Management Discussion and Analysis

Independent Auditors' Report

Hope Credit Union (HCU) received an unmodified, or "clean" audit for FY 2021.

Balance Sheet Analysis

HCU's total assets stood at $467 million at December 31, 2021, up approximately $100 million from $368 million at December 31, 2020. This growth primarily resulted from increases in securities ($70 million) and cash ($33 million).

As detailed in the following schedule, loans comprise the majority of HCU's assets:

	2021	2020
Loans receivable – net	246,865,993	247,873,795
Foreclosed and Repossessed Assets	256,283	121,953
Total	**247,122,276**	**247,995,748**
Percent of total assets	**53%**	**67%**

The increase in liabilities from $362 million at December 31, 2020 to $462 million at December 31, 2021 resulted from a $78 million increase in deposits and a $23.5 million increase in secondary capital. In late 2019, HCU initiated a Transformational Deposit strategy to import capital into high poverty communities, and replace high-yield certificates with lower-cost deposits. During 2020 and 2021, HCU raised more than $100 million in Transformational Deposits, significantly reducing its average cost of deposits. To support this deposit growth, HCU increased its secondary capital, improving its capital ratio in the process.

Under 12 CFR 701.34(b), low-income designated credit unions such as HCU may accept subordinate debt as secondary capital, which is recognized as net worth for regulatory purposes. The following schedule details HCU's regulatory net worth for 2021 and 2020:

	2021	2020
Secondary capital loans, net of maturity classifications	$50,472,549	$26,946,774
Regular reserve	10,000	10,000
Undivided profits	6,063,327	5,821,580
Total net worth	**$56,545,876**	**$32,778,354**
Capital ratio	**12.10%**	**8.91%**

Earnings Analysis

HCU's interest income increased in 2021 to $14.7 million from $13.7 million in 2020, as effects of the low interest rate environment were substantially offset by earnings recognized as loans that had previously been granted pandemic-related deferments returned to performing status. HCU worked closely with members during this process, monitoring payment status and making modifications as needed. Total interest expense decreased from $4.3 million in 2020 to $3.6 million in 2021. Interest expense related to member shares and certificates decreased from $3.1 million in 2020 to $2.2 million in 2021, with the low Transformational Deposit rates mitigating deposit growth. Interest expense related to borrowed funds remained relatively flat.

The provision for loan losses in 2021 was $3.4 million as compared to $2.6 million in 2020, as through the end of 2021, HCU elevated qualitative factors in calculating reserves in order to mitigate risks and uncertainties associated with the pandemic.

Non-interest income decreased from $15.0 million in 2020 to $14.2 million in 2021. Grant and contract revenue decreased from $10.2 million in 2020 to $9.4 million in 2021. Service charges and fees decreased from $3.8 million in 2020 to $3.1 million in 2020.

Non-interest expenses were stable at $21.7 million in 2021 compared to $21.6 million in 2020. This maintained the decrease in expenses from 2019 that largely resulted from reduced operating expenses associated with the pandemic-related teleworking, lobby closings, lower travel, utilities, etc.   At the end of 2021, HCU anticipated the resumption of full in-person operations in 2022.

Alan Branson	William Bynum
Chief Financial Officer	Chief Executive Officer

HOPE FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

HOPE FEDERAL CREDIT UNION
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Hope Federal Credit Union
Jackson, Mississippi

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Federal 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hope Federal 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Hope Federal Credit Union's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' 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 auditors' 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 Hope Federal 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 Hope Federal Credit Unions 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
March 31, 2022

HOPE FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Cash and Cash Equivalents	$ 104,577,140	$ 70,901,232
Securities - Available-for-Sale	94,781,575	25,849,315
Other Investments	3,712,789	3,268,382
Loans, Net	246,865,993	247,873,795
Accrued Interest Receivable	962,883	954,642
Receivable from Hope Enterprise Corporation	-	3,033,806
Foreclosed and Repossessed Assets	256,283	121,953
Premises and Equipment, Net	11,709,394	12,135,808
NCUSIF (National Credit Union Share Insurance Fund) Deposit	2,850,929	2,458,629
Other Assets	1,429,174	1,386,198
Total Assets	$ 467,146,160	$ 367,983,760
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 369,828,412	$ 292,466,204
Borrowed Funds	31,394,024	34,963,957
Secondary Capital Loans, Net	50,472,549	26,946,774
Accrued Interest Payable	262,113	462,487
Payable to Hope Enterprise Corporation	1,398,290	-
Accrued Expenses and Other Liabilities	8,638,266	6,873,593
Total Liabilities	461,993,654	361,713,015
MEMBERS' EQUITY		
Regular Reserves	10,000	10,000
Undivided Earnings	6,063,327	5,821,580
Accumulated Other Comprehensive Income (Loss)	(920,821)	439,165
Total Members' Equity	5,152,506	6,270,745
Total Liabilities and Members' Equity	$ 467,146,160	$ 367,983,760

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
INTEREST INCOME		
Loans	$ 13,932,118	$ 13,261,505
Securities	799,715	455,468
Total Interest Income	14,731,833	13,716,973
INTEREST EXPENSE		
Members' Share and Savings Accounts	2,205,621	3,134,815
Borrowed Funds	1,349,274	1,202,351
Total Interest Expense	3,554,895	4,337,166
Net Interest Income	11,176,938	9,379,807
PROVISION FOR LOAN LOSSES	3,414,780	2,581,466
Net Interest Income After Provision for Loan Losses	7,762,158	6,798,341
NONINTEREST INCOME		
Service Charges and Fees	3,121,236	3,813,435
Other Noninterest Income	1,734,478	1,596,706
Grants and Contracts Revenue	9,424,789	10,199,262
Net Losses on Sales and Impairments of Foreclosed and Repossessed Assets	(62,032)	(566,763)
Total Noninterest Income	14,218,471	15,042,640
NONINTEREST EXPENSE		
Employee Compensation and Benefits	10,423,259	10,108,662
Occupancy	3,266,270	2,874,272
Operations	5,347,952	5,628,562
Professional and Outside Services	1,397,620	965,067
Educational and Promotional	306,237	102,428
Loan Servicing	600,119	1,305,296
Other Operating Expenses	397,425	615,451
Total Noninterest Expense	21,738,882	21,599,738
NET INCOME	$ 241,747	$ 241,243

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
NET INCOME	$ 241,747	$ 241,243
OTHER COMPREHENSIVE INCOME (LOSS):		
Securities - Available-for-Sale		
Unrealized Holding Gain (Loss) Arising During the Period	(1,359,986)	393,146
TOTAL COMPREHENSIVE INCOME (LOSS)	$ (1,118,239)	$ 634,389

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2021 AND 2020

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCES - DECEMBER 31, 2019	$ 10,000	$ 5,580,337	$ 46,019	$ 5,636,356
Net Income	-	241,243	-	241,243
Other Comprehensive Income	-	-	393,146	393,146
BALANCES - DECEMBER 31, 2020	10,000	5,821,580	439,165	6,270,745
Net Income	-	241,747	-	241,747
Other Comprehensive Loss	-	-	(1,359,986)	(1,359,986)
BALANCES - DECEMBER 31, 2021	$ 10,000	$ 6,063,327	$ (920,821)	$ 5,152,506

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 241,747	$ 241,243
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,007,057	1,118,959
Amortization of Security Premiums and Discounts, Net	91,696	15,740
Provision for Loan Losses	3,414,780	2,581,466
Amortization of Net Loan Origination Fees	14,112	642,640
Impairment Loss on Foreclosed and Repossessed Assets	62,032	794,501
Net Gains from Sales of Foreclosed and Repossessed Assets	-	(227,738)
Changes in:		
Accrued Interest Receivable	(8,241)	(3,487)
Other Assets	(42,976)	156,691
Grants Receivable	-	301,446
Payable to Hope Enterprise Corporation	1,398,290	-
Receivable from Hope Enterprise Corporation	3,033,806	(708,136)
Accrued Interest Payable	(200,374)	(86,085)
Accrued Expenses and Other Liabilities	1,764,673	3,264,954
Net Cash Provided by Operating Activities	10,776,602	8,092,194
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Securities - Available-for-Sale	(79,315,073)	(14,221,006)
Proceeds from Paydowns of Securities - Available-for-Sale	8,931,131	7,098,885
Sales of Other Investments	(444,407)	182,621
Loan Originations Net of Principal Collected on Loans to Members	(2,672,224)	(16,060,899)
Increase in NCUSIF Deposit	(392,300)	(200,078)
Proceeds from Sales of Foreclosed Assets	54,772	1,468,287
Expenditures for Premises and Equipment	(580,643)	(131,352)
Net Cash Used by Investing Activities	(74,418,744)	(21,863,542)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	77,362,208	56,257,544
Proceeds from Secondary Capital Loans	44,785,775	3,000,000
Repayments of Secondary Capital Loans	(21,260,000)	(385,000)
Advances of Borrowed Funds	785,000	385,000
Repayments of Borrowed Funds	(4,354,933)	(2,745,237)
Net Cash Provided by Financing Activities	97,318,050	56,512,307
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,675,908	42,740,959
Cash and Cash Equivalents - Beginning of Year	70,901,232	28,160,273
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 104,577,140	$ 70,901,232

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
SUPPLEMENTARY DISCLOSURES OF NONCASH AND CASH FLOW INFORMATION		
Borrowed Funds Cash Paid for Interest	$ 1,349,274	$ 1,202,351
Members' Share and Savings Accounts Cash Paid for Interest	$ 2,405,995	$ 3,048,730
Transfers of Loans to Foreclosed and Repossessed Assets	$ 251,134	$ 549,798

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Hope Federal Credit Union is a federal-chartered cooperative association headquartered in Jackson, Mississippi, organized in accordance with the provisions of the Federal Credit Union Act of 1934 for the purpose of promoting thrift among and creating a source of credit for its members.

Membership

Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and Bylaws. This generally consists of individuals who have contributed to the Credit Union's primary sponsor, Hope Enterprise Corporation (HEC). As described in Note 11 to these financial statements, HEC operates as a community development financial institution (CDFI) for the purpose of providing investment capital to rural and economically disadvantaged communities.

In addition to a regularly qualified member, the spouse of a member, the blood or adoptive relatives of either of them and their spouses may be members. Most members reside in the gulf coast states of Mississippi, Louisiana, Tennessee, Arkansas, and Alabama.

Uses of Estimates

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

Material estimates that are particularly susceptible to significant change in the near term include the valuation of securities available-for-sale and the determination of the allowance for loan losses.

Financial Instruments with Concentrations of Risk

The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its borrowers work or reside within the southeastern United States.

However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk except for commercial and real estate loans.

Cash and Cash Equivalents

For purposes of the statements of financial condition and statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions and highly liquid debt instruments classified as cash which were purchased with original maturities of three months or less.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)

The Credit Union maintains cash in deposit accounts at financial institutions approved by the board of directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits.

Securities

Debt securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains and losses on securities available-for-sale are included in other noninterest income and, when applicable, are reported as a reclassification adjustment in other comprehensive income. Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. For callable debt securities purchased at a premium, the amortization period is shortened to the earliest call date.

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

The Credit Union did not record any other than temporary impairment during the years ended December 31, 2021 and 2020.

Other Investments

Other investments are carried at cost and are evaluated for credit events resulting in impairment.

Loans, Net

The Credit Union grants consumer, mortgage, and commercial loans to members and purchases and sells loan participations. A substantial portion of the loan portfolio is represented by mortgage and commercial loans to members. The ability of the members to honor their contracts is dependent upon the real estate and general economic conditions comprising the Credit Union’s field of membership.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net (Continued)

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

The accrual of interest on a loan is discontinued at the time the loan is 90 days delinquent. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful.

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

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

The Credit Union has purchased credit-impaired loans (PCIL) that are accounted for in accordance with the provisions of ASC 310-30, *Loan and Debt Securities Acquired with Deteriorated Credit Quality*. PCIL are reported at their outstanding unpaid principal balance, adjusted for a purchase discount. The amount representing the excess of expected cash flows over the loans' purchase price is accreted into interest income using the interest method over the remaining contractual life of the loans.

PCIL are reviewed periodically during the year to determine whether performance is materially as expected. If the Credit Union's analysis indicates subsequent decreases or delays in estimated future cash flows, the loans are reduced to the discounted net present value of future cash flows, which results in a reduction of income with a corresponding valuation (impairment) allowance.

The present value of any subsequent increases in the loans' actual or projected cash flows is used first to reverse any existing valuation allowance. For any remaining increases in cash flows expected to be collected, the Credit Union increases the accretable yield on a prospective basis over the remaining term of the loans.

Allowance for Loan Losses

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect all the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The Credit Union has concluded that the impairment impact of TDRs on its loans is insignificant to the financial statements. As such these impairments are not individually tracked but rather are adequately included in the loss allowance provided on a pooled basis.

The Credit Union has no material impaired loans or TDRs at December 31, 2021 and 2020.

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

Consumer: The consumer loan portfolio is usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay 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 indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Commercial: Commercial loans generally possess a higher inherent risk of loss than residential real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations. All other commercial loans are generally underwritten to existing cash flows or inventories of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The risk ratings can be grouped into the following major categories, defined as follows:

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

Special Mention: Loans classified as Special Mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

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

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

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

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Off-Statement of Financial Condition Credit Related Financial Instruments

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

Grant Receivable

To support its mission of providing financing to low-income individuals and communities, the Credit Union receives various grants from nonprofit organizations. As described in Note 11 to these financial statements, some grants are received from HEC, its primary sponsor.

Grants to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as grant revenue and recognized in accordance with the donor-imposed restrictions, if any, for the grant that was awarded. An allowance is recorded for any uncollectable grant receivables based on management's judgement and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. At December 31, 2021 and 2020, management concluded that a reserve on grants receivable was not necessary and no grants receivable were due to be collected beyond one year.

Receivable from Hope Enterprise Corporation

As described in Note 11 to these financial statements, HEC and the Credit Union have entered into a contractual agreement wherein HEC agrees to reimburse the Credit Union for certain operating expenses and losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions. HEC has also purchased participated interests in commercial loans serviced by the Credit Union.

Amounts due to the Credit Union related to contractual reimbursements and payables to HEC regarding loan servicing and other costs are presented net on the statements of financial condition. Management evaluates the net receivable or payable for collectability and determined that no reserve was required as of December 31, 2021 and 2020.

Foreclosed and Repossessed Assets

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

Premises and Equipment, Net

Land and construction in progress are carried at cost. Buildings, furniture, and equipment are carried at cost, less accumulated depreciation. Buildings, furniture, and equipment are depreciated using the straight-line method over the estimated useful lives of the assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

NCUSIF Deposit

The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 1% of its insured shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

Members’ Share and Savings Accounts

Members’ share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends and interest on members’ share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members’ share and savings accounts are set by the board of directors, based on an evaluation of current and future market conditions.

Members’ Equity

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

Comprehensive Income

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

Revenue Recognition

The Credit Union recognizes revenue in accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Credit Union has elected to use the following optional exemptions that are permitted under the Topic 606, which have been applied consistently to all contracts within all reporting periods presented:

- The Credit Union recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Credit Union would have recognized is one year or less.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

- For performance obligations satisfied over time, if the Credit Union has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Credit Union's performance completed to date, the Credit Union will generally recognize revenue in the amount to which the Credit Union has a right to charge.

- The Credit Union does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Credit Union recognizes revenue in the amount to which the Credit Union has a right to charge.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans, securities, and deposits held in other financial institutions. In addition, certain noninterest income streams, such as income from fees and charges on loans and grant contributions, are also not within the scope of the guidance. Noninterest income considered to be within the scope of Topic 606 is discussed on the following page:

HEC Contractual Revenue

Under the terms of the contractual arrangements, the Credit Union has agreed to provide financial products and service offerings in certain low-income communities in which HEC has a mission to promote economic development. In consideration for these contractual services, HEC had agreed to reimburse the Credit Union for its normal operating expenses, excluding dividend payments, on a monthly basis. The contractual arrangement provides for HEC to pay the Credit Union an amount to cover all normal operating expenses sufficient to enable Hope to maintain a net income of no less than $240,000 annually. The performance obligation to HEC is satisfied through the incurrence of the aforementioned costs, and the revenue is recognized over time, typically one month.

Service Charges and Deposit Account Fees

The Credit Union earns fees from its deposit members for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Credit Union fulfills the member's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Credit Union satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the member's account balance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Debit Card Interchange Fees

When members use their debit cards to pay merchants for goods or services, the Credit Union retains a fee from the related deposit account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized at the point in time when the funds are collected and transferred to the payment network. Card holder rewards, which are a cost of obtaining interchange fee income, are immaterial to the financial statements.

Income Taxes

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

Advertising Costs

Advertising and promotion costs totaled approximately $306,000 and $102,000 for the years ended December 31, 2021 and 2020, respectively, and are expensed as incurred.

Fair Value Measurements

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

New Accounting Pronouncements

In June 2016, the FASB approved ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. In November 2018, the FASB approved ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments – Credit Losses. The main objective of the ASUs is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASUs replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.

In November 2019, the FASB approved *ASU 2019-10, Financial Instruments- Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. The main objective of this ASU was to delay the effective date for the referenced standards. Based upon the new effective dates instituted by ASU 2019-10, ASU 2016-13 is effective for the Credit Union for the fiscal year and all interim periods beginning after December 15, 2022. Early adoption is permitted. The Credit Union is currently evaluating the impact of ASU 2016-13 and ASU 2018-19 on the financial statements.

Reclassification of 2020 Data

Data in the 2020 financial statements has been reclassified to conform with the presentation of the 2021 financial statements. This reclassification did not result in any change to net income or members' equity

NOTE 2 REVENUE FROM CONTRACTS WITH MEMBERS

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

	2021	2020
In Scope of ASC 606		
HEC Contractual Revenue	$ 4,441,500	$ 5,627,500
Service Charges and Deposit Account Fees	2,773,114	2,738,667
Debit Card Interchange Fees	1,379,819	1,184,490
Total Noninterest Income in Scope of ASC 606	8,594,433	9,550,657
Noninterest Income Not Within Scope of ASC 606	5,624,038	5,491,983
Total Noninterest Income	$ 14,218,471	$ 15,042,640

NOTE 2 REVENUE FROM CONTRACTS WITH MEMBERS (CONTINUED)

The Credit Union does not typically enter into long-term revenue contracts with customers and, therefore, does not experience significant contract balances. As of December 31, 2021 and 2020, the Credit Union did not have any significant contract balances or capitalize any contract acquisition costs.

NOTE 3 SECURITIES AND OTHER INVESTMENTS

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
U.S. Government and Federal Agency Securities	$ 5,088,409	$ -	$ (141,504)	$ 4,946,905
U.S. Treasury Notes	10,584,374	-	(137,187)	10,447,187
Federal Agency Mortgage-Backed Securities	37,129,307	73,679	(396,141)	36,806,845
Collateralized Mortgage Obligation Securities	23,299,801	9,679	(198,594)	23,110,886
Small Business Administration Securities	4,975,795	23,749	(41,501)	4,958,043
Municipal Bonds	13,644,710	52,931	(165,932)	13,531,709
Negotiable Certificates of Deposit	980,000	-	-	980,000
Total	$ 95,702,396	$ 160,038	$ (1,080,859)	$ 94,781,575

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
U.S. Government and Federal Agency Securities	$ 2,044,890	$ 260	$ (6,200)	$ 2,038,950
Federal Agency Mortgage-Backed Securities	7,353,905	232,354	(3,305)	7,582,954
Collateralized Mortgage Obligation Securities	5,351,604	16,658	(7,622)	5,360,640
Small Business Administration Securities	2,237,517	75,115	(5,776)	2,306,856
Municipal Bonds	6,952,234	140,906	(3,225)	7,089,915
Negotiable Certificates of Deposit	1,470,000	-	-	1,470,000
Total	$ 25,410,150	$ 465,293	$ (26,128)	$ 25,849,315

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

There were no sales of securities available-for-sale during the years ended December 31, 2021 and 2020.

The amortized cost and estimated fair value of securities, at December 31, 2021, by contractual maturity, are shown on the following page. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value (Carrying Value)
U.S. Government and Federal Agency Securities, U.S. Treasury Notes, Municipal Bonds, and Negotiable Certificates of Deposit:		
Less Than One Year	$ 725,013	725,520
One to Five Years	25,111,987	24,838,175
Five to Ten Years	3,974,493	3,855,333
After Ten Years	486,000	486,773
Subtotal	30,297,493	29,905,801
Federal Agency Mortgage Backed, Collateralized Mortgage Obligation and Small Business Administration Securities	65,404,903	64,875,774
Total	$ 95,702,396	$ 94,781,575

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, is shown below:

	2021			
	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government and Federal Agency Securities	$ (15,917)	$ 970,591	$ (125,587)	$ 3,976,315
U.S. Treasury Notes	(137,187)	10,447,190	-	-
Federal Agency Mortgage Backed Securities	(396,123)	32,751,649	(18)	1,788
Collateralized Mortgage Obligation Securities	(174,359)	15,070,894	(24,235)	3,216,290
Small Business Administration Securities	(41,501)	3,731,873	-	-
Municipal Bonds	(139,522)	7,604,661	(26,410)	581,808
Total Available-for-Sale	$ (904,609)	$ 70,576,858	$ (176,250)	$ 7,776,201

	2020			
	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government and Federal Agency Securities	$ (6,200)	$ 1,537,496	$ -	$ -
Federal Agency Mortgage Backed Securities	(20)	2,008	(3,285)	148,846
Collateralized Mortgage Obligation Securities	(7,622)	3,294,032	-	-
Small Business Administration Securities	(5,776)	497,245	-	-
Municipal Bonds	(3,225)	605,988	-	-
Total Available-for-Sale	$ (22,843)	$ 5,936,769	$ (3,285)	$ 148,846

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities (Continued)

At December 31, 2021, 88 securities with unrealized losses have depreciated 1.36% from the Credit Union's amortized cost basis. All of these securities are either guaranteed by federal insurance, the U.S. government, and/or secured by mortgage loans or insured deposits. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold securities for the foreseeable future, no declines are deemed to be other than temporary.

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

Other Investments

Other investments are summarized as follows:

	December 31, 2021	December 31, 2020
Contributed Capital Accounts and Deposits	$ 995,008	$ 1,583,301
FHLB Stock	2,085,800	1,527,000
Loans to, and Investments in, CUSOs	631,981	158,081
Total	$ 3,712,789	$ 3,268,382

Contributed Capital Accounts and Deposits

The Credit Union maintains contributed capital accounts and deposits with various corporate credit unions and service providers that are uninsured.

These uninsured deposits are subject to impairment or loss in the event the corporate credit union or other entity is required to merge, is placed into conservatorship, incurs significant losses, or is liquidated.

FHLB Stock

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

Loans to, and Investments in, Credit Union Service Organizations (CUSOs)

The Credit Union has minor ownership interests in CUSOs providing services to the credit union market. Such investments, as a practical expedient, are recorded at cost, less impairment, plus or minus observable price changes.

NOTE 4 LOANS, NET

The composition of loans is as follows:

	December 31, 2021	December 31, 2020
Consumer:		
Auto	$ 14,368,467	$ 14,379,952
Share Secured	2,293,347	2,207,572
Other Secured	494,369	467,129
Unsecured	4,073,707	4,060,797
Subtotal	21,229,890	21,115,450
Real Estate	128,442,550	129,081,318
Commercial	104,600,946	102,617,537
Total Loans	254,273,386	252,814,305
Net Deferred Loan Origination Costs	1,298,880	1,312,102
Allowance for Loan Losses	(8,706,273)	(6,252,612)
Loans, Net	$ 246,865,993	$ 247,873,795

The Credit Union has purchased loan participations originated by other financial institutions which are secured by commercial property. These loan participations were purchased without recourse and the originating financial institution performs all loan servicing functions on these loans. The total loan participations included in the commercial segment above totaled approximately $18,766,000 and $19,147,000 at December 31, 2021 and 2020, respectively.

The Credit Union has sold loan participations to various other financial institutions, which are secured by commercial property. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the commercial loan segment above, totaled approximately $12,035,000 and $17,689,000 at December 31, 2021 and 2020, respectively.

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law on March 27, 2020. The CARES Act provided economic relief to individuals and businesses through the Payroll Protection Program (PPP), which allowed financial institutions to grant forgivable, guaranteed Small Business Administration (SBA) loans. The PPP loans do not require payments until six months after funding, mature at 24 to 60 months and bear interest at 1.00%. During the year ended December 31, 2020, the Credit Union originated approximately $13,265,000 of PPP loans which were subsequently sold to Hope Enterprise Corporation. Management determined that the impact of deferring PPP loan fees was insignificant and recognized approximately $341,000 in noninterest income as of December 31, 2020.

NOTE 4 LOANS, NET (CONTINUED)

The Credit Union offers nontraditional commercial and residential mortgage loans to its members. These loans include hybrid and variable interest only mortgages. Hybrid loans consist of loans that are fixed for an initial period of three, five, or seven years. After this period, the mortgages are converted to variable rates using an indexed rate, which can result in significant payment shock to the borrower. The interest only loans allow the borrower to pay only interest for a specified number of years. These types of loans may result in a lack of principal amortization or even negative amortization if the minimum payment is less than the interest accruing on the loan.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Nontraditional mortgage loans, which are included in the real estate and commercial loan captions above, totaled approximately $38,452,000 and $40,761,000 at December 31, 2021 and 2020, respectively.

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

	2021			
	Consumer	Real Estate	Commercial	Total
Allowance for Loan Losses				
Balance at Beginning of Year	$ 182,902	$ 3,259,404	$ 2,810,306	$ 6,252,612
(Credit) Provision for Loan Losses	142,871	165,980	3,105,929	3,414,780
Loans Charged-Off	(645,448)	(100,817)	(1,263,820)	(2,010,085)
Recoveries of Loans Previously Charged-Off	549,653	-	499,313	1,048,966
Balance at End of Year	$ 229,978	$ 3,324,567	$ 5,151,728	$ 8,706,273
Ending Balance: Individually Evaluated for Impairment	$ -	$ 927,669	$ 1,461,737	$ 2,389,406
Ending Balance: Collectively Evaluated for Impairment	229,289	2,396,898	3,689,991	6,316,178
Ending Balance: Loans Acquired with Deteriorated Credit Quality	689	-	-	689
Total Allowance for Loan Losses	$ 229,978	$ 3,324,567	$ 5,151,728	$ 8,706,273
Loans				
Ending Balance: Individually Evaluated for Impairment	$ -	$ 13,763,765	$ 7,115,878	$ 20,879,643
Ending Balance: Collectively Evaluated for Impairment	20,931,632	114,678,785	97,485,068	233,095,485
Ending Balance: Loans Acquired with Deteriorated Credit Quality	298,258	-	-	298,258
Total Loans	$ 21,229,890	$ 128,442,550	$ 104,600,946	$ 254,273,386

NOTE 4 LOANS, NET (CONTINUED)

	2020			
	Consumer	Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ 569,369	$ 2,025,091	$ 1,696,621	$ 4,291,081
Provision for Loan Losses	(156,102)	1,420,639	1,316,929	2,581,466
Loans Charged-Off	(826,640)	(186,326)	(218,570)	(1,231,536)
Recoveries of Loans Previously Charged-Off	596,275	-	15,326	611,601
Balance at End of Year	$ 182,902	$ 3,259,404	$ 2,810,306	$ 6,252,612
Ending Balance: Individually Evaluated for Impairment	$ -	$ 2,084,739	$ 486,827	$ 2,571,566
Ending Balance: Collectively Evaluated for Impairment	175,808	1,174,665	2,323,479	3,673,952
Ending Balance: Loans Acquired with Deteriorated Credit Quality	7,094	-	-	7,094
Total Allowance for Loan Losses	$ 182,902	$ 3,259,404	$ 2,810,306	$ 6,252,612
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ -	$ 33,833,838	$ 4,011,747	$ 37,845,585
Ending Balance: Collectively Evaluated for Impairment	19,514,722	95,247,480	98,605,790	213,367,992
Ending Balance: Loans Acquired with Deteriorated Credit Quality	1,600,728	-	-	1,600,728
Total Loans	$ 21,115,450	$ 129,081,318	$ 102,617,537	$ 252,814,305

The following table shows the commercial loan portfolio segments allocated by management's internal risk ratings at December 31:

Risk Rating:	2021	2020
Pass	$ 92,663,067	$ 77,414,160
Special Mention	4,935,698	12,715,886
Substandard	6,655,901	10,343,314
Doubtful	346,280	961,884
Loss	-	1,182,293
Total	$ 104,600,946	$ 102,617,537

NOTE 4 LOANS, NET (CONTINUED)

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

	2021		
	Payment Activity		
	Performing	Nonperforming	Total
Consumer:			
Auto	$ 14,300,130	$ 68,337	$ 14,368,467
Share Secured	2,293,347	-	2,293,347
Other Secured	494,369	-	494,369
Unsecured	3,990,598	83,109	4,073,707
Real Estate	122,117,488	6,325,062	128,442,550
Total	$ 143,195,932	$ 6,476,508	$ 149,672,440

	2020		
	Payment Activity		
	Performing	Nonperforming	Total
Consumer:			
Auto	$ 14,336,182	$ 43,770	$ 14,379,952
Share Secured	2,207,572	-	2,207,572
Other Secured	467,129	-	467,129
Unsecured	3,982,422	78,375	4,060,797
Real Estate	122,756,150	6,325,168	129,081,318
Total	$ 143,749,455	$ 6,447,313	$ 150,196,768

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

	2021				
	Accruing Interest				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	Total Loans
Consumer:					
Auto	$ 13,732,083	$ 568,047	$ -	$ 68,337	$ 14,368,467
Share Secured	2,279,503	13,844	-	-	2,293,347
Other Secured	493,038	1,331	-	-	494,369
Unsecured	3,846,276	144,322	-	83,109	4,073,707
Real Estate	116,132,092	5,985,396	-	6,325,062	128,442,550
Commercial	103,195,399	-	-	1,405,547	104,600,946
Total	$ 239,678,391	$ 6,712,940	$ -	$ 7,882,055	$ 254,273,386

NOTE 4 LOANS, NET (CONTINUED)

	2020				
	Accruing Interest				
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	Total Loans
Consumer:					
Auto	$ 13,843,047	$ 493,135	$ -	$ 43,770	$ 14,379,952
Share Secured	2,170,631	36,941	-	-	2,207,572
Other Secured	453,093	14,036	-	-	467,129
Unsecured	3,889,053	93,369	-	78,375	4,060,797
Real Estate	119,577,852	3,178,298	-	6,325,168	129,081,318
Commercial	95,240,600	2,975,246	-	4,401,691	102,617,537
Total	$ 235,174,276	$ 6,791,025	$ -	$ 10,849,004	$ 252,814,305

Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2021 and 2020.

The following tables present information related to impaired loans for December 31:

	2021			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Real Estate	$ 8,575,046	$ 8,575,046	$ -	$ 13,118,153
Commercial	1,556,777	1,670,473	-	1,452,935
Total	$ 10,131,823	$ 10,245,519	$ -	$ 14,571,088
With an Allowance Recorded:				
Real Estate	$ 5,188,719	$ 5,188,719	$ 927,669	$ 10,680,649
Commercial	5,445,405	5,445,405	1,461,737	4,054,030
Total	$ 10,634,124	$ 10,634,124	$ 2,389,406	$ 14,734,679
Total Impaired Loans:				
Real Estate	$ 13,763,765	$ 13,763,765	$ 927,669	$ 23,798,802
Commercial	7,002,182	7,115,878	1,461,737	5,506,965
Total	$ 20,765,947	$ 20,879,643	$ 2,389,406	$ 29,305,767

NOTE 4 LOANS, NET (CONTINUED)

	2020			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Real Estate	$ 17,661,259	$ 17,661,259	$ -	$ 10,397,233
Commercial	1,349,093	1,349,093	-	674,547
Total	$ 19,010,352	$ 19,010,352	$ -	$ 11,071,780
With an Allowance Recorded:				
Real Estate	$ 16,172,579	$ 16,172,579	$ 2,084,739	$ 10,369,755
Commercial	2,662,654	2,662,654	486,827	1,331,327
Total	$ 18,835,233	$ 18,835,233	$ 2,571,566	$ 11,701,082
Total Impaired Loans:				
Real Estate	$ 33,833,838	$ 33,833,838	$ 2,084,739	$ 20,766,988
Commercial	4,011,747	4,011,747	486,827	2,005,874
Total	$ 37,845,585	$ 37,845,585	$ 2,571,566	$ 22,772,862

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

A summary of PCIL is as follows:

	Contractually Required Payments Receivable	Accretable Yield Outstanding	Carrying Value
BALANCE - DECEMBER 31, 2019	$ 3,088,331	$ 178,981	$ 3,267,312
Payments Received	(1,487,603)	-	(1,487,603)
Accretion of Income	-	(171,887)	(171,887)
BALANCE - DECEMBER 31, 2020	1,600,728	7,094	1,607,822
Payments Received	(1,302,470)	-	(1,302,470)
Accretion of Income	-	(6,405)	(6,405)
BALANCE - DECEMBER 31, 2021	$ 298,258	$ 689	$ 298,947

As described in Note 1, the Credit Union made accommodations to eligible borrowers who were adversely impacted by the COVID-19 pandemic. At December 31, 2021, the Credit Union had the following COVID-19 loan modifications outstanding: 6 commercial loans totaling approximately $4,287,000, 138 consumer loans totaling approximately $1,090,000 and 44 mortgage loans totaling approximately $4,401,000. Management is evaluating these loans for their impact on the allowance for loan losses.

NOTE 5 FORECLOSED AND REPOSSESSED ASSETS

Activity in foreclosed and repossessed assets is as follows:

	Years Ended December 31, 2021	2020
Balance - Beginning of Year	$ 121,953	$ 1,607,205
Transfers from Loans to Foreclosed Assets	251,134	549,798
Sales of Foreclosed Assets	(54,772)	(1,468,287)
Gain (Loss) on Sales of Foreclosed Assets	-	227,738
Impairment Loss on Foreclosed Assets	(62,032)	(794,501)
Balance - End of Year	$ 256,283	$ 121,953

NOTE 6 PREMISES AND EQUIPMENT, NET

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

	December 31, 2021	2020
Land	$ 1,389,347	$ 1,389,347
Buildings and Improvements	11,750,621	11,580,446
Furniture and Equipment	9,522,848	9,059,278
Construction in Progress	91,798	144,900
Total	22,754,614	22,173,971
Less: Accumulated Depreciation	(11,045,220)	(10,038,163)
Total	$ 11,709,394	$ 12,135,808

NOTE 7 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	December 31, 2021	2020
Share Savings	$ 76,901,916	$ 52,408,077
Share Drafts	51,406,452	42,462,644
Money Market	55,547,554	24,913,167
IRA Deposits	3,004,783	2,604,395
Other Deposits	12,241,401	10,160,461
Share and IRA Certificates	170,726,306	159,917,460
Total	$ 369,828,412	$ 292,466,204

The aggregate amounts of certificates of deposit in denominations of $250,000 or more was approximately $82,718,000 and $57,414,000 at December 31, 2021 and 2020, respectively.

NOTE 7 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

As of December 31, 2021, scheduled maturities of share and IRA certificates are as follows:

Year Ending December 31,	Amount
2022	$ 97,617,758
2023	36,648,291
2024	30,917,841
2025	2,998,468
2026	2,543,948
Total	$ 170,726,306

Member accounts are insured to at least $250,000 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

NOTE 8 BORROWED FUNDS

The Credit Union has entered into an Advances, Pledge, and Security Agreement with the FHLB whereby specific mortgage loans of the Credit Unions with advance equivalents of approximately $43,161,000 and $43,679,000 at December 31, 2021 and 2020, respectively, were pledged to the FHLB as collateral in the event the Credit Union requests any advances on the line. Outstanding balances were $30,004,024 and $34,358,957 as of December 31, 2021 and 2020, respectively. The rate on these borrowings is determined at the time of advance and ranged from 0.54% to 3.27% as of December 31, 2021.

A summary of FHLB advances outstanding as of December 31 is as follows:

Year Maturing	Interest Rate	2021	2020
2021	2.19% - 2.28%	$ -	$ 353,534
2022	0.54% - 2.38%	6,182,996	6,701,305
2023	1.83% - 2.17%	1,090,739	1,383,201
2024	2.35% - 2.44%	563,254	772,126
2025	1.10% - 2.22%	4,151,227	4,845,478
2026	1.99%	457,809	557,978
2027	2.42% - 2.75%	4,642,530	5,339,472
2028	3.27%	1,041,467	1,181,001
2029	1.95% - 2.11%	4,388,326	4,902,058
2030	1.65% - 2.18%	7,485,677	8,322,804
		30,004,024	34,358,957
Second Capital Maturity Reclassifications		1,390,000	605,000
		$ 31,394,024	$ 34,963,957

NOTE 8 BORROWED FUNDS (CONTINUED)

December 31, 2021 and 2020, the Credit Union had an available line of credit with National Cooperative Bank of $12,000,000. The interest rates applied on any borrowing are determined on that date. As of December 31, 2021 and 2020, the Credit Union had securities safe kept with Merrill Lynch pledged for this line of credit arrangement. The line has no expiration date but is subject to review and change by the issuing institution. There were no balances outstanding on this line at December 31, 2021 and 2020.

At December 31, 2021 and 2020, the Credit Union had an available line of credit of $250,000 with Corporate America Credit Union. The interest rates applied on any borrowing are determined on that date. There were no assets pledged for this line of credit arrangement. The line has no expiration date but is subject to review and change by the issuing institution. There were no balances outstanding on this line at December 31, 2021 and 2020.

NOTE 9 SECONDARY CAPITAL LOANS, NET

Secondary capital loans consist of funding from private sources of affiliates of the Credit Union's primary sponsor and from senior subordinated debentures issued pursuant to the Community Development Capital Initiative (CDCI) program established by the U.S. Treasury for financial institutions that have been certified as a community development financial institution (CDFI).

Secondary capital loans are available to cover any and all quarterly operating losses that exceed Hope's net available reserves and undivided earnings. Secondary capital loans used to cover operating losses are not required to be repaid and are recognized as income in the period the losses are incurred.

The variable rate secondary capital loans require principal repayments, (i) unless Hope would be unable to fully service existing indebtedness, (ii) would be unable to satisfy its operating expenses, or (iii) would not have available cash flows for the withdrawal of funds for the account.

Secondary capital loans consisted of the following:

Description	2021	2020
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on September 30, 2024 Note previously had a variable rate with a minimum rate of 5.45% and a maximum rate of 10.9%	$ 550,000	$ 550,000

NOTE 9 SECONDARY CAPITAL LOANS, NET (CONTINUED)

Secondary capital loans consisted of the following (Continued):

Description	2021	2020
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on December 20, 2024 Note previously had a variable rate with a minimum rate of 5.00% and a maximum rate of 10.00%	$ 550,000	$ 550,000
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on June 22, 2025 Note previously had a variable rate with a minimum rate of 5.00% and a maximum rate of 10.00%	825,000	825,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 2.63%, maturing on December 22, 2025	-	1,500,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on January 13, 2026 Maturity date was extended from December 13, 2025.	2,000,000	2,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on January 13, 2026	3,000,000	-
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on April 29, 2026 Maturing date was extended from December 31, 2025.	1,000,000	1,000,000
Fixed Rate Note from First Horizon Bank at an interest rate of 3.50%, maturing on June 4, 2026	2,000,000	2,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2026 Maturity date was extended from December 31, 2025.	5,000,000	5,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2026	1,500,000	-
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2026	14,560,775	-
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2026 Maturity date was extended from December 30, 2025.	3,000,000	3,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2026	2,000,000	-
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on January 1, 2027	1,050,000	1,050,000

NOTE 9 SECONDARY CAPITAL LOANS, NET (CONTINUED)

Secondary capital loans consisted of the following (Continued):

Description	2021	2020
Fixed Rate Note from Regions Bank at an interest rate of 1.00%, maturing on April 1, 2027	$ 76,774	$ 76,774
Fixed Rate Notes from Kresge Foundation at an interest rate of 3.00%, maturing on October 14, 2027 Maturity date was extended from October 14, 2026.	3,000,000	3,000,000
Fixed Rate Note from Ceniarth Wales at an interest rate of 3.00%, maturing on December 17, 2028	-	3,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 3.00%, maturing on December 17, 2028	3,000,000	-
Fixed Rate Note from MetLife at an interest rate of 3.00%, maturing on February 27, 2029	2,500,000	2,500,000
Fixed Rate Note from W.K Kellogg Foundation at an interest rate of 2.00%, maturing on August 14, 2029	1,500,000	1,500,000
Fixed Rate Note from Inclusive 2nd Capital at an interest rate of 2.50%, maturing on December 20, 2031	4,750,000	-
Subtotal	51,862,549	27,551,774
Less: Maturity Reclassification	(1,390,000)	(605,000)
Total	$ 50,472,549	$ 26,946,774

The Credit Union is allowed to offer secondary capital loans which are considered a component of net worth for regulatory purposes until they reach a maturity of five years or less. Secondary capital loans with maturities of five years or less are reclassified as subordinated debt, through a maturity reclassification adjustment of one-fifth of the amount due. As of December 31, 2021 and 2020, approximately $1,390,000 and $605,000, respectively, were reclassified under these regulatory requirements and are included in borrowed funds on the statements of financial condition.

A summary of the maturity of the secondary capital loans by year over the next five years are as follows:

Year Ending December 31,	Amount
2024	$ 1,100,000
2025	825,000
2026	34,060,775
Thereafter	15,876,774
Total	$ 51,862,549

NOTE 10 REGULATORY NET WORTH REQUIREMENTS

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table following) of net worth to total assets (as defined by the regulation). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio as of December 31, 2021, the most recent quarterly regulatory filing date, was 5.82%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2021, that the Credit Union meets all capital adequacy requirements to which it is subject.

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

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

	2021					
	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Worth	$ 56,545,876	12.10%	$ 28,028,770	6.00%	$ 32,700,231	7.00%
Risk-Based Net Worth Requirement	$ 27,187,907	5.82%	N/A	N/A	N/A	N/A

	2020					
	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Worth	$ 32,778,354	8.91%	$ 22,079,026	6.00%	$ 25,758,863	7.00%
Risk-Based Net Worth Requirement	$ 21,122,268	5.74%	N/A	N/A	N/A	N/A

NOTE 10 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

Because RBNWR at December 31, 2021, 5.82%, is less than the regulatory net worth ratio of 12.10%, the Credit Union retains its original assigned category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

NOTE 11 RELATED PARTY TRANSACTIONS

Included in loans, net at December 31, 2021 and 2020, are loans to the Credit Union's board of directors, committee members, and senior executive staff of approximately $1,269,000 and $1,248,000, respectively. Advances and repayments on loans were not significant to the financial statements.

Deposits from the Credit Union's board of directors, committee members, and senior executive staff held by the Credit Union at December 31, 2021 and 2020 are approximately $1,243,000 and $1,445,000, respectively.

As described in Note 1, Hope Enterprise Corporation (HEC) is the primary sponsoring organization of the Credit Union and operates as a community development financial institution for the purpose of providing investment capital to rural and economically disadvantaged communities. As part of its strategy, HEC and certain of its affiliates have provided grants and secondary capital loans to the Credit Union in order to provide an affordable lending program to low-income communities. HEC and the Credit Union have entered into certain contractual agreements wherein HEC had agreed to reimburse the Credit Union for certain operating expenses and for certain losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions.

Under the terms of the contractual arrangements, the Credit Union has agreed to provide financial products and service offerings in certain low-income communities in which HEC has a mission to promote economic development. In consideration for these contractual services, HEC had agreed to reimburse the Credit Union for its normal operating expenses, excluding dividend payments, on a monthly basis. The contractual arrangement provides for HEC to pay the Credit Union an amount to cover all normal operating expenses sufficient to enable Hope to maintain a net income of no less than $240,000 annually.

During 2021 and 2020, the Credit Union recognized contractual service revenue of approximately $4,442,000 and $5,628,000, respectively, related to these arrangements. The Credit Union received grants from third parties of approximately $5,426,000 and $-0- in 2021 and 2020, respectively, that were passed to the Credit Union from HEC and its affiliates.

As of December 31, 2021 and 2020, the Credit Union had secondary capital loans outstanding to Hope and its affiliates of approximately $38,113,000 and $14,870,000, respectively. Interest expense related to the affiliated secondary capital loans was approximately $575,000 in 2021 and $274,000 in 2020.

NOTE 11 RELATED PARTY TRANSACTIONS (CONTINUED)

As of December 31, 2021 and 2020, HEC had deposit accounts with the Credit Union totaling approximately $22,100,000 and $21,532,000, respectively.

In addition, the Credit Union had a real estate secured loan receivable outstanding from HEC which was approximately $761,000 and $765,000 as of December 31, 2021 and 2020, respectively. Interest income on this loan was immaterial as of December 31, 2021 and 2020.

As described in Note 1, accounts payable of approximately $1,398,000 from HEC as of December 31, 2021 and accounts receivable of approximately $3,034,000 from HEC as of December 31, 2020 respectively. These balances represented amounts due from or to HEC for certain loan closings, net of amounts due to the Credit Union relative to service arrangements, and operational expenses.

HEC has purchased participation interests in certain commercial loans originated by the Credit Union. See Note 4 to these financial statements for more information regarding participations.

NOTE 12 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Statement of Financial Condition Activities

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

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

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

	December 31, 2021	December 31, 2020
Commitments to Grant Collateralized Loans		
Commercial	$ 2,656,332	$ 2,233,813
Unfunded Unsecured Commitments Under Lines of Credit		
Overdraft Protection	3,933,766	3,905,297
Credit Card Commitments	1,542,183	1,524,009
Other	578,845	1,148,174
Total	$ 8,711,126	$ 8,811,293

NOTE 12 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Off-Statement of Financial Condition Activities (Continued)

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances.

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

Legal Contingencies

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

NOTE 13 FAIR VALUE

Recurring Basis

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

	2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities	$ -	$ 4,946,905	$ -	$ 4,946,905
U.S. Treasury Notes	-	10,447,187	-	10,447,187
Federal Agency Mortgage Backed Securities	-	36,806,845	-	36,806,845
Collateralized Mortgage Obligation Securities	-	23,110,886	-	23,110,886
Small Business Administration Securities	-	4,958,043	-	4,958,043
Municipal Bonds	-	13,531,709	-	13,531,709
Negotiable Certificates of Deposit	-	980,000	-	980,000
Total	$ -	$ 94,781,575	$ -	$ 94,781,575

NOTE 13 FAIR VALUE (CONTINUED)

Recurring Basis (Continued)

	2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities	$ -	$ 2,038,950	$ -	$ 2,038,950
Federal Agency Mortgage Backed Securities	-	7,582,954	-	7,582,954
Collateralized Mortgage Obligation Securities	-	5,360,640	-	5,360,640
Small Business Administration Securities	-	2,306,856	-	2,306,856
Municipal Bonds	-	7,089,915	-	7,089,915
Negotiable Certificates of Deposit	-	1,470,000	-	1,470,000
Total	$ -	$ 25,849,315	$ -	$ 25,849,315

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

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

Nonrecurring Basis

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

NOTE 13 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

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

	Fair Value at December 31, 2021			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 8,244,718	$ 2,389,406
PCIL	-	-	298,947	-
Foreclosed Assets	-	-	256,283	-

	Fair Value at December 31, 2020			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 16,263,667	$ 2,571,566
PCIL	-	-	1,607,822	-
Foreclosed Assets	-	-	121,953	-

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

	December 31, 2021			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 8,244,718	Evaluation of Collateral	Estimation of Value	Not Meaningful
PCIL	298,947	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	256,283	Appraisal	Appraisal Adjustment	Not Meaningful

	December 31, 2020			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 16,263,667	Evaluation of Collateral	Estimation of Value	Not Meaningful
PCIL	1,607,822	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	121,953	Appraisal	Appraisal Adjustment	Not Meaningful

NOTE 13 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

Impaired Loans: In accordance with the provisions of the loan impairment guidance, impairment was measured for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Impairment amounts on impaired loans represent specific valuation allowance and write-downs during the period presented on impaired loans that were individually evaluated for impairment based on the estimated fair value of the collateral less estimated selling costs, excluding impaired loans fully charged-off.

PCIL: PCIL were initially recorded at the purchase price and are reviewed periodically during the year to determine whether performance is materially as expected. If the Credit Union's analysis indicates subsequent decreases or delays in estimated future cash flows, PCIL are reduced to the discounted net present value of future cash flows, which results in a reduction of income with a corresponding valuation (impairment) allowance.

Foreclosed Assets: Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer with any impairment amount charged to the allowance for loan losses. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs with changes in fair value or any impairment amount recorded in other noninterest expense. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.

NOTE 14 SUBSEQUENT EVENTS

In preparing these financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through March 31, 2022, the date the financial statements were available to be issued.

The Credit Union has been notified that they have been rewarded funds under the Emergency Capital Investment Program (ECIP) which was established by the Consolidated Appropriations Act of 2021, from the US Treasury. The Credit Union may be awarded up to $87,941,000 which will be considered subordinated debt. Upon receipt and with approval from the NCUA, the Credit Union will be allowed to classify these funds as secondary capital. Receipt of the funds is expected in the second quarter of 2022.