2022 ANNUAL REPORT

Member-Focused, Service-Driven.



CREDIT UNION

Your credit union for life.

Federally Insured by NCUA

OUR MISSION

We serve, support and empower our members by understanding their financial needs, delivering products and services to achieve their financial goals and offering solutions to assure their financial well-being.

OUR VISION

Your credit union for life.





a message from our Board <u>Chair</u>

While the pandemic threat seems behind us, the past year has hardly felt like a return to normal. We have experienced record

inflation, interest rate hikes, and reminders of the 2008 crisis. However, at Lafayette Federal, business continues to be good. In 2022, our assets, net income, and capitalization rate remained strong, and we continued to serve and support our members' financial well-being. We achieved impressive financial growth and received recognition as an industry leader.

For three consecutive years, S&P Global Market Intelligence recognized Lafayette Federal as one of the top 100 credit unions in the nation, retaining the #12 position in 2022. Once again, Newsweek recognized us as one of America's Best Banks and we received a 5-star ranking from Bauer Financial. Additionally, Lafayette Federal ranked #4 in the prestigious J.D. Power 2022 U.S. Consumer Lending Satisfaction Study. Last but not least, we were honored by the Washington Business Journal as the 8th fastest-growing company in the DMV region for 2022.

Lafayette Federal's success in 2022 was strong across the board, with two of our most significant achievements occurring within the first guarter of the year: implementing a new core system and launching our updated online banking platform and mobile app. These two initiatives strengthened our operations and improved our ability to offer our invaluable existing services, plus brand-new features, many of which were developed in response to feedback from our members. In 2022, we also laid the groundwork for our new website, launched in the first quarter of 2023. specifically designed to provide a smoother member experience, whether you're searching for a new product or service, looking to get in touch, or browsing our extensive learning center. We are committed to meeting your ever-changing financial needs through enhancements in our technological infrastructure.

In response to the rising interest environment, last year. Lafayette Federal developed and implemented a deposit strategy to remain competitive within the marketplace. That strategy included doubling the interest rate offered on new and existing checking accounts to 2% and offering some of the highest rates in the nation for share certificates. Both offerings were met with success and are still in effect. Additionally, knowing that many of our members who hold deposits with us prefer having access to a local brick-and-mortar location. I am thrilled to inform you that we are opening two new locations: first, we are relocating our McLean branch to a new. more accessible building that offers a drive-thru ATM. safe deposit boxes and plenty of space so that we better positioned to serve you. Second, we are in the process of opening our first branch in Prince George's County, MD. Both branches are slated to open in 2023.

Our President/CEO and Treasurer's messages will provide further insight into the credit union's financial results for 2022 regarding assets, net income, and capitalization rate in their respective messages. The Supervisory Committee and Credit Committee Chair messages will also feature important highlights from 2022.

As Board Chair, I am proud of our ongoing commitment to our communities. In 2022, we introduced our Essential Workers Mortgage Program, which helps dedicated and courageous members of our communities achieve homeownership by providing them with financing that includes favorable rates and terms. We are proud of this program and the opportunities it can create for these vital members of our community, who often face challenges obtaining mortgages through conventional means.

Last year, Lafayette Federal continued our support of the Children's Miracle Network, raising \$70,797 to help provide for children in dire need of medical attention through our annual Capital Classic Charity Golf Tournament. Since 1990, we have donated more than \$1,000,000 to organizations in our community. Further, we continue to work with our partners to promote financial literacy in addition to offering free financial planning webinars. The challenges in our nation and our communities inspire us to stay committed and be of service to our members and others.

I want to thank our Board and Supervisory Committee members, all of whom are volunteers, for their time and effort. In that regard I would like to mention that our Board and Supervisory Committee members have exceptional credentials. We have a number of well experienced and highly regarded attorneys, business executives, IT experts, entrepreneurs, security and HR professionals who provide oversight and add tremendous value to our credit union. Our President/CEO, B. John Farmakides, is always the first to point out that our success is a team effort. I want to thank the leaders of that effort, our Management Team, and their staff for their superb performance this past year. Their hard work and dedication impact every facet of our business.

Finally, my deepest thanks go to you, our members, for your continued faith and trust in Lafayette Federal to safeguard your money and assist you in meeting your current and future financial needs. We are committed to retaining your trust and providing you with the best possible service and experience.

Respectfully submitted,

N. Gus Siekierka, Board Chair

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A MESSAGE FROM OUR President/CEO

Last year, I emphasized that institutions like ours, which embrace change and proactively adapt, are better positioned to guide

their organizations to financial success. Despite many significant economic challenges in the national and global economy, Lafayette Federal successfully met our members' financial needs.

Thanks to our valued members, as well as our board and staff, Lafayette Federal Credit Union experienced impressive growth in 2022. In 2022, we achieved the following milestones:

- » Grew assets by \$465.1 million.
- » Generated a net income of \$70.1 million
- » Maintained a well-capitalized position of 15.57%.
- » Expanded our member base to 56,548, welcoming 10,425 new members.

During a tumultuous time in the financial services industry, our growth has solidified our local and national recognition from the past few years. During this time, Lafayette Federal has been:

- » Ranked as a Top 100 Performing Credit Union for the third consecutive year by S&P Global Market, securing the #12 spot.
- » Acknowledged as one of America's Best Banks for the second year in a row by Newsweek.
- » Received an elite 5-star ranking from Bauer Financial.
- » Ranked #4 in J.D. Power's 2022 U.S. Consumer Lending Satisfaction Study.
- » Honored by the Washington Business Journal as the 8th fastest-growing company in the DMV region for 2022

We dedicate these recognitions to our valued members, who have consistently supported us and demonstrated loyalty. We would also like to acknowledge the strong leadership of our Board of Directors, the Supervisory Committee, and our employees, who consistently display a unified commitment to our credit union's philosophy of being Member-Focused and Service-Driven.

Together, we strive to make Lafayette Federal a premier financial institution in the Washington, D.C. area, fulfilling our mission of serving, supporting, and empowering our members. In pursuit of this goal, we introduced new products and service upgrades in 2022, including:

- » A 2% bonus on both new and existing checking accounts
- » A competitive credit card balance transfer promotion with a low introductory rate for the first year.
- » Multiple certificate rate increases, currently among the highest rates in the nation.
- » Innovative mortgage solutions, such as our Essential Workers Mortgage Program, designed

to help essential members of our communities achieve homeownership.

Additionally, we made notable service enhancements last year, including the completion and launch of our new core system, which enables us to serve our members more efficiently and quickly. We upgraded our online banking platform to offer a more convenient and robust way for you to manage your finances, and we recently completed the redesign of our website, providing you with a better, streamlined experience for managing your accounts online.

Serving and supporting our communities remains a top priority for us. We take considerable pride in participating in Credit Unions for Kids, a non-profit collaboration of credit unions nationwide that fundraises for 170 Children's Miracle Network (CMN) Hospitals. CMN is our chosen charity, and as part of our commitment to Credit Unions for Kids, we raised \$70,797 in 2022, including \$10,000 in matching funds from Co-Op Financial Services. Over the lifetime of our credit union's fundraising efforts, we have provided more than \$1 million in charitable donations to organizations in our community.

Looking forward, in 2023, we will continue to find new ways to deliver best-in-class products and services for our members. And, to further increase convenience when it comes to banking with us, we are expanding our branch network into Prince George's County, and before the year ends, our new McLean branch will open, offering safe deposit boxes, drive-thru service, easy parking, an outdoor ATM, and generous space within the branch.

On a personal note, I am incredibly proud to be a part of this credit union and history and truly honored for the opportunity to celebrate its remarkable achievements over the past 12 months. Our team has provided service excellence for our valued members, and I recognize the loyalty of our membership as the key to our success. We know you have many options for financial institutions, and we want you to feel that choosing us was a great decision.

The best compliment we can receive for outstanding service is when you refer a family member or friend. Please remember to share our institution's rich history and success by encouraging your family and friends to join our credit union.

Thank you once again for choosing Lafayette Federal as your trusted financial partner. Your continued membership inspires us to find the best ways to serve you, and we sincerely appreciate your business. We will continue to work hard each day to be your credit union for life.

Respectfully submitted,

S. John Januabile

B. John Farmakides, President/CEO



a message from our <u>Treasurer</u>

As your Treasurer, I am pleased to report that the financial state of Lafayette Federal Credit Union remains strong, stable, and secure with another exemplary and nationally recognized financial performance in 2022.

The challenges of 2022 were different from those we experienced in 2021. The public health emergency had largely subsided in the United States, but the economic fallout

continued, driven by inflation and rising interest rates, resulting in a continuing decline in consumer spending across many sectors. The Federal Reserve began steadily raising interest rates to levels not seen in decades to slow the U.S. economy and curb inflation with mixed results, creating a domino effect we are still experiencing in the financial services industry, especially in the housing market.

While these conditions put significant pressure on organizations across many industries, Lafayette Federal remained well-positioned to develop new opportunities due to the groundwork laid by Management in prior years. Despite the decreased demand for new mortgages and refinancing, we continued to originate real estate and consumer loans. Furthermore, we launched our Essential Workers Mortgage Program, offering favorable rates and terms for eligible front-line workers. We also raised our certificate rates to industry-leading levels, attracting over \$402.9 million in deposits.

At the end of 2022, the credit union's total assets amounted to \$1.75 billion, an increase of \$465.1 million over 2021. Net interest income after provision for loan losses in 2022 was \$49.4 million, up by \$21.7 million from 2021. Member demand for mortgage and consumer loans has remained steady through most of 2022 and into 2023.

Overall, Lafayette Federal realized \$70.1 million in net income. This allowed us to maintain a capitalization rate of 15.57%, well above the National Credit Union Administration's threshold of 7.0% to be considered "well-capitalized." In addition, Lafayette Federal paid member dividends of \$18.7 million, an increase from \$9.7 million in 2021.

We thank our members for your confidence and look forward to continuing this outstanding performance in the coming years. The Board of Directors, Supervisory Committee, Management Team, and staff all remain committed to maintaining 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 the continued membership, trust, and friendship we cultivated together over these years.





A MESSAGE FROM OUR Credit Committee

The Credit Committee, comprised of Directors on the Board, collaborates with the senior members of Lafayette Federal's Management Team to provide products that meet the financial needs of our membership. It reviews loan applications and ensures the credit union adheres to standard lending policy.

At Lafayette Federal, we continuously look for opportunities to meet our members' needs by reviewing and improving processes, developing new products, and leveraging technological advances. One of the ways we do that is by continuing to offer industry-leading financing options, and Lafayette Federal has one of the most prolific lending programs in the nation. Whether you are purchasing your first car or your first home, we have tools and resources, as well as competitive rates and terms for all types of borrowers. In 2022, we launched our Essential Workers Mortgage Program, which provides favorable financing options for these vital workers who may not be able to achieve home ownership through conventional mortgage options.

Despite the changes in interest rates and their impact on borrowing behavior, in 2022, Lafayette Federal received and processed 23,485 loan applications from our membership, resulting in loan disbursements totaling \$1.03 billion, which includes consumer, residential, and commercial loans. These figures include loans originated through Lafayette Federal and our credit union service organization, Potomac Business Services, LLC.

The credit union ended the year with a loan portfolio of \$1.39 billion, an increase of 63% over the previous year's portfolio level of \$854 million. Lafayette Federal also 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.

2022 was remarkably successful, and Management continues to see improvement in borrowers' confidence. To ensure sustained and managed growth, Lafayette Federal regularly evaluates and adjusts the types of financial services it offers while still adhering to sound underwriting standards. In 2022, the Lending Department successfully underwent several audits and a regulatory examination, the results of which are utilized to help strengthen lending policies and procedures for clarity, transparency, and proper guidance.

In 2023 and beyond, we will continue to work hard to earn your business. We will remain your trusted financial partner and work with you as best we can to help satisfy your borrowing needs while ensuring the strength, stability, and security of our credit union.

Respectfully submitted,

Thomas Harmon IV, Chair



A MESSAGE FROM OUR Supervisory Committee

Lafayette Federal Credit Union's Supervisory Committee is a volunteer group of Lafayette Federal members appointed by the Board of Directors. The Committee's primary responsibility is to ensure that the board is safeguarding the credit union's assets and that the Management Team complies with its policies and plans.

The Committee is independent of Lafayette Federal's Management Team and does not have any policy-making responsibilites. Instead, 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 members with varied professional expertise in different industries, the Committee possesses a depth and breadth of professional knowledge essential in carrying out its duties and serving as a trusted resource for the Board and Lafayette Federal's members.

As in previous years, Crowe LLP performed the annual comprehensive audit of Lafayette Federal's 2022 financial statements and the annual verification of members' accounts. Once again, the Committee is pleased to report that Crowe issued an unqualified opinion on Lafayette Federal's December 31, 2022, Consolidated Financial Statements.

In 2022, Lafayette Federal continued to engage F.I.R.M. Consulting Services, an Enterprise-Wide Risk Management Credit Union Service Organization based in the Washington Metropolitan area, 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 Lafayette Federal Credit Union's management, staff, and volunteers. We shall continue to perform our oversight responsibilities in the service of maintaining the best interests of every credit union member.

Respectfully submitted,

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William F. Hills, Chair



consolidated statements of Financial Condition

AS OF DECEMBER 31, 2022 AND 2021

	2022	2021		
ASSETS				
Cash and due from financial institutions	\$ 196,806,839	\$ 297,349,767		
Securities available-for-sale	3,100,052	4,236,210		
Loans, net of allowance of \$16,329,391 and \$13,729,195				
as of December 31, 2022 and 2021, respectively	1,373,092,225	839,952,539		
Federal Home Loan Bank stock, at cost	3,190,500	2,747,600		
NCUSIF deposit	10,779,255 7,536,			
Premises and equipment, net	7,579,788	7,908,749		
Accrued interest receivable	5,588,162	2,600,991		
Credit union-owned life insurance ("CUOLI")	17,869,457	17,869,457 14,091,446		
Loan servicing rights	114,086,979	96,967,146		
Lease Right of Use Asset	4,184,907	-		
Other assets	8,792,657	6,586,951		
Total assets	\$ 1,745,070,811	\$1,279,978,010		
LIABILITIES AND MEMBERS' EQUITY				
Liabilities				
Members' share and savings accounts	\$1,373,829,244	\$ 970,888,378		
Federal Home Loan Bank advances	60,000,000	60,000,000		
Uninsured secondary capital	15,000,000	15,000,000		
Lease Liability	4,241,429	-		
Accrued interest payable and other liabilities	35,271,341	47,327,305		
Total liabilities	1,488,342,014	1,093,215,683		
Members equity:				
Regular reserve	4,812,250	4,812,250		
Appropriated undivided earnings	252,054,118	181,948,055		
Accumulated other comprehensive income	(137,571)	2,022		
Total members' equity	256,728,797	186,762,327		
Total liabilities and members' equity	\$1,745,070,811	\$1,279,978,010		

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

YEARS ENDED DECEMBER 31, 2022 AND 2021

		2021
INTEREST INCOME		
Loans, including fees	\$ 76,917,799	\$42,769,438
Securities	2,370,601	466,878
Total interest income	79,288,400	43,236,316
Interest expense:		
Members' share and savings accounts	18,744,035	9,079,384
Federal Home Loan Bank advances	1,570,563	1,300,753
Uninsured secondary capital	815,625	518,750
Total interest expense	21,130,313	10,898,887
Net interest income	58,158,087	32,337,429
Provision for loan losses	8,783,210	4,630,890
Net interest income after provision for loan losses	49,374,877	27,706,539
Non-interest income:		
Fees and service charges	1,939,699	1,492,447
Other service charges	589,295	475,736
Interchange income	904,601	873,949
Gain on sales of loans	20,651,793	96,651,920
Change in cash surrender value CUOLI	278,011	250,344
Loan Servicing Fees	41,146,580	22,075,863
Other income	239,202	62,281
Total non-interest income	65,749,181	121,882,540
Non-interest expense:		
Salaries and employee benefits	21,727,927	25,597,170
Professional and outside services	11,603,229	7,455,059
Equipment maintenance and depreciation	2,814,106	4,052,956
ATM, credit and debit card processing	2,068,824	2,819,381
Occupancy expense	1,367,994	1,340,097
Telephone expense	1,396,891	869,468
Marketing and advertising expense	1,802,289	428,830
Other operating expenses	2,236,735	1,769,675
Total non-interest expense	45,017,995	44,332,636
NET INCOME	\$70,106,063	\$105,256,443

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consolidated statements of Changes in Members' Equity

YEARS ENDED DECEMBER 31, 2022 AND 2021

	Regular Reserve	RETAINEI Appropriated Undivided Earnings	DEARNINGS Undivided Earnings	Accumulated Other Comprehensive (Loss) Income	Total Members' Equity
Balance at January 1, 2021	\$4,812,250	\$ 76,691,612	\$ -	\$33,725	\$ 81,537,587
Net income	-	-	105,256,443	-	105,256,443
Other comprehensive	loss –	-	-	(31,703)	(31,703)
Transfers, net	-	105,256,443	(105,256,443)	-	-
Balance at December 31, 2021	4,812,250	181,948,055		2,022	186,762,327
Net income	-	-	70,106,063	-	70,106,063
Other comprehensive loss	e _	-	-	(139,593)	(139,593)
Transfers, net	-	70,106,063	(70,106,063)	-	-
Balance at December 31, 2022	\$ 4,812,250	\$ 252,054,118	\$ -	\$ (137,571)	256,728,797

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Branch Locations

Mon - Fri | 8:30 a.m. - 4:00 p.m. Saturday | 9:00 a.m. - 12:00 p.m.

Saturday hours at select branch locations. Learn more at LFCU.ORG/BRANCHES.

Main Number: (301) 929-7990

District of Columbia

COLUMBIA HEIGHTS FINANCIAL SERVICE CENTER

1381 Kenyon Street NW Washington, DC 20010

JACK WELTY FINANCIAL SERVICE CENTER*

1300 Pennsylvania Avenue NW, Room C. 1-80 Washington, DC 20523

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

SBA FINANCIAL SERVICE CENTER*

409 3rd Street SW, Suite 105 Washington, DC 20024

Maryland

CABIN JOHN FINANCIAL SERVICE CENTER

7741 Tuckerman Lane Potomac, MD 20854

KENSINGTON FINANCIAL SERVICE CENTER

3535 University Boulevard West Kensington, MD 20895

TOWER OAKS FINANCIAL SERVICE CENTER

2701 Tower Oaks Boulevard Rockville, MD 20852

Virginia

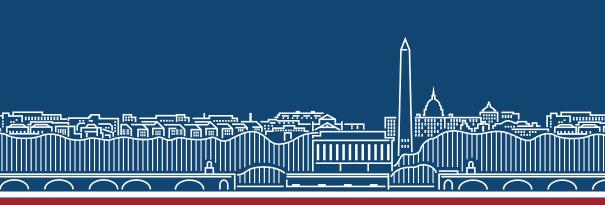
CRYSTAL CITY FINANCIAL SERVICE CENTER

2231 Crystal Drive, Suite R150 Arlington, VA 22202

MCLEAN FINANCIAL SERVICE CENTER

6701 Lowell Avenue McLean, VA 22101





CREDIT UNION WWW.LFCU.ORG

