REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

BETHPAGE FEDERAL CREDIT UNION AND SUBSIDIARIES

December 31, 2021 and 2020

MOSSADAMS

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The Board of Directors and Supervisory Committee
Bethpage Federal Credit Union and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Bethpage Federal Credit Union and Subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in 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 Bethpage Federal Credit Union and Subsidiaries 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 Audit of the Financial Statements section of our report. We are required to be independent of Bethpage Federal Credit Union and Subsidiaries 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Bethpage Federal Credit Union and Subsidiaries' ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the 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 audit.
- Identify and assess the risks of material misstatement of the 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 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 Bethpage Federal Credit Union and Subsidiaries' 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bethpage Federal Credit Union and Subsidiaries' 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 audit.

Moss Adams LLP

Portland, Oregon
March 31, 2022

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Financial Condition
(dollars in thousands)

ASSETS

	December 31, 2021	December 31, 2020
Cash and cash equivalents	$ 67,141	$ 73,223
Mutual fund, at fair value	340,004	400,004
Investments:		
Available-for-sale, at fair value	3,955,578	3,137,644
Other	53,585	43,168
Loans held for sale	118,003	157,660
Loans receivable, net	6,610,300	6,242,904
Accrued interest receivable	29,508	28,562
Servicing rights, net	35,130	28,810
Property and equipment, net	60,475	59,912
Goodwill	56,788	56,788
Other intangibles and core deposit	19,366	19,544
National Credit Union Share Insurance Fund deposit	88,452	81,271
Foreclosed and repossessed assets	1,627	1,863
Other assets	38,402	51,141
Total assets	$ 11,474,359	$ 10,382,494

LIABILITIES AND MEMBERS' EQUITY

	2021	2020
LIABILITIES		
Members' shares	$ 10,071,424	$ 9,184,081
Borrowed funds	270,200	140,200
Accrued expenses and other liabilities	140,559	176,715
Total liabilities	10,482,183	9,500,996
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 5, 9, and 10)		
MEMBERS' EQUITY		
Retained earnings	1,020,099	843,550
Equity acquired in merger	5,304	5,304
Accumulated other comprehensive (loss) income	(33,227)	32,644
Total members' equity	992,176	881,498
Total liabilities and members' equity	$ 11,474,359	$ 10,382,494

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Income
(dollars in thousands)

	Years Ended December 31,	
	2021	2020
INTEREST INCOME		
Interest and fees on loans receivable	$ 227,184	$ 244,433
Interest and dividends on mutual fund, investments, and cash equivalents	56,639	58,424
Total interest income	283,823	302,857
INTEREST EXPENSE		
Dividends on members' shares	48,909	80,465
Interest on borrowed funds	924	2,090
Total interest expense	49,833	82,555
Net interest income	233,990	220,302
(RECAPTURE OF) PROVISION FOR LOAN LOSSES	(14,320)	58,155
Net interest income after (recapture of) provision for loan losses	248,310	162,147
NON-INTEREST INCOME		
Gain on sale of mortgage loans	53,348	51,449
Members' shares service charges and other fees	29,584	23,424
Mortgage servicing and loan fees	16,185	5,028
Investment services and insurance fees – commissions	9,860	7,857
Other non-interest income (loss)	7,437	(158)
Total non-interest income	116,414	87,600
NON-INTEREST EXPENSES		
Salaries and benefits	80,788	71,967
Operations	48,504	62,690
Data processing	29,948	27,711
Occupancy	12,059	11,737
Education and promotional	10,591	6,717
Professional services	6,285	5,759
Total non-interest expenses	188,175	186,581
NET INCOME	$ 176,549	$ 63,166

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Comprehensive Income
(dollars in thousands)

	Years Ended December 31,	
	2021	2020
NET INCOME	$ 176,549	$ 63,166
OTHER COMPREHENSIVE (LOSS) INCOME		
Investments available-for-sale:		
Net unrealized (losses) gains on securities available-for-sale arising during the period	(84,002)	52,863
Reclassification adjustment for realized gains from sales included in other non-interest income	(470)	-
Defined benefit pension plans:		
Net gain (loss) arising during the period	13,389	(10,633)
Reclassification adjustment for amortization of prior service cost and net losses included in salaries and benefits	5,212	3,515
Total other comprehensive (loss) income	(65,871)	45,745
COMPREHENSIVE INCOME	$ 110,678	$ 108,911

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Changes in Members' Equity
(dollars in thousands)

	Retained Earnings				
	Undivided Earnings	Regular Reserve	Total Retained Earnings	Equity Acquired in Merger	Accumulated Other Comprehensive (Loss) Income
BALANCE, December 31, 2019	$ 759,000	$ 21,384	$ 780,384	$ 5,304	$ (13,101)
Net income	63,166	-	63,166	-	-
Other comprehensive income	-	-	-	-	45,745
BALANCE, December 31, 2020	822,166	21,384	843,550	5,304	32,644
Net income	176,549	-	176,549	-	-
Other comprehensive loss	-	-	-	-	(65,871)
BALANCE, December 31, 2021	$ 998,715	$ 21,384	$ 1,020,099	$ 5,304	$ (33,227)

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Cash Flows
(dollars in thousands)

	Years Ended December 31, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 176,549	$ 63,166
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage servicing rights	6,589	6,158
Impairment of mortgage servicing rights	94	9,146
Amortization of commercial servicing rights	1,809	1,550
Impairment of commercial servicing rights	140	199
Amortization of net premium on investments	58,454	26,578
(Recapture of) provision for loan losses	(14,320)	58,155
Gain on sales of investments available-for-sale	(470)	-
Gain on sale of mutual fund	-	(4)
Gain on sales of mortgage loans	(53,348)	(51,449)
Loss on sales of other loans	-	273
Mortgage loans originated for sale	(1,380,145)	(1,277,782)
Proceeds from sale of mortgage loans	1,462,620	1,235,878
Depreciation and amortization	6,369	6,000
Amortization of core deposit intangible	178	178
Write down of foreclosed and repossessed assets	189	1,312
Gain on sales of foreclosed and repossessed assets	(92)	(116)
(Increase) decrease in accrued interest receivable	(946)	911
Decrease (increase) in other assets	5,022	(16,610)
(Decrease) increase in accrued expenses and other liabilities	(28,463)	26,225
Net cash provided by operating activities	240,229	89,768
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of mutual fund	-	(275,000)
Proceeds from sale of mutual fund	60,000	375,000
Purchases of investments available-for-sale	(1,648,183)	(1,598,948)
Proceeds from maturities of investments available-for-sale	655,612	449,240
Proceeds from sales of investments available-for-sale	46,384	-
Proceeds from sales of foreclosed and repossessed assets	693	3,597
Net (increase) decrease in other investments	(10,417)	1,497
Net (increase) decrease in loans receivable	(353,630)	220,298
Increase in the National Credit Union Share Insurance Fund deposit	(7,181)	(10,180)
Purchases of property and equipment	(6,932)	(10,163)
Net cash used in investing activities	(1,263,654)	(844,659)

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Cash Flows
(dollars in thousands)

	Years Ended December 31, 2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in short-term borrowed funds	$ 130,000	$ (307,875)
Net increase in members' shares	887,343	1,069,677
Net cash provided by financing activities	1,017,343	761,802
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,082)	6,911
CASH AND CASH EQUIVALENTS, beginning of year	73,223	66,312
CASH AND CASH EQUIVALENTS, end of year	$ 67,141	$ 73,223
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for		
Dividends on members' shares	$ 48,972	$ 80,446
Interest on borrowed funds	$ 911	$ 2,293
Schedule of noncash investment activities		
Transfer of loans receivable to foreclosed and repossessed assets	$ 554	$ 1,532
Security purchases settled in subsequent period	$ 14,203	$ 18,145

See accompanying notes.

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

Bethpage Federal Credit Union (the "Credit Union") is a cooperative association holding an open charter under the provisions of the Federal Credit Union Act. The National Credit Union Administration (NCUA) is the regulatory agency that ensures the powers and privileges conferred on the Credit Union are used properly.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly-owned subsidiary, Bethpage Management Services, LLC ("BMS"). BMS owns 100% of Bethpage Risk Management, LLC and Bethpage Commercial, LLC, and 51% of Land Bound Services, LLC. All material intercompany balances and transactions have been eliminated in consolidation. Amounts included in the consolidated financial statements and related footnote disclosures are presented in thousands.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

The principal estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan and lease losses, fair value of impaired loans, other-than-temporary impairment of investment securities, servicing rights, net realizable value of foreclosed and repossessed assets, fair value of derivatives and other financial instruments, impairment of goodwill and other intangibles and projected benefit obligations of defined benefit plans.

Acquisition accounting

Credit union business combinations are accounted for using the acquisition method of accounting pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, *Business Combinations*. Under the acquisition method of accounting, assets acquired, including identifiable intangibles, and liabilities assumed are recorded at estimated fair value at the date of acquisition. Any difference in purchase consideration over the fair value of assets acquired and liabilities assumed results in the recognition of goodwill should purchase consideration exceed net estimated fair values, or bargain purchase gain, should estimated net fair values exceed purchase consideration. With credit union acquisitions, purchase consideration is often referred to as estimated fair value of equity acquired. Expenses incurred in connection with an acquisition are expensed as incurred.

Equity method investments

The Credit Union has certain investments which are accounted for under the equity method of accounting, whereby the Credit Union's net investment is increased or decreased by allocated profits and losses, respectively. Additional investments increase the Credit Union's investment while distributions decrease the Credit Union's net investment. See Note 13.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Cash, cash equivalents, and cash flows
Cash and cash equivalents consist of cash on hand, demand deposits with other financial institutions, and overnight investments. Cash and cash equivalents generally have a maturity of 90 days or less at the time of purchase. For purposes of reporting cash flows, loans receivable, other investments, members' shares and borrowed funds are reported net. Amounts due from financial institutions may exceed federally insured limits. At December 31, 2021 and 2020, there were approximately $8,079 and $17,675, respectively, in credit union and bank demand deposits with individual balances in excess of the insured limit.

Mutual fund
The Credit Union owns shares of a mutual fund invested in short term financial instruments. The shares are stated at fair value and changes in fair value are included in "Other non-interest income" in the Consolidated Statements of Net Income.

Investments
Investment securities that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive loss. Realized gains and losses on the sale of investments available-for-sale are determined using the specific identification method. Amortization of premiums and discounts, including fair value adjustments from business combinations, are recognized in interest income over the period to maturity.

Declines in the fair value of individual investments available-for-sale below their respective carrying value that are other than temporary will result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. Other investments are classified separately and are stated at cost.

Certificates of deposit
Certificates of deposit with other financial institutions are time deposits that generally are non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity.

Federal Home Loan Bank stock
The Credit Union is a member of Federal Home Loan Bank of New York ("FHLBNY"). As a member of the FHLBNY, the Credit Union is required to acquire and hold shares of its capital stock. At December 31, 2021 and 2020, the Credit Union held FHLBNY stock with par value of $29,099 and $20,418, respectively.

No ready market exists for the FHLBNY stock, and it has no quoted market value. Therefore, the Credit Union's investment in FHLBNY stock is carried at cost and tested for impairment. At December 31, 2021 and 2020, management did not believe the stock was impaired.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Other investments
In order to utilize various service offerings, the Credit Union maintains a member capital account with a corporate credit union and the member capital account is an uninsured equity capital account with a corporate credit union. No ready market exists for the equity capital, and there is no quoted market value. The Credit Union's investment in the corporate credit union is carried at cost and tested for impairment. At December 31, 2021 and 2020, management did not believe the investment was impaired.

Loans held for sale
Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Credit Union.

Acquired loans and leases
Loans purchased or acquired in a business combination are referred to as acquired loans. Acquired loans are valued as of the acquisition date in accordance with FASB ASC Topic 805, *Business Combinations*. Loans acquired with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are referred to as purchased credit impaired (PCI) loans. PCI loans are accounted for under FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Under FASB ASC Topic 805 and FASB ASC Topic 310-30, all acquired loans are recorded at fair value at acquisition date, factoring in credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for loan and lease losses is not carried over or recorded as of the acquisition date. Fair value is defined as the present value of the future estimated principal and interest payments of the loan, with the discount rate used in the present value calculation representing the estimated effective yield of the loan. Default rates, loss severity, prepayment speed and other relevant assumptions are periodically reassessed and the estimate of future payments is adjusted accordingly.

In the case of PCI loans, the difference between expected cash flows and the contractual cash flows from principal and interest is considered credit deterioration and is not accreted into income (nonaccretable difference). The difference between the expected cash flows from each loan and the recorded fair value is accreted into interest income over the life of each loan (accretable yield). Interest income recognition is discontinued on a loan if management determines sufficient uncertainty exists about the timing and amount of expected future cash flows. In such instances, all cash flows received are applied against the carrying value of the loan on a cost-recovery basis. Periodically, management reassesses the expected future cash flows for all PCI loans.

Increases in cash flows will cause increases in interest income over the remaining life of a loan. Cash flow declines will typically result in recognition of impairment of a loan through establishment of an allowance for loan and lease losses and charge to the provision for loan losses.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Acquired loans that are not PCI loans are referred to as purchased non-credit impaired (PNCI) loans. PNCI loans are accounted for under FASB ASC Topic 310-20, *Receivables – Nonrefundable Fees and Other Costs*, in which interest income is accrued on a level-yield basis for performing loans. For income recognition purposes, this method assumes that the fair value of loans acquired and all contractual cash flows will be collected, and no allowance for loan and lease losses is established at the time of acquisition. Post-acquisition date, an allowance for loan and lease losses may need to be established for acquired loans through a provision charged to earnings for credit losses incurred subsequent to acquisition. Under ASC 310-20, the loss would be measured based on the probable shortfall in relation to the contractual note requirements, consistent with the allowance for loan and lease loss methodology for similar loans.

Originated loans receivable, net of allowance for loan and lease losses and deferred net loan origination fees and costs

Loans are stated at the amount of unpaid principal, reduced by an allowance for loan and lease losses and adjusted by deferred net loan origination costs. Interest on loans receivable is recognized over the term of the loans and is calculated using the effective interest method on principal amounts outstanding. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

The Credit Union determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date.

The allowance for loan and lease losses is an estimate for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of all or part of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using, among other factors, past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, and economic conditions. Allocations to the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The Credit Union maintains its allowance for loan and lease losses in accordance with FASB ASC Topic 450, *Contingencies*, and FASB ASC 310, *Receivables*. Both statements require the Credit Union to evaluate the collectability of interest and principal loan payments. The accrual of a loss is required when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Impaired loans are measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loan's observable market price or fair value of the collateral.

A loan is defined under FASB ASC 310 as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the impairment provisions of FASB ASC 310, the Credit Union considers its investment in consumer loans to be homogeneous and therefore they are excluded from individual identification for evaluation of impairment. These homogeneous loan groups are evaluated for impairment on a collective basis under FASB ASC 450.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

With respect to the Credit Union's investment in residential, commercial and other loans, and its evaluation of impairment thereof, management believes such loans are collateral dependent and, as a result, impaired loans are carried as a practical expedient at the lower of cost or fair value of the collateral.

A troubled debt restructuring occurs when, due to a member's financial difficulty, the Credit Union grants a more than insignificant concession that it would not otherwise consider. The concession can take the form of an interest rate or principal reduction or an extension of payments of principal or interest, or a combination of concessions. As a result of these concessions, restructured loans are impaired as the Credit Union will not collect all amounts due, both principal and interest, in accordance with the original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. The estimated value of the concession for these loans is included in the allowance for loan and lease loss estimate. Restructured loans performing in accordance with their new terms are not included in nonaccrual loans unless there is uncertainty as to the ultimate collection of principal or interest.

In conjunction with the passage of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") in 2020 and amended by the Consolidated Appropriations Act in 2021, financial institutions have been provided the option, for loans meeting specific criteria, to temporarily suspend certain requirements under GAAP related to Troubled Debt Restructurings ("TDRs") for a limited time to assist borrowers experiencing financial hardship due to the COVID-19 Pandemic (the Pandemic). To be eligible for CARES Act exemptions, modifications of loans must be due to the direct financial effects of the Pandemic on the borrower, the modification granted between March 1, 2020 and the end of the applicable period (January 1, 2022, or 60 days after the COVID-19 national emergency is terminated), and the borrower was not more than 30 days past due as of December 31, 2019. As a result, the Credit Union has not recognized eligible CARES Act loan modifications as TDRs. Additionally, loans qualifying for these modifications are not required to be reported as delinquent, nonaccrual, impaired or criticized solely as a result of loan modification resulting from the economic effects of the Pandemic. Modifications include deferral of payments and interest only periods. The Credit Union accrues and recognizes interest income on loans under payment relief based on the original contractual interest rates.

For consumer and commercial loans, when payments resume at the end of the relief period, the payments will generally be applied to accrued interest due until accrued interest is fully paid. For residential mortgages, borrowers will pay scheduled principal and interest payments according to the loan amortization schedule with deferred principal and interest repaid in a balloon payment at original scheduled maturity. Accrued interest balances are assessed for collectability on a periodic basis.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

The allowance for loan and lease losses is adjusted by a provision for loan losses recorded as an expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan and lease losses when management believes that collectability of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb estimated incurred losses on existing loans. Management's periodic evaluation of the adequacy of the allowance is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes in economic conditions. Additionally, state and federal regulations, upon examination, may require the Credit Union to make additional provisions or adjustments to its allowance.

It is the Credit Union's policy to charge-off unsecured loans that are more than 150 days delinquent. Non-homogeneous collateral-dependent loans which are more than 90 days delinquent are considered to constitute more than a minimum delay in repayment and are individually evaluated for impairment under FASB ASC 310 at that time.

Accrued interest on loans
Interest is accrued as earned unless the collectability of the loan is in doubt. Accrual of interest on loans is discontinued when management believes that, after considering economics, business conditions, and collection efforts, the borrower's financial condition is such that collection of principal and interest is doubtful. The Credit Union's policy is to stop accruing interest when the loan becomes 90 days delinquent or if the collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual status or subsequently charged off is reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic interest and principal payments has returned to normal and future payments are reasonably assured, in which case the loan is returned to accrual status.

The Credit Union's policy is that loans placed on nonaccrual will typically remain on nonaccrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the loan agreement appear relatively certain. The Credit Union's policy for commercial troubled debt restructurings generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Transfers and servicing of financial assets
FASB ASC 860, *Transfers and Servicing*, requires the Credit Union to recognize as a separate asset the right to service mortgage and commercial loans for others. An institution that acquires loan servicing rights through either the purchase or the origination of mortgage and commercial loans and sells those loans with servicing rights retained must allocate a portion of the cost of the loans to the servicing rights. Under FASB ASC 860, the Credit Union could elect to either amortize the servicing rights over the life of the loan or carry the servicing rights at fair value. Under both methodologies, the servicing rights would be tested for impairment. Management has elected to amortize the servicing rights in proportion to and over the period of estimated net servicing income.

Servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market rates of interest and current expected future prepayment rates. For purposes of measuring impairment, the rights are stratified by one or more predominant risk characteristics of the underlying loans. The amount of impairment recognized is the amount, if any, by which the amortized cost of the rights for each stratum exceed their fair value.

The servicing rights for mortgage and commercial loans recorded by the Credit Union were segregated into pools for valuation purposes, using as pooling criteria the loan type, loan term, investor, interest rate, maturity date, origination date, and coupon rate. Once pooled, each grouping of loans was evaluated on a discounted earnings basis to determine the present value of future earnings that a purchaser could expect to realize from each portfolio. Earnings were projected from a variety of sources including loan servicing fees, interest earned on float, net interest earned on escrows, miscellaneous income, and costs to service the loans. The present value of future earnings is the economic value of the pool, i.e., the net realizable present value to a potential acquirer of the servicing rights.

The valuation of servicing rights is influenced by market factors, including servicing volumes and market prices, as well as management’s assumptions regarding mortgage and commercial prepayment speeds, interest rates and servicing costs. Management also utilizes periodic third-party valuations by market professionals to evaluate the fair value of its capitalized servicing rights asset.

Property and equipment
Land is carried at cost. Buildings, furniture and equipment, data processing and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings, furniture and equipment and data processing are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives used to compute depreciation and amortization are as follows:

Buildings	10 – 40 years
Furniture and equipment	3 – 15 years
Data processing	2 – 5 years
Automobiles	5 years

The cost of leasehold improvements is amortized using the straight-line method over the shorter of the terms of related leases or the useful lives of the improvements.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of the acquisition price over the fair value of the net liabilities assumed in the Montauk Credit Union acquisition in 2016. Goodwill is not amortized and is periodically assessed for impairment, in accordance with FASB ASC 350-20, *Intangibles – Goodwill and Other*.

The Credit Union performs a goodwill impairment analysis on an annual basis as of December 31. Additionally, the Credit Union performs a goodwill impairment evaluation on an interim basis when events or circumstances indicate impairment potentially exists. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others, a significant decline in the Credit Union's expected future cash flows; a significant adverse change in legal factors or in the business climate; adverse action or assessment by a regulator; and unanticipated competition.

When assessing goodwill for impairment, the Credit Union assesses qualitative factors to determine whether it is necessary to perform a quantitative impairment test. The quantitative impairment test involves a two-step process. The first step compares the fair value of a reporting unit to its carrying value. If the reporting unit's fair value is less than its carrying value, the Credit Union would be required to proceed to the second step. In the second step the Credit Union calculates the implied fair value of the reporting unit's goodwill. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the reporting unit is allocated to all of the reporting unit's assets and liabilities, including any unrecognized identifiable intangible assets, as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit is the price paid to acquire it. The allocation process is performed only for purposes of determining the amount of goodwill impairment.

No assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part of this process. Any excess of the estimated purchase price over the fair value of the reporting unit's net assets represents the implied fair value of goodwill. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss would be recognized as a charge to earnings in an amount equal to that excess.

As of December 31, 2021 and 2020, the Credit Union concluded goodwill was not impaired.

Other intangibles

Other intangibles is comprised of the credit union charter acquired in the Montauk Credit Union business combination in 2016, which is an indefinite life intangible asset. Intangible assets with indefinite useful lives are not amortized and are reviewed for impairment at least annually, similar to goodwill impairment or, more frequently if impairment indicators arise. As of December 31, 2021 and 2020, the Credit Union concluded the intangible asset was not impaired.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Core deposit intangibles
Core deposit intangibles (CDI) are acquired in business combinations and initially recorded at fair value. The fair value is based on the present value of the expected cost savings attributable to the core deposit funding, relative to an alternative source of funding and is included in "Other Intangibles" in the statements of financial condition. The CDI is amortized over an estimated useful life that approximates the existing deposit relationships acquired, and are periodically reviewed for impairment. The CDI is being amortized using the straight-line method over an estimated useful life of seven years. Amortization of intangible assets is included in dividends on members' shares in the consolidated statements of income. No impairment losses separate from the scheduled amortization have been recognized in the periods presented.

National Credit Union Share Insurance Fund deposit
The deposit in the National Credit Union Share Insurance Fund ("NCUSIF") is in accordance with National Credit Union Administration ("NCUA") regulations, which require the maintenance of a deposit by each federally insured Credit Union in an amount equal to 1% of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, if it converts its insurance coverage to another source, or if management of the fund is transferred from the NCUA board.

Foreclosed and repossessed assets
Foreclosed and repossessed assets acquired through foreclosure or other proceedings are carried at fair value on the date of acquisition plus certain capitalized costs, net of estimated disposal costs. When these assets are acquired, any excess of the loan balance over the estimated fair value is charged to the allowance for loan and lease losses. Carrying costs such as maintenance, interest and taxes are charged to expense as incurred. Subsequent impairments are recognized in non-interest income. Because of changing market conditions, there are inherent uncertainties in the assumptions with respect to the estimated fair value of foreclosed and repossessed assets. Because of these inherent uncertainties, the amount ultimately realized from foreclosed and repossessed assets may differ from the amounts reflected in the consolidated financial statements.

Derivative financial instruments
Mortgage loan commitments – Mortgage loan commitments are considered derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Credit Union enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Credit Union to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose the Credit Union to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, generally the value of these loan commitments decreases. Conversely, if interest rates decrease, generally the value of these loan commitments increases. Loan commitments that are derivatives are recognized at fair value on the consolidated statements of financial condition in other assets or other liabilities with changes in fair values recorded in gain on sale of mortgage loans.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

The Credit Union records no value for a loan commitment at inception (at the time the commitment is issued to a borrower) and does not recognize the value of the expected normal servicing rights until the underlying loan is sold. Subsequent to inception, changes in the fair value of loan commitments are recognized based on changes in the fair value of the underlying mortgage loan due to interest rate changes, changes in the probability the derivative loan commitment will be exercised and the passage of time. In estimating fair value, the Credit Union assigns a probability to a loan commitment based on an expectation that it will be exercised and the loan will be funded.

Forward loan sale commitments – The Credit Union utilizes forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that might result from the exercise of the derivative loan commitments. With a forward loan sale contract, the Credit Union commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded.

The Credit Union's forward sale contracts generally meet the definition of derivative instruments. Accordingly, forward loan sale commitments are recognized at fair value on the consolidated statements of financial condition in other assets or other liabilities with changes in their fair values recorded in gain on sale of mortgage loans. The Credit Union estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

Members' shares

Members' shares are the deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's management.

Income taxes

The Credit Union is federally chartered under the Federal Credit Union Act; therefore, no income tax returns are required to be filed. The Credit Union's wholly-owned subsidiaries are disregarded entities for tax purposes and, therefore, operations of the subsidiaries resulted in no income taxes for the years ended December 31, 2021 and 2020.

The Credit Union recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended December 31, 2021 and 2020, the Credit Union recognized no interest or penalties. Additionally, the Credit Union had no unrecognized tax benefits as of December 31, 2021 and 2020.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Employee pension plan benefits
The Credit Union has a qualified, noncontributory defined benefit pension plan covering employees hired before March 1, 2012. The Credit Union's policy is to fund an amount in excess of the minimum amount required under the Employee Retirement Income Security Act ("ERISA"). The Credit Union accounts for the pension plan in accordance with FASB ASC 715, *Compensation*.

FASB ASC 715 requires an employer to (a) recognize in its balance sheet the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan's assets and its obligations that determine its funded status as of the date of its year-end statement of financial condition; and (c) recognize as a component of other comprehensive income (loss) the actuarial gains and losses and the prior service costs and credits that arise during the period.

(dollars in thousands)

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Comprehensive income

Comprehensive income consists of net income and other comprehensive income (loss). Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized or realized gains and losses on investments available-for-sale and pension liability adjustments, are reported as a separate component of the members' equity section of the consolidated statement of financial condition under the caption "Accumulated other comprehensive loss," and in the consolidated statements of comprehensive income.

The following are changes in accumulated other comprehensive income (loss) by component for the years ending December 31, 2021 and 2020:

	Unrealized Gains (Losses) on Investments Available-for-Sale	Defined Benefit Pension Items	Total
December 31, 2020			
Beginning balance	$ 22,936	$ (36,037)	$ (13,101)
Other comprehensive income (loss) before reclassification	52,863	(10,633)	42,230
Amounts reclassified from accumulated other comprehensive income	-	3,515	3,515
Net current period other comprehensive income (loss)	52,863	(7,118)	45,745
Ending balance	$ 75,799	$ (43,155)	$ 32,644
December 31, 2021			
Beginning balance	$ 75,799	$ (43,155)	$ 32,644
Other comprehensive (loss) income before reclassification	(84,002)	13,389	(70,613)
Amounts reclassified from accumulated other comprehensive (loss) income	(470)	5,212	4,742
Net current period other comprehensive (loss) income	(84,472)	18,601	(65,871)
Ending balance	$ (8,673)	$ (24,554)	$ (33,227)

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Revenue from contracts with customers
The Credit Union accounts for revenue arising through contracts with customers under the guidance of FASB ASC 606 *Revenue from Contracts with Customers,* which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. To determine revenue recognition for arrangements that an entity determines are within the scope of FASB ASC 606, the Credit Union performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Credit Union satisfies a performance obligation.

A significant portion of the Credit Union's revenues come from interest income on financial instruments, such as loans and investments, which are outside of the scope of FASB ASC 606, as are certain other streams such as mortgage banking income. The Credit Union's services that fall within the scope of FASB ASC 606 are recognized as revenue as the Credit Union satisfies its obligation to the customer. The Credit Union recognizes revenue from non-interest income subject to FASB ASC 606 as follows:

Deposit account service fees – The Credit Union earns fees from its deposit customers for account maintenance and transaction-based activity. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees are charged for specific services provided including non-sufficient funds, overdraft transfers, and wire services. The performance obligation is satisfied as the transaction completes resulting in the immediate recognition of the income.

Debit card and interchange income and expenses – Debit card interchange income is earned when a debit card issued by the Credit Union is used to purchase goods or services at a merchant. The income earned on each transaction is determined by a combination of the transaction amount, merchant type, and other factors. The performance obligation is satisfied and the resulting income is earned when the transaction completes and is charged to the cardholders' card. Accordingly, the income is recognized in the period in which the performance obligation is satisfied. Certain expenses directly associated with debit cards including transaction processing and reward program costs are netted against interchange income.

Credit card and interchange income and expenses – Credit card interchange income represent fees earned when a credit card issued by the Credit Union is used. Similar to the debit card interchange, the Credit Union earns an interchange fee for each transaction made with the Credit Union's branded credit cards. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' credit card. Certain expenses and rewards directly related to the credit card interchange contract are recorded net to the interchange income.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Non-interest expense
Non-interest expense consists of employee compensation and related benefits, professional and outside services rendered, facilities and office operations, and other miscellaneous expenses. Non-interest expense is recognized as incurred.

Fair value of financial instruments
The Credit Union generally holds its earning assets, other than investments available-for-sale and loans held for sale, to maturity and settles its liabilities at maturity. However, fair value estimates are made at a specific point in time and are based on relevant market information. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Credit Union’s entire holdings of a particular instrument. Accordingly, as assumptions change, such as interest rates and prepayments, fair value estimates change and these amounts may not necessarily be realized in an immediate sale.

Disclosure of fair value does not require fair value information for items that do not meet the definition of a financial instrument or certain other financial instruments specifically excluded from its requirements. These items include property and equipment, leases, and equity. Further, fair value disclosure does not attempt to value future income or business. These items may be material and, accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying “market” or franchise value of the Credit Union.

The Credit Union accounts for and discloses fair value using the guidance of FASB ASC 820, *Fair Value Measurement and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy includes three levels of inputs that may be used to measure fair value. A financial instrument’s level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement.

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active for identical or similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and significant to the fair value of the assets or liabilities that are developed using the reporting entities’ estimates and assumptions, which reflect those that market participants would use.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

A description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the classification of the instruments pursuant to the valuation hierarchy, are as follows:

Investments available-for-sale and the mutual fund are reported using Level 1, Level 2 and Level 3 inputs. Level 1 instruments generally include equity securities valued based on quoted market prices in active markets. Level 2 instruments include agency issued securities, municipal bonds, mortgage-backed securities, collateralized mortgage obligations and certain auction rate securities. For these securities, the Credit Union obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of the recorded investment in the loan or market value. The loans identified as impaired are collateral dependent secured by real estate. Market value is determined using the value of the collateral securing the loans and is therefore classified as Level 3. The value of the real estate is determined by independent licensed appraisers contracted by the Credit Union to perform the assessment. The appraised value is then discounted based upon management's experience, which includes estimated disposal costs, understanding of the member and the member's business as well as economic conditions.

Fair values for impaired loans are based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the underlying collateral, if the loan is collateral dependent. These values are then discounted based upon management's experience, which includes estimated disposal costs, understanding of the member and the member's business as well as economic conditions. Impaired loans are classified as Level 3.

Fair values of foreclosed and repossessed assets, primarily real estate, automobiles and taxi medallions, are measured based on the assets' observable market price. For real estate, prices are derived from independent appraisals, while automobiles are based on observable market prices for comparable vehicles. For tax medallions, prices are derived from published sales of medallions less liquidation expenses. Foreclosed and repossessed assets are classified within Level 3 of the fair value hierarchy.

Subsequent events

Subsequent events are events or transactions that occur after the date of the consolidated statements of financial condition but before consolidated financial statements are issued. The Credit Union recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of financial condition, including the estimates inherent in the process of preparing the consolidated financial statements.

The Credit Union has evaluated subsequent events through March 31, 2022, which is the date the consolidated financial statements became available for issuance.

(dollars in thousands)

Note 2 – Investments

Investments classified as available-for-sale consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2021				
Agency issued securities	$ 264,437	$ 608	$ (1,477)	$ 263,568
Agency issued MBS/CMOs*	2,973,165	29,058	(43,812)	2,958,411
Municipal bonds	726,649	10,822	(3,872)	733,599
	$ 3,964,251	$ 40,488	$ (49,161)	$ 3,955,578
December 31, 2020				
Agency issued securities	$ 273,720	$ 416	$ (3,162)	$ 270,974
Agency issued MBS/CMOs*	2,197,696	62,984	(7,985)	2,252,695
Municipal bonds	590,429	23,557	(11)	613,975
	$ 3,061,845	$ 86,957	$ (11,158)	$ 3,137,644

*MBS and CMO represent Mortgage-Backed Securities and Collateralized Mortgage Obligations, respectively.

Proceeds from sales of available-for-sale securities totaled $44,715 and gross realized gains from sales of available-for-sale securities totaled $470 for the year ended December 31, 2021. No losses were realized in 2021. There were no sales of securities available-for-sale during the year ended December 31, 2020.

(dollars in thousands)

Note 2 – Investments (continued)

Gross unrealized losses and fair value by length of time that the individual investments available-for-sale have been in a continuous unrealized loss position at December 31, 2021 and 2020 are as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2021						
Agency issued securities	$ 31,799	$ (34)	$ 146,411	$ (1,443)	$ 178,210	$ (1,477)
Agency issued MBS/CMOs	1,547,902	(32,368)	342,779	(11,444)	1,890,681	(43,812)
Municipal bonds	286,701	(3,806)	1,989	(66)	288,690	(3,872)
	$ 1,866,402	$ (36,208)	$ 491,179	$ (12,953)	$ 2,357,581	$ (49,161)
December 31, 2020						
Agency issued securities	$ 53,575	$ (641)	$ 172,418	$ (2,521)	$ 225,993	$ (3,162)
Agency issued MBS/CMOs	611,847	(7,610)	15,229	(375)	627,076	(7,985)
Municipal bonds	6,244	(11)	-	-	6,244	(11)
	$ 671,666	$ (8,262)	$ 187,647	$ (2,896)	$ 859,313	$ (11,158)

There were a total of 408 investments available-for-sale in an unrealized loss position less than 12 months and a total of 150 investments available-for-sale in an unrealized loss position greater than 12 months at December 31, 2021. There were a total of 119 investments available-for-sale in an unrealized loss position less than 12 months and a total of 96 investments available-for-sale in an unrealized loss position greater than 12 months at December 31, 2020.

The unrealized losses associated with these investments are considered temporary as the Credit Union does not have the intention to sell nor does it expect to be required to sell the investments prior to recovery or maturity. Management believes that the temporary unrealized loss is due to the interest rate and liquidity environment. Such determination was based upon an evaluation of the creditworthiness of the issuers and/or guarantors, the underlying collateral, if applicable, as well as the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment condition. These include, but are not limited to, an evaluation of the type of security and length of time and extent to which the fair value has been less than cost, as well as certain collateral related characteristics. Based upon the impairment testing completed as of December 31, 2021 and 2020, the Credit Union determined that there were no investments that were other-than-temporarily impaired.

There was no realized gain or loss during the year ended December 31, 2021 from the mutual fund. There was a realized gain of approximately $4 during the year ended December 31, 2020 from the mutual fund.

(dollars in thousands)

Note 2 – Investments (continued)

Other investments consist of the following:

	December 31, 2021	December 31, 2020
Certificates of deposit in banks and savings institutions	$ 250	$ 495
FHLBNY stock	29,099	20,418
Central Liquidity Facility (CLF)	23,732	21,751
Member capital account in Corporate Credit Union	504	504
	$ 53,585	$ 43,168

Investments by contractual maturity as of December 31, 2021, are summarized as follows:

	Amortized Cost	Fair Value	Other Investments
No contractual maturity – FHLBNY stock, CLF, and member capital in Corporate Credit Union	$ -	$ -	$ 53,335
Less than 1 year maturity	315,381	314,927	250
1–5 years maturity	422,332	429,678	-
5–10 years maturity	253,373	252,562	-
Mortgage-backed securities and CMOs	2,973,165	2,958,411	-
	$ 3,964,251	$ 3,955,578	$ 53,585

Expected maturities of mortgage-backed securities and CMOs may differ from contractual maturities because borrowers may have the right to prepay the obligations and are, therefore, classified separately with no specific maturity date.

Investments pledged for available and outstanding borrowings are summarized below:

	December 31, 2021	December 31, 2020
Investments available-for-sale	$ 946,755	$ 1,096,214
Federal Home Loan Bank stock	29,099	20,418

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality

Loans receivable consist of the following at December 31:

	Past Due 1 Month	Past Due 2 Months	Past Due 3 Months or More	Past Due Total	Current	Purchased Credit Impaired Loans	2021 Total
Real estate loans:							
Residential fixed rate mortgages	$ 193	$ 382	$ 13,234	$ 13,809	$ 583,482	$ -	$ 597,291
Residential non-owner occupied	-	-	-	-	14,328	-	14,328
Hybrid/balloon mortgages	1,426	2,081	20,467	23,974	1,633,057	-	1,657,031
Home equity line of credit, variable rate	3,033	1,988	8,587	13,608	700,346	-	713,954
Home equity masterlines	1,292	557	1,463	3,312	923,496	-	926,808
Home equity loans	1,727	347	10,275	12,349	156,919	-	169,268
Commercial real estate including participations	106	1,300	16,638	18,044	1,257,975	-	1,276,019
Vehicle loans	4,828	956	1,011	6,795	1,107,501	-	1,114,296
Consumer loans	380	233	327	940	56,322	-	57,262
Commercial including participations	166	511	1,884	2,561	23,315	10,003	35,879
Consumer credit cards	549	422	880	1,851	91,928	-	93,779
	$ 13,700	$ 8,777	$ 74,766	$ 97,243	$ 6,548,669	$ 10,003	6,655,915
Allowance for loan loss							(77,625)
Net deferred origination fees and costs							32,010
Total							$ 6,610,300

	Past Due 1 Month	Past Due 2 Months	Past Due 3 Months or More	Past Due Total	Current	Purchased Credit Impaired Loans	2020 Total
Real estate loans:							
Residential fixed rate mortgages	$ 915	$ 1,058	$ 10,905	$ 12,878	$ 506,036	$ -	$ 518,914
Residential non-owner occupied	-	-	-	-	15,982	-	15,982
Hybrid/balloon mortgages	3,548	4,340	17,761	25,649	1,665,865	-	1,691,514
Home equity line of credit, variable rate	5,046	5,143	9,847	20,036	894,420	-	914,456
Home equity masterlines	2,967	2,473	363	5,803	671,709	-	677,512
Home equity loans	2,234	2,228	10,989	15,451	197,218	-	212,669
Commercial real estate including participations	14,871	-	17,201	32,072	1,029,413	-	1,061,485
Vehicle loans	5,490	1,283	1,262	8,035	1,005,447	-	1,013,482
Consumer loans	1,136	242	496	1,874	56,137	-	58,011
Commercial including participations	72	294	573	939	23,531	12,534	37,004
Consumer credit cards	526	595	903	2,024	103,982	-	106,006
	$ 36,805	$ 17,656	$ 70,300	$ 124,761	$ 6,169,740	$ 12,534	6,307,035
Allowance for loan loss							(100,173)
Net deferred origination fees and costs							36,042
Total							$ 6,242,904

The Credit Union has purchased commercial loan participations originated by various other credit unions. All of these loan participations were purchased without recourse and are collateralized by real property and taxi medallions.

Note 3 – Loans Receivable and Credit Quality (continued)

The Credit Union offers hybrid/balloon mortgage loans to its members. Hybrid/balloon loans consist of loans that are fixed for an initial period of three, five, seven, or ten years. After this period, the mortgages are converted to variable rate using the fully indexed rate capped at an annual increase of two percent, which can result in significant payment increase to the borrower.

The Credit Union categorizes commercial and real estate loans into risk categories based on numerous factors. Some of those factors include, but are not limited to, financial strength, industry/economic trends, and credit history. Each loan is assessed individually and grouped into a sub-category such as commercial, commercial real estate, commercial loan participations – real estate, residential, home equity masterlines, home equity and home equity lines of credit. An analysis of loans categorized and rated for risk is performed at least semi-annually. The risk rating grades (“Grades”) listed below are used when each loan is analyzed:

Pass –The Credit Union uses five levels of grading based on the underlying characteristics of the loan. The borrower is considered creditworthy and has the ability to repay the debt in the normal course of business.

Special Mention – A special mention loan has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Credit Union’s credit position at some future date. Special mention assets are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

Substandard – A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful – A doubtful loan has all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values.

Loss – A loss loan is considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

The following is a summary of the credit risk profile of the commercial and real estate loans (principal balance only) and includes PCI loans:

	December 31, 2021			
	Commercial Including Participations	Commercial Real Estate Including Participations	Residential Mortgages	Home Equity Masterlines, Loans, and Lines of Credit
Grade				
Pass	$ 14,571	$ 1,131,189	$ 2,209,625	$ 1,773,071
Special Mention	365	130,603	18,626	15,070
Substandard	9,731	8,311	7,080	4,202
Doubtful	11,212	5,916	33,319	17,687
Total	$ 35,879	$ 1,276,019	$ 2,268,650	$ 1,810,030

	December 31, 2020			
	Commercial Including Participations	Commercial Real Estate Including Participations	Residential Mortgages	Home Equity Masterlines, Loans, and Lines of Credit
Grade				
Pass	$ 12,154	$ 926,725	$ 2,165,061	$ 1,758,458
Special Mention	323	128,759	29,406	21,948
Substandard	14,889	6,001	7,423	6,197
Doubtful	9,638	-	24,520	18,034
Total	$ 37,004	$ 1,061,485	$ 2,226,410	$ 1,804,637

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

For consumer loans, the Credit Union evaluates credit quality based on payment activity. Those loans that are 90 days or more past due are considered non-performing, while all remaining loans are evaluated as performing. The following is a summary of the credit risk profile of loans (principal balance only) by payment activity:

	December 31, 2021		
	Consumer Credit Cards	Consumer Loans	Vehicle Loans
Performing	$ 92,899	$ 56,908	$ 1,113,275
Non-performing	880	354	1,021
Total	$ 93,779	$ 57,262	$ 1,114,296

	December 31, 2020		
	Consumer Credit Cards	Consumer Loans	Vehicle Loans
Performing	$ 105,103	$ 57,515	$ 1,012,073
Non-performing	903	496	1,409
Total	$ 106,006	$ 58,011	$ 1,013,482

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

The following tables summarize loans that were individually evaluated for impairment at December 31:

2021	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial including participations	$ 235	$ 236	$ -	$ 248	$ 7
Residential mortgages	32,535	33,119	-	32,815	923
Home equity masterlines, loans, and lines of credit	30,112	30,367	-	30,577	900
Total	62,882	63,722	-	63,640	1,830
With an allowance recorded					
Commercial including participations	16,989	29,743	12,163	13,521	303
Commercial real estate including participations	104,547	104,944	19,336	109,407	4,467
Residential mortgages	15,529	15,778	1,618	15,580	331
Home equity masterlines, loans, and lines of credit	6,530	6,570	2,725	6,566	172
Total	143,595	157,035	35,842	145,074	5,273
Total impaired loans	$ 206,477	$ 220,757	$ 35,842	$ 208,714	$ 7,103

2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial including participations	$ 190	$ 192	$ -	$ 267	$ 6
Residential mortgages	26,921	27,056	-	27,084	591
Home equity masterlines, loans, and lines of credit	23,908	23,941	-	24,122	654
Consumer	17	17	-	18	-
Total	51,036	51,206	-	51,491	1,251
With an allowance recorded					
Commercial including participations	11,062	12,181	7,580	10,001	188
Commercial real estate including participation loans	176,705	177,173	19,893	171,157	7,556
Residential mortgages	24,555	24,902	1,905	21,188	415
Home equity masterlines, loans, and lines of credit	16,587	16,825	5,341	15,821	203
Consumer	4	4	4	4	1
Total	228,913	231,085	34,723	218,171	8,363
Total impaired loans	$ 279,949	$ 282,291	$ 34,723	$ 269,662	$ 9,614

Recorded investment as of December 31, 2021 and 2020 includes fair value adjustments and deferred net loan origination fees and costs.

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

As of December 31, 2021 and 2020, the Credit Union's investment in residential mortgage loans collateralized by residential real estate property in process of foreclosure was $19,734 and $27,497, respectively.

The following table presents data regarding the allowance for loan and lease losses and loans evaluated for impairment by class of loan. Loan balances include deferred net loan origination costs.

	Commercial Including Participations	Commercial Real Estate Including Participations	Consumer	Residential Mortgages	Home Equity Masterlines, Loans and Lines of Credit	Total at December 31, 2021
Allowance for loan losses						
Beginning balance	$ 17,230	$ 37,789	$ 18,890	$ 8,789	$ 17,475	$ 100,173
Charge-offs	(2,582)	-	(9,423)	(302)	(268)	(12,575)
Recoveries	7	-	3,600	-	740	4,347
Recapture of loan losses	(326)	(4,820)	(5,570)	(730)	(2,874)	(14,320)
Ending balance	$ 14,329	$ 32,969	$ 7,497	$ 7,757	$ 15,073	$ 77,625
Ending balance Individually evaluated for impairment	$ 12,163	$ 19,336	$ -	$ 1,618	$ 2,725	$ 35,842
Ending balance Collectively evaluated for impairment	$ 2,166	$ 13,633	$ 7,497	$ 6,139	$ 12,348	$ 41,783
Loans receivable						
Ending balance	$ 34,242	$ 1,272,523	$ 1,267,263	$ 2,269,279	$ 1,844,618	$ 6,687,925
Ending balance Individually evaluated for impairment	$ 17,224	$ 104,547	$ -	$ 48,064	$ 36,642	$ 206,477
Ending balance Collectively evaluated for impairment	$ 17,018	$ 1,167,976	$ 1,267,263	$ 2,221,215	$ 1,807,976	$ 6,481,448

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

	Commercial Including Participations	Commercial Real Estate Including Participations	Consumer	Residential Mortgages	Home Equity Masterlines, Loans and Lines of Credit	Total at December 31, 2020
Allowance for loan losses						
Beginning balance	$ 15,997	$ 8,031	$ 13,656	$ 3,166	$ 12,383	$ 53,233
Charge-offs	(3,077)	-	(12,071)	-	(796)	(15,944)
Recoveries	97	-	4,118	-	514	4,729
Provision for loan losses	4,213	29,758	13,187	5,623	5,374	58,155
Ending balance	$ 17,230	$ 37,789	$ 18,890	$ 8,789	$ 17,475	$ 100,173
Ending balance Individually evaluated for impairment	$ 7,580	$ 19,893	$ 4	$ 1,905	$ 5,341	$ 34,723
Ending balance Collectively evaluated for impairment	$ 9,650	$ 17,896	$ 18,886	$ 6,884	$ 12,134	$ 65,450
Loans receivable						
Ending balance	$ 35,341	$ 1,058,884	$ 1,179,564	$ 2,232,435	$ 1,836,853	$ 6,343,077
Ending balance Individually evaluated for impairment	$ 11,252	$ 176,705	$ 21	$ 51,476	$ 40,495	$ 279,949
Ending balance Collectively evaluated for impairment	$ 24,089	$ 882,179	$ 1,179,543	$ 2,180,959	$ 1,796,358	$ 6,063,128

The following table presents troubled debt restructurings that occurred during the years ended December 31, 2021 and 2020. The post-modification outstanding recorded investment presented below reflects the balance at the end of the period.

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2021			
Residential mortgages	6	$ 3,108	$ 3,108
Home equity masterlines, loans and lines of credit	19	1,784	1,683
Commercial including participations	20	2,542	2,226
Total	45	$ 7,434	$ 7,017
December 31, 2020			
Residential mortgages	17	$ 9,163	$ 9,240
Home equity masterlines, loans and lines of credit	30	4,866	4,728
Commercial real estate	1	3,880	3,880
Commercial including participations	6	521	560
Total	54	$ 18,430	$ 18,408

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

The nature of the modifications includes a combination of payment deferrals and interest rate changes. The financial effects of the modifications were immaterial to the financial statements for the years ended December 31, 2021 and 2020.

The following table summarizes troubled debt restructured loans that defaulted during the periods ended December 31, 2021 and 2020 and for which the default occurred within 12 months of the modification date. The recorded investment reflects the balance at the end of the period.

	Number of Loans	Recorded Investment	
December 31, 2021			
Home equity masterlines, loans and lines of credit	1	$	38
Commercial including participations	8		690
Total	9	$	728
December 31, 2020			
Commercial real estate	1	$	3,880
Commercial including participations	4		516
Total	5	$	4,396

The following table presents loans in deferral as of December 31, 2021 for which the Credit Union has provided six months or more of Pandemic related payment relief to the borrowers or has elected to apply temporary accounting and reporting provisions within the CARES Act, therefore, these loans are not subject to TDR reporting or accounting.

	2021			2020		
	Number of Loans	Unpaid Principal Balance		Number of Loans	Unpaid Principal Balance	
Residential mortgages	14	$	9,360	204	$	137,196
Home equity	14		1,636	357		51,278
Consumer	-		-	136		1,555
Commercial	-		-	72		83,096
Total	28	$	10,996	769	$	273,125

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

The following table summarizes loan balances in nonaccrual status:

	December 31, 2021	December 31, 2020
Commercial including participations	$ 3,202	$ 1,383
Commercial real estate including participations	18,232	21,081
Consumer		
Consumer – auto	1,021	1,409
Consumer – other	354	496
Consumer – credit cards	880	903
Residential mortgages	45,956	165,099
Home equity masterlines, loans and lines of credit	22,375	74,759
Total	$ 92,020	$ 265,130

Loan balances in nonaccrual status include troubled debt restructurings of $13,809 and $16,807 as of December 31, 2021 and 2020, respectively. No loans over 90 days past due accrue interest.

The outstanding contractual unpaid balance of purchased impaired loans, excluding acquisition accounting adjustments, was approximately $21,900 and $29,000 at December 31, 2021 and 2020, respectively. The carrying balance of purchased credit impaired loans was $8,658 and $11,119 at December 31, 2021 and 2020, respectively.

The following table presents the changes in the accretable yield for purchased credit impaired loans:

	December 31, 2021	December 31, 2020
Balance, beginning of year	$ 583	$ 706
Accretion to interest income	(152)	(123)
Balance, end of year	$ 431	$ 583

(dollars in thousands)

Note 4 – Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at December 31, 2021 and 2020 are summarized as follows:

	2021	2020
Federal National Mortgage Association	$ 4,738,923	$ 4,338,945
Federal Home Loan Mortgage Corporation	342,064	409,425
Federal Home Loan Bank of New York	162,494	252,868
Government National Mortgage Association	143,043	164,068
Charlie Mac, LLC	358	494
Conventional (other)	7,934	14,198
	$ 5,394,816	$ 5,179,998

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares, were $33,727 and $30,320 at December 31, 2021 and 2020, respectively.

The following table presents a summary of the changes in the balance of mortgage servicing rights:

	Years Ended December 31,	
	2021	2020
Balance, beginning of year	$ 26,377	$ 30,575
Servicing assets recognized during the year	13,496	11,106
Amortization of servicing assets	(6,589)	(6,158)
Impairment of servicing assets	(94)	(9,146)
Balance, end of year	$ 33,190	$ 26,377
Fair value of mortgage servicing rights	$ 47,038	$ 27,689

The key assumptions used in determining the fair value of mortgage servicing rights are as a follows as of December 31:

	Range of Assumptions	
	2021	2020
Constant prepayment rate	12.06%	24.00%
Internal rate of return	8.15%–10.15%	11.21%–13.21%
Weighted average life (years)	6.18	3.77

(dollars in thousands)

Note 4 – Loan Servicing (continued)

The commercial loans serviced for others, primarily commercial real estate, was $964,501 and $1,169,717 for the years ended December 31, 2021 and 2020, respectively. The following table presents a summary of the changes in the balance of commercial servicing rights:

	Years Ended December 31,	
	2021	2020
Balance, beginning of year	$ 2,433	$ 2,934
Servicing assets recognized during the year	1,456	1,248
Amortization of servicing assets	(1,809)	(1,550)
Impairment of servicing assets	(140)	(199)
Balance, end of year	$ 1,940	$ 2,433
Fair value of commercial servicing rights	$ 4,180	$ 2,320

The key assumptions used in determining the fair value of commercial servicing rights are as follows as of December 31, 2021:

	Range of Assumptions	
	2021	2020
Constant prepayment rate	24.28%	25.70%
Internal rate of return	20.00%–22.00%	20.00%–22.00%
Weighted average life (years)	6.83	7.42

(dollars in thousands)

Note 5 – Property and Equipment, Net

Property and equipment are summarized as follows:

	Property and Equipment	Accumulated Depreciation and Amortization	Property and Equipment, net
December 31, 2021			
Land and improvements	$ 7,120	$ (670)	$ 6,450
Building	51,346	(17,732)	33,614
Furniture and equipment	28,935	(18,676)	10,259
Data processing	36,672	(33,445)	3,227
Automobile	60	(56)	4
Leasehold improvements	26,583	(19,662)	6,921
	$ 150,716	$ (90,241)	$ 60,475
December 31, 2020			
Land and improvements	$ 7,007	$ (585)	$ 6,422
Building	50,942	(16,322)	34,620
Furniture and equipment	23,817	(17,191)	6,626
Data processing	35,475	(31,420)	4,055
Automobile	60	(52)	8
Leasehold improvements	26,499	(18,318)	8,181
	$ 143,800	$ (83,888)	$ 59,912

Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2021 are as follows:

		Minimum Rental Payments
Years Ending December 31,	2022	$ 3,997
	2023	3,701
	2024	3,029
	2025	2,356
	2026	2,082
	Subsequent Years	6,050
		$ 21,215

Rental expense for the years ended December 31, 2021 and 2020 for all facilities leased under operating leases totaled $5,027 and $5,206, respectively.

(dollars in thousands)

Note 6 – Members' Shares

Members' shares are summarized as follows:

	December 31, 2021	December 31, 2020
Money market accounts	$ 4,610,596	$ 3,985,035
Certificates	1,770,653	2,084,956
Regular shares	1,990,575	1,617,633
Share draft accounts	1,519,696	1,339,604
Individual retirement accounts – money market	179,904	156,853
	$ 10,071,424	$ 9,184,081

Certificates by maturity as of December 31, 2021 are summarized as follows:

0–1 year maturity	$ 1,076,405
1–2 years maturity	400,042
2–3 years maturity	146,499
3–4 years maturity	65,639
4–6 years maturity	82,068
	$ 1,770,653

The National Credit Union Share Insurance Fund insures members' shares up to $250. The aggregate amount of certificates in denominations of $250 or more at December 31, 2021 and 2020 was $254,446 and $299,351, respectively.

At December 31, 2021 and 2020, overdraft demand shares reclassified as loans totaled $905 and $473, respectively.

Note 7 – Borrowed Funds

The Credit Union has lines of credits with various financial institutions. The terms of the agreements call for pledging assets as security for any and all obligations taken by the Credit Union. The agreements provide for a total borrowing capacity at December 31, 2021 of $3,637,474, subject to certain collateral requirements, with interest charged at a rate determined by the lenders on a periodic basis. The agreements are reviewed for continuation by the lenders and the Credit Union annually. At December 31, 2021, the Credit Union had outstanding borrowings of $270,200 at a weighted average rate of 0.32% from the Federal Home Loan Bank maturing with $220,200 maturing in January 2022 and $50,000 maturing in May 2022.

At December 31, 2020, the Credit Union had outstanding borrowings of $140,200 at a weighted average rate of 0.25% from the Federal Reserve Bank maturing in January 2021.

(dollars in thousands)

Note 8 – Concentrations of Credit Risk

The Credit Union has an open federal charter and there are no geographic or group affiliation field of membership restrictions. The open charter was approved during 2017 by the NCUA. The majority of members are primarily located in New York. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of the overall geographic region in which the majority of borrowers reside.

Note 9 – Commitments and Contingent Liabilities

The Credit Union is a party to various legal actions normally associated with collection of loans and other business activities of financial institutions, the aggregate effect of which, in management's opinion, would not have a material adverse effect on the consolidated financial condition or results of operations of the Credit Union.

Outstanding loan commitments are summarized as follows:

	December 31,	
	2021	2020
Home equity masterlines, loans and lines of credit	$ 1,758,568	$ 1,480,326
Mortgage loan commitments	468,146	1,066,108
Consumer – credit card	478,038	482,960
Consumer – other	210,240	156,963
Commercial	7,927	6,818
Commercial – real estate	6,626	12,744
	$ 2,929,545	$ 3,205,919

Commitments may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future cash requirements of the Credit Union. These commitments are not reflected in the consolidated financial statements.

In the ordinary course of business, the Credit Union is exposed to potential claims and/or litigation under representations and warranties made to purchasers and insurers of mortgage loans as well as the purchasers of servicing rights. Under certain circumstances, the Credit Union may be required to repurchase mortgage loans or indemnify the purchasers of loans or servicing rights for losses if there has been a breach of representations or warranties. Any resulting liabilities would be recorded at the date the loss is probable and could be reasonably estimated. There were no repurchase or indemnification liabilities at December 31, 2021 and 2020.

(dollars in thousands)

Note 10 – Derivative Financial Instruments

Certain derivative instruments do not meet the requirements to be accounted for as hedging instruments. These undesignated derivative instruments are recognized in other assets and other liabilities on the consolidated statements of financial condition at fair value, with changes in fair value recorded in gain on sale of mortgage loans.

Derivatives outstanding at the end of each year, and gains (losses) recognized during the year then ended, are summarized as follows:

	December 31, 2021			
	Notional Amount	Fair Value – Asset	Fair Value – (Liability)	Gain (Loss) Recognized
Forward loan sale commitments	$ 232,319	$ 445	$ -	$ 3,294
Mortgage loan commitments	235,737	1,763	-	(7,716)

	December 31, 2020			
	Notional Amount	Fair Value – Asset	Fair Value – (Liability)	Gain (Loss) Recognized
Forward loan sale commitments	$ 411,106	$ -	$ (2,849)	$ (1,917)
Mortgage loan commitments	654,947	9,479	-	7,367

Note 11 – Employee Benefits

The Credit Union sponsors a funded, noncontributory defined benefit pension plan. The Credit Union also sponsors an unfunded, noncontributory, nonqualified defined benefit supplemental executive retirement plan. The plans call for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. Contributions to the plans reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future. Plan assets consist primarily of equity securities.

The Credit Union also sponsors a postretirement benefit plan to provide health care benefits to retirees of the Credit Union from retirement until Medicare benefits become available. The postretirement benefits take into account actuarial assumptions that consider employee age, years to retirement, and years to Medicare benefits. Other assumptions include the portion of the health care premium for the retirees to be paid by the plan, and a factor of the health care cost trend rate.

(dollars in thousands)

Note 11 – Employee Benefits (continued)

The accrued pension benefits and net periodic pension costs for the years ended December 31, 2021 and 2020 are as follows:

	Pension Plans		Postretirement Benefit	
	2021	2020	2021	2020
Change in benefit obligation				
Projected benefit obligation at beginning of year	$ 123,224	$ 105,165	$ 14,125	$ 11,159
Service cost	3,486	3,018	384	313
Interest cost	3,202	3,460	389	371
Benefits paid	(2,881)	(3,577)	(99)	(111)
Actuarial loss (gain)	(3,243)	15,158	(859)	2,393
Projected benefit obligation at end of year	123,788	123,224	13,940	14,125
Change in plan assets				
Fair value of plan assets at beginning of year	98,102	80,581	-	-
Actual return on plan assets	16,210	12,456	-	-
Employer contributions	5,064	8,642	99	111
Benefits paid	(2,881)	(3,577)	(99)	(111)
Fair value of plan assets at end of year	116,495	98,102	-	-
Unfunded projected status at end of year	$ (7,293)	$ (25,122)	$ (13,940)	$ (14,125)
Accumulated benefit obligation	$ 111,419	$ 110,552	$ -	$ -
Amounts recognized in the consolidated statements of financial condition consist of				
Accrued benefit liability	$ (7,293)	$ (25,122)	$ (13,940)	$ (14,125)
Accumulated other comprehensive gain (loss)	$ (21,054)	$ (38,583)	$ (3,500)	$ (4,572)
Amounts recognized in accumulated other comprehensive loss consist of				
Net actuarial loss	$ 21,017	$ 38,506	$ 3,524	$ 4,778
Prior service credit (cost)	37	77	(24)	(206)
Total	$ 21,054	$ 38,583	$ 3,500	$ 4,572

Included in accumulated other comprehensive loss at December 31, 2021 for the pension plans are unrecognized actuarial gains of $17,530 that have not yet been recognized in net periodic benefit cost. The actuarial losses expected to be recognized in net periodic benefit cost for fiscal year 2022 is $1,134.

(dollars in thousands)

Note 11 – Employee Benefits (continued)

The following table sets forth the actuarial assumptions related to the Credit Union's employee benefit plans as of December 31:

	Pension Plans		Postretirement Benefit	
	2021	2020	2021	2020
Weighted-average assumptions used to determine benefit obligation				
Discount rate	2.89%	2.61%	2.91%	2.61%
Rate of compensation increase	3.40%	3.40%	N/A	N/A
Weighted-average assumptions used to determine net periodic pension cost				
Discount rate	2.61%	3.32%	2.61%	3.31%
Expected return on plan assets	7.00%	7.00%	N/A	N/A
Rate of compensation increase	3.40%	3.50%	N/A	N/A
Inflation	3.00%	3.00%	N/A	N/A
Health care inflation				
Medical trend rates			4.50%–6.25%	4.50%–6.50%
Year of ultimate achievement			2029	2025
Dental trend rates			5.00%	5.00%
Year of ultimate achievement			2029	N/A

Net periodic pension cost for the Credit Union's pension plans include the following components for the years ended December 31:

	2021	2020
Service cost	$ 3,486	$ 3,018
Interest cost	3,202	3,460
Expected return on assets	(6,923)	(5,767)
Amortization of net loss	4,959	3,698
Amortization of prior year cost	40	146
Curtailment charge	-	306
Net periodic benefit cost	$ 4,764	$ 4,861

The funded, noncontributory defined benefit pension plan's expected long-term rate of return assumption is based on a building block approach, determining risk-free asset return assumptions, and applying a weighted average methodology to the proportion of plan assets in each applicable asset class.

(dollars in thousands)

Note 11 – Employee Benefits (continued)

The Credit Union's pension plans' approximate weighted-average asset allocations by asset category are as follows:

	December 31, 2021	December 31, 2020
Equity securities (Level 1)	82%	80%
Debt securities (Level 2)	18%	20%
	100%	100%

The Credit Union's pension investment strategies are targeted to produce a total return that, when combined with the Credit Union's contributions to the plans, will maintain the fund's ability to meet all required benefit obligations. Risk is controlled through diversification of asset types and investments in domestic and international equities, fixed income securities and cash.

The minimum contribution requirement is approximately $513 for the pension plans and approximately $277 to the postretirement benefit plan in 2021.

The following pension and postretirement benefit payments for the next ten years, which reflect expected future service, as appropriate, are expected to be paid as follows:

		Pension/ Postretirement Benefit Payments
Years Ending December 31,	2022	$ 3,605
	2023	3,930
	2024	4,333
	2025	4,684
	2026	5,070
	2027–2031	30,280
		$ 51,902

The noncontributory defined benefit pension plan is closed to new hires on or after March 1, 2012.

The Credit Union also has a defined contribution 401(k) plan that allows employees to defer a portion of their salary into the 401(k) plan. The Credit Union matches a portion of employees' wage contributions. Plan costs are accrued and funded on a current basis. The Credit Union contributed approximately $3,077 and $2,969, respectively, to the 401(k) plan for the years ended December 31, 2021 and 2020.

(dollars in thousands)

Note 12 – Members' Equity

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 financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. GAAP. The Credit Union's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, Credit Unions over $50,000 in assets are also required to calculate a risk-based net worth ("RBNW") requirement which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW requirements as of December 31, 2021 and 2020 were 6.46% and 5.89%, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6%. Management believes, as of December 31, 2021 and 2020, the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2021 the most recent call reporting period, and 2020, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

The Credit Union's actual capital amounts and ratios are presented in the following table:

	December 31, 2021		December 31, 2020	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as "adequately capitalized"	$ 670,024	6.0%	$ 601,684	6.0%
Amount needed to be classified as "well capitalized"	781,695	7.0%	701,965	7.0%
Actual net worth	1,027,904	9.2%	851,355	8.5%

Because the RBNW requirement 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 balance option, as permitted by regulation.

(dollars in thousands)

Note 12 – Members' Equity (continued)

The following table presents a reconciliation of the Credit Union's total members' equity to regulatory net worth as summarized below:

	December 31, 2021	December 31, 2020
Total members' equity	$ 992,176	$ 881,498
Accumulated other comprehensive (income) loss	33,227	(32,644)
Acquisition date retained earnings of acquirees	12,966	12,966
Acquisition date enterprise fair values of acquirees	(5,304)	(5,304)
Bargain purchase gain recognized	(5,161)	(5,161)
Regulatory net worth	$ 1,027,904	$ 851,355

Note 13 – Related Party Transactions

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans to related parties at December 31, 2021 and 2020 were $5,248 and $6,433, respectively. Deposits from related parties at December 31, 2021 and 2020 amounted to $4,423 and $5,449, respectively.

The Credit Union holds equity method investments in certain credit union service organizations ("CUSOs"). These CUSOs provide back-office and other operational services to the Credit Union.

The Credit Union owns a one-third interest in S3 Shared Service Solutions, LLC ("S3") which provides various administrative services to the Credit Union. Two other credit unions ("CUs") also each own one-third interests in S3. The investment is included in other assets on the consolidated statements of financial condition and totaled $3,804 at December 31, 2021 and 2020. Net expenses for services provided by S3 were $32,053 and $25,251 during the years ended December 31, 2021 and 2020, respectively, and are included in operations expenses on the consolidated statements of income. The investment in S3 is recorded using the equity method of accounting.

On May 31, 2013, the Credit Union entered into a Contracted Employees and Cost Sharing Agreement with S3 in which the Credit Union leases employees and office space to S3 to perform administrative services for the CUs. The agreement may be unilaterally terminated by either party after a notice period of up to one year. In addition, the Credit Union and the CUs entered into a correspondent service agreement ("CSA") on May 31, 2013 which establishes that the Credit Union will be paid directly by the CUs on a monthly basis for costs of services provided by S3. These payments amounted to $39,966 and $32,514 for the years ended December 31, 2021 and 2020, respectively. These payments are netted in the consolidated financial statements and had no effect on net income.

(dollars in thousands)

Note 13 – Related Party Transactions (continued)

The Credit Union owns a one-third interest in Open Technology Solutions, LLC (“OTS”) which provides data support services to the Credit Union. The Credit Unions own one-third interests in OTS. The investment, included in other assets on the consolidated statements of financial condition, totaled $2,542 at December 31, 2021 and 2020. Expenses for services provided by OTS were $9,860 and $8,954 for the years ended December 31, 2021 and 2020, respectively, and are included in operations expenses on the consolidated statements of income. The investment in OTS is recorded using the equity method of accounting. In addition, the Credit Union and the CUs extended an operating line of credit to OTS during 2014 which had an interest rate of 3.25% a maturity date of December 31, 2020 which was renewed with a new maturity date of October 20, 2023. The portion of the loan to OTS recorded as a receivable to the Credit Union was $1,833 and $0 as of December 31, 2021 and 2020, respectively, and is included in loans receivable in the consolidated statement of financial condition.

Note 14 – Fair Value of Financial Instruments

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement at December 31, 2021			
	Level 1	Level 2	Level 3	Fair Value
Mutual fund	$ 340,004	$ -	$ -	$ 340,004
Investments available-for-sale				
Agency issued securities	-	263,568	-	263,568
Agency issued MBS/CMOs	-	2,958,411	-	2,958,411
Municipal bonds	-	733,599	-	733,599
Auction rate securities				
Forward loan sales commitment	-	445	-	445
Mortgage loan commitments	-	1,763	-	1,763
Total assets	$ 340,004	$ 3,957,786	$ -	$ 4,297,790

	Fair Value Measurement at December 31, 2020			
	Level 1	Level 2	Level 3	Fair Value
Mutual fund	$ 400,004	$ -	$ -	$ 400,004
Investments available-for-sale				
Agency issued securities	-	270,974	-	270,974
Agency issued MBS/CMOs	-	2,252,695	-	2,252,695
Municipal bonds	-	613,975	-	613,975
Mortgage loan commitments	-	9,479	-	9,479
Total assets	$ 400,004	$ 3,147,123	$ -	$ 3,547,127
Forward loan sales commitment	$ -	$ (2,849)	$ -	$ (2,849)
Total liabilities	$ -	$ (2,849)	$ -	$ (2,849)

(dollars in thousands)

Note 14 – Fair Value of Financial Instruments (continued)

Assets measured at fair value on a nonrecurring basis are summarized below:

	Fair Value Measurement at December 31, 2021			
	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	$ -	$ 170,635	$ 170,635
Foreclosed and repossessed assets	-	-	1,627	1,627
	$ -	$ -	$ 172,262	$ 172,262

	Fair Value Measurement at December 31, 2020			
	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	$ -	$ 245,226	$ 245,226
Foreclosed and repossessed assets	-	-	1,863	1,863
	$ -	$ -	$ 247,089	$ 247,089

The estimated fair value amounts have been determined by the Credit Union using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Credit Union could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Note 15 – Securitizations

The Credit Union securitizes loans as a source of funding. In a securitization, debt securities are issued and are generally collateralized by a single class of transferred assets, such as residential mortgages. The Credit Union had $146,237 and $166,073 outstanding as of December 31, 2021 and 2020, respectively, of GNMA guaranteed Residential Mortgage Backed Securities (RMBS) while retaining the rights to servicing.

Under the provisions of the RMBS program, the Credit Union, as the issuer and servicer, in specific instances is obligated to collect certain “defaulted” mortgages that are subject to a specific collection process under Federal Housing Administration (FHA) and Department of Housing and Urban Development (HUD) guidelines. Management has determined that under certain circumstances it is possible that the Credit Union might, in some instances, collect amounts that are less than the HUD guaranteed amount. Additionally, if a borrower prepays a loan at any time during any month other than at the end of the month the Credit Union cannot charge a prepayment penalty and must pay the bond holders interest as if the loan were outstanding all month.

(dollars in thousands)

Note 15 – Securitizations (continued)

As part of the securitization process, the Credit Union enters into forward delivery contracts. At December 31, 2021 and 2020, outstanding forward delivery contracts were $9,000 and $6,250, respectively. The forward delivery contracts are included within the forward loan sale commitments in Note 10. These agreements are matched to the dollar amount of each securitization trade.

Note 16 – Revenue from Contracts with Customers

The Credit Union's non-interest income, including revenue from contracts with customers in the scope of ASC 606, is presented for the years ended December 31:

	2021	2020
Non-interest income		
Gain on sale of mortgage loans (2)	$ 53,348	$ 51,449
Members' shares service charges and other fees		
Deposit account service fees (1)	11,629	8,808
Debit card interchange income (1)	17,558	14,107
Other fee income (1)	397	509
Total fee income	29,584	23,424
Mortgage servicing and loan fees		
Credit card interchange income (1)	1,977	1,883
Mortgage servicing rights (2)	7,736	(1,286)
Other loan fees (2)	6,472	4,431
Total mortgage servicing and loan fees	16,185	5,028
Investment services and insurance fees – commissions (2)	9,860	7,857
Other non-interest income (loss) (2)	7,437	(158)
Total non-interest income	$ 116,414	$ 87,600

(1) Within the scope of ASC 606
(2) Outside the scope of ASC 606

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