CALIFORNIA CREDIT UNION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

Table of Contents

Independent Auditor's Report

Board of Directors and Supervisory Committee
California Credit Union

We have audited the accompanying consolidated financial statements of California Credit Union (the credit union) and subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2020 and 2019, the consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the credit union's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the credit union's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of California Credit Union and subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Turner, Warren, Hwang & Conrad

Burbank, California
April 13 2021

California Credit Union and Subsidiary

Consolidated Statements of Financial Condition

December 31, 2020 and 2019

	2020	2019
ASSETS	(in thousands)	
Cash and cash equivalents	$ 986,674	$ 262,367
Investments:		
Debt securities available for sale, at fair value	413,831	235,030
Debt securities held to maturity	216	306
Equity securities	15,133	13,300
Other	16,655	16,146
Loans held for sale	39,110	3,695
Loans receivable, net	2,132,004	2,395,964
Accrued interest receivable	10,310	8,302
Property and equipment, net	122,884	125,086
Note receivable	5,862	6,356
National Credit Union Share Insurance Fund (NCUSIF) deposit	27,146	23,514
Goodwill	23,115	23,115
Other assets	22,490	77,631
Total assets	$ 3,815,430	$ 3,190,812
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Members' share accounts	$ 3,280,147	$ 2,652,158
Borrowed funds	80,000	105,000
Accrued expenses and other liabilities	50,060	81,199
Total liabilities	3,410,207	2,838,357
Members' equity:		
Regular reserve	16,459	16,459
Undivided earnings	215,757	211,297
Equity acquired in merger	167,986	167,986
Accumulated other comprehensive income (loss)	5,021	(43,287)
Total members' equity	405,223	352,455
Total liabilities and members' equity	$ 3,815,430	$ 3,190,812

The accompanying notes are an integral part of these consolidated financial statements.

California Credit Union and Subsidiary

Consolidated Statements of Income

Years Ended December 31, 2020 and 2019

	2020	2019
	(in thousands)	
INTEREST INCOME		
Cash balances	$ 1,463	$ 2,659
Loans receivable	94,396	101,002
Investments	7,619	9,449
Total interest income	103,478	113,110
INTEREST EXPENSE		
Members' share accounts	11,957	9,092
Borrowed funds	1,331	1,928
Total interest expense	13,288	11,020
NET INTEREST INCOME	90,190	102,090
PROVISION FOR LOAN LOSSES	6,425	2,199
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	83,765	99,891
NON-INTEREST INCOME		
Deposit service charges and related fee income	10,798	15,565
Interchange Income	8,027	11,132
Service income and other	10,887	8,892
Net gain on sale of loans	9,389	3,510
Net gain on sale of investments	7	23
Net real estate rental income	3,508	3,766
Total non-interest income	42,616	42,888
NON-INTEREST EXPENSE		
Compensation and benefits	58,436	58,956
Office occupancy	12,901	12,369
Pension plan termination	16,795	-
Other	33,789	39,830
Total non-interest expense	121,921	111,155
NET INCOME	$ 4,460	$ 31,624

The accompanying notes are an integral part of these consolidated financial statements.

California Credit Union and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2020 and 2019

	2020	2019
	(in thousands)	
NET INCOME	$ 4,460	$ 31,624
OTHER COMPREHENSIVE INCOME		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the year	4,933	5,843
Reclassification adjustment for net gain included in net income	(7)	(23)
	4,926	5,820
Defined benefit plan:		
Net loss recognized during the year	-	(12,289)
Actuarial loss due to settlement	43,382	-
Amortization of periodic service cost and actuarial loss included in net periodic pension cost	-	2,503
	43,382	(9,786)
Total other comprehensive income (loss)	48,308	(3,966)
COMPREHENSIVE INCOME	$ 52,768	$ 27,658

The accompanying notes are an integral part of these consolidated financial statements.

California Credit Union and Subsidiary

Consolidated Statements of Members' Equity

Years Ended December 31, 2020 and 2019

	Regular Reserve	Undivided Earnings	Equity Acquired in Merger	Accumulated Other Comprehensive Income (Loss)	Total
			(in thousands)		
Balance, December 31, 2018	$ 16,459	$ 179,673	$ 167,986	$ (39,321)	$ 324,797
Comprehensive income:					
Net income	-	31,624	-	-	31,624
Other comprehensive loss	-	-	-	(3,966)	(3,966)
Total comprehensive income					27,658
Balance, December 31, 2019	16,459	211,297	167,986	(43,287)	352,455
Comprehensive income:					
Net income	-	4,460	-	-	4,460
Other comprehensive income	-	-	-	48,308	48,308
Total comprehensive income					52,768
Balance, December 31, 2020	$ 16,459	$ 215,757	$ 167,986	$ 5,021	$ 405,223

The accompanying notes are an integral part of these consolidated financial statements.

California Credit Union and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2020 and 2019

	2020	2019
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,460	$ 31,624
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	6,425	2,199
Gain on sale of loans	(9,389)	(3,510)
Gain on sale of investments	(7)	(23)
Unrealized gain on equity securities	(1,692)	(1,972)
Accretion of fair value adjustment of acquired loans	(1,537)	(2,633)
Amortization of deferred loan costs, net	281	689
Amortization of securities, net	2,535	2,587
Depreciation and amortization	8,515	8,530
Amortization of core deposit intangible	3,046	4,245
Gain on sale of property and equipment	-	(22)
Net change in operating assets and liabilities:		
Loans held for sale	(35,415)	(3,253)
Accrued interest receivable	(2,008)	396
NCUSIF deposit	(3,632)	(168)
Other assets	52,095	(3,251)
Accrued expenses and other liabilities	12,243	8,062
Net cash provided by operating activities	35,920	43,500
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(269,477)	(14,822)
Proceeds from sales, maturities and prepayments of securities available for sale	93,077	93,438
Proceeds from sales, maturities and prepayments of securities held to maturity	87	81
Net increase in equity securities	(141)	(183)
Net increase in other investments	(509)	(397)
Net increase in loans receivable	(12,117)	(332,422)
Net decrease in note receivable	494	476
Proceeds from sale of loans	280,297	215,333
Proceeds from sale of property and equipment	-	8,119
Purchases of property and equipment	(6,313)	(20,018)
Net cash provided by (used in) investing activities	85,398	(50,395)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in members' share accounts	627,989	108,591
Repayment of borrowed funds	(25,000)	(50,000)
Net cash provided by financing activities	602,989	58,591

The accompanying notes are an integral part of these consolidated financial statements.

	2020	2019
	(in thousands)	
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 724,307	$ 51,696
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	262,367	210,671
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 986,674	$ 262,367
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on members' share accounts and borrowed funds	$ 13,138	$ 11,258
Trading securities transferred to equity securities	13,863	12,030

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: California Credit Union (the credit union) is a state-chartered credit union organized under the California Credit Union Act. Membership in the credit union is limited to qualified individuals as defined in its charter and bylaws. The credit union's primary source of revenue is providing loans to members. The credit union conducts its operations through 25 branches located in Los Angeles County, Orange County and San Diego County, California.

Field of Membership and Sponsor: Membership in the credit union is limited to those individuals who qualify under defined terms specified in the bylaws, including any employee of any public or private California school, community college, state college, university or their governing organizations (districts, regions, etc.), or any member of any organization affiliated with and recognized by said entities, and their successor organizations; or any and all persons who live, regularly work, currently attend school or currently worship in San Diego County, California, Orange County, California or Riverside County, California, as well as any businesses, corporations and other legal entities in those counties.

Principles of Consolidation: The consolidated financial statements include the accounts of the credit union and its wholly owned subsidiary, California Members Title Insurance Company (CMTIC). CMTIC is 100% owner of California Members Title Company (CMTC). CMTC is engaged in the business of preparing title searches, title examinations, title reports, certificates or abstracts of title upon the basis of which a title insurer writes title policies. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, mortgage servicing rights, the actuarial estimate of the defined benefit obligation and the fair value of financial instruments.

Fair Value: Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, provides a framework for measuring fair value that requires an entity to determine fair value based on the exit price in the principal market for the asset or liability being measured. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The guidance also establishes a three-level fair value hierarchy that describes the inputs used to measure assets and liabilities.

- Level 1 asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.
- Level 2 asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities, quoted market prices that are not in an active market, or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

The credit union's financial instruments and other accounts that are subject to fair value measurement and/or disclosure are summarized in Note 9.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents: For purposes of the consolidated statements of financial condition and cash flows, cash and cash equivalents include cash on hand and in banks and all highly liquid debt instruments with original maturities of three months or less.

Investments: Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Debt securities that management intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities available for sale below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the credit union to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date, and the costs of securities sold are determined using the specific-identification method.

On January 1, 2019, the credit union adopted ASU 2016-01—*Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* equity securities with readily determinable fair values are recorded at fair value with changes in fair value recorded in non-interest income. Realized gains or losses resulting from the sale of equity securities are calculated using the specific-identification method and are included in non-interest income. Equity securities without a readily determinable fair value are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar securities of the same issuer.

Other investments are classified separately and stated at cost.

Federal Home Loan Bank (FHLB) Stock: The credit union, as a member of the FHLB of San Francisco system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1% of its membership asset value, subject to a cap of $15 million or 2.7% of advances from the FHLB. There is no ready market for the FHLB stock; therefore, it has no quoted market value and is reported on the consolidated statements of financial condition at cost.

Loans Held for Sale: Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses are recognized through a valuation allowance by charges to income. All sales are made without recourse.

Loans held for sale are generally sold with the mortgage servicing rights retained by the credit union. Gains and losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying amount of the related mortgage loans sold.

Loans Receivable, Net: The credit union grants commercial, residential real estate and consumer loans to members and purchases U.S. government-guaranteed loans. The members' or borrowers' ability to honor their loan agreements is dependent upon the economic stability of the various groups that compose the credit union's field of membership and commercial real estate borrowers. Loans that the credit union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and costs. Interest on loans is recognized over the term of the loan and calculated using the simple-interest method on principal amounts outstanding.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The accrual of interest on loans is discontinued at the time a loan is 90 days delinquent. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if management believes, after considering economic conditions, business conditions and collection efforts, that collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method until the associated loans qualify for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

In accordance with the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), the credit union excludes loans 30 days or less past due as of December 31, 2019 that were modified as COVID-19 forbearance or deferral loans from past due or nonaccrual status. In addition, the banking regulatory agencies issued an interagency statement on April 7, 2020 stating that COVID-19 short-term modifications (i.e., six months or less) that were current at the time of modification should generally not be reported as nonaccrual.

The credit union's policy for repossessing collateral is that when all other collection efforts have been exhausted, the credit union enforces its first lienholder status and repossesses the collateral. Repossessed collateral normally consists of commercial and residential real estate and vehicles.

Loan origination fees and certain direct costs associated with the origination or purchase of real estate loans are deferred and recognized over the life of the related loans as an adjustment of the loan's yield using the interest method.

Troubled Debt Restructurings (TDRs): In situations where, for economic or legal reasons related to a member's financial difficulties, the credit union grants a concession to a member for other than an insignificant period of time that the credit union would not otherwise consider, the related loan is classified as a TDR. The credit union strives to identify members in financial difficulty early and work with them to modify their loan to more affordable terms before it reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and avoid foreclosure or repossession of the collateral. In cases where the credit union grants a member new terms that provide for a reduction of interest or principal, the credit union measures any impairment on the restructuring using the methodology for individually impaired loans. Loans classified as TDRs are reported as impaired loans.

The credit union has implemented various loan modification programs to provide its members with relief from the effects of the COVID-19 pandemic. In accordance with the CARES Act, the credit union has elected not to apply TDR classification to any COVID-19 related loan modifications performed after March 1, 2020 to existing borrowers who were current as of December 31, 2019. In accordance with the interagency statement, the credit union has elected not to apply TDR classification to any short-term (i.e., six months or less) COVID-19 related loan modifications that were current at the time of modification. Accordingly, these restructurings are not classified as TDRs. For loan modifications that include a payment deferral and are not TDRs, the member's past due status will not be impacted.

Allowance for Loan Losses: The credit union maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing monthly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and decreased by charge-offs when management believes the uncollectibility of a loan is confirmed. Subsequent recoveries, if any, are credited to the allowance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management develops and documents its systematic methodology for determining the allowance for loan losses by first dividing its portfolio into four segments: commercial, U.S. government guaranteed, residential real estate and consumer. The credit union further divides the portfolio segments into classes based on initial measurement attributes, risk characteristics or its method of monitoring and assessing credit risk. The commercial segment is comprised of commercial real estate loans. The U.S. government guaranteed segment is comprised of purchased small business loans. The classes within the residential real estate portfolio segment are first mortgage and home equity line of credit (HELOC) and other mortgage. The classes within the consumer portfolio segment are automobile, credit card and other consumer.

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the credit union's allowance for loan losses and may require the credit union to make additions to the allowance based on their judgment about the information available to them at the time of their examinations.

The allowance for loan losses consists of the specific loan loss allowance for impaired loans and the general loan loss allowance. The credit union evaluates the U.S. government guaranteed, residential real estate and consumer segments for impairment on a pooled basis, unless they represent TDRs, as part of the general loan loss allowance and evaluates the commercial segment individually. Impaired loans are subject to the specific loan loss allowance. Loans are considered impaired when the individual evaluation of current information regarding the borrower's financial condition, loan collateral and cash flows indicates that the credit union will be unable to collect all amounts due according to the contractual terms of the loan agreement, including interest payments. Impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or, as an expedient, at the loan's observable market price or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

A general loan loss allowance is provided on loans not specifically identified as impaired. The allowance is determined by pooling residential real estate, consumer and non-impaired commercial loans by portfolio class and applying a historical loss percentage to each class. The credit union's historical loss percentage may be adjusted for significant qualitative and environmental factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date.

The conditions evaluated for qualitative and environmental factors may include existing general economic and business conditions affecting the key lending areas and products of the credit union, credit quality trends and risk identification, collateral values, loan volumes, underwriting standards and concentrations, specific industry conditions within portfolio segments, recent loss experience in particular classes of the portfolio, and the duration of the current business cycle.

In estimating the allowance for loan losses, significant risk characteristics considered for the residential real estate segment were historical and expected future charge-offs, borrower's credit and property collateral. Significant characteristics considered for the commercial segment were type of property, geographical concentrations and risks, and individual borrower financial condition.

Purchased Credit Impaired Loans: Loans that the credit union has acquired in merger are aggregated into pools with similar risk characteristics. For loans with evidence of credit deterioration, expected cash flows are estimated, and, if they are less than the carrying value, a credit risk discount is established. The credit union calculates the carrying values of the pools, effective yields, impairment and underlying loans based on actual and projected events. The excess of the expected cash flows is considered to be accretable yield and is recognized as interest income over the estimated life of the loans. The accretable yield may fluctuate due to changes in the timing and amounts of expected cash flows.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, Net: Land is carried at cost. Buildings, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the lesser of the useful life of the assets or the expected terms of the related leases.

Estimated useful lives of the assets are as follows:

Buildings	25–45 years
Furniture and equipment	3–5 years
Leasehold improvements	5 years

NCUSIF Deposit: The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% of its insured shares. The deposit will be refunded to the credit union if its insurance coverage is terminated, if it converts insurance coverage to another source, or if the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premium: The credit union is required to pay an annual premium based on a percentage of its total insured shares as declared by the NCUA Board, unless the payment is waived or reduced by the NCUA Board.

NCUA Share Insurance Fund Equity Distribution: On March 7, 2019, the NCUA Board approved an equity distribution from the NCUSIF that was to be paid to eligible credit unions. Under the final rule, the NCUA Board would effect a *pro rata* distribution to each eligible institution that filed a quarterly Call Report as a federally insured credit union for at least one reporting period in 2018. The credit union recognized $227,170 in other non-interest income during the year ended December 31, 2019 related to the equity fund distribution.

Goodwill: On March 1, 2017, the credit union merged with North Island Credit Union (NICU). The merger resulted in goodwill of $23,114,683. The amount represents the fair value of the acquired entity as a whole in excess of the fair value of the individual assets and liabilities. Goodwill is determined to have an indefinite useful life and is not amortized. Management reviews goodwill for impairment on an annual basis. If impairment is noted, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds its estimated fair value.

Other Real Estate Owned: Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations (assuming multiple properties are involved) are performed by management and property held for sale is carried at the lower of the new cost basis or fair value less costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less costs to sell. There is no other real estate owned as of December 31, 2020 and 2019.

Loan Servicing: Servicing assets are recognized as separate assets initially measured at fair value when the credit union sells mortgage loans with servicing retained. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, discount rate, custodial earnings rate, inflation rate, ancillary income, prepayment speeds, and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as non-interest income when earned.

Servicing assets are evaluated for impairment based on the fair value of the rights as compared to amortized cost. Impairment is determined through stratifying servicing rights by predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the credit union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to have been surrendered when (1) the assets have been isolated from the credit union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the credit union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Members' Share Accounts: Members' share accounts are the deposit accounts of the members of the credit union. Share ownership entitles a member to vote in the annual elections of the Board of Directors and on other credit union matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' share accounts are subordinated to all other liabilities of the credit union upon liquidation. Interest on members' share accounts is based on available earnings at the end of an interest period and is not guaranteed by the credit union. Interest rates on members' share accounts are set by the Asset Liability Committee and ratified by the Board of Directors based on an evaluation of current and future market conditions.

Regular Reserve: The credit union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

Equity Acquired in Merger: Equity acquired in merger represents the aggregated entity value of NICU at acquisition, measured using a weighted approach that emphasizes probable future discounted cash flows (income approach) and takes into consideration guideline transaction and market value approaches.

Core Deposit Intangible: Core deposit intangible represents a stable source of low-cost funds acquired in business combinations. The value is estimated by discounting the current balance of share, share draft and certain low denomination certificate accounts over their expected lives by the credit union's incremental borrowing rate, with adjustments made for the credit union's relatively high account servicing costs. The core deposit intangible is amortized using a discounted cash flow method over an estimated useful life of approximately six years and is included in other assets.

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale and defined benefit plan adjustments, are reported as separate components of the members' equity section on the consolidated statements of financial condition.

Accumulated other comprehensive income (loss) consists of the following:

	2020	2019
	(in thousands)	
Net unrealized gain on securities available for sale	$ 5,021	$ 95
Unrecognized prior service cost of net actuarial loss of defined benefit plan	-	(43,382)
	$ 5,021	$ (43,287)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes: The credit union is exempt by statute from federal income taxes under the provisions of Section 501 of the Internal Revenue Code of 1986 and from state income taxes; however, the credit union is subject to taxes on unrelated business income as further discussed in Note 8. The credit union's wholly owned subsidiary is subject to federal and state income taxes. The operations of the subsidiary resulted in immaterial income taxes for the years ended December 31, 2020 and 2019.

Advertising Costs: Advertising costs are expensed as incurred.

Reclassifications: Certain reclassifications have been made to the prior year consolidated financial statement presentation to correspond to the current year's format. Total equity and net income are not affected by these reclassifications.

New Accounting Pronouncement Adopted: The credit union adopted Accounting Standards Update (ASU) 2017-08 – *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*, which amends the amortization period for certain purchased callable debt securities held at a premium, shortening the period to the earliest call date. This ASU does not require any accounting changes for debt securities held at a discount. Adoption of this ASU did not have an impact on the credit union's consolidated financial statements.

Recent Accounting Pronouncements: ASU 2019-01—*Leases (Topic 842): Codification Improvements* amends certain aspects of the FASB's new leasing standard, ASU 2016-02. ASU 2019-01 addresses the determination of fair value of underlying assets by lessors that are not manufacturers or dealers, statement of cash flows presentation for sales-type and direct financing leases by lessors within the scope of ASC 942, and clarification of interim disclosure requirements during transition. This new guidance is effective for private entities, including credit unions, for fiscal years beginning after December 15, 2020.

ASU 2019-04—*Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, *Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. This guidance clarifies certain aspects of accounting for credit losses, hedging activities, and financial instruments as addressed by ASUs 2016-13, 2017-12, and 2016-01, respectively. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments in ASU 2019-04 are the same as in ASU 2016-13, which are for fiscal years beginning after December 15, 2022.

The guidance related to ASU 2016-01 clarifies that nonpublic entities are exempt from fair value disclosure requirements for financial instruments not measured at fair value on the balance sheet such as held-to-maturity debt securities, provides for a measurement alternative for equity securities without readily determinable fair values representing a nonrecurring fair value measurement under ASC 820, and provides that the remeasurement of equity securities at historical exchange rates without readily determinable fair values should be at the latter of the acquisition date or the most recent fair value measurement date. The guidance related to ASU 2016-01 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted for entities that have early adopted ASU 2016-01.

The credit union did not have any hedging activities.

ASU 2019-05—*Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*. This guidance provides entities with an option to irrevocably elect the fair value option in Subtopic 825-10, *Financial Instruments—Overall*, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326. For entities that have not yet adopted ASU 2016-13, the effective date and transition methodology for the amendments in ASU 2019-05 are the same as in ASU 2016-13, which are for fiscal years beginning after December 15, 2022.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASU 2019-10—*Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates* amends certain effective dates for the following major Updates (including amendments issued after the issuance of the original Update):

1) ASU 2016-13—*Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. For nonpublic business entities for fiscal years beginning after December 15, 2022.
2) ASU 2017-12—*Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* For nonpublic business entities for fiscal years beginning after December 15, 2020.
3) ASU 2016-02—*Leases (Topic 842)*. For nonpublic business entities for fiscal years beginning after December 15, 2020.

ASU 2019-11—*Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. This amendment addressed certain concerns brought forth by stakeholders and amends certain aspects of the guidance in ASU 2016-13. The areas of improvement address the following:

1) Expected Recoveries for Purchased Financial Assets with Credit Deterioration;
2) Transition Relief for Troubled Debt Restructurings;
3) Disclosures Related to Accrued Interest Receivables;
4) Financial Assets Secured by Collateral Maintenance Provisions; and
5) Conforming Amendment to Subtopic 805-20.

For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements are the same as the effective dates and transition requirements of ASU 2016-13, which are for fiscal years beginning after December 15, 2022.

ASU 2020-04—*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting,* provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The expedients are in effect from March 12, 2020 through December 31, 2022.

ASU 2020-08—*Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs,* was issued as clarification of ASU 2017-08—*Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,* which shortened the amortization period of purchased callable securities held at a premium to the earliest call date. ASU 2020-08 clarifies that to the extent the amortized cost basis of an individual callable debt security exceeds the amount repayable by the issuer at the next call date, the excess (i.e., the premium) shall be amortized to the next call date, unless estimated prepayments are taken into consideration. Private entities may adopt ASU 2020-08 for fiscal years beginning after December 15, 2021.

ASU 2021-03 – *Intangibles – Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*: This amendment provides private companies and not-for-profit entities an accounting alternative to perform the goodwill impairment triggering event evaluation. An entity that elects this alternative is not required to monitor goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period. The amendment is effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021.

Subsequent Events: Subsequent events have been evaluated through April 13, 2021, which is the date the consolidated financial statements were available to be issued.

NOTE 2 – INVESTMENTS

The amortized cost and fair value of debt securities available for sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2020		(in thousands)		
Federal agency securities	$ 73,515	$ 1,613	$ (921)	$ 74,207
Mortgage-backed securities	258,563	3,179	(148)	261,594
Collateralized mortgage obligations	76,732	1,436	(138)	78,030
	$ 408,810	$ 6,228	$ (1,207)	$ 413,831
2019				
Federal agency securities	$ 67,041	$ 264	$ (1,139)	$ 66,166
Mortgage-backed securities	100,213	628	(130)	100,711
Collateralized mortgage obligations	67,436	613	(141)	67,908
Negotiable certificates of deposit	245	-	-	245
	$ 234,935	$ 1,505	$ (1,410)	$ 235,030

The weighted average yield on securities available for sale was 1.47% and 2.50% as of December 31, 2020 and 2019, respectively.

The amortized cost and fair value of debt securities held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2020		(in thousands)		
Mortgage-backed securities	$ 216	$ -	$ (6)	$ 210
2019				
Mortgage-backed securities	$ 306	$ 10	$ (1)	$ 315

The weighted average yield on securities held to maturity was 1.17% and 4.06% as of December 31, 2020 and 2019, respectively.

NOTE 2 – INVESTMENTS (CONTINUED)

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position are as follows:

	Less Than 12 Months		12 Months or Longer		Total	
2020	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available for sale:			(in thousands)			
Federal agency securities	$ 11,723	$ (80)	$ 19,843	$ (841)	$ 31,566	$ (921)
Mortgage-backed securities	43,449	(147)	614	(1)	44,063	(148)
Collateralized mortgage obligations	28,024	(112)	8,721	(26)	36,745	(138)
	$ 83,196	$ (339)	$ 29,178	$ (868)	$ 112,374	$ (1,207)
Securities held to maturity:						
Mortgage-backed securities	$ -	$ -	$ 146	$ (6)	$ 146	$ (6)
2019						
Securities available for sale:						
Federal agency securities	$ 2,347	$ (45)	$ 26,422	$ (1,094)	$ 28,769	$ (1,139)
Mortgage-backed securities	22,771	(113)	4,794	(17)	27,565	(130)
Collateralized mortgage obligations	760	(2)	11,547	(139)	12,307	(141)
	$ 25,878	$ (160)	$ 42,763	$ (1,250)	$ 68,641	$ (1,410)
Securities held to maturity:						
Mortgage-backed securities	$ -	$ -	$ 212	$ (1)	$ 212	$ (1)

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the credit union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2020, three federal agency securities, six mortgage-backed securities and four collateralized mortgage obligations have been in a continuous unrealized loss position for less than 12 months; 21 federal agency securities, one mortgage-backed securities and two collateralized mortgage obligations have been in a continuous unrealized loss position for 12 months or longer. The unrealized losses associated with these investments are considered temporary, as the credit union has both the intent and ability to hold these investments for a period of time sufficient to allow for any anticipated recovery in fair value.

Equity securities consisted of the following:

	2020	2019
	(in thousands)	
Mutual funds	$ 13,863	$ 12,030
Co-Op restrictive stock	1,270	1,270
	$ 15,133	$ 13,300

The investment in the credit union service organization (Co-Op) does not have a readily determinable fair value; therefore, it is recorded at cost.

NOTE 2 – INVESTMENTS (CONTINUED)

Other investments consist of the following:

	2020	2019
	(in thousands)	
Share certificates at other credit unions	$ 200	$ 200
Perpetual contributed capital in a corporate credit union	1,500	1,500
FHLB stock	14,955	14,446
	$ 16,655	$ 16,146

Share certificates are generally non-negotiable and non-transferable and may incur substantial penalties for withdrawal prior to maturity.

Perpetual capital accounts are uninsured equity accounts and are redeemable only if called by the corporate credit union.

The weighted average yield on share certificates was 0.10% and 0.10% as of December 31, 2020 and 2019, respectively. The weighted average yield on perpetual contributed capital was 1.43% and 2.86% as of December 31, 2020 and 2019, respectively.

The amortized cost and fair value of investments by contractual maturity as of December 31, 2020 are shown below. Because borrowers may prepay obligations with or without call or prepayment penalties, the expected maturities of mortgage-backed securities and collateralized mortgage obligations may differ from the contractual maturities. Mortgage-backed securities and collateralized mortgage obligations are therefore classified with no specific maturity date.

	Available for Sale		Held to Maturity		
Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Other
			(in thousands)		
No contractual maturity	$ -	$ -	$ -	$ -	$ 16,455
Less than one year		-	-	-	200
Due in one to five years	5,813	5,930	-	-	-
Due in five to ten years	15,254	15,293	-	-	-
Due in more than ten years	52,448	52,984	-	-	-
	73,515	74,207	-	-	16,655
Mortgage-backed securities	258,563	261,594	216	210	-
Collateralized mortgage obligations	76,732	78,030	-	-	-
	$ 408,810	$ 413,831	$ 216	$ 210	$ 16,655

NOTE 3 – LOANS RECEIVABLE, NET

Total loans outstanding by portfolio segment and class of loan are as follows:

	2020	2019
	(in thousands)	
Commercial:		
Commercial real estate	$ 341,743	$ 338,163
Other commercial	40,759	-
	382,502	338,163
U.S. government guaranteed	65,786	88,221
Residential real estate:		
First mortgage	979,176	1,041,691
HELOC and other mortgage	273,337	389,527
	1,252,513	1,431,218
Consumer:		
Automobile	360,727	438,760
Credit card	41,042	50,488
Other consumer	47,481	63,803
	449,250	553,051
Total loans	2,150,051	2,410,653
Interest rate discount	(4,720)	(6,213)
Credit risk discount	(1,956)	(2,159)
Allowance for loan losses	(11,371)	(6,317)
Total loans, net	$ 2,132,004	$ 2,395,964

Other commercial includes Paycheck Protectio Program (PPP) loans to qualified small businesses under the CARES Act. These loans carry an interest rate of 1% and are 100% guaranteed by the U.S. Small Business Administration (SBA). No allowance for loan losses was recorded on these loans as of December 31, 2020. Since April 2020 the credit union has funded 579 PPP loans totaling $54,298,000 with an outstanding balance of $40,759,000 as of December 31, 2020. The majority of the credit union's PPP loans have a term of two years. The SBA pays the credit union fees for processing PPP loans in the following amounts: (1) five percent for loans of not more than $350,000; (2) three percent for loans of more than $350,000 and less than $2,000,000; and (3) one percent for loans of at least $2,000,000. Loan processing fees paid to the credit union by the SBA totaled $2,085,000 as of December 31, 2020. Payments by borrowers on PPP loans begin ten months after the loan forgiveness covered period. Under the terms of the PPP, such loans are eligible to be forgiven if certain conditions are satisfied, in which case the SBA will make payments to the credit union for the forgiven amounts. If a loan is paid off or forgiven by the SBA prior to its projected estimated life, the remaining unamortized deferred fees will be recognized as interest income in that period.

Loans include the loans acquired in the business combination for which nonaccretable and accretable yields were recorded. The following provides additional information about these loans and the associated approximate amounts.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

2020	Loans Receivable	Nonaccretable Balance Outstanding	Accretable Yield Outstanding	Carrying Amount of Loans Receivable
		(in thousands)		
Commercial real estate	$ 62,117	$ 394	$ 105	$ 61,618
First mortgage	126,530	1,401	4,390	120,739
HELOC and other mortgage	38,591	56	225	38,310
Automobile	22,474	104	-	22,370
Other consumer	3,574	1	-	3,573
	$ 253,286	$ 1,956	$ 4,720	$ 246,610
2019				
Commercial real estate	$ 84,708	$ 394	$ 210	$ 84,104
First mortgage	189,892	1,401	5,101	183,390
HELOC and other mortgage	64,318	182	764	63,372
Automobile	49,504	181	138	49,185
Other consumer	5,697	1	-	5,696
	$ 394,119	$ 2,159	$ 6,213	$ 385,747

The allowance for loan losses and the recorded investment in loans, by portfolio segment, are as follows:

2020	Commercial	U.S. Government Guaranteed	Residential Real Estate	Consumer	Total
			(in thousands)		
Allowance for loan losses:					
Beginning balance	$ 399	$ -	$ 960	$ 4,958	$ 6,317
Charge-offs	(56)	-	(10)	(4,149)	(4,215)
Provision (credit) for loan losses	(400)	-	5,814	1,011	6,425
Recoveries	268	-	1,345	1,231	2,844
Ending balance	$ 211	$ -	$ 8,109	$ 3,051	$ 11,371
Individually evaluated for impairment	$ 180	$ -	$ 770	$ -	$ 950
Collectively evaluated for impairment	31	-	7,339	3,051	10,421
Ending balance	$ 211	$ -	$ 8,109	$ 3,051	$ 11,371
Recorded investment in loans:					
Individually evaluated for impairment	$ 46,751	$ -	$ 14,516	$ -	$ 61,267
Collectively evaluated for impairment	278,384	65,786	1,195,553	437,126	1,976,849
Loans acquired with deteriorated credit quality	16,608	-	42,444	12,124	71,176
Ending balance	$ 341,743	$ 65,786	$ 1,252,513	$ 449,250	$ 2,109,292

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

2019	Commercial	U.S. Government Guaranteed	Residential Real Estate (in thousands)	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 665	$ -	$ 802	$ 6,622	$ 8,089
Charge-offs	(386)	-	-	(6,030)	(6,416)
Provision (credit) for loan losses	(23)	-	(749)	2,971	2,199
Recoveries	143	-	907	1,395	2,445
Ending balance	$ 399	$ -	$ 960	$ 4,958	$ 6,317
Individually evaluated for impairment	$ 357	$ -	$ 848	$ -	$ 1,205
Collectively evaluated for impairment	42	-	112	4,958	5,112
Ending balance	$ 399	$ -	$ 960	$ 4,958	$ 6,317
Recorded investment in loans:					
Individually evaluated for impairment	$ 23,481	$ -	$ 17,605	$ -	$ 41,086
Collectively evaluated for impairment	295,637	88,221	1,370,443	513,356	2,267,657
Loans acquired with deteriorated credit quality	19,045	-	43,170	39,695	101,910
Ending balance	$ 338,163	$ 88,221	$ 1,431,218	$ 553,051	$ 2,410,653

Credit Risk Discount: Loans acquired through a merger with deteriorated credit quality are evaluated and pooled separately from the allowance for loan losses calculation. The following presents activity in the credit risk discount valuation account by portfolio segment, including accretion (reclassifications of nonaccretable discount to accretable yield), amounts of loans charged off and any recoveries:

	Commercial	Residential Real Estate (in thousands)	Consumer	Total
2020				
Beginning balance	$ 395	$ 1,584	$ 180	$ 2,159
Additions	-	-	-	-
Charge-offs	-	(82)	(77)	(159)
Accretion	-	(44)	-	(44)
Recoveries	-	-	-	-
	$ 395	$ 1,458	$ 103	$ 1,956
2019				
Beginning balance	$ 395	$ 1,673	$ 442	$ 2,510
Additions	-	-	-	-
Charge-offs	-	-	(165)	(165)
Accretion	-	(89)	(97)	(186)
Recoveries	-	-	-	-
	$ 395	$ 1,584	$ 180	$ 2,159

Changes in Accounting Methodology: The credit union did not change its allowance for loan losses methodology during the years ended December 31, 2020 and 2019.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Credit Quality Indicators for Commercial Segment: The credit union assesses the credit quality of its commercial real estate loans with an eight-grade risk rating system whereby a higher grade represents a higher level of credit risk. The eight-grade risk rating system can generally be classified into the following categories: pass or watch, special mention, substandard, doubtful and loss. The risk ratings reflect the relative strength of the sources of repayment.

Pass or watch loans are generally considered to have sufficient sources of repayment in order to repay the loan in full in accordance with all terms and conditions. These borrowers may have some credit risk that requires monitoring, but full repayment is expected. Special mention loans are considered to have potential weaknesses that warrant close attention by management. Special mention is considered a transitory grade, and generally, the credit union has not had a loan remain categorized as special mention for longer than six months. If any potential weaknesses are resolved, the loan is upgraded to a pass or watch grade. If negative trends in the borrower's financial status or other information is presented indicating that the repayment sources may become inadequate, the loan is downgraded to substandard. Substandard loans are considered to have well-defined weaknesses that jeopardize the full and timely repayment of the loan. Substandard loans have a distinct possibility of loss if the deficiencies are not corrected. Additionally, when management has assessed a potential for loss but a distinct possibility of loss is not recognizable, the loan is still classified as substandard. Doubtful loans have insufficient sources of repayment and a high probability of loss. Loss loans are considered to be uncollectible and are therefore charged off. These internal risk ratings are reviewed continuously and adjusted for changes in borrower status and the likelihood of loan repayment.

The following table presents the credit quality of commercial real estate loans graded internally based on the commonly used internal classification system:

Internal Grade	2020	2019
	(in thousands)	
Pass/Excellent	$ 280	$ 252
Pass/Strong	85,338	92,260
Pass/Satisfactory	192,246	185,786
Pass/Watch	42,326	42,944
Special Mention	4,867	7,429
Substandard	16,492	9,102
Doubtful	194	390
	$ 341,743	$ 338,163

Credit Quality Indicators for U.S. Government-Guaranteed Segment: The credit union purchased small business loans that are fully backed by the U.S. government and full repayment is expected; therefore, no allowance was provided for this segment.

Credit Quality Indicators for Residential Real Estate and Consumer Segment: The credit union assesses the credit quality of its residential real estate and consumer loans by recent FICO score and loan-to-value (LTV) ratio.

FICO Scores: The credit union obtains FICO scores at loan origination, and the scores are updated at least quarterly. Loans that trend toward higher levels are generally associated with a lower risk factor, whereas loans that migrate toward lower ratings will generally result in a higher risk factor being applied to the related loan balances.

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

The FICO score distribution is as follows:

	First Mortgage	HELOC and Other Mortgage	Automobile	Credit Card	Other Consumer	Total
2020			(in thousands)			
800 and above	$ 490,857	$ 106,709	$ 114,371	$ 4,098	$ 13,062	$ 729,097
750 to 799	268,876	56,784	92,509	9,993	11,821	439,983
650 to 749	143,669	47,989	123,264	21,345	17,572	353,839
600 to 649	3,933	2,641	18,383	3,367	1,991	30,315
599 and below	2,146	5,383	11,932	1,932	1,519	22,912
Unknown	69,695	53,831	268	307	1,516	125,617
	$ 979,176	$ 273,337	$ 360,727	$ 41,042	$ 47,481	$ 1,701,763
2019						
800 and above	$ 406,685	$ 139,623	$ 123,428	$ 4,657	$ 9,802	$ 684,195
750 to 799	328,083	99,284	112,430	10,878	16,008	566,683
650 to 749	267,619	108,973	157,005	26,733	28,139	588,469
600 to 649	12,646	10,199	24,528	4,616	3,745	55,734
599 and below	15,124	11,343	16,824	3,098	2,481	48,870
Unknown	11,534	20,105	4,545	506	3,628	40,318
	$ 1,041,691	$ 389,527	$ 438,760	$ 50,488	$ 63,803	$ 1,984,269

LTV and Combined LTV (CLTV) Ratios: Residential real estate loans are assessed for credit quality by LTV or CLTV, the ratio of the loan's unpaid principal balance to the value of the collateral securing repayment of the loan. If the credit union is in a junior lien position, only the excess collateral value over the amounts necessary to retire any senior lien positions is considered. LTVs are updated quarterly using a cascade approach that first uses values provided by an automated valuation model (AVM) for a property. If an AVM is not available, the value is estimated using the original appraised value adjusted by the change in Home Price Index (HPI) for the property location. If an HPI is not available, the original appraised value is used.

Although residential real estate markets experienced significant declines in property values several years ago, recent analysis, as shown in the table below, highlights improvement in all mortgage categories. These trends are considered in the way the credit union monitors credit risk and establishes the residential real estate allowance for loan losses. LTV does not necessarily reflect the likelihood of performance of a given loan but does provide an indication of collateral value. In the event of default, any loss to the credit union should be approximately limited to the portion of the loan amount in excess of the net realizable value of the underlying real estate collateral.

The LTV distribution of first mortgage and HELOC and other mortgage loans is as follows:

	Less Than 80%	80%–89%	90%–99%	100% or Greater	Unknown	Total
2020			(in thousands)			
First mortgage	$ 829,243	$ 123,208	$ 17,612	$ 508	$ 8,605	$ 979,176
HELOC and other mortgage	254,800	15,166	2,465	48	858	273,337
	$ 1,084,043	$ 138,374	$ 20,077	$ 556	$ 9,463	$ 1,252,513
2019						
First mortgage	$ 845,008	$ 162,729	$ 32,725	$ 1,190	$ 39	$ 1,041,691
HELOC and other mortgage	336,652	27,205	5,210	225	20,235	389,527
	$ 1,181,660	$ 189,934	$ 37,935	$ 1,415	$ 20,274	$ 1,431,218

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

Nonaccrual and Past Due Loans: Information relating to the age and nonaccrual status of the loans by class is shown below. There were no loans 90 days or more past due and still accruing interest as of December 31, 2020 and 2019.

2020	Current	30–59 Days Past Due	60–179 Days Past Due	180–359 Days Past Due	360 Days or More Past Due	Total	Loans on Nonaccrual Status
				(in thousands)			
Commercial real estate	$ 330,004	$ 2,547	$ 8,361	$ 831	$ -	$ 341,743	$ 8,276
Other commercial	40,759	-	-	-	-	40,759	-
U.S. government guaranteed	65,786	-	-	-	-	65,786	-
First mortgage	967,544	7,171	2,862	97	1,502	979,176	2,328
HELOC and other mortgage	265,858	1,863	4,049	1,040	527	273,337	4,136
Automobile	358,639	1,512	576	-	-	360,727	201
Credit card	40,219	417	406	-	-	41,042	240
Other consumer	47,040	277	164	-	-	47,481	96
	$ 2,115,849	$ 13,787	$ 16,418	$ 1,968	$ 2,029	$ 2,150,051	$ 15,277
2019							
Commercial real estate	$ 336,519	$ 1,571	$ 73	$ -	$ -	$ 338,163	$ 4
U.S. government guaranteed	88,221	-	-	-	-	88,221	-
First mortgage	1,026,693	9,354	3,200	1,874	570	1,041,691	3,341
HELOC and other mortgage	382,725	2,928	3,377	316	181	389,527	2,243
Automobile	436,312	1,974	474	-	-	438,760	166
Credit card	49,546	459	483	-	-	50,488	188
Other consumer	63,063	413	327	-	-	63,803	101
	$ 2,383,079	$ 16,699	$ 7,934	$ 2,190	$ 751	$ 2,410,653	$ 6,043

Impaired Loans: Impaired loans individually evaluated for impairment are summarized below. The average balances are calculated based on the month-end balances of the loans for the period reported, and the interest income on impaired loans is recognized on a cash basis when received.

2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(in thousands)		
With no related allowance recorded:					
Commercial real estate	$ 11,896	$ 11,864	$ -	$ 12,274	$ 779
First mortgage	7,477	7,443	-	9,242	312
HELOC and other mortgage	889	886	-	1,230	27
	20,262	20,193	-	22,746	1,118
With an allowance recorded:					
Commercial real estate	34,965	34,887	180	35,112	2,612
First mortgage	2,873	2,863	154	1,746	69
HELOC and other mortgage	3,333	3,324	616	3,090	58
	41,171	41,074	950	39,948	2,739
Total:					
Commercial real estate	46,861	46,751	180	47,386	3,391
First mortgage	10,350	10,306	154	10,988	381
HELOC and other mortgage	4,222	4,210	616	4,320	85
	$ 61,433	$ 61,267	$ 950	$ 62,694	$ 3,857

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(in thousands)		
With no related allowance recorded:					
Commercial real estate	$ 1,741	$ 1,710	$ -	$ 1,739	$ 328
First mortgage	8,311	8,277	-	8,733	387
HELOC and other mortgage	1,033	1,030	-	1,063	39
	11,085	11,017	-	11,535	754
With an allowance recorded:					
Commercial real estate	21,850	21,771	357	21,888	1,364
First mortgage	4,301	4,292	193	3,171	123
HELOC and other mortgage	4,015	4,006	655	3,450	89
	30,166	30,069	1,205	28,509	1,576
Total:					
Commercial real estate	23,591	23,481	357	23,627	1,692
First mortgage	12,612	12,569	193	11,904	510
HELOC and other mortgage	5,048	5,036	655	4,513	128
	$ 41,251	$ 41,086	$ 1,205	$ 40,044	$ 2,330

COVID-19 Forbearance Loans: In an effort to assist members who have experienced hardship resulting from the COVID-19 pandemic, the credit union offered loan payment forbearance plans that allowed for loan payment deferrals for 90 days. In accordance with the CARES Act or Interagency Statement, the credit union has elected not to apply TDR classification to any eligible COVID-19 related loan forbearance or loan deferments for loans. Active COVID-19 forbearance loans as of December 31, 2020, presented by class, are as follows:

	Unpaid Balance	Delinquent Balance
	(in thousands)	
Commercial real estate	$ 5,771	$ -
First mortgage	33,454	-
HELOC and other mortgage	4,962	-
	$ 44,187	$ -

TDRs: Loans modified as TDRs during the years ended December 31, 2020 and 2019 and the type of concession granted, presented by class, are as follows:

	Type of Concession		
2020	Interest Rate	Maturity Date	Total
		(in thousands)	
Commercial real estate	$ 5,908	$ -	$ 5,908
HELOC and other mortgage	-	151	151
	$ 5,908	$ 151	$ 6,059
2019			
HELOC and other mortgage	$ -	$ 179	$ 179

NOTE 3 – LOANS RECEIVABLE, NET (CONTINUED)

There were no loans modified as TDRs during the years ended December 31, 2020 and 2019 for which there was a payment default subsequent to the restructuring, but within 12 months of the restructuring.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

The composition of property and equipment is summarized as follows:

	2020	2019
	(in thousands)	
Land	$ 37,783	$ 37,783
Buildings	84,044	82,943
Leasehold improvements	24,003	21,894
Furniture and equipment	51,303	49,441
	197,133	192,061
Accumulated depreciation and amortization	(77,634)	(69,000)
	119,499	123,061
Construction in progress	3,385	2,025
	$ 122,884	$ 125,086

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 amounted to approximately $8,515,000 and $8,530,000, respectively.

The credit union leases space in its buildings to various tenants. The following is a schedule of minimum future gross rental income on noncancelable operating leases:

Years Ending December 31,	(in thousands)
2021	$ 3,015
2022	2,882
2023	2,607
2024	1,920
2025	1,253
Thereafter	692
	$ 12,369

NOTE 5 – MEMBERS' SHARE ACCOUNTS

A summary of members' share accounts by type is as follows:

	2020 Weighted Average Cost	2020	2019
		(in thousands)	
Regular shares	0.13%	$ 1,941,319	$ 1,481,209
Checking	0.05%	245,602	185,405
Money market	0.27%	572,870	476,521
IRA shares	0.11%	36,921	31,024
		2,796,712	2,174,159
Share certificates	1.87%	433,290	432,791
IRA certificates	1.64%	50,145	45,208
		483,435	477,999
		$ 3,280,147	$ 2,652,158

NOTE 5 – MEMBERS' SHARE ACCOUNTS (CONTINUED)

As allowed by the Federal Reserve Bank, the linked savings sub-account portions of checking accounts ($937 million and $680 million as of December 31, 2020 and 2019, respectively) are classified as regular shares in these consolidated financial statements in order to accurately reflect the deposit structure and reserve requirements of these balances.

The aggregate amount of share and IRA certificates in denominations that met or exceeded the NCUSIF insurance limit was approximately $63 million and $49 million as of December 31, 2020 and 2019, respectively.

A summary of share and IRA certificates by maturity as of December 31, 2020 is as follows:

Years Ending December 31,	(in thousands)
2021	$ 331,897
2022	84,032
2023	31,439
2024	12,588
2025	23,444
2026	35
	$ 483,435

Interest expense on members' share accounts is summarized as follows:

	2020	2019
	(in thousands)	
Regular shares	$ 1,152	$ 967
Checking	472	472
Money market	1,427	1,293
IRA shares	39	38
Share certificates	8,083	5,638
IRA certificates	784	684
	$ 11,957	$ 9,092

NOTE 6 – BORROWED FUNDS AND LINES OF CREDIT

The credit union has a senior line of credit with the FHLB of San Francisco. Collateral under the agreement consists of a priority interest in most one-to-four-unit residential real estate loans owned by the credit union plus its capital stock and all deposits as well as pledged securities. As of December 31, 2020 and 2019, the credit union had borrowed $80 million and $105 million, respectively, against this line. The credit union has pledged real estate loans with outstanding balances of $1,408,029,000 as of December 31, 2020. The credit union has pledged real estate loans and securities with outstanding balances of $969,387,000 and $109,664,000, respectively, as of December 31, 2019. The total remaining borrowing capacity under the agreement, determined as a percentage of available loan collateral, was approximately $574 million and $726 million as of December 31, 2020 and 2019, respectively.

The credit union also has letters of credit with the FHLB worth $14 million used as collateral for public deposits.

NOTE 6 – BORROWED FUNDS AND LINES OF CREDIT (CONTINUED)

In addition, the credit union has two open-end loan promissory notes consisting of settlement and term lines of credit with a corporate credit union. Maximum available borrowings on the settlement line were $49.4 million, subject to provision of adequate collateral. The limit on the term line of credit was $2.4 million, subject to provision of adequate collateral for credit requests. Collateral under the settlement line of credit can include share certificates, securities in safekeeping and all the assets of the credit union. The credit union pledged securities in the amount of $58 million and $64 million as of December 31, 2020 and 2019, respectively. Collateral under the term line of credit can include designated loans, corporate credit union share certificates and securities held in safekeeping. Interest is variable or fixed as determined at the time of the credit request. This arrangement is annually reviewed for continuation by the lender and the credit union. As of December 31, 2020 and 2019, there were no borrowings under the open-end loan promissory notes.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

Legal Proceedings: The credit union is periodically a defendant in various legal proceedings involving matters generally incidental to its business. Although it is difficult to predict the outcome of these proceedings, management believes, based on discussions with counsel, that there are no estimable or probable material losses as of December 31, 2020.

Lease Commitments: As of December 31, 2020, the credit union was obligated under noncancelable operating leases for office space. Certain leases contain escalation clauses providing for increased rent based primarily on increases in real estate taxes or the average consumer price index. Rent expense totaled $5 million and $4.7 million for the years ended December 31, 2020 and 2019, respectively.

The required future minimum annual rent payments under the terms of the leases are as follows:

Years Ending December 31,	(in thousands)
2021	$ 2,582
2022	2,718
2023	2,595
2024	2,250
2025	2,159
Thereafter	5,529
	$ 17,833

Loan Commitments: The credit union had outstanding real estate loan commitments of $44 million and $30 million as of December 31, 2020 and 2019, respectively. The credit union also had unused lines of credit not reflected in the accompanying consolidated financial statements as follows:

	2020	2019
	(in thousands)	
Credit card	$ 207,657	$ 203,289
HELOC	312,036	355,869
Business	20,502	19,045
Overdraft protection	104,384	103,875
Other	23,243	22,177
	$ 667,822	$ 704,255

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Financial Instruments with Off-Balance-Sheet Risk: The credit union is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. The financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated statement of financial condition. The contractual or notional amounts of these instruments reflect the extent of involvement the credit union has in particular classes of financial instruments. The credit union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The credit union uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Financial instruments whose contract amounts represent credit risk as of December 31, 2020 are the commitments to extend credit of $668 million in contractual or notional amount per the above table. Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The credit union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the credit union upon extension of credit, is based on management's credit evaluation of the member. Collateral held varies but may include real estate, vehicles and shares.

NOTE 8 – INCOME TAXES

The credit union is a state-chartered credit union as described in Internal Revenue Code (IRC) Section 501(c)(14) and, as such, is exempt from federal taxation of income derived from the performance of activities that are in furtherance of its exempt purposes. However, IRC Section 511 imposes a tax on the unrelated business income (as defined in Section 512) derived by state-chartered credit unions. Tax exemption from California income tax is similar.

FASB ASC 740-10-65, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the consolidated financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the credit union's tax returns to determine whether the tax positions are "more likely than not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions deemed to not meet the more-likely-than-not threshold should be recorded as a tax expense and liability in the current year. For the years ended December 31, 2020 and 2019, management has determined that the credit union has no material uncertain tax positions, and accordingly, the credit union has not recorded a liability for the payment of interest or penalties. The credit union is subject to and pays all state and city taxes on goods and services purchased by the credit union. There was no income tax provision for the subsidiaries in 2020 and 2019.

NOTE 9 – FAIR VALUE

Fair values of securities are usually based on quoted market prices. If quoted market prices are not available, fair value is estimated based on quoted market prices of similar securities or on discounted cash flow models using the expected payment characteristics of the underlying mortgage instruments.

NOTE 9 – FAIR VALUE (CONTINUED)

Fair values of assets measured on a recurring basis are as follows:

		Fair Value Measurement at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
2020				
Securities available for sale	$ 413,831	$ -	$ 413,831	$ -
Mutual funds	13,863	13,863	-	-
	$ 427,694	$ 13,863	$ 413,831	$ -
2019				
Securities available for sale	$ 235,030	$ -	$ 235,030	$ -
Mutual funds	12,030	12,030	-	-
	$ 247,060	$ 12,030	$ 235,030	$ -

Fair values of assets measured on a nonrecurring basis are as follows:

		Fair Value Measurement at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
2020				
Impaired loans	$ 7,364	$ -	$ -	$ 7,364
2019				
Impaired loans	$ 455	$ -	$ -	$ 455

Impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans.

NOTE 10 – LOAN SERVICING

The credit union's servicing portfolio with capitalized mortgage servicing rights (MSRs) is summarized as follows:

	2020	2019
	(in thousands)	
Residential loans	$ 534,289	$ 533,406
Commercial loans	244,161	286,421
	$ 778,450	$ 819,827

NOTE 10 – LOAN SERVICING (CONTINUED)

MSRs as recorded in the consolidated financial statements at amortized cost compared to fair value as determined by an independent third-party valuation company are summarized as follows:

	2020		2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in thousands)		
Residential loans	$ 3,753	$ 5,276	$ 3,531	$ 5,998
Commercial loans	1,808	3,531	2,570	4,328
	$ 5,561	$ 8,807	$ 6,101	$ 10,326

The fair value of servicing rights was determined using discount rates ranging from 7.75% for residential loans, and 8.75% for all commercial loans at December 31, 2020. Current delinquency experience has been assumed to continue for all stratifications. The average prepayment speed for residential loans was 17.19% and 12.94% as of December 31, 2020 and 2019, respectively. The average prepayment speed for commercial loans was 8.09% and 8.11% as of December 31, 2020 and 2019, respectively.

MSRs are evaluated periodically for possible impairment based on the difference between the carrying amount and current fair value of the MSRs by risk stratification for loan age and interest rate. If a temporary impairment exists, a valuation allowance is established for any excess of amortized cost over the current fair value through a charge to income. A direct write-down is performed when the recoverability of a recorded valuation allowance is determined to be remote. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSRs and the valuation allowance, precluding subsequent reversals.

The following summarizes MSR activity, loan servicing income and escrow accounts for collections, taxes and insurance held in a fiduciary capacity and not as assets of the credit union:

	2020	2019
	(in thousands)	
MSRs, beginning of year	$ 6,101	$ 6,328
Capitalized from loan originations	2,574	2,263
Amortization	(3,114)	(2,490)
MSRs, end of year	$ 5,561	$ 6,101
Loan servicing income	$ 2,763	$ 2,767
Escrow accounts	$ 2,652	$ 2,093

NOTE 11 – NOTE RECEIVABLE

The purchase of the West L.A. property was partially financed by the purchaser via a promissory note from the credit union. The note receivable was for $8.7 million, payable monthly for a period of 192 months at an interest rate of 3.75%. As of December 31, 2020 and 2019, the note receivable balance was $5.9 million and $6.4 million, respectively.

NOTE 12 – CONCENTRATION OF CREDIT RISK

As of December 31, 2020 and 2019, the credit union had cash balances totaling $4,419,000 and $2,291,000, respectively, at financial institutions, which exceeded federally insured limits.

NOTE 13 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the credit union has granted loans to principal officers and directors amounting to $3.2 million and $5.0 million as of December 31, 2020 and 2019, respectively. Deposits from related parties held by the credit union as of December 31, 2020 and 2019 amounted to $3.3 million and $2.6 million, respectively. Loans to credit union officials and deposits held by credit union officials were treated the same with regard to rates, terms and requirements as loans and deposits of other members with similar circumstances.

NOTE 14 – EMPLOYEE BENEFIT PLANS

401(k) Plan: The credit union has a salary deferral 401(k) plan. Employees who have completed three months of service are eligible to participate in the plan. For any calendar year, employee contributions may not exceed a specific dollar amount as determined by the IRS. The credit union will contribute a fixed amount of safe harbor matching contributions of 100% on the first 6% of compensation deferred into the plan. For the years ended December 31, 2020 and 2019, the credit union contributed $2.3 million and $2.2 million, respectively.

457(f) Plan: The credit union has a nonqualified deferred compensation plan for certain executives under IRC Section 457(f). To support the deferred compensation plan, the credit union has elected to purchase credit union-owned variable life insurance and variable annuities. The surrender value of these investments, included in other assets, was $6.4 million and $6 million as of December 31, 2020 and 2019, respectively. There was no change in the market value of designated plan assets and benefit expense for the years ended December 31, 2020 and 2019. The liability for the deferred compensation is included in accrued liabilities and totaled $1,448,000 and $1,029,000 as of December 31, 2020 and 2019, respectively.

The credit union has another nonqualified deferred compensation plan for a key management employee under Internal Revenue Code (IRC) Section 457(f). The credit union invested in certain mutual funds to partially defray the cost of this agreement. The assets under this arrangement are maintained at fair value of $13.9 million and $10.8 million and are included in equity securities as of December 31, 2020 and 2019, respectively. Changes in fair value of these mutual funds are recorded through earnings.

457(b) Plan: The credit union has an unfunded nonqualified deferred compensation plan for members of management. The plan allows for employees to defer a portion of their compensation. The deferred compensation investments are shown as both assets and liabilities on the credit union's consolidated financial statements and are available to creditors in the event of the credit union's liquidation. The funds were invested into certain mutual funds and are included in equity securities as of December 31, 2020 and 2019 in the consolidated financial statements. Deferred compensation investments and liabilities totaled $1,336,000 and $1,196,000 as of December 31, 2020 and 2019, respectively.

Deferred Compensation Plan: The credit union has entered into a deferred compensation agreement with a member of the senior management team. The agreement provides benefits to the employee if they remain employed by the credit union for a certain number of years. If the employee becomes fully disabled as defined in the agreement, accrued benefits are immediately payable. The benefits of the arrangement are in the agreement, accrued benefits are immediately payable. The benefits of the arrangement are subject to forfeiture if employment is terminated for cause as defined in the agreement. The liability for the deferred compensation is included in accrued liabilities and totaled $2,833,000 and $2,377,000 as of December 31, 2020 and 2019, respectively.

Defined Benefit Pension Plan: The credit union sponsors a defined benefit pension plan that covers all regular employees hired before January 1, 2007 who meet certain requirements. The plan calls for benefits to be paid to eligible employees at retirement based primarily on years of service with the credit union and compensation rates. The credit union's funding policy has been to annually contribute an amount in excess of the minimum required by federal regulations. Contributions to the plan reflect benefits attributed to employees' service to date, as well as estimated future benefits.

NOTE 14 – EMPLOYEE BENEFIT PLANS (CONTINUED)

The plan was terminated in January 2020. Part of the plan assets was distributed to the eligible participants who had requested for the lump sum distribution in 2019. In December 2020, the credit union purchased an annuity contract from United of Omaha Life Insurance Company (United of Omaha), for all remaining plan participants for approximately $32,375,000. The remaining plan assets were fully liquidated and transferred to United of Omaha and all liability obligations were settled on December 17, 2020.

The following sets forth information regarding the plan as of December 31, 2020 and 2019:

	2020	2019
	(dollars in thousands)	
Benefit obligation	$ -	$ 105,700
Fair value of plan assets	192	77,314
Funded status	$ 192	$ (28,386)
Other asset (liability) for pension benefits (included in other assets/liabilities)	$ 192	$ (28,386)
Net prior service cost and net actuarial loss (recognized in accumulated othercomprehensive loss)	$ -	$ 43,382
Accumulated benefit obligation	$ -	$ 92,035
Assumptions used to determine benefit obligation:		
Discount rate	2.47%	3.22%
Rate of compensation increase	3.00%	3.00%
Employer contributions	$ 1,200	$ 7,500
Benefits paid	$ 1,733	$ 1,576

The components of the net periodic pension cost for the years ended December 31, 2020 and 2019 are as follows. The service cost component is included in compensation and benefits expense, and the components of net periodic pension cost other than the service cost component are included in other expense in the consolidated statements of income.

	2020	2019
Net periodic pension cost:	(dollars in thousands)	
Service cost	$ -	$ 2,299
Interest cost	2,930	3,503
Expected return on plan assets	(5,342)	(4,474)
Amortization of prior service cost	-	560
Recognized loss	1,620	1,943
	(792)	3,831
Additional charges due to:		
Curtailment	2,553	-
Settlement	14,242	-
	16,795	-
	$ 16,003	$ 3,831
Assumptions used to determine net pension cost:		
Discount rate	3.22%	4.23%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%

NOTE 14 – EMPLOYEE BENEFIT PLANS (CONTINUED)

The mortality table used for December 31, 2019 was the Pri-2012 White-Collar Mortality Table with Mortality Improvement Scale MP-2019.

Expected long-term return on plan assets is determined by applying historical average investment returns from published indexes relating to the current allocation of assets in the portfolio.

The fair values of the credit union's pension plan assets as of December 31, 2020 and 2019 are mostly priced at Level 1, quoted prices in active markets for identical assets.

Asset Category	2020 (in thousands)	2019 (in thousands)
Other alternatives	$ 45	$ 75,922
Cash and cash equivalents	147	1,392
	$ 192	$ 77,314

NOTE 15 – REVENUE FROM CONTRACTS WITH MEMBERS

On January 1, 2019, the credit union adopted ASU 2014-09—*Revenue from Contracts with Customers,* and all subsequent ASUs (ASC 606). The credit union adopted ASC 606 using the modified retrospective method applied to those contracts not completed as of January 1, 2019. The new standard did not materially impact the timing or measurement of the credit union's revenue recognition, as it is consistent with the credit union's previously existing accounting for contracts within the scope of the new standard. There was no cumulative-effect adjustment to undivided earnings required as a result of adopting this new standard.

The following table presents revenue from contracts with members within the scope of ASC 606 included in other non-interest income for the years ended December 31, 2020 and 2019:

	2020	2019
Deposit service charges and related fee income	$ 10,798	$ 15,565
Interchange income	8,027	8,420
Insurance commission income	4,393	5,992
	$ 23,218	$ 29,977

Deposit Service Charges and Related Fee Income: The credit union earns fees from its members for transaction-based account maintenance and overdraft services. The deposit account services include ongoing account maintenance, as well as certain services such as wire transfer services, NSF fees and other deposit related fees. Transaction-based fees such as NSF fees, ACH fees and other deposit related fees are recognized at the time the transaction is executed, as that is the point in time the credit union fulfills the member's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which the credit union satisfies the performance obligation. Payments for these service charges are received immediately through a direct charge to members' accounts.

Interchange Income: The credit union earns interchange fees from ATM, debit and credit cardholder transactions conducted through the Visa and Mastercard payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Revenue is recognized when the net profit is determined by the payment networks at the end of each day. Certain expenses directly related to the debit and credit cards are recorded on a net basis with interchange income.

Insurance Commission Income: The credit union earns insurance commission income from guaranteed asset protection insurance, credit protection insurance, mechanical breakdown insurance, and other products sold to members. The insurance commission income is based on contractual agreements between the credit union and third-party insurance carriers and earned at the point in time when the contract is executed.

NOTE 16 – REGULATORY CAPITAL

The credit union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the credit union's consolidated financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the credit union must meet specific capital regulations that involve quantitative measures of the credit union's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP. The credit union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the credit union to maintain minimum amounts and ratios (set forth in the following table) of net worth (as defined) to assets (as defined). The credit union is also required to calculate a risk-based net worth (RBNW) ratio that establishes whether the credit union will be considered "complex" under the regulatory framework. The credit union's RBNW ratio as of December 31, 2020 and 2019 was 5.12% and 5.72%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%. Management believes that, as of December 31, 2020, the credit union meets all capital adequacy requirements to which it is subject.

As of December 31, 2020, the most recent call reporting period, the NCUA categorized the credit union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the credit union must maintain a minimum net worth ratio of 7% of assets and meet any applicable RBNW requirement. There are no conditions or events since that notification which management believes have changed the credit union's category.

The credit union's actual capital amounts and ratios are as follows:

	Actual		To Be Adequately Capitalized under Prompt Corrective Action Provisions		To Be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
2020						
Net worth	$ 376,388	9.86%	$ 228,926	6.00%	$ 267,080	7.00%
2019						
Net worth	$ 371,928	11.66%	$ 191,449	6.00%	$ 223,357	7.00%

NOTE 17 – IMPACT OF COVID-19

On March 11, 2020, the World Health Organization declared a pandemic due to the spread of the coronavirus disease (COVID-19). On March 13, 2020, the President of the United States declared a national emergency in response to the coronavirus pandemic. The COVID-19 outbreak in the United States of America has caused business disruption through mandated and voluntary closures of businesses as well as stay-at-home orders in order to contain the coronavirus. On March 27, 2020, the President of the United States signed the CARES Act into law. The credit union is dependent upon the willingness and ability of its members to conduct banking and other financial transactions. The spread of COVID-19 has caused severe disruptions in the U.S. economy, which in turn has disrupted the business, activities and operations of credit union members, as well as credit union business and operations. The spread of COVID-19 may continue to result in a significant decrease in business or cause members to be unable to meet existing payment or other obligations to the credit union. COVID-19 has also limited the availability of key personnel necessary to conduct credit union business. The pandemic may also negatively impact the business and operations of third-party service providers that perform critical services for the credit union. The duration and outcome of these events and the ultimate impact on the credit union are unknown at this time.

NOTE 17 – IMPACT OF COVID-19 (CONTINUED)

On December 21, 2020, Congress passed the Consolidated Appropriations Act, 2021 (CAA). This legislation extended the CARES Act provision under section 4013, which allows financial institutions to determine if they will suspend the U.S. GAAP requirements for recognizing any potential COVID-related losses from a TDR related to a loan modification to the earlier of (i) 60 days after the national emergency termination date or (ii) January 1, 2022.

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