

Impact Report 2014

Creating opportunity
where it is needed most



John P. McNulty Prize highlights 20 years of Impact



Aspen Global Leadership Network
November 6, 2013

“When I learned that the organization we founded had won the John P. McNulty Prize for leadership and entrepreneurial innovation, I felt an enormous sense of pride. HOPE has become much more than a well-run, not-for-profit loan fund. It has spurred innovative solutions by government, philanthropies and private enterprise. I am also humbled by the fact that though we have achieved much with HOPE, much work remains.”

- William Winter
Former Governor of Mississippi

Dear Friends:

Two decades ago, the Enterprise Corporation of the Delta (ECD) took on the ambitious goal of transforming lives in the Delta region of Arkansas, Louisiana and Mississippi by increasing access to the fundamental tools required for economic success.

Focusing initially on financing and technical assistance for underserved entrepreneurs, ECD soon became a valuable resource for residents, banks, public agencies and others who shared our aspirations of a prosperous Delta. In the ensuing years, our capacity, geography, services, structure and even our name evolved in substantial ways. However, the commitment of HOPE (Hope Enterprise Corporation and Hope Credit Union) to our original mission of strengthening communities, building assets and improving lives in America's most persistently impoverished region remains steadfast.

The experience gained by assisting more than 500,000 people, generating over \$2 billion in financing, and helping vulnerable families rebuild their lives after suffering economic and human crises of historic magnitude enables HOPE to enter our third decade well positioned to expand the impact of our work at a time when the opportunity gap confronting low-wealth families is widening at an alarming rate.

As HOPE marks its 20th year, communities around the country are reflecting on the 50th anniversary of the assassination of Medgar Evers, the March on Washington for Jobs and Freedom, the passage of the Civil Rights Act and other seminal events from the Civil Rights era. While we appropriately honor the sacrifices made and important gains achieved, the circumstances facing millions of Americans call attention to the work that remains around issues of economic justice. In the areas of poverty, housing, and access to affordable financial services, the gap between rural and urban areas, African Americans and whites, and the rich and the poor is far too wide. In 2014, as in 1964, nowhere are these disparities more glaring than in the Deep South.

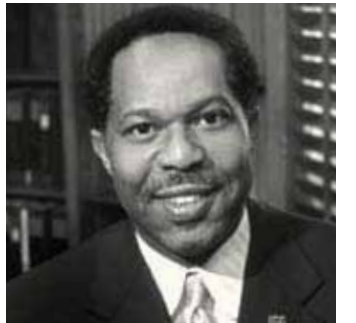
Against this backdrop, HOPE is making a measurable difference in the lives of those on the edges of the economy. Since the onset of the Financial Crisis in 2008, HOPE has quadrupled its presence in low-income areas. As a result, residents of low-income neighborhoods in Memphis, College Station, Louisville, Macon, Utica, New Orleans and Terry have high-quality, affordable financial services to help them support their families and communities, and no longer need to rely on financial predators for their basic financial needs.

Our 2014 Impact Report takes a look back at the evolution of this work and lifts up recent examples that demonstrate what people can accomplish, given the opportunity and the right tools. Your support over the past 20 years has enabled us to extend these resources to more than half a million people in America's most persistently impoverished region. And together we will help even more in the years ahead.

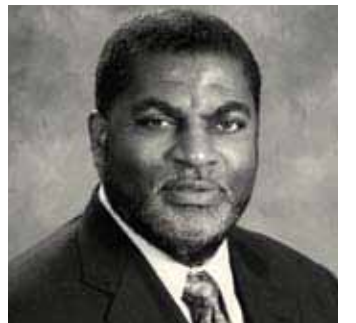
Sincerely,



William A. Percy
Chairman, Hope Enterprise Corporation



Robert L. Gibbs
Chairman, Hope Credit Union



William J. Bynum
Chief Executive Officer
HOPE

20 Years of HOPE

1994-1996
The Early Years

Conceived by the Foundation for the Mid South for the purpose of improving the quality of life in the 55 counties and parishes that comprised the heart of the impoverished Lower Mississippi Delta, the Enterprise Corporation of the Delta (ECD) opened its doors in June 1994. ECD's initial strategy focused on providing financial and technical assistance to entrepreneurs — primarily in the manufacturing sector. The following year, led by ECD's CEO, Anderson United Methodist Church organized Hope Community Credit Union (HCU) to provide basic banking services to low- and moderate-income families in Jackson, Mississippi.

1997-2000
Building Capacity

Seeking to maximize its resources, and to foster increased business ownership among minorities and women, ECD broadened its business development strategy to include service companies, including a focus on health care providers. More than 30 banks participated in the Mid South Homeownership Program, a secondary mortgage initiative that launched ECD's housing efforts. In 1999, ECD hosted a Clarksdale, Mississippi, visit by President Clinton to help launch his New Markets Initiative, an effort to increase investment in under served areas. HCU expanded its membership to encompass several faith- and community-based groups and opened its first full-time branch in the Jackson Medical Mall.

2001-2004
Impact Through Partnerships

ECD became the primary sponsor of HCU, combining ECD's infrastructure with HCU's depository and retail capabilities and community networks. ECD secured a \$15 million New Markets Tax Credit allocation to catalyze the credit union's growth. In December 2004, HCU opened a branch in New Orleans.

ECD worked with a network of community development organizations, public agencies, banks and others to design and implement the Emerging Markets Partnership, an initiative seeded by the W. K. Kellogg Foundation to catalyze community economic development in the Delta. This effort benefited more than 55,000 people, strengthened the capacity of dozens of organizations, and generated more than \$125 million in private and public funding for entrepreneurship, housing, health care facilities and other activities.

For 20 years, HOPE has carried out its mission of strengthening communities, building assets and improving lives in the nation's most distressed region by equipping underserved people and places with the tools they need to succeed.

2005-2012
Responding to Needs

ECD/HCU responded to Hurricane Katrina with initiatives that leveraged nearly \$1 billion in resources and supported more than 30,000 homeowners, entrepreneurs and other individuals. ECD also actively engaged in the policy debate regarding the recovery by writing the affordable housing section of Mississippi's recovery plan, successfully advocating for larger grants for uninsured homeowners and launching the Mississippi Economic Policy Center to track and push for an equitable recovery.

Following the Great Recession and Financial Crisis, ECD assisted communities affected by limited credit and bank closings, pledging to double the number of people and places served. In 2010, the organizations collectively became branded as HOPE, as ECD changed its name to Hope Enterprise Corporation.

2013-2014
Going to Scale

By 2013's end, HOPE had deepened its reach in bank deserts by using mobile and online banking, innovative partnerships, and other nontraditional service delivery strategies.

Collaborating with NeighborWorks America, Goldman Sachs, Wells Fargo, the City of New Orleans and others, HOPE financed a wide range of projects including multi-family housing developments, healthy food retailers, rural hospitals, charter schools and large manufacturers.

HOPE further amplified its efforts by hosting senior officials from Treasury, HUD and the Consumer Finance Protection Bureau to underscore the Mid South's unique challenges.



2
Years



6
Years



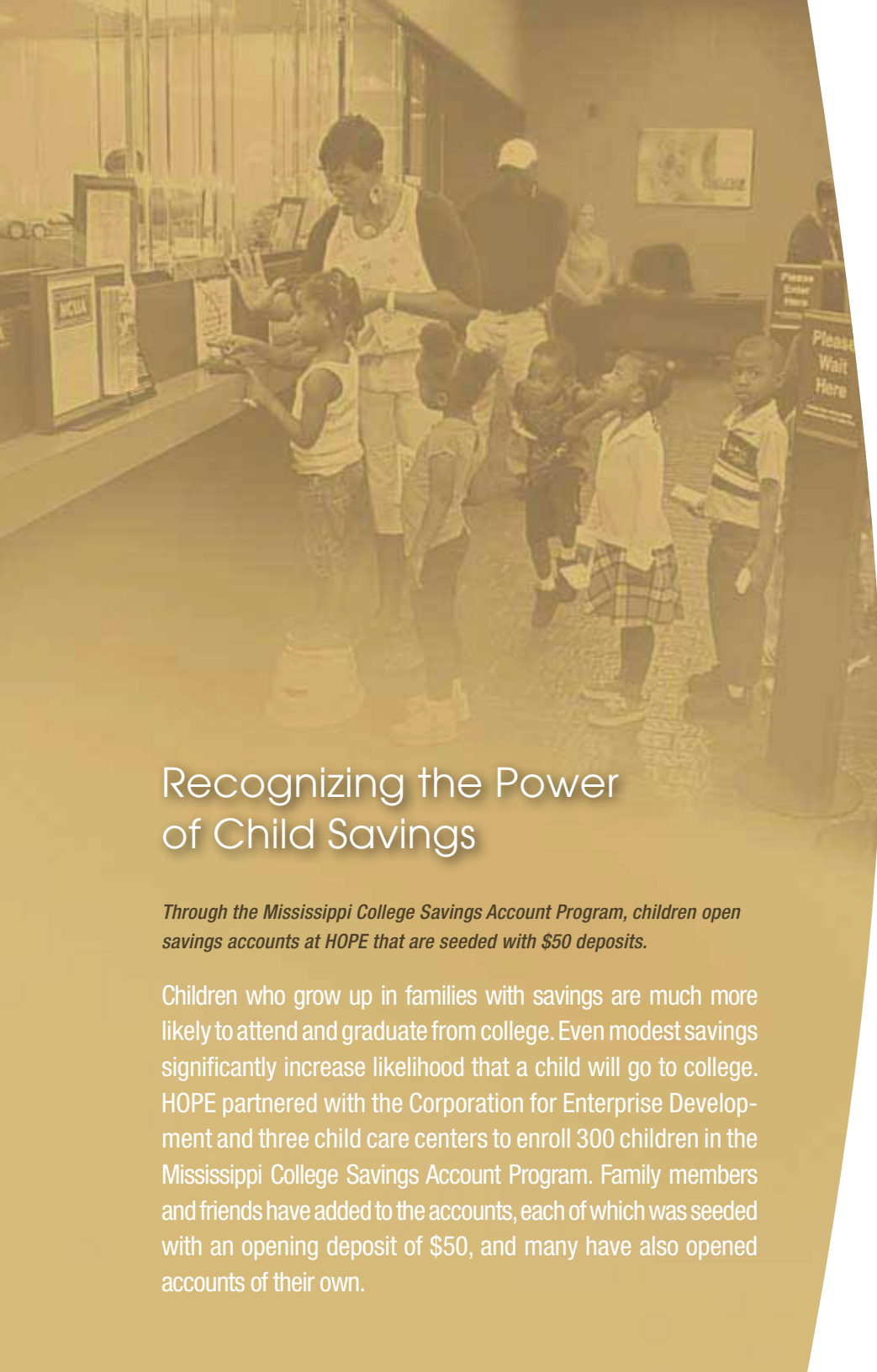
10
Years



18
Years



20
years of
Hope



Recognizing the Power of Child Savings

Through the Mississippi College Savings Account Program, children open savings accounts at HOPE that are seeded with \$50 deposits.

Children who grow up in families with savings are much more likely to attend and graduate from college. Even modest savings significantly increase likelihood that a child will go to college. HOPE partnered with the Corporation for Enterprise Development and three child care centers to enroll 300 children in the Mississippi College Savings Account Program. Family members and friends have added to the accounts, each of which was seeded with an opening deposit of \$50, and many have also opened accounts of their own.

Hope



HOPE is using a series of technology-based strategies, including mobile banking, micro-branches and kiosks, to reach the unbanked and underbanked.

Increasing Access Through New Technology

A partnership between HOPE and the University of Arkansas at Pine Bluff's Economic R&D Center utilizes technology to serve the financial needs of area residents. A full-service banking kiosk provides an alternative branch model. Initially, students were hired to manage the kiosk and to assist members with account opening and loan applications. Upon their graduation, HOPE hired the students to work for the organization full time. The branch serves as an innovative and cost-effective approach to providing financial services in communities not served by banks.

In addition to having the highest concentrations of poverty, unbanked households and payday lenders in the country, the Mid South has suffered a number of bank branch closures in distressed areas, leaving residents to rely on to high-cost alternatives. When low-income people have access to a depository, they are more likely to own assets that pave the way to build wealth. HOPE has been actively working against the trends of disinvestment by opening non-traditional branches; partnering with local employers, schools and community groups; and pioneering products that free people from predatory loan debt traps.

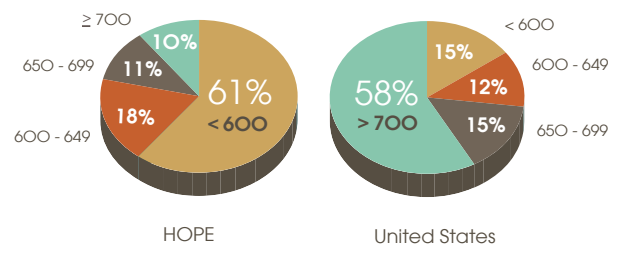
...for families



HOPE consolidated Mrs. Warner's eight outstanding payday loans into one loan with an affordable monthly payment at a significantly lower cost.

Release from the Debt Trap

Gloria Warner held a steady job and earned enough to cover her family's basic expenses. But when her car broke down, she borrowed \$300 from a payday lender to finance the repairs. The full loan amount plus interest from a rate topping 500% were deducted directly from her bank account on payday. At the end of the month, she was short and needed to take out another payday loan to cover her expenses. Before long, she had taken out eight loans totaling \$2,119 – all due around the same time. HOPE helped Mrs. Warner out of the debt trap by consolidating all of the loans into one with an affordable monthly payment. She was able to pay off the HOPE loan in less than two years.



Credit Score Distribution

HOPE provides loans to borrowers with lower than average credit scores.



HOPE When All Seemed Hopeless

By working with partners and using alternative sources of credit, HOPE helped get the Knox family back into a home.

Living in Memphis, George and Leah Knox were happy owners of their own home. When the housing market took a bad turn, they found themselves on the wrong side of an adjustable rate mortgage. Then Mr. Knox was hospitalized and unable to work. Out of options, the Knoxes declared bankruptcy and lost their home. After renting for years, they came to HOPE. HOPE used alternative sources of credit to structure a fixed-rate mortgage they could repay.

Hope



When other banks would not help, HOPE provided Ms. Hough with a mortgage to help her transition through a tough time.

When Life Gets Tough, HOPE Is There

Facing marital challenges, Angela Hough was forced to move out of her existing home and find a smaller place that she could maintain on her own. When she finally found a condominium in Little Rock, she could not find a lender to finance the property. Fortunately, Angela joined HOPE, and HOPE was able to make the loan through its Affordable Homeownership Program.

The Mid South has the highest rates of high-cost home lending in the country. High rates of predatory lending to African-American borrowers explain much of the regional disparity. High-cost mortgages translate into less money to save for college or an emergency and are much more likely to end in foreclosure, resulting in losses of wealth community wide. Despite facing many obstacles, fewer than 2 out of every 100 homeowners financed by HOPE ever default, making the HOPE Affordable Mortgage Program one of the most effective anti-poverty strategies in HOPE’s tool kit.

...for homeowners



After working with the HOPE team to rebuild her credit, Ms. White was able to buy her first home.

Working Towards a Goal

Three years ago, Linda White joined HOPE. While Ms. White was banked prior to joining, no one at her prior financial institution had taken the time to help her reach her financial goals. After joining HOPE Ms. White received one-on-one financial counseling and assistance in developing a roadmap to qualify for a mortgage. Through hard work, dedication and a helping hand from HOPE, she is now a first-time homeowner.

Female	56%
Low-Income	57%
Minority	82%
First-Time Homebuyer	86%

High-Impact Mortgages Characteristics 2013

HOPE’s mortgage programs provide an affordable alternative to predatory lenders.



First HOPE-Supported Small Business Still Thriving

Founded in 1964, TCS Caseworks was purchased by Rick Youngblood in 1994 with the help of the Enterprise Corporation of the Delta.

It was ECD's first commercial loan, and the company is still going strong. TCS provides work for 33 individuals who build and install cabinets for hospitals and medical offices. "We've had to change with the industry and times," says Youngblood, "but we are still here, thanks to HOPE."

Hope



In 2013, Code 3 was selected as one of two vendors authorized by the New Orleans Police Department to supply officer uniforms.

Helping Local Small Businesses Grow

In conjunction with the Goldman Sachs *10,000 Small Businesses* initiative, HOPE made a loan to Code 3, a retail operation that sells uniforms and supplies to law enforcement agencies and fire departments in New Orleans, to provide working capital and inventory. The business is completely owned and managed by women.

Businesses in rural, minority and other frequently marginalized communities have difficulty securing the capital needed to start, stabilize and grow. The result is higher unemployment and reduced access to necessities like health care and healthy food. In response, HOPE works to help businesses create good jobs that provide opportunities for families and communities.

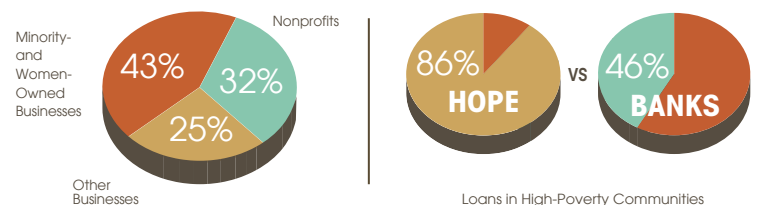
...for business



McMillan's First Steps is one of only two child care centers in all of Orleans Parish to achieve the state's highest star quality rating for the delivery of care.

High-Quality Child Care for Disadvantaged Youth

After completing an entrepreneurial training curriculum through Delgado Community College in New Orleans, McMillan's First Steps Community Development Corporation qualified for a loan from HOPE to build four additional classrooms, expand its playground, and move its entrance off of a busy street. McMillan's employs 40 people and provides high-quality care in a high-poverty neighborhood.



Loans to Minority- and Women-Owned Businesses and in High-Poverty Communities 2013

HOPE provides small business loans to historically underserved people and places.



Hospital Investment Supports 280 Jobs and Increases Access to Care

Construction of the new facility will create 150 jobs and, when finished, the hospital will provide employment for 130 local residents.

Field Memorial Hospital, a small rural hospital located in Southwest Mississippi, was in dire need of repair and updating to serve the residents of Amite and Wilkinson Counties. Through partnerships with banks from inside and outside of the region, HOPE was able to use the New Markets Tax Credit Program to finance the construction of a new facility in a community where 4 out of 10 families live in poverty.

Hope



The McDonogh 42 school will provide a 21st century learning experience for 550 elementary students – nearly all qualify for free or reduced lunch.

New School to Provide Educational Opportunity in Low-Income Community

The historic McDonogh 42 school was deteriorating due to lack of investment before HOPE led a public/private partnership to inject \$23 million to fully renovate the school and provide students in New Orleans' Treme neighborhood with a high-quality learning environment, complete with state-of-the-art classrooms, science labs and a library. In addition, HOPE is extending retail, mortgage and other development services to McDonogh 42 staff, students, families and community residents.

Good jobs, good schools and access to high-quality health care serve as anchors in any thriving community. Through strategic partnerships, HOPE imports capital into the region and uses its community development capacity to invest in health care facilities and schools that both create high-paying jobs and improve the quality of life for all residents.

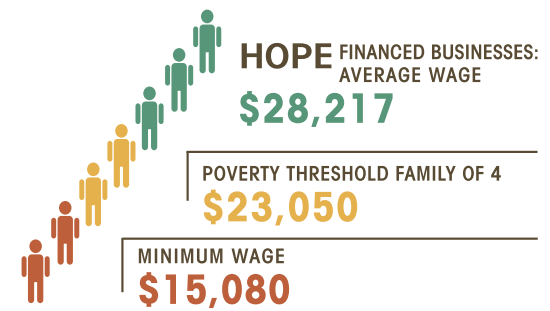
...for communities



Husqvarna officials partnered with HOPE to make the plant's new future a reality.

Saving 2,000 Jobs in Southwest Arkansas

HOPE used \$8 million in New Markets Tax Credits to finance new machinery for the Husqvarna Plant in Nashville, Arkansas, where workers manufacture outdoor power equipment for yard maintenance. In this town of 5,000 residents, HOPE's investment played a pivotal role in stabilizing 1,200 jobs at the plant, 800 supplier jobs in surrounding communities, and creating new jobs that were at risk of being sourced overseas.



Providing Ladders of Opportunity

Eight out of 10 employees working in HOPE-financed businesses have health insurance.



Informing Seminal Public Policy Debates

Through the Mississippi Economic Policy Center (MEPC), HOPE conducts research, analysis, outreach and education on issues affecting low-income Mississippians.

MEPC's goal is to ensure that the needs of low-income and low-wealth Mississippians are considered in the development and implementation of public policy. In this photo, Representative John Hines holds up a map created by MEPC while advocating passionately on the floor of the Mississippi House of Representatives for a policy change that would increase access to health insurance for low-wage workers.

Hope



CFPB Director Richard Cordray learns about financial challenges facing Delta residents during a visit to Mississippi Valley State University.

Tackling Predatory Lending

HOPE played an central role in organizing a series of meetings in Mississippi convened by the Consumer Finance Protection Bureau (CFPB). During the visit, Director Richard Cordray and senior bureau staff held roundtable discussions with consumer advocates, credit unions, and community bankers, and convened a public hearing at Mississippi Valley State University. Through these gatherings CFPB officials gained firsthand exposure to the high concentration of payday lenders, the relative absence of banking services, and other aspects of the unique financial service environment in the Delta.

Since HOPE was founded in 1994, the organization has invested \$2 billion in people and places, benefiting more than 500,000 individuals in the Mid South. HOPE multiplies its impact by combining its program expertise with research, analysis and advocacy to inform and influence policies that affect the lives of low-income and low-wealth individuals.

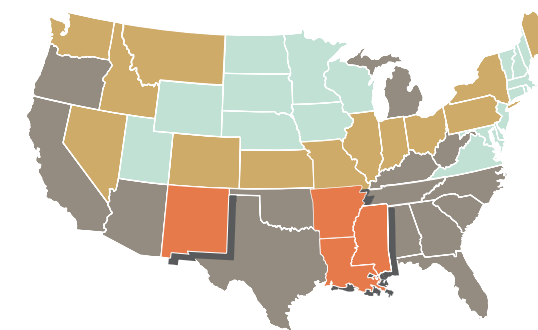
...for policy reform



HOPE's analysis is being used to inform policy decisions about the Louisiana Housing Corporation's program.

Building Assets in Louisiana

In 2013, the Louisiana Housing Corporation (LHC) contracted with HOPE to assess the feasibility of broadening the credit criteria of the agency's affordable mortgage program. Tapping its expertise in lending to nontraditional borrowers, HOPE's analysis found that LHC could prudently modify its underwriting to accommodate borrowers with lower than average credit scores and higher than average debt-to-income ratios, thus increasing access to homeownership opportunities in Louisiana.



Poverty Rate by State

- Greater than 19%
- 17% - 19%
- 14% - 16%
- Less than 14%

Governance

Hope Enterprise Corporation Board of Directors

Claiborne Barksdale
Barksdale Reading Institute

Kim Boyle
Phelps Dunbar LLP

Bill Bynum
HOPE

Hodding Carter
University of North Carolina
at Chapel Hill

Bishop Ronnie C. Crudup
New Horizon Church

Mike Espy
Former U.S. Secretary of Agriculture

Robert L. Gibbs
GibbsWhitwell PLLC

Maurice Jones
Virginia Department
of Commerce and Trade

Edwin Lupberger
Nesher Investments

Dr. Ivory W. Lyles
Lyles Consulting Group

Lisa Mensah
Aspen Institute

Fred Miller
Bank of Anguilla

Martha W. Murphy
Murphy Offices

Jeffrey Nolan
Loutre Land and Timber

Griffin Norquist
Bank of Yazoo (Retired)

William A. Percy
Retired Delta Businessman

William F. Winter (Emeritus)
Former Mississippi Governor

Hope Credit Union Board of Directors

Dr. Ivey Allen
Foundation for the Mid South

James Brooks
Mississippi Department of Education (Retired)

Carol Burnett
Mississippi Low-Income Child
Care Initiative

Bill Bynum
HOPE

Richard Campbell
HOPE

Robert L. Gibbs
GibbsWhitwell PLLC

Dr. George Penick
St. Andrew's Episcopal School

Maura Phillips
Mortgage Guarantee
Insurance Corporation

Austin Porter, Jr.
Porter Law Firm

Brenda Richard-Montgomery
Secure Patient Delivery, LLC

Rev. Carol Spencer
Episcopal Diocese of Mississippi (Retired)

Dr. Herman Taylor
Morehouse School of Medicine

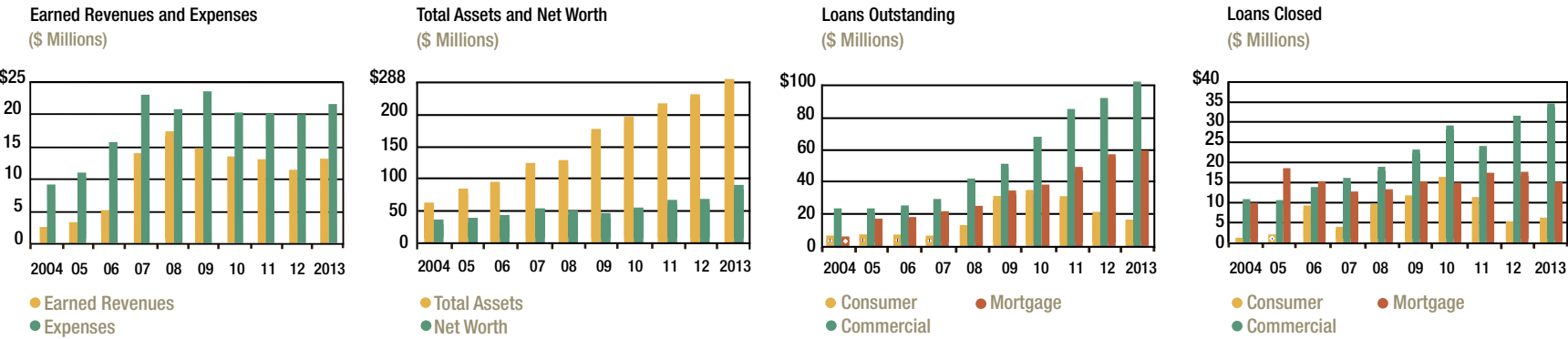
Emily Trenholm
Community Development Council
of Greater Memphis

Carmen Walker
Noxubee County, Mississippi Schools (Retired)

Rev. Neddie Winters
Mission Mississippi

Consolidated and Combined Financial Highlights

Hope Enterprise Corporation/Hope Credit Union



Year Ended December 31

	2013	2012
Results of Operations		
Earned Revenues	\$13,394,427	\$11,635,771
Operating Expenses	19,255,614	19,112,859
Loan Loss Reserve Expense	2,438,838	962,959
Change in Net Assets (Net Income/(Loss))	(3,061,720)	(5,567,454)
Financial Position		
Total Assets	\$288,223,677	\$241,669,461
Total Net Assets (Net Worth)	89,916,696	69,828,754
Loans	202,007,431	174,676,694
Total Debt	62,822,585	60,192,215
Total Deposits	135,484,396	111,648,492
Results of Activities		
Total Loans Closed	58,142,646	53,487,998

Combined Statement of Financial Position

Hope Enterprise Corporation/Hope Credit Union

As of December 31, 2013 and 2012

	HEC Consolidated	HCU	Eliminations	Combined 2013	Combined 2012
Assets					
Cash and cash equivalents	\$ 11,127,740	\$ 37,874,166	\$ (5,228,304)	\$ 43,773,602	\$ 27,507,817
Debt and other securities	15,219,031	16,389,729	(15,206,000)	16,402,760	15,127,532
Cash restricted for collateral on subsidiary's note	2,744,452			2,744,452	2,743,380
Investment in non-consolidated partnership	10,612,388			10,612,388	10,650,000
Grants and other receivables	1,536,943	2,514,043	(649,943)	3,401,043	1,095,860
Prepaid expenses	120,872	592,140		713,012	849,598
Other assets	1,237,330	2,168,628		3,405,958	3,186,100
Interest receivable		648,623		648,623	562,287
Consumer loans		16,923,632		16,923,632	21,535,712
Commercial loans	77,702,355	45,551,707	(1,238,299)	122,015,763	93,774,260
Residential mortgage loans	1,846,009	57,756,017		59,602,026	57,345,182
Allowance for loan losses	(2,029,726)	(1,618,971)		(3,648,697)	(3,331,767)
Loans, net	77,518,638	118,612,385	(1,238,299)	194,892,724	169,323,387
Foreclosed property	1,864,141	1,601,869		3,466,010	2,021,540
Goodwill		244,472		244,472	244,472
Property and equipment, net	1,848,725	6,069,908		7,918,633	8,357,488
Total Assets	\$ 123,830,260	\$ 186,715,963	\$ (22,322,546)	\$ 288,223,677	\$ 241,669,461

Liabilities					
Accounts payable	\$ 1,261,502	\$ 188,761	\$ (649,943)	\$ 800,320	\$ 673,379
Dividends payable		184,401		184,401	203,622
Member deposits		140,712,700	(5,228,304)	135,484,396	111,648,492
Other liabilities	3,187,790	1,535,075		4,722,865	3,763,359
Long-Term loans	32,054,149	41,505,149	(16,444,299)	57,114,999	55,551,855
Total Liabilities	36,503,441	184,126,086	(22,322,546)	198,306,981	171,840,707

Net Assets and Equity					
Uninsured capital and reserves		2,589,877		2,589,877	2,680,017
Unrestricted net assets	8,256,736			8,256,736	10,500,808
Non-controlling interests	75,567,760			75,567,760	51,686,172
Total unrestricted	83,824,496	2,589,877		86,414,373	64,866,997
Temporarily restricted	2,084,811			2,084,811	3,619,245
Permanently restricted	1,417,512			1,417,512	1,342,512

Total Net Assets	87,326,819	2,589,877		89,916,696	69,828,754
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Total Liabilities and Net Assets	\$ 123,830,260	\$ 186,715,963	\$ (22,322,546)	\$ 288,223,677	\$ 241,669,461
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See accompanying notes.

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See accompanying notes.

Notes to Combined and Consolidated Financial Statements

Hope Enterprise Corporation/Hope Credit Union (Unaudited) for the years ending December 31, 2013 and 2012

1. Basis of Presentation

The accompanying combined and consolidated financial statements include the consolidated financial statements of Hope Enterprise Corporation (HEC) (formerly Enterprise Corporation of the Delta (ECD)) and the financial statements of Hope Federal Credit Union (HCU) (formerly Hope Community Credit Union). HEC has received a ruling from the Internal Revenue Service for exemption from income taxes as a public charity under Internal Revenue Code Sections 501(c)(3) and 509(a)(2). HCU is a chartered cooperative association located in Jackson, Mississippi. During 2011, HCU converted from a state charter to a federal charter organization under the provisions of the Federal Credit Union Act and is organized for the purpose of promoting thrift among and creating a source of credit for its members as defined in its charter and bylaws. All significant intercompany accounts and transactions have been eliminated in the combination and consolidation. The purpose of this presentation is to report HEC and HCU as operating together to fulfill their mission. HEC is the primary sponsor of HCU and encompasses the field of membership of HCU. HEC and HCU share staff and resources in operating terms. Separate audited financial statements of HEC and HCU are available at www.hope-ec.org and www.hopecu.org.

Subsidiaries of HEC include ECD Investments, LLC (ECDI); ECD Investments BIDCO Corporation (BIDCO); ECD Associates, LLC (ECDA); ECD New Markets, LLC (ECDNM); Home Again, Inc. (Home Again); Mid-Delta Community and Individual Investment Corporation (MDCIIC); ECD First Commercial, LLC (ECD First); ECD Plus, LLC (ECD Plus); ECD Central City, LLC; ECD New Markets 3, LLC; ECD New Markets 4, LLC; ECD New Markets 5, LLC; HOPE New Markets 1, LLC; HOPE New Markets 2, LLC; HOPE New Markets 3, LLC; and HOPE New Markets 4, LLC. ECDI, a Mississippi Limited Liability Company, was formed in 1997 as a for-profit subsidiary of HEC. HEC holds the controlling interest in ECDI through its ownership of all of ECDI's outstanding Class B units. Class A and C units of ECDI were sold for investment to qualified institutional and individual investors. Investments made by qualified institutional and individual investors less accumulated losses are shown as minority interest in subsidiary. BIDCO is a wholly-owned subsidiary of ECDI. ECDI and BIDCO were created to extend HEC's commercial lending activities.

ECDA, a Mississippi Limited Liability Company, was formed in 2004 to raise capital to invest in ECDNM, a Mississippi Limited Liability Company formed in 2003. HEC is the managing member of ECDA and ECDNM. Units of ECDA were sold for investment to qualified institutional and individual investors. Capital invested by ECDA in ECDNM was used to invest in HCU. In return, ECDA received New Markets Tax Credits and cash over the investment periods which are distributed to investors in ECDA. Home Again, Inc. (Home Again) began operation in 2006 with HEC as primary sponsor. Home Again provides mortgage financing and recovery consultation services to eligible persons in the coastal region of Mississippi in the aftermath of Hurricane Katrina. MDCIIC was acquired by HEC in 2007 and is a Mississippi corporation that provides loans and technical assistance to small businesses in a 13-county service area in the Delta region of Mississippi. ECD First and ECD Plus began operations in 2007 and are commercial loan funds in partnership with local banks. ECD Central City began operations in 2009 and is a commercial loan fund in partnership with a local bank. ECD New Markets 3, LLC, began operations in 2010 and is a commercial loan fund in partnership with a local bank. ECD New Markets 4, LLC, began operations in 2011 and is a commercial loan fund in partnership with a local bank. ECD New Markets 5, LLC, was formed in late 2012 and began operations in 2013. HOPE New Markets 1, LLC, began operations in 2013 and is a commercial loan fund in partnership with a bank. HOPE New Markets 2, LLC, began operations in 2013 and is a commercial loan fund in partnership with a bank. HOPE New Markets 3, LLC, began operations in 2013 and is a commercial loan fund in partnership with a bank. On January 1, 2009, HCU acquired all the assets and liabilities of American Savings Credit Union (ASCU) in a NCUA-directed merger accounted for as a purchase. This merger resulted in an excess of fair value of liabilities assumed over fair value of assets acquired of approximately \$244,000. In July 2010, HCU converted to a federal charter and changed its name to Hope Federal Credit Union. On October 1, 2010, HCU acquired all the assets and liabilities of East Central Federal Credit Union in a NCUA-directed merger accounted for as a purchase. This merger resulted in a net gain on acquisition of approximately \$531,000.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about HEC/HCU's financial position, results of operations and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters. Certain reclassifications have been made to the 2012 combined financial statements to conform to the presentation in 2013.

2. Cash and Marketable Securities

Cash and marketable securities are comprised of cash and cash equivalents and other securities held by HEC/HCU in the ordinary course of business:

	2013	2012
Cash and cash equivalents	\$43,773,602	\$27,507,817
Debt and other securities	\$16,402,760	\$15,127,532
	<u>\$60,176,362</u>	<u>\$42,635,349</u>

Notes to Combined and Consolidated Financial Statements - Continued

Hope Enterprise Corporation/Hope Credit Union (Unaudited) for the years ending December 31, 2013 and 2012

3. Grants and Other Receivables

Unconditional grants are recognized as revenue in the period during which the commitment is received. Unconditional grants to be received over a period of time in excess of one year are recorded at fair value at the date of the grant based upon the present value of payments to be received. HEC/HCU's management anticipates grants receivable at December 31, 2013, will be received and available for support of HEC/HCU's programs as follows:

Grants due in less than one year	\$2,256,000
Grants due in one to five years	\$150,000
Contracts and other receivables	<u>\$1,019,670</u>
Total grants and other receivables	\$3,425,670

Less adjustment to reflect grants receivable at fair value at the date of grant, based on 1.2% discount rate	(\$19,712)
Net grants and other receivables	<u>\$3,405,958</u>

4. Loans

The composition of the loan portfolios are as follows:

	2013	2012
Consumer loans outstanding	\$16,923,632	\$21,535,712
Commercial loans outstanding	\$122,015,763	\$93,774,260
Residential mortgage loans outstanding	\$59,602,026	\$57,345,182
	<u>\$198,541,421</u>	<u>\$172,655,154</u>

Consumer loans are either uncollateralized or secured by vehicles or deposits.

Commercial loans are typically collateralized by property, equipment, inventories and/or receivables, with loan-to-value ratios from 50% to 100%. Commercial loans are typically guaranteed by the principals of the borrower.

Commercial loan commitments are made to accommodate the financial needs of HEC/HCU's customers/members. These arrangements have a credit risk essentially the same as that involved in extending loans to customers of commercial banks and are subject to HEC/HCU's normal credit practices.

HEC/HCU also originates residential mortgage loans. These loans are typically collateralized by residential real estate with a loan-to-value ratio of 97% or less. The majority of these loans are available for sale.

5. Allowance for Loan Losses

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses related to specifically identified loans and for losses inherent in the loan portfolio that have been estimated as of the balance sheet date. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, growth and composition of the loan portfolios, economic conditions and other relevant factors. The allowance is increased by provisions for loan losses charged to expense.

Transactions in the allowance for loan losses are summarized as follows:

	2013	2012
Balance at beginning of year	\$3,331,767	\$3,258,619
Provision charged to operating expenses	\$2,438,838	\$962,959
Loans and investments charged off and foreclosed-net	(\$2,121,908)	(\$889,811)
Balance at end of period	<u>\$3,648,697</u>	<u>\$3,331,767</u>

6. Foreclosed Property

Foreclosed property consists of properties repossessed on foreclosed loans. These assets are stated at the lower of the outstanding loan amount (including accrued interest, if any) or fair value at the date acquired less estimated costs to sell. Losses arising from the acquisition of such property are charged against the allowance for loan losses. Declines in value resulting from disposition of such property are expensed as impairment loss on foreclosed property or loss on disposition of foreclosed property, as applicable.

7. Dividends Payable and Shares and Share Certificates

Dividends payable are dividends earned on share draft accounts, share accounts and share certificates by members of HCU and not yet paid by HCU. Share draft accounts are the credit union equivalent of bank checking accounts. Interest is earned on HCU money market share draft accounts. Share accounts are the credit union equivalent of bank savings accounts, and share certificates are the credit union equivalent of bank certificates of deposit. All share draft accounts, share accounts and share certificates are insured by the National Credit Union Administration up to \$250,000 per member.

8. Long-Term Debt

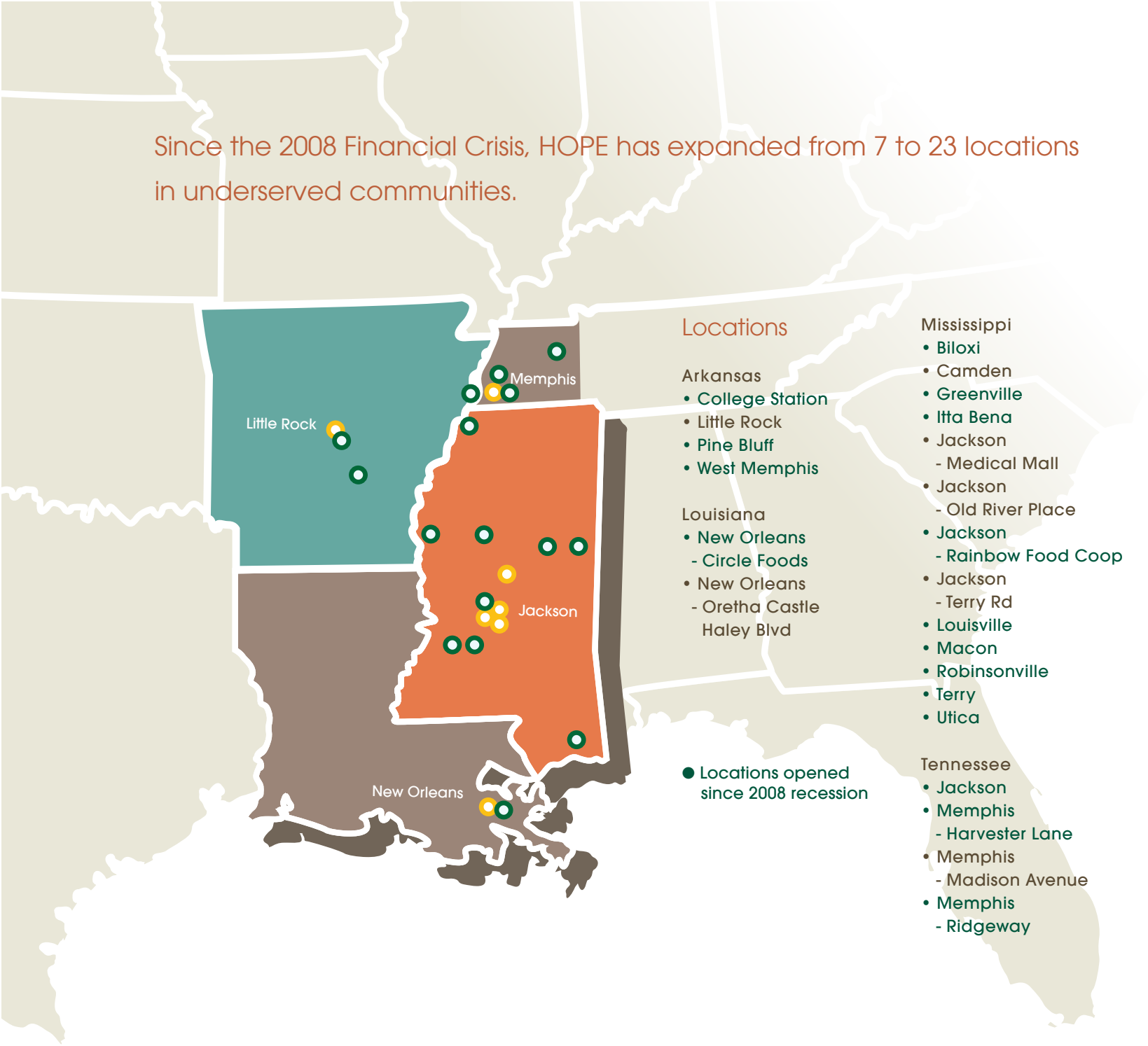
The maturities of long-term debt at December 31, 2013, are as follows:

2014	\$4,853,426
2015	\$8,314,191
2016	\$4,991,099
2017	\$4,630,123
2018	\$5,989,634
Thereafter	<u>\$28,336,526</u>
	<u>\$57,114,999</u>

9. Uninsured Capital and Reserves

The uninsured capital and reserves include accumulated reserves and undivided earnings of HCU.

Since the 2008 Financial Crisis, HOPE has expanded from 7 to 23 locations in underserved communities.





Creating opportunity where it is needed most

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Hope Enterprise Corporation www.hope-ec.org • Hope Credit Union www.hopecu.org

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