SEASONS FEDERAL CREDIT UNION

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

(With Independent Auditor's Report Thereon)

SEASONS FEDERAL CREDIT UNION

TABLE OF CONTENTS

Independent Auditor's Report

January 29, 2021

To the Supervisory Committee and Board of Directors
of Seasons Federal Credit Union

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Seasons Federal Credit Union and its subsidiary, which comprise the consolidated statements of financial condition as of September 30, 2020 and 2019, and the related consolidated statements of operations, comprehensive operations, members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seasons Federal Credit Union and its subsidiary, as of September 30, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Doeren Mayhew

Doeren Mayhew
Miami, FL

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF SEPTEMBER 30, 2020 AND 2019

Assets	**2020**	**2019**
Cash and cash equivalents	$15,233,630	$15,488,271
Interest bearing deposits	12,911,000	988,000
Investment securities:		
Available-for-sale	14,814,436	5,151,879
Loans held for sale	349,500	773,490
Loans to members, net of allowance for loan losses	105,533,884	113,840,191
Accrued interest receivable	359,970	326,858
Property and equipment	3,649,857	3,912,438
Prepaid and other assets	7,823,522	8,557,690
National Credit Union Share Insurance Fund (NCUSIF) deposit	1,368,409	1,387,904
Total assets	$162,044,208	$150,426,721
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts	$153,801,201	$140,493,688
Accrued expenses and other liabilities	1,576,779	1,341,992
Total liabilities	155,377,980	141,835,680
Commitments and contingent liabilities		
Members' equity:		
Undivided earnings	9,992,925	10,941,161
Equity acquired from business combination	1,033,234	1,033,234
Accumulated other comprehensive loss	(4,359,931)	(3,383,354)
Total members' equity	6,666,228	8,591,041
Total liabilities and members' equity	$162,044,208	$150,426,721

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
Interest income:		
Loans to members	$5,073,376	$6,273,804
Investments	407,956	308,756
Total interest income	5,481,332	6,582,560
Interest expense:		
Members' shares and savings accounts	964,033	1,002,375
Borrowed funds	—	83,109
Total interest expense	964,033	1,085,484
Net interest income	4,517,299	5,497,076
Provision for loan losses	614,898	167,071
Net interest income after provision for loan losses	3,902,401	5,330,005
Non-interest income:		
Fees and charges	1,522,537	1,893,924
Interchange income	808,010	754,080
Other operating income	454,337	488,379
Total non-interest income	2,784,884	3,136,383
Non-interest expenses:		
Compensation and benefits	3,448,482	3,408,268
Office operations	2,375,224	3,265,895
Office occupancy	796,676	836,293
Loan servicing	446,988	388,109
Other	315,887	301,627
Outside services	252,264	346,164
Total non-interest expenses	7,635,521	8,546,356
Net loss	($948,236)	($79,968)

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
Net loss	($948,236)	($79,968)
Other comprehensive income/(loss):		
Available-for-sale investments:		
Net unrealized holding gains on available-for-sale investments	176,612	141,036
Net change in available-for-sale investments	176,612	141,036
Defined benefit pension plan:		
Net unrealized losses on defined benefit pension plan	(1,374,463)	(1,620,089)
Amortization of unrecognized net losses from changes in actuarial assumptions	221,274	81,533
Net change in defined benefit pension plan	(1,153,189)	(1,538,556)
Other comprehensive loss	(976,577)	(1,397,520)
Comprehensive loss	($1,924,813)	($1,477,488)

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	Undivided Earnings	Equity Acquired from Business Combination	Accumulated Other Comprehensive Loss	Total
Balance, September 30, 2018	$11,021,129	$1,033,234	($1,985,834)	$10,068,529
Net loss	(79,968)	—	—	(79,968)
Other comprehensive loss	—	—	(1,397,520)	(1,397,520)
Balance, September 30, 2019	10,941,161	1,033,234	(3,383,354)	8,591,041
Net loss	(948,236)	—	—	(948,236)
Other comprehensive loss	—	—	(976,577)	(976,577)
Balance, September 30, 2020	$9,992,925	$1,033,234	($4,359,931)	$6,666,228

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Net loss	($948,236)	($79,968)
Adjustments to net cash provided from operating activities:		
Provision for loan losses	614,898	167,071
Depreciation and amortization	411,674	451,269
Net amortization and accretion on investments	(368,673)	50,799
(Increase)/decrease in:		
Loans held for sale	423,990	(773,490)
Accrued interest receivable	(33,112)	103,656
Prepaid and other assets	(419,021)	(358,833)
Increase/(decrease) in:		
Accrued expenses and other liabilities	234,787	180,783
Total adjustments	864,543	(178,745)
Net cash used in operating activities	(83,693)	(258,713)

See accompanying notes to the consolidated financial statements.

SEASONS FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

Cash Flows (Continued)

	2020	2019
Cash flows from investing activities:		
Purchase of interest bearing deposits	(11,923,000)	(988,000)
Proceeds from maturities of interest bearing deposits	—	249,000
Purchase of avaiable-for-sale investments	(11,278,413)	—
Proceeds from repayments, calls or maturities of available-for-sale investments	2,161,141	389,061
Net change in loans to members	7,691,409	16,788,534
Purchase of property and equipment	(149,093)	(123,951)
Decrease in NCUSIF deposit	19,495	13,160
Net cash (used in)/provided from investing activities	(13,478,461)	16,327,804
Cash flows from financing activities:		
Net change in members' shares and savings accounts	13,307,513	4,492,607
Repayment of borrowed funds	—	(8,953,221)
Net cash provided from/(used in) financing activities	13,307,513	(4,460,614)
Net change in cash and cash equivalents	(254,641)	11,608,477
Cash and cash equivalents - beginning	15,488,271	3,879,794
Cash and cash equivalents - ending	$15,233,630	$15,488,271

Supplemental Information

Interest paid	$952,583	$1,089,128

See accompanying notes to the consolidated financial statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and the accounts of its wholly owned credit union service organization (CUSO), Solstice Insurance Agency. The CUSO provides insurance brokerage services to Credit Union members. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the consolidated financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include the determination of the allowance for loan losses and the actuarial valuation of the assets and liabilities related to the defined benefit pension plan. The significant accounting principles and policies used in the preparation of these consolidated financial statements, together with certain related information, are summarized below.

Concentrations of Credit Risk

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

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

Comprehensive Income/(Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income/(loss). Certain changes in assets and liabilities are reported in a separate component of comprehensive income/(loss). Other comprehensive income/(loss) relates to the change in the unrealized gain/(loss) on available-for-sale investments and unrealized gains and losses from changes in actuarial assumptions and amortization related to the defined benefit pension plan. When available-for-sale investments are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the gain or loss on sale of investments reported in the consolidated statements of operations. Amortization of the unrealized gain or loss related to the defined benefit pension plan are reclassified from accumulated other comprehensive income/(loss) to compensation and benefits expense reported in the consolidated statements of operations.

Cash and Cash Equivalents

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

Interest Bearing Deposits

Interest bearing deposits are time deposits with financial institutions with an original maturity in excess of 90 days. These deposits are all 100% insured as no deposit to one individual institution exceeds $250,000.

Investments

The Credit Union's investments in securities are classified and accounted for as follows:

Available-for-Sale: Investments are classified as available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value in the consolidated statements of financial conditions.

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

Investments (Continued)

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

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 in the aggregate. All sales are made without recourse.

Loans to Members

Loans that the Credit Union has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and costs. Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Credit card loans and other personal loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

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

Loans to Members (Continued)

Generally, loan fees charged to members are recognized in income when received and direct loan origination costs are recognized as a charge to expense when incurred. However, certain loan origination fees and costs are deferred and amortized as an adjustment of loan yield over the estimated life of the loan. Credit card fees and costs are recognized in income and expense when incurred.

Allowance for Loan Losses

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic assessment of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

For purposes of determining the allowance, the Credit Union has segmented certain loans in the portfolio by product type. Loans are divided into Consumer and Real Estate segments. The Credit Union further disaggregates these segments into classes based on the associated risks within those segments. Consumer loans are divided into four classes: Used auto, Unsecured, New auto, and Other secured. Real estate loans are divided into three classes: Home equity line of credit (HELOC), Second mortgage, and First mortgage. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment.

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

Allowance for Loan Losses (Continued)

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

Consumer and Real Estate Segment Allowance Methodology

For loans not individually evaluated for impairment, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. As of September 30, 2020 and 2019, the historical loss time frame for each class was 12 months.

Impaired Loans

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

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

Allowance for Loan Losses (Continued)

Impaired Loans (Continued)

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

Troubled Debt Restructurings

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A loan restructuring represents a troubled debt restructuring (TDR) if for economic or legal reasons related to the borrower's financial difficulties the Credit Union grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. TDRs originated during the years ended September 30, 2020 and 2019 were immaterial for disclosure.

TDR Designation and COVID-19 Loan Modifications

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

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

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

Allowance for Loan Losses (Continued)

TDR Designation and COVID-19 Loan Modifications (Continued)

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

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

Consumer and Real Estate Credit Quality Indicators

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

The Credit Union evaluates the credit quality of loans in the consumer loan portfolio based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans and loans modified under TDRs that are past due in accordance with the loans' original contractual terms are considered to be in a nonperforming status for purposes of credit quality evaluation.

Loan Charge-off Policies

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

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

Transfers of Financial Assets and Participating Interests

The Credit Union accounts for transfers and servicing of financial assets in accordance with FASB ASC Topic 860, Transfers and Servicing. Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Property and Equipment

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

Federal Home Loan Bank (FHLB) Stock

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The FHLB stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment and it has no quoted market value. The FHLB stock approximated $45,000 as of September 30, 2020 and 2019 and is included in prepaid and other assets in the consolidated statements of financial condition.

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

Mortgage Servicing Rights

Mortgage servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in prepaid and other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost.

National Credit Union Share Insurance Fund (NCUSIF) Deposit

The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the credit union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. The NCUSIF deposit is required to be periodically reviewed for impairment.

Perpetual Contributed Capital (PCC)

As a requirement of membership, the Credit Union maintains a PCC account with Alloya Corporate Federal Credit Union (Alloya) of approximately $418,000 as of September 30, 2020 and 2019, respectively. The PCC is not subject to share insurance coverage by the NCUSIF or other deposit insurer. The PCC is not releasable due solely to a merger, charter conversion or liquidation and is callable at the option of Alloya. The PCC has a perpetual maturity and a noncumulative dividend. Perpetual contributed capital is included in prepaid and other assets in the consolidated statements of financial condition.

Members' Shares and Savings Accounts

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the number of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

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

Revenue Recognition

In the ordinary course of business, the Credit Union recognizes income from various revenue generating activities. Certain revenues are generated from contracts with members where such revenues are recognized when, or as, services or products are transferred to members for amounts to which the Credit Union expects to be entitled. Certain specific policies related to revenue recognition from contracts with members include:

Fees and Charges

Fees and charges include charges related to depository accounts under standard service agreements (e.g., courtesy pay fees, insufficient funds charges, late fees, etc.). Fees are generally recognized as services are delivered to or consumed by the customer or as penalties are assessed.

Interchange Income

Interchange income includes interchange fees from credit and debit cards processed through card association networks, annual fees, and other transaction and account management fees. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. The Credit Union records interchange fees as services are provided. Transaction and account management fees are recognized as services are provided. The costs of related loyalty rewards programs are recognized separately in non-interest expenses.

Income Taxes

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

Recent Accounting Pronouncements

Accounting for Financial Instruments - Credit Losses

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments-Credit Losses. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing

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

Recent Accounting Pronouncements (Continued)

Accounting for Financial Instruments - Credit Losses (Continued)

impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The ASU will be effective for the Credit Union on October 1, 2023. Early application is permitted.

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to increase transparency and comparability of accounting for lease transactions. The ASU will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective for the Credit Union on October 1, 2022 with an option to early adopt.

Subsequent Events

Management has evaluated subsequent events through January 29, 2021, the date the consolidated financial statements were available to be issued. No significant such events or transactions were identified.

Note 2 - Investments

The following tables present the amortized cost and estimated fair value of debt securities as of September 30, 2020:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. agency securities	$3,500,000	$7,437	$—	$3,507,437
Mortgage-backed securities	6,225,619	71,041	(6,700)	6,289,960
Asset-backed securities	337,563	11,184	—	348,747
Federal agency collateralized mortgage obligations	4,407,523	94,312	(6,992)	4,494,843
Private issue collateralized mortgage obligations	211,742	—	(38,293)	173,449
Total	$14,682,447	$183,974	($51,985)	$14,814,436

The following tables present the amortized cost and estimated fair value of debt securities as of September 30, 2019:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$4,119,355	$11,981	($18,725)	$4,112,611
Asset-backed securities	416,775	7,859	—	424,634
Federal agency collateralized mortgage obligations	415,180	—	(11,491)	403,689
Private issue collateralized mortgage obligations	245,192	—	(34,247)	210,945
Total	$5,196,502	$19,840	($64,463)	$5,151,879

Note 2 - Investments (Continued)

The amortized cost and estimated fair value of debt securities as of September 30, 2020, by contractual maturity, are shown below. Expected maturities on mortgage-backed securities, federal agency and private issue collateralized mortgage obligations, and asset-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale Amortized Cost	Fair Value
1 to 5 years	$1,000,000	$1,000,347
5 to 10 years	1,500,000	1,500,252
10 years or more	1,000,000	1,006,838
Mortgage-backed securities	6,225,619	6,289,960
Asset-backed securities	337,563	348,747
Federal agency collateralized mortgage obligations	4,407,523	4,494,843
Private issue collateralized mortgage obligations	211,742	173,449
Total	$14,682,447	$14,814,436

Information pertaining to investments with gross unrealized losses as of September 30, 2020, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$1,354,759	($5,879)	$819,944	($821)	$2,174,703	($6,700)
Federal agency collateralized mortgage obligations	971,657	(6,992)	—	—	971,657	(6,992)
Private issue collateralized mortgage obligations	—	—	173,449	(38,293)	173,449	(38,293)
Total	$2,326,416	($12,871)	$993,393	($39,114)	$3,319,809	($51,985)

Note 2 - Investments (Continued)

Information pertaining to investments with gross unrealized losses as of September 30, 2019, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$—	$—	$1,738,478	($18,725)	$1,738,478	($18,725)
Federal agency collateralized mortgage obligations	—	—	403,689	(11,491)	403,689	(11,491)
Private issue collateralized mortgage obligations	—	—	210,945	(34,247)	210,945	(34,247)
Total	$—	$—	$2,353,112	($64,463)	$2,353,112	($64,463)

The majority of the Credit Union's securities are issued by the U.S. Government and its Agencies. Therefore, the unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because of the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. The decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline.

Private issued securities are considered to be acceptable credit risks. Based upon evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the decline in fair value for the securities is temporary.

The Credit Union does not have the intent to sell these securities and it is not more-likely-than-not that the Credit Union will be required to sell these securities prior to their anticipated recovery.

.

Note 3 - Loans to Members

The composition of loans to members as of September 30, 2020 and 2019 is as follows:

	2020	2019
Consumer:		
Used auto	$38,569,206	$47,144,679
Unsecured	9,957,249	11,031,146
New auto	17,627,331	22,580,876
Other secured	339,732	308,829
	66,493,518	81,065,530
Real Estate:		
HELOC	17,316,436	16,563,026
Second mortgage	14,075,025	11,829,584
First mortgage	7,165,389	3,281,920
	38,556,850	31,674,530
	105,050,368	112,740,060
Net deferred fees and costs	1,054,490	1,626,664
	106,104,858	114,366,724
Less: Allowance for loan losses	(570,974)	(526,533)
Loans to members, net	$105,533,884	$113,840,191

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended September 30, 2020:

	Consumer	Real Estate	Total
Allowance for loan losses:			
Beginning allowance	$422,882	$103,651	$526,533
Charge-offs	(627,657)	(49,302)	(676,959)
Recoveries	99,275	7,227	106,502
Provision for loan losses	567,598	47,300	614,898
Ending allowance	$462,098	$108,875	$570,974
Ending balance individually evaluated for impairment	$145	$55,215	$55,360
Ending balance collectively evaluated for impairment	461,954	53,660	515,614
Ending allowance	$462,098	$108,875	$570,974

The following table presents a summary of the recorded investment in loans by portfolio segment as of September 30, 2020:

	Consumer	Real Estate	Total
Loans:			
Ending balance individually evaluated for impairment	$31,541	$499,618	$531,159
Ending balance collectively evaluated for impairment	67,417,377	38,156,322	105,573,699
Total loans	$67,448,918	$38,655,940	$106,104,858

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended September 30, 2019:

	Consumer	Real Estate	Total
Allowance for loan losses:			
Beginning allowance	$742,662	$191,474	$934,136
Charge-offs	(685,843)	(58,390)	(744,233)
Recoveries	156,351	13,208	169,559
Provision for loan losses	209,712	(42,641)	167,071
Ending allowance	$422,882	$103,651	$526,533
Ending balance individually evaluated for impairment	$153	$60,680	$60,833
Ending balance collectively evaluated for impairment	422,729	42,971	465,700
Ending allowance	$422,882	$103,651	$526,533

The following table presents a summary of the recorded investment in loans by portfolio segment as of September 30, 2019:

	Consumer	Real Estate	Total
Loans:			
Ending balance individually evaluated for impairment	$46,845	$531,141	$577,986
Ending balance collectively evaluated for impairment	82,471,482	31,317,256	113,788,738
Total loans	$82,518,327	$31,848,397	$114,366,724

Note 3 - Loans to Members (Continued)

Impaired Loans

The table below summarizes key information for impaired loans as of and for the year ended September 30, 2020:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Consumer:					
Used auto	$14,403	$14,403	$—	$27,803	$3,245
Unsecured	$14,903	$14,903	$—	$8,937	$1,122
Real Estate:					
Second mortgage	$26,416	$26,416	$—	$27,069	$2,369
First mortgage	$9,035	$9,035	$—	$10,467	$419
With an allowance recorded:					
Consumer:					
Used auto	$2,235	$2,235	$145	$2,453	$286
Real Estate:					
HELOC	$28,823	$28,823	$3,186	$30,377	$1,215
Second mortgage	$124,713	$124,713	$19,749	$130,881	$5,235
First mortgage	$310,631	$310,631	$32,280	$316,587	$12,663
Totals:					
Consumer	$31,541	$31,541	$145	$39,193	$4,653
Real Estate	499,618	499,618	55,215	515,381	21,901
Total	$531,159	$531,159	$55,360	$554,574	$26,554

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

The table below summarizes key information for impaired loans as of and for the year ended September 30, 2019:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Consumer:					
Used auto	$41,203	$41,203	$—	$57,578	$6,719
Unsecured	$2,971	$2,971	$—	$15,379	$1,930
Real Estate:					
Second mortgage	$27,722	$27,722	$—	$29,557	$2,586
First mortgage	$11,898	$11,898	$—	$12,685	$1,110
With an allowance recorded:					
Consumer:					
Used auto	$2,671	$2,671	$153	$22,088	$1,635
Real Estate:					
HELOC	$31,930	$31,930	$3,946	$32,684	$1,307
Second mortgage	$137,048	$137,048	$21,878	$140,286	$5,611
First mortgage	$322,543	$322,543	$34,856	$330,164	$13,207
Totals:					
Consumer	$46,845	$46,845	$153	$95,045	$10,284
Real Estate	531,141	531,141	60,680	545,376	23,821
Total	$577,986	$577,986	$60,833	$640,421	$34,105

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of September 30, 2020:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
Used auto	$138,507	$19,184	$278,715	$436,406	$38,610,500	$39,046,906
Unsecured	33,128	46,340	296,872	376,340	9,580,909	9,957,249
New auto	25,700	18,444	41,091	85,235	18,019,796	18,105,031
Other secured	4,750	—	23	4,773	334,959	339,732
	202,085	83,968	616,701	902,754	66,546,164	67,448,918
Real Estate:						
HELOC	69,452	—	137,578	207,030	17,214,448	17,421,478
Second mortgage	—	—	73,460	73,460	14,020,195	14,093,655
First mortgage	—	—	—	—	7,140,807	7,140,807
	69,452	—	211,038	280,490	38,375,450	38,655,940
Total	$271,537	$83,968	$827,739	$1,183,244	$104,921,614	$106,104,858

Loans on which the accrual of interest has been discontinued or reduced approximated $828,000 as of September 30, 2020. There were no loans 90 days or more past due and still accruing interest as of September 30, 2020.

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of September 30, 2019:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
Used auto	$756,821	$80,127	$372,599	$1,209,547	$46,661,531	$47,871,078
Unsecured	122,918	27,818	278,091	428,827	10,602,319	11,031,146
New auto	263,046	36,688	76,966	376,700	22,930,574	23,307,274
Other secured	—	—		—	308,829	308,829
	1,142,785	144,633	727,656	2,015,074	80,503,253	82,518,327
Real Estate:						
HELOC	675,503	—	71,117	746,620	15,953,471	16,700,091
Second mortgage	61,401	40,847	50,734	152,982	11,731,104	11,884,086
First mortgage	—	—	23,569	23,569	3,240,651	3,264,220
	736,904	40,847	145,420	923,171	30,925,226	31,848,397
Total	$1,879,689	$185,480	$873,076	$2,938,245	$111,428,479	$114,366,724

Loans on which the accrual of interest has been discontinued or reduced approximated $873,000 as of September 30, 2019. There were no loans 90 days or more past due and still accruing interest as of September 30, 2019.

Note 3 - Loans to Members (Continued)

Consumer and Real Estate Credit Quality

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

The following tables present the loan balance based on performance indication as of September 30, 2020 and 2019:

	As of September 30, 2020		As of September 30, 2019	
	Performing Loans	**Nonperforming Loans**	**Performing Loans**	**Nonperforming Loans**
Consumer:				
Used auto	$38,768,191	$278,715	$47,498,479	$372,599
Unsecured	9,660,377	296,872	10,753,055	278,091
New auto	18,063,940	41,091	23,230,308	76,966
Other secured	339,709	23	308,829	—
	66,832,217	616,701	81,790,671	727,656
Real Estate:				
HELOC	17,283,900	137,578	16,628,974	71,117
Second mortgage	14,020,195	73,460	11,833,352	50,734
First mortgage	7,140,807	—	3,240,651	23,569
	38,444,902	211,038	31,702,977	145,420
Total	$105,277,119	$827,739	$113,493,648	$873,076

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of September 30, 2020 and 2019 by major classification as follows:

	2020	**2019**
Land and improvements	$127,391	$127,391
Building and improvements	3,953,264	3,880,084
Furniture and equipment	3,144,910	3,240,308
Leasehold improvements	1,749,126	1,747,601
	2,020	8,995,384
Less accumulated depreciation and amortization	(5,324,834)	(5,082,946)
	$3,649,857	$3,912,438

Depreciation and amortization charged to operations was approximately $412,000 and $451,000 for the years ended September 30, 2020 and 2019, respectively.

Note 5 - Members' Shares and Savings Accounts

Members' shares and savings accounts are summarized as follows as of September 30, 2020 and 2019:

	2020	**2019**
Share accounts	$61,884,759	$53,870,496
Share draft accounts	35,731,490	29,711,603
Money market accounts	16,734,853	12,500,088
Individual retirement accounts	1,739,769	1,656,726
Share and IRA certificates	32,239,330	37,283,775
Non-member certificates	5,471,000	5,471,000
	$153,801,201	$140,493,688

As of September 30, 2020, scheduled maturities of share and IRA certificates are as follows:

	2020
Within one year	$27,183,521
1 to 2 years	7,686,071
2 to 3 years	450,530
3 to 4 years	905,456
4 to 5 years	1,465,167
over 5 years	19,585
	$37,710,330

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

The aggregate amount of members' time deposit accounts in denominations of $250,000 or more was approximately $1,968,000 as of September 30, 2020.

Note 6 - Employee Benefits

Defined Contribution 401(k) Plan

The Credit Union employees may voluntarily participate in a 401(k) plan. All full-time employees of the Credit Union are eligible to participate upon attaining 21 years of age. All part-time employees of the Credit Union are eligible to participate upon completing one year of service and 21 years of age. Employee contributions to the plan are subject to certain limits established by the Internal Revenue Service. Participants are always 100% vested in all their voluntary contributions. The Credit Union may make a discretionary matching contribution each year at the discretion of the Board of Directors. If approved by the Board of Directors, the Credit Union's discretionary matching contributions vest in equal percentages (20% per year) beginning with the completion of two years of service and become fully vested at the completion of six years of service. There were no contributions to the plan during the years ended September 30, 2020 and 2019.

Deferred Compensation

The Credit Union has a 457(b) non-qualified deferred compensation plan for a senior executive. The Credit Union does not contribute to this plan. The deferred compensation amounts are shown as both assets and liabilities on the Credit Union's consolidated statements of condition and are available to creditors in the event of the Credit Union's liquidation. The balance of the deferred compensation under this plan is classified as prepaid and other assets and was approximately $97,000 and $77,000 as of September 30, 2020 and 2019, respectively.

The Credit Union has entered into split dollar insurance agreements which are both collateral endorsement arrangements and collateral assignment arrangements between the Credit Union and a senior executive. The agreements involve a method of paying for insurance coverage for the executive by splitting the elements of the life insurance policies. Under these agreements, both the Credit Union and the executive are the owners of the policies. Under the collateral endorsement arrangement, the Credit Union is the owner of the policy, which is used to fund premiums for a collateral assignment split dollar policy by borrowing against the value of the Credit Union owned policy. The recorded values (net of the loan) were approximately $549,000 and $899,000 as of September 30, 2020 and 2019, respectively.

Note 6 - Employee Benefits (Continued)

Deferred Compensation (Continued)

Under the collateral assignment arrangements, the executive is the owner of the policies and makes collateral assignments to the Credit Union in return for loans equal to the amount of premiums paid on behalf of the executive plus accrued interest at a specified rate. At the time of death, the Credit Union will be paid the loan amount plus accrued interest and the balance of the insurance benefit will be paid to the executive's designated beneficiary. The loan balances under this agreement are classified as other assets and were approximately $3,212,000 and $2,752,000 as of September 30, 2020 and 2019, respectively. Under the terms of the arrangements, the executive is responsible for any difference between the loan amounts and the cash surrender values.

Note 7 - Lines of Credit

Alloya Federal Credit Union

The Credit Union utilizes a demand loan agreement with Alloya Federal Credit Union. The terms of this agreement call for the pledging of all assets as security for any and all obligations taken by the Credit Union under this agreement. The agreement provides for a credit limit of $20,900,000 with interest charged at a rate determined by the lender on a periodic basis. As of September 30, 2020 and 2019, the Credit Union had no outstanding borrowed funds under this line-of-credit agreement.

Federal Reserve Bank (FRB)

The Credit Union is approved for access to the FRB discount window. Under the terms of this secured line of credit agreement, the Credit Union has the ability to borrow up to a certain percentage of its pledged collateral. As of September 30, 2020 and 2019, the Credit Union had pledged certain investment securities with a fair value and carrying amount of approximately $830,000 and $855,000, respectively. There were no outstanding borrowings as of September 30, 2020 or 2019.

Federal Home Loan Bank (FHLB)

The Credit Union is a member of the FHLB and has an open-end loan agreement with the FHLB under which the Credit Union may borrow funds. These borrowings are collateralized by a security interest in the Credit Union's mortgages, deeds of trust on real property, and securities pledged. In addition, the Credit Union may take additional advances from the FHLB up to the amount of qualified collateral less the line of credit. The total fair value and carrying amount of mortgages and securities pledged as of September 30, 2020 and 2019, was approximately $8,376,000 and $5,793,000, respectively. The available borrowing capacity as of September 30, 2020 and 2019, was approximately $6,776,000 and $3,793,000, respectively.

Note 8 - Commitments and Contingent Liabilities

Lease Commitments

The Credit Union leases several branch locations. The minimum non-cancellable lease obligations approximate the following as of September 30, 2020:

Year ending September 30,	Amount
2021	$94,000
2022	56,000
2023	59,000
2024	63,000
2025	63,000
Thereafter	126,000
	$461,000

Net rent expense under operating leases, included in expenses, was approximately $194,000 and $207,000 for the years ended September 30, 2020 and 2019, respectively.

Off Balance-Sheet Risk

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

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of September 30, 2020, the total unfunded commitments under such lines of credit was approximately $24,684,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 9 - Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth (as defined in *NCUA Regulations*) to total assets (as defined in *NCUA Regulations*). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of September 30, 2020 and 2019 was 5.40% and 5.28%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of September 30, 2020 and 2019, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of September 30, 2020, the most recent call reporting period, the NCUA categorized the Credit Union as *"adequately capitalized"* under the regulatory framework for prompt corrective action. To be categorized as *"adequately capitalized"* the Credit Union must maintain a minimum net worth ratio of 6.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category. For regulatory purposes, the Credit Union is required to add the retained earnings of Middlesex Healthcare Federal Credit Union (MHFCU) at the time of merger to its retained earnings to calculate the regulatory net worth ratio. MHFCU's retained earnings at the time of merger was $1,033,234.

Note 9 - Regulatory Capital (Continued)

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

	As of September 30, 2020		As of September 30, 2019	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Actual net worth	$11,026,159	6.80%	$11,974,395	7.96%
Amount needed to be classified as "adequately capitalized"	$9,722,652	6.00%	$9,025,603	6.00%
Amount needed to be classified as "well capitalized"	$11,343,095	7.00%	$10,529,870	7.00%

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

Note 10 - Fair Values Measurements

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

Basis of Fair Value Measurements

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

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

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

Note 10 - Fair Values Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis

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

	Assets at Fair Value as of September 30, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
U.S. agency securities	$—	$3,507,437	$—	$3,507,437
Mortgage-backed securities	—	6,289,960	—	6,289,960
Asset-backed securities	—	348,747	—	348,747
Federal agency collateralized mortgage obligations	—	4,494,843	—	4,494,843
Private issue collateralized mortgage obligations	—	173,449	—	173,449
Mortgage servicing rights	—	—	420,924	420,924
	$—	$14,814,436	$420,924	$15,235,360

	Assets at Fair Value as of September 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$4,112,611	$—	$4,112,611
Asset-backed securities	—	424,634	—	424,634
Federal agency collateralized mortgage obligations	—	403,689	—	403,689
Private issue collateralized mortgage obligations	—	210,945	—	210,945
Mortgage servicing rights	—	—	710,977	710,977
	$—	$5,151,879	$710,977	$5,862,856

Note 10 - Fair Values Measurements (Continued)

Assets Measured at Fair Value on a Non-Recurring Basis

Impaired Loans

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

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

	Assets at Fair Value as of September 30, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$411,043	$411,043

	Assets at Fair Value as of September 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$433,359	$433,359

Note 11 - Changes in Accumulated Other Comprehensive Loss

The following table presents the changes in accumulated other comprehensive loss by component:

	For the years ended September 30, 2020 and 2019		
	Unrealized (Losses)/Gains on Available-for-Sale Securities	Defined Benefit Pension Plan Items	Total
Balance, September 30, 2018	($185,659)	($1,800,175)	($1,985,834)
Other comprehensive income/(loss) before reclassifications	141,036	(1,620,089)	(1,479,053)
Amounts reclassified from other comprehensive loss	—	81,533	81,533
Net other comprehensive income/(loss)	141,036	(1,538,556)	(1,397,520)
Balance, September 30, 2019	(44,623)	(3,338,731)	(3,383,354)
Other comprehensive income/(loss) before reclassifications	176,612	(1,374,463)	(1,197,851)
Amounts reclassified from other comprehensive loss	—	221,274	221,274
Net other comprehensive income/(loss)	176,612	(1,153,189)	(976,577)
Balance, September 30, 2020	$131,989	($4,491,920)	($4,359,931)

Note 11 - Changes in Accumulated Other Comprehensive Income/(Loss) (Continued)

The following tables provide the reclassifications out of accumulated other comprehensive loss by component:

For the year ended September 30, 2020

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
Amortization of actuarial loss for defined benefit pension plan	$221,274	Compensation and employee benefits expense

For the year ended September 30, 2019

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss	Affected Line Item in the Statement Where Net Income is Presented
Amortization of actuarial loss for defined benefit pension plan	$81,533	Compensation and employee benefits expense

Note 12 - 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 and the related custodial escrow balances approximate the following as of September 30, 2020 and 2019:

	2020	2019
Mortgage loan portfolio serviced for:		
Federal National Mortgage Association (FNMA)	$85,500,000	$90,759,000
FHLB	1,777,000	2,010,000
	$87,277,000	$92,769,000
Custodial escrow balances:		
FNMA	$1,205,000	$1,188,000
FHLB	27,000	31,000
	$1,232,000	$1,219,000

Servicing fee income related to these portfolios was approximately $225,000 and $236,000 for the years ended September 30, 2020 and 2019, respectively.

The following table presents mortgage servicing rights activity and fair value as of and for the years ended September 30, 2020 and 2019:

	2020	2019
Mortgage servicing rights, at fair value:		
Balance, beginning of year	$710,977	$826,873
Capitalization	121,125	109,972
Amortization	(137,608)	(225,868)
	694,494	710,977
Fair value adjustments	(273,570)	—
Balance, end of year	$420,924	$710,977
Fair value of mortgage servicing rights	$420,924	$710,977

As of September 30, 2020 and 2019, the fair value of mortgage servicing rights was determined by an independent third party using market value discount rates and prepayment speeds based on the specific characteristics of each pool of loans. The fair value of servicing rights was determined using average discount rates ranging from 11.00% to 15.50% and prepayment speeds ranging from 14.04% to 29.10%, as of September 30, 2020 and 2019, respectively. Servicing income on mortgage loans sold and serviced approximated $225,000 and $235,000 for the years ended September 30, 2020 and 2019, respectively.

Note 13 - Defined Benefit Pension Plan

The Credit Union sponsors a defined benefit pension plan that covers substantially all employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation rates near retirement. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future.

The following sets forth the funded status of the plan included in the accompanying consolidated statements of financial condition as of September 30, 2020 and 2019 and other key information for the plan as of and for the years ended September 30, 2020 and 2019:

	2020	**2019**
Net pension assets:		
Fair value of plan assets	$10,142,247	$9,381,846
Projected benefit obligations (PBO)	(9,150,476)	(7,039,264)
Funded status	$991,771	$2,342,582

	2020	**2019**
Accumulated benefit obligation (ABO)	($8,006,658)	($6,399,426)

Service costs are included in compensation and benefit expense, while other components of net periodic pension cost are included in the other expenses line item in the Credit Union's statements of operations. The following tables set forth the components of net periodic benefit cost and amounts recognized in other comprehensive loss:

	2020	**2019**
Components of net periodic pension cost:		
Service cost	$396,536	$316,784
Interest cost	222,047	217,869
Expected return on plan assets	(642,235)	(671,418)
Amortization of unrecognized net loss	221,274	81,533
Net periodic pension cost	$197,622	($55,232)

Note 13 - Defined Benefit Pension Plan (Continued)

	2020	2019
Recognized in accumulated other comprehensive loss:		
Unrecognized net loss	($4,491,920)	($3,338,731)

The total loss recognized in other comprehensive loss approximated $1,153,000 and $1,539,000 for the years ended September 30, 2020 and 2019, respectively.

The total amount recognized in net periodic pension cost and other comprehensive loss approximated $1,351,000 and $1,484,000 for the years ended September 30, 2020 and 2019, respectively.

The assumptions used to develop the net period pension cost for the years ended September 30, 2020 and 2019 were as follows:

	2020	2019
Discount rate	3.25%	3.25%
Expected long-term rate of return on plan assets	7.00%	7.00%
Weighted-average rate of compensation increases	2.50%	2.50%
Amortization method	Straight-Line	Straight-Line

The assumptions used to develop the periodic benefit obligation as of September 30, 2020 and 2019 were as follows:

	2020	2019
Discount rate	2.90%	3.25%
Weighted-average rate of compensation increases	2.50%	2.50%

The discount rate is determined annually by Credit Union management based on historical data provided by its actuary.

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

Note 13 - Defined Benefit Pension Plan (Continued)

The Credit Union's Board of Directors has established an investment policy for the Benefit Plan. The general investment principles of the policy require that investments be made solely in the interest of the beneficiaries, that the Benefit Plan be invested with care, skill, prudence, and diligence, that the Benefit Plan be reasonably diversified to reduce the risk of large losses, that the Board of Directors may employ one or more investment managers to attain plan objectives, and that cash is to be employed productively at all times. The investment management policy of the Benefit Plan requires the investment managers to preserve capital, ensure that the risk is commensurate with the given investment style and objectives, and to adhere to the investment management styles for which the investment manager is hired. The goals of each investment manager are to meet or exceed the market index or benchmark selected by the Board of Directors and to display an overall level of risk in the portfolio that is consistent with the established benchmark.

Benefit payments made during the years ended September 30, 2020 and 2019 approximated $36,000 and $32,000, respectively. The following table sets forth the expected benefit payments as of September 30, 2020:

Year ending September 30,	Amount
2021	$79,000
2022	65,000
2023	75,000
2024	100,000
2025	1,550,000
Thereafter	1,850,000
Total	$3,719,000

The Credit Union did not contribute to the plan during the year ended September 30, 2020, and the Credit Union does not expect to contribute to the plan for the year beginning October 1, 2020.

The Credit Union's weighted-average asset allocations as of September 30, 2020 and 2019 by asset category are as follows:

	2020	2019
Asset category:		
Equity securities	42.0%	53.1%
Fixed income	58.0%	31.0%
Cash and money market	0.0%	15.9%
	100.0%	100.0%

Note 13 - Defined Benefit Pension Plan (Continued)

The fair value of the Credit Union's pension plan assets by asset class are as follows: (the three levels of input used to measure fair value are more fully described in Note 10: Fair Value Measurements):

	Assets at Fair Value as of September 30, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities	$4,254,820	$—	$—	$4,254,820
Fixed income	5,887,427	—	—	5,887,427
	$10,142,247	$—	$—	$10,142,247

	Assets at Fair Value as of September 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity securities	$4,977,315	$—	$—	$4,977,315
Fixed income	2,913,288	—	—	2,913,288
Cash and money market	1,491,243	—	—	1,491,243
	$9,381,846	$—	$—	$9,381,846

Note 14 - Related Party Transactions

Loans

In the ordinary course of business, the Credit Union grants loans to certain directors and executive officers. Such loans were approximately $566,000 and $346,000 as of September 30, 2020 and 2019, respectively.

Deposits

Deposits of Credit Union directors and executive officers were approximately $274,000 and $591,000 as of September 30, 2020 and 2019, respectively.

* * * End of Notes * * *