

**Local Government Federal Credit Union
Minutes of the Board of Directors Annual Meeting
Raleigh, North Carolina
May 15, 2020**

Call to Order

Chairman David Dear called the 37th Annual meeting of Local Government Federal Credit Union to order and requested that the Assistant to the Secretary record the minutes of the meeting. Chairman Dear welcomed everyone to the meeting.

Presence of a Quorum

Chairman Dear stated the Credit Union's Bylaws require that at least fifteen members be present at the Annual Meeting for a quorum. He noted that based on the attendance, there was a quorum for the meeting. Chairman Dear then requested Director Miller provide the invocation.

Approval of the 2019 Annual Meeting Minutes

Chairman Dear put forth the 2019 Annual Meeting Minutes and asked if any changes needed to be made. There were no changes requested.

On a motion made by Director Ruth Barnes, Atlantic Beach, and seconded by Director Ken Noland, Wilkesboro, the membership;

Voted: To approve the 2019 Annual Meeting Minutes as presented.

Introduction of the LGFCU Board of Directors

Chairman Dear introduced Vice-Chairman Lin Jones, Treasurer Ken Noland, Secretary Ruth Barnes, and Directors Jeanne Erwin, Paul Miller and Aaron Noble.

In addition, Chairman Dear recognized the Credit Union's Board Emeritus Al Richardson, who was not in attendance.

Special Guests

Chairman Dear recognized the two independent directors of Civic Federal Credit Union – Willie Best, immediate past Chair, and Kellie Blue, Treasurer.

Chairman's Report

Chairman Dear advised that his 2019 Chairman's report was available for the membership to review on the Credit Union's website. He stated that he was pleased to report that the Credit Union had another strong year of healthy growth and continues to focus on delivering valuable products and services to members.

He recognized all Credit Union volunteers, stating LGFCU would not be as successful as it is without the partnership and support of the volunteers. Chairman Dear advised that members are appointed monthly to serve in various roles within the organization. He informed the membership that there are currently almost 600 members volunteering their

time and services to ensure the success of the Credit Union. Chairman Dear expressed his gratitude again for the time these volunteers devote to LGFCU.

Supervisory Committee Report

Chairman Dear introduced Supervisory Committee Chairman Lee Smiley to provide the Committee's report.

Mr. Smiley stated that it was the duty of the Supervisory Committee to ensure that the financial records of the Credit Union fairly represent the operations of LGFCU and that procedures and practices are sound, thereby protecting members' deposits and rights.

He advised that in accordance with the requirements of the Credit Union's regulator, the National Credit Union Administration, the Supervisory Committee engaged the CPA firm of CliftonLarsonAllen to perform the annual financial statement audit as of June 30, 2019. Mr. Smiley informed the membership that the audit found the financial records to be a fair representation of the financial position of the Credit Union.

Mr. Smiley further stated that the accounting firm, on behalf of the Supervisory Committee, assists in ensuring the accounting records are an accurate representation of the Credit Union, that internal controls provide adequate protection, and that the Credit Union is operating under established policies and procedures. In addition, the Supervisory Committee reviews Credit Union policies for fairness, soundness, and efficiency.

Finally, Mr. Smiley advised that the Credit Union employs an Internal Audit department that tests the Credit Union's internal systems and processes. The Internal Audit team conducts periodic reviews of each function within the Credit Union.

Mr. Smiley expressed his appreciation for the Board's and members' confidence in the work the Supervisory Committee provides for the Credit Union.

Chairman Dear expressed his appreciation to the Committee for the work they do on behalf of the LGFCU and their fellow members.

Loan Review Committee Report

Chairman Dear introduced Loan Committee Chairman Tony King to provide that Committee's report.

Mr. King stated that he was honored to present the Loan Review Committee (LRC) report at the 37th Annual Meeting for LGFCU. He advised that the LRC fulfills two significant roles for the Credit Union. First, the LRC provides members with an avenue to appeal a loan denial through our usual delivery channels. Second, the LRC offers members a voice in the loan decision process. LRC members are not Credit Union staff; they are Credit Union members appointed by LGFCU's Board of Directors who are willing to volunteer their time. This right to appear before a committee of peers is a rare benefit.

He advised that members are given the option of having their applications reviewed by the Committee via mail, telephone, or an in-person meeting. In every scenario, the member's application is treated equally, confidentially, and respectfully.

He stated that in 2019, the LRC met as often as needed, usually weekly to consider the needs and requests of the members.

Finally, Mr. King thanked the LRC as well as the Board for their work in this effort. He stated that the LRC is truly making a difference in the lives of Credit Union members and their families.

Chairman Dear expressed his appreciation for Mr. King's report and the work of the LRC.

Nominating Committee Report

Chairman Dear introduced Director Aaron Noble, Chairman of the Nominating Committee, to present the Nominating Committee report. Director Noble thanked Chairman Dear for the opportunity to present the Nominating Committee report to the membership.

He introduced the other members of the Nominating Committee – Directors Lin Jones and Paul Miller. Director Noble advised the membership that the Nominating Committee is appointed by and serves at the discretion of LGFCU's Chairman of the Board. The charge of the Nominating Committee is to review the qualifications of prospective candidates for the Board and make nominations to the membership.

Director Noble advised that the Nominating Committee is submitting the following nominations: Ruth Barnes from Atlantic Beach for a three-year term; Jeanne Erwin from Cary for a three-year term; and Ken Noland from Wilkesboro for a three-year term. He advised that the Nominating Committee was submitting these nominations as a recommendation to the membership.

Chairman Dear stated that the Credit Union bylaws provide for nominations from the floor if there is a vacancy on the Board of Directors, as well as nominations via petition to the Board of Directors. He advised that there were no petitions from the membership nor was there a current vacancy on the Board.

On a motion made by Director Paul Miller, Snow Hill, and seconded by Tim Newbrough, Clayton; the membership;

Voted: To approve Directors Barnes, Erwin and Noland for respective three-year terms as presented by the Nominating Committee.

CEO's Report

Mr. Smith began by thanking the membership for attending the virtual Annual Meeting. He stated under normal circumstances he would be with everyone in a crowded assembly room giving his report about what their credit union has accomplished the past year.

He stated this is his 27th year of attending the Annual Meeting, but this is his first virtual meeting. Mr. Smith stated that LGFCU lives by the egalitarian philosophy that all members are treated the same; by democratic control, in that members of the Board are elected by the membership; and its not-for-profit nature, meaning the Credit Union's focus is on its membership, not on the profits of the institution.

Mr. Smith stated that LGFCU plans for things like business disruption, a recession, high unemployment and changes in interest rates, but we certainly didn't consider a pandemic the scope and scale of COVID-19. Now we are all focusing on social distancing and sheltering in place.

He explained there is a momentum that occurs in recessionary times called a 'flight to quality.' This is when consumers and institutional investors are looking for places to put their money, places to do business when times are bad. Consumers move their money someplace where they feel a little more secure. During these times, members come to the Credit Union for a place of integrity, a place that says 'here's our values' and a place where members feel safe. We are the Local Government Federal Credit Union. We have chosen to serve the local government community for a reason. Mr. Smith added members might expect during times like this that institutions might change the way they do business, but LGFCU continues to follow its core values; these and other values represent who we are as an organization.

Mr. Smith transitioned the discussion to the asset growth of the Credit Union over the last twenty-nine years. He remarked it does not show any year where LGFCU's assets declined. While the Credit Union is over \$2 billion in total assets today, we can't lose focus on the individual families and households that are represented by that figure.

He noted LGFCU has surpassed 350,000 members, so one in every 29 North Carolinians is a member of this credit union. In addition, the Credit Union made over 6,220 real estate loans to members last year alone.

Mr. Smith further stated that LGFCU is performing at a comparable rate, or even ahead of, its peers in many key metrics. He advised that the Credit Union had a negative growth in investments compared to our peers. When LGFCU receives deposits from the membership, management can choose to place the funds into two buckets – it can choose to invest those funds or loan them out to members for higher rates on return. Fortunately, the decline in investments is proof positive that LGFCU is loaning the funds to its membership, which is a core purpose of any credit union.

In addition, Mr. Smith stated that the Credit Union is paying higher dividends for member deposits than our peer organizations. This is a greater expense to LGFCU, which reduces the Credit Union's overall income, but ultimately provides a greater benefit to the membership.

Next, he advised the membership that LGFCU's expense-to-assets ratio was higher than our peer credit unions. Mr. Smith stated that the average deposit for an LGFCU member is lower than the average deposits of other credit unions. Therefore, this ratio is not the most critical metric to the Credit Union as LGFCU is not serving the wealthier consumers whose

large deposits drive up the assets figure. Instead, Mr. Smith advised, the Credit Union is here to provide products and services to meet the needs of the community regardless of an individual's wealth or deposits.

Mr. Smith informed the membership that sometimes the Credit Union makes a loan and the member is unable to pay back the Credit Union due to unexpected life changes. For the Credit Union, these loans are called charge-offs. He advised the Credit Union still wants the member to pay the money back, therefore management has implemented additional programs to assist members during these situations. These programs have allowed members to retain ownership of their homes and other assets, such as vehicles.

He then transitioned the discussion to the Credit Union's return-on-assets. He advised this is the "bottom line" for LGFCU. Mr. Smith informed the membership that the Credit Union was not quite as profitable as some of our peer institutions. But when you take more chances and pay more in dividends, it reflects in the bottom line – and we are perfectly fine with that.

Mr. Smith moved the discussion to the tools used by management to determine how the Credit Union is performing. He advised that LGFCU is subject to an external financial statement audit on an annual basis. This year, the Credit Union received an unmodified opinion from CliftonLarsonAllen, meaning the financial statements were an accurate representation of LGFCU's financial condition and operations.

Regarding LGFCU's annual NCUA examination, Mr. Smith noted that this review is designed to ensure the Credit Union complies with NCUA's Rules and Regulations and operates in a safe and sound manner while taking care of the membership. He advised attendees that LGFCU's most recent NCUA exam went very well, although the report could not be made available to the membership as the regulator deems it confidential.

Next, Mr. Smith advised that the Credit Union sends out surveys to the Advisory Council as well as to the membership. These surveys tell staff how well we are serving them and their communities, as well as what products and services the membership would like to see in the future. He advised that staff welcomes comments and that we are only a phone call or visit away.

Mr. Smith also noted that for the second year in a row, LGFCU was recognized as the Best Credit Union in North Carolina for 2019. This designation was awarded by Forbes Magazine based on surveys of North Carolina consumers. He thanked the members for their support in helping us reach this achievement.

Mr. Smith reminded the membership he has been in the Credit Union industry for four decades. He stated he has seen rising rate environments, inverted yield curves, unemployment go up and down, prime rate as high as 18% and at least five recessions. He informed the membership throughout all these economic changes, LGFCU has thrived. Mr. Smith stated when LGFCU was chartered in 1983, it was chartered in the middle of a recession. LGFCU was built for these times.

Mr. Smith stated when times are tough, the members, their households, their communities – they're all counting on LGFCU. He advised that members are counting on the Credit Union to have the services they need to remain financially stable during tough economic times.

He advised the Credit Union will get through this as well by listening to the members about what their families and communities need during this time. Your Credit Union will listen to your concerns. Therefore, if you feel we haven't provided the best service, or, if you have a suggestion on how we can improve on our services to you, or if you have an insight on something that's going on in your community that we should know about, your Credit Union is going to listen to you.

Mr. Smith informed the membership that the Credit Union is going to keep making loans. If you have a need for credit-- responsible, affordable credit that's going to help you live a better life-- your Credit Union wants you to pick up the phone or visit the website.

Mr. Smith reminded the membership of the core values of our organization. He stated LGFCU is going to continue to live by them. LGFCU is going to be the credit union members expect and deserve it to be, regardless of what the economy's doing. He stated the members still need the Credit Union, and LGFCU still needs its members. Therefore, we're going to live out our core values.

Mr. Smith thanked the membership for allowing him to share a few thoughts about their credit union, about its performance, and particularly the relevance of LGFCU in this kind of environment. He reminded that the Credit Union exists to serve members. It doesn't matter whether we're sitting on our sofa at home, telecommuting, or here in the office or out on the road, we're all focused on you and your needs. He stated it's been a pleasure serving them this year. Mr. Smith thanked the membership for being a part of the 2020 Annual Meeting.

Finally, Mr. Smith opened the floor to questions from the membership. The first question came from Meredith in Cary. She inquired how COVID-19 has impacted how the Credit Union will operate in the future. Mr. Smith responded LGFCU will continue to serve members in a safe way, protect its employees and will be sure its systems remain available. In addition, management will monitor Governor Cooper's orders on how we should operate and how the economy should reopen. As we move into the future, the Credit Union is going to look for new opportunities to serve our members.

Next, Justin in Shelby inquired about the most important opportunity that has arisen from COVID-19. Mr. Smith stated that staff is obsessed with ending poverty in North Carolina. He advised that the Board of Directors have given him a number of objectives and goals and doing something about poverty in North Carolina is one of them. Mr. Smith informed the membership what we do today is going to prepare all of us for the next event and help protect our households and our communities.

Nancy from Raleigh stated that due to COVID-19, funding to our communities may be very limited. Some local government employees may be reduced in force. She inquired what services and/or resources will be available to these members. Mr. Smith stated the credit

union will make itself available with loan payment assistance, financial counseling, and financial planning.

Franco in Monroe inquired if there is a sense of urgency to develop an LGFCU app since social distancing has become the new normal. Mr. Smith informed the membership that although a release date has not been determined for the app, it is under active development. He reminded the membership they can access Member Connect through a mobile phone or any digital device and perform a number of services. In addition, the Credit Union is always reachable by phone, email or via branch access.

Kimberly from Asheville inquired how the Credit Union determines how much capital, and by which means, it will be deployed to communities. Mr. Smith advised the Credit Union utilizes an egalitarian philosophy where all members are equal and we do not create differences. He also noted that with our partnership with SECU, we have 270 branches located in every county in North Carolina providing access to the membership. Lastly, Mr. Smith commented that the Credit Union is going to ensure that every community we can reach receives equal services and resources from the credit union.

Susan from King inquired if LGFCU would consider livestreaming future Annual Meetings and making them available on demand for those members that cannot attend in person. Mr. Smith informed the membership this is the new normal. He stated that he will speak to the Board of Directors and assemble the management team to further discuss this request. Mr. Smith noted having the ability to meet with the membership from the convenience of wherever we are, about what your institution is doing, sounds like a good idea.

Theresa from New Bern inquired when the Credit Union expects to be back in the Quorum Center. Mr. Smith reminded the membership that the Credit Union is not operating out of the Quorum Center because of the downtown Raleigh fire three years ago. He indicated that nearly all the residents and commercial tenants have moved back into the building, and LGFCU anticipates moving back in late June or early July.

Next, Tom from Asheboro inquired if LGFCU will adopt a risk-based lending philosophy. He stated for the first time in more than 30 years, he and his wife had to seek service from another financial institution for a vehicle purchase and they were able to reduce their interest rate by 250 basis points. Mr. Smith explained that risk-based pricing is when a financial institution offers a loan rate based on creditworthiness. LGFCU does not utilize risk-based pricing. However, Mr. Smith advised that a few years ago LGFCU chartered Civic Federal Credit Union to give members another option for online services and products. Mr. Smith invited Tom to review their offerings at www.civicfcu.org.

Sherry from Wendell inquired if the annual meeting could be hosted outside of Raleigh. Mr. Smith advised that the Board of Directors chooses the location for the annual meeting, and management will take the suggestion to consider alternate locations for future meetings.

Franco from Monroe inquired what relief opportunities are available for members that are experiencing hardships due to COVID-19 and how that information is being disseminated to the membership. Mr. Smith stated there are a number of things we're doing to help mitigate the risks that our members are experiencing as result of COVID-19. He further explained

that the mitigation efforts, resources and tools that we have for our membership need can be tailored to specific members. Mr. Smith recommended having an individual one-on-one conversation with the member who has a need, and we'll find an approach that will assist the member and their family.

Next, Todd from Morganton inquired if Civic has experienced the participation and growth as expected. Mr. Smith advised Civic is exactly where management expected it to be at this point. He stated LGFCU is proud to have it as a sister institution, and we're going to work well together to serve members and the local government community.

Finally, Brenda from Smithfield inquired if there are any plans to offer more contactless payment options. Mr. Smith informed the membership staff is continuing to work on contactless payment options. He stated if there is any other technology that the members would like to see LGFCU implement to please have that discussion with us.

Mr. Smith thanked everyone for their questions.

Chairman Dear concluded the discussion by thanking Mr. Smith for his report.

New Business

Chairman Dear stated if any members viewing today have any new business or old business, they should submit that business via the online chat box.

Chairman Dear informed the Credit Union's Advisory Council members that the Annual Volunteers' Meeting has been tentatively scheduled for November 20. He noted more information will be shared with the Council members as we get closer to the event. He thanked the members of the Advisory Councils for their unselfish service to the Credit Union and their fellow members.

There was no new business noted for this meeting.

Old Business

There was no old business noted for this meeting.

Chairman Dear stated on behalf of himself and the Board of Directors how much they appreciate Maurice Smith, Mark Caverly and the rest of the LGFCU staff for adapting to the unprecedented circumstances that forced the production of this virtual Annual Meeting. He also thanked Creative Visions for partnering with the Credit Union to help make this event a success for the benefit of the membership.

There being no further business, the meeting was adjourned.

Respectfully submitted,

David Dear, Chairman _____

Ruth Barnes, Secretary _____

Date approved: _____