



Star One Credit Union

Federally insured by NCUA



ANNUAL REPORT  
2011



## TABLE OF CONTENTS

**4** | 2011 Board Report

**6** | 2011 President's Report

**8** | 2011 Treasurer's Report

**11** | Financial Information

**13** | Financial Highlights

**15** | Comparative Financial Results

**19** | 2011 Supervisory Committee Report

**21** | Community Involvement

**23** | Board of Directors, Supervisory Committee & Management

**25** | Credit Union Information



Gae Adams  
Chair

## BOARD REPORT

Star One Credit Union achieved strong, balanced growth in 2011 and now serves more than 88,800 members. We are the 10th largest credit union out of 7,300 nationally in terms of assets. During a time when many institutions were increasing their fees and tightening their lending guidelines, Star One continued to serve the needs of our membership.

Service and financial strength remain the cornerstones of Star One's success. As interest rates continued to fall and the national and local economies struggled, Star One achieved steady growth in membership, deposits and loans. This is a testament to the competitive products we offer and the trust our members place on Star One to manage their financial services during these turbulent times. Much of the growth in deposits came from members concerned about the safety and security of their funds at other institutions. While the interest 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.

At a time when many other financial institutions are struggling with high loan delinquency and low growth in loans and deposits, Star One continues to thrive. In 2011, Star One achieved balanced growth in loans, deposits and membership as well as strong return on assets. Our conservative management strategies and policies, the skills of our employees, and the commitment of our Board and Committees all combine to provide our members with valuable financial products that meet their changing needs.

Member satisfaction stands at 96.3%. Star One continues to focus on service quality and believes it is a key component to our ongoing success. Our service quality scores continue to outpace our peers and places us in the 97th percentile for members who said they were "Very Satisfied" with our service. In 2011, Star One embarked on an extensive service training program. Each employee was required to go through the service enhancement program that included handling requests, breaking barriers to member service, identifying and satisfying member needs and taking personal responsibility. These efforts continue to pay off in higher service scores, better member service and strong member loyalty. 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.

With five branches in the Santa Clara County, we are able to better serve a large number of members living, working and going to school in the nearby area. Our national ATM and Shared Branch networks, as well as full service Online Banking system and our Phone Service Center also provide convenient channels for members to access their accounts no matter where they are located.

A large part of our growth in loans was due to new and existing members taking advantage of the low loan rates and the decrease in home prices. 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.

Star One remains committed as ever to giving back to the communities we serve. During 2011, Star One donated more than \$100,000 and the employees and volunteers donated time and raised more than \$17,000 in cash and non-cash donations for 54 different local community groups and non-profit organizations. Some of the groups included the Alzheimer's Association, American Cancer Society, Family Giving Tree, Second Harvest Food Bank, Special Olympics, San Jose Repertory Theatre, Santa Clara Family Health Foundation and Toys for Tots. More than 120 staff, volunteers and family members participated in 14 different events throughout the year.

Star One believes strongly in financial literacy and sponsored 15 different educational workshops throughout the year. These free workshops were well attended by members, family members and potential members. They included such topics as College Financing 101, IRAs – the Nuts and Bolts, Ten Steps to Financial Success, and Identity Theft Solutions to name a few. Star One also worked closely with the Sunnyvale, Cupertino, Mountain View, Los Altos, Palo Alto, Santa Clara and San Jose Chambers of Commerce. Through event sponsorship, program development and business mixers, Star One is a leading member of the business community throughout Santa Clara County. Star One also sponsored the Leadership Sunnyvale, a program that provides business tools, training and leadership skills for area business people. They learned how local governments and non-profits work together to provide essential services and leadership for their citizens.

Star One is one of the largest and strongest credit unions in the nation. Our legacy with Lockheed Martin, loyal membership, and strong commitment to service enhances our ability to compete and provide our members with the best value along with outstanding quality service. As we look forward to 2012 and beyond, you can be assured Star One will grow and prosper. 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 the future.

At a time when many other financial institutions are struggling with high loan delinquency and low growth in loans and deposits, Star One continues to thrive. In 2011, Star One achieved balanced growth in loans, deposits and membership as well as strong return on assets.



**Rick Heldebrant**  
**President & CEO**

## PRESIDENT'S REPORT

Star One's priority is our members and has been for 55 years. By maintaining one of the lowest expense ratios of credit unions nationally, providing our members with the best possible products and services, and delivering exceptional quality service, Star One continues to achieve very good financial results and quality service scores from our membership.

Throughout the year Star One conducts a series of surveys and research to gauge member attitudes for quality service, product usage and future product offerings. This past year, Star One ranked in the 100th percentile for average deposit and loan balances compared to other similar credit unions. This is a testament to the value we continue to deliver to our members. We rank in the 89th percentile for membership retention. Members are staying with us longer and have more loans and deposits with us compared to other credit unions. This is a key focus for our long term strategy. It shows we are delivering good value in terms of pricing and service. Through our various surveys we encourage member feedback and suggestions. These suggestions have led to product enhancements.

In 2011, a number of banks announced product changes and fee increases to their checking accounts and debit cards. Star One achieved strong membership and checking growth. Existing members referred many friends and family members. More and more members joined through our online application on our website. Many members also applied and processed their loan requests through our website. We continue to see strong growth and utilization of our electronic services including ezDeposit, eStatements, Online Banking and Bill Pay. Late in 2011, we also introduced Mobile Banking and plan for additional enhancements to this service in early 2012. Our five Star One branches continue to see good activity by Bay Area members. Additionally, our Shared Branch Network has more than 6,700 full service branches in 48 states. Online Banking and Bill Pay usage continues to grow. Over 52,000 members now use Online Banking and over 9,400 use our Bill Pay service. Star One has high usage rates for these two services compared to our peers.

Star One is one of the strongest financial institutions in the nation. Our conservative investment and loan portfolios continue to produce good returns without undue risk to the institution. As a member, you are part of one of the largest and financially strongest credit unions nationally. Because of our commitment to sound lending and investment policies we have grown to be one of the largest credit unions in the nation. Star One continues to rank in the 90th percentile for return to member and efficiency. This is a key component to providing the very best value we can to our savers, borrowers and overall membership.

In spite of the challenges this past year, Star One continues to perform better than our peers locally and nationally. In 2011, we saw loan delinquency and charge-offs decrease. While many 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 some members' ability to pay their obligations.

The interest rate environment for investments, loans and deposits has made for a challenging business environment. As we balance the income side of investments and loans with deposits, we have seen our margins become squeezed. While absolute rates have dropped significantly, we continue to pay competitive deposit rates while maintaining our profitability for long-term growth and sustainability. We continually balance member needs and risk on loans while providing the lowest possible rates to our members. The economy has been particularly challenging in terms of loans. Low rates, high unemployment and uncertainty has had a dramatic effect on loan originations and servicing. Through all this, we continue to see strong growth in real estate loans, reasonable activation in auto and credit card loans and below average loan delinquencies and charge-offs.

Deposit rates have decreased to an all time low. Star One maintains a strategy of offering an easy to understand product line without confusing pricing tiers or gimmicks. We pay competitive yields on our deposit products while charging very competitive loan rates and minimal fees.

In 2011, Star One granted over \$709 million in loans to members. Nearly 1,900 members took advantage of our loan modification process to reduce their mortgage rates resulting in significant savings in interest charges and monthly payments. Between the new loans granted and loan modifications, we processed more than \$1.4 billion in loans during the year. Many members took advantage of our auto buying services to purchase new and used cars as well as transferred their loans from other institutions to Star One. Nearly 590 students have taken advantage of our expanded student lending program. This past year, a number of members suggested we offer student checking and Visa products to complement our student loans. We made the necessary changes to provide entry level checking and Visa access to these young members who are just starting out.

In a marketplace with many different financial service providers, Star One stands apart by delivering competitively priced products, charging much lower fees, providing higher quality service and looking for ways to better serve our members. As a cooperative institution, we rely on our members to refer fellow family members, use more of our products and services and provide feedback on how we can better serve them.

Star One is one of the strongest financial institutions in the nation. Our conservative investment and loan portfolios continue to produce good returns without undue risk to the institution.



Scott Dunlap  
Treasurer

# TREASURER'S REPORT

Star One achieved another strong year financially. Assets grew 9.2% from \$5.43 billion in 2010 to \$5.93 billion in 2011. The Return on Assets for 2011 was 0.96%. Our Net Worth ratio remains strong at 10.66%. Our federal regulator considers a credit union with a ratio of 7.00% to be well capitalized.

We continue to see moderate growth in membership as consumers look increasingly for better value and service from their financial service providers. Membership increased 3.5% to 88,852. Over 6,300 new members joined Star One during 2011. More than 50% joined from our community charter, another 43% joined through family members, while 6% 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 \$291 million, up 7.5% from \$3.89 billion in 2010 to \$4.18 billion in 2011. Checking increased 15.0% to \$181 million. The Money Market Savings Account grew 8.8% to \$3.39 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 7.2%, to \$2.57 billion. The majority of the growth was in mortgages. Total real estate loans increased 8.7%, up \$187 million for the year. Many new and existing members took advantage of the lower mortgage rates and lower home prices. Student loans grew \$12 million to \$23 million. Auto loans decreased 9.0% to \$117 million as auto purchasing was down across the nation and many consumers were holding on to their cars longer. Consumer loan delinquency decreased from 0.69% in 2010 to 0.33%

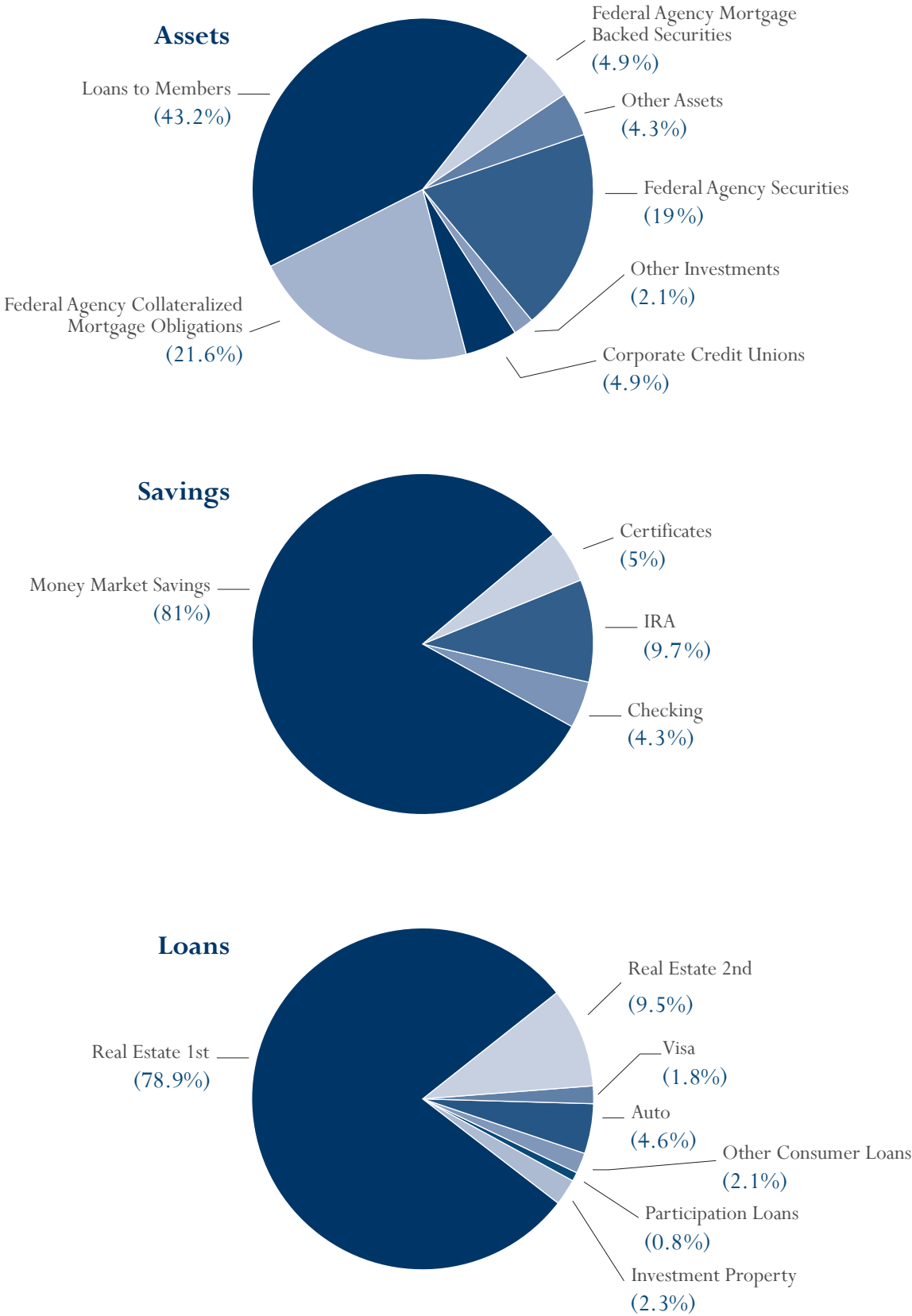
in 2011. Our loan portfolio continues to perform much better than other credit unions and banks nationally.

Our investment portfolio continues to provide good returns while maintaining safety and security. Star One does not invest in subprime debt. Our investment portfolio yield is usually in the top 25% of other large credit unions nationally. Borrowings increased to \$1,045 billion in 2011. Star One does not borrow funds to leverage more earnings. We borrow to mitigate the interest rate risk associated with long-term fixed rate mortgages held in 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.

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FINANCIAL INFORMATION



# FINANCIAL HIGHLIGHTS

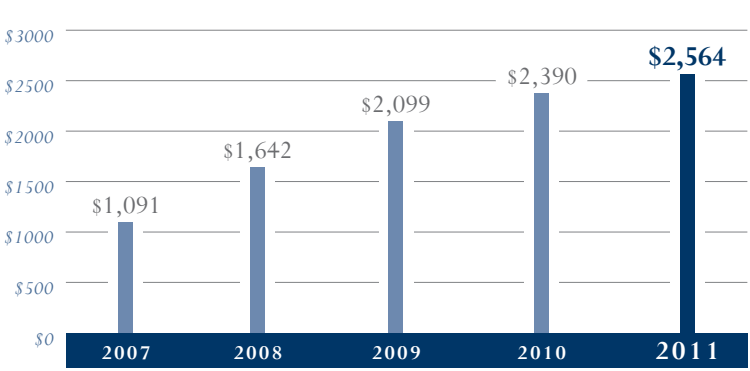
**Total Assets**  
*in Millions*



**Total Savings**  
*in Millions*



**Total Loans**  
*in Millions*



## COMPARATIVE FINANCIAL RESULTS

Year End Summary <i>in Thousands</i>	2011	2010	% Change
Total Assets	\$5,931,869	\$5,431,540	9.2%
Member Savings and Certificate Accounts	\$4,184,353	\$3,893,439	7.5%
Loans to Members	\$2,563,711	\$2,390,295	7.3%
Delinquent Loans	\$5,639	\$6,697	-15.8%
Member Equity	\$662,589	\$597,897	10.8%
Cash and Investments	\$3,273,029	\$2,944,527	11.2%
Dividends Paid to Members	\$35,829	\$42,442	-15.6%

### Statement of Financial Conditions *in Thousands*

Assets	2011	2010
Cash and Investments	\$3,273,029	\$2,944,527
Loans to Members	\$2,563,711	\$2,390,295
Land, Building & Equipment	\$13,460	\$14,695
Accrued Interest Receivable	\$17,061	\$15,904
Deposit-Share Insurance Fund	\$35,985	\$34,543
All Other Assets	\$28,623	\$31,576
<b>Total Assets</b>	<b>\$5,931,869</b>	<b>\$5,431,540</b>

Liabilities & Member Equity	2011	2010
Member Savings & Certificate Accounts	\$4,184,353	\$3,893,439
Accounts Payable	\$7,544	\$4,242
Borrowed Funds	\$1,045,317	\$906,367
Regular Reserves	\$56,851	\$56,851
Undivided Earnings	\$575,682	\$520,645
Unrealized Gain (Loss) on Investments	\$44,059	\$31,178
Accumulated Other Comprehensive Income	(\$14,003)	(\$10,777)
Accrued Liabilities	\$32,066	\$29,595
<b>Total Liabilities &amp; Member Equity</b>	<b>\$5,931,869</b>	<b>\$5,431,540</b>

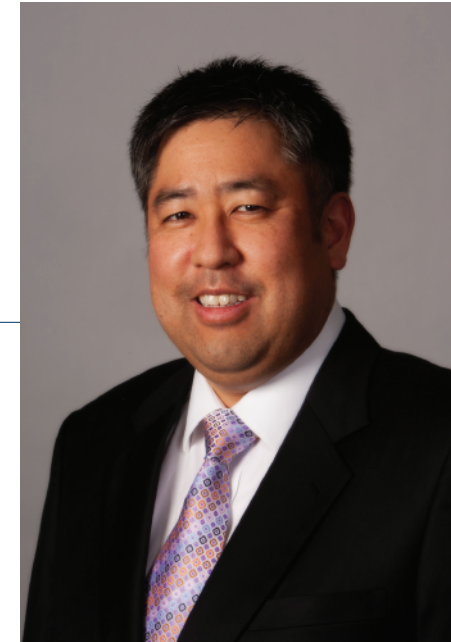
## COMPARATIVE FINANCIAL RESULTS

(CONTINUED)

### Statement of Operations

*in Thousands*

Income	2011	2010
Interest on Loans	\$103,641	\$103,119
Investment Income	\$58,829	\$71,688
Other Operating Income	\$8,396	\$8,777
<b>Total Income</b>	<b>\$170,866</b>	<b>\$183,584</b>
Operating Expenses		
Employee Compensation	\$23,597	\$21,266
Office Occupancy	\$2,151	\$2,103
Office Operations	\$6,363	\$6,187
Loan Servicing	\$2,203	\$2,149
Professional & Outside Services	\$1,466	\$1,606
Provision for Loan Losses	\$3,084	\$7,134
Operating Fee	\$443	\$388
Other Operating Expenses	\$8,834	\$14,883
<b>Total Operating Expenses</b>	<b>\$48,141</b>	<b>\$55,716</b>
<b>Income from Operations</b>	122,725	127,868
Non-Operating Income (Expense)	1,146	371
<b>Net Income Before Distribution</b>	<b>\$123,871</b>	<b>\$128,239</b>
Dividends	35,829	42,442
Interest on Borrowed Money	33,005	27,841
<b>Added to Reserves &amp; Undivided Earnings</b>	<b>\$55,037</b>	<b>\$57,956</b>



# SUPERVISORY COMMITTEE REPORT

Richard Aochi  
**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 2011 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 2011, 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.

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.

# COMMUNITY INVOLVEMENT

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 2011 in the Santa Clara community.

AAUW – Gifts for Teens	Live Oak Day Services
Able People Foundation	Loaves & Fishes
Access	Lockheed Martin Street Fair
ALS Association, Golden West Chapter – Walk to Defeat ALS	Lucile Packard Children's Fund
Alzheimer's Association – Silicon Valley Memory Walk	Lupus Foundation of Northern California
American Cancer Society – Daffodil Days	Mayfair Community Center –Type 2 Diabetes Camp
American Diabetes Association, San Jose Chapter	Meals on Wheels – Star One Bowl-A-Thon
American Heart Association – Silicon Valley Heart Walk	Operation: Care and Comfort
American Heart Association – Wear Red Day	Parents Helping Parents
American Liver Foundation, Northern California Chapter	Project Linus
American Red Cross, Silicon Valley Chapter	Prostate Cancer Research – Stanford University
Annie's Blankets Drive	Sacred Heart Community Service – Louise's Pantry
Assistance League of San Jose – Hug a Bear	San Jose Day Nursery
Breathe California of the Bay Area	San Jose Repertory Theatre
Crohn's & Colitis – Take Steps for Crohn's & Colitis Walk	Santa Clara Family Health Foundation
Cystic Fibrosis Research, Inc. – Golf Tournament	Second Harvest Food Bank – Holiday Drive
Decision Education Foundation	Special Olympics – Power Pull
Deer Hollow Farm	Sunday Friends
EHC LifeBuilders – Sunnyvale Armory & Rivers of Chocolate Festival	Sunnyvale Community Services
Employment & Community Options	Support Network for Battered Women
Family Giving Tree – Back-to-School & Holiday Drive	Susan G. Komen – Passionately Pink for The Cure
Family Supportive Housing, Inc.	The ARC of San Francisco – The Cure for Autism
FLY – Fresh Lifelines for Youth	The Family Giving Tree
Friends of Stevens Creek – Trailblazer Race	The Role Model Program
Happy Hollow Park – 1st Hoot & Howl Gala	The Tech Museum of Innovation
KARA	Toys for Tots
	TurningWheels for Kids
	Walden West Foundation

BOARD OF DIRECTORS,  
SUPERVISORY COMMITTEE AND MANAGEMENT

Board of Directors

<b>Gae Adams</b> Chair	<b>Bruce Bachant</b> Director
<b>Janet Morelli</b> First Vice Chair	<b>David Daggett</b> Director
<b>Dan Abihider</b> Second Vice Chair	<b>Patricia Humecke</b> Director
<b>Scott Dunlap</b> Treasurer	<b>Bill Lewis</b> Emeritus
<b>Dan Manassau</b> Secretary	<b>Jack McElravey</b> Emeritus
<b>Doug Flowe</b> Assistant Secretary	

Supervisory Committee

<b>Richard Aochi</b> Chair	<b>Marty Eng</b>
<b>Jeff Gaut</b> Secretary	<b>Christina Goeas</b>
	<b>Leslie Varr</b>

Board/Supervisory Committee Associates

<b>Teresa Chavez</b>	<b>Cy Tabari</b>
<b>Mojan Khaghani</b>	

Management

<b>Rick Heldebrant</b> President & CEO	<b>Joe Fagenstrom</b> Vice President - Marketing
<b>Gary Rodrigues</b> Executive Vice President - Finance & Administration	<b>Russ McAlpine</b> Vice President - Information Systems
<b>Carol Safberg</b> Executive Vice President - Operations	<b>Sandra Moix</b> Vice President - Branch Services
<b>Kevin Collins</b> Senior Vice President - Loan Services	<b>Margarete Mucker</b> Vice President - Remote Services
<b>Brian Ross</b> Senior Vice President - Treasurer	<b>Jim Nichols</b> Vice President - Audit
<b>Lynn Brubaker</b> Vice President - Deposit Services	<b>Regina Rutledge</b> Vice President - Human Resources
	<b>Ann Sebastian</b> Vice President - Controller

## STAR ONE INFORMATION

### **De Anza Branch | Cupertino**

10991 N. De Anza Boulevard  
Cupertino, CA 95014

### **El Camino Branch | Palo Alto**

3903 El Camino Real  
Palo Alto, CA 94306

### **Blossom Hill Branch | San Jose**

1090 Blossom Hill Road  
San Jose, CA 95123

### **Stevens Creek Branch | San Jose**

3136 Stevens Creek Boulevard  
San Jose, CA 95117

### **Enterprise Branch | Sunnyvale**

1080 Enterprise Way, Suite 150  
Sunnyvale, CA 94089

### **Administration Office**

1306 Bordeaux Drive  
Sunnyvale, CA 94089

### **Mailing Address**

P.O. Box 3643  
Sunnyvale, CA 94088

(408) 543-5202  
(866) 543-5202 toll-free  
(408) 543-5203 fax

**[www.starone.org](http://www.starone.org)**

## OUR MISSION

Help members improve their lives by delivering valuable financial services.



