

SELF-HELP

ANNUAL REPORT 2008

**Facing the
Financial
Crisis**



DEAR SUPPORTERS, PARTNERS, AND FRIENDS,

I am thankful to our borrowers, partners, funders, and depositors for their dedication to creating economic opportunity for all – and find myself even more grateful during these challenging economic times. 2008 was a difficult year for Self-Help. Our home and small business lending were strong, but the dual devastation of foreclosure and unemployment is the worst economic storm to hit low-income and working-class communities since the Great Depression.

In response, we redoubled our efforts to help safeguard communities, protect home and small business owners, and preserve family wealth. Here are some notable examples of our work in 2008:

We advocated for policy changes nationally to end abusive lending and stem the tide of home foreclosures.

We piloted a community-based approach to mitigating the effects of foreclosure on vulnerable communities, working directly with the residents to stabilize the neighborhood.

We launched a national model for a lease-purchase mortgage program to reoccupy foreclosed homes. In partnership with Fannie Mae, this initiative will be expanded to help home foreclosure recovery efforts nationwide.

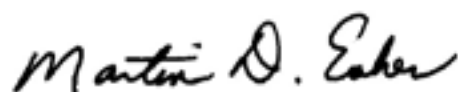
We provided support and loan modifications to our borrowers, helping them weather the deepening recession.

Moving Forward

Even though Self-Help has long worked to provide credit to underserved families and has fought against the financial abuses that have wrecked our economy, our work is far from done. Whether through direct lending or policy advocacy, we will continue to use all our resources to help families move forward. Thank you for joining us in this work.

Looking ahead, our mandates are clear. We must stop the flood of foreclosures. We need strong lending rules so that this financial crisis never happens again. Above all, we must press on to help those most vulnerable in today's economy. Thank you for your support at this critical time.

Sincerely,



Martin Eakes
Chief Executive Officer

Even though Self-Help has long worked to provide credit to underserved families and has fought against the financial abuses that have wrecked our economy, our work is far from done.

Elizabeth Gill and Jacob Burt are among the community advocates who are making Durham's Walltown neighborhood a safe and inviting place to live. They live in a Self-Help home and are committed to bolstering the urban community through neighborhood engagement. As young leaders, they are passionate about Walltown's potential.



2008 COMMUNITY IMPACT

In 2008, Self-Help invested \$235 million with 2,840 families, individuals, and organizations. This investment was made in service of our mission to create and protect ownership and economic opportunity for people of color, women, rural residents, and low-wealth families. Here's how our 2008 funds were distributed:

Low-income borrowers, 82%
Women, 39%
Distressed areas, 34%
Rural projects, 22%

Sustainable Homeownership

We directly financed 353 home loans totaling \$31 million; purchased 972 home loans totaling \$114 million (82% of these loans went to first-time home buyers); and started construction on 19 new affordable homes and sold 11 completed homes.

Fostering Entrepreneurship

We helped businesses and community facilities start up and expand. Through lending and commercial real estate development, we supported businesses and projects that provide vital community services like child care and public charter schools. In 2008, Self-Help:

Financed 269 loans to small businesses and community facilities totaling \$82 million. These loans created and maintained 2,493 jobs and 5,320 spaces in community facilities, including 1,815 childcare spaces, 3,297 public charter school spaces, and 240 housing units.

Managed 600,000 square feet of commercial space, primarily in the hearts of urban and small city downtowns. This space is occupied by 210 small business and non-profit tenants serving these communities.

Fairness and Responsibility

Throughout 2008, we provided fair, responsible financial products and services that families need everyday. In 2008, Self-Help:

Operated four full-service credit union branches in NC and CA.

Served 16,056 members of Self-Help and Self-Help Federal Credit Unions.

Provided 1,246 responsible consumer loans totaling \$7 million.

Together with allies and supporters, our Center for Responsible Lending (CRL) fought abusive loans through policy, research, and increasing public awareness. In 2008, CRL:

Advocated for the Federal Reserve to strengthen oversight of the home mortgage industry, protecting millions of borrowers.

Supported coalitions in three states to end payday lending, saving borrowers more than \$200 million per year.

Assisted with victories on payday ballot initiatives in Ohio and Arizona.

Published over 20 reports on payday, home mortgage, credit card, and overdraft lending.

Provided information on the dangers of predatory lending through more than 10,000 media citations.

Raised awareness of the foreclosure crisis and the need to modify abusive subprime home loans.

Samuel Jenkins has cut hair for more than 20 years. He now owns Samuel & Sons barbershop, financed with small business loans from Self-Help. Samuel has a reputation as a community leader dedicated to helping young people in the neighborhood.



CRL FIGHTS THE FORECLOSURE CRISIS

The goal of the Self-Help affiliate, Center for Responsible Lending (CRL), is to preserve homeownership and family wealth by eliminating abusive financial practices.

As home foreclosures soared in 2008 and the housing market collapsed, CRL worked for policy changes that would prevent foreclosures, rework bad home loans, and help families keep their homes. Foreclosures not only cause families to lose much of their personal wealth, but also devastate nearby home values through a “spillover effect.” [See sidebar below]

Legislative Breakthroughs

In a bleak year for homeowners, there were still several positive developments. After a long dry spell on consumer protection activity, the Federal Reserve Board responded to advocacy from many community groups, including CRL, by passing stronger home lending rules. Their actions effectively banned some of the worst abuses in the mortgage market, including predatory lending practices that led to the foreclosure crisis. CRL also successfully worked with several state coalitions to curb excessive fees, unnecessary insurance, and other unfair home loan terms in their states.

Spillover Effect: Foreclosure’s Impact on Nearby Homes

- Projected foreclosures in 2009: 2.4 million homes
- Number of neighboring homes that will lose property value in 2009 because of foreclosures: 69 million
- Amount of price declines suffered by neighboring homes in 2009: \$502 billion
- Projected foreclosures during the next five years: 13 million homes lost

In 2008, CRL strongly supported allowing bankruptcy courts to modify the terms of a personal residence loan, giving borrowers a chance to make reasonable payments and stay in their homes. This bill passed the U.S. House of Representatives, but failed to pass the Senate. Judicial review of loan terms is available to owners of almost all other assets and real estate, including investment and vacation homes. CRL continues to push for vigorous actions to stop the foreclosure epidemic, including stronger efforts by lenders to rework loans for struggling homeowners.

Fighting Predatory Lenders

In 2008, CRL continued to fight against payday lending at annual rates exceeding 400 percent. These short-term loans are designed to trap borrowers in a cycle of debt. CRL worked with committed state coalitions to help ban payday lending in three states, and

also worked with additional states to preserve existing protections. In addition, CRL published groundbreaking research on overdraft lending, in which ruinous fees on debit cards and checking accounts push more and more families out of the banking system. One CRL report showed that unauthorized overdraft fees strip \$4.5 billion from Americans 55 and older.

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Richard and Linda Gebo were trapped in a predatory mortgage for the home they had owned since 1986. In 2000, they refinanced into a 30-year fixed-rate loan through Self-Help. Recently, when they were once again facing economic challenges, the Gebos worked with Self-Help to modify their home loan to make it easier for them to make their monthly payment. “When things were going down, they found a way to keep things up to help save our house,” Richard says.



HELPING BORROWERS WEATHER TOUGH TIMES

Self-Help's borrowers are particularly vulnerable to the impacts of recession. Many are low-income earners and are the first to experience job cuts. Many work in construction and manufacturing, some of the hardest-hit industries in this recession. And many have little financial cushion to protect against setbacks. Small business borrowers are widely affected by reduced spending, particularly on child care and non-necessary items like restaurants and landscaping. High gas prices, reduced access to credit, and higher costs of materials increased strain on many small business owners.

Supporting At-Risk Borrowers

In response, Self-Help has increased its efforts to help borrowers keep their homes and businesses. Our commercial loan officers proactively contact borrowers, make

site visits, and provide support and technical assistance to owners finding their way in this troubled economy. Our home lending team reaches out early to borrowers facing hardship. They listen to borrowers' individual stories, assess their situations, and recommend personalized strategies to help them get back on track. When necessary, we reduce payments and change loan terms to give borrowers a chance to make payments and keep their homes and businesses.

Mutual Benefits

Working with borrowers benefits both borrowers and Self-Help. Borrowers may avoid the loss of their home or business, as well as damage to their credit. Helping a borrower through rough times is often less costly for us than foreclosure or liquidation.

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Darnella Warthen and her staff at Durham's A New Beginning child care center serve roughly 30 children, including several with special needs. The staff of six navigates the hectic environment with poise and love, balancing the playful energy of the children with a serious commitment to their education and development.

The business hit an early snag when a delay in its four-star accreditation negatively impacted state child care reimbursements. Self-Help worked with Darnella to modify the loan, temporarily reducing her monthly payment. Self-Help's flexibility helped to keep Darnella in business. "It gave me the breathing room I needed," she says. "It saved me."

EMPOWERING THE UNBANKED

As the recession deepens, the need for responsible consumer financial services continues to grow. Depositors in the North Carolina-chartered Self-Help Credit Union have been an important source of funds for our community development work since its founding in 1984. Self-Help added an additional credit union – the federally-chartered Self-Help Federal Credit Union (Self-Help Federal) – in July 2008 with the mission of increasing access to responsible and affordable financial services

in underserved communities, particularly in California.

Fifty-one million people in the United States are “unbanked,” meaning they do not have a relationship with a mainstream bank or credit union. According to the Center for Financial Services Innovation, another 55 million are “underbanked,” defined as maintaining a relationship with a bank or credit union, but frequently using alternative providers such as check cashers or pawn shops.

People’s Federal Credit Union

In September 2008, Self-Help Federal merged with Oakland, CA-based People’s Community Partnership Federal Credit Union. Since opening its doors in 2001 as the only deposit-taking financial institution in West Oakland, People’s has promoted the economic empowerment of local residents, especially those traditionally underserved by banks. The credit union achieves this goal by keeping rates and fees low, providing financial education, offering services such as



People’s Community Credit Union, a division of Self-Help Federal Credit Union, serves members in West Oakland, California. The credit union supports the community with low rates and fees, financial education classes, and volunteer services.

Empowering the Unbanked continued...

volunteer income tax preparation, and valuing members' roles in the success of the institution. Now operating under the umbrella of Self-Help Federal, People's will continue its vital contribution to the financial health of West Oakland's communities.



INVESTING IN ECONOMIC OPPORTUNITY

Self-Help would not be able to support economic and community development projects without the help of our depositors and funders. These individuals and organizations share our mission of helping underserved communities by financing homes, small businesses, and nonprofits. Their invaluable support provides the funding for the loans we make.

For more than a decade, the F.B. Heron Foundation has supported Self-Help through a variety of grants and investments.

"We invest for impact. That's why we're attracted to the tangible and lasting results of Self-Help's work to improve the lives of low-income people and communities. We've invested in Self-Help through grants, program-related investments, and by opening a market-rate insured deposit account with the new Self-Help Federal Credit Union. These deposits yield returns in more than one sense of the word by supporting our wealth creation and preservation strategies and providing interest income."

Luther M. Ragin, Jr.
Vice President, Investments
The F.B. Heron Foundation



Chris and Hillary Danz's house was designed and built as an example of affordable sustainable design. The one-story bungalow features several environmentally conscious elements intended to maximize energy efficiency and sustainability at an affordable price.

In 2006, the housing market decline hit Peachtree Hills, a subdivision of mostly first-time homebuyers. With interest rates exploding, many families could no longer make payments. Some were evicted and others just walked away.

PEACHTREE HILLS: A CASE STUDY IN ACTION

By 2008, one third of the Charlotte, NC neighborhood's homes were either for sale, in the process of foreclosure, or owned by a bank. Meanwhile, the end of the housing boom and a lack of funds for construction left empty lots and half-built homes with plastic sheets shrouding bare house frames.

But a group of committed residents refused to let their neighborhood die. Instead, they enlisted a diverse group of partners – the City of Charlotte, Habitat for Humanity, Mecklenburg County Parks and Recreation, Charlotte-Mecklenburg Housing Partnership, Charlotte-Mecklenburg Schools and Self-Help – and began the hard work of regaining control of their neighborhood's future.

Community Solutions to Global Problems

The devastation caused by the recession is global, but its solutions are rooted in community. The City of Charlotte has worked with Peachtree residents to devise a plan that tackles everything from crime prevention to code enforcement to activities for young people. Self-Help is purchasing up to 25 abandoned houses and renovating them for new homeowners through lease-to-own or purchase arrangements. And the Charlotte-Mecklenburg Housing Partnership is providing homeownership and foreclosure prevention counseling to new homeowners and current residents.

The result is a neighborhood on the rise. Residents and partners are rebuilding the Peachtree community, one

homeowner at a time. Peachtree is a model for neighborhood-based, collaborative response to the destruction wrought by foreclosure.

"It's a complete one eighty from a year ago," said Arthdale Brown, from Charlotte's Department of Neighborhood Development. Early Peachtree homeowners and relative newcomers alike are inspired by the community's potential. *"It's really just a charming little neighborhood,"* said resident Brenda Granados. *"It just needs some tender loving care."*

Silvio Granados tends to his yard in Charlotte's Peachtree Hills subdivision. First-time homeowners Silvio and wife Brenda love their one-story house. They purchased the home through Self-Help's Neighborhood Preservation Pilot Project, an initiative designed to transform communities devastated by foreclosure.



**Self-Help has locations throughout North Carolina, California, and in Washington, DC.
For more information, visit self-help.org or call (800) 476-7428.**