UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(With Independent Auditor's Report Thereon)

UNITED STATES SENATE FEDERAL CREDIT UNION

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12060 S.W. 129th Court, Ste. 201
Miami, Florida 33186-4582
305.232.8272
doeren.com

Independent Auditor's Report

May 4, 2021

To the Supervisory Committee and Board of Directors
of United States Senate Federal Credit Union

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of United States Senate Federal Credit Union and its subsidiary, which comprise the consolidated statements of financial condition as of December 31, 2020 and 2019, and the related 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 from 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 from 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 control relevant to the entity'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 entity's internal control. 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 United States Senate Federal Credit Union and its subsidiary, as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Doeren Mayhew

Doeren Mayhew
Miami, FL

UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2020 AND 2019

Assets	**2020**	**2019**
Cash and cash equivalents	$208,565,483	$199,847,878
Automated Clearing House (ACH) receivable	10,744,892	12,913,438
Available-for-sale debt securities (Note 2)	111,521,020	46,464,816
Loans to members, net of allowance for loan losses (Note 3)	772,449,129	730,519,930
Accrued interest receivable	3,791,460	3,085,868
Prepaid and other assets	9,303,958	7,591,572
Property and equipment (Note 4)	15,297,928	13,581,262
National Credit Union Share Insurance Fund (NCUSIF) deposit	8,939,849	7,748,351
Total assets	$1,140,613,719	$1,021,753,115
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts (Note 5)	$1,031,152,119	$915,136,487
Accrued expenses and other liabilities	5,976,194	6,769,431
Total liabilities	1,037,128,313	921,905,918
Commitments and contingent liabilities		
Members' equity:		
Regular reserve	3,382,981	3,382,981
Undivided earnings	98,786,169	96,179,575
Accumulated other comprehensive income	1,316,256	284,641
Total members' equity	103,485,406	99,847,197
Total liabilities and members' equity	$1,140,613,719	$1,021,753,115

See accompanying notes to the consolidated financial statements.

UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Interest income:		
Loans to members	$42,650,767	$43,322,668
Investments	1,708,916	5,743,810
Total interest income	44,359,683	49,066,478
Interest expense:		
Members' shares and savings accounts	13,352,183	14,521,794
Net interest income	31,007,500	34,544,684
Provision for loan losses	9,269,247	7,200,544
Net interest income after provision for loan losses	21,738,253	27,344,140
Non-interest income:		
Interchange income	2,328,767	2,556,781
Fees and charges	1,266,100	1,717,568
Other miscellaneous income	1,134,245	871,654
Total non-interest income	4,729,112	5,146,003
Non-interest expenses:		
Compensation and benefits	12,865,966	12,966,227
Office operations	5,426,389	4,960,214
Loan servicing	1,883,757	1,912,060
Other	1,401,040	1,296,970
Professional and outside servicing costs	1,372,845	1,256,196
Office occupancy	910,774	852,378
Total non-interest expenses	23,860,771	23,244,045
Net income	$2,606,594	$9,246,098

See accompanying notes to the consolidated financial statements.

UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Net income	$2,606,594	$9,246,098
Other comprehensive income:		
Available-for-sale debt securities:		
Net unrealized holding gains on available-for-sale debt securities	1,031,615	1,154,595
Other comprehensive income	1,031,615	1,154,595
Comprehensive income	$3,638,209	$10,400,693

See accompanying notes to the consolidated financial statements.

UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2020 AND 2019

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance,				
December 31, 2018	$3,382,981	$86,933,477	($869,954)	$89,446,504
Net income	—	9,246,098	—	9,246,098
Other comprehensive income	—	—	1,154,595	1,154,595
Balance,				
December 31, 2019	3,382,981	96,179,575	284,641	99,847,197
Net income	—	2,606,594	—	2,606,594
Other comprehensive income	—	—	1,031,615	1,031,615
Balance,				
December 31, 2020	$3,382,981	$98,786,169	$1,316,256	$103,485,406

See accompanying notes to the consolidated financial statements.

UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Net income	$2,606,594	$9,246,098
Adjustments to net cash provided by operating activities:		
Provision for loan losses	9,269,247	7,200,544
Depreciation and amortization	1,628,347	1,567,131
(Increase)/decrease in:		
ACH receivable	2,168,546	(5,033,037)
Accrued interest receivable	(705,592)	(149,470)
Prepaid and other assets	(1,712,386)	(1,600,046)
Increase/(decrease) in:		
Accrued expenses and other liabilities	(793,237)	108,080
Total adjustments	9,854,925	2,093,202
Net cash provided by operating activities	12,461,519	11,339,300

See accompanying notes to the consolidated financial statements.

UNITED STATES SENATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

Cash Flows (Continued)

	2020	2019
Cash flows from investing activities:		
Net change in loans to members	26,677,670	9,816,319
Purchase of loan participations	(77,876,116)	(89,159,120)
Proceeds from the repayment, call, or maturity of available-for-sale debt securities	11,516,720	10,258,157
Purchase of available-for-sale debt securities	(75,541,309)	—
Increase in NCUSIF deposit	(1,191,498)	(2,258,899)
Purchase of property and equipment	(3,345,013)	(9,966,604)
Net cash used in investing activities	(119,759,546)	(81,310,147)
Cash flows from financing activities:		
Net change in members' shares and savings accounts	116,015,632	171,249,383
Net cash provided by financing activities	116,015,632	171,249,383
Net change in cash and cash equivalents	8,717,605	101,278,536
Cash and cash equivalents - beginning	199,847,878	98,569,342
Cash and cash equivalents - ending	$208,565,483	$199,847,878

Supplemental Information

Interest paid	$13,085,894	$15,122,992

See accompanying notes to the consolidated financial statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization

United States Senate Federal Credit Union (the Credit Union) is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and the accounts of its wholly owned credit union service organization (CUSO), CU Strategic Services, LLC. The CUSO provides consulting and outsourcing services for other financial institutions. The CUSO also provides commercial loan underwriting and servicing. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (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 as of the dates of the consolidated financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include the determination of the allowance for loan losses and the fair value of investment securities. The significant accounting principles and policies used in the preparation of these consolidated financial statements, together with certain related information, are summarized below.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who work or reside in the Washington D.C. area. Therefore, the Credit Union may be exposed to credit risk by the economic climate of the overall geographical region in which borrowers reside.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive income/loss. Other comprehensive income/loss is limited to the changes in unrealized gain/loss on available-for-sale debt securities. When available-for-sale debt securities are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the gain/loss on sale of investments in the consolidated statements of income.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks (including cash items in the process of clearing) and interest-bearing deposits in banks with an original maturity of 90 days or less including overnight deposits. Amounts due from banks may, at times, exceed federally insured limits.

Automated Clearing House (ACH) Receivable

This automated clearing house receivable represents funds due from third parties for payrolls which have been posted to members' accounts. The receivable is generally collected within two to three business days and the risk of loss is considered low.

Available-for-Sale Debt Securities

Investments classified as available-for-sale debt securities are measured at fair value as of the consolidated statement of financial condition date. Unrealized gains and losses on available-for-sale debt securities are reported as a separate component of members' equity. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts as an adjustment to interest income on investments over the term of the investment.

Unrealized gains and losses on securities available-for-sale debt securities are recognized as direct increases or decreases in other comprehensive income. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the estimated fair value of available-for-sale securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the Credit Union does not intend to sell these securities, and (4) it is more likely than not that the Credit Union will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Federal Home Loan Bank (FHLB) Stock

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The FHLB stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment and it has no quoted market value. The FHLB stock is included in prepaid and other assets in the consolidated statements of financial condition.

Loans to Members

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 of deferred loan origination fees and costs. Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual 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 qualifying 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.

Loan origination fess and costs are deferred and amortized over the estimated life of the related loans. Deferred fees and costs are recognized as an adjustment to interest income on loans in the statement of income.

Allowance for Loan Losses

The allowance for loan losses (allowance) is an estimate of loan losses incurred in the Credit Union's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Loan losses are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

The allowance is evaluated on a regular basis by management and is based upon management's periodic assessment of the collectability 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, 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.

For purposes of determining the allowance, the Credit Union has segmented certain loans in the portfolio by product type. Loans are grouped into the following segments: Real Estate, Consumer, and Commercial. The Credit Union further divides these segments into classes based on the associated risk characteristics. Real Estate loans are divided into two classes: First mortgage and Second mortgage. Consumer loans are divided into three classes: Vehicle, Unsecured, and Other secured. Commercial loans are divided into two classes: Real estate and Other.

The allowance consists of specific and general components. The specific component covers impaired loans and specific allowances are established for these loans based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows or the estimated fair value of the underlying collateral. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The Credit Union maintains a separate general valuation allowance for each portfolio segment.

Consumer and Real Estate Segment Allowance Methodology

For loans not individually evaluated for impairment, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. As of December 31, 2020 and 2019, the historical loss time frame for each class was 12 months.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Commercial Segment Allowance Methodology

A majority of the commercial loan portfolio consists of participations in commercial real estate loans underwritten by other financial institutions. Loans are evaluated for impairment on an individual loan-by-loan basis. A specific reserve is provided for individual loans where the Credit Union has deemed there to be an impairment. For all other commercial loans not individually evaluated for impairment, the Credit Union determines the allowance on a collective basis utilizing historical loss rates to represent the best estimate of incurred losses at the measurement date. The historical loss rates are judgmentally adjusted based on economic and Federal Reserve Bank (FRB) published charge-off data.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if its repayment is expected to be provided solely by the underlying collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Troubled Debt Restructurings (TDRs)

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A loan restructuring represents a TDR if for economic or legal reasons related to the borrower's financial difficulties the Credit Union grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. TDR activity for the years ended December 31, 2020 and 2019 was immaterial.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

TDR Designation and COVID-19 Loan Modifications

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. Section 4013 of the CARES Act, "Temporary Relief From Troubled Debt Restructurings," provided financial institutions the option to temporarily suspend certain requirements under GAAP related to TDRs until December 31, 2020 to account for the effects of COVID-19. On December 27, 2020, the *2021 Consolidated Appropriations Act* was signed into law, extending this option until January 1, 2022.

On April 7, 2020, regulatory agencies issued a statement, "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus (Revised)" (Statement), to encourage financial institutions to work prudently with borrowers and to describe the agencies' interpretation of how accounting rules under Accounting Standards Codification (ASC) 310-40, "Troubled Debt Restructurings by Creditors," apply to certain COVID-19-related modifications. The regulatory agencies have confirmed with staff of the Financial Accounting Standards Board (FASB) that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not TDRs.

Under the guidance, modifications should be short term in nature (e.g., six-months or less) and COVID-19 related. Subsequent modifications should be re-evaluated. The presumption is that the borrower would not be experiencing financial difficulty had it not been for COVID-19. Therefore, if the borrower is not current for reasons other than COVID-19 or is requesting a long term modification, the traditional TDR designation may apply. Further, the agencies' examiners will exercise judgment in reviewing loan modifications, including TDRs, and will not automatically adversely risk rate credits that are affected by COVID-19, including those considered TDRs. The Statement also provides guidance on past due reporting, non-accrual loans and charge-offs among other items.

Given the uncertainty in general related to the ultimate impact of COVID-19, the impact of loans modified under this guidance is unknown.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Consumer and Real Estate Credit Quality Indicators

The majority of the Credit Union's consumer and residential loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Credit Union's collections department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts, and actual losses incurred.

The Credit Union evaluates the credit quality of loans in the consumer and real estate loan portfolios based primarily on the aging status of the loan and payment activity. Accordingly, non-accrual loans and loans modified under troubled debt restructurings that are past due in accordance with the loans' original contractual terms are considered to be in a non-performing status for purposes of credit quality evaluation.

Commercial Credit Quality Indicators

The Credit Union assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate, and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into six major categories, defined as follows:

Commercial Credit Quality Indicators

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: A special mention credit is a loan that has potential weakness that deserves management's close attention, but does not warrant substandard classification. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Credit Union's credit position at some future date. Special mention loans are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Watch: A watch credit is a loan that otherwise meets the definition of a standard or minimum acceptable quality loan, but which requires more than normal attention due to any of the following items: deterioration of borrower financial condition less severe than those warranting more adverse grading, deterioration of repayment ability and/or collateral value, or less than average credit score. The loan is paid as agreed. If conditions persist or worsen, a more severe risk grade may be warranted.

Substandard: A substandard credit is a loan that is not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Credits classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, or a project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful: A doubtful credit is a loan that has all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.

Loss: A loss credit is a loan considered uncollectible and charged off immediately.

Loan Charge-off Policies

Loan losses are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible. Loans are typically charged off no later than 180 days past due, unless they are in foreclosure. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Property and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method based upon the useful lives of the related assets. Construction in process is carried at cost until placed in service at which time the underlying asset will be depreciated over its estimated useful lie. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

National Credit Union Share Insurance Fund (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 one percent of its insured shares. The deposit would be refunded to the credit union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. The NCUSIF deposit is required to be periodically reviewed for impairment.

Members' Shares and Savings Accounts

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the number of shares owned, no member has more than one vote.

Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings 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 and Liability Committee (ALCO) and approved by the Board of Directors, based on an evaluation of current and future market conditions.

Regular Reserve

The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represents a regulatory restriction and is not available for the payment of interest.

Fees and Charges

The Credit Union earns fee and commission income from a range of services it provides to its members. Deposit fee income and interchange fee income are earned on the execution of financial services performed. This includes fees arising from 1) services initiated or requested by the member, including overdrawn account charges, insufficient funds charges, and stop payment fees and 2) participating in transactions with members and third-party financial institutions, such as interchange fee income for authorizing and settling member debit and credit card point-of-sale or ATM transactions. Deposit fees and interchange revenue are presented as non-interest income in the statements of income, with related expense streams such as processor costs and reward point costs, presented separately in non-interest expenses.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Income Taxes

The Credit Union is exempt, by statute Internal Revenue Code Section 501(c)(14), from federal and state income taxes.

Reclassification

Certain amounts reported in the 2019 consolidated financial statements have been reclassified to conform to the 2020 presentation. Reclassification adjustments did not affect total members' equity or net income.

Recent Accounting Pronouncements

Accounting for Financial Instruments - Credit Losses

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses.* ASU 2016-13 introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale debt securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current accounting standards, which generally require that a loss be incurred before it is recognized. The ASU will be effective for the Credit Union on January 1, 2023. Early application is permitted for annual periods beginning January 1, 2019.

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, *Leases*, which is intended to increase transparency and comparability of accounting for lease transactions. ASU 2016-02 will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective January 1, 2022 with an option to early adopt.

Subsequent Events

Management has evaluated subsequent events through May 4, 2021, the date the consolidated financial statements were available to be issued. No significant such events or transactions were identified.

Note 2 - Available-for-Sale Debt Securities

The following table presents the amortized cost and estimated fair value of debt securities as of December 31, 2020:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt:				
Commercial mortgage-backed securities	$45,159,929	$302,069	($19,884)	$45,442,114
Agency securities	25,910,862	18,638	—	25,929,500
Mortgage-backed securities	21,028,406	901,837	—	21,930,243
Collateralized mortgage obligations	18,105,567	113,635	(39)	18,219,163
Total	$110,204,764	$1,336,179	($19,923)	$111,521,020

The following table presents the amortized cost and estimated fair value of debt securities as of December 31, 2019:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt:				
Mortgage-backed securities	$28,240,706	$357,365	($37,222)	$28,560,849
Collateralized mortgage obligations	17,939,469	26,516	(62,018)	17,903,967
Total	$46,180,175	$383,881	($99,240)	$46,464,816

As of December 31, 2020, the Credit Union's available-for-sale debt securities portfolio consisted entirely of mortgage-backed securities, commercial mortgage-backed securities, collateralized mortgage obligations, and agency securities. These securities return principal based on payments received on the underlying mortgages or assets. These securities have expected weighted average lives of less than one to three years. However, return of principal may differ from expectation based on fluctuations in market interest rates, delinquency, foreclosures, and the underlying collateral values.

Note 2 - Available-for-Sale Debt Securities (Continued)

Information pertaining to investments with gross unrealized losses as of December 31, 2020, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale debt:						
Commercial mortgage-backed securities	$10,033,369	($19,884)	$—	$—	$10,033,369	($19,884)
Collateralized mortgage obligations	103,576	(39)	—	—	103,576	(39)
Total	$10,136,945	($19,923)	$—	$—	$10,136,945	($19,923)

Information pertaining to investments with gross unrealized losses as of December 31, 2019, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale debt:						
Mortgage-backed securities	$—	$—	$2,988,272	($37,222)	$2,988,272	($37,222)
Collateralized mortgage obligations	1,082,169	(1,262)	10,845,550	(60,756)	11,927,719	(62,018)
Total	$1,082,169	($1,262)	$13,833,822	($97,978)	$14,915,991	($99,240)

At December 31, 2020 and 2019, substantially all securities with unrealized losses are guaranteed by the U.S. Government. Unrealized losses, which substantially arose more than 12 months ago, relate principally to current interest rates for similar types of securities. Because the Credit Union does not intend to sell the investments and it is not more likely than not that the Credit Union will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity. The Credit Union does not consider those investments to be other-than-temporarily impaired at December 31, 2020 or 2019.

Note 3 - Loans to Members

The composition of loans to members as of December 31, 2020 and 2019 is as follows:

	2020	2019
Real Estate:		
First mortgage	$146,479,401	$81,116,499
Second mortgage	220,505,921	189,810,261
	366,985,322	270,926,760
Consumer:		
Vehicle	72,681,314	94,597,042
Unsecured	194,618,875	236,020,244
Other secured	1,774,822	1,488,163
	269,075,011	332,105,449
Commercial:		
Real estate	145,547,142	137,292,210
Other	3,371,654	2,395,511
	148,918,796	139,687,721
	784,979,129	742,719,930
Less: Allowance for loan losses	(12,530,000)	(12,200,000)
Loans to members, net	$772,449,129	$730,519,930

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2020:

	Real Estate	Consumer	Commercial	Total
Allowance for loan losses:				
Beginning allowance	$1,404,825	$6,185,540	$4,609,635	$12,200,000
Charge-offs	(953,220)	(5,088,495)	(3,456,731)	(9,498,446)
Recoveries	203,074	249,101	107,024	559,199
Provision for loan losses	647,933	6,482,525	2,138,789	9,269,247
Ending allowance	$1,302,612	$7,828,671	$3,398,717	$12,530,000
Ending balance individually evaluated for impairment	$415,290	$643,885	$2,560,815	$3,619,990
Ending balance collectively evaluated for impairment	887,322	7,184,786	837,902	8,910,010
Ending allowance	$1,302,612	$7,828,671	$3,398,717	$12,530,000

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2020:

	Real Estate	Consumer	Commercial	Total
Loans:				
Ending balance individually evaluated for impairment	$3,850,516	$850,308	$5,121,630	$9,822,454
Ending balance collectively evaluated for impairment	363,134,806	268,224,703	143,797,166	775,156,675
Total loans	$366,985,322	$269,075,011	$148,918,796	$784,979,129

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses (Continued)

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2019:

	Real Estate	Consumer	Commercial	Total
Allowance for loan losses:				
Beginning allowance	$1,829,219	$4,520,022	$3,050,759	$9,400,000
Charge-offs	(1,498,687)	(3,646,609)	—	(5,145,296)
Recoveries	174,659	570,093	—	744,752
Provision for loan losses	899,634	4,742,034	1,558,876	7,200,544
Ending allowance	$1,404,825	$6,185,540	$4,609,635	$12,200,000
Ending balance individually evaluated for impairment	$726,317	$1,792,492	$3,438,086	$5,956,895
Ending balance collectively evaluated for impairment	678,508	4,393,048	1,171,549	6,243,105
Ending allowance	$1,404,825	$6,185,540	$4,609,635	$12,200,000

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2019:

	Real Estate	Consumer	Commercial	Total
Loans:				
Ending balance individually evaluated for impairment	$3,799,069	$2,358,114	$6,406,406	$12,563,589
Ending balance collectively evaluated for impairment	267,127,691	329,747,335	133,281,315	730,156,341
Total loans	$270,926,760	$332,105,449	$139,687,721	$742,719,930

Note 3 - Loans to Members (Continued)

Impaired Loans

The table below summarizes key information for impaired loans as of December 31, 2020:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Consumer:				
Vehicle	$75,893	$75,893	$58,013	$102,845
Unsecured	$774,415	$774,415	$585,872	$1,501,366
Real Estate:				
Second mortgage	$3,850,516	$3,850,416	$415,290	$3,824,743
Commercial:				
Real estate	$5,121,630	$5,121,630	$2,560,815	$5,764,018
Totals:				
Consumer	$850,308	$850,308	$643,885	$1,604,211
Real Estate	3,850,516	3,850,416	415,290	3,824,743
Commercial	5,121,630	5,121,630	2,560,815	5,764,018
Total	$9,822,454	$9,822,354	$3,619,990	$11,192,972

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

The table below summarizes key information for impaired loans as of December 31, 2019:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Consumer:				
Vehicle	$129,797	$129,797	$82,249	$109,653
Unsecured	$2,228,317	$2,228,317	$1,710,243	$1,594,792
Real Estate:				
Second mortgage	$3,799,069	$3,799,069	$726,317	$3,079,991
Commercial:				
Real estate	$6,406,406	$6,406,406	$3,438,086	$6,406,406
Totals:				
Consumer	$2,358,114	$2,358,114	$1,792,492	$1,704,445
Real Estate	3,799,069	3,799,069	726,317	3,079,991
Commercial	6,406,406	6,406,406	3,438,086	6,406,406
Total	$12,563,589	$12,563,589	$5,956,895	$11,190,842

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2020:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Real Estate:						
First mortgage	$516,455	$386,059	$417,289	$1,319,803	$145,159,598	$146,479,401
Second mortgage	1,187,112	231,819	617,930	2,036,861	218,469,060	220,505,921
	1,703,567	617,878	1,035,219	3,356,664	363,628,658	366,985,322
Consumer:						
Vehicle	240,863	46,514	29,380	316,757	72,364,557	72,681,314
Unsecured	1,308,884	527,585	246,630	2,083,099	192,535,776	194,618,875
Other secured	5,867	—	—	5,867	1,768,955	1,774,822
	1,555,614	574,099	276,010	2,405,723	266,669,288	269,075,011
Commercial:						
Real Estate	—	—	—	—	145,547,142	145,547,142
Other	1,126,465	—	—	1,126,465	2,245,189	3,371,654
	1,126,465	—	—	1,126,465	147,792,331	148,918,796
Total	$4,385,646	$1,191,977	$1,311,229	$6,888,852	$778,090,277	$784,979,129

Loans on which the accrual of interest has been discontinued or reduced approximated $1,311,000 as of December 31, 2020. There were no loans 90 days or more past due and still accruing interest as of December 31, 2020.

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2019:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Real Estate:						
First mortgage	$366,972	$1,993,396	$—	$2,360,368	$78,756,131	$81,116,499
Second mortgage	1,786,437	1,725,470	293,890	3,805,797	186,004,464	189,810,261
	2,153,409	3,718,866	293,890	6,166,165	264,760,595	270,926,760
Consumer:						
Vehicle	125,417	106,069	23,618	255,104	94,341,938	94,597,042
Unsecured	1,717,794	2,226,267	19,912	3,963,973	232,056,271	236,020,244
Other secured	22,091	49,039	—	71,130	1,417,033	1,488,163
	1,865,302	2,381,375	43,530	4,290,207	327,815,242	332,105,449
Commercial:						
Real estate	—	—	6,406,406	6,406,406	130,885,804	137,292,210
Other	—	—	—	—	2,395,511	2,395,511
	—	—	—	—	133,281,315	139,687,721
Total	$4,018,711	$6,100,241	$337,420	$10,456,372	$725,857,152	$742,719,930

Loans on which the accrual of interest has been discontinued or reduced approximated $6,744,000 as of December 31, 2019. There were no loans 90 days or more past due and still accruing interest as of December 31, 2019.

Note 3 - Loans to Members (Continued)

Consumer and Real Estate Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For real estate and consumer loan classes, the Credit Union evaluates credit quality based on the aging status of the loan and payment activity. Accordingly, non-accrual loans are considered to be in a non-performing status for purposes of credit quality evaluation.

The following tables present the loan balance based on performance indication as of December 31, 2020 and 2019:

	As of December 31, 2020		As of December 31, 2019	
	Performing Loans	Non-performing Loans	Performing Loans	Non-performing Loans
Real Estate:				
First mortgage	$146,062,112	$417,289	$81,116,499	$—
Second mortgage	219,887,991	617,930	189,516,371	293,890
	365,950,103	1,035,219	270,632,870	293,890
Consumer:				
Vehicle	72,651,934	29,380	94,573,424	23,618
Unsecured	194,372,245	246,630	236,000,332	19,912
Other secured	1,774,822	—	1,488,163	—
	268,799,001	276,010	332,061,919	43,530
Total	$634,749,104	$1,311,229	$602,694,789	$337,420

Note 3 - Loans to Members (Continued)

Commercial Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For commercial loan classes, the Credit Union evaluates credit quality based on risk ratings assigned to each loan as described in Note 1.

The following table presents the loan balance for commercial loans based on risk rating as of December 31, 2020:

	Real Estate	Other	Total
Credit Grade:			
Pass	$112,782,690	$3,371,654	$116,154,344
Special Mention	6,540,739	—	6,540,739
Watch	21,102,083	—	21,102,083
Substandard	5,121,630	—	5,121,630
Doubtful	—	—	—
Loss	—	—	—
Total	$145,547,142	$3,371,654	$148,918,796

The following table presents the loan balance for commercial loans based on risk rating as of December 31, 2019:

	Real Estate	Other	Total
Credit Grade:			
Pass	$123,949,552	$2,395,511	$126,345,063
Special Mention	—	—	—
Watch	6,936,252	—	6,936,252
Substandard	—	—	—
Doubtful	—	—	—
Loss	6,406,406	—	6,406,406
Total	$137,292,210	$2,395,511	$139,687,721

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2020 and 2019 by major classification as follows:

	2020	2019
Land	$2,422,532	$2,422,532
Building and building improvements	3,658,586	3,658,586
Construction in process, building	8,980,160	7,198,751
Furniture and equipment	10,624,000	9,060,396
Leasehold improvements	680,025	680,025
	26,365,303	23,020,290
Less accumulated depreciation and amortization	(11,067,375)	(9,439,028)
	$15,297,928	$13,581,262

On March 20, 2019, the Credit Union purchased land and a building for approximately $8,501,000 to serve as its administrative headquarters. Future expected renovation costs to complete the building are estimated by management to approximate $17,474,000. Completion of the project is anticipated to occur in the 3rd quarter of 2021.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2020 and 2019:

	2020	2019
Share accounts	$179,980,221	$140,377,158
Share draft accounts	198,911,531	150,499,470
Money market accounts	228,039,931	204,290,958
Individual retirement accounts (IRAs)	9,061,092	9,196,969
Share, business and IRA certificates	415,159,344	410,771,932
	$1,031,152,119	$915,136,487

Note 5 - Members' Shares and Savings Accounts (Continued)

As of December 31, 2020, scheduled maturities of share, business and IRA certificates are as follows:

	2020
Within one year	$50,886,502
1 to 2 years	40,134,859
2 to 3 years	141,910,412
3 to 4 years	177,374,947
4 to 5 years	4,852,624
	$415,159,344

The aggregate amount of members' time deposit accounts in denominations of $250,000 or more as of December 31, 2020 was approximately $116,099,000.

Note 6 - Employee Benefits

401(k) Plan

All employees who have completed three consecutive months from their date of employment are eligible to participate in a 401(k) plan. Employee contributions to the plan are subject to certain limits established by the Internal Revenue Service and they are 100% vested in their own contributions. The Credit Union matches employee contributions dollar-for-dollar up to 3% of the employees' salary and matches $0.50 for every dollar of employee contribution above 3% up to 5% of the employees' salary. Employees are 100% vested in this contribution. Additional Credit Union contributions can be made at the discretion of the Board of Directors. Employees become 100% vested in these discretionary contributions after five years of service. The Credit Union's contributions to the 401(k) plan approximated $924,000 and $712,000 for the years ended December 31, 2020 and 2019, respectively.

Deferred Compensation

The Credit Union has a 457(b) non-qualified deferred compensation plan for certain members of senior management. The Credit Union does not contribute to this plan. The deferred compensation amounts are shown as both assets and liabilities in the Credit Union's consolidated statements of financial condition and are available to creditors in the event of the Credit Union's liquidation. The balance of the asset maintained under this agreement was approximately $339,000 and $312,000 as of December 31, 2020 and 2019, respectively, and is included in prepaid and other assets in the consolidated statements of financial condition. The balance of the liability under this plan was approximately $339,000 and $312,000 as of December 31, 2020 and 2019, respectively, and is included in accrued expenses and other liabilities in the consolidated statements of financial condition.

Note 6 - Employee Benefits (Continued)

Deferred Compensation (Continued)

The Credit Union also has a 457(f) deferred compensation agreement with certain members of senior management in which investment assets have been purchased as a method of measuring and paying for supplemental retirement income for the executives. Under the agreement, the Credit Union is the owner of the assets and a liability is established for the intended obligation to the executive based on the amount of the purchased asset and the performance of the asset. In accordance with the agreement, the benefits are subject to forfeiture and are payable to these employees if they remain employed by the Credit Union until the date specified in the agreement. The balance of the asset maintained under this agreement was approximately $714,000 and $551,000 as of December 31, 2020 and 2019, respectively, and is included in prepaid and other assets in the consolidated statements of financial condition. The balance of the liability under this agreement was approximately $714,000 and $551,000 as of December 31, 2020 and 2019, respectively, and is included in accrued expenses and other liabilities in the consolidated statements of financial condition.

Note 7 - Borrowed Funds

Lines of Credit

The Credit Union has entered into a credit availability agreement with the Federal Reserve Bank of Richmond (FRB) which allows the Credit Union to borrow against its securities held in safekeeping. The Credit Union is able to borrow by pledging specific investment securities and applying the percentages published in the current "Federal Reserve Discount Window and Payment System Risk Collateral Margins Table" which is available on the Federal Reserve Bank's website. As of December 31, 2020 and 2019, the Credit Union was able to borrow between 90% and 99% of the fair market value of its securities held in safekeeping at the FRB depending on the maturity dates of the specific securities pledged. As of December 31, 2020 and 2019, the total fair market value of the securities held in safekeeping at the FRB was approximately $68,664,000 and $46,180,000, respectively. As of December 31, 2020 and 2019, there were no borrowings outstanding under this agreement.

The Credit Union is a member of the FHLB of Atlanta. As of December 31, 2020 and 2019, the Credit Union had access to a pre-approved secured line of credit from the FHLB, secured by eligible investment securities, as defined in the FHLB Statement of Credit Policy. As of December 31, 2020 and 2019, the collateral value of assets pledged under this line-of-credit agreement was approximately $74,444,000 and $40,443,000, respectively. There were no borrowings under this line-of-credit agreement as of December 31, 2020 or 2019.

Note 8 - Commitments and Contingent Liabilities

Off Balance-Sheet Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated statements of financial condition.

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. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2020 and 2019, the total unfunded commitments under such lines of credit was approximately $162,156,000 and $149,367,000, respectively. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 9 - 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 generally accepted accounting practices. 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 table below) of net worth (as defined in *NCUA Regulations*) to total assets (as defined in *NCUA Regulations*). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2020 and 2019 was 4.37% and 4.36%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2020 and 2019, that the Credit Union meets all capital adequacy requirements to which it is subject.

Note 9 - Regulatory Capital (Continued)

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 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of December 31, 2020		As of December 31, 2019	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$102,169,150	8.96%	$99,562,556	9.74%
Amount needed to be classified as "adequately capitalized"	$68,436,823	6.00%	$61,305,187	6.00%
Amount needed to be classified as "well capitalized"	$79,842,960	7.00%	$71,522,718	7.00%

Because the RBNWR is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter end option, as permitted by regulation.

Note 10 - Fair Value Measurements

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Basis of Fair Value Measurements

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Note 10 - Fair Value Measurements (Continued)

Level 2 - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is generated from model-based techniques use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized as follows:

	Assets at Fair Value as of December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale debt securities:				
Commercial mortgage-backed securities	$—	$45,442,114	$—	$45,442,114
Agency securities	—	25,929,500	—	25,929,500
Mortgage-backed securities	—	21,930,243	—	21,930,243
Collateralized mortgage obligations	—	18,219,163	—	18,219,163
	$—	$111,521,020	$—	$111,521,020

	Assets at Fair Value as of December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale debt securities:				
Mortgage-backed securities	$—	$28,560,849	$—	$28,560,849
Collateralized mortgage obligations	—	17,903,967	—	17,903,967
	$—	$46,464,816	$—	$46,464,816

Note 10 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Non-Recurring Basis

Impaired Loans

Loans for which the Credit Union has measured impairment are generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances less the valuation allowance and/or charge-offs.

Assets measured at fair value on a non-recurring basis are summarized as follows:

	Assets at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Impaired loans	$—	$—	$6,202,464	$6,202,464

	Assets at Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Impaired loans	$—	$—	$6,606,694	$6,606,694

Note 11 - Related Party Transactions

Loans

Loans to Credit Union directors and executive officers approximated $1,525,000 and $2,172,000 as of December 31, 2020 and 2019, respectively.

* * * End of Notes * * *