Report of Independent Auditors and
Consolidated Financial Statements

Bethpage Federal Credit Union and Subsidiaries

December 31, 2023 and 2022

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Report of Independent Auditors

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, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), 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, 2023 and 2022, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, on January 1, 2023, Bethpage Federal Credit Union and Subsidiaries adopted Accounting Standards Update 2016-13*, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326)*, as amended, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. Our opinion is not modified with respect to this matter.

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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Bethpage Federal Credit Union and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 consolidated 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 30, 2024

Consolidated Financial Statements

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Financial Condition
(dollars in thousands)
December 31, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 457,670	$ 82,214
Mutual fund, at fair value	-	1,000
Investments:		
Available-for-sale, at fair value	3,046,437	3,361,490
Other	47,594	45,346
Loans held for sale	9,764	3,706
Loans receivable, net	8,861,957	8,059,462
Accrued interest receivable	50,242	39,843
Servicing rights, net	30,165	34,050
Property and equipment, net	58,758	57,889
Goodwill	56,788	56,788
Other intangibles and core deposit	19,010	19,188
National Credit Union Share Insurance Fund deposit	100,404	94,090
Other assets	119,574	87,957
Total assets	$ 12,858,363	$ 11,943,023
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' shares	$ 10,698,617	$ 10,573,003
Borrowed funds	1,065,000	429,000
Accrued expenses and other liabilities	243,839	180,659
Total liabilities	12,007,456	11,182,662
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 6 and 10)		
MEMBERS' EQUITY		
Retained earnings	1,132,305	1,111,838
Equity acquired in merger	5,304	5,304
Accumulated other comprehensive loss	(286,702)	(356,781)
Total members' equity	850,907	760,361
Total liabilities and members' equity	$ 12,858,363	$ 11,943,023

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Income
(dollars in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
INTEREST INCOME		
Interest and fees on loans receivable	$ 432,767	$ 282,734
Interest and dividends on mutual fund, investments, and cash equivalents	102,638	65,136
Total interest income	535,405	347,870
INTEREST EXPENSE		
Dividends on members' shares	223,998	82,826
Interest on borrowed funds	40,364	6,108
Total interest expense	264,362	88,934
Net interest income	271,043	258,936
PROVISION FOR CREDIT LOSSES	28,078	16,769
Net interest income after provision for loan losses	242,965	242,167
NONINTEREST INCOME		
Members' shares service charges and other fees	17,644	24,188
Mortgage servicing and loan fees	14,913	15,589
Investment services and insurance fees – commissions	6,168	7,327
Gain on sale of mortgage loans	3,761	8,758
Other noninterest income	3,674	3,383
Total noninterest income	46,160	59,245
NONINTEREST EXPENSES		
Salaries and benefits	87,127	78,336
Operations	70,589	63,991
Data processing	40,870	34,585
Education and promotional	18,209	12,506
Occupancy	13,344	12,913
Professional services	12,313	7,342
Total noninterest expenses	242,452	209,673
NET INCOME	$ 46,673	$ 91,739

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(dollars in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
NET INCOME	$ 46,673	$ 91,739
OTHER COMPREHENSIVE INCOME (LOSS)		
Investments available-for-sale		
Net unrealized gains (losses) on securities available-for-sale arising during the period	70,778	(341,224)
Reclassification adjustment for realized losses from sales included in other non-interest income	283	-
Defined benefit pension plans		
Net gain (loss) arising during the period	(982)	16,199
Reclassification adjustment for amortization of prior service cost and net (gain) loss included in salaries and benefits	-	1,471
Total other comprehensive income (loss)	70,079	(323,554)
COMPREHENSIVE INCOME (LOSS)	$ 116,752	$ (231,815)

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Changes in Members’ Equity
(dollars in thousands)
Years Ended December 31, 2023 and 2022

	Retained Earnings				
	Undivided Earnings	Other Reserves	Total Retained Earnings	Equity Acquired in Merger	Accumulated Other Comprehensive (Loss)
BALANCE, December 31, 2021	$ 998,715	$ 21,384	$ 1,020,099	$ 5,304	$ (33,227)
Transfer of reserves	21,384	(21,384)	-	-	-
Net income	91,739	-	91,739	-	-
Other comprehensive loss	-	-	-	-	(323,554)
BALANCE, December 31, 2022	1,111,838	-	1,111,838	5,304	(356,781)
Cumulative change in accounting principle - ASC 326	(26,206)	-	(26,206)	-	-
Net income	46,673	-	46,673	-	-
Other comprehensive income	-	-	-	-	70,079
BALANCE, December 31, 2023	$ 1,132,305	$ -	$ 1,132,305	$ 5,304	$ (286,702)

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Cash Flows
(dollars in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 46,673	$ 91,739
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of mortgage servicing rights	4,869	5,436
Impairment of mortgage servicing rights	5	-
Amortization of commercial servicing rights	1,050	1,627
Impairment of commercial servicing rights	27	28
Amortization of net premium on investments	36,626	66,834
Provision for credit loss	28,078	16,769
Losses on sales of investments available-for-sale	283	-
Gain on sales of mortgage loans	(3,761)	(8,758)
Mortgage loans originated for sale	(172,479)	(341,218)
Proceeds from sale of mortgage loans	168,163	460,485
Depreciation and amortization	5,753	6,165
Non cash lease expense	3,580	3,450
Repayment of operating lease liabilities	(3,059)	(1,794)
Amortization of core deposit intangible	178	178
Gain on sales of foreclosed and repossessed assets	(201)	(725)
Increase in accrued interest receivable	(10,399)	(10,335)
Increase in other assets	(25,286)	(10,007)
Increase in accrued expenses and other liabilities	60,059	31,042
Net cash provided by operating activities	140,159	310,916
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of trading securities	1,000	339,004
Purchases of investments available-for-sale	(149,958)	(587,516)
Proceeds from maturities of investments available-for-sale	345,649	759,343
Proceeds from sales of investments available-for-sale	153,513	-
Proceeds from sales of foreclosed and repossessed assets	837	2,389
Net (increase) decrease in other investments	(2,248)	8,239
Net increase in loans receivable	(862,174)	(1,468,464)
Increase in the National Credit Union Share Insurance Fund deposit	(6,314)	(5,638)
Purchases of property and equipment	(6,622)	(3,579)
Net cash used in investing activities	(526,317)	(956,222)

See accompanying notes.

Bethpage Federal Credit Union and Subsidiaries
Consolidated Statements of Cash Flows
(dollars in thousands)
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in short-term borrowed funds	$ 636,000	$ 158,800
Net increase in members' shares	125,614	501,579
Net cash provided by financing activities	761,614	660,379
NET CHANGE IN CASH AND CASH EQUIVALENTS	375,456	15,073
CASH AND CASH EQUIVALENTS, beginning of year	82,214	67,141
CASH AND CASH EQUIVALENTS, end of year	$ 457,670	$ 82,214
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for		
Dividends on members' shares	$ 223,998	$ 82,826
Interest on borrowed funds	$ 11,633	$ 6,015
Schedule of noncash investment activities		
Transfer of loans receivable to foreclosed and repossessed assets	$ 5,478	$ 2,533
Security purchases settled in subsequent period	$ -	$ (14,203)
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	$ 5,770	$ 42,725

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, Bethpage Commercial, LLC, Business Services Group West Broadway LLC, Business Services Group 305 2nd Ave, 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.

New accounting pronouncements – On January 1, 2023, the Credit Union adopted Accounting Standards Update ("ASU") 2016-13 *Financial Instruments – Credit Losses (Topic 326)*: Measurement of Current Expected Credit Losses on Financial Instruments, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. Additionally, Accounting Standards Codification ("ASC") *Topic 326* made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will not be required to sell. The Credit Union adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326, while prior amounts continue to be reported in accordance with previously applicable GAAP. The adoption resulted in an increase to the allowance for credit losses on loans of $25,244, an increase of $962 to the allowance for unfunded commitments, and a $26,206 decrease to the beginning balance of retained earnings.

In addition, during the year ended December 31, 2023, the Credit Union adopted ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminated the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

(dollars in thousands)

The Credit Union finalized the adoption of ASC 326 as of January 1, 2023, as detailed in the following table:

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Debt securities available for sale	$ -	$ -	$ -
Loans			
Commercial including participations	$ 4,968	$ 5,004	$ (36)
Commercial real estate including participations	53,797	43,558	10,239
Consumer	11,626	6,536	5,090
Residential mortgages	14,776	8,933	5,843
Home equity masterlines, loans and lines of credit	21,919	17,811	- 4,108
Allowance for credit losses on loans	$ 107,086	$ 81,842	$ 25,244
Liabilities:			
Allowance for credit losses on off-balance sheet credit exposures	$ 962	$ -	$ 962

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 credit losses, fair value of collateral dependent loans, 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 the 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 15.

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, 2023 and 2022, there were approximately $10,124 and $8,363, respectively, in credit union and bank demand deposits with individual balances in excess of the insured limit.

Mutual fund – The Credit Union owned 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 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.

Management no longer evaluates securities for other-than-temporary impairment, as ASC Subtopic 326-30 *Financial Instruments – Credit Losses – Available for Sale Debt Securities*, changes the accounting for recognizing impairment on available for sale and held to maturity debt securities. Each reporting period management evaluates impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value. Management considers the nature of the collateral, potential future changes in collateral values, default rates, delinquency rates, third-party guarantees, credit ratings, interest rate changes since purchase, volatility of the security's fair value and historical loss information for financial assets secured with similar collateral among other factors. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method, whereby management compares the present value of expected cash flows with the amortized cost basis of the security. The credit loss component recognized through the provision for credit losses on the statements of income.

Allowance for Credit Losses (ACL) on Available-for-Sale Securities - For available-for-sale securities in an unrealized loss position, management first assesses whether it intends to sell, or is more likely than not to be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Credit Union evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis.

Changes in the ACL are recorded as a provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities is not included in the estimate of credit losses.

Accrued interest receivable on available-for-sale debt securities totaled $12,541 and $13,481 at December 31, 2023 and 2022, respectively, and is excluded from the estimate of credit losses.

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, 2023 and 2022, the Credit Union held FHLBNY stock with par value of $18,518 and $17,915, 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, 2023 and 2022, management did not believe the stock was impaired.

Central Liquidity Facility stock – The Credit Union is a member of the Central Liquidity Facility (CLF), a mixed ownership government corporation created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions. Member credit unions own the CLF which exists within the NCUA. Membership is voluntary and open to all credit unions that purchase a prescribed amount of CLF stock.

Stock in the CLF is classified as restricted stock and is periodically evaluated for impairment. The determination of whether the investment is impaired is based on the Credit Union's assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (1) the significance of the decline in the net assets of the CLF as compared to the capital stock amount for the CLF and the length of time this situation has persisted, (2) commitments by the CLF to make payments required by law or regulation and the level of such payments in relation to the operating performance of the CLF, (3) the impact of the legislative and regulatory changes on institutions and, accordingly, on the customer base of the CLF, and (4) the liquidity position of the CLF.

At of December 31, 2023 and 2022, the Credit Union held $28,322 and $26,677 of CLF capital stock, respectively. The remainder is held on call by the Credit Union in cash or investment securities. The amount of the capital stock subscription is adjusted at the close of each calendar year in accordance with the level of the unimpaired capital and surplus of the Credit Union over a period specified by regulation. The Credit Union may withdraw from membership six months after notifying the NCUA Board of its intention to do so if its subscription amount is less than five percent of required subscriptions outstanding, or 24 months after notification if its subscription amount is five percent or more of required subscriptions outstanding. Dividends are paid on the paid-in portion of the Credit Union's capital stock from available earnings of the CLF at rates determined by the NCUA Board.

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 the 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, 2023 and 2022, 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 deteriorated (PCD) loans. PCD loans are accounted for under FASB ASC Topic 326, *Allowance for Credit Loss*. Under FASB ASC Topic 805 and FASB ASC Topic 326, 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 PCD 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 PCD 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.

Acquired loans that are not PCD loans are referred to as purchased non-credit impaired (PNCI) loans. PNCI loans are accounted for under FASB ASC Topic 326, *Allowance for Credit Loss*, 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 326, 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.

Loans receivable, net – Loans are stated at the amount of unpaid principal, reduced by an allowance for credit losses, and increased by net deferred loan fees and costs. Deferred fees and costs are amortized to interest income as an adjustment to yield using the straight line method or over the effective life of the underlying loans, adjusted for prepayments. Interest on loans receivable is recognized over their term and is calculated using the simple interest method on principal amounts outstanding.

Accrual of interest on loans is discontinued when management believes that, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. The Credit Union's policy is to stop accruing interest when, in management's opinion, the borrower may be unable to meet payments as they become due, or the loan becomes 90 days delinquent. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged-off are reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic principal and interest payments returns and future payments are reasonably assured, in which case the loan is returned to accrual status.

The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed and recoveries are credited to the allowance when received. In the case of recoveries, amounts may not exceed the aggregate of amounts previously charged off. Accrued interest receivable is excluded from the estimate of credit losses for loans.

Management utilizes relevant available information, from internal and external sources, relating to past events, current conditions, historical loss experience, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in the current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes economic conditions, unemployment rates, property values, or other relevant factors.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Credit Union segments the loan portfolio into commercial and consumer loans. The ACL for these segments is estimated using probability of default and loss given default modeling, adjusted for qualitative factors. The ACL also includes an amount for the estimated losses on individually evaluated loans, as applicable.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs.

Expected credit losses are estimated over the contractual term of loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date than an extension or renewal option are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Credit Union.

Credit card receivables do not have stated maturities. In determining the estimated life of a credit card receivable, management first estimates the future cash flows expected to be received and then applies those future expected cash flow to the credit card balance. Expected credit losses for credit cards are calculated using the weighted average remaining maturity (WARM) methodology.

The ACL for off-balance sheet credit exposures is estimated as the expected credit losses over the contractual period in which the Credit Union is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Credit Union. The allowance for credit losses on off-balance sheet credit exposure is adjusted through a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

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 modifications for commercial borrowers experiencing financial difficulty generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

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 exceeds 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.

Leases – Under FASB ASC 842 *Leases* (Topic 842), the Credit Union determines whether the arrangement is or contains a lease at inception. Operating and finance leases will be recognized on the consolidated balance sheets as ROU assets and lease liabilities. ROU assets represent the Credit Union's right to use an underlying asset for the lease term and lease liabilities represent the Credit Union's obligation to make lease payments arising from the lease. Lease liabilities and their corresponding ROU assets are recorded based on the present value of lease payments over the expected remaining lease term. For this purpose, the Credit Union considers only payments that are fixed and determinable at the time of commencement. The lease ROU assets also include any lease payments made and adjustments for prepayments and lease incentives. The interest rate implicit in lease contracts is typically not readily determinable. As a result, the Credit Union will utilize their incremental borrowing rate as permitted by Topic 842. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Credit Union will exercise that option.

The Credit Union leases office space under agreements classified as operating leases that expire on various dates through 2043. Such leases do not require any contingent rental payments, impose any financial restrictions, or contain any residual value guarantees. Certain of the Credit Union's leases include renewal options and escalation clauses; renewal options have not been included in the calculation of the lease liabilities and right of use assets unless the Credit Union is reasonably certain to be exercising the options. Variable expenses generally represent the Credit Unions share of the landlord's operating expenses. The Credit Union has elected the short-term lease recognition exemption for certain leases which are less than 12 months in duration or month-to month. This means, for those leases that qualify, ROU assets or lease liabilities will not be recognized.

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, 2023 and 2022, 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, 2023 and 2022, the Credit Union concluded the intangible asset was not impaired.

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.

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, 2023 and 2022.

The Credit Union recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended December 31, 2023 and 2022, the Credit Union recognized no interest or penalties. Additionally, the Credit Union had no unrecognized tax benefits as of December 31, 2023 and 2022.

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.

Members' equity – The Credit Union historically was required by regulation to maintain a statutory reserve referred to as "regular reserves", which represented a regulatory restriction on accumulated earnings and was not available for the payment of dividends. Due to regulatory changes in 2022, this category of equity was renamed "other reserves" and amounts were transferred into undivided earnings.

Comprehensive income (loss) – Comprehensive income (loss) 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 (loss).

(dollars in thousands)

The following are changes in accumulated other comprehensive loss by component for the years ending December 31, 2023 and 2022:

	Unrealized (Losses) on Investments Available-for-Sale	Defined Benefit Pension Items	Total
December 31, 2022			
Beginning balance	$ (8,673)	$ (24,554)	$ (33,227)
Other comprehensive (loss) income before reclassification	(341,224)	16,199	(325,025)
Amounts reclassified from accumulated other comprehensive income	-	1,471	1,471
Net current period other comprehensive (loss) income	(341,224)	17,670	(323,554)
Ending balance	$ (349,897)	$ (6,884)	$ (356,781)
December 31, 2023			
Beginning balance	$ (349,897)	$ (6,884)	$ (356,781)
Other comprehensive income (loss) before reclassification	70,778	(982)	69,796
Amounts reclassified from accumulated other comprehensive loss	283	-	283
Net current period other comprehensive income (loss)	71,061	(982)	70,079
Ending balance	$ (278,836)	$ (7,866)	$ (286,702)

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 other real estate owned (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 members 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.

Noninterest expense – Noninterest expense consists of employee compensation and related benefits, professional and outside services rendered, facilities and office operations, and other miscellaneous expenses. Noninterest 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.

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.

Fair values for mortgage loan commitments and forward sales commitments are estimated using quoted or published market prices for similar instruments, adjusted for factors such as interest rates and pull-through rate assumptions based on historical information, where appropriate. Mortgage loan commitments and forward sales commitments are classified as Level 2.

Fair values of collateral dependent loans are measured based on the fair value of the underlying collateral securing the loan. Collateral dependent loans are secured by commercial assets, commercial and consumer real estate or automobiles. 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.

(dollars in thousands)

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 taxi 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.

Reclassifications – Certain account reclassifications have been made to the financial statements of the prior year in order to conform to the current year's presentation. These reclassifications have no effect on previously reported net income or members' equity.

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 30, 2024, which is the date the consolidated financial statements became available for issuance.

Note 2 – Investments

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2023				
Agency issued securities	$ 162,740	$ 95	$ (3,584)	$ 159,251
Agency issued MBS/CMOs*	2,516,309	437	(233,025)	2,283,721
Municipal bonds	646,224	24	(42,783)	603,465
	$ 3,325,273	$ 556	$ (279,392)	$ 3,046,437
December 31, 2022				
Agency issued securities	$ 208,135	$ 324	$ (3,743)	$ 204,716
Agency issued MBS/CMOs*	2,778,763	772	(282,298)	2,497,237
Municipal bonds	724,489	-	(64,952)	659,537
	$ 3,711,387	$ 1,096	$ (350,993)	$ 3,361,490

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

(dollars in thousands)

Proceeds from sales of available-for-sale securities during the year ended December 31,2023, totaled $153,513 and gross realized losses totaled $283.There were no proceeds from sales of available-for-sale securities and no gross realized gains or losses from sales of available-for-sale securities for the year ended December 31, 2022.

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, 2023 and 2022, are as follows:

	Less than 12 Months		Equal to or more than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023						
Agency issued securities	$ 37,610	$ (223)	$ 105,514	$ (3,361)	$ 143,124	$ (3,584)
Agency issued MBS/CMOs	56,636	(6,485)	2,190,975	(226,540)	2,247,611	(233,025)
Municipal bonds	-	-	590,152	(42,783)	590,152	(42,783)
	$ 94,246	$ (6,708)	$ 2,886,641	$ (272,684)	$ 2,980,887	$ (279,392)
December 31, 2022						
Agency issued securities	$ 28,297	$ (294)	$ 102,446	$ (3,449)	$ 130,743	$ (3,743)
Agency issued MBS/CMOs	952,517	(75,408)	1,467,212	(206,890)	2,419,729	(282,298)
Municipal bonds	314,220	(18,603)	331,431	(46,349)	645,651	(64,952)
	$ 1,295,034	$ (94,305)	$ 1,901,089	$ (256,688)	$ 3,196,123	$ (350,993)

There were a total of 39 investments available-for-sale in an unrealized loss position less than 12 months and a total of 1,009 investments available-for-sale in an unrealized loss position equal to or greater than 12 months at December 31, 2023. There were a total of 535 investments available-for-sale in an unrealized loss position less than 12 months and a total of 588 investments available-for-sale in an unrealized loss position equal to or greater than 12 months at December 31, 2022.

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 deteriorating credit quality. 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. The Credit Union does not intend to sell these securities and it is not likely that the Credit Union will be required to sell these securities before recovery of their amortized cost bases, which may include holding each security until contractual maturity or sooner in the event of a more favorable interest rate environment. Accordingly, no allowance for credit losses has been recorded for available-for-sale securities as of December 31, 2023.

(dollars in thousands)

There was no realized gain or loss during the years ended December 31, 2023 and 2022, from the mutual fund.

Other investments consist of the following as of December 31:

	2023	2022
Certificates of deposit in banks and savings institutions	$ 250	$ 250
FHLBNY stock	18,518	17,915
Central Liquidity Facility (CLF)	28,322	26,677
Member capital account in Corporate Credit Union	504	504
	$ 47,594	$ 45,346

Investments by contractual maturity as of December 31, 2023, are summarized as follows:

	Amortized Cost	Fair Value	Other Investments
No contractual maturity – FHLBNY stock, CLF, and member capital in Corporate Credit Union	$ -	$ -	$ 47,344
Less than 1 year maturity	230,313	227,721	250
1 – < 5 years maturity	523,871	486,919	-
5 – 10 years maturity	54,781	48,076	-
Mortgage-backed securities and CMOs	2,516,309	2,283,721	-
	$ 3,325,274	$ 3,046,437	$ 47,594

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 as of December 31:

	2023	2022
Investments available-for-sale	$ 2,491,597	$ 1,268,439
Federal Home Loan Bank stock	18,518	17,915

(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 Deteriorated Loans	2023 Total
Real estate loans							
Residential fixed rate mortgages	$ 3,241	$ 751	$ 7,375	$ 11,367	$ 505,682	$ -	$ 517,049
Residential non-owner occupied	-	-	-	-	10,768	-	10,768
Hybrid/balloon mortgages	4,913	754	27,252	32,919	2,640,221	-	2,673,140
Home equity line of credit, variable rate	9,309	3,411	7,607	20,327	421,462	-	441,789
Home equity masterlines	21,576	3,833	9,435	34,844	1,719,111	-	1,753,955
Home equity loans	3,618	902	9,587	14,107	122,016	-	136,123
Commercial real estate including participations	37,723	1,276	28,978	67,977	1,629,155	-	1,697,132
Vehicle loans	9,606	2,001	2,930	14,537	1,349,358	-	1,363,895
Consumer loans	1,120	552	797	2,469	224,724	-	227,193
Commercial including participations	41	-	82	123	18,613	3,266	22,002
Consumer credit cards	668	531	1,270	2,469	85,307	-	87,776
	$ 91,815	$ 14,011	$ 95,313	$ 201,139	$ 8,726,417	$ 3,266	8,930,822
Allowance for credit loss							(125,228)
Net deferred origination fees and costs							56,363
Total							$ 8,861,957

	Past Due 1 Month	Past Due 2 Months	Past Due 3 Months or More	Past Due Total	Current	Purchased Credit Impaired Loans	2022 Total
Real estate loans							
Residential fixed rate mortgages	$ 1,535	$ 629	$ 10,450	$ 12,614	$ 562,316	$ -	$ 574,930
Residential non-owner occupied	-	-	-	-	11,559	-	11,559
Hybrid/balloon mortgages	6,389	-	20,370	26,759	2,356,142	-	2,382,901
Home equity line of credit, variable rate	9,644	2,546	7,084	19,274	549,380	-	568,654
Home equity masterlines	8,877	1,759	1,664	12,300	1,439,034	-	1,451,334
Home equity loans	4,251	789	9,201	14,241	131,951	-	146,192
Commercial real estate including participations	821	1,133	9,884	11,838	1,578,539	-	1,590,377
Vehicle loans	6,018	1,397	796	8,211	1,075,687	-	1,083,898
Consumer loans	578	266	537	1,381	163,484	-	164,865
Commercial including participations	-	-	351	351	19,277	3,679	23,307
Consumer credit cards	943	485	999	2,427	90,071	-	92,498
	$ 39,056	$ 9,004	$ 61,336	$ 109,396	$ 7,977,440	$ 3,679	8,090,515
Allowance for loan losses							(81,842)
Net deferred origination fees and costs							50,789
Total							$ 8,059,462

The Credit Union has purchased commercial loan participations originated by other financial institutions. All of these loan participations were purchased without recourse and are collateralized by real property.

As of December 31, 2023, there were no loans pledged to secure outstanding or available borrowings.

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 offers home equity masterlines to its members. Masterlines consist of a variable line of credit and, if selected, fixed loans with terms of five, ten, or twenty years. The line of credit has a draw period of ten years and then converts to a variable loan for twenty years.

(dollars in thousands)

The following table presents, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans for the years ended December 31, 2023 and 2022:

	Commercial Including Participations	Commercial Real Estate Including Participations	Consumer	Residential Mortgages	Home Equity Masterlines, Loans and Lines of Credit	Total at December 31, 2023
Allowance for credit losses						
Beginning balance, prior to adoption of ASC 326	$ 5,004	$ 43,558	$ 6,536	$ 8,933	$ 17,811	$ 81,842
Impact of adopting ASC 326	(36)	10,239	5,090	5,843	4,108	25,244
Charge-offs	(273)	(1,241)	(9,946)	(177)	(709)	(12,346)
Recoveries	33	-	2,105	-	272	2,410
Provision for (recapture of) credit losses	(275)	13,625	9,257	1,212	4,259	28,078
Ending balance	$ 4,453	$ 66,181	$ 13,042	$ 15,811	$ 25,741	$ 125,228

	Commercial Including Participations	Commercial Real Estate Including Participations	Consumer	Residential Mortgages	Home Equity Masterlines, Loans and Lines of Credit	Total at December 31, 2022
Allowance for loan losses						
Beginning balance	$ 14,329	$ 32,969	$ 7,497	$ 7,757	$ 15,073	$ 77,625
Charge-offs	(6,332)	(605)	(8,931)	-	(342)	(16,210)
Recoveries	93	-	3,112	-	453	3,658
Provision (recapture of for loan losses	(3,086)	11,194	4,858	1,176	2,627	16,769
Ending balance	$ 5,004	$ 43,558	$ 6,536	$ 8,933	$ 17,811	$ 81,842
Ending balance Individually evaluated for impairment	$ 4,056	$ 28,231	$ -	$ 1,942	$ 5,177	$ 39,406
Ending balance Collectively evaluated for impairment	$ 948	$ 15,327	$ 6,536	$ 6,991	$ 12,634	$ 42,436
Loans receivable						
Ending balance	$ 21,957	$ 1,584,505	$ 1,346,822	$ 2,979,464	$ 2,208,556	$ 8,141,304
Ending balance Individually evaluated for impairment	$ 7,871	$ 107,831	$ -	$ 46,420	$ 35,518	$ 197,640
Ending balance Collectively evaluated for impairment	$ 14,086	$ 1,476,674	$ 1,346,822	$ 2,933,044	$ 2,173,038	$ 7,943,664

(dollars in thousands)

Credit quality indicators - For all 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 and are on nonaccrual, while all remaining loans are evaluated as performing. The following table presents the contractual balance of loans on nonaccrual status and the related ACL as of December 31, 2023:

	Nonaccrual with no Allowance for Credit Losses	Nonaccrual with Allowance for Credit Losses	Total Nonaccrual	Allowance for Credit Losses
Commercial including participations	$ 28	$ 608	$ 636	$ 25
Commercial real estate including participations	-	34,097	34,097	14,810
Consumer				
Consumer – auto	-	2,979	2,979	15
Consumer – other	-	812	812	9
Consumer – credit cards	-	1,293	1,293	70
Residential mortgages	20,093	15,743	35,836	1,881
Home equity masterlines, loans and lines of credit	14,193	12,293	26,486	4,236
Total	$ 34,314	$ 67,825	$ 102,139	$ 21,046

The following table presents the amortized cost basis of loans on nonaccrual status as of December 31, 2022:

	December 31, 2022
Commercial including participations	$ 951
Commercial real estate including participations	60,988
Consumer	
Consumer – auto	807
Consumer – other	537
Consumer – credit cards	999
Residential mortgages	31,143
Home equity masterlines, loans and lines of credit	17,815
Total	$ 113,240

No loans 90 days or more past due accrue interest.

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 Credit Union used five levels of grading based on the underlying characteristics of the loan. The risk rating grades (“Grades”) listed below are used when each loan is analyzed:

Pass – 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)

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

	December 31, 2023			
	Commercial Including Participations	Commercial Real Estate Including Participations	Residential Mortgages	Home Equity Masterlines, Loans, and Lines of Credit
Grade				
Pass	$ 11,722	$ 1,453,963	$ 3,164,597	$ 2,297,092
Special Mention	111	142,824	5,725	16,525
Substandard	8,169	43,369	8,254	4,557
Doubtful	2,000	56,976	22,381	13,693
Total	$ 22,002	$ 1,697,132	$ 3,200,957	$ 2,331,867

	December 31, 2022			
	Commercial Including Participations	Commercial Real Estate Including Participations	Residential Mortgages	Home Equity Masterlines, Loans, and Lines of Credit
Grade				
Pass	$ 12,294	$ 1,493,637	$ 2,937,714	$ 2,143,136
Special Mention	149	19,735	7,425	6,571
Substandard	8,101	36,999	7,189	4,196
Doubtful	2,763	40,006	17,062	12,277
Total	$ 23,307	$ 1,590,377	$ 2,969,390	$ 2,166,180

(dollars in thousands)

For consumer loans, the Credit Union also evaluates credit quality based on credit score. The following table provides a breakdown of the consumer loans receivable by credit tier which is based on credit score. The Credit Union obtains credit scores at loan origination and the scores are updated at least quarterly. If an updated score could not be obtained, the loan was classified within the unidentified category. The majority of the portfolio is underwritten with a credit score of 700 and above.

	December 31, 2023		
	Consumer Auto	Credit Card	Other Consumer
Loans receivable by customer credit quality tier			
Tier 1+ - (>=770)	$ 773,879	$ 28,729	$ 87,155
Tier 1 - (720 - 769)	283,547	19,640	73,170
Tier 2 - (670 - 719)	190,363	19,807	47,751
Tier 3 - (620 - 669)	78,450	12,689	12,452
Tier 4 - (550 - 619)	28,967	5,375	4,625
Tier 5 - (< 550)	8,616	1,328	1,043
Unidentified	73	208	997
Total	$ 1,363,895	$ 87,776	$ 227,193

Collateral dependent loans - The Credit Union individually evaluates certain loans to determine expected credit losses for which repayment is dependent upon the operation or sale of collateral as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral dependent loans:

- Commercial loans are typically secured by business assets or taxi medallions
- Commercial real estate loans are typically secured by real estate, promissory notes and personal guarantees.
- Residential real estate and home equity loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.
- Consumer auto loans are secured by new and used automobiles.
- Other consumer loans are secured by motorcycles, recreational vehicles and other personal property.
- Some other consumer loans are unsecured and have no underlying collateral.

(dollars in thousands)

The following table presents the amortized cost basis of collateral dependent loans by class of loans and the underlying collateral type as of December 31, 2023:

	Commercial Assets	Commercial Real Estate	Residential Real Estate	Total
Commercial including participations	$ 9,641	$ -	$ -	$ 9,641
Commercial real estate including participations	-	86,431	-	86,431
Residential mortgages	-	-	30,281	30,281
Home equity masterlines, loans and lines of credit	-	-	27,202	27,202
	$ 9,641	$ 86,431	$ 57,483	$ 153,555

As of December 31, 2023 and 2022, the Credit Union's investment in residential mortgage loans collateralized by residential real estate property in process of foreclosure was $36,915 and $21,476, respectively.

Modified loans – The Credit Union may agree to modify the contractual terms of a loan to a borrower experiencing financial difficulties as part of ongoing loss mitigation strategies. These modifications may result in principal forgiveness, other-than-insignificant payment delay, term extension, interest rate modification, or combination therein.

The table below summarizes the amortized cost of loans as of December 31, 2023, that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by class and by type of modification.

	Payment Delay	Term Extension	Interest Rate Reduction	Combination	Total
Commercial including participations	$ -	$ -	$ -	$ 864	$ 864
Commercial real estate including participations	39,328	4,914	2,872	-	47,114
Residential mortgages	-	187	-	197	384
	$ 39,328	$ 5,101	$ 2,872	$ 1,061	$ 48,362

The financial impacts of the modifications were immaterial to the consolidated financial statements.

(dollars in thousands)

The Credit Union closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months:

	Accrual Status	Nonaccrual Status	Total Modifications
Commercial including participations	$ 864	$ -	$ 864
Commercial real estate including participations	47,114	-	47,114
Residential mortgages	384	-	384
	$ 48,362	$ -	$ 48,362

The Credit Union's policy provides that modified loans placed on non-accrual status would typically remain on non-accrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the loan agreement appears certain. The Credit Union's policy generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

The amortized cost basis of loans that had a payment default during the year ended December 31, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty was insignificant to the financial statements for the year ended December 31, 2023.

Impaired loans – Prior to the adoption of ASC 326, a loan was considered to be impaired when, based on current information and events, it was probable that the Credit Union would be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. Impaired loans were evaluated and valued at the time the loan was identified as impaired. Impaired loans were carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market value, or the fair value of the collateral if the loan was collateral dependent. Collateral may be real estate, automobiles, or business assets including equipment. The value of collateral was determined based on independent market valuations, such as appraisals or observable market prices for comparable assets.

Additionally, the Credit Union performed an individual analysis of loans for impairment and assigned an appropriate reserve amount based on the facts and circumstances related to the impairment of the loan.

(dollars in thousands)

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2022. Loan balances include deferred net loan origination costs.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	$ 545	$ 676	$ -	$ 725	$ 24
Commercial real estate including participants	13,477	13,480	-	14,092	374
Residential mortgages	30,247	30,983	-	30,580	945
Home equity masterlines, loans, and lines of credit	24,738	24,873	-	24,668	1,124
Total	69,007	70,012	-	70,065	2,467
With an allowance recorded					
Commercial including participations	7,326	10,139	4,056	7,427	290
Commercial real estate including participation loans	94,354	94,557	28,231	94,822	4,206
Residential mortgages	16,173	16,659	1,942	16,498	365
Home equity masterlines, loans, and lines of credit	10,780	11,135	5,177	11,033	322
Total	128,633	132,490	39,406	129,780	5,183
Total impaired loans	$ 197,640	$ 202,502	$ 39,406	$ 199,845	$ 7,650

Troubled debt restructurings – Prior to adoption of ASU 2022-02, a troubled debt restructuring (TDR) occurred when, due to a member's financial difficulty, the Credit Union granted a concession that it would not otherwise consider. The concessions took the form of an interest rate or principal reduction or an extension of payments of principal or interest, or both. The determined value of concessions granted on restructured loans was reserved for in the allowance for loan loss estimate.

The following table presents troubled debt restructurings that occurred during the year ended December 31, 2022. 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
Residential mortgages	5	$ 5,020	$ 5,214
Home equity masterlines, loans and lines of credit	9	1,539	1,491
Commercial real estate	4	49,532	49,532
Commercial including participations	9	1,412	1,280
Total	27	$ 57,503	$ 57,517

The nature of the modifications includes a combination of interest rate changes, interest only payment arrangements and/or extensions of term. The financial effects of the modifications were immaterial to the financial statements for the year ended December 31, 2022.

(dollars in thousands)

There were no troubled debt restructured loans that defaulted during the period ended December 31, 2022 for which a default occurred within 12 months of the modification date.

Loan balances in nonaccrual status include troubled debt restructurings of $60,163 as of December 31, 2022, respectively.

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, 2023 and 2022 are summarized as follows:

	2023	2022
Federal National Mortgage Association	$ 4,479,144	$ 4,683,794
Federal Home Loan Mortgage Corporation	301,735	316,909
Federal Home Loan Bank of New York	173,232	160,739
Government National Mortgage Association	149,646	145,616
Charlie Mac, LLC	358	358
Conventional (other)	6,483	6,688
	$ 5,110,598	$ 5,314,104

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares, were $34,030 and $34,736 at December 31, 2023 and 2022, respectively.

The following table presents a summary of the changes in the balance of mortgage servicing rights as of December 31:

	2023	2022
Balance, beginning of year	$ 32,301	$ 33,190
Servicing assets recognized during the year	1,668	4,547
Amortization of servicing assets	(4,869)	(5,436)
Impairment of servicing assets	(5)	-
Balance, end of year	$ 29,095	$ 32,301
Fair value of mortgage servicing rights	$ 58,295	$ 60,645

(dollars in thousands)

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

	Range of Assumptions	
	2023	2022
Constant prepayment rate	8.60%	8.72%
Internal rate of return	9.16%-11.16%	9.15%-11.15%
Weighted average life (years)	7.96	8.03

The commercial loans serviced for others, primarily commercial real estate, was $1,128,259 and $1,087,730 for the years ended December 31, 2023 and 2022, respectively. The following table presents a summary of the changes in the balance of commercial servicing rights as of December 31:

	2023	2022
Balance, beginning of year	$ 1,749	$ 1,940
Servicing assets recognized during the year	398	1,464
Amortization of servicing assets	(1,050)	(1,627)
Impairment of servicing assets	(27)	(28)
Balance, end of year	$ 1,070	$ 1,749
Fair value of commercial servicing rights	$ 7,060	$ 6,953

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

	Range of Assumptions	
	2023	2022
Constant prepayment rate	12.24%	10.57%
Internal rate of return	20.00%–22.00%	20.00%–22.00%
Weighted average life (years)	6.08	6.67

(dollars in thousands)

Note 5 – Property and Equipment, Net

Property and equipment are summarized as follows as of December 31:

	Property and Equipment	Accumulated Depreciation and Amortization	Property and Equipment, net
December 31, 2023			
Land and improvements	$ 7,173	$ (854)	$ 6,319
Buildings	57,256	(20,911)	36,345
Furniture and equipment	28,247	(21,517)	6,730
Data processing	39,065	(36,431)	2,634
Automobile	60	(60)	-
Leasehold improvements	28,730	(22,000)	6,730
	$ 160,531	$ (101,773)	$ 58,758
December 31, 2022			
Land and improvements	$ 7,173	$ (760)	$ 6,413
Buildings	57,201	(19,297)	37,904
Furniture and equipment	25,798	(20,191)	5,607
Data processing	37,466	(35,140)	2,326
Automobile	60	(60)	-
Leasehold improvements	26,365	(20,726)	5,639
	$ 154,063	$ (96,174)	$ 57,889

Note 6 – Leases

The Credit Union leases administrative office and branch space under noncancelable operating leases with varying terms, including options to renew expiring through 2043.

Operating lease right-of-use assets, operating lease liabilities and the associated balance sheet classifications are as follows as of December 31:

	2023	2022
Right-of-use assets		
Other assets	$ 41,465	$ 39,275
Lease liabilities		
Accrued expenses and other liabilities	$ 43,642	$ 40,931

The components of lease cost included in occupancy expense on the Consolidated Statements of Income are as follows for the year ended December 31 (in thousands):

	2023	2022
Lease cost		
Minimum rent payments	$ 4,754	$ 4,416

The future undiscounted lease payments for operating leases with intial terms of one year or more as of December 31, 2023, are as follows:

2024	$ 4,423
2025	4,301
2026	4,212
2027	4,341
2028	4,179
Thereafter	33,801
Total undiscounted lease payments	55,257
Less: imputed interest	(11,615)
Net lease liabilities	$ 43,642

The following table provides the supplemental information related to operating leases for the purpose of the measurement of lease liabilities at or for the year ended December 31 (dollars in thousands):

	2023	2022
Operating cash flows from operating leases	$ 4,756	$ 3,952
Weighted average remaining lease term (years)	13.5	13.2
Weighted average discount rate	3.2%	2.7%

Note 7 – Members' Shares

Members' shares are summarized as follows as of December 31:

	2023	2022
Money market accounts	$ 2,991,913	$ 4,272,515
Certificates	4,466,968	2,713,079
Regular shares	1,730,435	1,957,484
Share draft accounts	1,375,747	1,456,858
Individual retirement accounts – money market	133,554	173,067
	$ 10,698,617	$ 10,573,003

(dollars in thousands)

Certificates by maturity as of December 31, 2023 are summarized as follows:

0–1 year maturity	$ 3,690,057
1–2 years maturity	507,497
2–3 years maturity	95,246
3–4 years maturity	87,874
4–6 years maturity	86,294
	$ 4,466,968

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, 2023 and 2022, was $991,206 and $579,862, respectively.

At December 31, 2023 and 2022, overdraft demand shares reclassified as loans totaled $778 and $701, respectively.

Note 8 – 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, 2023 of $2,782,074 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, 2023, the Credit Union had outstanding borrowings of $1,065,000 at a weighted average rate of 4.61% from the Federal Reserve Bank which $300,000 maturing in March 2024, $310,000 maturing in April 2024, $255,000 maturing in May 2024, and $200,000 maturing in December 2024.

At December 31, 2022, the Credit Union had outstanding borrowings of $429,000 at a rate of 4.5% from the Federal Reserve which matured in January 2023.

Note 9 – 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 2016 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.

(dollars in thousands)

Note 10 – 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 as of December 31:

	2023	2022
Home equity masterlines, loans and lines of credit	$ 2,457,436	$ 2,167,568
Mortgage loan commitments	50,472	40,935
Consumer – credit card	479,457	462,483
Consumer – other	217,580	215,349
Commercial	2,298	2,091
Commercial – real estate	1,125	3,866
	$ 3,208,368	$ 2,892,292

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, 2023 and 2022.

Note 11 – 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.

(dollars in thousands)

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

	December 31, 2023			
	Notional Amount	Fair Value – Asset	Fair Value – (Liability)	Gain (Loss) Recognized
Forward loan sale commitments	$ 17,744	$ -	$ (256)	$ (167)
Mortgage loan commitments	32,678	194	-	120

	December 31, 2022			
	Notional Amount	Fair Value – Asset	Fair Value – (Liability)	Gain (Loss) Recognized
Forward loan sale commitments	$ 14,293	$ -	$ (89)	$ (534)
Mortgage loan commitments	26,533	74	-	(1,689)

Note 12 – Employee Benefits

The Credit Union sponsors a funded, noncontributory defined benefit pension plan covering employees hired before March 1, 2012. 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)

The accrued pension benefits and net periodic pension costs for the years ended December 31, 2023 and 2022, are as follows:

	Pension Plans		Postretirement Benefit	
	2023	2022	2023	2022
Change in benefit obligation				
Projected benefit obligation at beginning of year	$ 90,338	$ 123,788	$ 11,395	$ 13,940
Service cost	2,146	3,289	188	310
Interest cost	4,692	3,557	595	411
Benefits paid	(8,567)	(2,957)	(251)	(186)
Actuarial loss (gain)	4,494	(37,339)	288	(3,080)
Projected benefit obligation at end of year	93,103	90,338	12,215	11,395
Change in plan assets				
Fair value of plan assets at beginning of year	97,728	116,495	-	-
Actual return on plan assets	10,540	(16,162)	-	-
Employer contributions	5,572	352	251	186
Benefits paid	(8,567)	(2,957)	(251)	(186)
Fair value of plan assets at end of year	105,273	97,728	-	-
Funded (unfunded) projected status at end of year	$ 12,170	$ 7,390	$ (12,215)	$ (11,395)
Accumulated benefit obligation	$ 84,965	$ 82,661	$ -	$ -
Amounts recognized in the consolidated statements of financial condition consist of				
Accrued benefit asset (liability)	$ 12,170	$ 7,390	$ (12,215)	$ (11,395)
Accumulated other comprehensive loss	$ (7,367)	$ (6,676)	$ (499)	$ (208)
Amounts recognized in accumulated other comprehensive loss consist of				
Net actuarial loss	$ 7,367	$ 6,676	$ 499	$ 212
Prior service credit (cost)	-	-	-	(4)
Total	$ 7,367	$ 6,676	$ 499	$ 208

(dollars in thousands)

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	
	2023	2022	2023	2022
Weighted-average assumptions used to determine benefit obligation				
Discount rate	5.04%	5.26%	5.04%	5.28%
Rate of compensation increase	3.40%	3.40%	N/A	N/A
Weighted-average assumptions used to determine net periodic pension cost				
Discount rate	5.26%	2.89%	5.28%	2.91%
Expected return on plan assets	7.00%	7.00%	N/A	N/A
Rate of compensation increase	3.40%	3.40%	N/A	N/A
Inflation	3.00%	3.00%	N/A	N/A
Health care inflation				
Medical trend rates			4.87% - 7.00%	5.07% - 7.00%
Year of ultimate achievement			2043	2042
Dental trend rates			5.00%	5.00%
Year of ultimate achievement			2043	2042

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

	2023	2022
Service cost	$ 2,333	$ 3,599
Interest cost	5,287	3,968
Expected return on assets	(6,731)	(8,059)
Amortization of net loss	-	1,455
Amortization of prior year cost (credit)	(4)	17
Settlement Charge	(5)	-
Net periodic cost	$ 880	$ 980

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)

The Credit Union's pension plans' approximate weighted-average asset allocations by asset category are as follows as of December 31:

	2023	2022
Equity securities (Level 1)	75%	64%
Debt securities (Level 2)	25%	36%
	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 in 2023 is approximately $48 for the pension plans and approximately $308 to the postretirement benefit plan.

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:

Years Ending December 31,	Pension/ Postretirement Benefit Payments
2024	$ 3,813
2025	4,142
2026	4,563
2027	4,990
2028	5,352
2029–2033	31,943
	$ 54,803

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 $3,716 and $3,254, respectively, to the 401(k) plan for the years ended December 31, 2023 and 2022.

(dollars in thousands)

Note 13 – 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 possible 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 generally accepted accounting principles. 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 following) of net worth to total assets. Further, due to regulatory capital changes effective January 1, 2022, credit unions with over $500 million in assets are also required to calculate a Risk-Based Capital Ratio (RBCR) or a Complex Credit Union Leverage Ratio (CCULR), to determine the net worth classification. Credit unions with a net worth ratio of 9% or higher may elect the CCULR option. At December 31, 2023 and 2022, the Credit Union elected the CCULR option and the CCULR was 9.04% and 9.55%, respectively.

As of December 31, 2023, the most recent regulatory reporting period, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7.0% of assets, as well as a CCULR of 9.0% or higher. Management believes, as of December 31, 2023, that the Credit Union meets all capital adequacy requirements to which it is subject. In addition, there are no conditions or events since that notification that management believes have changed the Credit Union's category.

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

	December 31, 2023		December 31, 2022	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as "adequately capitalized"	$ 768,437	6.0%	$ 703,496	6.0%
Amount needed to be classified as "well capitalized"	896,510	7.0%	820,746	7.0%
Actual net worth	1,157,668	9.0%	1,119,643	9.5%

Further, in performing its calculation of total assets, the Credit Union used the average of the current and three preceding calendar quarter-end balances, as permitted by regulation.

(dollars in thousands)

The following table presents a reconciliation of the Credit Union's total members' equity to regulatory net worth as summarized below as of December 31:

	December 31, 2023	December 31, 2022
Total members' equity	$ 850,907	$ 760,361
Accumulated other comprehensive loss	286,702	356,781
CECL transition provision	17,558	-
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	$ 1,157,668	$ 1,119,643

Note 14 – 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, 2023 and 2022, were $6,244 and $5,121, respectively. Deposits from related parties at December 31, 2023 and 2022, amounted to $3,870 and $3,670, 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, 2023 and 2022. Net expenses for services provided by S3 were $37,360 and $34,678 during the years ended December 31, 2023 and 2022, 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 $48,985 and $45,954 for the years ended December 31, 2023 and 2022, respectively. These payments are netted in the consolidated financial statements and had no effect on net income.

(dollars in thousands)

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, 2023 and 2022. Expenses for services provided by OTS were $16,141 and $12,259 for the years ended December 31, 2023 and 2022, respectively, and are included in operations expense 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 in the amount of $7,000 bearing a variable interest rate based on the Wall Street Journal Prime rate and maturing in October 2026. The portion of the loan to OTS recorded as a receivable to the Credit Union was $1,133 and $783 as of December 31, 2023 and 2022, respectively, and is included in loans receivable in the consolidated statement of financial condition.

Note 15 – 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, 2023			
	Level 1	Level 2	Level 3	Fair Value
Investments available-for-sale				
Agency issued securities	$ -	$ 159,251	$ -	$ 159,251
Agency issued MBS/CMOs	-	2,283,721	-	2,283,721
Municipal bonds	-	603,465	-	603,465
Mortgage loan commitments	-	194	-	194
Total assets	$ -	$ 3,046,631	$ -	$ 3,046,631
Forward loan sales commitment	$ -	$ 256	$ -	$ 256
Total liabilities	$ -	$ 256	$ -	$ 256

	Fair Value Measurement at December 31, 2022			
	Quoted Prices in Active Markets for Identical Assets/Liabilities Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance December 31, Fair Value
Mutual fund	$ 1,000	$ -	$ -	$ 1,000
Investments available-for-sale				
Agency issued securities	-	204,716	-	204,716
Agency issued MBS/CMOs	-	2,497,237	-	2,497,237
Municipal bonds	-	659,537	-	659,537
Mortgage loan commitments	-	74	-	74
Total assets	$ 1,000	$ 3,361,564	$ -	$ 3,362,564
Forward loan sales commitment	$ -	$ 89	$ -	$ 89
Total liabilities	$ -	$ 89	$ -	$ 89

(dollars in thousands)

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

	Fair Value Measurement at December 31, 2023			
	Level 1	Level 2	Level 3	Fair Value
Collateral dependent loans	$ -	$ -	$ 153,555	$ 153,555
Foreclosed and repossessed assets	-	-	7,256	7,256
Total	$ -	$ -	$ 160,811	$ 160,811

	Fair Value Measurement at December 31, 2022			
	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	$ -	$ 158,234	$ 158,234
Foreclosed and repossessed assets	-	-	2,496	2,496
Total	$ -	$ -	$ 160,730	$ 160,730

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 16 – 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 $149,490 and $146,936 outstanding as of December 31, 2023 and 2022, 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 bondholders’ interest as if the loan were outstanding all month.

As part of the securitization process, the Credit Union enters into forward delivery contracts. At December 31, 2023 and 2022, outstanding forward delivery contracts were $0 and $1,500, respectively. The forward delivery contracts are included within the forward loan sale commitments in Note 11. These agreements are matched to the dollar amount of each securitization trade.

(dollars in thousands)

Note 17 – 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:

	2023	2022
Noninterest income		
Members' shares service charges and other fees		
Deposit account service fees (1)	$ 12,617	$ 13,307
Debit card interchange income (1)	4,536	10,434
Other fee income (1)	491	447
Total fee income	17,644	24,188
Mortgage servicing and loan fees		
Credit card interchange income (1)	1,705	2,194
Mortgage servicing rights (2)	10,345	9,491
Other loan fees (2)	2,863	3,904
Total mortgage servicing and loan fees	14,913	15,589
Investment services and insurance fees – commissions (2)	6,168	7,327
Gain on sale of mortgage loans (2)	3,761	8,758
Other noninterest income (loss) (2)	3,674	3,383
Total noninterest income	$ 46,160	$ 59,245

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

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