DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
TABLE OF CONTENTS
YEARS ENDED AND DECEMBER 31, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Digital Federal Credit Union and Subsidiaries
Marlborough, Massachusetts

We have audited the accompanying consolidated financial statements of Digital Federal Credit Union and Subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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.

Auditors' 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 auditors' 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 Digital Federal Credit Union and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
March 10, 2020

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2019 AND 2018
(IN THOUSANDS)

	2019	2018
ASSETS		
Cash and Cash Equivalents	$ 1,328,740	$ 690,707
Deposits in Corporate Federal Credit Union	20,000	10,000
Equity Securities	183,565	181,475
Securities - Available-for-Sale	100,045	119,334
Other Investments	25,802	34,192
Loans Held-for-Sale	252,449	129,078
Loans, Net	7,214,482	7,141,038
Accrued Interest Receivable	30,818	28,627
Premises and Equipment, Net	80,046	73,249
NCUSIF Deposit	69,937	65,735
Other Assets	52,643	54,497
Total Assets	$ 9,358,527	$ 8,527,932
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 7,896,095	$ 7,046,463
Borrowed Funds	425,000	535,000
Accrued Expenses and Other Liabilities	119,425	103,160
Total Liabilities	8,440,520	7,684,623
MEMBERS' EQUITY		
Regular Reserves	100,227	100,227
Undivided Earnings	817,721	743,331
Accumulated Other Comprehensive Income (Loss)	59	(249)
Total Members' Equity	918,007	843,309
Total Liabilities and Members' Equity	$ 9,358,527	$ 8,527,932

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018
(IN THOUSANDS)

	2019	2018
INTEREST INCOME		
Loans	$ 371,081	$ 306,968
Securities, Interest Bearing Deposits and Cash Equivalents	28,315	25,556
Total Interest Income	399,396	332,524
INTEREST EXPENSE		
Members' Share and Savings Accounts	75,749	49,229
Borrowed Funds	10,416	12,789
Total Interest Expense	86,165	62,018
NET INTEREST INCOME	313,231	270,506
PROVISION FOR LOAN LOSSES	92,000	70,500
Net Interest Income After Provision for Loan Losses	221,231	200,006
NONINTEREST INCOME		
Service Charges and Fees	27,767	23,842
Interchange Income	45,978	42,638
Other Noninterest Income	11,168	12,752
Net Gain on Sale of Loans	9,693	2,325
Total Noninterest Income	94,606	81,557
NONINTEREST EXPENSE		
Employee Compensation and Benefits	107,435	98,332
Office Occupancy and Operations	67,454	54,309
Other Operating Expenses	68,648	62,948
Net (Gain) Loss on Equity Securities	(2,090)	1,454
Total Noninterest Expense	241,447	217,043
NET INCOME	$ 74,390	$ 64,520

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018
(IN THOUSANDS)

	2019	2018
NET INCOME	$ 74,390	$ 64,520
OTHER COMPREHENSIVE INCOME		
Securities - Available-for-Sale		
Unrealized Holding Gain Arising During the Period	308	682
Subtotal	308	682
Total Other Comprehensive Income	308	682
TOTAL COMPREHENSIVE INCOME	$ 74,698	$ 65,202

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018
(IN THOUSANDS)

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE - DECEMBER 31, 2017	$ 100,227	$ 678,811	$ (931)	$ 778,107
Net Income	-	64,520	-	64,520
Other Comprehensive Income	-	-	682	682
BALANCE - DECEMBER 31, 2018	100,227	743,331	(249)	843,309
Net Income	-	74,390	-	74,390
Other Comprehensive Income	-	-	308	308
BALANCE - DECEMBER 31, 2019	$ 100,227	$ 817,721	$ 59	$ 918,007

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(IN THOUSANDS)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 74,390	$ 64,520
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	10,030	7,361
Purchases of Equity Securities	-	(10,000)
Proceeds from Sales of Equity Securities	-	14,182
(Accretion) Amortization of Security Premiums/Discounts, Net	(550)	222
Provision for Loan Losses	92,000	70,500
Gain on Sales of Loans, Net	(9,693)	(2,325)
Proceeds from Sales of Loans	1,076,249	858,823
Loans Committed for Sale	(1,189,927)	(906,838)
Amortization of Servicing Rights	3,579	3,007
Impairment of Servicing Asset	-	1,000
Cash Surrender Value of Life Insurance	(279)	(227)
Capitalization of Servicing Rights	(3,937)	(5,241)
Amortization of Net Loan Origination Costs	12,097	16,332
Impairment Losses on Foreclosed Assets	400	-
(Gain) Loss on Equity Securities, Net	(2,090)	1,454
Loss on Disposal of Foreclosed Assets, Net	159	286
Changes in:		
Accrued Interest Receivable	(2,191)	(4,815)
Other Assets	3,348	(7,774)
Accrued Expenses and Other Liabilities	16,265	8,494
Net Cash Provided by Operating Activities	79,850	108,961
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (Increase) Decrease in Deposits in Other Financial Institutions	(10,000)	18,000
Purchases of Investments - Available-for-Sale	(99,853)	(59,155)
Proceeds from Maturity of Investments - Available-for-Sale	120,000	160,000
Net Decrease in Other Investments	8,390	4,545
Net Increase in Loans	(179,373)	(811,673)
Increase in NCUSIF Deposit	(4,202)	(4,580)
Proceeds from Sales of Foreclosed Assets	416	1,365
Expenditures for Premises and Equipment	(16,827)	(9,424)
Net Cash Used by Investing Activities	(181,449)	(700,922)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	849,632	292,258
Advances on Term Borrowings	420,000	100,000
Repayments on Term Borrowings	(530,000)	(210,400)
Net Cash Provided by Financing Activities	739,632	181,858

See accompanying Notes to Consolidated Financial Statements.

DIGITAL FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2019 AND 2018
(IN THOUSANDS)

	2019	2018
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 638,033	$ (410,103)
Cash and Cash Equivalents - Beginning of Year	690,707	1,100,810
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,328,740	$ 690,707
SUPPLEMENTAL DISCLOSURE OF NONCASH AND CASH FLOWS INFORMATION		
Borrowed Funds Interest Paid	$ 10,643	$ 13,006
Members' Share and Savings Accounts Interest Paid	$ 75,749	$ 49,229
Transfers of Loans to Foreclosed Assets	$ 1,832	$ 824

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Digital Federal Credit Union (the Credit Union) is a cooperative association holding a federal charter under the provisions of the Federal Credit Union Act.

Principles of Consolidation

The consolidated financial statements include the accounts of Digital Federal Credit Union and its subsidiaries, Financial Vision LLC, DCU Financial Services, LLC, DCU Realty, LLC, Dixital, and Exact Finance (the CUSOs), credit union service organizations that provide software development for the Credit Union, property and casualty insurance to Credit Union members, and brokerage services to Credit Union members. All significant intercompany accounts and transactions have been eliminated in consolidation.

Membership

Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and Bylaws. This generally consists of employees or former employees of select employers and organizations who have petitioned for membership or those who live, work, worship, or go to school in participating communities in the New England area. In addition to a regularly qualified member, the spouse of a member, the blood or adoptive relatives of either of them and their spouses may be members.

Uses of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the valuation of securities, estimates related to mortgage servicing rights, the valuation of derivative financial instruments, and the determination of the adequacy of allowance for loan losses.

Financial Instruments with Concentrations of Risk

Most of the Credit Union's business activity is with its members who reside within the Northeast region of the United States of America. The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its members work or reside within a geographical field of membership.

However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except certain loan products which management monitors on an ongoing basis.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the consolidated statements of financial condition and consolidated statements of cash flows, Cash and Cash Equivalents includes cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash which were purchased with original maturities of three months or less. Accumulated deposits at correspondent financial institutions, at times, may exceed federally insured limits.

Deposits in Corporate Federal Credit Union

Deposits in corporate federal credit union include certificates of deposit. These are stated at cost. The certificates of deposit all mature within one year.

Equity Securities

Mutual funds are classified as equity securities and are carried at fair value with the change in unrealized holding gains and losses included in Noninterest Expense. Realized gains and losses on equity securities are included in Noninterest Expense. Gross gains on equity securities amounted to $2,975 and $893 for the years ended December 31, 2019 and 2018, respectively. Gross losses on equity securities amounted to $885 and $2,347 for the years ended December 31, 2019 and 2018, respectively.

Securities – Available-for-Sale

Debt securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in Other Comprehensive Income. Realized gains and losses on securities available-for-sale are included in Noninterest Income and, when applicable, are reported as a reclassification adjustment in Other Comprehensive Income. Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The Credit Union monitors the investment security portfolio for impairment on an individual security basis and has a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Credit Union’s intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold is determined by whether it is more likely than not that the Credit Union will be required to sell the security before its anticipated recovery. A decline in value due to a credit event that is considered other than temporary is recorded as a loss in Noninterest Income.

The Credit Union did not record any other than temporary impairment during the years ended December 31, 2019 and 2018.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Investments

Other investments are recorded at cost and evaluated for impairment.

Loans Held-for-Sale

The Credit Union has elected the fair value option on a prospective basis for all types of mortgage loans originated for sale in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825. Loans originated and intended for sale in the secondary market are carried at fair value. Changes in the fair value of loans held-for-sale are recognized in current period income and are included in Net Gain (Loss) on Sale of Loans on the consolidated statements of income. Gain or losses from the sale of loans held-for-sale are recognized based upon the difference between the selling price and carrying value of the related loans at the time of sale.

Loans held for sale are sold with servicing rights retained. The carrying value of the loan includes the value of the servicing right. All sales are made without recourse.

Derivative Financial Instruments

The Credit Union uses derivative financial instruments as part of its risk management activities. The value of the Credit Union's interest rate lock commitments (IRLCs) is exposed to the risk of adverse changes in interest rates between the time of commitment and the time the Credit Union funds the loan at origination. The Credit Union is also exposed to the risk of adverse changes in value after funding the loan up until the time when the loan is delivered. To offset this exposure, the Credit Union entered into forward sale commitments to deliver mortgage loans to investors at specified prices in the "To Be Announced" market (TBA securities). The TBA securities act as an economic hedge against the risk of changes in the value of both the IRLCs and the funded loans.

All such derivative financial instruments are designated as free-standing derivative instruments and are recognized in Other Assets and Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition at fair value in accordance with ASC 815. Changes in the fair value of these derivatives are reflected on the Credit Union's Consolidated Statements of Income as Gain (Loss) on Sale of Loans.

The fair value of the IRLC is recorded at the time the rate is locked based on the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the rate lock commitment. To hedge the change in interest rates resulting from its commitments to fund the loans, the Credit Union enters into forward sale commitments of TBAs. The TBAs are typically entered into at the time the interest rate lock commitment is made. The value of the TBA moves in the opposite direction of the value of the interest rate lock commitments and mortgage loans held for sale. Fair values of these mortgage derivatives are estimated based on changes in interest rates from the date of the interest rate lock commitment. The cash flows from these forward sales agreements are classified as operating activities in the consolidated statement of cash flows.

(IN THOUSANDS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instruments (Continued)

The notional amounts of the Credit Union's derivative instruments at December 31, 2019 and 2018 are as follows:

	December 31,	
	2019	2018
Interest Rate Lock Commitments	$ 80,329	$ 24,866
TBA Commitments	266,000	111,700

The fair value of interest rate lock commitments and forward loan sale commitments were not considered material at December 31, 2019 and 2018.

Loans, Net

The Credit Union grants consumer, residential real estate, commercial real estate, and other commercial loans to members. A substantial portion of the loan portfolio is represented by auto and residential real estate loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions comprising the Credit Union's field of membership and the borrower's ability to pay.

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

The accrual of interest on a loan is discontinued at the time the loan is 90 days delinquent, except for credit card and student loans. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual 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 nonaccrual 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 principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using methods approximating the interest method over the estimated life of the loans. The Credit Union does not charge commitment fees.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review 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.

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss, and the levels of nonperforming loans. Specific allowances for loan losses are established for impaired loans on an individual basis. The specific allowances established for these loans are based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flow, the loan's estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans that can be grouped into pools based on similar characteristics. In this process, general allowance factors are based on an analysis of historical charge-off experience (one and five years). These factors are developed and applied to the portfolio in terms of loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include the credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all 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.

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A restructuring of debt constitutes a troubled debt restructuring (TDR) if the Credit Union for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. TDR concessions can include reduction of interest rates, extension of maturity dates, forgiveness of principal and/or interest due, or acceptance of other assets in full or partial satisfaction of the debt. The Credit Union considers all aspects of the restructuring to determine whether it has granted a concession to the borrower. An insignificant delay in payment resulting from a restructuring is not deemed to be a concession and would not be considered to be a TDR.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The Credit Union maintains a separate general valuation allowance for homogeneous portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Consumer: The consumer loan portfolio is usually comprised of a large number of small balance loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay. These loans generally possess a lower inherent risk of loss than commercial real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

The portfolio segments that are risk rated and their risk characteristics are described as follows:

Commercial Real Estate: Commercial real estate loans generally possess a higher inherent risk of loss than residential real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Commercial Other: Commercial other loans are generally underwritten to existing cash flows or inventories of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

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

Pass (1-6): Loans classified as Pass are loans with no existing or known potential weaknesses deserving of management's close attention.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

Watch (7): Loans classified as Watch Assets have a potential weakness that deserves management's close attention. Potential weaknesses might include a weakening financial condition, an unrealistic repayment program, inadequate sources or lack of adequate collateral, credit information, or documentation. While the asset is currently protected, it is potentially weak. No loss of principal or interest is envisioned.

Substandard (8): Loans classified as Substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as Substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Asset is inadequately protected by current sound net worth and paying capacity of the obligor or pledged collateral. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful (9): Loans classified as Doubtful have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as Loss are considered uncollectable and anticipated to be charged off.

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Servicing Rights

Servicing assets are recognized separately when servicing rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently measures each class of servicing asset using the amortization method. Under the amortization method, mortgage servicing rights are amortized into Noninterest Income in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment based upon the fair value at each reporting date.

Fair value is based on market prices for comparable 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. These variables change from quarter to quarter as the market conditions and projected interest rates change, and may have an adverse impact on the value of the servicing right and may result in reduction to Noninterest Income.

Each class of separately recognized servicing assets subsequently measured using the amortization method is evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with Noninterest Income on the consolidated statements of income.

Off-Consolidated Statement of Financial Condition Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Foreclosed and Repossessed Assets

Assets acquired through, or in lieu of, loan repossession or foreclosure are held-for-sale and are initially recorded at fair value less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to repossession or foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Foreclosed and repossessed assets were included in Other Assets on the consolidated statements of financial condition at December 31, 2019 and 2018. Revenue and expenses from operations and changes in the valuation allowance are included in Noninterest Expense.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premises and Equipment, Net

Land is carried at cost. Buildings, leasehold improvements, furniture, fixtures, and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases or estimated useful life, whichever is shorter.

NCUSIF Deposit and NCUSIF and CCUSF Premium Assessments

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 insured credit union in an amount equal to 1% 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.

Legislation was passed by Congress to permit NCUA to create a temporary Corporate Credit Union Stabilization Fund (CCUSF) to absorb costs and borrowings incurred by the Fund related to the corporate credit union collapse. Effective October 1, 2017, the NCUA closed the CCUSF and incorporated the assets into the NCUSIF. At its February 15, 2018 open meeting, the NCUA Board unanimously approved a NCUSIF equity distribution to all eligible financial institutions. The distribution was reported within Other Noninterest Income during the year ended December 31, 2018.

Members' Share and Savings Accounts

Members' accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period. Interest rates on members' share and savings accounts are set by the Asset and Liability Management Team and ratified by the board of directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required by regulation to maintain a statutory (regular) reserve. This reserve, which represents a regulatory restriction of retained earnings, is established for the purpose of absorbing losses that exceed undivided earnings and other appropriations of undivided earnings. The statutory reserve is not available for the payment of interest.

The Credit Union is subject to various regulatory net worth requirements administered by the NCUA.

Comprehensive income consists of net income and other comprehensive income. Accumulated other comprehensive income (loss), also recognized as a separate component of members' equity, includes valuation adjustments for available-for-sale securities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

As a federal instrumentality, the Credit Union is exempt from federal and state income taxes.

The income from the CUSOs, organized as LLCs, flows through to the Credit Union, and therefore is not subject to federal and state income taxes.

Retirement Plans

401(k) Plan – The Credit Union provides a 401(k) plan, which covers substantially all of the Credit Union's employees who are eligible as to age and length of service. A participant may elect to make contributions of up to the applicable IRS limitations of the participant's annual compensation. The Credit Union makes discretionary matching contributions and/or a profit sharing contribution as approved by the Trustees of the Plan. The Credit Union's contributions to the plan approximated $4,413 and $4,516 for the years ended December 31, 2019 and 2018, respectively.

Deferred Compensation Plan – The Credit Union has a nonqualified deferred compensation plan for senior management. Under the terms of the plan, the participants are entitled to a specified amount if they remain employed by the Credit Union until a predetermined time. If these employees become fully disabled as defined in the agreement, accrued benefits are immediately payable. The benefits are subject to forfeiture if employment is terminated for cause as defined in the agreements. The estimated liability under the agreements is being accrued as defined in the plans over the remaining years of service.

Split Dollar Life Insurance

The Credit Union has made loans for life insurance premium payments to senior management. The loans are collateralized by the assignment of the policy death benefits and cash values, of each respective life insurance policy. The policies are owned by senior management and they have the right to name the beneficiaries for amounts not secured by the assignments. The loans are considered nonrecourse and as such, the Credit Union has recorded the balance as the lower of the outstanding loan balance, plus accrued interest, or the cash surrender value of the life insurance policies. The difference represents the costs to the Credit Union associated with entering into this arrangement.

Advertising Costs

Advertising and promotion costs which totaled approximately $12,445 and $9,283 for the years ending December 31, 2019 and 2018, respectively, are expensed as incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Credit Union may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union elected to measure all loans held-for-sale at fair value. The Credit Union may elect to measure newly acquired financial instruments at fair value in the future.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

The Credit Union adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, ASC 606), which (i) creates a single framework for recognizing revenue from contracts with members 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 foreclosed assets. The majority of the Credit Union's revenues come from interest income on loans and investment securities, which are outside the scope of ASC 606. The Credit Union's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Credit Union satisfies its obligation to the member. Significant services within the scope of ASC 606 include service charges on deposits and interchange income. On January 1, 2019, the Credit Union adopted the accounting guidance in ASC 606 using the modified retrospective method applied to those contracts with members which were not completed as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605, *Revenue Recognition*. Refer to Note 12 Revenue from Contracts with Members for further discussion on the Credit Union's accounting policies for revenue sources within the scope of ASC 606. The adoption of this ASU did not have an impact to the consolidated financial statements, other than the requirement for additional disclosures.

On January 1, 2019, the Credit Union adopted ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. Prior to the adoption of ASU 2016-01, equities, mutual funds, and exchange-traded products (equity securities) with readily determinable fair values were classified as trading with changes in fair value being reported through net income. Under ASU 2016-01, these investments are now reported as equity securities and any changes in fair value of these investments continue to be recognized in net income. The adoption of this ASU did not have an impact to the consolidated financial statements.

In February 2016, the FASB approved ASU 2016-02, *Leases (Topic 842)*. The ASU is designed to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated statement of financial condition and disclosing key information about leasing arrangements. In November 2019, the FASB approved ASU 2019-10, *Financial Instruments- Credit Losses* (Topic 326), *Derivatives and Hedging* (Topic 815), and *Leases* (Topic 842). The main objective of this ASU was to delay the effective date for the referenced standards. Based upon the new effective dates instituted by ASU 2019-10, ASU 2016-02 is effective for the Credit Union for the fiscal year beginning after December 15, 2020 and all interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2016-02 on the consolidated financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In June 2016, the FASB approved ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. In November 2018, the FASB approved ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*. The main objective of the ASUs is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASUs replace the incurred loss impairment methodology in current accounting principles generally accepted in the United States of America with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In November 2019, the FASB approved ASU 2019-10, *Financial Instruments- Credit Losses* (Topic 326), *Derivatives and Hedging* (Topic 815), and *Leases* (Topic 842). The main objective of this ASU was to delay the effective date for the referenced standards. Based upon the new effective dates instituted by ASU 2019-10, ASU 2016-13 is effective for the Credit Union for the fiscal year and all interim periods beginning after December 15, 2022. Early adoption is permitted for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. The Credit Union is currently evaluating the impact of ASU 2016-13 and ASU 2018-19 on the consolidated financial statements.

In March 2017, the FASB approved ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization and Purchased Callable Debt Securities*. The guidance requires the Credit Union to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. The standard will be effective for the Credit Union for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2017-08 on the consolidated financial statements.

Subsequent Events

In preparing these consolidated financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through March 10, 2020, the date the consolidated financial statements were available to be issued.

(IN THOUSANDS)

NOTE 2 SECURITIES AND OTHER INVESTMENTS

Available-for-Sale

The amortized cost and fair value of securities available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
December 31, 2019				
U.S. Government Obligations and Federal Agency Securities	$ 49,946	$ 54	$ -	$ 50,000
U.S. Treasury Notes	50,040	5	-	50,045
Total	$ 99,986	$ 59	$ -	$ 100,045
December 31, 2018				
U.S. Government Obligations and Federal Agency Securities	$ 89,783	$ -	$ (220)	$ 89,563
U.S. Treasury Notes	29,800	-	(29)	29,771
Total	$ 119,583	$ -	$ (249)	$ 119,334

There were no sales of securities available-for-sale during the years ended December 31, 2019 and 2018.

The amortized cost and fair value of securities, at December 31, 2019, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mutual funds have no contractual maturity date.

	Available-for-Sale	
	Amortized Cost	Fair Value (Carrying Value)
U.S. Government Obligations and Federal Agency Securities and U.S. Treasury Notes:		
Less Than One Year	$ 99,986	$ 100,045
Total	$ 99,986	$ 100,045

(IN THOUSANDS)

NOTE 2 SECURITIES AND OTHER INVESTMENTS

Temporarily Impaired Securities

Information pertaining to securities available-for-sale with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Greater Than Twelve Months	
December 31, 2018	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government Obligations and Federal Agency Securities	$ 32	$ 29,672	$ 188	$ 59,891
U.S. Treasury Notes	29	29,771	-	-
Total	$ 61	$ 59,443	$ 188	$ 59,891

There were no available-for-sale securities in an unrealized loss position at December 31, 2019.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that, changes in the values of the investments will occur in the near term and that such changes could be material.

Other Investments

Other investments are summarized as follows:

	December 31,	
	2019	2018
Perpetual Paid-In Capital Account	$ 1,575	$ 1,575
FHLB Stock	19,958	28,745
Investments in CUSOs	4,269	3,872
Total	$ 25,802	$ 34,192

Perpetual Paid-In Capital Account

The Credit Union maintains a perpetual paid-in capital account with Eastern Corporate Federal Credit Union (EasCorp) that is uninsured and can only be paid back to the Credit Union at the discretion of EasCorp. This uninsured deposit is part of the corporate credit union's regulatory capital and is subject to impairment.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank of Boston (FHLB) stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and as such is not subject to investment security accounting treatment and is therefore reported at cost, subject to impairment.

(IN THOUSANDS)

NOTE 2 SECURITIES AND OTHER INVESTMENTS

Other Investments (Continued)

Investments in CUSOs

The Credit Union has minor ownership interests in other CUSOs providing services to the credit union market. These investments are carried at cost, less impairment and plus or minus adjustments for observable trades.

NOTE 3 LOANS, NET

The composition of loans is as follows:

	December 31, 2019	December 31, 2018
Consumer:		
Auto	$ 2,269,167	$ 2,676,457
Credit Cards	618,771	589,867
Student	173,593	165,625
Solar	641,513	410,162
Other	230,746	187,041
Subtotal	3,933,790	4,029,152
Residential Real Estate:		
First Mortgages	1,592,685	1,459,574
Second Mortgages	887,241	882,690
Subtotal	2,479,926	2,342,264
Commercial:		
Commercial Real Estate	857,096	776,383
Commercial Other	46,634	54,365
Subtotal	903,730	830,748
Subtotal	7,317,446	7,202,164
Net Deferred Loan Origination Costs	17,301	26,191
Allowance for Loan Losses	(120,265)	(87,317)
Total	$ 7,214,482	$ 7,141,038

The Credit Union has sold commercial loan participations to various other financial institutions, which are secured by commercial property of the Credit Union's members. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the commercial real estate loan segments above totaled $454,459 and $379,474 at December 31, 2019 and 2018, respectively.

The Credit Union has sold participating interest in automobile loans. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the automobile segment above totaled $696,266 and $663,336 at December 31, 2019 and 2018, respectively.

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

The Credit Union offers nontraditional mortgage loans to its members. These loans include hybrid loans that consist of loans that are fixed for an initial period of three, five, seven, or 10 years. After this period, the mortgages are converted to variable rates using an indexed rate, which can result in significant payment shock to the borrower.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Nontraditional mortgage loans, which are included in the residential real estate and commercial loan captions above, totaled approximately $1,103,212 and $973,982 at December 31, 2019 and 2018, respectively.

The allowance for loan losses and recorded investment in loans is as follows:

December 31, 2019	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance - Beginning of Year	$ 80,095	$ 6,873	$ 349	$ 87,317
Provision (Credit) for Loan Losses	92,907	(1,379)	472	92,000
Loans Charged-Off	(63,254)	(308)	(242)	(63,804)
Recoveries of Loans Previously Charged-Off	3,929	806	17	4,752
Balance - End of Year	$ 113,677	$ 5,992	$ 596	$ 120,265
Ending Balance: Individually Evaluated for Impairment	$ 39,818	$ 4,019	$ 130	$ 43,967
Ending Balance: Collectively Evaluated for Impairment	$ 73,859	$ 1,973	$ 466	$ 76,298
Total Allowance for Loan Losses	$ 113,677	$ 5,992	$ 596	$ 120,265
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 87,318	$ 45,416	$ 1,809	$ 134,543
Ending Balance: Collectively Evaluated for Impairment	$ 3,846,472	$ 2,434,510	$ 901,921	$ 7,182,903
Total Loans	$ 3,933,790	$ 2,479,926	$ 903,730	$ 7,317,446

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

The allowance for loan losses and recorded investment in loans is as follows:

December 31, 2018	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance - Beginning of Year	$ 55,102	$ 8,144	$ 225	$ 63,471
Provision (Credit) for Loan Losses	71,164	(932)	268	70,500
Loans Charged-Off	(49,034)	(1,016)	(209)	(50,259)
Recoveries of Loans Previously Charged-Off	2,863	677	65	3,605
Balance - End of Year	$ 80,095	$ 6,873	$ 349	$ 87,317
Ending Balance: Individually Evaluated for Impairment	$ 26,874	$ 4,640	$ 143	$ 31,657
Ending Balance: Collectively Evaluated for Impairment	$ 53,221	$ 2,233	$ 206	$ 55,660
Total Allowance for Loan Losses	$ 80,095	$ 6,873	$ 349	$ 87,317
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ 71,373	$ 48,068	$ 6,144	$ 125,585
Ending Balance: Collectively Evaluated for Impairment	$ 3,957,779	$ 2,294,196	$ 824,604	$ 7,076,579
Total Loans	$ 4,029,152	$ 2,342,264	$ 830,748	$ 7,202,164

The following table shows the commercial loan portfolio segments allocated by management's internal risk ratings:

	Commercial Credit Risk Profile by Risk Rating		
December 31, 2019 Risk Rating:	Commercial Real Estate	Commercial Other	Total
Pass - 1 Through 6	$ 855,608	$ 46,634	$ 902,242
Watch - 7	543	-	543
Substandard - 8	945	-	945
Doubtful - 9	-	-	-
Total	$ 857,096	$ 46,634	$ 903,730

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

The following table shows the commercial loan portfolio segments allocated by management's internal risk ratings:

	Commercial Credit Risk Profile by Risk Rating		
December 31, 2018	Commercial	Commercial	
Risk Rating:	Real Estate	Other	Total
Pass - 1 Through 6	$ 769,512	$ 53,546	$ 823,058
Watch - 7	3,945	819	4,764
Substandard - 8	2,926	-	2,926
Doubtful - 9	-	-	-
Total	$ 776,383	$ 54,365	$ 830,748

The following tables show the classes within the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

	Payment Activity		
December 31, 2019	Performing	Nonperforming	Total
Consumer:			
Auto	$ 2,241,894	$ 27,273	$ 2,269,167
Credit Cards	609,110	9,661	618,771
Student	171,868	1,725	173,593
Solar	638,633	2,880	641,513
Other	226,428	4,318	230,746
Residential Real Estate:			
First Mortgages	1,587,008	5,677	1,592,685
Second Mortgages	885,483	1,758	887,241
Total	$ 6,360,424	$ 53,292	$ 6,413,716
December 31, 2018			
Consumer:			
Auto	$ 2,650,630	$ 25,827	$ 2,676,457
Credit Cards	581,029	8,838	589,867
Student	163,652	1,973	165,625
Solar	408,512	1,650	410,162
Other	183,901	3,140	187,041
Residential Real Estate:			
First Mortgages	1,456,810	2,764	1,459,574
Second Mortgages	881,112	1,578	882,690
Total	$ 6,325,646	$ 45,770	$ 6,371,416

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

The following tables show an aging analysis of the loan portfolio by time past due:

	Accruing Interest				
December 31, 2019	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	Total Loans
Auto	$ 2,212,614	$ 29,280	$ -	$ 27,273	$ 2,269,167
Credit Cards	601,672	7,438	9,661	-	618,771
Student	169,851	2,017	1,725	-	173,593
Solar	630,088	8,545	-	2,880	641,513
Other	222,426	4,002	-	4,318	230,746
First Mortgages	1,572,748	14,260	-	5,677	1,592,685
Second Mortgages	881,170	4,313	-	1,758	887,241
Commercial Real Estate	854,427	2,448	-	221	857,096
Commercial Other	45,608	813	-	213	46,634
Total	$ 7,190,604	$ 73,116	$ 11,386	$ 42,340	$ 7,317,446
December 31, 2018					
Auto	$ 2,621,098	$ 29,532	$ -	$ 25,827	$ 2,676,457
Credit Cards	573,305	7,724	8,838	-	589,867
Student	161,261	2,391	1,973	-	165,625
Solar	404,388	4,124	-	1,650	410,162
Other	179,971	3,930	-	3,140	187,041
First Mortgages	1,445,897	10,913	-	2,764	1,459,574
Second Mortgages	877,431	3,681	-	1,578	882,690
Commercial Real Estate	772,578	2,899	-	906	776,383
Commercial Other	53,916	321	-	128	54,365
Total	$ 7,089,845	$ 65,515	$ 10,811	$ 35,993	$ 7,202,164

Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2019 and 2018, respectively.

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

The following tables present information related to impaired loans:

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Residential Real Estate	$ 18,259	$ 7,403	$ -	$ 17,115
Commercial	$ 1,809	$ 1,994	$ -	$ 3,521
With An Allowance Recorded:				
Consumer	$ 87,318	$ 87,318	$ 39,818	$ 79,346
Residential Real Estate	$ 27,157	$ 27,157	$ 4,019	$ 29,628
Commercial	$ -	$ -	$ 130	$ 456
Total Impaired Loans:				
Consumer	$ 87,318	$ 87,318	$ 39,818	$ 79,346
Residential Real Estate	$ 45,416	$ 34,560	$ 4,019	$ 46,743
Commercial	$ 1,809	$ 1,994	$ 130	$ 3,977
December 31, 2018				
With No Related Allowance:				
Residential Real Estate	$ 15,970	$ 15,970	$ -	$ 10,619
Commercial	$ 5,232	$ 8,235	$ -	$ 5,756
With An Allowance Recorded:				
Consumer	$ 71,373	$ 71,373	$ 26,874	$ 57,514
Residential Real Estate	$ 32,098	$ 32,098	$ 4,640	$ 41,169
Commercial	$ 912	$ 1,934	$ 143	$ 2,832
Total Impaired Loans:				
Consumer	$ 71,373	$ 71,373	$ 26,874	$ 57,514
Residential Real Estate	$ 48,068	$ 48,068	$ 4,640	$ 51,788
Commercial	$ 6,144	$ 10,169	$ 143	$ 8,588

The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

(IN THOUSANDS)

NOTE 3 LOANS, NET (CONTINUED)

Summaries of loans modified in troubled debt restructurings and those related restructurings for which there was a payment default (90 days) during the years ended December 31, 2019 and 2018 are as follows. Post-modification balances approximate pre-modification balances. The aggregate amount of charge-offs as a result of a restructuring are not significant.

During the Year Ended December 31, 2019

	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-Modification Outstanding Balance	Number of Loans	Post-Modification Outstanding Balance
Student	56	$ 2,316	-	$ -
First Mortgages	7	1,208	-	-
Second Mortgages	9	263	-	-
Total	72	$ 3,787	-	$ -

During the Year Ended December 31, 2018

	Troubled Debt Restructurings		Troubled Debt Restructurings That Subsequently Defaulted	
	Number of Loans	Post-Modification Outstanding Balance	Number of Loans	Post-Modification Outstanding Balance
Student	36	$ 1,414	1	$ 39
First Mortgages	8	2,162	-	-
Second Mortgages	3	283	-	-
Total	47	$ 3,859	1	$ 39

The following table shows the types of modifications made during the years ended December 31, 2019 and 2018:

During the Year Ended December 31, 2019

	Interest Rate Adjustment	Maturity and Interest Rate Adjustment	Principal Deferral	Extended Maturity	Other	Total
Student	$ -	$ -	$ 2,316	$ -	$ -	$ 2,316
First Mortgages	-	1,043	-	-	165	1,208
Second Mortgages	-	118	-	-	145	263
Total	$ -	$ 1,161	$ 2,316	$ -	$ 310	$ 3,787

During the Year Ended December 31, 2018

	Interest Rate Adjustment	Maturity and Interest Rate Adjustment	Principal Deferral	Other and Bankruptcy	Other	Total
Student	$ -	$ -	$ 1,414	$ -	$ -	$ 1,414
First Mortgages	331	672	-	612	547	2,162
Second Mortgages	-	283	-	-	-	283
Total	$ 331	$ 955	$ 1,414	$ 612	$ 547	$ 3,859

(IN THOUSANDS)

NOTE 4 LOAN SERVICING

Loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of mortgage and other loans serviced for others were $3,486,896 and $3,156,533 at December 31, 2019 and 2018, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were $8,086 and $7,315 at December 31, 2019 and 2018, respectively.

The balance of capitalized servicing rights, net of valuation allowances, is included in Other Assets and totaled $18,148 and $17,790 at December 31, 2019 and 2018, respectively. The fair values of these rights were $21,894 and $26,471 at December 31, 2019 and 2018, respectively. The fair value of servicing rights was determined using discount rates ranging from 7.37% to 20.15% and prepayment speeds ranging from 2% to 39%, depending upon the stratification of the specific right, and a weighted average coupon rate of 3.88%.

The following summarizes the activity pertaining to servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances:

	Years Ended December 31,	
	2019	2018
Servicing Rights:		
Balance - Beginning of Year	$ 21,729	$ 19,495
Servicing Rights Capitalized	3,937	5,241
Servicing Rights Amortized	(3,579)	(3,007)
Balance - End of Year	$ 22,087	$ 21,729
Valuation Allowances:		
Balance - Beginning of Year	$ 3,939	$ 2,939
Additions	-	1,000
Balance - End of Year	$ 3,939	$ 3,939

NOTE 5 PREMISES AND EQUIPMENT, NET

The Credit Union's premises and equipment are summarized as follows:

	December 31,	
	2019	2018
Land	$ 10,534	$ 10,440
Building	63,824	62,847
Furniture and Equipment	45,701	33,810
Leasehold Improvements	2,460	4,243
Construction in Progress	-	664
Subtotal	122,519	112,004
Less: Accumulated Depreciation and Amortization	(42,473)	(38,755)
Total	$ 80,046	$ 73,249

(IN THOUSANDS)

NOTE 5 PREMISES AND EQUIPMENT, NET (CONTINUED)

Lease Commitments

The Credit Union is obligated under noncancelable operating leases for office space in Massachusetts and New Hampshire. Some of the leases contain renewal options for periods from three to five years at their fair rental value at the time of renewal. Net rent expense under operating leases, included in Office Occupancy and Operations Expenses, was approximately $4,445 and $4,315 for the years ended December 31, 2019 and 2018, respectively.

The required minimum rental payments under the terms of these noncancelable leases at December 31, 2019 are as follows:

Year Ending December 31,	Amount
2020	$ 3,583
2021	3,406
2022	3,282
2023	3,251
2024	2,869
Thereafter	16,466
Total	$ 32,857

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	December 31, 2019	December 31, 2018
Share Savings	$ 2,261,083	$ 2,030,534
Share Drafts	2,209,123	2,033,557
Money Market	2,665,131	2,236,697
IRA Deposits	57,301	57,348
Share and IRA Certificates	703,457	688,327
Total	$ 7,896,095	$ 7,046,463

The aggregate amounts of certificates of deposit in denominations of $250 or more was approximately $46,301 and $48,613 at December 31, 2019 and 2018, respectively.

Overdrawn share accounts reclassified to unsecured loans to members totaled $2,258 and $1,939 at December 31, 2019 and 2018, respectively.

(IN THOUSANDS)

NOTE 6 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

As of December 31, 2019, scheduled maturities of share and IRA certificates are as follows:

Year Ending December 31,	Amount
2020	$ 381,316
2021	156,041
2022	72,518
2023	44,652
2024	48,851
Thereafter	79
Total	$ 703,457

Member accounts are insured to at least $250 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. Government.

NOTE 7 BORROWED FUNDS

At December 31, 2019 and 2018, the Credit Union had an available line of credit of $50,000 with Eastern Corporate Federal Credit Union. The interest rates applied on any borrowing are determined on that borrowing date. Certificates of deposit and auto loans are pledged as collateral on the line of credit. The line has no expiration date, but is subject to review and change by the issuing institution. There were no balances outstanding on this line at December 31, 2019 and 2018.

The Credit Union has entered into an Advances, Pledge, and Security Agreement with the FHLB of Boston whereby specific mortgage loans of the Credit Unions with advance equivalents of approximately $1,371,054 and $1,359,766 at December 31, 2019 and 2018, respectively, were pledged to the FHLB as collateral in the event the Credit Union requests any advances on the line.

The Credit Union has access to an Ideal Way line of credit with the FHLB. The agreement provides for a credit limit of $1,000 with interest charged at a rate determined by the lender on a periodic basis. There were no balances outstanding under this agreement at December 31, 2019 and 2018.

The Credit Union has been approved to borrow through the Federal Reserve Bank's Discount Window. The terms of this agreement call for the pledging of certain investments and indirect auto loans as security for any and all obligations taken by the Credit Union under this agreement. At December 31, 2019 and 2018, the Credit Union had a credit limit of $330,224 and $417,022, respectively. The line has no expiration date, but is subject to review and change by the issuing institution. There were no balances outstanding under this agreement at December 31, 2019 and 2018.

(IN THOUSANDS)

NOTE 7 BORROWED FUNDS (CONTINUED)

Borrowed funds consisted of the following:

	December 31, 2019	December 31, 2018
Term Note from FHLB at interest rate of 2.68%, maturing January 2, 2019	$ -	$ 50,000
Term Note from FHLB at interest rate of 2.63%, maturing September 13, 2019	-	75,000
Term Note from FHLB at interest rate of 1.50%, maturing September 30, 2019	-	55,000
Term Note from FHLB at interest rate of 2.09%, maturing December 26, 2019	-	30,000
Term Note from FHLB at interest rate of 1.85%, maturing January 2, 2020	60,000	-
Term Note from FHLB at interest rate of 1.75%, maturing April 13, 2020	50,000	50,000
Term Note from FHLB at interest rate of 2.45%, maturing September 21, 2020	60,000	60,000
Term Note from FHLB at interest rate of 2.62%, maturing March 18, 2021	75,000	75,000
Term Note from FHLB at interest rate of 2.50%, maturing December 9, 2021	40,000	40,000
Term Note from FHLB at interest rate of 2.27%, maturing January 12, 2022	40,000	40,000
Term Note from FHLB at interest rate of 2.15%, maturing April 18, 2022	60,000	60,000
Term Note from FHLB at interest rate of 1.95%, maturing November 4, 2024	40,000	-
Total	$ 425,000	$ 535,000

As of December 31, 2019, the maturities of borrowed funds are as follows:

Year Ending December 31,	Amount
2020	$ 170,000
2021	115,000
2022	100,000
2023	-
2024	40,000
Total	$ 425,000

NOTE 8 REGULATORY NET WORTH REQUIREMENTS

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-consolidated statement of financial condition items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classifications 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 ratios (set forth in the table following) of net worth to total assets (as defined by the regulation). 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 ratio as of December 31, 2019, the most recent quarterly regulatory filing date, was 4.32%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2019, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2019, the most recent call reporting period, the NCUA categorized the Credit Union initially as "well capitalized" under the regulatory frame work for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

(IN THOUSANDS)

NOTE 8 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

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

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Net Worth	$ 917,948	9.81%	$ 561,512	6.00%	$ 655,097	7.00%
Risk-Based Net Worth Requirement	$ 404,288	4.32%	N/A	N/A	N/A	N/A
December 31, 2018						
Net Worth	$ 843,558	9.89%	$ 511,676	6.00%	$ 596,955	7.00%
Risk-Based Net Worth Requirement	$ 396,549	4.65%	N/A	N/A	N/A	N/A

Because RBNWR at December 31, 2019 is less than the regulatory net worth ratio, the Credit Union retains its original assigned category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option.

NOTE 9 RELATED PARTY TRANSACTIONS

Included in Loans, Net at December 31, 2019 and 2018, are loans to the Credit Union's board of directors, committee members, and senior executive staff of approximately $3,280 and $4,519, respectively. The aggregate principal advances and principal repayments are not significant.

Deposits from the Credit Union's board of directors, committee members, and senior executive staff held by the Credit Union at December 31, 2019 and 2018 are approximately $2,310 and $2,811, respectively.

(IN THOUSANDS)

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Consolidated Statement of Financial Condition Activities

The Credit Union is a party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated financial statements.

The Credit Union's exposure to credit loss is represented by the contractual notional amount of these instruments. The Credit Union uses the same credit policies in making commitments as it does for those loans recorded in the consolidated financial statements.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31, 2019	December 31, 2018
Commitments to Grant Collateralized Loans		
First Mortgages	$ 38,021	$ 10,894
Home Equity	8,642	11,540
Commercial Real Estate	40,434	33,462
Unfunded Secured Commitments Under Lines of Credit		
Home Equity	847,910	803,643
Commercial Real Estate	116,819	120,160
Unfunded Unsecured Commitments Under Lines of Credit		
Credit Card	2,116,417	1,999,074
Commercial	8,358	9,901
Student Loans	51,541	50,197
Other Consumer	20,428	21,462
Total	$ 3,248,570	$ 3,060,333

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 and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Credit Union is committed.

(IN THOUSANDS)

NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Legal Contingencies

The Credit Union is a party to various collection related legal actions normally associated with financial institutions, the aggregate effect of which, in management's opinion, would not be material to the consolidated financial condition of the Credit Union.

NOTE 11 FAIR VALUE

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value refer to Note 1 – Summary of Significant Accounting Policies. The following table presents the balances of the assets and liabilities measured at fair value on a recurring basis:

December 31, 2019	Level 1	Level 2	Level 3	Total
Assets:				
Equity Securities:				
Mutual Funds of U.S.				
Government Securities	$ 183,565	$ -	$ -	$ 183,565
Available-for-Sale Securities:				
U.S. Government Obligations				
and Federal Agency Securities	-	50,000	-	50,000
U.S. Government Treasury Notes	-	50,045	-	50,045
Loans Held-for-Sale	-	252,449	-	252,449
Total Assets	$ 183,565	$ 352,494	$ -	$ 536,059
December 31, 2018				
Assets:				
Equity Securities:				
Mutual Funds of U.S.				
Government Securities	$ 181,475	$ -	$ -	$ 181,475
Available-for-Sale Securities:				
U.S. Government Obligations				
and Federal Agency Securities	-	89,563	-	89,563
U.S. Government Treasury Notes	-	29,771	-	29,771
Loans Held-for-Sale	-	129,078	-	129,078
Total Assets	$ 181,475	$ 248,412	$ -	$ 429,887

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

(IN THOUSANDS)

NOTE 11 FAIR VALUE (CONTINUED)

Recurring Basis (Continued)

Investment Securities

When available, the Credit Union uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Credit Union's securities where quoted prices are not available for identical securities in an active market, the Credit Union determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained, or cannot be corroborated, a security is generally classified as Level 3.

Loans Held-for-Sale

Loans held-for-sale are marked to market on a monthly basis. The Credit Union obtains quotes or bids on these loans directly from purchasing financial institutions.

Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as there is evidence of impairment or a change in the amount of previously recognized impairment.

Net impairment losses related to nonrecurring fair value measurements of certain assets for the years ended December 31, 2019 and 2018 consisted of the following:

	Fair Value at December 31, 2019			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 174	$ 348

	Fair Value at December 31, 2018			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 667	$ 334

NOTE 11 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Credit Union has utilized Level 3 inputs to determine fair value:

	December 31, 2019			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 174	Evaluation of Collateral	Estimation of Value	Not Meaningful

	December 31, 2018			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 667	Evaluation of Collateral	Estimation of Value	Not Meaningful

Impaired Loans

In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement.

The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged off.

NOTE 12 REVENUE FROM CONTRACTS WITH MEMBERS

On January 1, 2019, the Credit Union adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequent amendments. As stated in Note 1, the implementation of the new standard did not have a material impact on the measurement, timing, or recognition of revenue. Accordingly, no cumulative effect adjustment to opening retained earnings was deemed necessary. Results for reporting periods beginning after January 1, 2019 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. Upon adoption, the Credit Union has elected to use the following optional exemptions that are permitted under the Topic 606, which have been applied consistently to all contracts within all reporting periods presented:

- The Credit Union recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Credit Union would have recognized is one year or less.
- For performance obligations satisfied over time, if the Credit Union has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Credit Union's performance completed to date, the Credit Union will generally recognize revenue in the amount to which the Credit Union has a right to invoice.
- The Credit Union does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Credit Union recognizes revenue in the amount to which the Credit Union has a right to invoice.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest income such as deposit related fees and interchange fees. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Significant components of noninterest income considered to be within the scope of Topic 606 is discussed below.

Service Charges and Deposit Account Fees
The Credit Union earns fees from its deposit members for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Credit Union fulfills the member's request. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the member's account balance.

Interchange Fees
When members use their debit and credit cards to pay merchants for goods or services, the Credit Union retains a fee from the funds collected from the related deposit account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized at the point in time when the funds are collected and transferred to the payment network.

(IN THOUSANDS)

NOTE 12 REVENUE FROM CONTRACTS WITH MEMBERS (CONTINUED)

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the year ended December 31, 2019:

In scope of ASC 606		
Service Charges on Deposits	$	16,294
Interchange Income		45,978
Other		20,271
Noninterest income in Scope of ASC 606		82,543
Noninterest Income not Within the Scope of ASC 606 (a)		12,063
Total Noninterest Income	$	94,606

(a) This revenue is not within the scope of ASC 606, and includes fees related to loan servicing fees, credit card fees, gain on sale of loans, and various other transactions.

The Credit Union does not typically enter into long-term revenue contracts with members, and therefore, does not experience significant contract balances. As of December 31, 2019, the Credit Union did not have any significant contract balances. As of December 31, 2019, the Credit Union did not capitalize any contract acquisition costs.

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