted to variable rate using the fully indexed rate capped at an annual increase of two percent, which can result in significant payment shock to the borrower. During 2008 and 2007, the Credit Union did not engage in subprime lending.

The Credit Union entered into an agreement to sell the credit card loan portfolio in December 2006. Due to specific provisions of the sale agreement, the transaction is treated as a secured borrowing under SFAS 140. Since the Credit Union has not released effective control over those assets, the loans are required to be classified as pledged. Credit card loans pledged under this participation loan agreement totaled \$35,604 and \$32,379 as of December 31, 2008 and 2007, respectively.

The following is an analysis of the allowance for loan losses:

Years ended December 31	2008	2007
Balance, beginning of year	\$ 7,906	\$ 6,550
Provision for loan losses	11,451	9,289
Recoveries	1,331	1,036
Loans charged off	(10,479)	(8,969)
Balance, end of year	<u>\$ 10,209</u>	<u>\$ 7,906</u>

Outstanding mortgage loan commitments at December 31, 2008 and 2007 total approximately \$93,696 and \$38,590, respectively.

Available credit on home equity and unsecured lines of credit is summarized as follows:

December 31	2008	2007
Home equity	\$ 267,597	\$ 267,312
Other consumer	125,155	127,217
Other unused member business loan	8,449	13,414
	<u>\$ 401,201</u>	<u>\$ 407,943</u>

Commitments for home equity and unsecured lines of credit may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future cash requirements of the Credit Union. These commitments are not reflected in the financial statements.

Loans on which the accrual of interest has been discontinued totaled \$6,146 and \$4,434 at December 31, 2008 and 2007, respectively. If interest on those loans had been accrued at original contracted rates, interest income would have been approximately \$249 and \$205 higher for 2008 and 2007, respectively.

D. 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 at December 31, 2008 and 2007 are summarized as follows:

December 31	2008	2007
Mortgage loans underlying pass-through securities:		
Federal National Mortgage Association	\$ 785,640	\$ 680,714
Charlie Mac, LLC	18,680	19,910
Federal Home Loan Mortgage Corporation	49,539	15,544
	<u>\$ 853,859</u>	<u>\$ 716,168</u>

Notes to Consolidated Financial Statements

December 31, 2008 and 2007 (Dollars in the thousands)

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares, were approximately \$5,635 and \$4,740 at December 31, 2008 and 2007, respectively.

A summary of the changes in the balance of mortgage servicing rights in 2008 and 2007 were as follows:

Years ended December 31	2008	2007
Balance, beginning of year	\$ 5,029	\$ 6,136
Servicing assets recognized during the year	2,081	491
Amortization of servicing assets	(1,834)	(1,560)
Impairment of servicing assets	(830)	(38)
Balance, end of year	<u>\$ 4,446</u>	<u>\$ 5,029</u>
Fair value of mortgage servicing rights	\$ 4,738	\$ 7,821

E. PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

December 31	2008	2007
Land	\$ 1,760	\$ 1,735
Building	14,850	14,737
Furniture and equipment	8,841	8,840
Data processing	13,419	12,020
Leasehold improvements	9,553	5,337
	48,423	42,669
Accumulated depreciation and amortization	(28,276)	(24,927)
	<u>\$ 20,147</u>	<u>\$ 17,742</u>

The Credit Union leases various offices. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2008, are as follows:

Years ending December 31	
2009	\$ 1,830
2010	1,810
2011	1,589
2012	1,326
2013	1,113
Subsequent years	5,923
	<u>\$ 13,591</u>

Rental expense for the years ended December 31, 2008 and 2007 for all facilities leased under operating leases totaled \$2,224 and \$1,756, respectively.

F. MEMBERS' SHARES

Members' shares are summarized as follows:

December 31	2008	2007
Regular shares	\$ 275,168	\$ 253,316
Share draft accounts	197,429	190,760
Money market accounts	820,527	645,111
Individual retirement accounts – money market	103,192	98,639
Certificates	1,477,863	1,308,405
	<u>\$ 2,874,179</u>	<u>\$ 2,496,231</u>

Shares by maturity as of December 31, 2008 are summarized as follows:

No contractual maturity	\$ 1,396,316
0–1 year maturity	1,052,671
1–2 years maturity	216,407
2–3 years maturity	74,051
3–4 years maturity	47,258
4–5 years maturity	87,476
	<u>\$ 2,874,179</u>

Regular shares, share draft accounts, money market accounts, and individual retirement account shares have no contractual maturity. Certificate accounts have maturities of five years or less.

The National Credit Union Share Insurance Fund insures members' shares up to \$250, which represents an increase of \$150 from 2007. The aggregate amount of certificates in denominations of \$100 or more at December 31, 2008 and 2007 is approximately \$447,008 and \$385,359, respectively. The aggregate amount of certificate of deposits in excess of \$250, at December 31, 2008, totaled \$68,881.

At December 31, 2008 and 2007, overdraft demand shares reclassified to loans totaled \$152 and \$208, respectively.

G. BORROWED FUNDS

In 2006, the Credit Union entered into a sale agreement to sell their credit card loan portfolio. Due to specific provisions of the sale agreement, the transaction is treated as a secured borrowing under SFAS 140. Specific provisions of the agreement include the Credit Union's option to repurchase these loans in five years.

Since the Credit Union has not released effective control over those assets, the loans are classified as pledged, and a secured borrowing was established. Outstanding credit card loan balances under this loan agreement totaled \$35,604 and \$32,379 at December 31, 2008 and 2007, respectively. Included in borrowed funds is \$2,622 and \$3,272 of deferred gain related to the secured borrowed transaction at December 31, 2008 and 2007, respectively.

At December 31, 2007, the Credit Union had \$205,380 in borrowings from FHLBNY. All borrowings from FHLBNY matured in 2008 with interest rates ranging from 4.36% to 4.60% and a weighted average interest rate of 4.51%.

The Credit Union has lines of credits with various financial institutions. The terms of the agreements call for pledging assets as security for any and all obligations taken by the Credit Union. The agreements provide for a total credit limit of \$210 million with interest charged at a rate determined by the lenders on a periodic basis. At December 31, 2008 and 2007, there were no borrowings under these agreements. Additionally, there were no draws outstanding on these lines of credit for any material length of time in 2008 or 2007. The agreements are reviewed for continuation by the lender and the Credit Union annually.

H. CONCENTRATIONS OF CREDIT RISK

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 bylaws. Under a community charter approved during 2003 by the National Credit Union Administration ("NCUA"), the Credit Union's field of membership includes all individuals who live, work, worship, or attend school in New York's Nassau County and in substantially all of New York's Suffolk County. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of the overall geographic region in which borrowers reside.

I. COMMITMENTS AND CONTINGENT LIABILITIES

The Credit Union is a party to various legal actions normally associated with collections of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the financial condition or results of operations of the Credit Union.

The Credit Union has approximately \$27,642 and \$5,896 in outstanding commitments to sell loans at December 31, 2008 and 2007, respectively. There are no commitments to sell investments at December 31, 2008.

J. EMPLOYEE BENEFITS

The Credit Union sponsors a funded, noncontributory defined benefit pension plan for the benefit of its employees. The Credit Union also sponsors an unfunded, noncontributory, nonqualified defined benefit supplemental executive retirement plan. The plans call for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future. Plan assets consist primarily of equity securities.

The Credit Union also sponsors a postretirement benefit plan to provide health care benefits to retirees of the Credit Union from retirement until Medicare benefits become available. The postretirement benefits take into account actuarial assumptions that consider employee's age, years to retirement, and years to Medicare benefits. Other assumptions include that the plan will pay a portion of the health care premium for the retirees, and a factor of the health care cost trend rate.

Notes to Consolidated Financial Statements

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The accrued pension benefits and net periodic pension costs for the years ended December 31, 2008 and 2007 are as follows:

	Pension Plans		Postretirement Benefit	
	2008	2007	2008	2007
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 26,116	\$ 27,344	\$ 5,800	\$ 5,912
Service cost	917	928	264	298
Interest cost	1,764	1,655	362	352
Plan amendments	85	—	(679)	—
Benefits paid	(1,123)	(1,085)	(282)	(265)
Actuarial (gain)/loss	2,119	(2,726)	80	(497)
Benefit obligation at end of year	\$ 29,878	\$ 26,116	\$ 5,545	\$ 5,800
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 28,197	\$ 26,036	\$ —	\$ —
Actual return on plan assets	(8,461)	1,246	—	—
Employer contributions	1,000	2,000	282	266
Benefits paid	(1,123)	(1,085)	(282)	(266)
Fair value of plan assets at end of year	\$ 19,613	\$ 28,197	\$ —	\$ —
Funded status at end of year	\$ (10,265)	\$ 2,081	\$ (5,545)	\$ (5,800)
Accumulated benefit obligation	\$ 27,529	\$ 23,873	\$ —	\$ —
Amounts recognized in the statement of financial position consist of:				
Prepaid benefit cost	—	2,081	—	—
Accrued benefit liability	(10,265)	—	(5,545)	(5,800)
Accumulated other comprehensive income	\$ 15,852	\$ —	\$ 869	\$ —
Amounts recognized in the accumulated other comprehensive income (loss) consist of:				
Net actuarial loss	\$ 16,399	\$ —	\$ 1,275	\$ —
Prior service credit	(547)	—	(406)	—
Total	\$ 15,852	\$ —	\$ 869	\$ —
Weighted average assumptions used to determine benefit obligations as of December 31				
Discount rate	6.43%	6.85%	6.50%	6.73%
Rate of compensation increase	4.00%	5.00%		
Weighted average assumptions used to determine net periodic pension cost as of December 31				
Discount rate	6.85%	6.13%	6.73%	6.13%
Expected return on plan assets	8.00%	8.00%		
Rate of compensation increase	5.00%	5.00%		
Inflation	3.00%	3.00%		
Health care inflation				
Medical trend rates			9.0%–5.0%	10.0%–5.0%
Year of ultimate achievement			2013	2013
Dental trend rates			5.0%	7.0%–5.0%
Year of ultimate achievement				2013
Effect on total service and interest cost components			1% point increase	1% point decrease
	\$	\$	112	(87)
Effect on postretirement benefit obligation			856	(678)

The funded, noncontributory defined benefit pension plan's expected long-term rate of return assumption is based on a building block approach, determining risk-free asset return assumptions, and applying a weighted average methodology to the proportion of plan assets in each applicable asset class.

The Credit Union's pension plan weighted-average asset allocations approximates by asset category as follows:

	Pension Plans	
	2008	2007
Equity securities	72%	79%
Debt securities	28%	21%
	<u>100%</u>	<u>100%</u>

The Credit Union's pension's investment strategies are to invest in a prudent manner for the exclusive purpose of providing benefits to participants. The investment strategies are targeted to produce a total return that, when combined with the Credit Union's contributions to the plan, will maintain the fund's ability to meet all required benefit obligations. Risk is controlled through diversification of asset types and investments in domestic and international equities, fixed income securities and cash.

The minimum contribution requirement is \$424 for the pension plans and approximately \$285 to the postretirement benefit plan in 2009.

The following pension and postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Years ending December 31	
2009	\$ 1,456
2010	1,479
2011	1,547
2012	1,611
2013	1,685
2014–2018	10,767
	<u>\$ 18,545</u>

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted. The Act established a prescription drug benefit under Medicare, known as "Medicare Part D," and a federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Credit Union believes that benefits provided to certain participants will be at least actuarially equivalent to Medicare Part D and, accordingly, the Credit Union will be entitled to a subsidy.

The Credit Union has a defined contribution 401(k) plan that allows employees to defer a portion of their salary into the 401(k) plan. The Credit Union matches a portion of employees' wage reductions. Plan costs are accrued and funded on a current basis. The Credit Union contributed approximately \$585 and \$473, respectively, to the plan for the years ended December 31, 2008 and 2007.

K. MEMBERS' EQUITY

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles. The Credit Union's capital amounts and 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 to total assets. Further, Credit Unions over \$10,000 in assets are also required to calculate a risk-based net worth ("RBNW") requirement which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW requirements as of December 31, 2008 and 2007 were 5.69% and 5.51%, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6%. Management believes, as of December 31, 2008 and 2007, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, the most recent call reporting period, and 2007, 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% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

The Credit Union's actual capital amounts and ratios are presented in the following table:

	December 31, 2008		December 31, 2007	
	Amount	Ratio/Requirement	Amount	Ratio/Requirement
Amount needed to be classified as "adequately capitalized"	\$ 192,545	6.0%	\$ 181,072	6.0%
Amount needed to be classified as "well capitalized"	\$ 224,636	7.0%	\$ 211,250	7.0%
Actual net worth	\$ 249,351	7.7%	\$ 237,701	7.8%

Notes to Consolidated Financial Statements

December 31, 2008 and 2007 (Dollars in the thousands)

Because the RBNW requirement 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 balance option, as permitted by regulation.

L. RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans to related parties at December 31, 2008 and 2007 are \$3,063 and \$2,750, respectively. Deposits from related parties at December 31, 2008 and 2007 amounted to \$2,018 and \$1,590, respectively.

M. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Credit Union generally holds its earning assets, other than securities available-for-sale and loans held for sale, to maturity and settles its liabilities at maturity. However, fair value estimates are made at a specific point in time and are based on relevant market information. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Credit Union's entire holdings of a particular instrument. Accordingly, as assumptions change, such as interest rates and prepayments, fair value estimates change and these amounts may not necessarily be realized in an immediate sale.

Disclosure of fair value does not require fair value information for items that do not meet the definition of a financial instrument or certain other financial instruments specifically excluded from its requirements. These items include property and equipment, leases, foreclosed properties, and equity.

Further, fair value disclosure does not attempt to value future income or business. These items may be material and, accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying "market" or franchise value of the Credit Union.

Effective January 1, 2008, the Credit Union adopted SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement. There have been no material changes in valuation techniques as a result of the adoption of SFAS No. 157.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active for identical or similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and significant to the fair value of the assets or liabilities that are developed using the reporting entities' estimates and assumptions, which reflect those that market participants would use.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

A description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the classification of the instruments pursuant to the valuation hierarchy, are as follows:

Securities classified as available-for-sale are reported using Level 1, Level 2 and Level 3 inputs. Level 1 securities generally include equity securities valued based on quoted market prices in active markets. Level 2 instruments include U.S. government agency obligations, municipal bonds, mortgage-backed securities, collateralized mortgage obligations and certain auction rate securities. For these securities, the Credit Union obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Level 3 securities available-for-sale consist of instruments that are not readily marketable and may only be redeemed with the issuer at par such as Federal Home Loan Bank stock and certain auction rate securities. These securities are stated at par value, which is deemed to approximate fair value.

Mortgage servicing rights are classified as Level 3 financial instruments with the methodology described in Note A-9.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of the recorded investment in the loan or market value. The loans identified as impaired are collateral dependent secured by real estate. Market value is determined by using the value of the collateral securing the loans and is therefore classified as a level 3 hierarchy. The value of the real estate is determined by qualified independent licensed appraisers contracted by the Credit Union to perform the assessment. The appraised value is then discounted based upon management's experience, which includes estimated disposal costs, understanding of the member and the member's business as well as economic conditions. Impaired loans are reviewed and evaluated on a quarterly basis for additional impairment and adjusted accordingly, based upon the pertinent conditions.

Assets measured at fair value on a recurring basis are summarized below (in thousands).

Assets:	Fair Value Measurement Using:				Balance Dec. 31, 2008
	Quoted prices in active markets for identical assets/liabilities	Significant other observable inputs	Significant unobservable inputs		
	Level 1	Level 2	Level 3		
Investment securities available-for-sale	\$ —	\$ 1,003,243	\$ 63,373		\$ 1,066,616
Mortgage servicing rights	—	—	4,738		4,738
Loans held for sale	—	6,158	—		6,158
Total assets	\$ —	\$ 1,009,401	\$ 68,111		\$ 1,077,512

The above table includes \$11,287 million in unrealized losses on the Credit Union's available-for-sale securities. The Credit Union has reviewed its investment portfolio at December 31, 2008, and has determined that the unrealized losses are temporary. Such determination was based upon an evaluation of the creditworthiness of the issuers and/or guarantors, the underlying collateral, if applicable, as well as the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment condition. This includes, but is not limited to, an evaluation of the type of security and length of time and extent to which the fair value has been less than cost, as well as certain collateral related characteristics. In addition, management considers the Credit Union's ability to hold such securities to maturity, if necessary, thereby recovering its investment.

The estimated fair value amounts have been determined by the Credit Union using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Credit Union could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate fair values of financial instruments not previously discussed as disclosed herein:

Loans Receivable: The estimated fair value for all fixed rate loans is determined by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities.

The estimated fair value for variable rate loans is the carrying amount. Credit card loans are considered, for estimation of fair value purposes, variable rate loans since interest rates may be changed by the Credit Union.

The impact of delinquent loans on the estimation of the fair values described above is not considered to have a material effect and, accordingly, delinquent loans have been disregarded in the valuation methodologies employed.

Other Investments: For other investments the fair value is deemed to approximate cost.

Members' Shares and Borrowed Funds: The estimated fair value of demand deposit accounts (regular shares, share draft accounts, money market accounts and individual retirement accounts) is the carrying amount. The fair value of fixed-maturity certificates and borrowed funds is estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

Other On-Balance-Sheet Financial Instruments: Other on-balance-sheet financial instruments include cash and cash equivalents and accrued interest receivable. The carrying value of each of these financial instruments is a reasonable estimation of fair value.

Off-Balance-Sheet Financial Instruments: The fair values for the Credit Union's off-balance sheet commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the members. The estimated fair value of these commitments is not significant.

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

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 35,575	\$ 35,575	\$ 41,324	\$ 41,324
Investments available-for-sale	1,066,616	1,066,616	843,304	843,304
Other investments	107,952	109,568	235,816	236,980
Loans receivable, net	1,927,299	1,916,404	1,834,540	1,842,952
Financial Liabilities:				
Members' shares	2,874,179	2,875,729	2,496,231	2,493,270
Borrowed funds	38,226	38,226	241,031	241,031

N. SUBSEQUENT EVENT (UNAUDITED)

On January 28, 2009, the NCUA board announced certain actions it was taking to stabilize the Corporate Credit Union system. The NCUA indicated that the expense of the actions would be passed on proportionately to all federally insured Credit Unions through the partial (estimated by the NCUA to be 69 percent) write-off of such Credit Unions' existing deposits with the NCUA, as well as the assessment of an insurance premium sufficient to return the NCUA's equity to insured shares ratio to 1.30 percent. The NCUA will assess additional premiums in the upcoming years to increase the insurance fund.

On May 20, 2009, the President of the United States signed S.896 Helping Families Save Their Homes Act into law. S.896 will allow Credit Unions to spread the cost of replenishing the NCUA over a seven year period. The Credit Union did not record any impairment to the NCUA deposit as of December 31, 2008, and will expense the premium when it is assessed by the NCUA.

As a result of the NCUA's takeover of a corporate credit union, and its directive in a letter dated March 20, 2009, the Credit Union recorded an impairment charge of \$3,800 of corporate member capital shares it had as of December 31, 2008.

In addition, based on the latest information at the time of this report the Credit Union recorded an impairment charge of \$600 of corporate member capital it had with a second corporate credit union as of December 31, 2008. The NCUA is still assessing the values of the investment portfolios of the corporate Credit Unions. Once their review is complete, it may be determined that the Credit Union's capital investments in the corporate credit unions (\$5.4 million at December 31, 2008) may require additional other-than-temporary impairment charges related to these investments. At the present time, the probability of this happening is unknown as well as its potential financial impact.

Subsequent to December 31, 2008, \$41.9 million of Auction Rate Securities were redeemed by the issuers. These securities were recorded at par on December 31, 2008, and subsequently redeemed at par with no effect on the unrealized loss.



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