

Digital Federal Credit Union

Annual Report 2009



BANKING – THE DCU WAY

Chairman and President's Report

The Economy in 2009

Through the year, America was in the depths of its longest economic downturn since the Great Depression of the 1930's. Unemployment rose to 10% with as much as 20% of the population out of work, working fewer hours, or working for reduced wages.

Consumers saw significant declines in the value of their homes, their investments, and their 401(k) retirement accounts. Home foreclosures hit all-time highs. The federal government saw fit to bail out big commercial banks, investment banks, and auto makers in an attempt to avert economic collapse.

DCU, along with the rest of the credit union movement, was not responsible for the financial excesses that led to this recession. What's more, neither DCU nor any other credit union was offered or received federal bailout money. Of all sectors of the financial services industry, credit unions like DCU were the shining stars.

The Impact on DCU and Its Members

Anything that affects DCU's members affects DCU. Members were concerned about their incomes as they saw their neighbors, families and friends lose their jobs or they lost their own. They cut back on buying cars, homes, and other major purchases. They used their credit cards much less and began saving more. In response to concerns about the safety of other institutions, members moved more and more of their savings to DCU.

In response, DCU focused on three very important priorities:

- Continue delivering the best possible value and service to the members who rely on us day in and day out
- Do everything possible to help members hit hard by tough times
- Ensure DCU remains safe and sound for our members now and in the future

DCU succeeded in those objectives thanks to the collective effort of our staff, management team, and volunteers. We continued to introduce and enhance services designed to meet the evolving needs of our members. When many student lenders locked their doors, DCU was there with an economical program to fill that critical need. Private student lending is currently DCU's fastest growing service. We continued to meet members' mortgage needs while many lenders closed or stopped lending.

When members were faced with loss of income, we did all we could to keep them in their homes and cars. We were and remain an active participant in the federal government's Making Home Affordable Program. We helped thousands of members through our Financial Assistance Program and will continue to do so. We waived certificate early withdrawal penalties for several months so cash-strapped members would have free emergency access to their long-term savings. We helped members take advantage of FinanceWorks™ in PC Branch to better understand and manage their expenses.

To offset the rising cost of problem loans, larger NCUA insurance assessments, and lower member demand for new loans, DCU took significant steps to reduce expenses and preserve capital. We intentionally reduced our assets, as you may note in our financial statements,

primarily by early repayment of Federal Home Loan Bank advances. Our efforts made an already financially strong DCU even stronger for our members.

In 2009, more than 24,000 new members joined DCU, mostly on the recommendation of our current members. We are humbled and extremely grateful for this vote of confidence.

The Year Ahead

We all are eager for our friends and neighbors to return to work and for the economic recovery to reach everyone. There are some encouraging signs, but the country still has a ways to go. No matter what happens, you can count on DCU to protect your savings, provide loans for the important things in your life, and to continue meeting your financial needs “The DCU Way.”

In 2010, you can expect continued enhancements to our services (particularly in the area of wireless access), good value you’ve come to expect, and prudent financial management of your credit union’s assets.

On behalf of the Board of Directors, volunteers, management, and staff, we thank you for your loyalty to DCU. We only exist to serve you. Please let our team know what DCU can do to help make your financial life easier and help you make progress toward your financial goals. Your business belongs at the financial institution you own – DCU.

Sincerely,



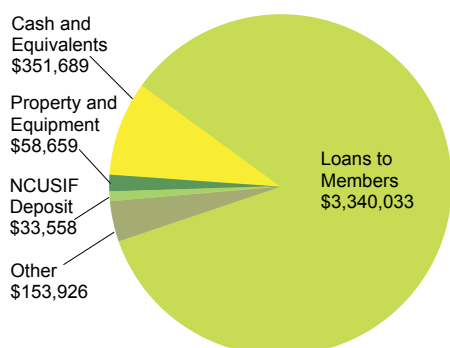
Frank S. Branca
Chairman, Board of Directors



Jim Regan
President/CEO

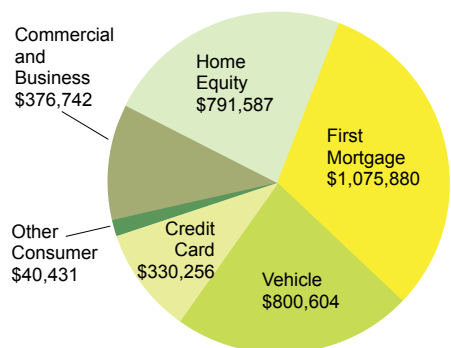
Assets

Numbers in thousands



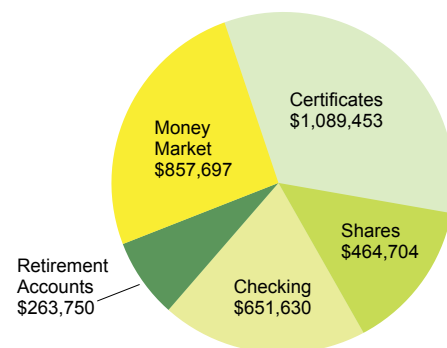
Loans to Members

Numbers in thousands



Member Savings

Numbers in thousands



Service Enhancements

New online consumer and home equity loan application – Introduced in March, this new secure online process makes requesting loans and credit cards easier than ever, 24 hours a day. Most members get an answer on their request in minutes.

PC Deposit – This popular service for depositing checks online with a computer and scanner began offering real-time credit for many deposits and compatibility with additional browsers.

Enhancements to Loyalty Checking Program – We implemented changes in June that simplified the program and made qualifying for valuable benefits easier.

Real-time online certificate account opening – Set up new accounts instantaneously in PC Branch when funds are available for transfer.

Enhanced PC Branch Security – Offers superior protection against unauthorized access to your accounts in PC Branch even if your member number and password have been stolen.

Barnyard Cents Introduced – We renamed and enhanced our financial education club for members twelve and under.

Enhancements to FinanceWorks™ – This free tool in PC Branch helps members better understand their finances and where their money goes making it easier to manage their money. The latest improvements were based on end-user insights and observations.

Instant Visa® Card Issuance and Replacement – If you are opening a new account or replacing a lost or stolen plastic, we can make your new credit or debit card at eleven Massachusetts and New Hampshire branches in as little as five minutes.

Free Discount Prescription Card – This program allows members to print a free card online and use it to obtain discounts from most major pharmacies.

Making Home Affordable Plan – DCU participated in this federal government program designed to help consumers stay in their homes and avoid foreclosure.

DCU in the Community

DCU strives to be a socially responsible organization and have a positive impact on the communities we serve. Among our efforts in 2009 were...

- ***DCU for Kids*** – With a successful annual Golf Classic, raffles, and other events, our charitable foundation raised \$550,000 for charities benefiting children. The largest of our 34 beneficiaries were the Boys and Girls Club of Metro West, Children's Hospital Boston, Autism Speaks, and the Boomer Esiason Foundation for Cystic Fibrosis.
- ***Reach Out for Schools*** – This non-profit raises money from membership fees and donations to support schools and classrooms in communities where its members live. DCU provides staff and financial support to the group.
- ***In-school financial education*** – DCU provided free financial education to students in 15 New England high schools, one home-school group, and one middle school.
- ***DCU Memorial Scholarships*** – Each spring, since our program began in 1996, DCU awards scholarships to members who are graduating high school seniors judged most likely to excel at a college or university. There are a total of twenty scholarships awarded.
- ***Charitable Contributions*** – DCU supported 59 causes, schools, and community events.
- ***Elementary School Classroom Adoptions*** – We supported 55 local public elementary school classrooms in DCU branch communities in cooperation with Adopt-A-Classroom with emphasis on special needs and special needs-inclusion classrooms.
- ***Serving under-served communities*** – DCU offers unrestricted credit union benefits to people that live, work, attend school, or worship in seven communities designated as under-served areas.
- ***Member of the Worcester Alliance for Economic Inclusion*** – A FDIC organized effort to bring un-banked citizens into the financial mainstream.

2009 in review

Consolidated Statements of Financial Condition

December 31,	2009	2008
Assets	{in thousands}	
Cash and cash equivalents	\$351,689	\$299,344
Investments		
Trading	40,063	-
Other	46,932	50,432
Loans held-for-sale	19,657	4,694
Loans, net	3,340,033	3,997,025
Accrued interest receivable	14,718	16,261
Property and equipment, net	58,659	62,839
National Credit Union Share Insurance Fund deposit	33,558	28,097
Other assets	32,556	27,999
Total assets	\$3,937,865	\$4,486,691

Liabilities and Members' Equity

Liabilities		
Members' shares	\$3,328,234	\$3,494,310
Borrowed funds	314,844	693,310
Accrued expenses and other liabilities	29,564	38,413
Total liabilities	3,672,642	4,226,033

Commitments and contingent liabilities

Members' Equity		
Retained earnings, substantially restricted	268,059	263,777
Accumulated other comprehensive loss	(2,836)	(3,119)
Total members' equity	265,223	260,658
Total liabilities and members' equity	\$3,937,865	\$4,486,691

To view the full 2009 audited Financial Statements, visit dcu.org.

Consolidated Statements of Income

December 31,	2009	2008
Interest Income	{in thousands}	
Loans	\$217,769	\$238,192
Investments and cash equivalents	1,127	4,355
Total Interest Income	\$218,896	\$242,547
Interest Expense		
Members' shares	58,467	87,279
Borrowed funds	15,526	24,371
Total Interest Expense	\$73,993	\$111,650
Net Income Interest	144,903	130,897
Provision for Loan Losses	88,755	55,775
Net Interest Income After Provision for Loan Losses	\$56,148	\$75,122
Noninterest Income		
Service charges and other fees	17,353	17,882
Interchange income	13,665	14,680
Net gains on sales of loans	8,970	314
Loan servicing fees	6	909
Impairment loss on capital investment in a corporate credit union	(3,500)	-
Recapitalization gain on National Credit Union Share Insurance Fund deposit	20,924	-
Loss on early termination of borrowed funds	(7,265)	-
Other non-interest income	7,445	5,883
Total Noninterest Income	57,598	36,668
	\$113,746	\$114,790
General and Administrative Expenses		
Salaries and benefits	40,687	47,705
Operations	29,199	41,851
Occupancy	13,620	13,688
Impairment loss on National Credit Union Share Insurance Fund deposit and members insurance premium	25,958	-
Total Noninterest Expenses	109,464	103,244
Net Income	\$4,282	\$11,566

To view the full 2009 audited Financial Statements, visit dcu.org.

Board of Directors

Frank Branca
Chairman

Karyn Brown
Treasurer

Steven Eddleston

Kathleen Nearing
Vice Chairman

David Garrod
Secretary

Jim Hom

William Kilgore

Supervisory Committee

Kathleen Larsen
Chairperson

Phillip Gransewicz
Secretary

Ellen Frank

Kathleen Nearing

Carlo Cestra

Management

James Regan
President
Chief Executive Officer

Kris VanBeek
Sr. Vice President
Information Systems
& Risk Management

Don Thompson
Vice President
IS Security

Thomas Ryan
Executive Vice President
Chief Operating Officer

Eileen Galligan
Vice President
Mortgage Lending

Mike Winter
President/CEO
FIVision

Tim Garner
Sr. Vice President
Marketing/Strategic Planning

Richard Hayward, Jr.
Vice President
Finance

Kim Chagnon
Director
DCU Realty

Carol Raposa
Sr. Vice President
Branch Services

Steve Mackowitz
Vice President
Commercial Lending

Dennis Murphy III
Director
DCU Insurance

Craig Roy
Sr. Vice President
Support Services

Diane Richard
Vice President
Consumer Lending

Marianne Zawacki
Director
DCU Financial

Donna Russo
Sr. Vice President
Human Resources

Products and Services

Personal Banking

Loans

Apply online or by phone 24-hours a day

- Auto, Boat, Recreational Vehicle, Motorcycle, Personal Aircraft, and more
- Mortgages, Home Equity Loans and Lines
- Visa® Basic, and Secured Credit Cards
- Personal, Consolidation, Savings, Certificate, and Stock-Secured Loans
- Private Student Lending Solutions

Savings

Account opening and access online

24-hours a day

- Savings, Checking, Money Market, and Certificates
- Ltd Savings Account
- Individual Retirement Accounts
- Holiday Club and Member Described Accounts
- Trust and UTMA Accounts

Special Programs

- First-Time Homebuyer
- Reverse Mortgage
- CashPak
- Mobility Vehicle and Access Loans
- Financial Wellness & Recovery Program
- Skip-A-Payment

Access and Miscellaneous Services

- PC Branch with Bill Payer
- DCU Visa Check Card and ATMs
- Direct Deposit
- PC Deposit
- Easy Touch Telephone Teller
- DCU Visa Gift Cards
- CashEdge Funds Transfer Service
- Money Orders and Travelers Cheques
- Notary, Signature Guarantee
- Bank by Mail

- Domestic and International Money Wires
- FinanceWorks™
- DCU Classified

Education and Information

- DCU eNEWS
- *StreetWise* Consumer Education Program
- *Members' Monthly* Newsletter
- *Show Me* Web Site and Newsletter
- *FoolProof* for Students, Parents, and Grandparents
- *Barnyard Cents* Newsletter
- Auto-Buying Research Services
- Online Calculators

Business Banking

Loans

- Lines of Credit and Term Loans
- Investment Property Equity Lines and Loans
- Commercial Mortgages
- Construction Mortgages
- Auto, Business Vehicle, and Business Equipment
- Visa Business Platinum
- SBA Loans

Savings

- Free and Premier Business Checking
- Savings, Money Market, Certificates, and Ltd Savings Account
- SEP and SIMPLE IRAs

Account Access and Other Services

- PC Branch
- Business DCU Visa Check Card
- Online Federal Tax Payments (EFTPS)
- Merchant Credit Card Referral Services
- Payroll Services

DCU Financial

- Financial Planning – retirement, college, estate and wealth transfer, trust services, and asset management
- Investing Services – 401(k) and IRA roll overs, professional money management, mutual funds and annuities, stocks and bonds, unit investment trusts
- Insurance – long-term care, term and universal life, and accidental death

Securities, Investment Advisory Services, and Insurance Products offered through LPL Financial and its affiliates, a Registered Investment Advisor, Member FINRA/SIPC. DCU and DCU Financial are not registered broker/dealers, nor are they affiliated with LPL Financial. LPL Financial U.S. registered representatives may only conduct business with residents of the states for which they are properly registered

Not NCUA Insured	Not Credit Union Guaranteed.	May Lose Value.
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DCU Insurance

Direct independent agency services in CO, CT, GA, ME, MA, and NH. Policies in other states available through direct affinity programs of national insurance carriers.

- Personal Automobile
- Homeowners/Condo Owners
- Renters, Dwelling Fire, and Flood
- Umbrella Liability
- Motor Homes and Travel Trailers
- Boats and Personal Watercraft
- Motorcycles and Snowmobiles
- All-Terrain Vehicles

Property and casualty insurance provided by DCU Insurance (DCU Financial Insurance Services, LLC), a subsidiary of DCU. Business conducted with DCU Insurance is separate and distinct from any business conducted with the credit union. Remember that any insurance required as a condition of the extension of credit by the credit union need not be purchased from DCU Insurance but may, without affecting the approval of the application for credit, be purchased from an agent or insurance company of the member's choice. Insurance products are not deposits of Digital Federal Credit Union (DCU) and are not protected by the NCUA. They are not an obligation of or guaranteed by the credit union and may be subject to risk. Any questions or concerns regarding this relationship may be addressed to the Office of Consumer Affairs.

DCU Realty

Full-service realty specialists to help you buy or sell a home or condo. List "By Owner" homes for sale nationwide on dguhomes.com, or in the Massachusetts and New Hampshire multiple listing services. Our relocation service helps members in all 50 states.

Community Branches & Hours of Operation

Acton, MA	Littleton, MA	Hudson, NH
Andover, MA	Marlborough, MA*	Merrimack, NH
Burlington, MA	Tyngsborough, MA	Nashua, NH
Framingham, MA	Waltham, MA	Alpharetta, GA
Franklin, MA	Westborough, MA	Colorado Springs, CO
Leominster, MA	Worcester, MA*	* Multiple branch locations

Don't see a DCU Branch in your community? You can bank at home with PC Branch and PC Deposit. Visit our web site at dcu.org.

Branch hours

Monday — Wednesday
9:00 a.m. — 5:00 p.m.

Thursday — Friday
9:00 a.m. — 7:00 p.m.

Saturday
9:00 a.m. — 3:00 p.m.

Information Center hours

Monday — Friday
9:00 a.m. — 9:00 p.m.

Saturday
9:00 a.m. — 3:00 p.m.