

**Local Government Federal Credit Union
Minutes of the Board of Directors Annual Meeting
Raleigh, North Carolina
May 3, 2019**

Call to Order

Chairman David Dear called the 36th 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 fifteen members be present at the annual meeting for a quorum. He noted that based on the attendance today, there was a quorum for the meeting. Chairman Dear requested Director Miller provide the innovation.

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 special guests – Willie Best, Chairman of Civic's Board of Directors; Kellie Blue, Treasurer of Civic's Board; Mike Lord, Chief Executive Officer of State Employees' Credit Union; and Spencer Scarboro, State Employees' Credit Union's Senior Vice President of Lending Integrity.

Chairman's Report

Chairman Dear advised that his Chairman's report was available for the membership to inspect upon request. 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's volunteers, stating the Credit Union 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 over 500 members volunteering their time and services to ensure the success of the Credit Union.

Finally, Chairman Dear requested that anyone attending the Annual Meeting for the first time to please stand. He expressed his gratitude again for the time these volunteers devote to the Credit Union.

Supervisory Committee Report

Chairman Dear introduced Ms. Michelle Price to provide the Credit Union's Supervisory Committee Report.

Ms. Price 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.

She 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 audit as of June 30, 2018. Ms. Price informed the membership that the audit found the financial records to be a fair representation of the financial position of the Credit Union.

Ms. Price 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, Ms. Price 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.

Ms. Price expressed her appreciation for the Board's and members' confidence in the work the Supervisory Committee does for the Credit Union.

Chairman Dear expressed his appreciation to the Committee for the work they do on behalf of the Credit Union.

Loan Review Committee Report

Chairman Dear introduced Loan Committee Chairman Tony King to provide the Loan Review Committee Report.

Mr. King stated that he was honored to present the Loan Review Committee (LRC) Report at the 36th 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 who are willing to volunteer their time, without compensation and appointed by LGFCU's Board of Directors. This right to appear before a committee of peers is a rare benefit for LGFCU members.

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

He stated that in 2018, the LRC met as often as needed, usually weekly to consider the needs and requests of the members. Mr. King informed the membership that the LRC reviewed thirty-five applications in 2018, resulting in a 30% approval rating.

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 Ruth Barnes, Chairman of the Nominating Committee, to present the Nominating Committee report. Director Barnes thanked Chairman Dear for the opportunity to present the Nominating Committee report to the membership.

She introduced the other members of the Nominating Committee – Directors Jeanne Erwin and Ken Noland. Director Barnes 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 Barnes advised that the Nominating Committee voted to submit the following nominations: Paul Miller from Snow Hill, North Carolina for a three-year term; and Aaron Noble from Burlington, North Carolina for a three-year term. She advised that the Chairman, as well as the Nominating Committee, were 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 an open vacancy of 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 Jones and seconded by Mr. Tony King; the membership;

Voted: To approve Directors Miller and Noble for respective three-year terms as presented by the Nominating Committee.

CEO's Report

Mr. Smith began by thanking the membership for allowing him to work at their Credit Union. He reminded the membership of the value of Credit Union membership; that value being that each member is an owner in the institution regardless of the amount on deposit.

He stated that it's a privilege to be a part of LGFCU because the average citizen takes what Credit Union membership does every day for granted. LGFCU is here to assist each individual member in improving their lives; that's what staff focuses on every day. Mr. Smith thanked the attendees for taking time from their jobs and family to attend today's meeting; it's a testimony of their loyalty to the Credit Union.

Mr. Smith stated this meeting demonstrates the difference between banks and credit unions. The Credit Union's annual meeting is an assembly of member-owners of a cooperative and a presentation of the operation of the Credit Union. It represents egalitarian treatment of the membership, as everyone has a voice and a vote.

Mr. Smith stated that he has a new appreciation for the heroes that provide services for those in the community. The average citizen typically takes for granted the services that are provided to them by their local community.

He advised the membership that Diana Harris, an Advisory Council member, set up a ride-along for he and a couple of staff members with the Chapel Hill Fire Department. This event shed new light on the role of the local government employee to the community. It highlighted what our membership does for their communities.

Next, Mr. Smith recognized the passing of former Board Member Frances Efrid. Ms. Efrid was a LGFCU Board member for over 20 years. She believed there was a philosophical difference between banks and credit unions. The Credit Union's products and services should be the best in the industry, but the Credit Union should also ensure affordability and accessibility of our offerings as well.

Next, Mr. Smith discussed the Credit Union's 2018 Annual Report. He reminded the membership that the full report is available on the Credit Union's website. Mr. Smith stated that the Credit Union's Board and staff understand that our members have a choice in financial institutions and are thus grateful the members have chosen LGFCU.

Mr. Smith then discussed the asset growth of the Credit Union over the last several years. He advised that in March 2018, the Credit Union reached \$2 billion in assets. Mr. Smith reminded the membership that when he accepted the role of President in December 1992, the Credit Union only had \$67 million in assets. In addition, LGFCU has never seen a year with negative asset growth regardless of the economic conditions.

Mr. Smith next recognized Ms. Regina Alexander, one of the original subscribers of LGFCU in 1983. Mr. Smith stated that Ms. Alexander desired to have a credit union for local government to address the needs of that membership base. Ms. Alexander had faith this type of credit union would do extremely well; her faith in LGFCU was well placed. The Credit Union has loaned members money for all aspects of life, from mortgages to vacations. Mr. Smith stated that the loan volume has helped achieve the \$2 billion in assets mark. In addition, Mr. Smith stated that the institution is equal to or ahead of its peers in many key metrics.

Mr. Smith advised that the Credit Union's investments are on a faster decline than our peers. When LGFCU receives deposits from the membership, management can choose to place the funds into two buckets. The Credit Union can choose to invest those funds or loan them out to members for higher rates of return. The Board of Directors has chosen to loan these deposits out to other members of the 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 that LGFCU's expense-to-assets ratio was higher than peer credit unions. This ratio is the difference between the credit union's operating expenses and assets of the financial institution. Mr. Smith stated that the average deposit for an LGFCU member is much lower than the average deposits of other credit unions. However, he advised, this ratio is not the most critical to the Credit Union as the LGFCU is not serving the wealthier consumers whose large deposits drive up the ratio. Instead, Mr. Smith advised, the Credit Union is here to provide products and services to serve the needs of the community regardless of an individual's deposit amount. The Credit Union feels like this is a badge of honor.

Mr. Smith then advised the attendees that sometimes the Credit Union makes a loan and the member is unable to pay back the Credit Union due to job loss, unexpected medical expenses, etc. For the Credit Union, these loans are called charge-offs. He stated the Credit Union still wants the member to pay the money back, therefore management has implemented additional programs to assist members in paying back LGFCU loans.

Mr. Smith discussed the Credit Union's return on assets next. This is the "bottom line" for LGFCU, he advised. He stated that even with all the risk the Credit Union takes to improve the lives of our members and communities, LGFCU's return on assets exceeds our peers.

Mr. Smith transitioned the discussion to the tools used by management to determine how the Credit Union is doing. He advised that LGFCU is subject to an external financial audit on an annual basis. This year, the Credit Union received an unmodified opinion, meaning the financial statements were accurate.

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, which dictate how the Credit Union runs operational processes. 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 one phone call or visit away.

Mr. Smith then informed the membership of the Civic Center, which is the Operations Center for Civic Federal Credit Union that was awarded a Gold LEED Certification. "LEED," which stands for the Leadership in Energy and Environmental Design, is an internationally recognized green building certification system, providing third-party verification that a building or community was designed and built using strategies aimed at improving performance across all the metrics that matter most: energy savings, water efficiency, CO2 emissions reduction, improved indoor environmental quality, stewardship of resources and sensitivity to their impacts.

Mr. Smith also noted that LGFCU was awarded the Best Credit Union in North Carolina for 2018. This designation was awarded by Forbes Magazine based on surveys of North Carolina consumers.

Mr. Smith then moved on to share some of the topics being discussed at the Credit Union. He stated that staff is obsessed with ending poverty in North Carolina. He advised that the Board of Directors has given him five enterprise-wide goals centering around the tools and resources needed to end poverty in our communities. He stated that typically when management identifies a problem, there usually is a product that provides the solution. However, ending poverty isn't just about one product or solution. There are other social factors that need to be addressed; but, the conversation has started, and the Credit Union cannot back away from addressing it.

Mr. Smith further noted that 46% of Americans do not have enough money to cover a \$400 emergency cash need – this is based on a 2016 Federal Reserve Survey. To help solve this problem, Mr. Smith noted LGFCU had partnered with SECU to offer the Salary Advance Loan. This product covers an emergency cash need of up to \$500, but also has a savings account component. Each time a member takes an advance from the line of credit a portion of the advance is deposited into the member's savings account – the result being that the member eventually has enough in savings to cover an emergency expense without having to borrow funds from the Credit Union. He advised that to date, there are 17,000 LGFCU members who have these savings accounts with an average balance of \$399. But, there is more work to do, and if anyone has ideas to help, Mr. Smith implored attendees to please reach out to a staff member and let us know. This effort will take multiple solutions, staff expertise, and input from the membership.

Finally, Mr. Smith opened the floor to questions from the membership. One member inquired about the difference in dividend rates between LGFCU and SECU. Mr. Smith stated that SECU and LGFCU are two separate financial institutions that set their dividend rates based on the balance sheet needs of the individual institution – dividend rates are not

discussed between the institutions. In addition, rates are essentially a function of supply and demand; when the Credit Union needs deposits, rates will increase, and vice versa.

Another member wanted to know when LGFCU planned to launch its mobile app, since SECU had already launched its App. Mr. Smith responded that the LGFCU app is in the works, but a release date has not been determined yet. He advised that SECU serves other credit unions besides LGFCU, and that it's easier to consolidate resources to build something of this magnitude one institution at a time.

Next, a member inquired when the Credit Union was going to offer a 30-year mortgage product. Mr. Smith stated that most of the Credit Union's loan products have a corresponding deposit product to ensure there's a matching of funds and enough of a margin. Currently, the Credit Union does not have a deposit product that is fixed for 30 years, but it does offer a five-year share term certificate which matches the Credit Union's five-year ARM product. He advised that those institutions that offer a 30-year mortgage product are selling these loans on the secondary market to get their money back, which comes with additional underwriting and rate requirements that affect how the Credit Union serves the membership.

The last member question concerned the Fairmont, NC ATM. A member noted that around the first of the month, the ATM doesn't have enough money to service the needs of the community. In addition, the ATM does not take deposits. She stated that she has requested another ATM on the other side of Robeson County for the last three or four years. She stated SECU needed an "express branch" since the 5th Street branch shut down after last year's hurricanes. SECU's CEO Mike Lord responded, noting that the new 5th Street branch was scheduled to open Monday, May 6th. Regarding the ATM, he stated that he would look at the request, but that SECU needs to be able to justify spending the members' money to put another ATM in the area.

Mr. Lord further addressed the launch of SECU's mobile app as well. He advised that SECU has not announced the app's release to the membership. He informed the membership that the LGFCU app is coming, but there is no launch date at this point. In addition, Mr. Lord stated, the current app does not give the membership any additional functionality than the mobile website, but the platform is there to add additional services as they are developed. SECU will share these investments with client credit unions, but it will take some time.

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

New Business

There was no new business during the meeting.

Old Business

At a member’s request, Mr. Smith provided an update on the Quorum Center. He stated that the residents and commercial tenants would begin moving back in to the building in early June, and that the Credit Union anticipates moving back in late fall 2019.

Mr. Smith then provided an update on Civic. He stated that Civic is the first de novo credit union in North Carolina since the 1980s. Civic serves the local government communities, but the Civic charter is a little different than LGFCU’s. In addition, he stated, now that Civic is open, anyone in the field of membership can join.

Following Mr. Smith’s remarks, Director Jones announced that Mr. Smith had received the African-American Credit Union Coalition Pete Crear Lifetime Achievement Award. The Pete Crear Lifetime Achievement Award was established in 2002 to recognize significant contributions and excellence in service, promoting the credit union philosophy, creating innovative concepts and providing leadership that has had a significant and lasting impact on the national and international credit union community.

Mr. Smith thanked the Board for their support. He stated that regulations, etc. that affect North Carolina are not always decided in North Carolina. Mr. Smith stated the Credit Union is striving for a “seat at the table” on issues that affect local governments and North Carolina communities. He advised that the Credit Union’s staff and Board of Directors are committed to improving the lives of North Carolina’s communities. Members entrust the Credit Union with their finances and staff and the Board take that very seriously. With the support of the Board, staff and the membership, there is nothing LGFCU cannot achieve for its members and their communities. Mr. Smith stated he cannot wait to see what happens next.

There being no further business, the meeting was adjourned.

Respectfully submitted,

David Dear, Chairman _____

Ruth Barnes, Secretary _____

Date approved: _____