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6	2009 Board Report
8	2009 President's Report
10	2009 Treasurer's Report
13	Financial Information
15	Financial Highlights
17	Comparative Financial Results
21	2009 Supervisory Committee Report
23	Community Involvement
25	Board of Directors, Supervisory Committee & Management
27	Credit Union Information



## Board Report

*Jack McElravey, Chair*

Star One Credit Union continues to grow and thrive during a difficult economic period. Our conservative management strategies and policies, the skills of our employees, and the commitment of our Board and Committee all combine to provide our members with a strong, financially sound service provider. In 2009, Star One achieved balanced growth in loans, deposits, and membership, as well as strong return on assets.

During a time when many lenders were tightening their lending guidelines or stopped lending altogether, Star One continued to serve the lending needs of our membership. In 2009, Star One granted over \$1.4 billion in loans to members, more than any year in our history. Star One is the largest lender in Santa Clara County for the Credit Union Direct Lending network, a system for car dealers and credit unions that enables members to purchase and finance their Star One auto loan directly at the dealership. Many members have found this to be very convenient in their car shopping and financing efforts. Star One also expanded our student lending program during the year to include many more schools and universities, as well as the Graduate Program offered at Stanford University. This provides many member families a much needed alternative to fund their educational expenses.

Star One continues to offer conventional real estate loans and does not offer or participate in any of the subprime mortgage loans other lenders offered that caused much of the problems throughout the mortgage industry. We maintain conservative lending policies and work to offer good value to our membership while maintaining balanced returns and risk levels for future growth of the Credit Union.

Savings grew at a record pace to the highest growth rate since 1986. Early in the year, we saw a large number of new and existing members looking for a more stable place to deposit their savings dollars. Much of the funds came from members concerned about the safety and security of their deposits at other institutions. While the rate environment remains at one of the lowest points in our history, members find our rates to be very competitive, without confusing terms and many of the account fees charged by others.

Service quality is a key component of Star One's success. Our service quality scores continue to outpace our peers. Although we had challenges during the course of the year meeting the dramatic increase in demand for key products, Star One has worked to improve procedures that increase member service without creating undue risk to the Credit Union. Throughout the year, Star One conducts a series of surveys to evaluate member service across all our product lines and delivery channels. Star One employees continue to rank higher than our peers for staff knowledge, accuracy, and speed of service. Member satisfaction stands at 96%. Star One members can access their accounts easily and conveniently at four retail branches throughout Santa Clara County, our ATM and Shared Branch networks, as well as full service Online Banking.

Star One remains committed as ever to giving back to the communities we serve. During 2009, Star One donated more than \$75,000 and the employees and volunteers donated time and raised over \$13,000 for 30 different local community groups and non-profit organizations. Some of the groups included the American Cancer Society, San Jose Firefighters Burn Foundation, Alzheimer's Association, Organs 'R' Us, Second Harvest Food Bank, Special Olympics, and Toys for Tots, just to name a few. Star One's Beneficiary and Retiree Services Department continues to work with many other financial institutions, community groups and government agencies to draw awareness to elder financial abuse.

As we look forward to 2010 and beyond, you can be assured Star One will grow and prosper. We have plans to open a fifth branch in San Jose by the Fall 2010. The Board, volunteers, and staff are committed to maintaining Star One as a safe and sound financial institution while providing exceptional products and services to our members. The Board and employees will continue to work on all aspects of Star One's performance to ensure that it remains a respected, strong, and sound financial institution for many years to come.



## President's Report

*Rick Heldebrant, President & CEO*

Star One remains one of the strongest financial institutions in the nation. Our commitment to sound lending policies, conservative investment strategies, and member service continue to produce good results for the organization, and our membership. Star One is the 12th largest and one of the strongest credit unions nationally.

This past year certainly had many challenges. While we saw loan delinquency and charge-offs increase to record levels, Star One delinquencies and charge-offs are relatively low. While banks have seen extraordinary losses in their loan portfolios, credit unions nationally are experiencing much lower losses. Star One is experiencing substantially lower losses than other credit unions. The weak job market and lower home valuations throughout California and the nation continue to affect members' ability to pay their obligations.

In early 2009, two corporate credit unions, U.S. Central Federal Credit Union and Western Corporate (WesCorp) Federal Credit Union, were placed in conservatorship by the National Credit Union Administration (NCUA). These credit unions provide wholesale services to credit unions throughout the nation. They are not used by the public on a daily basis. Due to the cooperative nature of the credit union system, the conservatorship and financial losses of the corporate credit unions were paid for by federally insured credit unions including Star One. No Troubled Assets Relief Program (TARP) funds or taxpayer dollars were used. In the case of Star One, the charge was \$24.8 million to cover the losses on our capital at these corporate credit unions and the charge to rebuild the National Credit Union Share Insurance Fund (NCUSIF). Despite this, Star One remains one of the safest financial institutions in the nation with more than \$519 million in reserves at year-end 2009. Our federal regulator/insurer considers 6% capital to be adequate and 7% to be well capitalized. Star One is well capitalized with more than 10.6% set aside for reserves after the charge.

While we see many institutions offering special deposit products for "new money only" and complicated pricing schemes, Star One does not conduct business that way. We believe this

kind of strategy only hurts customer loyalty in the long run. We pay consistently high yields on our deposit products while charging very competitive loan rates and minimal fees.

During the year, many institutions incurred substantial setbacks due in part to the subprime lending crisis. Star One does not offer, nor invest in these types of mortgage products. We continue to provide valuable financial products and services to our members while maintaining our strong lending practices. In 2009, when some institutions were curtailing their lending, Star One achieved record growth in real estate loans.

Star One members continue to migrate to remote delivery channels. By the use of various delivery channels, Star One is able to provide greater convenience to members throughout the nation and beyond. Our ATM Network has more than 28,000 surcharge-free ATMs nationwide, including 9,000 that accept deposits and 5,500 located at 7-Eleven stores. Our four Star One branches continue to see good activity by Bay Area members. Additionally, our Shared Branch Network has more than 3,900 full service branches in 48 states. Online Banking and Bill Pay usage continues to grow. Over 35,000 members now use Online Banking and over 9,300 use our Bill Pay service. Star One has high usage rates for these two services compared to our peers. Members use our web site for educational research, evaluation of product offerings, and review of transactions. Many members also use our web site to apply and activate mortgage, auto, and credit card loans from their home or work. Star One has offered ezDeposit for over a year. Using this service, Online Banking members can deposit a check via their scanner from home or work. In December 2009 alone, members deposited over \$3 million. The Member Phone Service Center handled more than 195,000 calls in 2009. The toll free phone number and expanded hours provide added convenience to thousands of members worldwide.

Star One continues to look for more convenient ways for members to access their accounts. The Board and staff are committed to effectively serve our members' needs.



## Treasurer's Report

*Scott Dunlap, Treasurer*

While many financial institutions are struggling with high loan delinquency and low growth in deposits and loans, Star One achieved another strong year financially. Assets grew 24% from \$4.12 billion in 2008 to \$5.11 billion in 2009. The Return on Assets for 2009 was 0.84%.

We continue to see strong growth in membership as consumers look increasingly for better value and service from their financial services providers. Membership increased 4.8% to 83,578. Nearly 7,000 new members joined Star One during 2009. More than 53% joined from our community charter, another 38% joined through family members, while 7% joined through Lockheed Martin, Yahoo!, and our other member companies. Over the past few years we have seen very strong growth in new members coming from the Santa Clara County region.

Deposits grew more than \$570 million, up 18.4% from \$3.10 billion in 2008 to \$3.67 billion in 2009. IRAs grew 10.9% to \$414 million as members continue to look for better returns on their retirement funds. The Money Market Savings Account grew 21% to \$2.90 billion. Star One continues to pay higher deposit rates than most other financial institutions and does so without the "gimmick" products many other institutions offer.

Loans grew 28.2%, to \$2.11 billion. The majority of the growth was in mortgages. Total real estate loans increased 32.9%, up more than \$459 million for the year. Many new and existing members took advantage of the lower mortgage rates and lower home prices. Consumer loans (excluding auto loans) grew nearly 15% to \$76 million. Auto loans decreased 7.2% to \$155 million as auto purchasing was down across the nation and many consumers were holding on to their cars longer. Real estate loan delinquency rose from extremely low levels, increasing by 262.8%, due to declining economic conditions and declines in home values. During the year, we obtained an independent review which shows that we continue to have a strong real estate loan portfolio. Consumer loan delinquency was up from 0.62% in 2008 to 0.96% in 2009.

but our overall loan portfolio continues to perform much better than other credit unions and banks nationally.

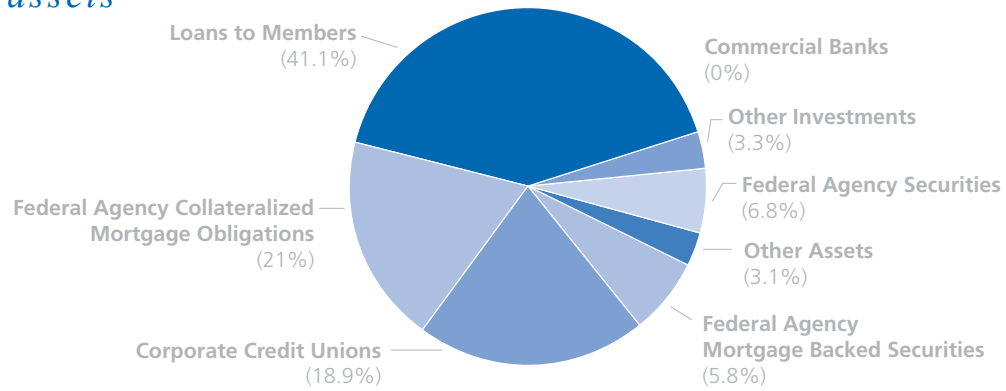
Our investment portfolio continues to provide good returns while maintaining safety and security. Star One does not make or invest in subprime or private label mortgages. Our investment portfolio yield is constantly in the top quartile of other large credit unions nationally. Currently all the investments that Star One holds in its portfolio are guaranteed by either the NCUA, FDIC, or an agency of the U.S. Government. Borrowings increased to \$872 million in 2009. Star One does not borrow to leverage more earnings. Star One borrows funds to mitigate the interest rate risk associated with long-term fixed rate mortgages held in the portfolio.

Our loyal membership and their extensive use of products, services, and automated delivery channels continues to provide the resources for Star One to thrive in difficult times and deliver lower priced loans, higher yielding deposits, and automated services with no or low fees.

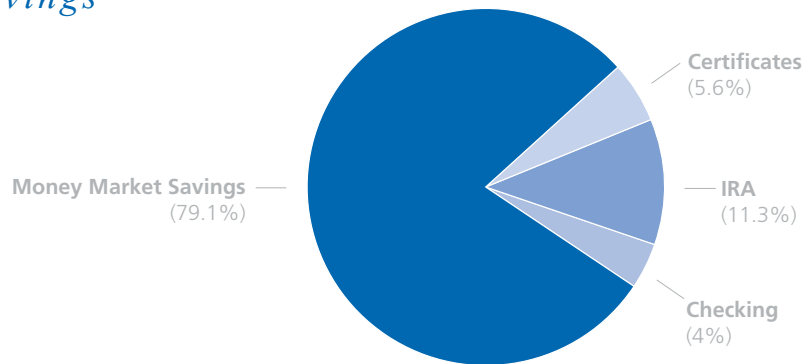


# Star One Credit Union | *financial information*

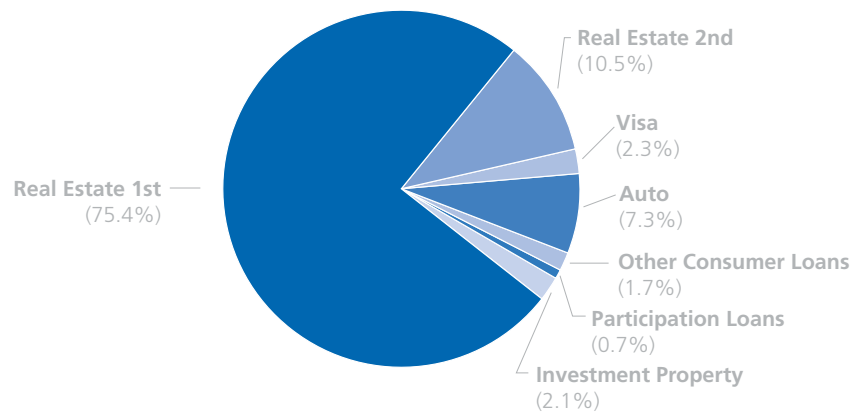
## *assets*



## *savings*



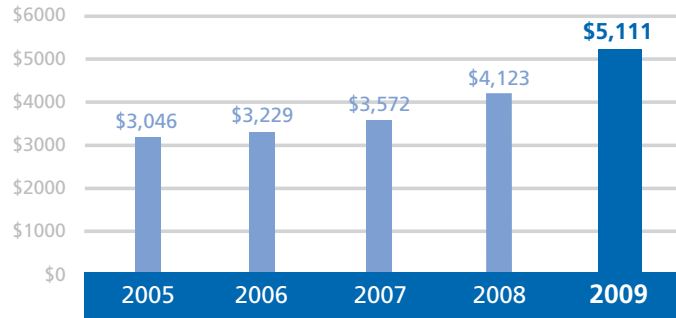
## *loans*



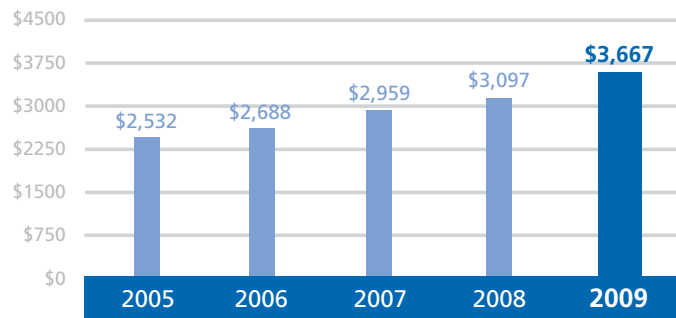


# Star One Credit Union | *financial highlights*

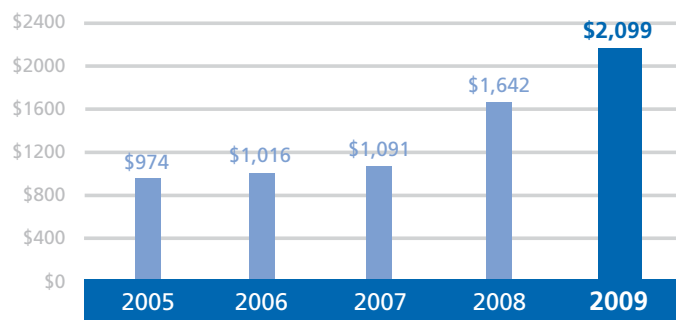
## *total assets* (in Millions)



## *total savings* (in Millions)



## *total loans* (in Millions)





# Star One Credit Union | *comparative financial results*

<i>year end summary</i> (in Thousands)	2009	2008	% Change
Total Assets	<b>\$5,111,220</b>	\$4,122,580	24.0%
Member Savings and Certificate Accounts	<b>\$3,666,978</b>	\$3,096,804	18.4%
Loans to Members	<b>\$2,098,677</b>	\$1,641,930	27.8%
Delinquent Loans	<b>\$6,093</b>	\$1,679	262.8%
Member Equity	<b>\$542,384</b>	\$487,710	11.2%
Cash and Investments	<b>\$2,944,177</b>	\$2,414,929	21.9%
Dividends Paid to Members	<b>\$65,806</b>	\$96,570	-31.9%

## *statement of financial condition* (in Thousands)

<b>Assets</b>	2009	2008
Cash and Investments	<b>\$2,944,177</b>	\$2,414,929
Loans to Members	<b>\$2,098,677</b>	\$1,641,930
Land, Building & Equipment	<b>\$14,270</b>	\$15,420
Accrued Interest Receivable	<b>\$20,139</b>	\$24,532
Deposit-Share Insurance Fund	<b>\$32,186</b>	\$24,092
All Other Assets	<b>\$1,771</b>	\$1,677
<b>Total Assets</b>	<b>\$5,111,220</b>	\$4,122,580

<b>Liabilities &amp; Member Equities</b>	2009	2008
Member Savings & Certificate Accounts	<b>\$3,666,978</b>	\$3,096,804
Accounts Payable	<b>\$5,259</b>	\$1,136
Borrowed Funds	<b>\$872,300</b>	\$520,034
Regular Reserves	<b>\$56,851</b>	\$56,851
Undivided Earnings	<b>\$462,690</b>	\$422,579
Unrealized Gain (Loss) on Investments	<b>\$33,742</b>	\$15,230
Accumulated Other Comprehensive Income	<b>(\$10,899)</b>	(\$6,950)
Accrued Liabilities	<b>\$24,299</b>	\$16,896
<b>Total Liabilities &amp; Member Equity</b>	<b>\$5,111,220</b>	\$4,122,580



# Star One Credit Union | comparative financial results (cont.)

## statement of operations (in Thousands)

<b>Income</b>	<b>2009</b>	2008
Interest on Loans	<b>\$95,121</b>	\$75,190
Investment Income	<b>\$98,299</b>	\$113,045
Other Operating Income	<b>\$7,198</b>	\$15,004
<b>Total Income</b>	<b>\$200,618</b>	\$203,239
<b>Operating Expenses</b>	<b>2009</b>	2008
Employee Compensation	<b>\$19,028</b>	\$19,809
Office Occupancy	<b>\$1,728</b>	\$1,858
Office Operations	<b>\$6,417</b>	\$6,141
Loan Servicing	<b>\$2,252</b>	\$1,913
Professional & Outside Services	<b>\$1,847</b>	\$1,317
Provision for Loan Losses	<b>\$10,844</b>	\$3,942
Operating Fee	<b>\$299</b>	\$206
Other Operating Expenses	<b>\$24,800</b>	\$3,050
<b>Total Operating Expenses</b>	<b>\$67,215</b>	\$38,236
<b>Income from Operations</b>	<b>\$133,403</b>	\$165,004
Non-Operating Income (Expense)	<b>(\$3,003)</b>	(\$2,377)
<b>Net Income Before Distribution</b>	<b>\$130,400</b>	\$162,627
Dividends	<b>\$65,806</b>	\$96,570
Interest on Borrowed Money	<b>\$24,483</b>	\$13,768
<b>Added to Reserves &amp; Undivided Earnings</b>	<b>\$40,111</b>	\$52,289





## Supervisory Committee Report

*Dan Abihider, Chair*

The Supervisory Committee's primary responsibility is to assure that internal operating controls are established and effectively maintained and that the Board of Directors' plans, policies, and procedures are being properly administered by management. The 2009 internal audit programs consisted of extensive evaluation of internal procedures and policies, as well as the hiring of outside audit firms, to provide third-party evaluation of selected Star One business practices.

Internal controls comprise the methods and measures within the Credit Union to protect its assets and verify the accuracy and reliability of Star One's accounting data. They also promote operating efficiencies and provide safeguards against fraud and ensure compliance with prescribed managerial policies, established procedures, and applicable regulatory requirements.

During 2009, the Supervisory Committee directed a comprehensive 'risk based' audit program. Specific audit techniques and methods were applied to operating processes selected for their risks across all of the Credit Union's products and services. The Supervisory Committee contracted with specialized external firms to perform independent reviews.

Based on the reports from ongoing internal audit programs and the audits performed during the year by third-party firms, the Supervisory Committee reports that Star One is operating in a sound manner. Moreover, the Credit Union's internal controls are effectively maintained to reasonably ensure that the Board of Directors' plans, policies, and procedures are being properly administered, and that the financial results are fairly and accurately represented in communications to the members.



*Star One Credit Union is proud to be affiliated with the Santa Clara County, California community. In addition to providing quality financial products and services to members who live, work, or attend school in the area, Star One also makes a commitment each year to be a positive force in our community through sponsorships, volunteerism, and donations to various programs and organizations located in the area. Listed below are events and organizations with which Star One was involved throughout 2009 in the Santa Clara community.*

ACCESS

- ALS Association Lou Gehrig's Disease
- Alzheimer's Association - Silicon Valley Memory Walk
- American Cancer Society - Daffodil Days
- American Diabetes Association, San Jose Chapter
- American Heart Association - Wear Red Day
- American Liver Foundation, Northern California Chapter
- Annie's Blankets Drive
- ARC of San Francisco - The Cure for Autism
- Breathe California of the Bay Area
- CCUL Bowl-A-Thon supporting SJ Firefighter's Burn Foundation
- Crohn's and Colitis - Take Steps Walk
- The Cystic Fibrosis Research Golf Tournament
- Decision Education Foundation
- EHC LifeBuilders - Rivers of Chocolate Festival
- Family Giving Tree - Back to School and Holiday Drive
- Friends of Stevens Creek - Trailblazer Race
- Gifts for Teens
- Hope Services
- KARA
- Live Oak Day Services
- Lockheed Martin Street Fair
- Lucile Packard Children's Fund
- Lupus Foundation for Northern California

- Make-A-Wish Foundation
- Meals on Wheels - Star One Bowl-A-Thon
- Operation: Care and Comfort
- Organs 'R' Us
- Parents Helping Parents - "Steering by Starlight" Benefit & Seminar
- Passionately Pink for the Cure
- Project Linus
- Prostate Cancer Research - Stanford University
- Resource Area for Teaching (RAFT)
- The Role Model Program
- San Jose Day Nursery
- San Jose Repertory Theatre
- Santa Clara Family Health Foundation
- Second Harvest Food Bank - Summer & Holiday Drive
- Special Olympics - Power Pull
- Sunday Friends
- Sunnyvale Armory
- Support Network for Battered Women
- Susan G. Komen for the Cure Golf Tournament
- The Tech Museum of Innovation
- Toys for Tots
- United Way
- TurningWheels for Kids



Star One Credit Union | *board of directors,  
supervisory committee & management*

*board of directors*

**Jack McElravey**  
Chair

**Gae Adams**  
First Vice Chair

**Janet Morelli**  
Second Vice Chair

**Scott Dunlap**  
Treasurer

**John Palochak**  
Secretary

**Bruce Bachant**  
Director

**Doug Flowe**  
Director

**Patricia Humecke**  
Director

**Dan Manassau**  
Assistant Secretary

**Bill Lewis**  
Emeritus

*supervisory committee*

**Dan Abihider**  
Chair

**Christina Goeas**  
Secretary

**Richard Aochi**

**Marty Eng**

**Gene Lum**

*board/supervisory committee associates*

**David Daggett**

**Jeff Gaut**

**Kathy McDonell**

**Leslie Varr**

*management*

**Rick Heldebrant**  
President & CEO

**Gary Rodrigues**  
Executive Vice President - Finance &  
Administration

**Carol Safberg**  
Executive Vice President - Operations

**Kevin Collins**  
Senior Vice President - Loan Services

**Brian Ross**  
Senior Vice President - Treasurer

**Lynn Brubaker**  
Vice President - Deposit Services

**Joe Fagenstrom**  
Vice President - Marketing

**Russ McAlpine**  
Vice President - Information Systems

**Sandra Moix**  
Vice President - Branch Services

**Margarete Mucker**  
Vice President - Remote Services

**Jim Nichols**  
Vice President - Audit

**Ann Sebastian**  
Vice President - Controller



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Palo Alto, CA 94306

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**San Jose**

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