Letter from the President

Despite a challenging public policy environment, the Federation had a successful 2017. We ended the year in a healthy financial position with a clear purpose and commitment to our work of financial inclusion and to the credit unions that continue to make a difference in their communities.

The year-end financials show strong and diversified revenue streams, with critical engagement and support from philanthropy and socially responsible investors. This sustained level of investment has enabled us to pursue our strategic plan of growing and deploying investment in low-income communities, expanding opportunities for affordable homeownership through the CDCU Mortgage Center, increasing our technology commitment to provide needed financial services at scale, and building the financial health and well-being of underserved consumers through high-impact programs relevant to their needs.

None of what we do would be possible without the support of our friends, supporters and partners in cooperative and community finance. Credit union leagues and associations have supported the rapid expansion of Juntos Avanzamos - Together We Advance - designated credit unions committed to the inclusion of Hispanic consumers. Our participation on the Board of Directors for the National CDFI Coalition has enabled us to combine and amplify the message of financial inclusion as a critical strategy for rebuilding America’s infrastructure, preserving funding for the CDFI Fund and providing alternatives to high-cost predatory financing in our communities.

Through partnership with Neighborhood Trust Financial Partners, the Pathways to Financial Empowerment’s financial coaching model is transforming the lives of credit-challenged members in a growing number of communities. The Mortgage Center is helping families realize their dream of homeownership and beginning to build generational wealth with the support of Federal Home Loan Banks, Freddie Mac, Fahe, and New Jersey Community Capital. Our partnership with faith-based and community-based organizations, as well as local funders and officials, has helped the Federation keep diversity at the forefront of our movement and engage in targeted strategies at the local level in Harlem and Bedford-Stuyvesant in New York, the southside of Chicago, Atlanta’s Westside and many more communities that seek to build local cooperative solutions to the economic challenges they face.

With CU Impact, we are building a robust technology solution to support financial inclusion at scale, and we have forged a dynamic partnership with nonprofit fintech leaders through nLift. Together with the innovating organizations of nLift, we are exploring how to build a more responsive financial system that extends access to the financial mainstream for low-income and formerly excluded consumers.

At the heart of all these initiatives is the common thread of extending our mission of financial inclusion to all who have been unfairly or inadequately served by the financial system. Our mission is inclusion and our approach is inclusive. Together with our many friends, partners and allies, we will succeed in creating a more just and equitable financial system for all.

Our Mission: The Federation helps low- and moderate-income people and communities achieve financial independence through credit unions.
As of December 31, the Federation had $41.46 million in assets under management, which is comprised of both on and off-balance sheet assets. The Federation had $33.99 million in on-balance sheet assets. Off-balance sheet activities are comprised of $7.47 million in nominee deposits and secondary capital loan participations.

In 2017, the Community Development Investments Program invested $12.26 million in deposits, secondary capital and mortgage purchases. The Federation managed $31.36 million in investments in community development credit unions. All investments, excluding nominee deposits and loan participations, are reported on our balance sheet. Revenues and expenses related to these investments are also separately reported on our income statement.

As of December 31, 2017, the Federation reported $1.60 million in changes in net assets. Net interest income generated by the Community Development Investment Program and CDCU Mortgage Center was $602,412.

<table>
<thead>
<tr>
<th>Year-End Summary</th>
<th>As of December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12/31/17</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$33,990,376</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$19,723,980</td>
</tr>
<tr>
<td>Total Net Assets</td>
<td>$14,266,396</td>
</tr>
<tr>
<td>Net Asset Ratio</td>
<td>42%</td>
</tr>
<tr>
<td>Total Net Income</td>
<td>$1,159,690</td>
</tr>
</tbody>
</table>

Community Development Investments 2015-2017

www.cdcu.coop | 2
Operating Results

REVENUES
At the end of the fourth quarter the Federation reported $5.69 million in earnings and grant income. Total revenue includes $3.16 million in contributions and grant support, of which $500,000 was received as a grant award from the CDFI Fund to leverage continued growth in the investments program. The Federation's investment programs generated $974,117 in interest income. An additional $458,229 was generated from contracts and $647,239 from membership dues. The Federation has an allowance for loan loss of $486,996, derived from historical loss rates, environmental variables and special reserves for individually impaired loans.

![Community Development Investments Portfolio As of December 31, 2017](image)

OPERATING EXPENSES & PROGRAM INVESTMENTS
Operating expenses cover all the direct costs of the Federation's programs and initiatives, management and investments in our member CDCUs. The Federation reported total expenses of $4.53 million year-to-date, an increase of 14% ($575,029) compared to the prior year. The increase is attributed primarily to increases in subgrants ($427,635).

STATEMENT OF POSITION
The Federation’s total assets were $33.99 million as of December 31, 2017. Of these assets, the Federation held $12.83 million in secondary capital; $9.51 million in mortgages; $1.55 million in on-balance sheet deposits; and $8.91 million in cash and cash equivalents. The Federation also managed $5.47 million in off-balance sheet assets (nominee deposits), as well as servicing for $2 million in a secondary capital loan participations to National Cooperative Bank. The Federation also holds $314,090 in investments in preferred shares in EPL, Inc., a credit union technology company, and the Federal Home Loan Bank stock.

Total liabilities at the end of the first quarter were $19.23 million. Net assets at the end of the fiscal year were $14.27 million.
Member Impact

Among the general US population, the percentage of unbanked and underbanked households is estimated at 27%. The percentage is even higher for African-Americans at 49% and Hispanics at 45%. More than one third of Americans are considered credit challenged, with a subprime credit score or because they are unscoreable due to a lack of a sufficient credit file.

Community development credit unions provide an alternative to high-cost fringe lenders. With a primary mission of community development and financial inclusion, CDCUs help low-income consumers weather financial shocks and income volatility, reduce debt, establish and repair credit, and build savings and opportunities for investment and ownership in their communities. The institutional impact is measured in the day to day improvement in their members’ lives. Our collective impact is in the billions of dollars that are invested and reinvested in some of this nation’s poorest communities.

Serving low-income consumers is a sustainable business model. From 2016-2017, the percentage growth in members, assets and loans outstanding was higher for community development credit unions vs. other credit unions. Only total loans originated was higher for other credit unions.

<table>
<thead>
<tr>
<th>2017</th>
<th>CDCUs</th>
<th>Other Credit Unions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Members</td>
<td>+6%</td>
<td>+5%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>+9%</td>
<td>+7%</td>
</tr>
<tr>
<td>Total Loans Outstanding</td>
<td>+13%</td>
<td>+10%</td>
</tr>
<tr>
<td>Total Loans Originated</td>
<td>+4%</td>
<td>+6%</td>
</tr>
</tbody>
</table>
Community Development Investment Program

The Federation's Community Development Investment Program provides the capital needed by growing credit unions to scale innovative financial products and services in low-income communities. As a CDFI intermediary and impact investor, the Federation invests in mission-driven credit unions with the programs and products to satisfy a double bottom line and bridge access and service gaps in distressed communities. Since the program's inception in 1982, the Federation has invested more than $130 million in member community development credit unions.

Secondary Capital

Secondary Capital is a subordinated loan that can be counted towards a credit union's net worth. The Federation makes Secondary Capital Loans of up to $2 million. The Federation currently manages a national portfolio of $14.8 million in Secondary Capital Loans invested in 25 CDCUs.

Secondary Capital has been leveraged to reach new consumers through market and branch expansions, to give existing members increased financial stability and independence, and has promoted asset building through programs like first-time and affordable homebuyer mortgages.

Secondary Capital's Impact in 2017

Consumer lending to increase stability

- **2,461** Small Dollar and Alternative to Payday Loans
- **11,514** Wheels to Work Loans

Reaching new target populations

- **10%** Member growth, Including 4,000 non-citizen immigrants

Building assets

- **1,067** First-time homebuyer/affordable mortgages and foreclosure prevention

CDCUs receiving Federation Secondary Capital originated 373,440 loans totaling $6.7B to 1,619,483 members in 2017
Federation Secondary Capital has given us the ability to offer more loans that are benefiting our immigrant members. It has given us the capacity to counsel each of those new members as they come in, and has given us the opportunity to become more involved in our community.

- Kathy Chartier, CEO, Members Credit Union
The CDCU Mortgage Center is growing our movement’s commitment to fair and affordable housing for underserved consumers. The Center operates as a CDFI Loan Pool for the benefit of our members. By creating a pipeline for CDCUs to sell their mortgages, the Mortgage Center replenishes credit unions’ capital, enabling CDCUs to magnify their impact in their communities. Loan sales to the Mortgage Center are structured to maximize our members’ potential income while maintaining fair rates and terms for consumers. The family pictured above benefited from the Federation's American Dream Loan. Immigrants, permanent legal residents and DACA recipients can access the American Dream mortgages, regardless of immigration status.

The CDCU Mortgage Center closed its first American Dream Loan and established partnerships with Freddie Mac, the Federal Home Loan Bank and FAHE to expand the Center's product offering, secure funding and expand lending in Appalachia.
The CDFI Fund is one of the Federal government’s best market-based strategies for leveraging private dollars. CDFIs leverage $12 of private capital for every $1 of public investment.

Today, CDFI Certification is an essential credential for credit unions that seek a larger role in the development of their communities.

CDFI credit unions lend deeply, deploying a high percentage of loan capital in the lowest credit tiers. They lend profitably, outperforming their peers in growth of members, loans and assets.

CDFI credit unions also lend effectively, leading in mission and margin.

The Federation was instrumental in establishing the CDFI Fund in 1994, is a permanent member of the national CDFI Coalition, and is the CDFI and community finance authority for the credit union industry. Our member CDFI credit unions represent the majority of all CDFI-certified credit unions.

As of January 2018, there are 305 credit unions serving 9.5 million members holding $100 billion in assets.
Supporting Minority and Faith-Based Credit Unions

AFRICAN-AMERICAN CREDIT UNION INITIATIVE

Twelve African-American credit unions in the New York Metro area are joining forces and sharing resources to grow their community impact. The Federation is working with member credit unions Concord, Paul Quinn, St. Augustine Presbyterian, Fidelis, St. Philips, Queens Cluster, Church of the Master, 1st Bergen, Mt. Vernon NY Postal Employees, New Covenant Dominion, University Settlement, and Grace Congregational to upgrade technology, develop new partnerships, and invest in the marketing of the credit unions' personal and business loans. The combined years of community service for these 12 credit unions is an amazing 597 years! The deep understanding these credit unions have of their members' needs and financial lives is unparalleled. Mable W. Richardson, a member of Concord Credit Union since 1985, is pictured here.

A similar initiative to support African-American and faith-based credit unions is taking root in Chicago.

TECHNICAL ASSISTANCE

The Federation offers a free technical assistance advice hotline that helps credit unions with assets less than $20 million prepare for an upcoming exam, address issues identified in a prior exam, or help with issues ranging from Bank Secrecy Act risk assessment to Supervisory Committee compliance. Federation members also receive a discount on all fee-based technical assistance in the areas of accounting and compliance.

The Federation provided 2,740 hours of technical service to 46 credit unions at no charge or at deeply discounted rates.
Juntos Avanzamos - Together We Advance - is a designation for credit unions committed to serving and empowering Hispanic and immigrant consumers. The rapidly growing network includes 80 credit unions in 21 states, the District of Columbia and Puerto Rico. The Federation has launched juntosavanzamos.org, an easy to navigate bilingual resource for Hispanic consumers interested in exploring their personal and business financial options. The site’s primary objective is to connect consumers with a Juntos Avanzamos credit union, but also provides educational resources to help immigrants and unbanked and under-banked consumers better understand the U.S. financial system.

In addition to the launch of juntosavanzamos.org, the Federation worked with the Mexican Consulate to begin to integrate Juntos Avanzamos credit unions with the Consulate's La Ventanilla De Asesoría Financiera, or Financial Empowerment Window.
CU Impact was created out of a need unmet by other core providers. This customized shared core platform combines the Federation’s 40+ years of expertise in serving low-income consumers with EPL’s pioneering, open architecture i-POWER® system. CU Impact supports and measures the impact of credit union products and services that build members’ financial security. By aggregating the accounting, compliance and processing functions across credit unions with a shared mission, CU Impact achieves efficiencies that allow credit unions to invest more in their members and communities. Pictured above are the Federation and EPL CU Impact teams, along with Federation member Peach State Federal Credit Union, at a meeting to explore new opportunities for sharing resources.

The Federation introduced the first-of-its-kind app to automate and streamline CDFI certification and grant reporting. CDFI reporting that once took days to complete can now be completed in a fraction of the time.
Pathways to Financial Empowerment is a new financial counseling model supported by a cloud-based CRM platform that measures member and community impact. Through guided counseling sessions, financial assessments, action plans and automated text message reminders for clients, credit unions are now tracking increased savings, decreased debt, and improved credit for their members. While members increase their financial capability, credit unions deepen member engagement and increase safe and affordable lending.

Through 2017, Pathways credit unions provided 4,655 counseling sessions to 2,975 people. Over half of clients engaged in counseling for six or more months increased their credit score an average of 32 points.
Board of Directors

EXECUTIVE COMMITTEE

Chairman: Jack Lawson, Missoula FCU, Missoula, MT
Vice Chairman: Carla Decker, District Government Employees FCU, Washington, DC
Treasurer: Brenda Dominguez, Guadalupe CU, Sante Fe, NM
Recording Secretary: Sheilah Montgomery, 1st Choice CU, Atlanta, GA
Corresponding Secretary: Cheryl Fatnassi, Opportunities CU, Winooski, VT

DIRECTORS

Richard Garcia, North Jersey FCU, Totowa, NJ
Paul Grinde, CoVantage CU, Antigo, WI
Armando Martinez, Texas Community FCU, Kingsville, TX
Shasta Leininger, New Orleans Firemen’s FCU, Metairie, LA
Luis Peralta, Kinecta FCU, Manhattan Beach, CA
Paul Phillips, Freedom First FCU, Roanoke, VA
Richard Romero, Seattle CU, Seattle, WA
Mignhon Tourne, ASI FCU, Harahan, LA
Richard Williams, Essential FCU, Plaquemine, LA
Paul Woodruff, St. Louis Community CU, St. Louis, MO

EXECUTIVE STAFF

Cathie Mahon, President/CEO
Eben Shaeffer, Chief Financial Officer/Chief Investment Officer
Pablo DeFilippi, SVP, Membership and Network Engagement
Pamela Owens, SVP, Organizational Development and Capacity Building
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Adrian Dominican Sisters
Amalgamated Bank
Bank of America
Deutsche Bank
Deutsche Bank Americas Foundation
FB Heron Foundation
Ford Foundation
The Kresge Foundation
Mercy Investment Services
Mizuho Bank USA
Riverside Church
Robert S. Bowditch Jr. Trust
Sisters of Notre Dame
Sterling Bank
Threshold Foundation
Trinity Health
Unitarian Universalist Association
Wells Fargo
Woodlands Investment Management Account
US Department of Treasury, CDFI Fund

FUNDERS
Arthur M. Blank Family Foundation
Bank of America
Capital One
Citi Community Development
CUNA
CUNA Mutual Group
Dedagroup, NA
Empire State Development Corporation
Equifax
FB Heron Foundation
Ford Foundation
Freddie Mac
Invest Atlanta
JP Morgan Chase
M&T Charitable Foundation
MetLife Foundation
Opportunity Finance Network
Prudential Foundation
United Way of Greater Atlanta
VISA
W.K. Kellogg Foundation

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Credit Builders Alliance
Credit Union Association of New Mexico
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