

**UNITED STATES SENATE FEDERAL CREDIT UNION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2021 AND 2020**  
*(With Independent Auditor's Report Thereon)*

# UNITED STATES SENATE FEDERAL CREDIT UNION

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## Independent Auditor's Report

April 12, 2022

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

### **Report on the Consolidated Financial Statements**

#### ***Opinion***

We have audited the 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, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of United States Senate Federal Credit Union and its subsidiary, as of December 31, 2021 and 2020, 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.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Consolidated Financial Statements section of our report. We are required to be independent of United States Senate Federal Credit Union, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about United States Senate Federal Credit Union's ability to continue as a going concern for one year the date that the consolidated financial statements are available to be issued.

**Report on the Consolidated Financial Statements (Continued)**

*Auditor's Responsibilities for the Audits of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 United States Senate Federal Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about United States Senate Federal Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

*Doeren Mayhew*

Doeren Mayhew  
Miami, FL

# UNITED STATES SENATE FEDERAL CREDIT UNION

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION AS OF DECEMBER 31, 2021 AND 2020

| <u>Assets</u>   | <u>2021</u>            | <u>2020</u>            |
|---|------------------------|------------------------|
| Cash and cash equivalents                                   | \$171,635,864          | \$208,565,483          |
| Automated Clearing House (ACH) receivable                   | 9,495,197              | 10,744,892             |
| Available-for-sale debt securities (Note 2)                 | 160,525,867            | 111,521,020            |
| Loans to members, net of allowance for loan losses (Note 3) | 815,869,919            | 772,449,129            |
| Accrued interest receivable                                 | 3,342,075              | 3,791,460              |
| Prepaid and other assets                                    | 14,772,315             | 9,303,958              |
| Property and equipment (Note 4)                             | 27,478,512             | 15,297,928             |
| National Credit Union Share Insurance Fund (NCUSIF) deposit | 9,479,505              | 8,939,849              |
| <br>  |                        |                        |
| Total assets  | <u>\$1,212,599,254</u> | <u>\$1,140,613,719</u> |
| <br><b><u>Liabilities and Members' Equity</u></b><br><br>   |                        |                        |
| Liabilities:  |                        |                        |
| Members' shares and savings accounts (Note 5)               | \$1,092,364,665        | \$1,031,152,119        |
| Accrued expenses and other liabilities                      | 5,862,132              | 5,976,194              |
| <br>  |                        |                        |
| Total liabilities   | <u>1,098,226,797</u>   | <u>1,037,128,313</u>   |
| <br>  |                        |                        |
| Commitments and contingent liabilities                      |                        |                        |
| <br>  |                        |                        |
| Members' equity:  |                        |                        |
| Regular reserve   | 3,382,981              | 3,382,981              |
| Undivided earnings  | 111,632,869            | 98,786,169             |
| Accumulated other comprehensive (loss)/income               | (643,393)              | 1,316,256              |
| <br>  |                        |                        |
| Total members' equity                                       | <u>114,372,457</u>     | <u>103,485,406</u>     |
| <br>  |                        |                        |
| Total liabilities and members' equity                       | <u>\$1,212,599,254</u> | <u>\$1,140,613,719</u> |

See accompanying notes to the consolidated financial statements.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2021 AND 2020

|  | 2021         | 2020         |
|--|--------------|--------------|
| Interest income:                                       |              |              |
| Loans to members                                       | \$39,821,409 | \$42,650,767 |
| Investments  | 1,520,602    | 1,708,916    |
| Total interest income                                  | 41,342,011   | 44,359,683   |
| Interest expense:                                      |              |              |
| Members' shares and savings accounts                   | 14,243,516   | 13,352,183   |
| Net interest income                                    | 27,098,495   | 31,007,500   |
| (Reversal of provision)/provision for loan losses      | (5,587,988)  | 9,269,247    |
| Net interest income after provision<br>for loan losses | 32,686,483   | 21,738,253   |
| Non-interest income:                                   |              |              |
| Interchange income                                     | 2,771,419    | 2,328,767    |
| Fees and charges                                       | 1,490,912    | 1,266,100    |
| Other miscellaneous income                             | 738,091      | 1,134,245    |
| Total non-interest income                              | 5,000,422    | 4,729,112    |
| Non-interest expenses:                                 |              |              |
| Compensation and benefits                              | 12,883,934   | 12,865,966   |
| Office operations                                      | 5,352,442    | 5,426,389    |
| Loan servicing   | 2,791,267    | 1,883,757    |
| Professional and outside servicing costs               | 1,556,806    | 1,372,845    |
| Office occupancy                                       | 1,150,561    | 910,774      |
| Other  | 1,105,195    | 1,401,040    |
| Total non-interest expenses                            | 24,840,205   | 23,860,771   |
| Net income   | \$12,846,700 | \$2,606,594  |

See accompanying notes to the consolidated financial statements.

**UNITED STATES SENATE FEDERAL CREDIT UNION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

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|  | 2021         | 2020        |
|--|--------------|-------------|
| Net income   | \$12,846,700 | \$2,606,594 |
| Other comprehensive (loss)/income:   |              |             |
| Available-for-sale debt securities:  |              |             |
| Net unrealized holding (losses)/gains on<br>available-for-sale debt securities | (1,959,649)  | 1,031,615   |
| Other comprehensive (loss)/income  | (1,959,649)  | 1,031,615   |
| Comprehensive income   | \$10,887,051 | \$3,638,209 |

See accompanying notes to the consolidated financial statements.

**UNITED STATES SENATE FEDERAL CREDIT UNION**

**CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY  
YEARS ENDED DECEMBER 31, 2021 AND 2020**

|                               | <b>Regular<br/>Reserve</b> | <b>Undivided<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income/(Loss)</b> | <b>Total</b>  |
|-------------------------------|----------------------------|-------------------------------|--|---------------|
| Balance,<br>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,<br>December 31, 2020 | 3,382,981                  | 98,786,169                    | 1,316,256  | 103,485,406   |
| Net income                    | —                          | 12,846,700                    | —  | 12,846,700    |
| Other comprehensive loss      | —                          | —                             | (1,959,649)  | (1,959,649)   |
| Balance,<br>December 31, 2021 | \$3,382,981                | \$111,632,869                 | (\$643,393)  | \$114,372,457 |

See accompanying notes to the consolidated financial statements.



# UNITED STATES SENATE FEDERAL CREDIT UNION

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

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|   | <u>2021</u>  | <u>2020</u> |
|---|--------------|-------------|
| Cash flows from operating activities:                     |              |             |
| Net income  | \$12,846,700 | \$2,606,594 |
| Adjustments to net cash provided by operating activities: |              |             |
| (Reversal of provision)/provision for loan losses         | (5,587,988)  | 9,269,247   |
| Depreciation and amortization                             | 1,622,378    | 1,628,347   |
| (Increase)/decrease in:                                   |              |             |
| ACH receivable  | 1,249,695    | 2,168,546   |
| Accrued interest receivable                               | 449,385      | (705,592)   |
| Prepaid and other assets                                  | (5,468,357)  | (1,712,386) |
| Increase/(decrease) in:                                   |              |             |
| Accrued expenses and other liabilities                    | (114,062)    | (793,237)   |
| Total adjustments   | (7,848,949)  | 9,854,925   |
| Net cash provided by operating activities                 | 4,997,751    | 12,461,519  |

See accompanying notes to the consolidated financial statements.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

### Cash Flows (Continued)

|   | <u>2021</u>                 | <u>2020</u>                 |
|---|-----------------------------|-----------------------------|
| Cash flows from investing activities:   |                             |                             |
| Net change in loans to members  | 62,008,315                  | 26,677,670                  |
| Purchase of loan participations   | (99,841,117)                | (77,876,116)                |
| Proceeds from the repayment, call, or maturity of<br>available-for-sale debt securities | 26,675,709                  | 11,516,720                  |
| Purchase of available-for-sale debt securities  | (77,640,205)                | (75,541,309)                |
| Increase in NCUSIF deposit  | (539,656)                   | (1,191,498)                 |
| Purchase of property and equipment  | (13,802,962)                | (3,345,013)                 |
|   | <u>(103,139,916)</u>        | <u>(119,759,546)</u>        |
| Cash flows from financing activities:   |                             |                             |
| Net change in members' shares and savings accounts                                      | 61,212,546                  | 116,015,632                 |
|   | <u>61,212,546</u>           | <u>116,015,632</u>          |
| Net change in cash and cash equivalents   | (36,929,619)                | 8,717,605                   |
| Cash and cash equivalents - beginning   | <u>208,565,483</u>          | <u>199,847,878</u>          |
| Cash and cash equivalents - ending  | <u><u>\$171,635,864</u></u> | <u><u>\$208,565,483</u></u> |
| <b><u>Supplemental Information</u></b>  |                             |                             |
| Interest paid   | <u><u>\$14,280,832</u></u>  | <u><u>\$13,618,472</u></u>  |

See accompanying notes to the consolidated financial statements.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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### 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.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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### 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

The 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 (loss)/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 consolidated 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.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

#### 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 fees 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 consolidated statements 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.

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.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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

#### Allowance for Loan Losses (Continued)

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, 2021 and 2020, the historical loss time frame for each class was 12 months.

#### 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.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

#### Allowance for Loan Losses (Continued)

##### 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.

##### 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, 2021 and 2020 was immaterial.

##### Consumer and Real Estate Credit Quality Indicators

The majority of the Credit Union's consumer and real estate 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 real estate 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.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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

#### Allowance for Loan Losses (Continued)

#### Consumer and Real Estate Credit Quality Indicators (Continued)

Credit quality for the entire consumer and real estate loan portfolio is measured by the periodic delinquency rate, non-accrual 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 TDRs 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 value 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:

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

**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.

**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.



# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

#### Allowance for Loan Losses (Continued)

#### Commercial Credit Quality Indicators (Continued)

**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.

#### 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.

#### Property and Equipment

Land is carried at cost. Buildings and building improvements and furniture 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 life. 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.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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

#### Property and Equipment (Continued)

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.

#### 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. Primary 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.

#### Income Taxes

The Credit Union is exempt, by the Internal Revenue Code Section 501(c)(1)(a)(i), from federal and state income taxes.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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

#### 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 consolidated statements of income, with related expense streams such as processor costs and reward point costs, presented separately in non-interest expenses.

#### Recent Accounting Pronouncements

##### *Accounting for Financial Instruments - Credit Losses*

In June 2016, the Financial Accounting Standards Board (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 April 12, 2022, the date the consolidated financial statements were available to be issued.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

### 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, 2021:

|                                       | Amortized<br>Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value        |
|---------------------------------------|----------------------|------------------------------|-------------------------------|----------------------|
| Available-for-sale debt:              |                      |                              |                               |                      |
| Commercial mortgage-backed securities | \$55,312,495         | \$98,912                     | (\$673,034)                   | \$54,738,373         |
| Agency securities                     | 25,573,636           | —                            | (188,886)                     | 25,384,750           |
| Mortgage-backed securities            | 42,327,979           | 513,653                      | (168,752)                     | 42,672,880           |
| U.S. Treasury notes                   | 19,951,138           | —                            | (166,685)                     | 19,784,453           |
| Collateralized mortgage obligations   | 18,004,012           | 44,742                       | (103,343)                     | 17,945,411           |
| <b>Total</b>                          | <b>\$161,169,260</b> | <b>\$657,307</b>             | <b>(\$1,300,700)</b>          | <b>\$160,525,867</b> |

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

|                                       | Amortized<br>Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>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           |
| <b>Total</b>                          | <b>\$110,204,764</b> | <b>\$1,336,179</b>           | <b>(\$19,923)</b>             | <b>\$111,521,020</b> |

As of December 31, 2021, the Credit Union's available-for-sale debt securities portfolio consisted entirely of mortgage-backed securities, commercial mortgage-backed securities, collateralized mortgage obligations, U.S. Treasury notes 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.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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

The amortized cost and estimated fair value of debt securities as of December 31, 2021, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties.

|   | <i>Available-for-sale</i> |                       |
|---|---------------------------|-----------------------|
|   | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> |
| 1 to 5 years                              | \$45,524,774              | \$45,169,203          |
| Commercial mortgage-<br>backed securities | 55,312,495                | 54,738,373            |
| Mortgage-backed securities                | 42,327,979                | 42,672,880            |
| Collateralized mortgage<br>obligations    | 18,004,012                | 17,945,411            |
| Total                                     | \$161,169,260             | \$160,525,867         |

Information pertaining to investments with gross unrealized losses as of December 31, 2021, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

|   | <u>Less than 12 Months</u> |  | <u>12 Months or Longer</u> |  | <u>Total</u>          |  |
|---|----------------------------|--|----------------------------|--|-----------------------|--|
|   | <b>Fair<br/>Value</b>      | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b>      | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> | <b>Gross<br/>Unrealized<br/>Losses</b> |
| Available-for-sale debt:                  |                            |  |                            |  |                       |  |
| Commercial mortgage-<br>backed securities | \$21,707,752               | (\$431,973)                            | \$9,203,684                | (\$241,061)                            | \$30,911,436          | (\$673,034)                            |
| Agency securities                         | 25,384,750                 | (188,886)                              | —                          | —                                      | 25,384,750            | (188,886)                              |
| Mortgage-backed<br>securities             | 27,738,737                 | (168,752)                              | —                          | —                                      | 27,738,737            | (168,752)                              |
| U.S. Treasury notes                       | 19,784,453                 | (166,685)                              | —                          | —                                      | 19,784,453            | (166,685)                              |
| Collateralized mortgage<br>obligations    | 8,080,387                  | (103,343)                              | —                          | —                                      | 8,080,387             | (103,343)                              |
| Total                                     | \$102,696,079              | (\$1,059,639)                          | \$9,203,684                | (\$241,061)                            | \$111,899,763         | (\$1,300,700)                          |

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

### 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:

|                                       | <u>Less than 12 Months</u> |                                | <u>12 Months or Longer</u> |                                | <u>Total</u>      |                                |
|---------------------------------------|----------------------------|--------------------------------|----------------------------|--------------------------------|-------------------|--------------------------------|
|                                       | <u>Fair Value</u>          | <u>Gross Unrealized Losses</u> | <u>Fair Value</u>          | <u>Gross Unrealized Losses</u> | <u>Fair Value</u> | <u>Gross Unrealized Losses</u> |
| 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)                     |

At December 31, 2021 and 2020, 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, 2021 or 2020.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

### Note 3 - Loans to Members

The composition of loans to members as of December 31, 2021 and 2020 is as follows:

|                                 | <u>2021</u>          | <u>2020</u>          |
|---------------------------------|----------------------|----------------------|
| Real Estate:                    |                      |                      |
| First mortgage                  | \$210,934,322        | \$146,479,401        |
| Second mortgage                 | 237,208,722          | 220,505,921          |
|                                 | <u>448,143,044</u>   | <u>366,985,322</u>   |
| Consumer:                       |                      |                      |
| Vehicle                         | 56,096,831           | 72,681,314           |
| Unsecured                       | 196,890,245          | 194,618,875          |
| Other secured                   | 1,679,611            | 1,774,822            |
|                                 | <u>254,666,687</u>   | <u>269,075,011</u>   |
| Commercial:                     |                      |                      |
| Real estate                     | 115,335,813          | 145,547,142          |
| Other                           | 2,924,375            | 3,371,654            |
|                                 | <u>118,260,188</u>   | <u>148,918,796</u>   |
|                                 | 821,069,919          | 784,979,129          |
| Less: Allowance for loan losses | <u>(5,200,000)</u>   | <u>(12,530,000)</u>  |
| Loans to members, net           | <u>\$815,869,919</u> | <u>\$772,449,129</u> |

Included in the amounts above are approximately \$6,861,000 and \$2,509,000 of deferred loan origination costs, fees, and premiums paid on loans acquired as of December 31, 2021 and 2020, respectively.

**UNITED STATES SENATE FEDERAL CREDIT UNION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**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, 2021:

|  | <b>Real Estate</b> | <b>Consumer</b> | <b>Commercial</b> | <b>Total</b> |
|--|--------------------|-----------------|-------------------|--------------|
| Allowance for loan losses:                           |                    |                 |                   |              |
| Beginning allowance                                  | \$1,302,612        | \$7,828,671     | \$3,398,717       | \$12,530,000 |
| Charge-offs  | (804,573)          | (2,332,014)     | —                 | (3,136,587)  |
| Recoveries   | 995,564            | 399,011         | —                 | 1,394,575    |
| Provision (reversal)                                 | (668,701)          | (1,852,671)     | (3,066,616)       | (5,587,988)  |
| Ending allowance                                     | \$824,902          | \$4,042,997     | \$332,101         | \$5,200,000  |
| Ending balance individually evaluated for impairment | \$303,404          | \$638,995       | \$—               | \$942,399    |
| Ending balance collectively evaluated for impairment | 521,498            | 3,404,002       | 332,101           | 4,257,601    |
| Ending allowance                                     | \$824,902          | \$4,042,997     | \$332,101         | \$5,200,000  |

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2021:

|  | <b>Real Estate</b> | <b>Consumer</b> | <b>Commercial</b> | <b>Total</b>  |
|--|--------------------|-----------------|-------------------|---------------|
| Loans:   |                    |                 |                   |               |
| Ending balance individually evaluated for impairment | \$4,205,361        | \$817,540       | \$—               | \$5,022,901   |
| Ending balance collectively evaluated for impairment | 443,937,683        | 253,849,147     | 118,260,188       | 816,047,018   |
| Total loans  | \$448,143,044      | \$254,666,687   | \$118,260,188     | \$821,069,919 |



**UNITED STATES SENATE FEDERAL CREDIT UNION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**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, 2020:

|  | <b>Real Estate</b> | <b>Consumer</b> | <b>Commercial</b> | <b>Total</b> |
|--|--------------------|-----------------|-------------------|--------------|
| 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:

|  | <b>Real Estate</b> | <b>Consumer</b> | <b>Commercial</b> | <b>Total</b>  |
|--|--------------------|-----------------|-------------------|---------------|
| 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 |

**UNITED STATES SENATE FEDERAL CREDIT UNION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2021 AND 2020**

**Note 3 - Loans to Members (Continued)**

Impaired Loans

The table below summarizes key information for impaired loans as of December 31, 2021:

|                                    | <b>Recorded<br/>Investment</b> | <b>Unpaid<br/>Principal<br/>Balance</b> | <b>Related<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> |
|------------------------------------|--------------------------------|---|------------------------------|--|
| <u>With no allowance recorded:</u> |                                |   |                              |  |
| Real Estate:                       |                                |   |                              |  |
| First mortgage                     | \$1,555,788                    | \$1,555,788                             | \$—                          | \$777,894                                  |
| <u>With an allowance recorded:</u> |                                |   |                              |  |
| Consumer:                          |                                |   |                              |  |
| Vehicle                            | \$45,262                       | \$45,262                                | \$22,631                     | \$60,578                                   |
| Unsecured                          | \$772,278                      | \$772,278                               | \$616,364                    | \$773,347                                  |
| Real Estate:                       |                                |   |                              |  |
| Second mortgage                    | \$2,649,573                    | \$2,649,573                             | \$303,404                    | \$3,250,045                                |
| Totals:                            |                                |   |                              |  |
| Consumer                           | \$817,540                      | \$817,540                               | \$638,995                    | \$833,925                                  |
| Real Estate                        | 4,205,361                      | 4,205,361                               | 303,404                      | 4,027,939                                  |
| Commercial                         | —                              | —                                       | —                            | —  |
|                                    | <b>\$5,022,901</b>             | <b>\$5,022,901</b>                      | <b>\$942,399</b>             | <b>\$4,861,864</b>                         |

**UNITED STATES SENATE FEDERAL CREDIT UNION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**Note 3 - Loans to Members (Continued)**

Impaired Loans (Continued)

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

|                                    | <b>Recorded<br/>Investment</b> | <b>Unpaid<br/>Principal<br/>Balance</b> | <b>Related<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> |
|------------------------------------|--------------------------------|---|------------------------------|--|
| <u>With an allowance recorded:</u> |                                |   |                              |  |
| 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                               |

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

### 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, 2021:

|                 | 30-59 Days<br>Past Due    | 60-89 Days<br>Past Due  | 90 Days<br>and Greater<br>Past Due | Total<br>Past Due         | Current                     | Total Loans                 |
|-----------------|---------------------------|-------------------------|------------------------------------|---------------------------|-----------------------------|-----------------------------|
| Real Estate:    |                           |                         |                                    |                           |                             |                             |
| First mortgage  | \$1,113,585               | \$—                     | \$1,535,386                        | \$2,648,971               | \$208,285,351               | \$210,934,322               |
| Second mortgage | 1,708,533                 | 55,757                  | 658,768                            | 2,423,058                 | 234,785,664                 | 237,208,722                 |
|                 | <u>2,822,118</u>          | <u>55,757</u>           | <u>2,194,154</u>                   | <u>5,072,029</u>          | <u>443,071,015</u>          | <u>448,143,044</u>          |
| Consumer:       |                           |                         |                                    |                           |                             |                             |
| Vehicle         | 69,283                    | 25,295                  | 19,968                             | 114,546                   | 55,982,285                  | 56,096,831                  |
| Unsecured       | 895,474                   | 209,461                 | 590,863                            | 1,695,798                 | 195,194,447                 | 196,890,245                 |
| Other secured   | —                         | —                       | —                                  | —                         | 1,679,611                   | 1,679,611                   |
|                 | <u>964,757</u>            | <u>234,756</u>          | <u>610,831</u>                     | <u>1,810,344</u>          | <u>252,856,343</u>          | <u>254,666,687</u>          |
| Commercial:     |                           |                         |                                    |                           |                             |                             |
| Real estate     | —                         | —                       | —                                  | —                         | 115,335,813                 | 115,335,813                 |
| Other           | —                         | —                       | 16,225                             | 16,225                    | 2,908,150                   | 2,924,375                   |
|                 | <u>—</u>                  | <u>—</u>                | <u>16,225</u>                      | <u>16,225</u>             | <u>118,243,963</u>          | <u>118,260,188</u>          |
| <b>Total</b>    | <u><u>\$3,786,875</u></u> | <u><u>\$290,513</u></u> | <u><u>\$2,821,210</u></u>          | <u><u>\$6,898,598</u></u> | <u><u>\$814,171,321</u></u> | <u><u>\$821,069,919</u></u> |

Loans on which the accrual of interest has been discontinued or reduced approximated \$2,821,000 as of December 31, 2021. There were no loans 90 days or more past due and still accruing interest as of December 31, 2021.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 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, 2020:

|                 | 30-59 Days<br>Past Due    | 60-89 Days<br>Past Due    | 90 Days<br>and Greater<br>Past Due | Total<br>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                 |
|                 | <u>1,703,567</u>          | <u>617,878</u>            | <u>1,035,219</u>                   | <u>3,356,664</u>          | <u>363,628,658</u>          | <u>366,985,322</u>          |
| 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                   |
|                 | <u>1,555,614</u>          | <u>574,099</u>            | <u>276,010</u>                     | <u>2,405,723</u>          | <u>266,669,288</u>          | <u>269,075,011</u>          |
| Commercial:     |                           |                           |                                    |                           |                             |                             |
| Real estate     | —                         | —                         | —                                  | —                         | 145,547,142                 | 145,547,142                 |
| Other           | 1,126,465                 | —                         | —                                  | 1,126,465                 | 2,245,189                   | 3,371,654                   |
|                 | <u>1,126,465</u>          | <u>—</u>                  | <u>—</u>                           | <u>1,126,465</u>          | <u>147,792,331</u>          | <u>148,918,796</u>          |
| <b>Total</b>    | <u><u>\$4,385,646</u></u> | <u><u>\$1,191,977</u></u> | <u><u>\$1,311,229</u></u>          | <u><u>\$6,888,852</u></u> | <u><u>\$778,090,277</u></u> | <u><u>\$784,979,129</u></u> |

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.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

### 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 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, 2021 and 2020:

|                 | As of December 31, 2021 |                         | As of December 31, 2020 |                         |
|-----------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                 | Performing<br>Loans     | Non-performing<br>Loans | Performing<br>Loans     | Non-performing<br>Loans |
| Real Estate:    |                         |                         |                         |                         |
| First mortgage  | \$209,398,936           | \$1,535,386             | \$146,062,112           | \$417,289               |
| Second mortgage | 236,549,954             | 658,768                 | 219,887,991             | 617,930                 |
|                 | 445,948,890             | 2,194,154               | 365,950,103             | 1,035,219               |
| Consumer:       |                         |                         |                         |                         |
| Vehicle         | 56,076,863              | 19,968                  | 72,651,934              | 29,380                  |
| Unsecured       | 196,299,382             | 590,863                 | 194,372,245             | 246,630                 |
| Other secured   | 1,679,611               | —                       | 1,774,822               | —                       |
|                 | 254,055,856             | 610,831                 | 268,799,001             | 276,010                 |
| Total           | \$700,004,746           | \$2,804,985             | \$634,749,104           | \$1,311,229             |

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

### 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 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, 2021:

|                 | <u>Real Estate</u>   | <u>Other</u>       | <u>Total</u>         |
|-----------------|----------------------|--------------------|----------------------|
| Credit Grade:   |                      |                    |                      |
| Pass            | \$108,637,723        | \$2,924,375        | \$111,562,098        |
| Watch           | 6,698,090            | —                  | 6,698,090            |
| Special Mention | —                    | —                  | —                    |
| Substandard     | —                    | —                  | —                    |
| Doubtful        | —                    | —                  | —                    |
| Loss            | —                    | —                  | —                    |
| Total           | <u>\$115,335,813</u> | <u>\$2,924,375</u> | <u>\$118,260,188</u> |

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

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

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

### Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2021 and 2020 by major classification as follows:

|  | <u>2021</u>         | <u>2020</u>         |
|--|---------------------|---------------------|
| Land   | \$2,422,532         | \$2,422,532         |
| Buildings and building improvements            | 25,181,200          | 3,658,586           |
| Construction in process, building              | 14,555              | 8,980,160           |
| Furniture and equipment                        | 11,860,781          | 10,624,000          |
| Leasehold improvements                         | 680,025             | 680,025             |
|  | <u>40,159,093</u>   | <u>26,365,303</u>   |
| Less accumulated depreciation and amortization | (12,680,581)        | (11,067,375)        |
|  | <u>\$27,478,512</u> | <u>\$15,297,928</u> |

Depreciation and amortization expense approximated \$1,622,000 and \$1,628,000 as of December 31, 2021 and 2020, respectively and is included in office operations and office occupancy in the consolidated statements of income.

### Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of December 31, 2021 and 2020:

|                                       | <u>2021</u>            | <u>2020</u>            |
|---------------------------------------|------------------------|------------------------|
| Share accounts                        | \$208,096,123          | \$179,980,221          |
| Share draft accounts                  | 217,290,032            | 198,911,531            |
| Money market accounts                 | 242,355,922            | 228,039,931            |
| Individual retirement accounts (IRAs) | 9,507,208              | 9,061,092              |
| Share, business and IRA certificates  | 415,115,380            | 415,159,344            |
|                                       | <u>\$1,092,364,665</u> | <u>\$1,031,152,119</u> |



# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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

As of December 31, 2021, scheduled maturities of share, business and IRA certificates are as follows:

|                 | <u>2021</u>          |
|-----------------|----------------------|
| Within one year | \$69,925,132         |
| 1 to 2 years    | 150,057,621          |
| 2 to 3 years    | 183,952,955          |
| 3 to 4 years    | 5,389,143            |
| 4 to 5 years    | <u>5,790,529</u>     |
|                 | <u>\$415,115,380</u> |

The aggregate amount of members' time deposit accounts in denominations of \$250,000 or more as of December 31, 2021 was approximately \$124,096,000.

### 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 \$857,000 and \$924,000 for the years ended December 31, 2021 and 2020, respectively.

### Note 7 - Borrowed Funds

#### Lines of Credit

The Credit Union is a member of the FHLB of Atlanta. As of December 31, 2021 and 2020, 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, 2021 and 2020, the collateral value of assets pledged under this line-of-credit agreement was approximately \$203,465,000 and \$74,444,000, respectively. There were no outstanding borrowings under this line-of-credit agreement as of December 31, 2021 or 2020.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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### Note 7 - Borrowed Funds (Continued)

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, 2021 and 2020, 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, 2021 and 2020, the total fair market value of the securities held in safekeeping at the FRB was approximately \$119,714,000 and \$68,664,000, respectively. There were no outstanding borrowings under this line-of-credit agreement as of December 31, 2021 or 2020.

### 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, 2021, the total unfunded commitments under such lines of credit was approximately \$177,029,000. 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.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

### Note 9 - Regulatory Capital (Continued)

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, 2021 and 2020 was 5.73% and 4.37%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2021 and 2020, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2021, 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, 2021 |                       | As of December 31, 2020 |                       |
|---|-------------------------|-----------------------|-------------------------|-----------------------|
|   | Amount                  | Ratio/<br>Requirement | Amount                  | Ratio/<br>Requirement |
| Actual net worth  | \$115,015,850           | 9.49%                 | \$102,169,150           | 8.96%                 |
| Amount needed to be classified<br>as “adequately capitalized” | \$72,755,955            | 6.00%                 | \$68,436,823            | 6.00%                 |
| Amount needed to be classified<br>as “well capitalized”       | \$84,881,948            | 7.00%                 | \$79,842,960            | 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.

#### Risk-Based Capital and Complex Credit Union Leverage Ratio Rules

Effective January 1, 2022, federally insured, natural-person credit unions defined as “complex” will have to comply with the NCUA’s risk-based capital (“RBC”) final rule which amends NCUA’s Prompt Corrective Action (“PCA”) regulations, part 702, or the newly created Complex Credit Union Leverage Ratio (“CCULR”) rule. A credit union is defined as “complex” if the credit union’s quarter-end total assets exceed \$500,000,000, as reflected in its most recent Call Report. The rules require credit unions taking certain risks to hold capital commensurate with those risks.

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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### Note 9 - Regulatory Capital (Continued)

#### *Risk-Based Capital and Complex Credit Union Leverage Ratio Rules (Continued)*

The RBC rule revises part 702 of NCUA's current regulations to establish a RBC ratio measure that is the percentage of a credit union's capital divided by the credit union's defined risk-weighted asset base. This RBC rule more closely aligns NCUA's risk weights with those assigned by other Banking agencies. Accordingly, the RBC rule adopts a 10 percent RBC ratio level for "well capitalized" credit unions, and an 8 percent RBC ratio level for "adequately capitalized" credit unions. The methodology for assigning risk weights in the RBC rule primarily accounts for credit risk and concentration risk.

The CCULR rule simplifies the RBC rule requirements for complex credit unions that meet certain eligibility criteria by allowing them to choose between implementing the RBC rule or the CCULR. Credit unions that select CCULR instead of the RBC rule would have a minimum 9 percent leverage ratio requirement in 2022 and that requirement would increase to a minimum of 10 percent in 2024. A qualifying complex credit union opting into the CCULR framework calculates its CCULR in the same manner as its net worth ratio under NCUA's PCA regulations, part 702. Management has evaluated the impact of these rules and determined they do not change its current classification under PCA.

### 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.

**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.

**UNITED STATES SENATE FEDERAL CREDIT UNION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020**

**Note 10 - Fair Value Measurements (Continued)**

**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:

| <b>Assets at Fair Value as of December 31, 2021</b> |                |                |                |               |
|---|----------------|----------------|----------------|---------------|
|   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
| Available-for-sale debt securities:                 |                |                |                |               |
| Commercial mortgage-backed securities               | \$—            | \$54,738,373   | \$—            | \$54,738,373  |
| Agency securities                                   | —              | 25,384,750     | —              | 25,384,750    |
| Mortgage-backed securities                          | —              | 42,672,880     | —              | 42,672,880    |
| U.S. Treasury notes                                 | 19,784,453     | —              | —              | 19,784,453    |
| Collateralized mortgage obligations                 | —              | 17,945,411     | —              | 17,945,411    |
|   | \$19,784,453   | \$140,741,414  | \$—            | \$160,525,867 |
| <b>Assets at Fair Value as of December 31, 2020</b> |                |                |                |               |
|   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>  |
| 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 |

# UNITED STATES SENATE FEDERAL CREDIT UNION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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### 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:

|                | <b>Assets at Fair Value as of December 31, 2021</b> |                |                |              |
|----------------|---|----------------|----------------|--------------|
|                | <b>Level 1</b>                                      | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| Impaired loans | \$—   | \$—            | \$2,524,714    | \$2,524,714  |

|                | <b>Assets at Fair Value as of December 31, 2020</b> |                |                |              |
|----------------|---|----------------|----------------|--------------|
|                | <b>Level 1</b>                                      | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| Impaired loans | \$—   | \$—            | \$6,202,464    | \$6,202,464  |

\* \* \* End of Notes \* \* \*