

# ANNUAL REPORT // 2018



The Cash Back  
Credit Union

# The Cash Back Credit Union



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## From the Chairman of the Board

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Dear Member:

As I near the end of my first year as chairman of the board of directors for DFCU Financial, I can't help but reflect on the significant and positive impact that DFCU had in 2018 on its members and the communities we serve.

Those communities expanded in 2018 to include Downtown Ann Arbor (our first cashless branch, dedicated to mortgage and business lending) and Brighton (in response to repeated member requests). Both are doing very well in their first several months.

We are proud to serve other areas through myriad engagement and education efforts. DFCU offered 120 free financial education seminars around the state to more than 2,000 attendees covering such topics as establishing healthy credit, debt-free living, and understanding social security, as well as pre- and post-retirement readiness. DFCU supported eight education foundations, which offer classroom grants, scholarships, and job preparedness programs to students.

DFCU also sponsored localized initiatives including Ann Arbor's Girls on the Run, Grand Rapids' DeVos Children's Hospital, Henry Ford Hospital, Brighton's Cell Phones for Soldiers, Bountiful Harvest, Detroit's Habitat for Humanity and several chambers of commerce enabling us to positively impact small business owners.

We've been able to make a significant and direct financial contribution to our communities through our special Cash Back program. On January 4, we paid back \$30.1 million to our members, and since 2006 we've reinvested nearly \$300 million through this effort! No other financial institution offers a member benefit of this magnitude.

Where you put your money and trust matters, now more than ever. We know it makes a difference to you that organizations where you do business also give back. So, tell your friends about the DFCU difference. You can count on DFCU to continue offering services, support and commitment to families and communities like yours.



Sincerely,

A handwritten signature in black ink that reads "James Cowper". The signature is fluid and cursive, with the first name "James" and last name "Cowper" clearly distinguishable.

**Jim Cowper**

DFCU Financial Board Chairman



## Balance sheet & income statement

### BALANCE SHEET

#### Consolidated Statements of Financial Condition (In thousands)

December 31	2018 unaudited*	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 160,361	\$ 226,143
Investment securities	3,328,515	3,214,611
Loans	1,048,285	1,059,219
Allowance for loan losses	(7,436)	(7,991)
Net loans	1,040,849	1,051,228
Property, buildings and equipment	38,651	39,127
National Credit Union Share Insurance Fund deposit	38,580	37,330
Accrued income and other assets	60,022	59,051
<b>Total assets</b>	<b>\$ 4,666,978</b>	<b>\$ 4,627,490</b>

#### Liabilities and equity

Deposits	4,080,331	4,076,469
Accrued expenses and other liabilities	65,222	66,572
<b>Total liabilities</b>	<b>4,145,553</b>	<b>4,143,041</b>
Retained earnings and regular reserve	578,856	533,123
Accumulated other comprehensive income	(57,431)	(48,674)
Members' equity	521,425	484,449
<b>Total liabilities and equity</b>	<b>\$ 4,666,978</b>	<b>\$ 4,627,490</b>

### INCOME STATEMENT

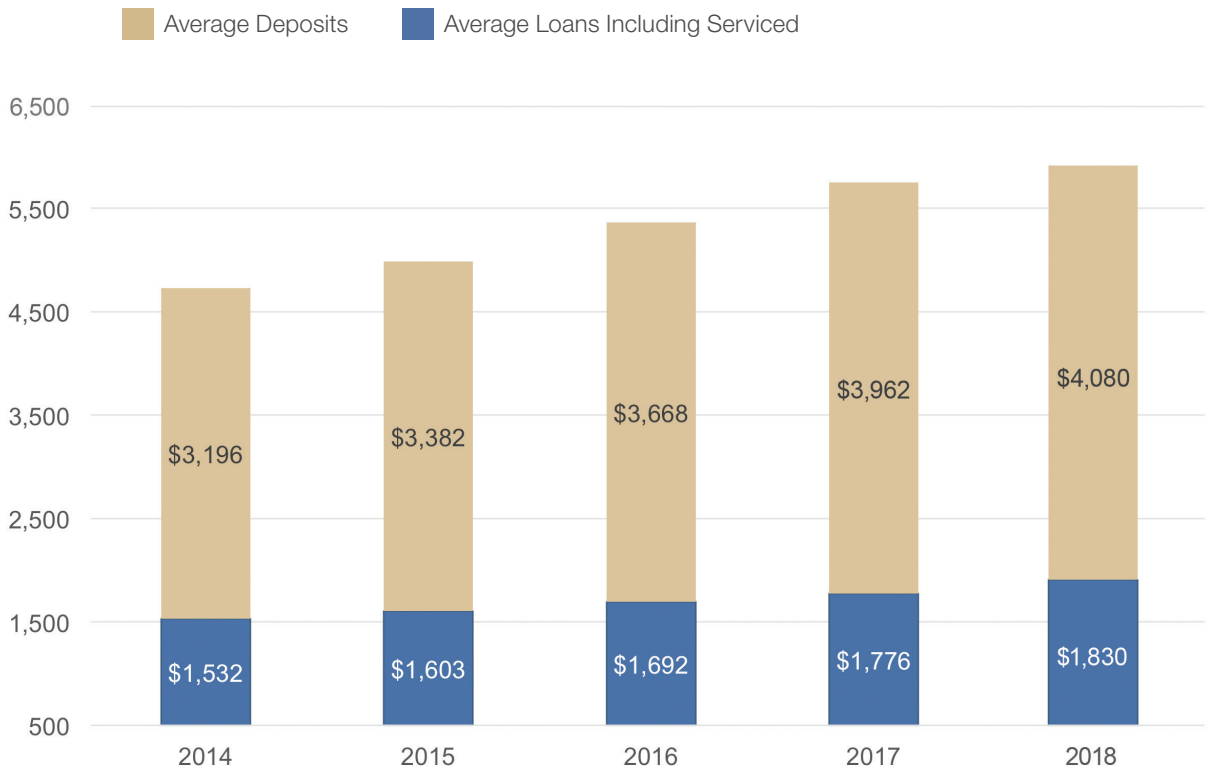
#### Consolidated Statements of Income (In thousands)

December 31	2018 unaudited*	2017
<b>Net interest income</b>		
Interest income	\$ 116,297	\$ 101,865
Interest expense	7,724	7,503
<b>Net interest income</b>	<b>108,573</b>	<b>94,362</b>
Provision for losses on loans	4,320	1,036
<b>Net interest income after provision for losses on loans</b>	<b>104,253</b>	<b>93,326</b>
<b>Non-interest income</b>		
Fees and commissions	42,697	41,748
Other non-interest income	4,305	6,281
<b>Total non-interest income</b>	<b>47,002</b>	<b>48,029</b>
<b>Non-interest expense</b>		
Compensation and benefits	43,356	41,604
Office operations and occupancy	14,873	14,707
Other	17,155	15,934
<b>Total non-interest expenses</b>	<b>75,384</b>	<b>72,245</b>
<b>Net income before special patronage dividend</b>	<b>75,871</b>	<b>69,110</b>
Special patronage dividend	30,137	29,332
<b>Net income</b>	<b>\$ 45,734</b>	<b>\$ 39,778</b>

\*Crowe LLP was retained to perform the 2018 audit procedures in the spring of 2019. Crowe issued an unqualified audit opinion on the 2017 financial statements.



## Five-year growth trends (in millions)



# Minutes from the 2018 DFCU Financial Annual Membership Meeting

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## DFCU Financial Headquarters | May 14, 2018

Members were welcomed to DFCU Financial's 2018 Membership Meeting by Board Chairman Dr. Robert Chapman. Chairman Chapman introduced the officials present at the meeting. They included:

- Matt Elsey, Director
- Ryan Bewersdorf, Director
- John Sinelli, Director
- Mark Shobe, President and CEO
- Paul Conway, Vice Chairman of the Board
- Keith Moss, Director
- Don Tomford, Director
- Jim Cowper, Treasurer
- Laura Terzes, Secretary of the Board

Also introduced were associate directors Jim Bazner, Margaret Dimond, Shirley Ghannam and Annetta May.

Chairman Chapman noted that a quorum was present and called the 2018 Membership Meeting to order at 6:00 p.m. Approximately 32 members were in attendance. Chairman Chapman reviewed the agenda provided in the materials to all attendees.

### 2017 Minutes

These minutes were approved and made part of the official records. There was an amendment to the Annual Report and minutes correcting the number of years that Cash Back was awarded to 12.

### Report of the Directors

Treasurer Jim Cowper and Vice Chairman Paul Conway gave the Report of the Directors. The Treasurer began with a look back at statewide vs. national financial results, specifically in terms of job growth, auto sales and home sales.

DFCU Financial had many accomplishments in 2017 that contributed to another successful year financially:

- For 17th consecutive year, DFCU ranked in the top 10 for financial performance
- We are in the top five most efficient credit unions—it costs us only 51 cents to make one dollar of revenue vs. 64 cents for our peers
- Core net operating revenue was \$138 million, up from \$120 million in 2016
- Managed investment service assets increased to \$1.5 billion from \$1.3 billion
- Averaged loans serviced were nearly \$1.7 billion, up from \$1.6 billion
- Investment portfolio was \$34 million over plan and average loan portfolio was \$3 million over plan
- Serviced \$1.8 billion in loans, an increase of 5%
- Deposits increased 6% to \$4.1 billion
- Regulatory capital ratio remained strong at 11.3%
- We ended the year with \$69 million in net income

Mr. Conway presented major accomplishments, branch expansion, corporate accolades and 2018 initiatives. 2017 was a busy year at DFCU Financial.

### Branch and Call Center Activity

- Membership growth
  - » 3,400 members
  - » 1,530 households
- Transaction volume
  - » 443,864 calls to the MSC
  - » 2,203,045 teller transactions and 116,233 platform interactions

### Member Satisfaction

Results for the year ended December 31, 2017 out of 3,941 surveys:

- Member Service Center
  - » Member Satisfaction average score of 93 (out of 100)

- Branch
  - » Member Satisfaction average score of 95 (out of 100)

### Business Banking

- 103 loan accounts for \$25 million
- 2,600 deposit accounts for \$47 million
- Average 15-20 opportunities per month
- Booked 30 loans this year for \$5 million
- Held 14 seminars for small business owners



### Consumer Lending

- Auto loan fundings are up 15.5% in 2017 = \$82.7 million
- New autos are up 24% and used up 13%
- Home equity fundings & disbursements are up 15% year over year
- eSign closings are being completed for all “eligible” consumer loans
  - » 2016 eSign closings totaled \$20.6 million
  - » 2017 eSign closings totaled \$28.0 million (an increase of 36%)

### Mortgage Services

- In 2017, we serviced 10,300+ first mortgage loans for \$1.3 billion

- While mortgage applications were down 15%, fundings were up 12% over 2016
- We now have 11 Mortgage Loan Officers in our various branch locations

### DFCU Financial Partners

- Ahead of last year’s revenue by 18% and last year’s income by 40%
- Assets under management \$1.55 billion for over 12,500 clients
- There are more than 200 CUs that run their business through CUSO Financial. DFCU Financial Partners is second of those 200 CUs, trailing only Navy Federal CU (the nation’s largest, 20 times bigger than DFCU) by 7%

### Community Engagement

We served our members and the community through several engagement and education efforts:

- 70 free financial education seminars around the state for 2,432 attendees
- New Medicare seminar offered
- Donated nearly \$60,000 to school education programs
- Sponsored community initiatives including the Metro Detroit Young Entrepreneurs Academy, Dress for Success, area hospitals, Food for Families and several area chambers of commerce
- Participated in 45 community expo events at colleges, UAW, Michigan Association of CPAs, hospitals and business organizations

In addition to outstanding financial and community performance, DFCU Financial also issued its 13th Cash Back payout, for \$29.3 million. Since 2006, we’ve paid over \$263 million to members. It was the largest payout in the history of credit unions at inception, and still is unmatched by any other credit union.

Mr. Conway concluded the presentation with 2018 key initiative details including:

- Enhanced insurance product
- New branch hours





- New touch-screen ATMs
- Virtual Hold implemented
- Business Banking Online application
- New branches
  - » Downtown Ann Arbor
  - » Brighton

### **Report of Financial Condition and Annual Comprehensive Audit**

Chairman Chapman referenced the Report of Financial Condition contained in the annual report and noted that members could review it further at their leisure.

### **Unfinished Business**

There was none.

### **New Business**

There was none.

### **Elections**

Jim Cowper and Don Tomford were up for re-election. Shirley Ghannam, associate director, was nominated for director. Each candidate was introduced and background information was provided to the members present. Since the candidates were running unopposed for three vacancies, a unanimous ballot was cast.

### **Adjournment of Meeting**

The meeting adjourned at 6:25 p.m.

### **Question and Answer Session**

Chairman Chapman invited questions from the membership. A question and answer period followed and ended at 6:39 p.m.

### DFCU Earns Important Accolades

As a company, DFCU's success is measured among a peer group of the 50 largest credit unions in the nation. In addition to finishing at number three in 2018, we are the only credit union of these top 50 to finish in the top 10 for 17 straight years.

We were honored to be recognized this year with several awards including being named in the top 2% of financial institutions in the U.S. by *Forbes*, National Best & Brightest for the seventh time, Metro Detroit Best & Brightest for the 11th consecutive year, one of Michigan's top companies by MichBusiness, West Michigan Best & Brightest for the seventh year in a row, and a *Detroit Free Press* Top Workplace for the 11th year running.

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WINNER

BEST AND  
BRIGHTEST®  
COMPANIES  
TO WORK FOR  
IN THE NATION  
WINNER  
2012-2017

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