



Two Harbors Federal
Credit Union

2023 Annual Report

Welcome



At Two Harbors Federal Credit Union, we spend a great deal of time looking forward. Strategic planning with our board of directors, budgeting for a new year, creating roadmaps for the launch of new products and services... all of these important actions require us to look into the future.

Annual meetings and reports serve a different purpose. They are a time for us to pause, briefly, to reflect on the past. And while looking forward can be an exciting exercise, there is a quiet satisfaction to looking back.

I believe this to be a sense of accomplishment, and pride, in what we have done together as member-owners of THFCU. 76 years ago we were founded as an organization, mutually owned, with a simple philosophy of people helping people. In 2023 that philosophy was alive and well as we reached new heights in multiple categories. More of you saved, borrowed and accessed your credit union than ever before, and the positive impact on the communities we serve has never been greater.

The pages of our 2023 annual report are a testament to that accomplishment, and worth pausing for – Join me as we celebrate another successful year, and know that none of this would be possible without you.



Randy Willert
President/CEO





Achieving balance

A common goal in accounting is the achievement of balance. Those principles play an important part in the day-to-day operations and the overall financial reporting of a credit union. A teller balances a cash drawer. An accounting manager reports the balancing of assets with liabilities and member equity.

There is another balancing activity that occurs routinely at your credit union, one that demonstrates our commitment to all of the members we serve.

2023 was another challenging year for the consumer. The average rate of inflation last year was 4.1%. While that was a significant improvement over the 8.0% rate of 2022, it paled in comparison to 1-2% range from just a few years prior. Beyond the national statistics, we all felt the pinch. The cost of goods and services have increased, noticeably.

As a credit union we serve savers and borrowers. Often these are the same individuals, but not always. Demographically, our savers tend to be our more mature members. Borrowers, on the other hand, tend to be middle-aged or younger.

During a rising rate environment (the Federal Reserve raised rates 11 times in 2022-23) members can benefit from a greater yield on their investment. That's great for savers, but consider the impact on the borrower. Rising rates can make that new car unaffordable, or it may crush the dreams of a young family seeking to buy their first home.

So how do we serve all of our members in these inflationary times? Through balance. Though it is necessary to respond to larger economic trends, as a credit union we can never ignore one group of members to focus exclusively on another.

Last year our savers benefited from strong returns on a variety of investments. But our borrowers benefited as well, taking advantage of better-than-market interest rates, and shifting toward programs like our MORE4LESS vehicle loan, which substantially reduces monthly payments.

Just like you, we too felt the impact of rising costs. Our dividend expense (the funds we pay to saving members) more than doubled in 2023. By closely managing our income statement, however, we saw only modest increases in overall expense, and were still able to make investments of time and money in the communities we proudly serve.

Achieving balance is a regular part of our everyday operation, but it is also a philosophy driving the way we do business. We will always strive to provide the best possible products and services to all of our members. Doing so ensures we are meeting the cooperative principles on which we were founded.



Respectfully submitted,

Greg Ruberg
Chair

Report of the Supervisory Committee



The Best of Both Worlds

Consumers often choose to do business with Two Harbors Federal Credit Union for qualitative reasons. In our close-knit community, they seek a locally-owned institution operated by neighbors who are familiar and trustworthy. Rightfully so, as credit unions routinely promote a competitive advantage defined by people and service.

But it is also important to promote another aspect of your credit union: our healthy financials, our fiscal strength, and the security of your funds. Our comfortable and welcoming environment should never be mistaken for a casualness in how we operate our business. Routine audits of our financial, operational and managerial processes demonstrate a well-operated and healthy financial institution. The role of your supervisory committee is to initiate and review these audits to ensure we maintain our strong condition.

Our most recent comprehensive examination by the National Credit Union Administration (NCUA) was as of 12/31/23 and preliminary feedback is indicative of positive results. Last year we engaged the services of Clifton Larsen Allen (CLA) to conduct further audits of our accounting and lending processes. CLA reported no material findings. Each month, Tahtinen and Associates performs Supervisory Audits, all of which were positive in 2023. Last but not least we engaged our staff and management in ongoing cash counts, as well as reviews of the Bank Secrecy Act and the Fair and Accurate Credit Transactions (FACT) Act.

Our 2023 financials appear on the pages that follow. A few highlights:

- We finished another strong growth year for member loans. Net loans outstanding grew 7.0%, compared with a growth rate of 6.3% by like-sized credit unions nationally.
- After a mild decrease in 2022, deposit growth improved in 2023, with overall share/certificate balances growing at a rate of 2.7%. This is more than twice the deposit growth rate experienced by credit unions overall.
- 2023 loan delinquency was 0.21%. THFCU delinquency rates remain consistently better than our peers by significant margins.
- Member equity improved to nearly 13.7%. Nationally, the average credit union net worth is approximately 11.0%.

It's rewarding to be a member of a credit union that simultaneously delivers both high quality experiences and solid financial performance. As the popular phrase goes, this truly is the best of both worlds.



Respectfully submitted,

Jeffrey A. Nielsen
Chair

National/peer credit union performance data is as of Q3 2023, the most recent data on record as of this writing.
Source: NCUA Quarterly Credit Union Data Summary Report and CUNA's U.S. Credit Union Profile Report.

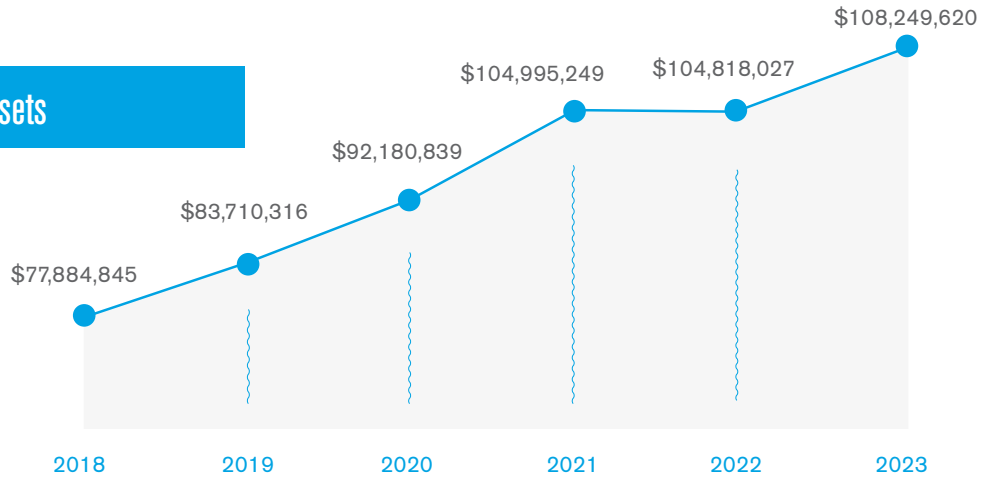
Financials – Balance Sheet

ASSETS	2023	2022
LOANS AND CASH:		
Loans, Current in Payments	74,366,317	69,584,466
Loans, Delinquent 2 Months & More	155,244	44,035
Sub-total	<u>74,521,561</u>	<u>69,628,501</u>
Less: Allowance for Loan and Lease Loss	(173,334)	(118,869)
Net Loans Outstanding	74,348,227	69,509,632
Cash	858,389	1,061,128
Total Loans and Cash	<u>75,206,616</u>	<u>70,570,760</u>
INVESTMENTS:		
Federal Agency Securities	0	0
Other Financial Institutions	28,541,047	29,811,479
NCUSIF Capital Deposit	822,018	845,837
Total Investments	<u>29,363,064</u>	<u>30,657,316</u>
OTHER ASSETS:		
Land and Buildings (net of depreciation)	3,078,846	3,141,582
Other Fixed Assets (net of depreciation)	191,744	80,589
Prepaid Expenses	68,521	91,801
Other Assets	340,830	275,980
TOTAL ASSETS	108,249,620	104,818,027
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts Payable	54,902	1,706
Notes Payable	0	0
Dividends Payable	139,991	46,769
Other Liabilities	673,424	567,159
Total Liabilities	<u>868,316</u>	<u>615,634</u>
EQUITY:		
Shares and Share Certificates	92,592,391	90,186,463
Regular Reserves	1,266,578	1,266,578
Undivided Earnings	13,522,334	12,749,352
Total Equity	<u>107,381,304</u>	<u>104,202,393</u>
TOTAL LIABILITIES AND EQUITY	108,249,620	104,818,027

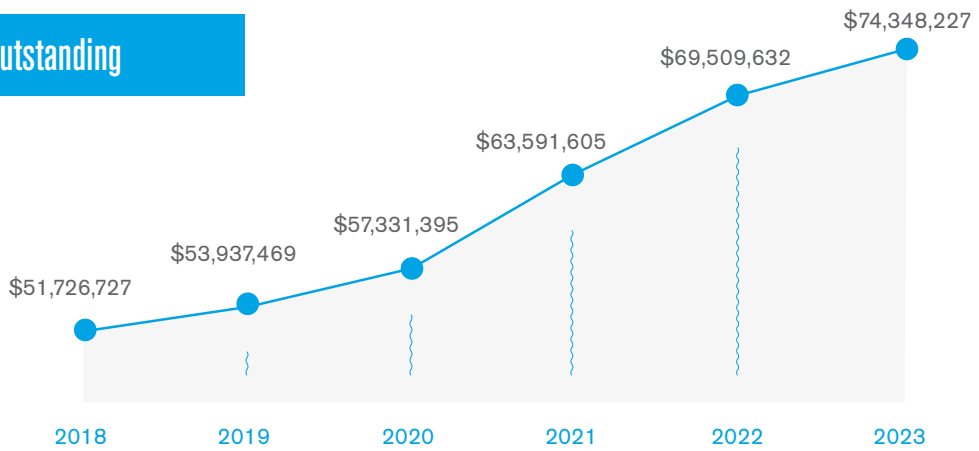
Financials – Income Statement

	2023	2022
OPERATING INCOME:		
Interest on loans	2,888,299	2,331,563
Income from investments	932,008	380,331
Miscellaneous income	624,724	793,405
Total Operating Income	4,445,031	3,505,299
OPERATING EXPENSES:		
Employee Compensation and Benefits	1,261,531	1,239,035
Travel, Conference and Education	17,512	20,543
Office Occupancy	104,752	133,116
Office Operations	220,823	225,276
Promotion and Marketing	88,071	72,581
Loan Servicing	215,399	162,628
Professional Services	652,759	640,955
Provision for Loan Loss	69,033	29,100
Member Insurance	0	0
NCUA Operating Fee	21,506	17,054
Miscellaneous	65,492	53,169
Total Operating Expenses	2,716,877	2,593,456
NON-OPERATING INCOME (EXPENSE) & GAINS (LOSSES):		
Gain (Loss) on Investments	(9,306)	0
Gain (Loss) on Sale of Assets	572	(7,930)
Other Income (Expense)	0	0
NCUSIF Stabilization Income	0	0
Total Non-Oper Inc (Exp) & Gains (Losses)	(8,734)	(7,930)
DIVIDENDS & INTEREST EXPENSES:		
Dividends on Shares and Certificates	915,188	383,255
Interest on Borrowed Money	0	0
Total Dividends & Interest Expense	915,188	383,255
 Net Income (Loss) Excluding NCUSIF Premiums and Temporary Corporate CU Stabilization Fund Assessment	 804,232	 520,658

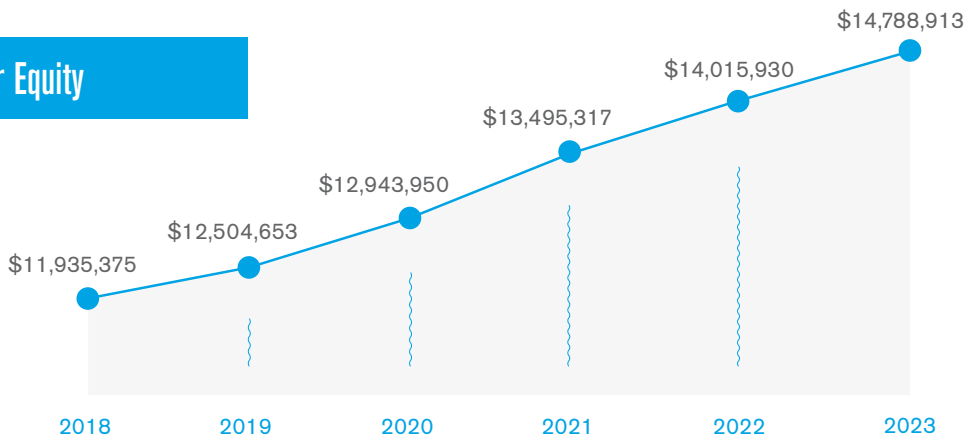
Total Assets



Loans Outstanding



Member Equity



Two Harbors Federal Credit Union

BOARD OF DIRECTORS

Greg Ruberg	Chair
Jennifer Miller	Vice-Chair
Nick Osbakken	Secretary/Treasurer
Julie Benson	Director
Megan Olmscheid	Director
Cheryl Passe	Director
Allen Peterson	Director

SUPERVISORY COMMITTEE

Jeff Nielsen	Chair
Cheryl Passe	Member
Hunter Truscott	Member

MANAGEMENT

Randy Willert	President & CEO
Darla Abrahamson	Vice-President of Lending
Jerry Hostetter	Vice-President of Operations
Erin Mecklin	Director of Member Engagement

STAFF

Jessica Altobell	Member Service Representative
Mike Cable	Maintenance
Lori Cardinal	Member Service Representative
Christina Craig	Manager of Accounting
Heather Eide	Member Service Representative
Jennifer Fransen	Member Service Representative/Loan Clerk
Kori Miller-Pierce	Member Service Representative
Liz Redden	Member Service/Loan Representative/Mortgage Processor
Felicia Seeber	Member Service/Loan Representative
Yancy Stark	Loan Officer
Brenda S Zeimet	Member Service Representative

PRODUCTS & SERVICES

Loans

New/Used Vehicle | New/Used Boat/RV
Mortgage | Home Equity
Rewards Visa | Flex Cash
Personal Loans

Deposits/Checking

Savings | Checking | Checking Plus
Money Market | WINcentive Savings | Certificates
IRAs | ESAs | HSAs

ACCESS

Home Banking | THFCU Mobile App | Online Bill Payer
Zelle® (P2P) | Mobile Deposit

801 11th Street
Two Harbors, MN 55616
(218) 834.2266 • thfcu.org

