Management Discussion and Analysis

Independent Auditors' Report

Hoper Credit Union (HCU) received an unmodified, or "clean" audit for FY 2019.

Balance Sheet Analysis

HCU's total assets stood at $307.7 million at December 31, 2019, up approximately $15 million from $292.9 million at December 31, 2018. This increase is the result of increases in the commercial and mortgage loan portfolios.

As detailed in the following schedule, the vast majority of HCU's assets are tied up in loans:

	2019	2018
Loans receivable – net	235,586,800	224,827,736
Real estate and other assets acquired by foreclosure	1,607,205	564,303
Total	**237,194,005**	**225,392,039**
Percent of total assets	**77%**	**77%**

The increase in liabilities from $287.8 million at December 31, 2018 to $302.0 million at December 31, 2019 was the result of increased borrowings while deposits and members' share accounts decreased by $4.4 million, from $240.6 million at December 31, 2018 to $236.2 million at December 31, 2019. In late 2019, HCU initiated a strategy to replace high-yield share certificates with longer-term, lower-cost deposits. HCU had new secondary capital loans of $6.0 million and repayments of secondary capital loans of $4.6 million in 2019, and Federal Home Loan Bank advances had a net increase of $5.6 million. In addition, short-term notes payable increased by $12 million over 2018.

Under 12 CFR 701.34(b) low-income designated credit unions (of which HCU is one) may accept secondary capital and can recognize the value of the funds as net worth for regulatory purposes. As such, HCU's regulatory net worth for 2019 and 2018 is detailed in the following schedule:

	2019	2018
Secondary capital loans, net of maturity classifications	$24,331,774	$22,167,774
Regular reserve	10,000	10,000
Undivided profits	5,580,337	5,339,973
Total net worth	**$29,922,111**	**$27,517,747**
Capital ratio	**9.73%**	**9.39%**

Earnings Analysis

Interest income increased in 2019 to $14.6 million from $13.2 million in 2018 primarily as a result of the increase in the loan portfolio. Total interest expense increased from $3.9 million in 2018 to $5.1 million in 2019. Interest expense related to members' shares and certificates increased from $2.9 million in 2018 to $3.9 million in 2018. Interest expense related to borrowed funds increased slightly from $1.1 million in 2018 to $1.2 million in 2019.

The provision for loan losses in 2019 was $845,000 as compared to $2.8 million in 2018. This was primarily a reflection of reduced risk in the residential mortgage loan portfolio in 2019 as well as higher than anticipated losses in the portfolios of merged credit unions in 2018.

Non-interest income decreased from $14.0 million in 2018 to $13.8 million in 2019. Grant and contracts revenue decreased from $9.2 million in 2018 to $8.9 million in 2019. Service charges and fees decreased from $4.0 million in 2018 to $3.97 million in 2019.

Non-interest expenses increased from $20.3 million in 2018 to $22.3 million in 2019. This increase in expenses was largely the result of an enlarged operating base.

Alan Branson
Chief Financial Officer

William Bynum
Chief Executive Officer

HOPE FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

HOPE FEDERAL CREDIT UNION
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YEARS ENDED DECEMBER 31, 2019 AND 2018

CliftonLarsonAllen LLP
CLAconnect.com

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 statement of financial condition as of December 31, 2019, and the related statements of income, comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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.

Auditors' Responsibility

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

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

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

Supervisory Committee and Board of Directors
Hope Federal Credit Union

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, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Hope Federal Credit Union as of December 31, 2018 were audited by other auditors whose report dated April 30, 2019 expressed an unmodified opinion on those statements.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Dallas, Texas
March 31, 2020

HOPE FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	$ 27,912,759	$ 31,924,227
Securities - Available-for-Sale	18,349,788	13,193,642
Other Investments	3,451,003	3,395,956
Loans, Net	235,586,800	224,827,736
Accrued Interest Receivable	951,155	939,928
Grants Receivable	301,446	2,388,381
Receivable from Hope Enterprise Corporation	2,325,670	1,307,825
Foreclosed and Repossessed Assets	1,607,205	564,303
Premises and Equipment, Net	13,123,415	11,673,204
NCUSIF (National Credit Union Share Insurance Fund) Deposit	2,258,551	2,037,801
Other Assets	1,790,403	661,240
Total Assets	$ 307,658,195	$ 292,914,243
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Members' Share and Savings Accounts	$ 236,208,660	$ 240,632,596
Borrowed Funds	37,324,194	20,406,466
Second Capital Loans, Net	24,331,774	22,167,774
Accrued Interest Payable	548,572	553,904
Accrued Expenses and Other Liabilities	3,608,639	4,018,211
Total Liabilities	302,021,839	287,778,951
MEMBERS' EQUITY		
Regular Reserves	10,000	10,000
Undivided Earnings	5,580,337	5,339,973
Accumulated Other Comprehensive Income (Loss)	46,019	(214,681)
Total Members' Equity	5,636,356	5,135,292
Total Liabilities and Members' Equity	$ 307,658,195	$ 292,914,243

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
INTEREST INCOME		
Loans	$ 13,893,120	$ 12,528,629
Securities	729,625	685,907
Total Interest Income	14,622,745	13,214,536
INTEREST EXPENSE		
Members' Share and Savings Accounts	3,907,001	2,879,904
Borrowed Funds	1,161,113	1,058,637
Total Interest Expense	5,068,114	3,938,541
Net Interest Income	9,554,631	9,275,995
PROVISION FOR LOAN LOSSES	845,115	2,775,766
Net Interest Income After Provision for Loan Losses	$ 8,709,516	$ 6,500,229
NON-INTEREST INCOME		
Service Charges and Fees	3,973,596	4,007,857
Other Non-Interest Income	1,138,894	1,052,180
Grants and Contracts Revenue	8,947,098	9,203,328
Net Loss on Sales of Foreclosed and Repossessed Assets	(261,406)	(242,047)
Total Non-Interest Income	13,798,182	14,021,318
NON-INTEREST EXPENSE		
Employee Compensation and Benefits	9,346,374	8,630,862
Occupancy	3,233,437	3,077,427
Operations	6,020,640	5,528,711
Professional and Outside Services	1,163,638	978,261
Educational and Promotional	656,142	215,494
Loan Servicing	981,730	904,648
Other Operating Expenses	865,373	945,015
Total Non-Interest Expense	22,267,334	20,280,418
NET INCOME	$ 240,364	$ 241,129

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
NET INCOME	$ 240,364	$ 241,129
OTHER COMPREHENSIVE INCOME (LOSS):		
Securities - Available-for-Sale		
Unrealized Holding Gain (Loss) Arising During the Period	260,700	(113,943)
TOTAL COMPREHENSIVE INCOME	$ 501,064	$ 127,186

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive (Loss) Income	Total
BALANCES AT DECEMBER 31, 2017	$ 10,000	$ 5,098,844	$ (100,738)	$ 5,008,106
Net Income	-	241,129	-	241,129
Other Comprehensive Loss	-	-	(113,943)	(113,943)
BALANCES AT DECEMBER 31, 2018	10,000	5,339,973	(214,681)	5,135,292
Net Income	-	240,364	-	240,364
Other Comprehensive Income	-	-	260,700	260,700
BALANCES AT DECEMBER 31, 2019	$ 10,000	$ 5,580,337	$ 46,019	$ 5,636,356

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 240,364	$ 241,129
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,208,713	1,200,960
Amortization of Security Premiums and Discounts, Net	39,433	37,038
Provision for Loan Losses	845,115	2,775,766
Amortization of Net Loan Origination Fees	(147,754)	(104,314)
Net Loss from Sales of Foreclosed Assets	261,406	(242,047)
Changes in:		
Accrued Interest Receivable	(11,227)	(82,289)
Other Assets	(1,129,163)	(406,297)
Grants Receivable	2,086,935	653,530
Receivable from Hope Enterprise Corporation	(1,017,845)	(682,160)
Accrued Interest Payable	(5,332)	(151,115)
Accrued Expenses and Other Liabilities	(409,572)	1,439,263
Net Cash Provided by Operating Activities	1,961,073	4,679,464
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Securities - Available-for-Sale	(9,605,675)	(100,750)
Proceeds from Maturities and Paydowns of Securities - Available-for-Sale	4,670,796	2,684,156
(Purchases) Sales of Other Investments	(55,047)	2,266,066
Loan Originations Net of Principal Collected on Loans to Members	(17,222,684)	(26,600,128)
Increase in NCUSIF Deposit	(220,750)	(173,111)
Proceeds from Sales of Foreclosed Assets	4,461,951	1,103,828
Expenditures for Premises and Equipment	(2,658,924)	(2,188,122)
Net Cash Used by Investing Activities	(20,630,333)	(23,008,061)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (Decrease) Increase in Members' Share and Savings Accounts	(4,423,936)	22,709,121
Proceeds from Secondary Capital Loans	6,000,000	3,000,000
Repayments of Secondary Capital Loans	(3,836,000)	-
Advances of Borrowed Funds	8,500,000	1,500,000
Repayments of Borrowed Funds	(3,582,272)	(3,346,659)
Net Increase (Decrease) in Line of Credit Borrowings	12,000,000	(11,039,212)
Net Cash Provided by Financing Activities	14,657,792	12,823,250
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,011,468)	(5,505,347)
Cash and Cash Equivalents - Beginning of Year	31,924,227	37,429,574
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 27,912,759	$ 31,924,227

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
SUPPLEMENTARY DISCLOSURES OF NONCASH AND CASH FLOW INFORMATION		
Borrowed Funds Cash Paid for Interest	$ 1,161,113	$ 1,058,637
Members' Share and Savings Accounts Cash Paid For Interest	$ 3,901,669	$ 2,728,789
Transfers of Loans to Foreclosed and Repossessed Assets	$ 5,766,259	$ 1,166,894
Premise Received in Settlement of Related Party Receivables	$ -	$ 694,205

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 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, and Arkansas.

Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 (loss). Realized gains and losses on securities available-for-sale are included in other non-interest income and, when applicable, are reported as a reclassification adjustment in other comprehensive income (loss). 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/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 non-interest income.

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

Other Investments

Other investments that are equity investments and do not have readily determinable fair values are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. An equity security without a readily determinable fair value is written down to its fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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.

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, 2019 and 2018.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

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

Pass: 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers of Financial Assets and Participating Interests (Continued)

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

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

In order to support its mission of providing financing to low-income individuals and communities, the Credit Union receives various grants from non-profit 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, 2019 and 2018, 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 payable to HEC regarding loan servicing and other costs are presented net on the statements of financial condition. Management evaluates the net receivable for collectability and determined that no reserve was required as of December 31, 2019 and 2018.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 non-interest expense.

Premises and Equipment, Net

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Income Taxes

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

Advertising Costs

Advertising and promotion costs which totaled approximately $650,000 and $221,000 for the years ended December 31, 2019 and 2018, respectively, 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union 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

During the year ended December 31, 2019, the Credit Union adopted provisions of ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.* One provision simplified the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, the Credit Union is required to measure the investment at fair value. A second provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification (ASC) 825-10-50. Except for the omission of certain disclosures, the adoption of this provision from ASU 2016-01 did not have an impact on the Credit Union's statements of financial condition or income.

Also during the year ended December 31, 2019, the Credit Union adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, ASC 606), which (i) creates a single framework for recognizing revenue from contracts with members that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as foreclosed assets. The majority of the Credit Union's revenues come from interest income and other sources, including loans and investment securities, which are outside the scope of ASC 606. The Credit Union's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the member. Services within the scope of ASC 606 include service charges on deposits and interchange income. On January 1, 2019, the Credit Union adopted the accounting guidance in ASC 606 using the modified retrospective method applied to those contracts with members which were not completed as of January 1, 2018. Results for reporting periods beginning January 1, 2019 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605, *Revenue Recognition*. Refer to Note 2 Revenue from Contracts with Members for further discussion on the Credit Union's accounting policies for revenue sources within the scope of ASC 606. Except for the addition of required disclosures, the adoption of this ASU did not have an impact to the financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In March 2017, the FASB approved ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The guidance requires an entity to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. The standard will be effective for the Credit Union for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Credit Union believes that this standard will not have a material impact on the Credit Union's financial statements.

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 for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. The Credit Union is currently evaluating the impact of ASU 2016-13 and ASU 2018-19 on the financial statements.

Subsequent Events

In preparing these financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosure through March 31, 2020, the date the financial statements were available to be issued.

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Credit Union, COVID-19 may impact various parts of its 2020 operations and financial results including but not limited to additional loan loss reserves, costs for emergency preparedness, or potential shortages of personnel. Management believes the Credit Union is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

During the period from January 1, 2020 through March 31, 2020, both domestic and international equity markets have experienced significant declines. These losses are not reflected in the financial statements as of and for the year ended December 31, 2019 as these events occurred subsequent to year-end and are still developing.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification of 2018 Data

Data in the 2018 financial statements has been reclassified to conform with the presentation of the 2019 financial statements. This reclassification did not result in any change to net income or members' equity.

NOTE 2 REVENUE FROM CONTRACTS WITH MEMBERS

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

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

- For performance obligations satisfied over time, if the Credit Union has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Credit Union's performance completed to date, the Credit Union will generally recognize revenue in the amount to which the Credit Union has a right to 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 new guidance. Topic 606 is applicable to noninterest income such as deposit related fees, debit card interchange income, and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Noninterest income considered to be within the scope of Topic 606 is discussed below.

NOTE 2 REVENUE FROM CONTRACTS WITH MEMBERS (CONTINUED)

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.

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.

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

In Scope of ASC 606	
HEC Contractual Revenue	$ 5,051,000
Service Charges and Deposit Account Fees	3,438,933
Debit Card Interchange Fees	1,011,530
Total Non-Interest Income in Scope of ASC 606	9,501,463
Non-Interest Income Not Within Scope of ASC 606	4,296,719
Total Non-Interest Income	$ 13,798,182

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, 2019, 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)
December 31, 2019				
U.S. Government and Federal Agency Securities	$ 1,000,293	$ 383	$ (598)	$ 1,000,078
Federal Agency Mortgage-Backed Securities	9,833,855	33,614	(24,180)	9,843,289
Collateralized Mortgage Obligation Securities	737,762	-	(2,398)	735,364
Small Business Administration Securities	1,985,580	15,530	(8,080)	1,993,030
Municipal Bonds	2,786,279	33,471	(1,723)	2,818,027
Negotiable Certificates of Deposit	1,960,000	-	-	1,960,000
Total	$ 18,303,769	$ 82,998	$ (36,979)	$ 18,349,788
December 31, 2018				
U.S. Government and Federal Agency Securities	$ 3,025,271	$ 6,032	$ (40,861)	$ 2,990,442
Federal Agency Mortgage-Backed Securities	5,334,919	5,918	(150,735)	5,190,102
Collateralized Mortgage Obligation Securities	294,508	-	(7,332)	287,176
Municipal Bonds	3,773,625	5,986	(33,689)	3,745,922
Negotiable Certificates of Deposit	980,000	-	-	980,000
Total	$ 13,408,323	$ 17,936	$ (232,617)	$ 13,193,642

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

The amortized cost and estimated fair value of securities, at December 31, 2019, 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.

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

	Amortized Cost	Fair Value (Carrying Value)
U.S. Government and Federal Agency Securities, Municipal Bonds, and Negotiable Certificates of Deposit:		
Less Than One Year	$ 2,160,110	$ 2,161,462
One to Five Years	3,586,462	3,616,643
Subtotal	5,746,572	5,778,105
Federal Agency Mortgage Backed Securities, Collateralized Mortgage Obligation Securities, and Small Business Administration Securities	12,557,197	12,571,683
Total	$18,303,769	$18,349,788

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:

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2019				
U.S. Government and Federal Agency Securities	$ -	$ -	$ (598)	$ 499,528
Federal Agency Mortgage Backed Securities	(424)	370,607	(23,756)	2,349,462
Collateralized Mortgage Obligation Securities	(1,733)	523,282	(665)	212,082
Small Business Administration Securities	(8,080)	744,515	-	-
Municipal Bonds	-	-	(1,723)	549,791
Total Available-for-Sale	$ (10,237)	$ 1,638,404	$ (26,742)	$ 3,610,863

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities (Continued)

	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2018				
U.S. Government and Federal Agency Securities	$ (3,446)	$ 671,859	$ (37,415)	$ 1,682,672
Federal Agency Mortgage Backed Securities	(3,054)	249,703	(147,681)	4,787,142
Collateralized Mortgage Obligation Securities	-	-	(7,332)	287,066
Small Business Administration Securities				
Municipal Bonds	-	-	(33,689)	2,286,389
Total Available-for-Sale	$ (6,500)	$ 921,562	$ (226,117)	$ 9,043,269

At December 31, 2019, 19 securities with unrealized losses have depreciated .70% 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, 2019	December 31, 2018
Contributed Capital Accounts and Deposits	$ 2,120,622	$ 2,100,370
FHLB Stock	1,172,300	1,138,000
Loans to, and Investments in, CUSOs	158,081	157,586
Total	$ 3,451,003	$ 3,395,956

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

OTHER INVESTMENTS (CONTINUED):

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.

NOTE 4 LOANS, NET

The composition of loans is as follows:

	December 31,	
	2019	2018
Consumer:		
Auto	$ 13,719,566	$ 13,134,675
Share Secured	2,021,932	1,738,667
Other Secured	299,322	298,834
Unsecured	4,513,769	4,637,724
Subtotal	20,554,589	19,809,900
Real Estate	117,343,943	112,734,582
Commercial	100,872,719	96,361,765
Total Loans	238,771,251	228,906,247
Net Deferred Loan Origination Costs	1,106,630	953,442
Allowance for Loan Losses	(4,291,081)	(5,031,953)
Loans, Net	$ 235,586,800	$ 224,827,736

NOTE 4 LOANS, NET (CONTINUED)

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 $18,045,000 and $16,183,000 at December 31, 2019 and 2018, 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 $10,594,000 and $13,502,000 at December 31, 2019 and 2018, respectively.

The Credit Union offers non-traditional 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.

Non-traditional 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. Non-traditional mortgage loans, which are included in the real estate and commercial loan captions above, totaled approximately $37,553,000 and $39,741,000 at December 31, 2019 and 2018, respectively.

NOTE 4 LOANS, NET (CONTINUED)

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

December 31, 2019

	Consumer	Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ 898,339	$ 2,234,838	$ 1,898,776	$ 5,031,953
Provision for Loan Losses	409,959	230,221	204,935	845,115
Loans Charged-Off	(1,394,490)	(786,776)	(421,642)	(2,602,908)
Recoveries of Loans Previously Charged-Off	655,561	346,808	14,552	1,016,921
Balance at End of Year	$ 569,369	$ 2,025,091	$ 1,696,621	$ 4,291,081
Ending Balance: Individually Evaluated for Impairment	$ -	$ 966,774	$ -	$ 966,774
Ending Balance: Collectively Evaluated for Impairment	$ 390,388	$ 1,058,317	$ 1,696,621	$ 3,145,326
Ending Balance: Loans Acquired with Deteriorated Credit Quality	$ 178,981	$ -	$ -	$ 178,981
Total Allowance for Loan Losses	$ 569,369	$ 2,025,091	$ 1,696,621	$ 4,291,081
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ -	$ 7,700,136	$ -	$ 7,700,136
Ending Balance: Collectively Evaluated for Impairment	$ 17,466,258	$ 109,643,807	$ 100,872,719	$ 227,982,784
Ending Balance: Loans Acquired with Deteriorated Credit Quality	$ 3,088,331	$ -	$ -	$ 3,088,331
Total Loans	$ 20,554,589	$ 117,343,943	$ 100,872,719	$ 238,771,251

NOTE 4 LOANS, NET (CONTINUED)

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

December 31, 2018

	Consumer	Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	$ 241,079	$ 1,824,796	$ 1,528,843	$ 3,594,718
Provision for Loan Losses	1,672,443	749,232	354,091	2,775,766
Loans Charged-Off	(1,415,471)	(346,115)	(119)	(1,761,705)
Recoveries of Loans Previously Charged-Off	400,288	6,925	15,961	423,174
Balance at End of Year	$ 898,339	$ 2,234,838	$ 1,898,776	$ 5,031,953
Ending Balance: Individually Evaluated for Impairment	$ -	$ 998,781	$ 390,415	$ 1,389,196
Ending Balance: Collectively Evaluated for Impairment	$ 262,405	$ 1,236,057	$ 1,508,361	$ 3,006,823
Ending Balance: Loans Acquired with Deteriorated Credit Quality	$ 635,934	$ -	$ -	$ 635,934
Total Allowance for Loan Losses	$ 898,339	$ 2,234,838	$ 1,898,776	$ 5,031,953
Loans:				
Ending Balance: Individually Evaluated for Impairment	$ -	$ 8,170,914	$ 3,881,549	$ 12,052,463
Ending Balance: Collectively Evaluated for Impairment	$ 13,523,084	$ 104,563,668	$ 92,480,216	$ 210,566,968
Ending Balance: Loans Acquired with Deteriorated Credit Quality	$ 6,286,816	$ -	$ -	$ 6,286,816
Total Loans	$ 19,809,900	$ 112,734,582	$ 96,361,765	$ 228,906,247

NOTE 4 LOANS, NET (CONTINUED)

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

Risk Rating:	2019	2018
Pass	$ 96,202,062	$ 20,131,944
Special Mention	2,768,449	72,348,272
Substandard	1,902,208	1,880,608
Doubtful	-	2,000,941
Loss	-	-
Total	$ 100,872,719	$ 96,361,765

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.

December 31, 2019	Payment Activity		
	Performing	Non-Performing	Total
Consumer:			
Auto	$ 13,709,342	$ 10,224	$ 13,719,566
Share Secured	1,996,026	25,906	2,021,932
Other Secured	299,322	-	299,322
Unsecured	4,479,920	33,849	4,513,769
Real Estate	112,479,893	4,864,050	117,343,943
Total	$ 132,964,503	$ 4,934,029	$ 137,898,532

December 31, 2018	Payment Activity		
	Performing	Non-Performing	Total
Consumer:			
Auto	$ 13,031,301	$ 103,374	$ 13,134,675
Share Secured	1,718,416	20,251	1,738,667
Other Secured	298,834	-	298,834
Unsecured	4,578,353	59,371	4,637,724
Real Estate	101,458,257	11,276,325	112,734,582
Total	$ 121,085,161	$ 11,459,321	$ 132,544,482

NOTE 4 LOANS, NET (CONTINUED)

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

December 31, 2019	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	$ 13,090,366	$ 618,976	$ -	$ 10,224	$ 13,719,566
Share Secured	1,943,103	52,923	-	25,906	2,021,932
Other Secured	299,322	-	-	-	299,322
Unsecured	4,382,704	97,216	-	33,849	4,513,769
Real Estate	102,296,751	10,183,142	-	4,864,050	117,343,943
Commercial	95,612,665	3,910,760	-	1,349,294	100,872,719
Total	$ 217,624,911	$ 14,863,017	$ -	$ 6,283,323	$ 238,771,251

December 31, 2018	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	$ 12,415,603	$ 615,698	$ -	$ 103,374	$ 13,134,675
Share Secured	1,647,380	71,036	-	20,251	1,738,667
Other Secured	286,748	12,086	-	-	298,834
Unsecured	4,520,244	58,109	-	59,371	4,637,724
Real Estate	97,857,204	3,601,053	-	11,276,325	112,734,582
Commercial	91,221,080	1,705,003	-	3,435,682	96,361,765
Total	$ 207,948,259	$ 6,062,985	$ -	$ 14,895,003	$ 228,906,247

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

The following tables present information related to impaired loans:

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Real Estate	$ 3,133,206	$ 3,133,206		$ 3,120,382
With An Allowance Recorded:				
Real Estate	4,566,930	4,566,930	$ 966,774	5,902,783
Total Impaired Loans:				
Real Estate	$ 7,700,136	$ 7,700,136	$ 966,774	$ 9,023,165

NOTE 4 LOANS, NET (CONTINUED)

The following tables present information related to impaired loans (continued):

December 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With No Related Allowance:				
Commercial	$ 1,139,491	$ 1,139,491		$ 2,400,121
Real Estate	1,968,065	1,968,065		1,623,767
Subtotal	3,107,556	3,107,556		4,023,888
With An Allowance Recorded:				
Commercial	2,742,058	2,742,058	$ 390,415	2,556,167
Real Estate	6,202,849	6,202,849	998,781	5,714,201
Subtotal	8,944,907	8,944,907	1,389,196	8,270,368
Total Impaired Loans:				
Commercial	$ 3,881,549	$ 3,881,549	$ 390,415	$ 4,956,288
Real Estate	$ 8,170,914	$ 8,170,914	$ 998,781	$ 7,337,968

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
Balances at December 31, 2017	$ 11,121,958	$ 2,248,697	$ 13,370,655
Payments Received	(4,835,142)	-	(4,835,142)
Legal Discharge of debt	-	(1,013,042)	(1,013,042)
Accretion of Income	-	(599,721)	(599,721)
Balances at December 31, 2018	6,286,816	635,934	6,922,750
Payments Received	(3,198,485)	-	(3,198,485)
Legal Discharge of Debt	-	(456,953)	(456,953)
Balances at December 31, 2019	$ 3,088,331	$ 178,981	$ 3,267,312

NOTE 5 FORECLOSED AND REPOSSESSED ASSETS

Activity in foreclosed and repossessed assets is as follows:

	Years Ended December 31, 2019	2018
Balance at Beginning of Year	$ 564,303	$ 501,237
Transfers from Loans to Foreclosed Assets	5,766,259	1,166,894
Sales of Foreclosed Assets	(4,461,951)	(861,781)
Loss on Sales of Foreclosed Assets	(261,406)	(242,047)
Balance at End of Year	$ 1,607,205	$ 564,303

NOTE 6 PREMISES AND EQUIPMENT, NET

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

	December 31, 2019	2018
Land	$ 1,389,347	$ 1,289,847
Buildings and Improvements	11,682,532	8,517,873
Furniture and Equipment	8,954,795	7,864,416
Construction in Progress	77,831	1,773,448
Total	22,104,505	19,445,584
Less: Accumulated Depreciation	(8,981,090)	(7,772,380)
Total	$ 13,123,415	$ 11,673,204

NOTE 7 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	December 31, 2019	2018
Share Savings	$ 40,012,984	$ 37,385,012
Share Drafts	25,493,106	26,399,228
Money Market	15,215,497	15,731,585
IRA Deposits	2,087,445	2,015,868
Other Deposits	7,541,786	8,343,702
Share and IRA Certificates	145,857,842	150,757,201
Total	$ 236,208,660	$ 240,632,596

The aggregate amounts of certificates of deposit in denominations of $250,000 or more was approximately $33,374,000 and $86,768,000 at December 31, 2019 and 2018, respectively.

NOTE 7 MEMBERS' SHARE AND SAVINGS ACCOUNTS (CONTINUED)

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

Year Ending December 31,	Amount
2020	$ 77,358,038
2021	30,187,929
2022	32,178,741
2023	5,105,747
2024	1,027,387
Total	$ 145,857,842

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 $25,785,000 and $44,147,000 at December 31, 2019 and 2018, respectively, were pledged to the FHLB as collateral in the event the Credit Union requests any advances on the line. Outstanding balances were $25,104,194 and $19,502,466 as of December 31, 2019 and 2018, respectively. The rate on these borrowings is determined at the time of advance and ranged from 1.50% to 3.27% as of December 31, 2019 and 2018.

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

Year Maturing	Interest Rate	2019	2018
2019	1.60%	$ -	$ 250,000
2020	1.50%	250,000	250,000
2021	2.19% - 2.28%	703,938	1,046,720
2022	1.79% - 3.37%	3,208,687	2,496,728
2023	1.83% - 2.17%	1,670,090	1,951,514
2024	2.35% - 2.41%	976,060	1,175,172
2025	2.05% - 2.22%	1,898,675	2,243,101
2026	1.99%	656,176	752,443
2027	2.46% - 2.75%	6,018,935	7,890,009
2028	3.27%	1,316,057	1,446,779
2029	2.114%	5,405,576	-
2030	2.05% - 2.18%	3,000,000	-
		$ 25,104,194	$ 19,502,466

NOTE 8 BORROWED FUNDS (CONTINUED)

At December 31, 2019 and 2018, the Credit Union had an available line of credit of $12,000,000 with National Cooperative Bank. The interest rates applied on any borrowing are determined on that date. As of December 31, 2019 and 2018, 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. The line of credit had a balance of approximately $12,000,000 as of December 31, 2019 and bears interest at 3.75%. All balances are due to be repaid in 2020. There were no outstanding borrowings at December 31, 2018.

At December 31, 2019 and 2018, 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, 2019 and 2018.

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, (iii) or would not have available cash flows for the withdrawal of funds for the account.

Secondary capital loans consisted of the following:

	December 31,	
	2019	2018
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 2.63%, maturing on December 22, 2022	$ 1,500,000	$ 1,500,000
A subordinated debenture payable to the U.S. Treasury maturing on September 17, 2023 and bearing interest at 2% through September 17, 2018 and 9% annum thereafter	-	4,520,000

NOTE 9 SECONDARY CAPITAL LOANS, NET (CONTINUED)

Secondary capital loans consisted of the following (Continued):

	December 31, 2019	December 31, 2018
Variable Rate Note from ECD New Markets, LLC at a minimum rate of 5.45% and a maxiumum rate of 10.9% (effective rate of 5.45% at December 31, 2019 and 2018) maturing on September 30, 2024	$ 550,000	$ 550,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 13, 2024	2,000,000	2,000,000
Variable Rate Note from ECD New Markets, LLC at a minimum rate of 5% and a maxiumum rate of 10% (effective rate of 5.00% at December 31, 2019 and 2018) maturing on December 20, 2024.	550,000	550,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2024	5,000,000	5,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on April 29, 2025	1,000,000	1,000,000
Variable Rate Note from ECD New Markets, LLC at a minimum rate of 5% and a maxiumum rate of 10% (effective rate of 5.00% at December 31, 2019 and 2018) maturing on June 22, 2025	825,000	825,000
Fixed Rate Note from First Tennessee Bank at an interest rate of 3.50%, maturing on June 4, 2026	2,000,000	-
Fixed Rate Note from Kresege Foundation at an interest rate of 3.00%, maturing on October 14, 2026	3,000,000	3,000,000
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 5.45%, maturing on January 1, 2027	1,050,000	1,050,000
Fixed Rate Note from Regions Bank at an interest rate of 1.00%, maturing on April 1, 2027	76,774	76,774
Fixed Rate Note from Ceniarth Wales at an interest rate of 3.00%, maturing on December 17, 2028	3,000,000	3,000,000
Fixed Rate Note from MetLife at an interest rate of 3.00%, maturing on February 27, 2029	2,500,000	-
Fixed Rate Notes from W.K Kellogg Foundation at an interest rate of 2.00%, maturing on August 14, 2029	1,500,000	-
Subtotal	24,551,774	23,071,774
Less: Maturity Reclasification	(220,000)	(904,000)
Total	$ 24,331,774	$ 22,167,774

NOTE 9 SECONDARY CAPITAL LOANS, NET (CONTINUED)

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, 2019 and 2018, approximately $220,000 and $904,000 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
2020	$ -
2021	-
2022	1,500,000
2023	-
2024	8,100,000
Thereafter	14,731,774
Total	$ 24,331,774

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 accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table following) of net worth to total assets (as defined by the regulation). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR ratio as of December 31, 2019, the most recent quarterly regulatory filing date, was 6.54%. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2019, that the Credit Union meets all capital adequacy requirements to which it is subject.

NOTE 10 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

As of December 31, 2019, the most recent call reporting period, the NCUA categorized the Credit Union initially as "well capitalized" under the regulatory frame work for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% 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.

	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Net Worth	$ 29,922,111	9.73%	$ 18,459,492	6.00%	$ 21,536,074	7.00%
Risk-Based Net Worth Requirement	$ 20,120,846	6.54%	N/A	N/A	N/A	N/A
December 31, 2018						
Net Worth	$ 27,517,747	9.39%	$ 17,574,855	6.00%	$ 20,503,997	7.00%
Risk-Based Net Worth Requirement	$ 18,717,220	6.39%	N/A	N/A	N/A	N/A

Because RBNWR at December 31, 2019, 6.54%, is less than the regulatory net worth ratio of 9.73%, 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, 2019 and 2018, are loans to the Credit Union's board of directors, committee members, and senior executive staff. The aggregate balances of these loans are not significant.

Deposits from the Credit Union's board of directors, committee members, and senior executive staff held by the Credit Union at December 31, 2019 and 2018 are approximately $1,112,000 and $901,000, 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.

NOTE 11 RELATED PARTY TRANSACTIONS (CONTINUED)

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 2019 and 2018, the Credit Union recognized contractual service revenue of approximately $5,051,000 and $3,261,000, respectively, related to these arrangements. In addition, the Credit Union received grants from third parties of approximately $50,000 and $505,000 in 2019 and 2018 that were passed to the Credit Union from HEC and its affiliates.

As of December 31, 2019 and 2018, the Credit Union had secondary capital loans outstanding to Hope and its affiliates of approximately $12,475,000. Interest expense related to the affiliated secondary capital loans was approximately $578,000 in 2019 and $258,000 in 2018.

As of December 31, 2019 and 2018, HEC had deposit accounts with the Credit Union totaling approximately $5,836,000 and $1,046,000, respectively.

During 2018, HEC transferred ownership in a building to the Credit Union as repayment of a real estate secured loan receivable that originated in 2018 for approximately $292,000. The excess of the estimated fair value of the building transferred over the carrying value of the real estate secured loan receivable was approximately $402,000 and was applied as a settlement of certain receivables due from HEC for contractual service fees.

In addition, the Credit Union had another real estate secured loan receivable outstanding from HEC which was approximately $817,000 and $865,000 as of December 31, 2019 and 2018, respectively. Interest income on this loan was immaterial as of December 31, 2019 and 2018.

As described in Note 1, accounts receivable from HEC approximated $2,326,000 and $1,308,000 as of December 31, 2019 and 2018. These balances represented amounts due from HEC for certain loan closings, net of amounts due to the Credit Union relative to service arrangements.

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,	
	2019	2018
Commitments to Grant Collateralized Loans		
Commercial	$ 2,030,615	$ 3,829,305
Unfunded Unsecured Commitments Under Lines of Credit		
Overdraft Protection	3,444,245	3,261,236
Lines of Credit	2,000	2,975
Credit Card Commitments	1,295,324	1,313,227
Other	324,472	1,232,099
Total	$ 7,096,656	$ 9,638,842

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:

December 31, 2019	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities	$ -	$ 1,000,078	$ -	$ 1,000,078
Federal Agency Mortgage Backed Securities	-	9,843,289	-	9,843,289
Collateralized Mortgage Obligation Securities	-	735,364	-	735,364
Small Business Administration Securities	-	1,993,030	-	1,993,030
Municipal Bonds	-	2,818,027	-	2,818,027
Negotiable Certificates of Deposit	-	1,960,000	-	1,960,000
Total	$ -	$ 18,349,788	$ -	$ 18,349,788

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities	$ -	$ 2,990,442	$ -	$ 2,990,442
Federal Agency Mortgage Backed Securities	-	5,190,102	-	5,190,102
Collateralized Mortgage Obligation Securities	-	287,176	-	287,176
Municipal Bonds				
Negotiable Certificates	-	3,745,922	-	3,745,922
of Deposit	-	980,000	-	980,000
Total	$ -	$ 13,193,642	$ -	$ 13,193,642

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.

NOTE 13 FAIR VALUE (CONTINUED)

Recurring Basis (Continued)

Investment Securities

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

Nonrecurring Basis

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

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

	Fair Value at December 31, 2019			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 3,600,156	$ 966,774
PCIL	-	-	3,267,312	-
Foreclosed Assets	-	-	1,607,205	-

	Fair Value at December 31, 2018			
	Level 1	Level 2	Level 3	Impairment Losses
Impaired Loans	$ -	$ -	$ 7,555,711	$ 1,389,196
PCIL	-	-	6,922,750	-
Foreclosed Assets	-	-	564,303	-

NOTE 13 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

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

	December 31, 2019			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 3,600,156	Evaluation of Collateral	Estimation of Value	Not Meaningful
PCIL	3,267,312	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	1,607,205	Appraisal	Appraisal Adjustment	Not Meaningful

	December 31, 2018			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Impaired Loans	$ 7,555,711	Evaluation of Collateral	Estimation of Value	Not Meaningful
PCIL	6,922,750	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	564,303	Appraisal	Appraisal Adjustment	Not Meaningful

Impaired Loans

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

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

NOTE 13 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

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 Non-Interest 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.