SAFE CREDIT UNION
Folsom, California

FINANCIAL STATEMENTS
December 31, 2021 and 2020

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CONTENTS

INDEPENDENT AUDITOR'S REPORT

Audit Committee
SAFE Credit Union
Folsom, California

Opinion

We have audited the financial statements of SAFE Credit Union, which comprise the statements of financial condition as of December 31, 2021 and 2020, and the related statements of net income and comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SAFE Credit Union as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SAFE Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SAFE Credit Union's ability to continue as a going concern for a reasonable period of time.

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

Crowe LLP

Crowe LLP

Sacramento, California
March 30, 2022

SAFE CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
December 31, 2021 and 2020
(Dollar amounts in thousands)

	2021	2020
ASSETS		
Cash and cash equivalents	$ 560,341	$ 822,601
Investments:		
Available-for-sale	1,178,936	316,258
Other	13,254	11,282
Loans held for sale, at fair value	10,126	9,521
Loans, net of allowance $14,093 and $22,022 as of December 31, 2021 and 2020, respectively	2,454,451	2,393,694
Property and equipment, net	55,226	54,562
Share insurance deposits	37,251	30,500
Goodwill	13,282	13,282
Other intangible assets	264	393
Accrued interest receivable	6,551	6,014
Other assets	113,690	156,074
Total assets	$ 4,443,372	$ 3,814,181
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Members' shares	$ 3,992,535	$ 3,393,267
Public unit shares	55,023	55,019
Accrued expenses and other liabilities	42,206	35,426
Total liabilities	4,089,764	3,483,712
Commitments and contingent liabilities (Note 10)		
Members' equity		
Retained earnings, restricted	362,320	328,184
Accumulated other comprehensive (loss) income	(8,712)	2,285
Total members' equity	353,608	330,469
Total liabilities and members' equity	$ 4,443,372	$ 3,814,181

See accompanying notes.

SAFE CREDIT UNION
STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME
For the Years Ended December 31, 2021 and 2020
(Dollar amounts in thousands)

	2021	2020
Interest income:		
Interest on loans	$ 90,303	$ 96,753
Interest on investments and cash equivalents	7,698	3,795
	98,001	100,548
Interest expense:		
Dividends on members' and public unit shares	12,584	18,080
Interest expense on borrowed and escrowed funds	276	671
	12,860	18,751
Net interest income	85,141	81,797
Provision for loan losses	(4,630)	14,737
Net interest income after provision for loan losses	89,771	67,060
Noninterest income:		
ATM and debit card income	27,481	22,000
Account service fees	14,178	13,947
Loan fees	9,095	8,267
Securities and insurance fees	5,876	4,771
Net gain on sale of loans	3,368	15,663
Other noninterest income	4,138	1,338
Total noninterest income	64,136	65,986
Noninterest expenses:		
Salaries and benefits	73,803	71,709
Professional services	19,231	18,754
Office occupancy and operations	13,572	13,121
Other noninterest expense	13,165	11,768
Total noninterest expenses	119,771	115,352
Net income	34,136	17,694
Other comprehensive income:		
Unrealized (loss) gain on investments available-for-sale	(10,997)	2,351
Total other comprehensive (loss) income	(10,997)	2,351
Comprehensive income	$ 23,139	$ 20,045

See accompanying notes.

SAFE CREDIT UNION
STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2021 and 2020
(Dollar amounts in thousands)

	Retained Earnings				Accumulated Other Comprehensive Income (Loss)	Total
	Regular Reserve	Other Appropriated	Unappropriated	Total		
Balance, January 1, 2020	$ 38,700	$ 271,790	$ -	$ 310,490	$ (66)	$ 310,424
Net income	-	-	17,694	17,694	-	17,694
Net change in unrealized gain/(loss) on available-for-sale investments	-	-	-	-	2,351	2,351
Appropriations	-	17,694	(17,694)	-	-	-
Balance, December 31, 2020	38,700	289,484	-	328,184	2,285	330,469
Net income			34,136	34,136		34,136
Net change in unrealized gain/(loss) on available-for-sale investments					(10,997)	(10,997)
Appropriations		34,136	(34,136)	-		-
Balance, December 31, 2021	$ 37,700	$ 323,620	$ -	$ 362,320	$ (8,712)	$ 353,608

See accompanying notes.

SAFE CREDIT UNION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020
(Dollar amounts in thousands)

	2021	2020
Cash Flows from Operating Activities		
Net income	$ 34,136	$ 17,694
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of servicing rights	1,903	2,046
Amortization (accretion) of investment premiums and discounts, net	3,396	(5,053)
Provision for loan losses	(4,630)	14,737
Depreciation and amortization	3,653	3,216
Amortization of intangibles	129	129
Net (gain) loss on disposition of property and equipment	(101)	15
Net (gain)/loss on sale of available-for-sale investments	(53)	-
Change in fair value of loans held for sale	155	(90)
Net gain on sale of loans	(3,368)	(15,663)
Originations of loans held for sale	(193,760)	(312,064)
Proceeds from sale of loans held for sale	196,368	331,787
Net change in:		
Cash surrender value of company-owned life insurance policies	1,747	1,714
Accrued interest receivable	(537)	477
Other assets	38,787	(56,043)
Accrued expenses and other liabilities	6,780	5,965
Net cash provided by (used in) operating activities	84,605	(11,133)
Cash Flows from Investing Activities		
Purchases of available-for-sale investments	(997,386)	(309,678)
Proceeds from maturities of available-for-sale investments	89,572	36,795
Proceeds from sales/calls of available-for-sale investments	30,743	-
Net change in other investments	(1,972)	-
Net change in loans	(56,127)	45,473
Net change in share insurance deposits	(6,751)	(4,751)
Proceeds from sale of property and equipment	204	-
Purchases of property and equipment	(4,420)	(5,326)
Net cash (used in) provided by investing activities	(946,137)	(237,487)
Cash Flows from Financing Activities		
Net increase in members' shares	599,268	747,745
Net increase (decrease) in public unit shares	4	(147)
Repayments on Federal Home Loan Bank advances	-	(45,000)
Net cash provided by financing activities	599,272	702,598
(Decrease) Increase in cash and cash equivalents	(262,260)	453,978
Cash and cash equivalents, beginning of year	822,601	368,623
Cash and cash equivalents, end of year	$ 560,341	$ 822,601

See accompanying notes.

	2021	2020
Supplemental Disclosures of Cash Flow Information		
Cash Dividends paid on members' and public unit shares and Cash Interest paid on borrowed and escrowed funds	$ 12,678	$ 18,571

See accompanying notes.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS

Nature of operations: SAFE Credit Union (Credit Union) is a state-chartered credit union organized under the provisions of the California Financial Code and California Corporation Code. Participation in the Credit Union is limited to those individuals who qualify for membership, which is defined in the Credit Union's Charter and Bylaws.

The Credit Union provides financial services through its branches in Sacramento and the surrounding counties. Its primary member share products are checking, savings, and term certificate accounts, and its primary lending products are residential real estate, vehicle, and commercial loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or member. However, the members' ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Significant accounting policies: The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes generally accepted accounting principles (GAAP) that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union. References to GAAP issued by the FASB in these notes are to the *FASB Accounting Standards Codification™,* commonly referred to as the Codification or ASC.

Use of estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and actual results could differ.

The COVID-19 pandemic has had and may continue to have an adverse effect on the Credit Union's operations and financial performance or condition. While significant progress has been made in 2021 to contain the COVID-19 pandemic, including vaccinations, new variants of the virus have and may continue to have, significant economic and policy impacts. Even with efforts to mitigate the health and welfare and economic impacts of the pandemic, uncertainty still remains and continued future developments, including new variants, could adversely affect the Credit Union's operations or financial results.

Subsequent events: The Credit Union has evaluated all subsequent events for recognition and disclosure through March 30, 2022, the date on which the financial statements were available to be issued.

Concentrations of credit risk: Most of the Credit Union's business activity is with its members, many of whom live, work, or worship in the following counties: Amador, Alameda, Butte, Contra Costa, El Dorado, Nevada, Placer, Sacramento, San Joaquin, Solano, Sutter, Yolo, and Yuba. The Credit Union may be exposed to credit risk resulting from these geographic concentrations. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of the geographic regions in which borrowers reside. Management continually monitors the Credit Union's operations, including the loan portfolio, for potential impairment and other accounting consequences associated with concentration risk.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

Fair value: The Codification defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is a market-based measurement, not an entity-specific measurement, and the hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the fair value hierarchy.

Cash and cash equivalents: For the purpose of the statements of financial condition and cash flows, cash and cash equivalents include cash on hand, amounts due from financial institutions, and highly liquid debt instruments classified as cash that were purchased with maturities of three months or less. Amounts due from financial institutions may, at times, exceed federally insured limits.

Investments: Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Securities not classified as held-to-maturity are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. Declines in the fair value of individual available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment (OTTI) exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the current liquidity and volatility of the market for each of the individual security categories, (4) the projected cash flows from the specific security type, (5) the financial guarantee and financial rating of the issuer, and (6) the intent and ability of the Credit Union to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Once a decline in value is determined to be other-than-temporary, and management does not intend to sell the security or it is more likely than not that the Credit Union will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that the Credit Union will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Other investments primarily consist of Federal Home Loan Bank (FHLB) stock and are classified separately and are stated at cost.

FHLB stock: The Credit Union is a member of the FHLB of San Francisco and, as such, is required to maintain a minimum investment in stock of the FHLB that varies with the level of advances outstanding with the FHLB. The stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated for impairment. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the FHLB, and (d) the liquidity position of the FHLB. Cash dividends are reported as income when received.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

Loans held for sale: Mortgage loans originated and intended for sale in the secondary market, for which the fair value option has been elected, are recorded at fair value as of December 31, 2021 and 2020. The fair value includes the servicing value of the loans.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans includes the value of the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Mortgage derivatives: Interest rate lock commitments (IRLC) for mortgage loans to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free-standing derivatives. 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. In order to hedge the change in interest rates resulting from its commitments to fund the loans, the Credit Union enters into forward sale commitments of To Be Announced (TBA) mortgage-backed securities (MBS). The forward sales commitments are typically entered into at the time the interest rate lock commitment is made. The value of the forward sales commitments moves in 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 statements of cash flows.

Loans, net: The Credit Union grants mortgage, vehicle, commercial, and other consumer loans to members. In addition, the Credit Union purchases participation loans originated by various other credit unions and sells participation loans to other financial intuitions. Loans that the Credit Union has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, less an allowance for loan losses and net deferred origination fees and costs. Interest income 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 income on all classes of loans is discontinued at the time the loan is 90 days past due, unless the loan is well-secured and in the process of collection. In addition, interest is not recognized on commercial loans when interest is discontinued and the collection of both principal and interest is considered doubtful. Other personal loans are typically charged off no later than 180 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if the collection of principal and interest is considered doubtful.

All interest accrued, but not collected, for loans 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 status. Loans are returned to accrual status when all of the 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 cost is recognized as an adjustment to interest income using the interest method over the estimated life of the loans.

Allowance for loan losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses as of the balance sheet date. The allowance is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is likely. Subsequent recoveries, if any, are credited to the allowance.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (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 the 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. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for loan losses and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The Credit Union's allowance for loan losses is the amount considered adequate to absorb probable incurred losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio as of the balance sheet date. Such evaluations consider prior and potential loss experience, the risk rating, and the levels of impaired and nonperforming 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 original contractual terms of the loan agreement. Specific allowances for loan losses are established for impaired loans on an individual basis as required by the Codification. 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, less costs to sell.

General allowances are established for loans that can be grouped into pools based on similar characteristics as required by the Codification, and accordingly, they are not included in the separately identified impairment disclosures. The general reserve component of the allowance for loan losses also consists of reserve factors that are based on management's assessment of the following: (1) inherent credit risk, (2) delinquent loan balances, (3) historical losses experienced by the Credit Union during the previous ten years, and (4) other qualitative factors. These reserve factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment described below.

Residential real estate – The degree of risk in residential real estate lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Commercial – Commercial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by operating cash flows. Economic trends are closely correlated to the credit quality of these loans. Commercial real estate mortgage loans generally possess a higher inherent risk of loss than other 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 properties to produce sufficient cash flow to service debt obligations.

Vehicle – Vehicle loans are generally underwritten based on the creditworthiness of the borrowers and are secured by vehicles. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrowers' capacity to repay their obligations may be deteriorating.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

Credit card and other consumer loans – Credit card and other consumer loans are generally unsecured and possess a higher risk of loss than other classes of loans. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Troubled debt restructurings: The Credit Union performs a loan-level valuation of those loans identified as troubled debt restructurings. The Credit Union believes that each loan included in the analysis constitutes a troubled debt restructuring when, prior to the restructuring, the borrower experiences financial difficulty and, in response, the Credit Union grants a concession to the borrower, such as a reduction of interest rate, extension of the loan term or other concession that the Credit Union would not otherwise consider. The Credit Union estimates the impairment of the troubled debt restructured loan either by discounting expected future cash flows using the loan's original interest rate or by taking the difference between the loan balance and the collateral value, less selling costs, of the property securing the loan. The amounts are then reserved for as part of the allowance for loan loss account.

Loan servicing: Servicing assets are recognized as separate assets when rights are acquired through the purchase or sale of financial assets. For sales of mortgage loans where servicing is retained, a portion of the cost of originating the loan is allocated to the servicing right based on fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively 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 other assets and are amortized into noninterest 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. Impairment is determined by stratifying rights into tranches based on predominant risk 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 capitalized amount for the tranche. The valuation allowance is reported in other assets. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans and is included in other noninterest income. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Other real estate owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in operating expenses.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

Property and equipment: Land is carried at cost. Buildings, leasehold improvements, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings, furniture, 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 lesser of the term of the related lease or the life of the asset.

Transfers of financial assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Credit Union, 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 the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Company-owned life insurance: The Credit Union has purchased life insurance policies on certain key executives. Company-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Cash surrender values were $29,399,000 and $27,652,000 at December 31, 2021 and 2020, respectively, and are included in other assets on the statements of financial condition. Income earned on these policies, net of expenses, totaled $1,747,000 and $1,714,000 for the years ended December 31, 2021 and 2020, respectively.

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 federally insured credit union in an amount equal to one percent of its insured members' shares. The deposit would be refunded to the credit union if its insurance coverage were terminated, if it converts its insurance coverage to another source, or if management of the fund were transferred from the NCUA Board.

Goodwill and other intangible assets: Identifiable assets, liabilities, and contingent liabilities in entities acquired are measured at fair value at the date of acquisition. Identifiable intangible assets are recognized if they can be separated or arise from a contractual right and the fair value can be reliably measured. Any excess of the cost of business combination over the fair value of the acquired identifiable assets, liabilities, and contingent liabilities is recognized as goodwill. Goodwill is assessed for impairment at least annually and more frequently if events or changes in circumstance indicate that the carrying value may not be recoverable. Goodwill is the only intangible asset with an indefinite life on the statements of financial condition. Other intangible assets consist of the premium recognized on the value of a book of client investment accounts acquired during 2015, and the intangible asset related to the deposits purchased from another credit union during 2016, both of which are amortized over the estimated life of the asset and evaluated for impairment on at least an annual basis.

Unfunded commitments and related financial instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans, issued to meet member financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded on the balance sheet when they are funded.

Members' shares: Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Advertising costs: Advertising costs are expensed as incurred.

Income taxes: The Credit Union is exempt, by statute, from federal income taxes. The Credit Union is a state-chartered credit union described in Internal Revenue Code (IRC) Section 501(c)(14). As such, the Credit Union is exempt from federal taxation of income derived from the performance of activities that are in furtherance of its exempt purposes. However, the Credit Union is subject to unrelated business income tax.

FASB Codification Topic 740, *Income Taxes,* provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Credit Union's tax returns to determine whether the tax positions are more likely than not to be sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. For the years ended December 31, 2021 and 2020, management has determined that there are no material uncertain tax positions.

Retirement plans: Employee 401(k) and profit-sharing plan expense is the amount of matching and discretionary contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the members' equity section of the statements of financial condition.

Fair value of financial instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Loss contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management was not aware of any loss contingencies that will have a material effect on the financial statements.

Revenue Recognition: On January 1, 2019, the Credit Union adopted ASU 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, "ASC 606"), which created a single framework for recognizing revenue from contracts with customers that fall within its scope and revises when it is appropriate to recognize a gain or loss from the transfer of nonfinancial assets.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

The majority of the Credit Union's revenues come from interest income from loans and securities and other sources, including derivatives, loan fees and leases, all of which are outside of the scope of ASC 606. The Credit Union sources of revenue that do fall within the scope of ASC 606 are presented in Noninterest Income and are recognized as revenue as the Credit Union satisfies its obligation to its member. Services within the scope of ASC 606 include such items as service charges and related fees on deposit accounts, debit and credit card interchange income, wealth management fees, and if applicable, the sale of other real estate owned.

A brief description of the Credit Union's revenue streams accounted for under ASC 606 is as follows:

Service Charges and Related Fees on Deposit Accounts: The Credit Union earns fees for account maintenance, transaction-based services and overdraft services. Account maintenance fees, which relate primarily to monthly account maintenance, are generally earned over the course of the statement cycle, representing the period over which the Credit Union satisfies the performance obligation. Transaction-based fees include services such as stop payment charges, official check fees, statement rendering, shared branching services and ATM usage fees. Transaction-based fees are generally recognized at the time the transaction is executed as that is the point in time when the Credit Union fulfills the member request. Overdraft service charges include non-sufficient funds (NSF) and overdraft protection fees and are recognized at the time an NSF item is returned or overdraft is paid. Total revenue recognized in 2021 and 2020 for service charges and fees on deposit accounts was $17,234,000 and $16,559,000, respectively. Depending on the type of service charge or fee, revenue is included on the Statement of Net Income and Comprehensive Income in the following categories: Account Service Charges, ATM and Debit Card Income and Other Noninterest Income.

Debit and Credit Card Interchange Income: The Credit Union earns interchange revenue from debit and credit cardholder transactions conducted through various merchant networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Total revenue recognized in 2021 and 2020 for interchange income was $29,273,000 and $23,702,000, respectively. Components of interchange revenue are included in ATM and Debit Card Income and Loan Fees in the Statement of Net Income and Comprehensive Income.

Wealth Management Fees: The Credit Union earns wealth management fees from investment brokerage services provided to its members by third party providers. The Credit Union earns fees for the management of member assets (account management fees) and/or transactions on their accounts (transaction-based fees). Account management fees are predominately recognized monthly on a tiered scale based on total assets under management (AUM). A much smaller percentage of account management fees are recognized quarterly and consist of trail commissions on AUM from various third-party investment providers. Transaction-based revenue is recognized at time of trade. Total revenue recognized in 2021 and 2020 for wealth management services was $4,271,000 and $3,179,000, respectively. Wealth management fees are included with other revenue generated from investment brokerage services in Securities and Insurance Fees in the Statement of Net Income and Comprehensive Income.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

New Accounting Standards That Have Not Yet Been Adopted:

ASU 2016-02, Leases (Topic 842)

In February 2016, the FASB amended existing guidance that requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new guidance also requires enhanced disclosure about an entity's leasing arrangements. These amendments are effective for the Credit Union for fiscal years beginning after December 15, 2021. Early application is permitted for all nonpublic business entities. The adoption of this standard is not expected to have a material effect on the Credit Union's operating results.

ASU 2016-13, Financial Instruments – Credit Losses (Topic 326)

In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance.

The standard will be effective for the December 31, 2023, annual financial statements; however, the Credit Union may early adopt for fiscal years beginning after December 31, 2018. The Credit Union formed a Management Allowance Committee that is responsible for the oversight of CECL implementation. Vendor due diligence and selection was performed in 2019 and again in 2021. Data assessments were performed, historical data has been utilized to run various models accepted under the new standard and a final model has been approved by the Management Allowance Committee. The Credit Union expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. The Credit Union expects the adoption will result in a material increase to the allowance for loan losses balance; however, at this time, the impact is being determined and evaluated.

ASU 2020-4, Reference Rate Reform (Topic 848)

In March 2020, the FASB issued Update 2020-4, Facilitation of the Effects of Reference Rate Reform on Financial Reporting, to ease the potential burden in accounting for reference rate reform. The amendments in the Update 2020-4 are elective and apply to all entities that have contracts, hedging relationships, other transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS (Continued)

The new guidance provides the following optional expedients that reduce costs and complexity of accounting for reference rate reform:

- Simplify accounting analyses for contract modifications.
- Allow hedging relationships to continue without de-designation if there are qualifying changes in the critical terms of an existing hedging relationship due to reference rate reform.
- Allow a change in the systematic and rational method used to recognize in earnings the components excluded from the assessment of hedge effectiveness.
- Allow a change in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship.
- Allow the shortcut method for a fair value hedging relationship to continue for the remainder of the hedging relationship.
- Simplify the assessment of hedge effectiveness and provide temporary optional expedients for cash flow hedging relationships affected by reference rate reform.
- Allow a one-time election to sell or transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and are classified as held to maturity before January 1, 2020.

The amendments are effective for all entities from the beginning of an interim period that includes the issuance date of the ASU. An entity may elect to apply the amendments prospectively through December 31, 2022. The adoption of this standard is not expected to have a material effect on the Credit Union's operating results or financial condition.

NOTE 2 - INVESTMENTS

Investments classified as available-for-sale consist of the following (in thousands):

December 31, 2021	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government sponsored agency collateralized mortgage obligations, residential	$ 12,780	$ 29	$ (40)	$ 12,769
U.S. Government sponsored agency Mortgage-backed securities, residential	1,174,868	811	(9,512)	1,166,167
	$ 1,187,648	$ 840	$ (9,552)	$ 1,178,936

December 31, 2020	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government sponsored agency collateralized mortgage obligations, residential	$ 27,196	$ 37	$ (17)	$ 27,216
U.S. Government sponsored agency Mortgage-backed securities, residential	286,777	2,341	(76)	289,042
	$ 313,973	$ 2,378	$ (93)	$ 316,258

NOTE 2 - INVESTMENTS (Continued)

Total sales and calls of securities for the years ended December 31, 2021 and 2020 were $30,743,000 and $0, respectively. Net proceeds from sales of securities for the years ended December 31, 2021 and 2020 were $53,000 and $0, respectively.

Investments by maturity as of December 31, 2021 are summarized as follows (in thousands):

	Available-for-Sale		
	Amortized Cost	Fair Value	Other
No contractual maturity	$	$	$ 13,254
Less than one year maturity			
U.S. Government sponsored agency collateralized mortgage obligations, residential	12,780	12,769	
U.S. Government sponsored agency mortgage-backed securities, residential	1,174,868	1,166,167	
	$ 1,187,648	$ 1,178,936	$ 13,254

Expected maturities of U.S. Government sponsored agency collateralized mortgage obligations and U.S. Government sponsored agency mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations and are therefore classified separately with no specific maturity date. FHLB stock and certain other investments have been classified with no contractual maturity.

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position were as follows (in thousands):

	Fair Value Associated With Unrealized Losses Existing for:		Continuous Unrealized Losses Existing for:		
December 31, 2021	Less Than 12 Months	12 Months or Longer	Less Than 12 Months	12 Months or Longer	Total Unrealized Losses
Available-for-sale:					
U.S. Government sponsored agency securities, collateralized mortgage obligations, mortgage-backed securities, residential	$ 842,824	$ 39,105	$ (8,076)	$ (1,476)	$ (9,552)

	Fair Value Associated With Unrealized Losses Existing for:		Continuous Unrealized Losses Existing for:		
December 31, 2020	Less Than 12 Months	12 Months or Longer	Less Than 12 Months	12 Months or Longer	Total Unrealized Losses
Available-for-sale:					
U.S. Government sponsored agency securities, collateralized mortgage obligations, mortgage-backed securities, residential	$ 69,751	$ 1,206	$ (93)	$ -	$ (93)

NOTE 2 - INVESTMENTS (Continued)

At December 31, 2021, the investment portfolio included 70 securities, 65 of which have current unrealized losses that have existed for less than one year, and 5 of which had unrealized losses that has existed for more than one year. All of these securities were considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market interest rates, credit rating information, and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary. In addition, the Credit Union has the intent and ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery.

The Credit Union did not have any other-than-temporary impairment in 2021 in available-for-sale securities.

Other investments consist of the following at December 31 (in thousands):

	2021	2020
FHLB stock	$ 13,197	$ 11,225
Other investments	57	57
	$ 13,254	$ 11,282

The fair value of other investments and FHLB stock is not practical to determine due to restrictions placed on its transferability.

The Credit Union views its investment in the FHLB stock as a long-term investment, is carried at cost and evaluated for impairment. The Credit Union reviews the FHLB of San Francisco's financial statements when released and based on certain factors, management has concluded that the stock was not impaired at December 31, 2021 or 2020.

Securities totaling $3,634,000 and $5,253,000 have been pledged as collateral to secure borrowings using the Discount Window with the Federal Reserve Bank of San Francisco, as disclosed in Note 8 at December 31, 2021 and 2020, respectively. Securities totaling $560,923,000 and $131,838,000 are available to be pledged as collateral to secure FHLB advances, as more fully disclosed in Note 8, at December 31, 2021 and 2020, respectively.

NOTE 3 - LOANS

Loans consist of the following at December 31 (in thousands):

	2021	2020
Residential real estate	$ 1,140,643	$ 1,086,613
Commercial	237,970	201,176
Vehicle	960,166	1,003,143
Credit card and other consumer	114,426	113,154
Loans receivable, gross	2,453,205	2,404,086
Deferred net loan origination costs	15,339	11,630
Allowance for loan losses	(14,093)	(22,022)
	$ 2,454,451	$ 2,393,694

NOTE 3 - LOANS (Continued)

The following presents, by portfolio segment, the changes in the allowance for loan losses for the years ended December 31, 2021 and 2020 (in thousands):

Residential December 31, 2021	Real Estate	Commercial	Credit Card and Vehicle	Other Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 7,737	$ 1,886	$ 9,328	$ 3,071	$ 22,022
Provision for loan losses	(2,967)	(408)	(3,463)	2,208	(4,630)
Charge-offs	-	(156)	(3,157)	(2,919)	(6,232)
Recoveries	446	193	1,759	535	2,933
Ending Balance	$ 5,216	$ 1,515	$ 4,467	$ 2,895	$ 14,093

Residential December 31, 2020	Real Estate	Commercial	Credit Card and Vehicle	Other Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 4,827	$ 1,176	$ 6,810	$ 3,056	$ 15,869
Provision for loan losses	2,777	788	8,003	3,169	14,737
Charge-offs	-	(187)	(7,189)	(3,660)	(11,036)
Recoveries	133	109	1,704	506	2,452
Ending Balance	$ 7,737	$ 1,886	$ 9,328	$ 3,071	$ 22,022

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of December 31, 2021 and 2020 (in thousands):

December 31, 2021	Residential Real Estate	Commercial	Vehicle	Credit Card and Other Consumer	Total
Allowance for loan losses:					
Ending balance attributable to loans:					
Individually evaluated for impairment	$ 1,816	$ 72	$ 196	$ 59	$ 2,143
Collectively evaluated for impairment	3,400	1,443	4,271	2,836	11,950
Total ending allowance balance	$ 5,216	$ 1,515	$ 4,467	$ 2,895	$ 14,093
Loans:					
Loans individually evaluated for Impairment	$ 19,230	$ 6,615	$ 1,099	$ 304	$ 27,248
Loans collectively evaluated for Impairment	1,121,413	231,355	959,067	114,122	2,425,957
Total ending gross loans balance	$ 1,140,643	$ 237,970	$ 960,166	$ 114,426	$ 2,453,205

NOTE 3 - LOANS (Continued)

December 31, 2020	Residential Real Estate	Commercial	Vehicle	Credit Card and Other Consumer	Total
Allowance for loan losses:					
Ending balance attributable to loans:					
Individually evaluated for impairment	$ 2,792	$ 405	$ 313	$ 68	$ 3,578
Collectively evaluated for impairment	4,945	1,481	9,015	3,003	18,444
Total ending allowance balance	$ 7,737	$ 1,886	$ 9,328	$ 3,071	$ 22,022
Loans:					
Loans individually evaluated for Impairment	$ 28,787	$ 6,740	$ 1,494	$ 339	$ 37,360
Loans collectively evaluated for Impairment	1,057,826	194,436	1,001,649	112,815	2,366,726
Total ending gross loans balance	$ 1,086,613	$ 201,176	$ 1,003,143	$ 113,154	$ 2,404,086

The allowance for loan losses was considered by the Credit Union as adequate to cover probable incurred losses in the loan portfolio as of the balance sheet date. However, no assurance can be given that the Credit Union, in any particular period, will not sustain loan losses that exceed the allowance, or that subsequent evaluation of the loan portfolio, in light of then-prevailing factors, including economic conditions, credit quality of the assets comprising the portfolio, and the ongoing evaluation process, will not require significant changes in the allowance for loan losses.

The following presents the recorded investment and unpaid principal balance for impaired loans with associated allowance amount, if applicable, as of December 31, 2021 and 2020 (in thousands). The recorded investment in loans includes accrued interest receivable and loan origination fees, net.

December 31, 2021	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with an allowance:					
Residential real estate	$ 9,166	$ 9,022	$ 1,816	$ 12,540	$ 584
Commercial	1,714	1,672	72	1,953	217
Vehicle	856	848	196	1,060	48
Credit card and other consumer	244	242	59	251	12
	$ 11,980	$ 11,784	$ 2,143	$ 15,804	$ 861
Impaired loans without an allowance:					
Residential real estate	$ 10,064	$ 9,963	$ -	$ 11,469	$ 87
Commercial	4,901	4,859	-	4,725	-
Vehicle	243	242	-	236	-
Credit card and other consumer	60	60	-	71	-
	$ 15,268	$ 15,124	$ -	$ 16,501	$ 87
Totals:					
Residential real estate	$ 19,230	$ 18,985	$ 1,816	$ 24,009	$ 671
Commercial	6,615	6,531	72	6,678	217
Vehicle	1,099	1,090	196	1,296	48
Credit card and other consumer	304	302	59	322	12
	$ 27,248	$ 26,908	$ 2,143	$ 32,305	$ 948

NOTE 3 - LOANS (Continued)

December 31, 2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with an allowance:					
Residential real estate	$ 15,914	$ 15,705	$ 2,792	$ 18,117	$ 967
Commercial	2,192	2,154	405	2,517	223
Vehicle	1,265	1,256	313	1,204	64
Credit card and other consumer	258	256	68	269	13
	$ 19,629	$ 19,371	$ 3,578	$ 22,107	$ 1,267
Impaired loans without an allowance:					
Residential real estate	$ 12,873	$ 12,764	$ -	$ 12,633	$ 131
Commercial	4,549	4,515	-	4,754	-
Vehicle	228	228	-	380	-
Credit card and other consumer	81	81	-	94	-
	$ 17,731	$ 17,588	$ -	$ 17,861	$ 131
Totals:					
Residential real estate	$ 28,787	$ 28,469	$ 2,792	$ 30,750	$ 1,098
Commercial	6,741	6,669	405	7,271	223
Vehicle	1,493	1,484	313	1,584	64
Credit card and other consumer	339	337	68	363	13
	$ 37,360	$ 36,959	$ 3,578	$ 39,968	$ 1,398

Interest income recorded on a cash basis was not material during the years ended December 31, 2021 and 2020.

Troubled Debt Restructurings:

During the periods ending December 31, 2021 and 2020, the terms of certain loans were modified as troubled debt restructurings. The modifications of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate or an extension of the maturity date.

During the twelve-month periods ending December 31, 2021 and 2020, modifications involving an extension of the maturity date were for periods ranging from two month to 14 years. Modifications involving a reduction of the stated interest rate of the loan included reductions in rate of between 0% and 9.74%. The Credit Union has not committed to lend additional amounts as of December 31, 2021 and 2020 to borrowers with outstanding loans that are classified as troubled debt restructurings.

NOTE 3 - LOANS (Continued)

The following tables present loans modified as troubled debt restructurings during the years ended December 31, 2021 and 2020 (dollars in thousands):

December 31, 2021	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
TDRs occurring during the year:			
Residential real estate	2	$ 139	$ 139
Commercial	-	-	-
Vehicle	18	184	184
Credit card and other consumer	-	-	-
	20	$ 323	$ 323

The troubled debt restructurings described above resulted in a net increase to the allowance for loan losses of $45,000 and resulted in no charge offs during the year ending December 31, 2021.

December 31, 2020	Number of Contracts	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
TDRs occurring during the year:			
Residential real estate	2	$ 179	$ 184
Commercial	1	2,416	2,416
Vehicle	28	293	293
Credit card and other consumer	2	15	15
	33	$ 2,903	$ 2,908

The troubled debt restructurings described above resulted in a net increase to the allowance for loan losses of $70,000 and resulted in no charge offs during the year ending December 31, 2020.

The following tables present loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2021 and 2020 (dollars in thousands):

December 31, 2021	Number of Loans	Recorded Investments
TDRs that subsequently defaulted:		
Residential real estate	1	$ 160
Commercial	-	-
Vehicle	4	11
Credit card and other consumer	-	-
	5	$ 171

NOTE 3 - LOANS (Continued)

The troubled debt restructurings that subsequently defaulted, as described above, resulted in no increase to the allowance for loan losses and resulted in charge offs of $9,000 during the year ending December 31, 2021. The Credit Union has not committed to lend additional amounts as of December 31, 2021 to borrowers with outstanding loans that are classified as troubled debt restructurings.

December 31, 2020	of Loans	Investments
TDRs that subsequently defaulted:		
Residential real estate	-	$ -
Commercial	-	-
Vehicle	2	-
Credit card and other consumer	2	6
	4	$ 6

The troubled debt restructurings that subsequently defaulted, as described above, resulted in no increase to the allowance for loan losses and resulted in charge offs of $30,000 during the year ending December 31, 2020. The Credit Union has not committed to lend additional amounts as of December 31, 2020 to borrowers with outstanding loans that are classified as troubled debt restructurings.

A loan is considered to be in payment default once it is 60 days contractually past due under the modified terms or charged off.

Additionally, the Credit Union worked with borrowers impacted by COVID-19 both in 2020 and 2021 and provided modifications to include real estate forbearance (when members requested a loan payment deferral on a real estate loan, and the request was related to COVID-19), other commercial and consumer principal and interest deferrals (when members requested a consumer or commercial loan payment deferral, and the request was related to COVID-19), Consumer Pandemic Skip-a-Payment (for members who requested to skip a payment on a non-real estate loan and was able to skip up to two loan payments, and the request was related to COVID-19), and Pandemic Partial-Payment programs (for members who participated in the Pandemic Skip-A-Pay program and still required additional payment assistance, and was allowed to make a 50% payment on up to two loan payments). These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act. As of December 31, 2021, 11 modifications under the CARES Act remain active as of year-end in the amount of $1,301,000.

Modifications outside of the CARES Act but related to the COVID-19 pandemic, were evaluated for classification as a troubled debt restructuring and accounting treatment appropriately applied if applicable.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed to determine the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed in accordance with the Credit Union’s internal underwriting policy.

NOTE 3 - LOANS (Continued)

Credit Quality Indicators:

Management regularly reviews and risk grades commercial loans in the Credit Union's portfolio. The risk grading system allows management to classify assets by credit quality in accordance with the Credit Union policy. The Credit Union's internal risk grading system definitions are as follows:

- Satisfactory—loans that are protected by the current net worth and paying capacity of the obligor(s) or by the value of the underlying collateral.
- Special Mention—loans with potential weaknesses that require close attention. If left uncorrected, the weaknesses may result in deterioration of the repayment prospects for the asset, or in the future loan credit position.
- Substandard—loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.
- Doubtful—a loan classified doubtful has all the weaknesses inherent in one classified substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include: sale or liquidation actions; other forms of income or assistance; perfecting liens on collateral; and refinancing plans.
- Loss—a loan classified as a loss is considered uncollectible and of such little value that its continuance as a loan is not warranted. This classification does not necessarily mean that the loan has absolutely no recovery or salvage value, but rather, it is not practical or desirable to defer writing off this asset even though partial recovery may occur in the future.

The following presents, by credit quality indicator, the commercial portfolio as of December 31, 2021 and 2020 (in thousands):

	2021	2020
Satisfactory	$ 234,299	$ 194,749
Special mention	1,681	1,675
Substandard	1,917	4,716
Doubtful	34	34
Loss	39	2
	$ 237,970	$ 201,176

Management reviews the performance of the loan portfolio on a regular basis. Non-commercial loans are evaluated on the basis of performing and nonperforming status. Nonperforming loans are defined as being greater than 60 days past due.

NOTE 3 - LOANS (Continued)

The following presents, by credit quality indicator, the residential real estate, vehicle, and credit card and other consumer loan portfolio as of December 31, 2021 and 2020 (in thousands):

December 31, 2021	Performing	Nonperforming	Total
Residential real estate	$ 1,135,922	$ 4,721	$ 1,140,643
Vehicle	957,715	2,451	960,166
Credit card and other consumer	113,732	694	114,426
	$ 2,207,369	$ 7,866	$ 2,215,235

December 31, 2020	Performing	Nonperforming	Total
Residential real estate	$ 1,081,335	$ 5,278	$ 1,086,613
Vehicle	1,000,735	2,408	1,003,143
Credit card and other consumer	112,494	660	113,154
	$ 2,194,564	$ 8,346	$ 2,202,910

The following represents an aging analysis of the recorded investment of past due loans as of December 31, 2021 and 2020 (in thousands):

December 31, 2021	30-59 Days	60-89 Days	90+ Days	Total Past Due	Current	Total Loan Receivable, Gross	Loans in Which Interest Has Been Discontinued
Residential real estate	$ 3,173	$ 1,168	$ 3,553	$ 7,894	$ 1,132,749	$ 1,140,643	$ 3,553
Commercial	936	570	163	1,669	236,301	237,970	2,198
Vehicle	7,591	1,207	1,244	10,042	950,124	960,166	1,244
Credit card and other consumer	599	244	450	1,293	113,133	114,426	450
	$ 12,299	$ 3,189	$ 5,410	$ 20,898	$ 2,432,307	$ 2,453,205	$ 7,445

December 31, 2020	30-59 Days	60-89 Days	90+ Days	Total Past Due		Total Loan Receivable,	Loans in Which Interest Has Been
	Current	Gross	Discontinued				
Residential real estate	$ 3,831	$ 1,530	$ 3,748	$ 9,109	$ 1,077,504	$ 1,086,613	$ 3,748
Commercial	1,580	8	-	1,588	199,588	201,176	2,480
Vehicle	8,395	1,760	648	10,803	992,340	1,003,143	648
Credit card and other consumer	582	291	369	1,242	111,912	113,154	369
	$ 14,388	$ 3,589	$ 4,765	$ 22,742	$ 2,381,344	$ 2,404,086	$ 7,245

There were no loans at December 31, 2021 or 2020 that were on accrual status and 90 days or more past due.

NOTE 4 - LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of these loans at December 31 are summarized as follows (in thousands):

	2020	2020
Mortgage loan portfolios serviced for others	$ 766,064	$ 955,065

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in member shares, were $4,092,000 and $5,062,000 at December 31, 2021 and 2020, respectively.

Mortgage servicing rights are recorded within other assets on the statements of financial condition. A summary of the changes in the balance of mortgage servicing rights for the years ended December 31 was as follows (in thousands):

	2021	2020
Balance, beginning of the year	$ 5,362	$ 7,192
Servicing assets recognized during the year	1,227	2,104
Amortization of servicing assets	(1,903)	(2,046)
Change in valuation allowance	448	(1,888)
Balance, end of year	$ 5,134	$ 5,362
Fair value of mortgage servicing rights	$ 6,146	$ 5,482

The aggregate changes in the valuation allowances for mortgage servicing rights for the years ended December 31 were as follows (in thousands):

	2021	2020
Balance, beginning of the year	$ 1,972	$ 84
Additions	673	2,039
Reductions	(1,121)	(151)
Balance, end of year	$ 1,524	$ 1,972

The key economic assumptions used in determining the fair value of mortgage servicing rights at December 31 were as follows:

	2021	2020
Prepayment speed	21.22%	31.75%
Weighted-average life (years)	4.74	3.17
Yield to maturity discount rate	9.98%	9.48%

NOTE 5 - PROPERTY AND EQUIPMENT, NET

Property and equipment at December 31 are summarized as follows (in thousands):

	2021	2020
Land	$ 10,023	$ 10,023
Building	48,150	47,759
Leasehold improvements	3,807	4,222
Furniture and equipment	43,998	40,616
	105,978	102,620
Accumulated depreciation and amortization	(50,752)	(48,058)
	$ 55,226	$ 54,562

Depreciation and amortization expense was $3,653,000 and $3,216,000 for 2021 and 2020, respectively.

The Credit Union has 25 operating leases, which include branch offices and automated teller machine (ATM) locations. Certain operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base time periods. All rental payments are dependent only upon the lapse of time. Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2021 were as follows (in thousands):

Years Ending December 31,	
2022	1,216
2023	898
2024	760
2025	500
2026	465
Subsequent Years	2,081
	$ 5,920

Rental expense for the years ended December 31, 2021 and 2020, for all facilities leased under operating leases, totaled $1,340,000 and $1,607,000, respectively.

NOTE 6 - GOODWILL AND OTHER INTANGIBLE ASSETS

The Credit Union completed a merger transaction with American River HealthPro Credit Union that became effective on July 1, 2009. This merger was accounted for as a purchase business combination. As the purpose of this merger was to achieve growth and economies of scale among these mutual enterprises, no payment considerations were involved, contingent or otherwise. The goodwill of $13,282,000 associated with this merger, arising from expected synergies from the combined operations, for the years ended December 31, 2021 and 2020, is subject to an annual impairment test. Management assesses goodwill for impairment at September 30, 2021, and has determined that there was no goodwill impairment for 2021 or 2020.

NOTE 6 - GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

In 2015, the Credit Union purchased a book of client investment accounts, which resulted in an intangible asset of $196,000 as of December 31, 2015. This intangible asset is amortized over a period of 10 years beginning January 2016. During the fourth quarter of 2017, it was determined that the client investment accounts were not performing as originally expected. Analysis indicated that future earnings were less than the carrying amount resulting in an other-than-temporary impairment write down of $58,000, which was recorded in other noninterest expense. The remaining amortization period on this intangible was not impacted. The intangible asset balance related to the purchase of client investment accounts was $50,000 and $62,000 for the years ended December 31, 2021 and 2020, respectively.

In 2016, the Credit Union purchased $34,322,000 in member share accounts from another credit union. The purchase consisted of regular shares, money market accounts, certificates, and individual retirement accounts. The purchase resulted in an initial intangible asset of $817,000. This intangible asset is amortized over a period of 7 years beginning November 2016. The intangible balance related to the purchase of the deposits was $214,000 and $331,000 for the years ended December 31, 2021 and 2020, respectively.

NOTE 7 - MEMBERS' SHARES

Members' shares at December 31 are summarized as follows (in thousands):

	2021	2020
Regular share accounts	$ 881,069	$ 685,118
Share draft accounts	956,458	839,676
Money market accounts	1,542,637	1,239,862
Certificate accounts	507,096	531,550
Individual retirement accounts	41,229	36,433
Individual retirement certificate accounts	64,046	60,628
	$ 3,992,535	$ 3,393,267

Shares by maturity as of December 31, 2021 are summarized as follows (in thousands):

No contractual maturity	$ 3,421,393
Zero to one year maturity	310,736
One to two years maturity	176,649
Two to three years maturity	37,694
Three to four years maturity	15,943
Four to five years maturity	29,285
Over five years maturity	835
	$ 3,992,535

NOTE 7 - MEMBERS' SHARES (Continued)

Regular share accounts, share draft accounts, money market accounts, and individual retirement accounts have no contractual maturity. Certificate accounts have maturities of six years or less.

The NCUSIF insures members' shares, including individual retirement accounts up to $250,000.

The aggregate amount of certificate accounts in denominations of $250,000 or more at December 31, 2021 and 2020 was $106,976,000 and $102,785,000, respectively.

The Credit Union maintains public unit money market and certificate share accounts. These funds are interest bearing and subject to immediate withdrawal for money market accounts or at maturity for certificates. The balance in public unit share accounts was $55,023,000 and $55,019,000 at December 31, 2021 and 2020, respectively. The public unit shares are secured by letters of credit as discussed in Note 8.

At December 31, 2021 and 2020, overdraft demand shares reclassified to loans totaled $1,278,000 and $627,000, respectively.

NOTE 8 - BORROWINGS ARRANGEMENTS

Advances at the Federal Home Loan Bank can be collateralized by either first mortgage loans under a blanket lien arrangement or by certain investments held in safekeeping by the FHLB. At December 31, 2021, the Credit Union had no borrowings collateralized by first mortgage loans or investments.

Based on this collateral and the Credit Union's holdings of FHLB stock, the Credit Union is eligible to borrow up to a total of $1,136,000,000 at year-end 2021.

The Credit Union is authorized to use the Discount Window with the Federal Reserve Bank of San Francisco (FRBSF) to borrow money on the terms and security required per the FRBSF's Operating Circular No. 10, effective July 16, 2013, as amended and supplemented from time to time thereafter ("OC-10"). The agreement is reviewed for continuation by the FRBSF and the Credit Union annually.

The Credit Union has pledged collateral for public unit shares in the form of letter of credit agreements totaling $65,500,000 and $115,500,000 at December 31, 2021 and 2020, respectively. The letters of credit are collateralized by first mortgage loans under a blanket lien arrangement with the FHLB. The letters of credit are as follows (in thousands):

NOTE 8 - BORROWINGS ARRANGEMENTS (Continued)

		2021		2020
Maturing June 2022, with an annual maintenance charge of 10 basis points	$	32,500	$	82,500
Maturing March 2022, with an annual maintenance charge of 10 basis points	$	33,000	$	33,000

NOTE 9 - OFF-BALANCE-SHEET ACTIVITIES

The Credit Union is 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, which include lines of credit, credit cards, and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements.

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

The Credit Union has approved residential real estate loans in processing that were not yet funded at December 31, 2021 and 2020 of $1,776,000 and $1,748,000, respectively.

Unfunded loan commitments under lines of credit are summarized as follows (in thousands):

		2021		2020
Residential real estate	$	69,550	$	63,239
Commercial		2,437		3,084
Credit card and other consumer		443,278		397,868
	$	515,265	$	464,191

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 to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

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, usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

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

On August 13, 2019, the Credit Union entered into a non-cancellable Agreement with the City of Sacramento for Naming Rights to the City of Sacramento's Convention Center and Performing Arts District. The agreement calls for the Credit Union to make annual payments over a twenty-five year period beginning in 2019 with total payments of $22,988,000 to be paid by the Credit Union over the life of the contract. As of December 31, 2021, there was $22,400,000 remaining to be paid under the Naming Rights Agreement as follows (in thousands):

Years Ending December 31,	
2022	$ 2,550
2023	850
2024	850
2025	850
2026	850
Subsequent Years	16,450
	$ 22,400

As part of the Naming Rights agreement, the City of Sacramento maintains $30,000,000 in interest bearing deposits with the Credit Union. These deposits are treated as public unit shares.

NOTE 11 - EMPLOYEE BENEFITS

The Credit Union has a defined-contribution 401(k) benefit and profit sharing plan and 457(b) plan that allows substantially all employees to defer a portion of their salary into the plans. The Credit Union is not required to make matching and profit sharing contributions to the plan. Benefit plan and profit sharing plan costs are accrued and funded on a current basis. The Credit Union voluntarily contributed $4,376,000 and $2,014,000 to the benefit plans for the years ended December 31, 2021 and 2020, respectively.

The Credit Union maintains supplemental executive retirement plans to provide certain retirement benefits for key executives. The contributions into the plans are accrued as compensation expense and funded on a current basis. The expense recognized under these plans was $601,000 and $618,000 for the years ended December 31, 2021 and 2020, respectively. The Credit Union had $221,000 and $0 accrued under these plans at December 31, 2021 and 2020, respectively.

The Credit Union recognized $4,977,000 and $2,632,000 in compensation and benefit expense for all plans for the years ended December 31, 2021 and 2020, respectively.

NOTE 12 - MEMBERS' EQUITY

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, credit unions over $10,000,000 in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement, which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW requirements as of December 31, 2021 and 2020 were 5.92 percent and 4.95 percent, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6 percent. Management believes, as of December 31, 2021 and 2020, that the Credit Union met all regulatory capital adequacy requirements to which it is subject.

Other appropriated retained earnings represent a restriction of retained earnings as established by the Board of Directors.

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

The Credit Union's actual capital amounts and ratios at December 31 were as follows (in thousands):

	2021		2020	
	Amount	Ratio	Amount	Ratio
Amount needed to be classified as adequately capitalized	$ 226,602	6.00%	$ 228,851	6.00%
Amount needed to be classified as well-capitalized	311,036	7.00%	266,993	7.00%
Actual net worth	362,320	8.15%	328,184	8.60%

Because the RBNW requirement was less than the net worth ratio, the Credit Union retained its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

NOTE 13 - RELATED-PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to the Board of Directors and executive officers. The aggregate loans to related parties at December 31, 2021 and 2020 were $2,398,000 and $2,137,000, respectively. Member shares from related parties at December 31, 2021 and 2020 amounted to $3,405,000 and $3,459,000, respectively.

NOTE 14 – MORTGAGE DERIVATIVES

The Credit Union is an active participant in the production of mortgage loans that are sold to government sponsored entities (GSE), such as Fannie Mae. These loans are classified as Loans Held for Sale in the Credit Union's Statements of Financial Condition. The value of the Credit Union's 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 the GSE. Beginning in 2017, to offset this exposure, the Credit Union entered forward sales commitments to deliver mortgage loans to investors at specified prices in the "To Be Announced" market (TBA securities). These forward sales commitments act as an economic hedge against the risk of changes in the value of both the IRLCs and the funded loans. The Credit Union does not account for these mortgage derivatives as qualifying accounting hedges and therefore accounts for them as economic hedges. The Credit Union records IRLCs and forward sales commitments as derivative instruments at fair value in its Statements of Financial Condition and records changes in the fair value of those mortgage derivative instruments in current earnings.

On December 31, 2021 and 2020, the Credit Union had interest rate lock commitments of $16,452,000 and $97,802,000, respectively, and forward sales commitments for the future delivery of residential mortgage loans totaling $24,300,000 and $110,500,000, respectively. The fair value of these mortgage derivatives was reflected by a net derivative asset of $419,000 and $4,017,000 on December 31, 2021 and 2020, respectively. Fair values were estimated based on changes in mortgage interest rates from the date of the commitments. Changes in the fair values of these mortgage derivatives are included in net gains on sales of loans.

The net gains and losses relating to free-standing derivative instruments used for risk management are summarized below as of December 31 (in thousands):

	Location	2021	2020
Forward commitments related to mortgage loans held for sale	Net gain (loss) on sale of loans	$ 1,379	$ (4,361)
Interest rate lock commitments	Net (loss) gain on sale of loans	$ (4,346)	$ 4,309

The following tables reflects the amount and fair value of mortgage derivatives included in the Statement of Financial Condition as of December 31 (in thousands):

	2021	2020
Included in other assets:		
Forward commitments related to mortgage loans held for sale	$ 2	$ -
Interest rate lock commitments	$ 424	$ 4,770
Total included in other assets	$ 426	$ 4,770

NOTE 14 – MORTGAGE DERIVATIVES (continued)

	2021	2020
Included in other liabilities:		
Forward commitments related to mortgage loans held for sale	$ 8	$ 753
Interest rate lock commitments	$ -	$ -
Total included in other liabilities	$ 8	$ 753

NOTE 15 - FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as: 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.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Investments available-for-sale: The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument (level 2 inputs).

Loans held for sale: The fair value of loans held for sale is determined based on an evaluation of best execution forward sales contract prices sourced from the TBA market, by agency (level 2 inputs).

Mortgage derivatives: The derivative instruments consist of IRLC and forward sale commitments that trade in liquid markets. IRLCs are valued according to prices obtained from the GSE and based on mandatory delivery for a delivery period that corresponds with the number of days remaining in the IRLC. Loan level pricing adjustments, if applicable based on the characteristics of the loan, are added to the price (level 2 inputs). Prices for forward commitments are obtained from the purchasing agency based on loans allocated to the commitments. As such, significant fair value inputs can generally be verified and do not typically involve significant management judgement (level 2 inputs).

Fair value on a recurring basis: The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

NOTE 15 - FAIR VALUE (Continued)

	2021			
Assets	Fair Value	Level 1	Level 2	Level 3
U.S. Government sponsored agency collateralized mortgage obligations, residential	12,769		12,769	
U.S. Government sponsored agency mortgage-backed securities, residential	1,166,167		1,166,167	
Loans held for sale, at fair value	10,126		10,126	
Mortgage derivatives	419		419	
	$1,189,481	$	$1,189,481	$

	2020			
Assets	Fair Value	Level 1	Level 2	Level 3
U.S. Government sponsored agency collateralized mortgage obligations, residential	27,216	-	27,216	-
U.S. Government sponsored agency mortgage-backed securities, residential	289,042	-	289,042	-
Loans held for sale, at fair value	9,521	-	9,521	-
Mortgage derivatives	4,017	-	4,017	-
	$ 329,796	$ -	$ 329,796	$ -

Financial Instruments Recorded Using Fair Value Option

The Credit Union has elected the fair value option for mortgage loans held for sale. These loans are intended for sale and the Credit Union believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on contractual terms of the loan and in accordance with the Credit Union's policy on mortgage loans held for investment. None of these loans are 90 days or more past due or non-accrual as of December 31, 2021 and 2020 (in thousands).

	2021	2020
Aggregate fair value	$ 10,126	$ 9,521
Contractual balance	9,844	9,084
Gain (loss)	282	437

NOTE 15 - FAIR VALUE (Continued)

Fair value on a nonrecurring basis: Certain assets and liabilities are measured at fair value on a nonrecurring basis. The instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

There were no instruments carried on the Statement of Financial Condition as of December 31, 2021 where a nonrecurring change in fair value was recorded.

The following table presents the assets carried on the Statement of Financial Condition as of December 31, 2020, by class and by level within the valuation hierarchy (as described above), for which a nonrecurring change in fair value has been recorded (in thousands):

	2020				
	Fair Value	Level 1	Level 2	Level 3	Total Losses
Impaired loans:					
Commercial	$ 94	$	$	$ 94	$ (165)
Total impaired loans	$ 94	$	$	$ 94	$ (165)

Impaired Loans: The Credit Union records loans at fair value on a non-recurring basis. The fair value of impaired loans is estimated by either an observable market price (if available) or the fair value of the underlying collateral, if collateral dependent. The fair value of collateral is determined periodically by third party asset valuation models for residential loans and appraisals (by licensed appraisers) for commercial loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Appraisals conducted on collateral securing commercial loans utilize a market, income, or cost approach or some combination of the three and typically contain unobservable market data. Therefore, such appraisals are classified as Level 3 in the fair value hierarchy. Unobservable market data contained in appraisals often includes adjustments to comparable property sales for such items as location, size and quality. Unobservable market data also includes liquidation discounts estimated by appraisers or management. Impaired loans evaluated under the discounted cash flow method are excluded from the fair value table for non-recurring assets. The discounted cash flow method is not a fair value measurement since the discount rate utilized is the loan’s effective interest rate, which is not a market rate.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Credit Union. For commercial properties, the Credit Union reviews the assumptions and approaches utilized in the appraisal to determine the reasonableness of the overall resulting fair value. For residential properties, the appraised value is compared to other sources including Broker Price Opinions and Automated Valuation Models to validate the reasonableness of the appraised amount. On an annual basis, the Credit Union obtains an updated appraisal for collateral-dependent impaired loans and compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value.

There were no financial instruments measured at fair value on a non-recurring basis as of December 31, 2021.

NOTE 15 - FAIR VALUE (Continued)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2020 (in thousands). This property's liquidation value is lower than market comparables due to the estimated additional costs required to get it ready for sale.

Description	Fair Value	Valuation Technique	Significant Unobservable Inputs	Weighted Average
Impaired loans:				
Commercial	$ 94	Appraisal	Comparable sales adjustment	-10% to 5%
			Liquidation value adjustment	-53%