



Belonging is the new banking.

2016 Annual Report

**BELONG**



# MISSION

To be a force for good in banking, in the communities we serve, and in the lives of our members.

# VISION

By living our values, we will redefine the role financial institutions play in building thriving, sustainable communities.



Belonging is the new banking.

**Beyond banks, branches and bottom lines, there are people.** People who care about their community. People who have a lot of choices about where to bank.

We're a little different. We are member-owned. We strive to put our members' funds to work in ways that provide benefits to people, the local economy, and the environment. We work hard to ensure that we never put a member in a loan that won't put them in a better financial position. We market all of our products and services responsibly. And if a member is facing financial hardship, we go the extra mile to provide support and financial education.

That's belonging.

And belonging is the new banking.

# Q&A With Our Board Chair & CEO

## BELONG

### **Q: Looking back on 2016, what were our most important achievements?**

**Jack:** We enjoyed a really strong economic performance, which is always important. But perhaps even more important was our work developing a new strategic plan for the credit union. The board and staff worked very hard through 2016 analyzing the challenges we face as an organization, setting a compelling, new strategic direction for the credit union, and mapping out a number of strategic actions that we need to take in the coming years to implement the plan.

### **Q: What is this new strategic direction? And why did we choose it?**

**Carl:** We are pursuing a values-based banking strategy and joining a network of banks and credit unions worldwide using finance to help deliver sustainable economic, social and environmental development. We are proud to be only the second credit union in the U.S. to be invited and join the Global Alliance for Banking on Values. Why did we choose this strategy for MFCU? For four reasons. First, it builds on an existing competitive advantage. MFCU is recognized as a good corporate citizen. Values-based banking builds on this ethic, encouraging us to put even more resources to that end. Second,

consumers increasingly want to do business with businesses that share their values. We are getting really clear about what our values are and will be working to ensure that our business operations and balance sheet are consistent with those values. Third, employees increasingly want to work for businesses that share their values. We are increasing our commitment to creating a meaningful work environment. Finally, values based banking is a great differentiator. We know our members have many great local banks and credit unions to choose from. Values-based banking will help us to stand out from the crowd.

### **Q: What does values-based banking mean?**

**Jack:** We are committed to staying competitive in the rates on loans and deposits we offer to our members. We are also committed to developing products and services that are convenient and relevant to their lives. Where we aim to really stand out is on values alignment. Competitive on price. Competitive on products and services. *Best* on shared values. We will stand out in a world where financial institutions are seen as too complex, too removed from the real economy, and too focused on short-term

profit maximization to pay attention to the social, economic and environmental consequences of their actions.

### **Q: What are the credit union's values?**

**Carl:** We worked extremely hard during 2016 to get clear about this. Our values are described in detail in the following pages. To summarize, four core values define who we are and what we do. The first is about our **cooperative**, member-owned structure. That is the foundation. Everything we do must be in our members' best interest. The second is about being an **inclusive**, rather than exclusive, organization. The third is about **empowerment**; we need to work hard to ensure that everything we do empowers people – our employees and members – to be in a better place. The fourth is about **impact**. We aim to make a positive difference in the world around us. While the strategic direction is new, these values really are not new. Most people will recognize the credit union in these values.

### **Q: What can members expect to see in 2017?**

**Jack:** We need to stay sharp on the fundamentals. That means delivering relevant, easy to access, products and services to our members at competitive prices. Going beyond those fundamentals, we are beginning to implement the strategy. We have been doing a lot of work with our employees to make sure we are all stakeholders in the strategy. While this is an evolutionary, not revolutionary, change, we can only succeed insofar as our team delivers on our promises. We must focus on internal culture. Members

will also notice some new approaches and language in our marketing. With this Annual Report, we are launching a new marketing campaign called Belonging is the New Banking. The question we are asking is: "Do you share values with your bank or credit union?" We hope that you do – we hope that you belong there – and we invite you to look more closely at MFCU. Finally, we are working on metrics. If we aim to push both our business operations and our balance sheet to closer alignment with our values, then we have to be able to measure those outcomes.

### **Q: Any closing thoughts?**

**Carl:** I'd reiterate what Jack said above: This is evolutionary, not revolutionary change. We are building on a strong foundation and continuing the best of our work. At the same time, we are getting more clear about what we stand for and aiming to differentiate along those lines. If we are successful, then we will create a meaningfully different kind of banking relationship for our members. That is belonging. And belonging is the new banking.

Carl Rummel, Board Chair  
Jack Lawson, President & CEO

### **2016 Board Members**

Bill Borrie, Board Vice Chair  
Don Creveling, Secretary  
Tony Boote, Treasurer  
Leslie Halligan  
Alex Gallego  
Martha Newell

# Missoula Federal Credit Union's Values

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## **Together We Own**

What we do is rooted in cooperative ownership.

We believe in cooperating to make banking a force for good.

We are committed to making sound business decisions that are in the interest of our member shareholders.

We steward resources towards long-term sustainability rather than short-term gain.

## **Together We Include**

What we do is rooted in being inclusive, not exclusive.

We believe in inclusion. We seek to include all walks of life in our work.

We welcome diversity and recognize it as critical to our performance.

## **Together We Empower**

What we do is rooted in ensuring that everyone that is touched by our work is better equipped for tomorrow than they were yesterday.

We believe in empowering our team and our members with access to information, education and decision making.

We believe in the power of transparency and simplicity.

We are committed to solving problems and creating opportunities.

## **Together We Matter**

What we do is all about making a difference in the world.

We believe in delivering impact by acting as a catalyst for positive social, economic, and environmental change.

We are committed to allocating resources and transforming our balance sheet to seed this social, economic, and environmental change.

We expect our members and the communities we serve to hold us accountable for making change. We will measure our impact.

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We are very proud to be only the **second credit union in the United States** to be invited and join the [Global Alliance for Banking on Values](#). GABV is an independent network of banks using finance to deliver sustainable economic, social and environmental development. Learn more at [gabv.org](#).

global alliance  
for banking  
on values



# 2016 Impacts

## MEMBERSHIP

**1,750** Net New Members



**48,000** Total Members

## MARKET

Montana's **2nd largest credit union**



Montana's **largest Community Development Financial Institution**

## PHILANTHROPY



**\$225,000** (6% of our net income!) was donated to over **130** non-profit organizations

## NEW LENDING IMPACT

**7,213** New Loans

Business



**\$9.5 Million** in New Business Loans



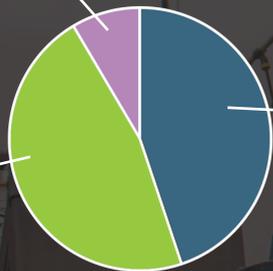
**\$47 Million** in New Home Loans

Consumer



**\$50.2 Million** in New Consumer Loans

Mortgage



**\$107 Million**

## VOLUNTEERING

MFCU employees are given **24 hours of paid volunteer time** each year to volunteer with local organizations



## FINANCIAL EDUCATION

**187** members met with our financial counselor for budgeting and financial management assistance



## HOMEOWNERSHIP IMPACT

**1,669** home loans totalling **\$221 million** serviced locally by credit union employees

We provided **2,089** youth with financial education

# Treasurer's Report

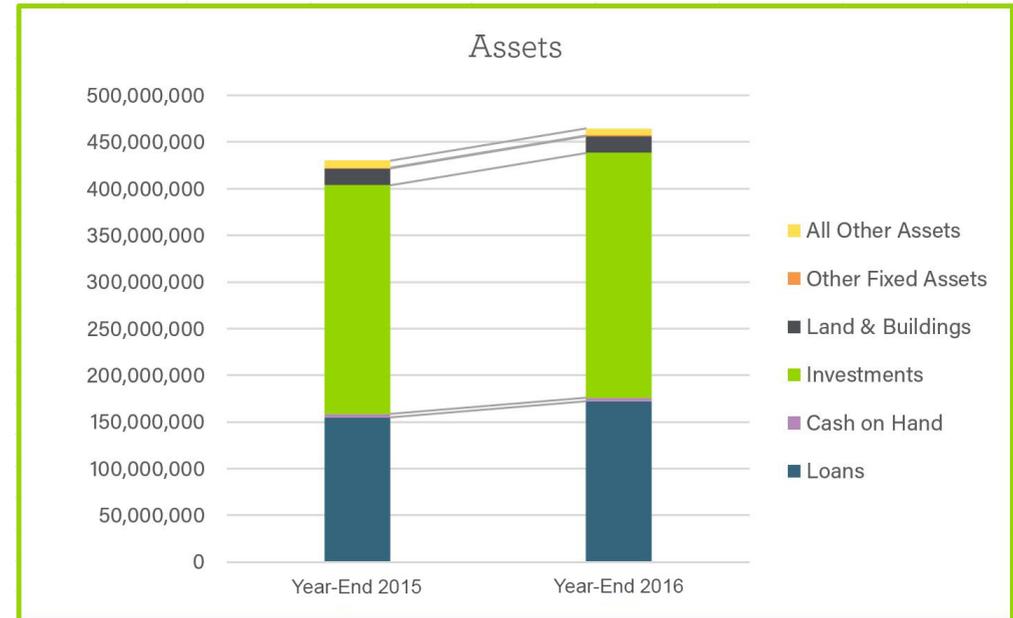
## BELONG

Four themes dominate the story of our 2016 financial performance. The first is about **growth**. Although growth per se has not been the main objective of MFCU - we have been more focused on boosting lending and deepening member relationships - we have nonetheless recorded impressive growth rates. For the second year in a row, we enjoyed net membership growth greater than 4%, almost twice the average of the credit union industry. With a growing membership came more deposit funding. This drove asset growth to almost 8%, also for a second year in a row, adding \$34 million to the credit union's balance sheet. This kind of growth creates challenges with respect to managing key regulatory ratios. But this is a good challenge to be facing. The assets increase our earning potential and they reflect a strong brand reputation.

The second theme is about changing the composition of, or **rebalancing the balance sheet**, so that a majority of credit union assets take the form of outstanding loans

to members. We have increased the size of the loan portfolio by more than 11% for the third year in a row, considerably above industry averages. Yet, since asset growth has been so rapid, we have lifted the loan to asset ratio only very gradually. Rebalancing can only be done prudently over a considerable time. It requires a continued focus on lending, with new loan products, loan promotion and great service by board, management, and staff. We recognize there is continued room for improvement and aim to establish our position as the most attractive lending institution for our members and potential members.

The third theme is about **net earnings**. Here the results have been very positive. The contributing factors were many. We increased earning assets and drove a larger portion of the balance sheet toward loans, while at the same time increased operating efficiency and decreased the portion of operating income that is consumed by operating



expenses. It should be noted that the credit union did experience rising delinquency in the consumer and business loan portfolio in the latter half of 2016. This has resulted in higher loan losses in the early part of 2017 which have to be carefully managed. That said, total return on assets was a very strong 84 basis points in 2016. This translates to about \$3.8 million of net earnings, a significant addition to MFCU's member-owned net worth and equity.

The fourth theme is about **financial strength**. Net earnings are not an end in themselves, but tools to help us increase our long-term financial strength and unlock

growth potential by returning the net worth ratio to an upward trend. Despite the faster than planned growth in the balance sheet, net earnings have been strong enough to push the credit union's net worth to 9.67% of assets, an increase of almost 10% on the year.

In summary, we continue to put in a strong financial performance. The credit union is growing, rebalancing, and increasing our net worth thereby strengthening our overall financial position.

Tony Boote, Treasurer

# Balance Sheet

	2015	2016	% Change
<b>Assets</b>			
Loans	154,753,150	172,312,580	11.3%
Cash on Hand	3,934,154	3,696,457	-6.0%
Investments	245,263,786	262,589,942	7.1%
Land & Buildings	1,775,183	1,775,688	0.0%
Other Fixed Assets	570,035	790,206	38.6%
All Other Assets	7,952,987	7,170,340	-9.8%
<b>Total Assets</b>	<b>430,231,295</b>	<b>464,316,212</b>	<b>7.9%</b>
<b>Liabilities</b>			
Notes Payable	8,284,655	7,839,035	-5.4%
Dividends Payable	94,628	81,502	-13.9%
Other Liabilities	3,729,633	5,708,390	53.1%
<b>Total Liabilities</b>	<b>12,108,916</b>	<b>13,628,927</b>	<b>12.6%</b>
<b>Shares</b>			
Regular Shares	162,713,312	182,432,488	12.1%
Share Drafts	114,147,451	126,108,077	10.5%
IRAs	12,760,066	13,103,873	2.7%
Certificates	34,493,638	33,697,910	-2.3%
Money Market	52,354,390	50,661,574	-3.2%
Other Shares	23,415	1,269	-94.6%
<b>Total Shares</b>	<b>376,492,272</b>	<b>406,005,191</b>	<b>7.8%</b>
<b>Equity</b>			
Regular Reserves & Undivided Earnings	41,149,748	44,927,985	9.2%
Unrealized Gain(Loss) on Investments	480,359	-245,892	-151.2%
<b>Total Equity</b>	<b>41,630,107</b>	<b>44,682,093</b>	<b>7.3%</b>
<b>Total Liabilities, Shares &amp; Equity</b>	<b>430,231,295</b>	<b>464,316,212</b>	<b>7.9%</b>

# Income Statement

	2015	2016	% Change
<b>Interest Income</b>			
Interest on Loans	8,318,843	9,030,533	8.6%
Investment Income	4,655,877	4,962,183	6.6%
<b>Total Interest Income</b>	<b>12,974,720</b>	<b>13,992,716</b>	<b>7.8%</b>
<b>Interest Expense</b>			
Dividends	1,142,949	1,083,472	-5.2%
Interest on Borrowed Funds	284,214	224,662	-21.0%
<b>Total Interest Expense</b>	<b>1,427,163</b>	<b>1,308,134</b>	<b>-8.3%</b>
<b>Net Interest Income</b>	<b>11,547,557</b>	<b>12,684,582</b>	<b>9.8%</b>
Provision for Loan Losses	1,401,315	1,227,457	-12.4%
Net Interest Income ( <i>after provision for loan losses</i> )	10,146,242	11,457,124	12.9%
Other Operating Income	6,861,300	7,298,963	6.4%
<b>Total Operating Income</b>	<b>17,007,542</b>	<b>18,756,088</b>	<b>10.3%</b>
<b>Operating Expenses</b>			
Compensation & Benefits	7,161,022	7,733,316	8.0%
Travel & Conferences	185,418	196,707	6.1%
Association Dues	84,003	85,537	1.8%
Office Occupancy	1,126,360	1,245,537	10.6%
Office Operations	1,718,475	1,822,550	6.1%
Educational/Promotional	852,795	811,602	-4.8%
Loan Servicing	451,452	462,611	2.5%
Professional Services	2,271,307	2,525,023	11.2%
NCUA Operating Fee	72,922	78,139	7.2%
Other Expenses	430,206	495,102	15.1%
<b>Total Operating Expenses</b>	<b>14,353,960</b>	<b>15,456,124</b>	<b>7.7%</b>
Non-Operating Income	779,056	478,273	-38.6%
<b>Net Income</b>	<b>3,432,638</b>	<b>3,778,237</b>	<b>10.1%</b>

# Supervisory Committee Report

**BELONG**

MFCU's Supervisory Committee works on behalf of members to ensure that there is reliable financial reporting and that MFCU practices and procedures safeguard members' assets. The committee is comprised of Ryan Arthun, Shirlee Walker, Geoff Badenoch, and Heidi Fanslow.

The committee is assisted by MFCU's Internal Auditor who conducts routine audits and reports the results to the committee throughout the year. The committee also retains the services of an independent accounting firm, Moss Adams LLP, to perform a comprehensive annual audit of MFCU financial statements and controls. Based upon Moss Adams' issuance of a "clean opinion", internal reviews, and results of the NCUA examination, it is the opinion of the Supervisory Committee that the performance and condition of MFCU is accurately reflected on the financial statement and that adequate internal controls exist to protect member accounts.

The Supervisory Committee urges members to share the responsibility to prevent fraud and theft by carefully reviewing their account statements. Please contact the committee if you do not receive a statement regularly or if you notice discrepancies in your account. Members are also welcome to contact the committee regarding unresolved credit union problems, suggestions for improvements, or similar correspondence at: Supervisory Committee, Missoula Federal Credit Union, P.O. Box 5384, Missoula, MT 59806-5384 or [supcomchair@missoulafcu.org](mailto:supcomchair@missoulafcu.org).

Ryan Arthun, Supervisory Committee

## New Products & Programs

### HOME ENERGY LOANS



We have designed new loans for members installing solar panels and/or making energy efficiency improvements to their homes and buildings.

### ALTERNATIVE EDUCATION LOANS



MFCU has stepped up to design new loan products to make credit available for people needing to pay for alternative educational opportunities like those at Montana Code School and Missoula College's Commercial Driver's License program.

### MANUFACTURED HOUSING



Manufactured Housing is an important part of Montana's affordable housing infrastructure. But responsible loans are hard to come by. MFCU is working to change that.

### OVERDRAFT



While overdraft programs can be a big help to members, they can also be confusing and costly. That's why MFCU has reworked its overdraft program to enhance simplicity, transparency and member control. We are also piloting alternatives that we think might provide the same service at lower cost.

Don't just bank,

**BELONG**



**Missoula Federal  
Credit Union**

[missoulafcu.org](http://missoulafcu.org)



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