

Self-Help Credit Union & Self-Help Federal Credit Union 2011 Financial Update – 12/31/11

This report provides our partners an update on the financial status of Self-Help's two non-profit depository institutions: North Carolina state-chartered Self-Help Credit Union (SHCU) and federally-chartered Self-Help Federal Credit Union (SHFCU). With a combined total of 88,000 member-owners and \$818 million in deposits as of 12/31/2011, the credit unions fund a large part of Self-Help's work to build wealth and economic opportunity in underserved communities.

Self-Help's credit unions both continue to maintain positive net income and a strong capital ratio. The last few years have been devastating for many financial institutions and certainly challenging for us. The financial meltdown has led to record unemployment rates, loss of home values, and trillions of dollars in diminished family wealth. Our borrowers, many of whom work in hard hit manufacturing and construction industries, have suffered disproportionately from job loss or reduced pay, resulting in higher than normal delinquency rates. Self-Help staff members have worked diligently to develop payment plans for many delinquent borrowers, helping hundreds of families stay in their homes.

Fortunately, Self-Help's prudent and responsible financial practices over its 30 year history -- including consistent attention to building net worth (over \$330 million organization-wide) -- have ensured that we have the resources to withstand the lingering economic downturn. Self-Help looks forward to providing responsible and affordable financial services for decades to come.

Self-Help Credit Union (SHCU)

At the end of the 2011, SHCU had \$565 million in assets and a positive net income of \$1.9 million for the year (unaudited). SHCU continues to originate new home, small business and consumer loans to support working class families and communities to build a foundation for future economic well-being. Interest income from these loans has increased over 2010, enhancing SHCU's financial condition. On the expense side, operating expenses have remained steady since last year. The provision for loan losses (which adds to the loan loss reserve) has decreased compared to 2010 because of the slow but steady decrease in delinquency rates among our borrowers.

Net Worth/Capital Ratio - Self-Help has taken a generally conservative approach to managing the credit union's financial position. The most visible sign of this financial practice is the size of our net worth (capital). Just as we seek to help our borrowers build their personal net worth to help them invest in their families and protect themselves from financial difficulties, SHCU has accumulated a healthy amount of net worth, which is the ultimate financial cushion in a crisis. At the end of 2011, SHCU has net worth of \$64 million.

An institution's capital ratio, or net worth divided by assets, is a key indicator of financial well-being. SHCU's capital ratio is 11.4%, higher than our peer average of 10.2% and well above 7%, which is the federal statutory standard established by Congress for a credit union

to be considered “well-capitalized” (the highest capital rating possible). By comparison, commercial banks typically carried 5% capital before the financial crisis, while investment banks carried as little as 3% capital. This capital ratio is the one used by SHCU’s federal insurer, the National Credit Union Administration.

Loan Losses and Delinquencies – Most of SHCU’s loan portfolio consists of home mortgages to North Carolina borrowers with slightly blemished credit and/or modest incomes. These loans are very different from those made by the finance companies that precipitated the subprime foreclosure crisis. Unlike the exploding adjustable rate mortgages that were common in the subprime market, SHCU makes 30-year, fully amortizing, fixed-rate home loans with escrow for taxes and insurance. We carefully verify a borrower’s income and have established underwriting standards that consider a borrower’s ability to repay the loan using reasonable debt-to-income ratios.

Because North Carolina (where SHCU operates) continues to have one of the nation’s highest unemployment rates, SHCU’s loan delinquency rates continue to be high. However, our one-on-one work with our borrowers is making a difference. In 2011 delinquency rates dropped slightly to 8.13% at year-end, which is not significantly different from SHCU’s historic delinquency ratio. Loan losses of 1.23% in 2011 are only slightly higher than credit union industry averages. Loan loss reserves were increased by \$.17 million during the year to \$12.8 million, providing a sound buffer for potential future losses.

SHCU’s delinquency rate has always been higher than other credit unions because our borrowers have low incomes and few financial resources on which to rely when they have a financial emergency. SHCU was created to serve these families and has built its financial model to accommodate higher than typical delinquency rate. At the same time, our loan losses have tracked industry averages because of the additional support we provide to our borrowers.

Self-Help Federal Credit Union (SHFCU)

Net Worth/Capital Ratio – Chartered in the fall of 2008, SHFCU is managed by the same group as SHCU. SHFCU serves underbanked and unbanked families by providing responsible financial services, primarily in California. SHFCU has grown significantly in its three-year history, primarily by merging with other community-based credit unions that seek a strong partner with a community development mission. During 2011, two other credit unions joined SHFCU, assets grew to \$399 million and net income was \$1.9 million. SHFCU now operates 18 branches in the Bay area and Central Valley of California. Thanks to the support of SHFCU’s parent organization (Self-Help), SHFCU remains well-capitalized during this growth phase, providing a sound financial foundation to accomplish our mission. At year-end, SHFCU’s net worth was \$58 million and its capital ratio was 14.55%, far higher than 7% required to be considered “well capitalized.”

Loan Losses and Delinquencies – SHFCU’s actual loan losses have stayed well within normal ranges during the financial crises. Our delinquency rate increased in 2011 because of the troubled loans SHFCU inherited from the mergers, but began to decrease as we began to actively manage these new loans during 2011. As of year-end, the delinquency rate was 4.93%. Charge-offs were 0.10% of loans for the year.



In addition to the safeguards noted above, we believe the following points merit attention:

Federal Deposit Insurance – Deposits in both SHCU and SHFCU are separately insured up to \$250,000 per account by the National Credit Union Administration (NCUA). This \$250,000 limit became permanent in July 2010. NCUA is the FDIC peer for credit unions, and is similarly backed by the full faith and credit of the US government.

Transparency - Financial information about both of Self-Help's credit unions is always available to the public at www.ncua.gov. These numbers are provided to the public on a quarterly basis and we encourage any of our partners and members to look at the detailed financial information provided by NCUA. As the credit union regulator, these are the most reliable and standardized financial data available for determining financial condition of credit unions. The statistics referenced above come directly from data on the NCUA web site.

Outside Review - Self-Help is one of the most scrutinized financial non-profits in the country. Both SHCU and SHFCU are reviewed at least annually by NCUA and our outside CPA auditors, Dixon Hughes Goodman. Both credit unions are designated Certified Community Development Financial Institutions by the U.S. Department of Treasury. Since we contracted our first audit in 1988, we have received clean audit opinions each year.

Conclusion

Thank you for your partnership with Self-Help and its credit unions. With your help, we look forward to another 30 years and more of offering responsible lending alternatives for disadvantaged communities. If you have any questions, please do not hesitate to contact us.

