

# *Member-Focused, Service-Driven*



## 2016 ANNUAL REPORT



Federally Insured by NCUA

# OUR MISSION

is to promote thrift among members by affording them the opportunity to accumulate their savings, and to create for them a source of credit for provident and productive purposes. We will continue to strive to deliver cost-effective financial services to the members consistent with this primary mission statement. We will promote the goal of improving members' financial well being by educating them to the concepts of self-help cooperative principles.



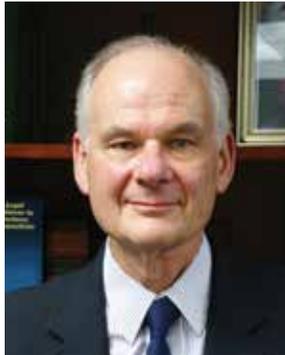
# Chairman's

## MESSAGE

For the past several years, Lafayette Federal Credit Union's board of directors and management team have been actively growing the organization's membership, assets and service facilities, preparing for future opportunities and challenges. In 2016, Lafayette Federal completed its merger with the CSC Employees Federal Credit Union, opened two branches in Northern Virginia, established the Home Ownership Financial Literacy Council to capture new members anywhere in the United States and launched a wealth management program to meet your investment objectives. Additionally, after over 25 years in our headquarters in Kensington, Maryland, Lafayette Federal moved to a new location in Rockville, Maryland to more effectively manage its expanding operations and growing staff.

Results of these aforementioned accomplishments have been outstanding. Lafayette Federal's asset size grew to almost \$500 million, its membership increased to over 20,000 members, loans and savings products increased to \$400 million and \$416.4 million, respectively. During this period of growth, Lafayette Federal was able to successfully maintain its strength as a financial institution making it one of the strongest and most respected in this region.

The strategic actions taken by the board and management team during the past couple of years have laid the foundation for future growth, further strengthening Lafayette Federal's position as your financial institution of choice. We are consistently examining new opportunities to expand our membership base and develop additional



lending demand to further increase the credit union's reach and financial strength. We are also open to further merger opportunities that are compatible with our current field of membership and consistent with our financial capabilities.

The board of directors and management team are appreciative of your continuing support of Lafayette Federal and we pledge to work hard every day to earn your business.

Respectfully,

A handwritten signature in cursive script that reads "Norman Cohen".

**Norman Cohen**, *Chairman*

# President's

## MESSAGE



navigate the path towards home ownership.

Also in 2016, we opened our third Northern Virginia location to serve our growing membership. Located at the heart of Arlington, the Crystal City Financial Service Center is a full-service branch that offers savings, deposits, convenience and loan products. In addition, consistent with the goal of delivering convenient

services, Lafayette Federal members now have access to an additional 5,500 credit union branches and 189 self-service kiosks throughout the country. Through our participation in a national network of credit union branches, Lafayette Federal members can take advantage of a variety of services in these new locations.

While we are proud of our financial performance and accomplishments, we remain true to the credit union philosophy of “people helping people” and giving back to the community we serve. Over the past 10 years, we have successfully raised over \$200,000 for our charitable beneficiaries, the Children’s Miracle Network and the Capital Area Food Bank. In 2016, Lafayette Federal was able to raise \$42,300 to benefit this very worthy cause.

I am extremely proud of our strong performance over the last year and attribute the dedication and commitment of our volunteers and employees in building a solid bond with you, our members, as the key to our current and future success. I also recognize that you have a choice in financial institutions. We will strive to earn your business every day and ensure that your financial experience is convenient and exceptional. We are grateful to you for your lasting support, and thank you for choosing Lafayette Federal as your trusted financial partner.

Respectfully submitted,

A handwritten signature in black ink that reads "B. John Farmakides".

**B. John Farmakides, President/CEO**

Lafayette Federal Credit Union is a **member-focused and service-driven** organization, serving members around the world since 1935. We are continually striving to provide you with a safe, secure and convenient place to save while consistently improving our product and service offerings to earn your trust. Our Board of Directors, Supervisory Committee and employees endeavor to ensure the financial strength and stability of the organization while providing the customer service you have come to expect.

I am pleased to report that 2016 marked another consecutive year of solid financial performance. With prudent lending practices and conservative financial management, complemented by our recent merger with CSC Employees Federal Credit Union, assets grew by more than \$70 million to \$489.6 million. Lafayette Federal continues to remain well-capitalized with a net worth to total assets ratio of 9.3% as of December 31, 2016.

During the course of 2016, Lafayette Federal remained committed to delivering exceptional member service while providing additional avenues to meet your financial needs. We instituted an Investment Services and Retirement Solutions program through CUSO Financial Services, L.P. This program offers free, knowledgeable and objective financial advice customized to meet your personal financial needs. Additionally, we launched the Home Ownership Financial Literacy Council, a non-profit corporation created to provide our nationwide members and prospective members with the necessary tools to successfully

As your Treasurer, I am happy to report that the financial state of Lafayette Federal Credit Union remains strong, stable and secure. 2016 was not only a good year financially, but a momentous one with the completion of the merger with CSC Employees Federal Credit Union and the move to our new Tower Oaks headquarters.



The interest rate environment continues to be a challenge for all of us in the financial services industry, but we are beginning to see a shift from a hold position by the Federal Reserve to one of gradual increases. In December 2016, we saw the Federal Reserve increase interest rates by 0.25%, the second time in a decade that rates have risen. There have also been two increases already in 2017. Even with these rate adjustments, rates remain historically low, creating a very difficult environment for financial institutions which depend on interest rate spread to drive income.

Despite these challenges, Lafayette Federal continues to be profitable through careful management of operating expenses, assets and liabilities. At the end of 2016, the credit union's total assets amounted to \$489.6 million, an increase of \$70.5 million from 2015. This increase was a result of the continued efforts to grow membership organically and the merger with CSCE FCU in January 2016. As a credit union that relies heavily on mortgage activity, Lafayette Federal continued to adapt a practical business model to the current market conditions, while still balancing the portfolio to meet our members' growing financial needs. Due to an uptick in loans on the balance sheet, net interest income in 2016 increased to \$15.5 million, up \$3 million from 2015. Member demand for both mortgage and consumer loans remained consistent.

Overall, Lafayette Federal was able to realize \$3 million in net income through careful

management of expenditures and related merger activities. This allowed us to maintain a capitalization rate of 9.3%, well above the National Credit Union Administration's threshold of 7.0% to be considered "well capitalized." In addition, Lafayette Federal was still able to pay member dividends of almost \$2 million. Additionally, based on the Rate Watch comparisons with other federal credit unions, banks and thrifts, Lafayette Federal consistently maintained a dividend rate position for our savings products at the higher-end of the spectrum in the marketplace.

It is my hope that all of our loyal Lafayette Federal members know that their credit union remains strong, stable and secure. Institutionally, the Board of Directors and Management Team continue to take prudent steps to protect the organization's financial stability and mitigate future interest rate risk caused by market conditions and the Federal Reserve's policies. We will continue to maintain the highest standards of banking protocol as we have done since 1935. We look forward to Lafayette Federal continuing to be your trusted financial partner for your deposit and borrowing needs. Thank you for your continued membership, trust and friendship that we have cultivated together over these past 80 years.

Respectfully submitted,

A handwritten signature in black ink that reads "Mary Jo Morris". The signature is written in a cursive, flowing style.

**Mary Jo Morris**, Treasurer

# Loan Committee's

## REPORT



Lafayette Federal remains strong and secure and is able to meet the lending needs of its membership.

Lafayette Federal strives to ensure that our membership views our consumer and mortgage lending products as true benefits to members. We offer very competitive rates and terms for all types of borrowers. Throughout 2016, we continued to look for opportunities to meet our members' needs and

The Loan Committee, comprised of Directors on the Board, works in concert with the senior members of Lafayette Federal's management team to provide competitive products that meet the financial needs of our membership. Despite continued, complicated regulatory requirements imposed by the Consumer Financial Protection Bureau (CFPB), Lafayette Federal received and processed 3,907 loan applications from our membership in 2016 resulting in loan disbursements totaling \$74.2 million, which includes consumer, residential and commercial loans. These figures include loans originated through Lafayette Federal and our Credit Union Service Organizations (CUSOs) — Potomac Business Services, LLC and Preferred Business Xchange, LLC.

The credit union ended the year with a total loan portfolio of \$399.8 million which is an increase of 8.7% over the previous year's portfolio level of \$367.8 million. Lafayette Federal remains a leader among credit unions in originating and servicing real estate loans as a means of maintaining a secure and collateralized loan portfolio while managing interest rate risk through secondary market sales. This has proven to be a very successful strategy as Lafayette Federal continues to maintain a charge-off ratio lower than the industry average. While the housing and employment markets continue to improve, Lafayette Federal is committed to assisting those members experiencing financial difficulties. With the combination of a strong real estate loan portfolio and proactive loss mitigation efforts,

were able to do so by modifying our non-resident alien, share secured and military lending policies. These changes resulted in us meeting a higher level of our members' expectations and expanded financing options. By offering a full range of industry standard as well as niche mortgage and consumer lending products, our credit union members have increased financing opportunities at their fingertips.

The past year was very successful and management continues to see improvement in borrowers' confidence. To ensure sustained managed growth, Lafayette Federal regularly evaluates and adjusts the types of financial services it offers while still adhering to sound underwriting standards. Lafayette Federal's Lending Department successfully underwent six regulatory examinations during 2016. Management continues to utilize examination results to strengthen its policies and procedures for clarity, transparency and proper guidance.

During this year, 2017, we will continue to offer products and services that satisfy the borrowing needs of our members and will work diligently to ensure the strength, stability and security of our credit union to maintain our perpetual goal of working with and for our members.

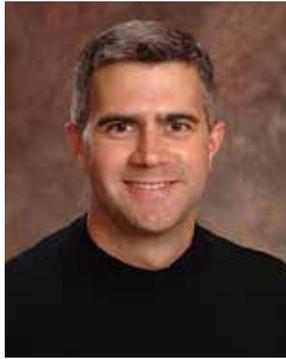
Respectfully submitted,

**Richard Ginsburg**, *Chairman*

# Supervisory Committee's

## REPORT

Lafayette Federal Credit Union's Supervisory Committee is a volunteer group, comprised of five Lafayette Federal members appointed by the Board of Directors to ensure that the board is safeguarding the credit union's assets, and that the management team complies with their policies and plans.



The Committee is independent from credit union management, and does not have any policy-making responsibilities. Rather, its priorities are to ensure that: 1) an audit of Lafayette Federal's financial statements is conducted annually by a licensed, independent auditor; 2) Lafayette Federal adheres to the filing requirements set forth by the National Credit Union Administration (NCUA); 3) Lafayette Federal verifies members' accounts on an annual basis; 4) inquiries from members and NCUA are investigated and resolved; and 5) other internal auditing functions or reviews are conducted, if necessary. The Committee attends all board meetings and meets separately on a monthly basis. Comprised of experienced credit union industry, information technology, small business, personnel management and Justice Department professionals, the Committee possesses a depth and breadth of professional expertise essential in carrying out its duties and serving as a trusted resource for the board and Lafayette Federal's members.

As in previous years, the annual, comprehensive audit of Lafayette Federal's 2016 financial statements and the verification of members' accounts were performed by Dixon Hughes Goodman, LLP

(DHG), Certified Public Accountants and Management Consultants. Once again, the Committee is pleased to report that Dixon Hughes Goodman issued an unmodified opinion on Lafayette Federal's financial statements. In 2016, F.I.R.M. Consulting Services, LLC, a certified public accounting firm based in Alexandria, VA, was engaged by Lafayette Federal to conduct internal audits on the implementation of the board's policies and the credit union's procedures, which are useful to the board and management for overseeing and strengthening Lafayette Federal's operations.

As a Committee, we appreciate the cooperation and professionalism of management, staff and volunteers, and shall continue to perform our oversight responsibilities in the best interest of all the credit union members.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Leslie Poole', written over a light-colored background.

**Leslie Poole, Chair**

# Consolidated Statements of Financial Condition

DECEMBER 31, 2016 AND 2015

	2016	2015
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 10,619,118	\$ 4,274,778
Time deposits with other financial institutions	2,378,600	-
Investments:		
Available-for-sale securities - at fair value	40,744,212	22,947,241
Other investments	595,141	527,251
Loans, net of allowance for loan losses of \$2,106,927 and \$2,389,250 for 2016 and 2015, respectively	399,768,514	367,770,331
Other real estate owned	3,312,000	-
Property and equipment - net	7,747,068	2,379,740
Property and equipment - held for sale	1,493,011	-
Core deposit intangible asset	915,460	-
Federal Home Loan Bank stock - at cost	1,354,700	2,014,400
Accrued interest receivable:		
Loans	1,016,978	969,514
Investments	87,266	53,814
NCUSIF	3,850,668	3,252,666
Credit union owned life insurance (CUOLI)	12,651,573	12,352,653
Other assets	3,108,523	2,517,781
	<u>\$ 489,642,832</u>	<u>\$ 419,060,169</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Liabilities:</b>		
Members' share and savings accounts	\$ 416,380,606	\$341,432,700
Interest payable	495,645	432,241
FHLB Advances	23,000,000	39,000,000
Accounts payable and other liabilities	4,063,145	1,950,008
	<u>443,939,396</u>	<u>382,814,949</u>
<b>Members' equity:</b>		
Regular reserve	4,812,250	4,812,250
Appropriated undivided earnings	40,787,643	31,289,987
Accumulated other comprehensive income	103,543	142,983
	<u>45,703,436</u>	<u>36,245,220</u>
Total members' equity	<u>45,703,436</u>	<u>36,245,220</u>
	<u>\$ 489,642,832</u>	<u>\$ 419,060,169</u>
<b>Total liabilities and members' equity</b>	<u>\$ 489,642,832</u>	<u>\$ 419,060,169</u>

The financial statements presented here are unaudited and do not represent a complete set.  
A complete set of audited financial statements is available in the credit union offices.

# Consolidated Statements of Operations

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<b>Interest income:</b>		
Loan receivable	\$ 16,691,831	\$ 13,820,819
Investments	<u>956,086</u>	<u>484,060</u>
Total interest income	<u>17,647,917</u>	<u>14,304,879</u>
<b>Interest expense:</b>		
Members' share and savings accounts	1,974,822	1,748,340
Borrowed funds	<u>129,588</u>	<u>66,832</u>
Total interest expense	<u>2,104,410</u>	<u>1,815,172</u>
<b>Net interest income</b>	15,543,507	12,489,707
<b>Provision for loan losses</b>	<u>946,485</u>	<u>100,000</u>
<b>Net interest income after provision for loan losses</b>	<u>14,597,022</u>	<u>12,389,707</u>
<b>Non-interest income:</b>		
Fees and service charges	1,687,226	1,098,527
Interchange income	861,384	780,927
Gain (loss) on sale of investment securities	62,280	(82,544)
Gain on sale of loans	84,958	91,232
Nonsufficient fund fees	534,769	493,136
Change in cash surrender value CUOLI	332,974	323,690
Bargain purchase gain	2,245,121	-
Other (loss) income	<u>(52,550)</u>	<u>(19,456)</u>
Total non-interest income	<u>5,756,162</u>	<u>2,685,512</u>
<b>Non-interest expense:</b>		
Compensation and employee benefits	8,812,571	7,871,539
Professional and outside services	2,266,511	1,756,750
Equipment maintenance and depreciation	1,036,445	858,476
ATM, credit and debit card processing	1,858,892	1,528,796
Occupancy expense	1,133,855	533,725
Telephone	610,603	522,807
Promotion and advertising	425,143	273,023
Other operating expenses	<u>1,201,508</u>	<u>738,223</u>
Total non-interest expense	<u>17,345,528</u>	<u>14,083,339</u>
<b>Net income</b>	<u>\$ 3,007,656</u>	<u>\$ 991,880</u>

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# Consolidated Statements of Changes in Members' Equity

YEARS ENDED DECEMBER 31, 2016 AND 2015

	RETAINED EARNINGS			Accumulated Other Compre- hensive Income (Loss)	Total Equity
	Regular Reserve	Appropriated Undivided Earnings	Undivided Earnings		
<b>Balance, January 1, 2015</b>	\$4,812,250	\$30,298,107	\$ –	\$355,465	\$35,465,822
Net income	–	–	991,880	–	991,880
Change in unrealized loss on investments – net	–	–	–	(212,482)	(212,482)
Transfers, net	–	991,880	(991,880)	–	–
<b>Balance, December 31, 2015</b>	4,812,250	31,289,987	–	142,983	36,245,220
Net income	–	–	3,007,656	–	3,007,656
Change in unrealized loss on investments-net	–	–	–	(39,440)	(39,440)
Equity acquired in merger	–	6,490,000	–	–	6,490,000
Transfers, net	–	3,007,656	(3,007,656)	–	–
<b>Balance, December 31, 2016</b>	<u>\$4,812,250</u>	<u>\$40,787,643</u>	<u>\$ –</u>	<u>\$103,543</u>	<u>\$45,703,436</u>

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# BRANCH LOCATIONS

## DISTRICT OF COLUMBIA

### COLUMBIA HEIGHTS FINANCIAL SERVICE CENTER\*

1381 Kenyon Street, NW  
Washington, DC 20010  
(301) 929-7990

*ATM adjacent to branch*

### JACK WELTY FINANCIAL SERVICE CENTER

1300 Pennsylvania Avenue, NW,  
Room C. 1-80  
Washington, DC 20523  
(301) 929-7990

*ATM adjacent to branch*

*(No mail accepted due to processing delays  
caused by security restrictions. Please send  
all mail to the Kensington branch.)*

### SBA FINANCIAL SERVICE CENTER

409 Third Street, SW, Suite 105  
Washington, DC 20024  
(301) 929-7990

*ATM is down the hallway*

## MARYLAND

### CABIN JOHN FINANCIAL SERVICE CENTER\*

7901 Tuckerman Lane  
Potomac, MD 20854  
(301) 929-7990

*ATM adjacent to branch*

### KENSINGTON FINANCIAL SERVICE CENTER\*

3535 University Boulevard West  
Kensington, MD 20895  
(301) 929-7990

*ATM adjacent to branch*



## VIRGINIA

### CRYSTAL CITY FINANCIAL SERVICE CENTER\*

2231 Crystal Drive, Suite R150  
Arlington, VA 22202  
(703) 639-6541

*ATM adjacent to branch*

### FALLS CHURCH FINANCIAL SERVICE CENTER

3141 Fairview Park Drive, Suite 170  
Falls Church, VA 22042  
(703) 876-4710

*Non-cash branch*

### McLEAN FINANCIAL SERVICE CENTER\*

6701 Lowell Avenue  
McLean, VA 22101  
(703) 639-1816

*ATM adjacent to branch*

**HOURS:** (M-F): 8:30 a.m. - 4:00 p.m.

*\*Saturday: 9:00 a.m. - 12:00 p.m.*



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