

Logix Federal Credit Union and Subsidiaries

Consolidated Financial Report
December 31, 2020

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Independent Auditor's Report

RSM US LLP

To the Supervisory Committee
Logix Federal Credit Union and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Logix Federal Credit Union (a federally chartered credit union) and its subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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.

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Logix Federal Credit Union and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

San Francisco, California
April 13, 2021

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Logix Federal Credit Union and Subsidiaries

**Consolidated Statements of Financial Condition
December 31, 2020 and 2019**

	2020	2019
Assets		
Cash and cash equivalents	\$ 1,515,074,417	\$ 255,568,605
Available-for-sale debt securities	976,043,755	244,312,186
Other investments	17,250,000	17,250,000
Loans held for sale	145,761,715	72,870,115
Loans, net	4,980,063,388	5,479,148,044
Accrued interest receivable	22,122,994	17,024,398
Premises and equipment, net	133,628,101	118,137,756
National Credit Union Share Insurance Fund (NCUSIF) deposit	50,363,975	42,305,334
Other assets	86,717,140	48,166,720
	<u>7,927,025,485</u>	<u>6,294,783,158</u>
Total assets	\$ 7,927,025,485	\$ 6,294,783,158
Liabilities and Members' Equity		
Liabilities:		
Members' shares	\$ 6,477,294,203	\$ 5,141,222,485
Dividends payable	3,722,517	5,990,635
Accrued expenses and other liabilities	106,382,919	81,707,352
Borrowed funds	250,000,000	85,000,000
Notes payable	1,875,000	1,422,981
	<u>6,839,274,639</u>	<u>5,315,343,453</u>
Total liabilities	6,839,274,639	5,315,343,453
Commitments and contingencies (Notes 5, 6, 7, 8 and 9)		
Members' equity:		
Retained earnings, substantially restricted	1,098,782,979	1,005,777,490
Accumulated other comprehensive loss	(11,032,133)	(26,337,785)
	<u>1,087,750,846</u>	<u>979,439,705</u>
Total members' equity	1,087,750,846	979,439,705
	<u>7,927,025,485</u>	<u>6,294,783,158</u>
Total liabilities and members' equity	\$ 7,927,025,485	\$ 6,294,783,158

See notes to consolidated financial statements.

Logix Federal Credit Union and Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2020 and 2019

	2020	2019
Interest income:		
Loans	\$ 223,517,445	\$ 233,733,028
Investments and cash equivalents	7,207,417	7,120,448
Total interest income	230,724,862	240,853,476
Interest expense:		
Members' shares	58,968,523	67,900,759
Borrowed funds	519,569	1,345,442
Total interest expense	59,488,092	69,246,201
Net interest income	171,236,770	171,607,275
Provision for loan losses	13,800,000	21,600,000
Net interest income after provision for loan losses	157,436,770	150,007,275
Noninterest income:		
Services charges and fees on deposit accounts	8,073,980	11,046,217
Interchange income	18,519,251	18,833,629
Commissions	11,252,776	10,895,819
Loan fees and servicing income	6,766,771	6,478,288
Gains on sales of loans	35,956,721	8,463,995
Gains on sales of debt securities	6,908,688	605,169
Other noninterest income	706,879	1,527,572
Total noninterest income	88,185,066	57,850,689
Noninterest expense:		
Salaries and benefits	82,546,465	78,962,180
Operations and occupancy	63,257,620	56,610,247
Valuation allowance for servicing rights	6,812,262	-
Total noninterest expense	152,616,347	135,572,427
Net income	\$ 93,005,489	\$ 72,285,537

See notes to consolidated financial statements.

Logix Federal Credit Union and Subsidiaries

**Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019**

	2020	2019
Net income	\$ 93,005,489	\$ 72,285,537
Other comprehensive income (loss):		
Adjustment to defined benefit pension plan	(5,020,919)	(1,292,700)
Adjustment to postretirement benefit plan	(84,669)	(153,642)
Adjustment to supplemental executive retirement plan	(705,306)	(676,091)
Unrealized holding gains on available-for-sale debt securities, net of realized gains, on sale of available-for-sale debt securities of approximately \$6,909,000 and \$605,000 for the years ended December 31, 2020 and 2019, respectively	21,116,546	1,888,040
Other comprehensive income (loss)	15,305,652	(234,393)
Comprehensive income	\$ 108,311,141	\$ 72,051,144

See notes to consolidated financial statements.

Logix Federal Credit Union and Subsidiaries

**Consolidated Statements of Members' Equity
Years Ended December 31, 2020 and 2019**

	Retained Earnings				Accumulated Other Comprehensive Loss	Total
	Regular Reserve	Other Appropriated	Unappropriated	Total		
Balance, December 31, 2018	\$ 31,302,181	\$ 859,697,414	\$ 42,492,358	\$ 933,491,953	\$ (26,103,391)	\$ 907,388,562
Net income	-	-	72,285,537	72,285,537	-	72,285,537
Other comprehensive loss	-	-	-	-	(234,394)	(234,394)
Appropriations	-	66,832,759	(66,832,759)	-	-	-
Balance, December 31, 2019	31,302,181	926,530,173	47,945,136	1,005,777,490	(26,337,785)	979,439,705
Net income	-	-	93,005,489	93,005,489	-	93,005,489
Other comprehensive income	-	-	-	-	15,305,652	15,305,652
Appropriations	-	85,984,807	(85,984,807)	-	-	-
Balance, December 31, 2020	\$ 31,302,181	\$ 1,012,514,980	\$ 54,965,818	\$ 1,098,782,979	\$ (11,032,133)	\$ 1,087,750,846

See notes to consolidated financial statements.

Logix Federal Credit Union and Subsidiaries

**Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Net income	\$ 93,005,489	\$ 72,285,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium on available-for-sale debt securities, net	7,617,490	623,733
Amortization of mortgage servicing rights	4,495,038	2,151,033
Capitalization of servicing rights	(9,091,588)	(4,206,437)
Valuation allowance for servicing rights	6,812,262	-
Provision for loan losses	13,800,000	21,600,000
Capitalization of deferred net loan origination costs, net	1,338,719	(124,970)
Depreciation and amortization of premises and equipment	5,798,628	5,527,803
Losses on disposal of premises and equipment	78,674	5,127
Gains on sales of available-for-sale debt securities	(6,908,688)	(605,169)
Originations of loans to be sold	(1,156,903,349)	(376,164,275)
Proceeds from sales of loans originated for sale	1,119,968,470	318,870,323
Gains on sales of loans	(35,956,721)	(8,463,995)
Net change in:		
Accrued interest receivable	(5,098,596)	(521,226)
Other assets	(40,766,132)	(3,759,971)
Accrued expenses and other liabilities	16,596,555	2,279,973
Net cash provided by operating activities	14,786,251	29,497,486
Cash flows from investing activities:		
Purchases of available-for-sale debt securities	(1,093,339,119)	(166,786,143)
Proceeds from sales and calls of available-for-sale debt securities	233,773,166	31,204,655
Proceeds from principal pay-downs on available-for-sale debt securities	148,242,128	48,950,013
Net (decrease) in loans as a result of originations and principal repayments	483,945,937	(142,058,597)
Increase in the NCUSIF deposit	(8,058,641)	(4,643,577)
Purchase of premises and equipment	(21,367,647)	(45,278,213)
Net cash used in investing activities	(256,804,176)	(278,611,862)
Cash flows from financing activities:		
Net increase in members' shares	1,336,071,718	664,312,396
Net proceeds from (prepayments of) borrowed funds	165,000,000	(463,622,193)
Proceeds from notes payable	2,250,000	-
Repayments of notes payable	(1,797,981)	(1,422,981)
Net cash provided by financing activities	1,501,523,737	199,267,222
Increase (decrease) in cash and cash equivalents	1,259,505,812	(49,847,154)
Cash and cash equivalents, beginning of year	255,568,605	305,415,759
Cash and cash equivalents, end of year	\$ 1,515,074,417	\$ 255,568,605
Supplemental disclosure of cash flow information:		
Dividends paid on members' shares and interest paid on borrowed funds	\$ 62,748,257	\$ 69,444,345
Supplemental schedule of noncash investing and financing activities:		
Right of use assets obtained in exchange for new operating lease liabilities	\$ 18,287,259	\$ -

See notes to consolidated financial statements.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: Logix Federal Credit Union (the Credit Union) is a cooperative association holding a charter under the provisions of the Federal Credit Union Act. Membership is open to anyone who is part of the Credit Union's select employer groups or associations, as listed in the Credit Union's Charter and Bylaws, or if they are related to an existing member. The field of membership is defined in the Credit Union's Charter and Bylaws.

Recent events: On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic, which continues to cause disruption throughout the United States and around the world. The COVID-19 pandemic has adversely affected, and continues to adversely affect, economic activity globally, nationally and locally. Actions taken to help mitigate the spread of COVID-19 include restrictions on travel, lockdowns and stay-at-home orders, and forced closures for certain types of public places, businesses and schools. While the economic fallout has stabilized somewhat, COVID-19 and actions taken to mitigate its spread have had and are expected to continue to have an adverse impact on the economy, including in the geographical area in which the Credit Union operates. Disruptions to the Credit Union's members could result in increased risk of delinquencies, defaults, foreclosures and losses on loans.

A summary of the Credit Union's significant accounting policies is as follows:

Significant accounting policies: The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes the accounting principles generally accepted in the United States of America (U.S. GAAP) that are followed to ensure consistent reporting of the financial condition, results of operations and cash flows of the Credit Union. References to U.S. GAAP issued by the FASB in these notes are regarding FASB Accounting Standards Codification, (ASC or the Codification) and Accounting Standards Update (ASU).

Principles of consolidation: The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiaries, one of which is inactive. The other subsidiary is Logix Employment Services, Inc. (LESI), who leases employees to the Credit Union. All material intercompany balances and transactions have been eliminated in consolidation.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of income 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 relate to the determination of the allowance for loan losses; the fair value of financial instruments and nonfinancial assets for measurement and disclosure, including, but not limited to, available-for-sale debt securities, loans held for sale, impaired loans, foreclosed property, and loan servicing rights; and defined benefit, postretirement benefit and supplemental executive retirement plans.

Concentrations of credit risk: Most of the Credit Union's business activity is with its members, many of whom reside in Southern California. The loan portfolio is diversified as a result of the Credit Union's membership. However, the Credit Union's loan portfolio has significant balances that are collateralized by residential and commercial real estate and may be exposed to credit risk resulting from this geographic concentration. In addition, the Credit Union's loan portfolio includes certain nontraditional loans (as described in Note 3), as well as unsecured loans, which by their nature increase the risk of loss compared to those loans that are collateralized. When all other collection efforts have been exhausted, the Credit Union's policy is to enforce its first lienholder status by repossession of the collateral. Repossessed collateral normally consists of vehicles, residential and commercial real estate.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Valuation techniques are to be consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the fair value hierarchy establishes valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data

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

A summary of the Credit Union's financial instruments and other accounts subject to fair value measurement and/or disclosure, including methodologies and resulting values, is presented in Note 13.

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

Available-for-sale debt securities: Debt securities are classified as available-for-sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of individual available-for-sale debt securities below their cost that are deemed to be other than temporary are allocated to either (1) credit losses (which are reflected in earnings as realized losses) or (2) noncredit losses (which are recorded in other comprehensive income). In determining whether other-than-temporary impairments exist, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) the current liquidity and volatility of the market for each of the individual security categories, (4) the projected cash flows from the specific security type, (5) the financial guarantee and financial rating of the issuer, and (6) the intent and ability of the Credit Union to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded in noninterest income on the trade date and are determined using the specific identification method.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Other investments: The Credit Union became a member of the Federal Home Loan Bank (FHLB) of San Francisco in 2012 and is required to maintain an investment in capital stock of the FHLB in an amount equal to 1% of its membership asset value, which comprises substantially all commercial and residential mortgage loans and investment securities. No ready market exists for FHLB stock, and it has no quoted market value. Accordingly, when evaluating FHLB stock for impairment, the value is determined based on the ultimate recovery of the par value. The FHLB of San Francisco's capital ratios exceeded the required ratios as of December 31, 2020; consequently, the Credit Union does not believe that its investment in FHLB stock is impaired as of this date. FHLB stock is included in other investments on the consolidated statements of financial condition and is stated at cost.

Loans held for sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. All sales are made without recourse subject to the customary representations and warranties.

Loans, net: The Credit Union grants mortgage and consumer loans to members. The portfolio also includes commercial loans. The loan portfolio comprises three segments, with further disaggregation into classes of loans, as follows: residential real estate (first mortgages, second mortgages and equity lines), commercial (commercial real estate and Small Business Administration (SBA)) and consumer (vehicles, credit cards and other). The relevant risk characteristics for these classes of loans are as follows:

First mortgages: This portfolio class consists of wholly owned loans for which the Credit Union possesses a senior lien on the underlying collateral. Changes in real property values and the financial stability status of borrowers are key risk factors that may impact the collectibility of these loans, along with the condition of the collateral if foreclosed.

Second mortgages: This portfolio class consists of wholly owned loans for which the Credit Union possesses a junior lien on the underlying collateral. Changes in real property values and the financial stability status of borrowers are key risk factors that may impact the collectibility of these loans, along with the condition of the collateral if foreclosed.

Equity lines: This portfolio class consists of wholly owned loans for which the Credit Union possesses a junior lien on the underlying collateral. Changes in real property values and the financial stability status of borrowers are key risk factors that may impact the collectibility of these loans, along with the condition of the collateral if foreclosed.

Commercial real estate: This portfolio class consists of commercial real estate loans secured by the underlying collateral. Changes in commercial property values and the financial stability status of borrowers are key risk factors that may impact the collectibility of these loans, along with the condition of the collateral if foreclosed.

SBA Paycheck Protection Program loans: Paycheck Protection Program (PPP) loans are loans for corporate and business entities that meet the standards set forth by the Small Business Administration (SBA). The Credit Union's PPP loan portfolio comprises loans originated in accordance with SBA13 CFR Part 120 (Docket No. SBA-2020-0015), Business Loan Program Temporary Changes; Paycheck Protection Program. The PPP and loan forgiveness are intended to provide economic relief to small businesses nationwide adversely impacted under the Coronavirus Disease 2019 (COVID-19) Emergency Declaration (COVID-19 Emergency Declaration) issued on March 13, 2020. Loans originated under the PPP may be forgiven as long as loans were originated within the guidance set forth by the SBA. PPP loans generally have terms of two years and interest rates of 1%, and include loan origination fees of 1% to 5%.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Vehicles: This portfolio class primarily consists of loans that are secured by underlying collateral, which are primarily vehicles. The financial stability status of borrowers is a key risk factor that may impact the collectibility of these loans, along with the nature, value and condition of the collateral if foreclosed.

Credit cards: This portfolio class primarily consists of loans that are unsecured, which are primarily personal lines of credit. The financial stability status of borrowers is a key risk factor that may impact the collectibility of these loans due to the absence of collateral.

Other consumer: This portfolio class primarily consists of other consumer loans that are secured and unsecured. For other secured loans, the financial stability status of borrowers is a key risk factor that may impact the collectibility of these loans, along with the nature, value and condition of the collateral if foreclosed. For other unsecured loans, the financial stability status of borrowers is a key risk factor that may impact the collectibility of these loans due to the absence of collateral.

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

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 the interest method over the contractual life of the loans, adjusted for estimated prepayments.

Impaired loans: A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

Troubled debt restructurings: Included in impaired loans are troubled debt restructurings (TDR). A loan is classified as a TDR when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Credit Union grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include rate reductions, extension of maturity date, principal forgiveness and other actions intended to minimize potential losses.

Nonaccrual loans: The accrual of interest income on loans is discontinued at the time the loan is 90 days or more past due. Past-due status is based on the contractual terms of the loan. Loans are placed on nonaccrual status at an earlier date if the collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual 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, other than member business loans, are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Member business loans are returned to accrual status when the member demonstrates a sustained period of payments (typically six consecutive payments).

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

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Credit Union's allowance for loan losses and may require the Credit Union to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The Credit Union's allowance for loan losses is an 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 and the levels of nonperforming loans. Specific allowances for loan losses are established for impaired loans, including TDRs, on an individual basis as required. 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 flows, 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 by loan type. The qualitative factors associated with the allowances are subjective and require a high degree of management judgment. These factors include credit quality statistics, market values, economic uncertainty, losses incurred from recent events and other relevant data.

Charge-off policies for loans: The Credit Union's policies provide for charge-off of a loan when the balance of the loan is considered uncollectible. Specific timing and actions taken are generally based upon whether the account is identified as bankrupt or nonbankrupt. Bankruptcy accounts are evaluated for collectibility using information from the chapter filing and bankruptcy court decisions; nonbankruptcy accounts are evaluated for collectibility primarily based upon payment delinquency. Charge-off amounts are determined from the expected cash flows or the value of any available collateral, less costs to sell. While circumstances may require other terms of charge-off, unsecured loans are generally charged off no later than three months past due and secured loans no later than six months past due. A modified loan may exceed these typical past-due limits and not be charged off as long as the loan continues to perform as expected under the modified arrangements.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (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 or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loans receivable), the transfer must meet the definition of "participating interest" in order to account for the transfer as a sale. Following are the characteristics of a participating interest:

- Pro rata ownership of an entire financial asset.
- From the date of transfer, all cash flows received from the entire financial asset are divided proportionately among the participating interest holders in an amount equal to their share of ownership

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

- The rights of each participating interest holder have the same priority, and no participating interest holder's interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights as a participating interest holder.
- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to pledge or exchange the entire financial asset.

Loan servicing: Servicing rights for commercial mortgage loans are recognized as separate assets based on fair value when rights are acquired through the purchase or sale of financial assets. Fair value is based on market prices for comparable servicing contracts, when available, or on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses. Capitalized servicing rights are reported in other assets on the consolidated statements of financial condition and are subsequently accounted for using fair value method as determined by the Credit Union at the initiation of the servicing arrangement. Adjustments to fair value are included in servicing fee income.

Servicing rights for residential mortgage loans are recognized as separate assets based on fair value when rights are acquired through the purchase or sale of financial assets. They are subsequently accounted for under the amortization method and are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Under the amortization method, amounts are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. The amortization of loan servicing rights is netted against loan servicing fee income. Fair value changes most commonly are the result of changes in expected cash flows (i.e., prepayments, defaults or similar events) or changes in the valuation model inputs or assumptions. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as loan type, origination date and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Credit Union later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of loan servicing rights is netted against loan servicing fee income. For servicing assets accounted for using the fair value method, adjustments to fair value are included in noninterest expense on the consolidated statements of income.

Foreclosed property: The Credit Union has foreclosed property consisting of other real estate owned and repossessed automobiles. Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses associated with foreclosed assets, as well as the changes in the corresponding valuation allowance, are included in the consolidated statements of income as noninterest expense. As of December 31, 2020 and 2019, the Credit Union had approximately \$328,000 and \$875,000, respectively, of foreclosed property, which is included in other assets on the consolidated statements of financial condition.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Premises and equipment, net: Land is carried at cost. Buildings, leasehold improvements, and 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. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases. Management reviews premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

National Credit Union Share Insurance Fund deposit and insurance premium: The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which in prior years required the maintenance of a deposit by each federally insured credit union in an amount equal to 1% of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage was terminated, if it converted its insurance coverage to another source or if management of the fund was transferred from the NCUA Board.

Other assets: Other assets consist primarily of prepaid expenses, other receivables, foreclosed property, loan servicing rights and right-of-use assets.

Leases: Effective January 1, 2020, the Credit Union applied the accounting guidance included in ASU 2016-13, Leases, and has included the right-of-use asset and lease liability in other assets and other liabilities on the consolidated statements of financial condition, respectively. Lease liabilities represent the Credit Union's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the rate implicit in the lease, if determinable, or otherwise at the Credit Union's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Credit Union's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor. The Credit Union's long-term lease agreements are classified as operating leases. These leases offer the option to extend the lease term and the Credit Union has included such extensions in its calculation of the lease liability to the extent the options are reasonably certain of being exercised. These lease agreements do not provide for residual value guarantees and have no restrictions or covenants.

The Credit Union has elected not to recognize leases with original lease terms of 12 months or less (short-term lease) on the consolidated statements of financial condition. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term in noninterest expense in the consolidated statements of income.

Members' shares: Members' shares are the deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Asset Liability Committee.

Advertising costs: Advertising costs are expensed as incurred.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Noninterest income: Included within noninterest income is the income from certain lending and deposit services as well as the sales of assets as described in the footnotes to these financial statements. Some of these activities are included in the scope of ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)*. The revenue within the scope of Topic 606 is from members and recognized as earned within noninterest income, as follows:

Service charges and fees on deposit accounts: The Credit Union earns fees from its 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.

Interchange income: The Credit Union earns interchange fees from debit/credit cardholder transactions conducted through the MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Commissions: The Credit Union earns income from providing investment brokerage services to members and from the sale of insurance products. These commissions are recognized when services are rendered or, for insurance products, as of the effective date of the insurance policy or the initial billing date for the policy, if later.

Gains or losses on foreclosed property: Gains or losses on the disposition of foreclosed property are recognized at the time the Credit Union's performance obligation is complete, generally when the property is delivered to the buyer at the time of the real estate closing. These amounts are included within other noninterest income.

Income taxes: The Credit Union is exempt, by statute, from federal and state income taxes. The Credit Union's wholly owned subsidiary, LESI, is subject to federal and state income taxes. Operations of the wholly owned subsidiaries resulted in an insignificant amount of income taxes for each of the years ended December 31, 2020 and 2019.

FASB ASC Topic 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken by the Credit Union, which must determine whether the tax positions are more likely than not to be sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. As of and for the years ended December 31, 2020 and 2019, management has determined that there are no material uncertain tax positions requiring recognition in the consolidated financial statements.

Pension plan: The Credit Union, through its subsidiary, LESI, has a qualified, noncontributory defined benefit pension plan. The Credit Union's policy is to fund the minimum amount required under the Employee Retirement Income Security Act of 1974. To the extent the Credit Union determines it is in its best interest, based on the availability of cash, cost of funds and internal return on capital, an amount in excess of the minimum amount required will be made.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized holding gains and losses on available-for-sale securities, the defined benefit pension plan, postretirement benefit plan and the supplemental executive retirement plan (SERP), are reported as a separate component of the members' equity section of the consolidated statements of financial condition. For 2020 and 2019, other comprehensive income (loss) includes reclassification adjustments related to realized gains on sales of available-for-sale debt securities.

Accumulated other comprehensive loss consists of the following as of December 31:

	2020	2019
Unrealized gains on available-for-sale debt securities	\$ 23,524,727	\$ 2,408,181
Minimum defined benefit pension plan liability, postretirement benefit plan and SERP adjustments	(34,556,860)	(28,745,966)
	<u>\$ (11,032,133)</u>	<u>\$ (26,337,785)</u>

Reclassifications: Certain account reclassifications have been made to the prior year's consolidated financial statements in order to conform to classifications used in the current year, with no impact to previously reported members' equity or net income.

Adoption of new accounting pronouncements: On January 1, 2020, the Credit Union adopted ASU 2016-02, *Leases (Topic 842)*, and all subsequent ASUs that modified Topic 842. The Credit Union elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods. The Credit Union also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. The implementation of the new standard resulted in recognition of a right-of-use asset and lease liability of approximately \$11 million at the date of adoption, which is related to the Credit Union's leases of office locations. The right-of-use asset and lease liability are included in other assets and other liabilities, respectively, in the consolidated statements of financial condition. See Note 5 for additional information about the Credit Union's leasing arrangements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, to ease the potential burden in accounting for reference rate reform. The amendments in ASU 2020-04 are elective and apply to all entities that have contracts or hedging relationships that reference LIBOR or other reference rates that are expected to be discontinued due to reference rate reform. The new standard provides optional expedients and other guidance regarding the accounting related to modifications of contracts, hedging relationships and other transactions affected by reference rate reform. ASU 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022. The adoption of this standard had no significant impact on the Credit Union's consolidated financial statements and disclosures.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements not yet effective: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss (CECL) model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. While the CECL model does not apply to available-for-sale (AFS) debt securities, amendments to Topic 326 require credit losses on AFS debt securities to be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. ASU 2016-13 is effective for the Credit Union for interim and annual reporting periods beginning after December 15, 2022 with early adoption is permitted. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach).

The Credit Union has selected a third-party vendor solution to assist in the application of the ASU 2016-13. The Credit Union is constructing its implementation plan which includes assessment and documentation of processes, internal controls and data sources; model development and documentation; and system configuration, among other things. The adoption of the ASU 2016-13 will result in a change in the amount of the allowance for loan losses as a result of changing from an "incurred loss" model to an "expected loss" model. While the Credit Union has not yet determined the impact of adopting ASU 2016-13, the impact of adoption is expected to be influenced by the composition, characteristics, and quality of the loan portfolio as well as the prevailing economic conditions and forecasts as of the adoption date. The Credit Union continues to evaluate the potential impact of ASU 2016-13 on its consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans General (Subtopic 715-20)—Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*. The amendments in this update modify the disclosure requirements on defined benefit plans, including requiring disclosures about significant gains and losses related to changes in the benefit obligation. This amendment is effective for fiscal years ending after December 15, 2021. Early adoption is permitted. Because this ASU primarily relates to disclosure requirements that have not previously been significant for its defined benefit plans, the Credit Union does not expect its adoption of the ASU to have a material impact on its consolidated financial statements and disclosures.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Investments

Investments classified as available-for-sale debt securities consist of the following at December 31:

	2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Collateralized mortgage obligations (CMO), agency residential	\$ 31,052,247	\$ 245,299	\$ -	\$ 31,297,546
CMOs, private residential	7,040,254	58,599	-	7,098,853
Bond, agency	17,315,567	31,458	-	17,347,025
Mortgage-backed securities (MBS), agency residential	546,928,254	9,369,693	(666)	556,297,281
Commercial Mortgage-backed securities (CMBS), agency residential	95,642,417	558,833	(18,093)	96,183,157
Mortgage-backed securities (MBS), LFCU agency residential	254,540,289	13,279,604	-	267,819,893
	<u>\$ 952,519,028</u>	<u>\$ 23,543,486</u>	<u>\$ (18,759)</u>	<u>\$ 976,043,755</u>
	2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Collateralized mortgage obligations (CMO), agency residential	\$ 16,395,038	\$ 98,863	\$ (30,949)	\$ 16,462,952
CMOs, private residential	19,691,606	72,501	(197,457)	19,566,650
Mortgage-backed securities (MBS), agency residential	167,808,069	1,772,351	(134,525)	169,445,895
Mortgage-backed securities (MBS), LFCU agency residential	38,009,292	827,397	-	38,836,689
	<u>\$ 241,904,005</u>	<u>\$ 2,771,112</u>	<u>\$ (362,931)</u>	<u>\$ 244,312,186</u>

The Credit Union's MBSs consist of residential real estate mortgage obligations and residential real estate CMO securities. Gross realized gains on sales of investments available for sale were approximately \$6,909,000 and \$605,000 in 2020 and 2019, respectively. There were no realized losses on sales of investments available-for-sale debt securities in 2020 or 2019.

As of December 31, 2020 and 2019, available-for-sale debt securities with a fair value totaling approximately \$21,894,000 and \$26,160,000, respectively, have been pledged as collateral to secure FHLB advances, as more fully disclosed in Note 7.

Agency Bond securities have the contractual maturity of one to three years. Expected maturities of MBSs and CMOs may differ from contractual maturities because borrowers or issuers may have the right to call or prepay the obligations, and are therefore classified separately with no specific maturity date.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

Gross unrealized losses and fair value by length of time that the individual available-for-sale debt securities have been in a continuous unrealized loss position are as follows at December 31:

Available for Sale	2020				
	Fair Value Associated With Unrealized Losses Existing for		Continuous Unrealized Losses Existing for		Total Unrealized Losses
	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	
CMOs, agency residential	\$ -	\$ -	\$ -	\$ -	\$ -
CMOs, private residential	-	-	-	-	-
Bond, agency	-	-	-	-	-
MBSs, agency residential	551,302	-	(666)	-	(666)
CMBSs, agency commercial	8,267,043	-	(18,093)	-	(18,093)
MBSs, LFCU agency residential	-	-	-	-	-
	<u>\$ 8,818,345</u>	<u>\$ -</u>	<u>\$ (18,759)</u>	<u>\$ -</u>	<u>\$ (18,759)</u>

Available for Sale	2019				
	Fair Value Associated With Unrealized Losses Existing for		Continuous Unrealized Losses Existing for		Total Unrealized Losses
	Less Than 12 Months	More Than 12 Months	Less Than 12 Months	More Than 12 Months	
CMOs, agency residential	\$ -	\$ 3,746,733	\$ -	\$ (30,949)	\$ (30,949)
CMOs, private residential	-	8,863,464	-	(197,457)	(197,457)
MBSs, agency residential	58,659,969	3,733,469	(118,981)	(15,544)	(134,525)
MBSs, LFCU agency residential	-	-	-	-	-
	<u>\$ 58,659,969</u>	<u>\$ 16,343,666</u>	<u>\$ (118,981)</u>	<u>\$ (243,950)</u>	<u>\$ (362,931)</u>

At December 31, 2020 and 2019, the investment portfolio included three and seven securities, respectively, with unrealized losses that have existed for less than one year. In addition, the investment portfolio included zero and six securities, respectively, with unrealized losses that had existed for longer than one year.

Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary, resulting primarily due to changes in interest rates and market illiquidity rather than credit deterioration of the investments. In addition, management of the Credit Union does not intend to sell, nor will the Credit Union be required to sell, these investment securities prior to the recovery of the amortized cost basis. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

Other investments consist of FHLB stock in the amount of \$17,250,000 at both December 31, 2020 and 2019. FHLB stock has been classified with no contractual maturity.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Loans, Net

Loans, net, consist of the following, presented by portfolio segment, at December 31:

	2020	2019
Residential real estate:		
First mortgages, fixed rate	\$ 1,582,577,709	\$ 1,832,431,792
First mortgages, variable rate	1,389,413,931	1,517,023,477
	<u>2,971,991,640</u>	<u>3,349,455,269</u>
Second mortgages, fixed rate	53,039,883	85,618,977
Equity lines, variable rate	334,013,225	361,354,635
Total residential real estate	<u>3,359,044,748</u>	<u>3,796,428,881</u>
Commercial:		
Real estate, fixed rate	97,192,286	122,029,650
Real estate, variable rate	273,048,457	239,857,236
	<u>370,240,743</u>	<u>361,886,886</u>
SBA	564,530	-
Total commercial	<u>370,805,273</u>	<u>361,886,886</u>
Consumer:		
Vehicle loans	992,746,075	1,025,031,696
Credit card loans, unsecured	218,332,657	240,986,633
Other consumer loans, primarily unsecured	89,979,283	101,256,710
Total consumer	<u>1,301,058,015</u>	<u>1,367,275,039</u>
Total loans receivable	5,030,908,036	5,525,590,806
Deferred net loan origination costs	19,441,940	20,780,659
Allowance for loan losses	(70,286,588)	(67,223,421)
	<u>\$ 4,980,063,388</u>	<u>\$ 5,479,148,044</u>

Commercial loans primarily consist of loans that are secured by office, industrial, apartment and retail business property. The Credit Union has purchased commercial participation loans originated by various other credit unions to faith-based organizations and other businesses. All of these loan participations were purchased without recourse and are secured by real property. The originating credit unions perform all servicing functions on these loans.

The Credit Union has nontraditional mortgage loans. These loans include hybrid adjustable rate mortgage (ARM), balloon and interest-only loans. Hybrid ARMs are loans that are fixed for an initial period of three, five, seven or 10 years. After this period, the mortgages are converted to a variable rate using the fully indexed rate, annually or every five years, which can result in payment shock for the borrower. Balloon loans do not fully amortize over their term and have a final payment for the nonamortized balance upon maturity. Interest-only loans allow the borrower to pay only interest for a specified number of years, after which the principal becomes due or the loan amortizes principal over its remaining term. The nontraditional mortgage loans amounted to approximately \$1,404,447,000 and \$1,540,735,000 at December 31, 2020 and 2019, respectively.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Loans, Net (Continued)

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 these additional risks. The Credit Union has discontinued offering certain nontraditional mortgage products.

Included in mortgage loans are first trust deeds in the amount of approximately \$1,872,205,000 and \$2,305,807,000 at December 31, 2020 and 2019, respectively, which have been pledged as collateral to secure FHLB advances, as more fully disclosed in Note 7.

In 2020, the Credit Union began participating in the Paycheck Protection Program (PPP), which is a loan program that originated from the Coronavirus Aid, Relief and Economic Security (CARES) Act and was subsequently expanded by the Paycheck Protection Program and Health Care Enhancement Act. The PPP is designed to provide U.S. small businesses with cash-flow assistance through loans fully guaranteed by the SBA. If the borrower meets certain criteria and uses the proceeds towards certain eligible expenses, the borrower's obligation to repay the loan can be forgiven up to the full principal amount of the loan and any accrued interest. Upon borrower forgiveness, the SBA pays the Credit Union for the principal and accrued interest owed on the loan. If the full principal of the loan is not forgiven, the loan will operate according to the original loan terms with the 100% SBA guaranty remaining. As compensation for originating the loans, the Credit Union received lender processing fees from the SBA, which are capitalized along with the loan origination costs, net of origination costs, and will be amortized over the loans' contractual lives and recognized as interest income. Upon forgiveness of a loan and repayment by the SBA, any unrecognized net capitalized fees and costs related to the loan will be recognized as interest income in the period of repayment. The Credit Union originated PPP loans totaling approximately \$621,000 during 2020. At December 31, 2020, the Credit Union had 31 PPP loans with outstanding balances totaling \$565,000 and deferred loan fees, net, totaling approximately \$31,000. PPP loans are included in SBA loans.

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

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Loans, Net (Continued)

The following tables present, by loan portfolio segment, the activity in the allowance for loan losses and the recorded investments in loans and the associated allowance amounts according to the two methods of impairment (collectively evaluated and individually evaluated):

	December 31, 2020			
	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses:				
Beginning balance	\$ 33,612,114	\$ 6,057,224	\$ 27,554,083	\$ 67,223,421
Provision	7,237,358	1,470,205	5,092,437	13,800,000
Charge offs	(92,143)	-	(13,323,533)	(13,415,676)
Recoveries	201,701	44,034	2,433,108	2,678,843
Ending balance	<u>\$ 40,959,030</u>	<u>\$ 7,571,463</u>	<u>\$ 21,756,095</u>	<u>\$ 70,286,588</u>
Ending balance: individually evaluated for impairment	\$ 1,092,574	\$ 111,082	\$ 1,208,807	\$ 2,412,463
Ending balance: collectively evaluated for impairment	39,866,456	7,460,381	20,547,288	67,874,125
	<u>\$ 40,959,030</u>	<u>\$ 7,571,463</u>	<u>\$ 21,756,095</u>	<u>\$ 70,286,588</u>
Total loans:				
Ending balance: individually evaluated for impairment	\$ 25,703,086	\$ 21,399,379	\$ 6,813,163	\$ 53,915,628
Ending balance: collectively evaluated for impairment	3,333,341,662	349,405,894	1,294,244,852	4,976,992,408
	<u>\$ 3,359,044,748</u>	<u>\$ 370,805,273</u>	<u>\$ 1,301,058,015</u>	<u>\$ 5,030,908,036</u>

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Loans, Net (Continued)

	December 31, 2019			
	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses:				
Beginning balance	\$ 29,786,295	\$ 5,704,959	\$ 25,064,707	\$ 60,555,961
Provision	3,768,345	113,521	17,718,134	21,600,000
Charge offs	(80,543)	(38,699)	(17,480,628)	(17,599,870)
Recoveries	138,017	277,443	2,251,870	2,667,330
Ending balance	<u>\$ 33,612,114</u>	<u>\$ 6,057,224</u>	<u>\$ 27,554,083</u>	<u>\$ 67,223,421</u>
Ending balance: individually evaluated for impairment	\$ 2,030,043	\$ 45,576	\$ 1,828,977	\$ 3,904,596
Ending balance: collectively evaluated for impairment	31,582,071	6,011,648	25,725,106	63,318,825
	<u>\$ 33,612,114</u>	<u>\$ 6,057,224</u>	<u>\$ 27,554,083</u>	<u>\$ 67,223,421</u>
Total loans:				
Ending balance: individually evaluated for impairment	\$ 26,793,192	\$ 12,281,283	\$ 10,355,248	\$ 49,429,723
Ending balance: collectively evaluated for impairment	3,769,635,689	349,605,603	1,356,919,791	5,476,161,083
	<u>\$ 3,796,428,881</u>	<u>\$ 361,886,886</u>	<u>\$ 1,367,275,039</u>	<u>\$ 5,525,590,806</u>

Credit quality indicators represent loan attributes and information used by the Credit Union to evaluate the adequacy of the allowance for loan losses. "Pass" loans are performing loans that are collectively evaluated for impairment. The other categories reflect the following credit quality indicators that are then used to establish loan ratings for each loan segment as follows:

Commercial: Delinquency status, financial condition and collateral value are monitored to determine whether repayment weakness exists. Accordingly, management regularly reviews and risk grades commercial loans in the Credit Union's portfolio. The risk grading system allows management to classify assets by credit quality in accordance with the Credit Union's policy. The Credit Union's internal risk-grading definition is as follows:

Pass: The loan is either risk rated as highest grade, excellent, satisfactory, acceptable or pass/watch and contains no well-defined deficiencies or weaknesses.

Special Mention: The loan has credit deficiencies or potential weaknesses that deserve management's close attention and warrant more frequent monitoring; usually current but show some sign of potential problems that, if not addressed, may affect future credit risk.

Substandard: The loan is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loan classified as "substandard" must have a well-defined weakness that jeopardizes the full recovery of the debt.

Doubtful: The loan has all the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses make collection in full, on the basis of currently existing facts, conditions and values, highly improbable. The possibility of loss is high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the loans, its classification as an estimated loss is deferred until its more exact status may be determined.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Loans, Net (Continued)

Loss: The loan is considered uncollectible and of such little value that continuing to carry it as an asset on the statements of financial condition is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather, it is not practical to defer writing off the asset, even though the partial recovery may be affected in the future.

The following presents, by credit quality indicator, the commercial portfolio:

	December 31, 2020				Total Loans
	Pass	Special Mention	Substandard	Loss	
Commercial:					
Real estate	\$ 350,622,187	\$ 13,664,295	\$ 5,954,261	\$ -	\$ 370,240,743
SBA	564,530	-	-	-	564,530
Total commercial	<u>\$ 351,186,717</u>	<u>\$ 13,664,295</u>	<u>\$ 5,954,261</u>	<u>\$ -</u>	<u>\$ 370,805,273</u>

	December 31, 2019				Total Loans
	Pass	Special Mention	Substandard	Loss	
Commercial:					
Real estate	\$ 349,605,604	\$ 10,265,546	\$ 2,015,736	\$ -	\$ 361,886,886
SBA	-	-	-	-	-
Total commercial	<u>\$ 349,605,604</u>	<u>\$ 10,265,546</u>	<u>\$ 2,015,736</u>	<u>\$ -</u>	<u>\$ 361,886,886</u>

Residential real estate: Delinquency status serves as the initial indicator for loan rating purposes, with collateral value and repayment considerations then evaluated to determine if the loan is to be categorized as performing or nonperforming.

Consumer: Delinquency status is the primary factor considered with further analysis performed at the loan level to determine if the loan is to be categorized as performing or nonperforming.

The following tables present the residential real estate and consumer loans portfolio based on the Credit Union's credit quality categories:

	December 31, 2020		Total Loans
	Performing	Nonperforming	
Residential real estate:			
First mortgages	\$ 2,950,870,531	\$ 21,121,109	\$ 2,971,991,640
Second mortgages	51,890,134	1,149,749	53,039,883
Equity lines	330,580,997	3,432,228	334,013,225
Total residential real estate	<u>3,333,341,662</u>	<u>25,703,086</u>	<u>3,359,044,748</u>
Consumer:			
Vehicles	987,525,594	5,220,481	992,746,075
Credit cards	217,116,728	1,215,929	218,332,657
Other	89,602,530	376,753	89,979,283
Total consumer	<u>1,294,244,852</u>	<u>6,813,163</u>	<u>1,301,058,015</u>
Total	<u>\$ 4,627,586,514</u>	<u>\$ 32,516,249</u>	<u>\$ 4,660,102,763</u>

Logix Federal Credit Union and Subsidiaries**Notes to Consolidated Financial Statements**

Note 3. Loans, Net (Continued)

	December 31, 2019		
	Performing	Nonperforming	Total Loans
Residential real estate:			
First mortgages	\$ 3,324,870,674	\$ 24,584,595	\$ 3,349,455,269
Second mortgages	84,972,362	646,615	85,618,977
Equity lines	359,792,653	1,561,982	361,354,635
Total residential real estate	<u>3,769,635,689</u>	<u>26,793,192</u>	<u>3,796,428,881</u>
Consumer:			
Vehicles	1,016,770,804	8,260,892	1,025,031,696
Credit cards	239,395,493	1,591,140	240,986,633
Other	100,753,494	503,216	101,256,710
Total consumer	<u>1,356,919,791</u>	<u>10,355,248</u>	<u>1,367,275,039</u>
Total	<u>\$ 5,126,555,480</u>	<u>\$ 37,148,440</u>	<u>\$ 5,163,703,920</u>

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Loans, Net (Continued)

Impaired loans consist primarily of TDRs, classified commercial loans (special mention through loss categories) and nonaccrual loans. The following table includes information for impaired loans by class, with additional segregation of balances and allowances by those loans requiring a specific allowance and those that do not require a specific allowance:

	December 31, 2020			December 31, 2019		
	Unpaid Principal Balance	Associated Allowance	Average Balance	Unpaid Principal Balance	Associated Allowance	Average Balance
Allowance recorded:						
Residential real estate:						
First mortgages	\$ 4,911,315	\$ 692,028	\$ 7,294,175	\$ 9,677,034	\$ 1,290,892	\$ 10,092,034
Second mortgages	363,326	152,755	332,797	302,268	143,960	394,269
Equity lines	483,598	247,791	638,094	792,589	595,191	798,552
Total residential real estate	5,758,239	1,092,574	8,265,066	10,771,891	2,030,043	11,284,855
Commercial:						
Real estate	2,188,150	111,082	1,996,037	1,803,923	45,576	1,438,429
SBA	-	-	-	-	-	37,834
Total commercial	2,188,150	111,082	1,996,037	1,803,923	45,576	1,476,263
Consumer:						
Vehicles	5,220,481	338,889	6,740,687	8,260,892	686,963	9,311,978
Credit cards	1,215,929	632,389	1,403,535	1,591,140	888,882	1,513,341
Other	376,753	237,529	439,985	503,216	253,132	470,159
Total consumer	6,813,163	1,208,807	8,584,207	10,355,248	1,828,977	11,295,478
Subtotal	14,759,552	2,412,463	18,845,310	22,931,062	3,904,596	24,056,596
No allowance recorded:						
Residential real estate:						
First mortgages	16,209,794	-	15,558,678	14,907,561	-	12,720,051
Second mortgages	786,423	-	565,385	344,347	-	301,978
Equity lines	2,948,630	-	1,859,012	769,393	-	931,463
Total residential real estate	19,944,847	-	17,983,075	16,021,301	-	13,953,492
Commercial:						
Real estate	19,211,229	-	14,844,295	10,477,360	-	11,909,739
SBA	-	-	-	-	-	-
Total commercial	19,211,229	-	14,844,295	10,477,360	-	11,909,739
Subtotal	39,156,076	-	32,827,370	26,498,661	-	25,863,231
Total	\$ 53,915,628	\$ 2,412,463	\$ 51,672,680	\$ 49,429,723	\$ 3,904,596	\$ 49,919,827

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Loans, Net (Continued)

For the years ended December 31, 2020 and 2019, residential real estate and commercial loan interest income of approximately \$2,068,000 and \$2,286,000, respectively, was recognized on impaired loans. No significant amount of interest income was recognized on impaired consumer loans in 2020 or 2019. There were no loans more than three months past due and still accruing interest at December 31, 2020 or 2019.

Nonaccrual loans at December 31 are presented by class as follows:

	2020	2019
Residential real estate:		
First mortgages	\$ 11,435,196	\$ 13,208,722
Second mortgages	182,362	237,972
Equity lines	1,633,799	1,233,750
Total residential real estate	<u>13,251,357</u>	<u>14,680,444</u>
Commercial:		
Real estate	5,240,366	-
Total commercial	<u>5,240,366</u>	<u>-</u>
Consumer:		
Vehicles	408,822	1,087,046
Credit cards	523,626	848,620
Other	251,948	292,080
Total consumer	<u>1,184,396</u>	<u>2,227,746</u>
 Total	 <u>\$ 19,676,119</u>	 <u>\$ 16,908,190</u>

The Credit Union monitors loans using the delinquency categories presented in the following tables. The tables include TDRs for which delinquency is reported consistent with the modified loans' contractual terms.

	December 31, 2020						
	Current	1 to < 2 Months	Reportable Delinquency			Total Reportable	Total Loans
			2 to < 6 Months	6 to 12 Months	> 12 Months		
Residential real estate:							
First mortgages	\$ 2,929,489,645	\$ 28,523,131	\$ 8,149,920	\$ 2,957,361	\$ 2,871,583	\$ 13,978,864	\$ 2,971,991,640
Second mortgages	52,639,495	218,025	2,377	137,224	42,762	182,363	53,039,883
Equity lines	329,456,746	1,626,205	2,082,379	437,684	410,211	2,930,274	334,013,225
Total residential real estate	<u>3,311,585,886</u>	<u>30,367,361</u>	<u>10,234,676</u>	<u>3,532,269</u>	<u>3,324,556</u>	<u>17,091,501</u>	<u>3,359,044,748</u>
Commercial:							
Real estate	365,000,377	-	5,240,366	-	-	5,240,366	370,240,743
SBA	564,530	-	-	-	-	-	564,530
Total commercial	<u>365,564,907</u>	<u>-</u>	<u>5,240,366</u>	<u>-</u>	<u>-</u>	<u>5,240,366</u>	<u>370,805,273</u>
Consumer:							
Vehicles	988,084,595	3,606,311	1,052,665	2,504	-	1,055,169	992,746,075
Credit cards	215,115,735	1,825,825	1,391,097	-	-	1,391,097	218,332,657
Other	89,226,239	330,735	422,309	-	-	422,309	89,979,283
Total consumer	<u>1,292,426,569</u>	<u>5,762,871</u>	<u>2,866,071</u>	<u>2,504</u>	<u>-</u>	<u>2,868,575</u>	<u>1,301,058,015</u>
 Total	 <u>\$ 4,969,577,362</u>	 <u>\$ 36,130,232</u>	 <u>\$ 18,341,113</u>	 <u>\$ 3,534,773</u>	 <u>\$ 3,324,556</u>	 <u>\$ 25,200,442</u>	 <u>\$ 5,030,908,036</u>

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Loans, Net (Continued)

	December 31, 2019						
	Current	1 to < 2 Months	Reportable Delinquency			Total Reportable	Total Loans
			2 to < 6 Months	6 to 12 Months	> 12 Months		
Residential real estate:							
First mortgages	\$ 3,295,966,459	\$ 34,878,467	\$ 13,272,884	\$ 2,574,462	\$ 2,762,997	\$ 18,610,343	\$ 3,349,455,269
Second mortgages	84,490,143	800,451	249,761	29,002	49,620	328,383	85,618,977
Equity lines	358,128,804	1,370,933	1,170,841	543,965	140,092	1,854,898	361,354,635
Total residential real estate	3,738,585,406	37,049,851	14,693,486	3,147,429	2,952,709	20,793,624	3,796,428,881
Commercial:							
Real estate	361,886,886	-	-	-	-	-	361,886,886
SBA	-	-	-	-	-	-	-
Total commercial	361,886,886	-	-	-	-	-	361,886,886
Consumer:							
Vehicles	1,016,285,641	6,465,332	2,280,723	-	-	2,280,723	1,025,031,696
Credit cards	236,461,747	2,490,840	2,034,046	-	-	2,034,046	240,986,633
Other	100,222,923	459,395	574,392	-	-	574,392	101,256,710
Total consumer	1,352,970,311	9,415,567	4,889,161	-	-	4,889,161	1,367,275,039
Total	\$ 5,453,442,603	\$ 46,465,418	\$ 19,582,647	\$ 3,147,429	\$ 2,952,709	\$ 25,682,785	\$ 5,525,590,806

The Credit Union has modified loans to assist members who are expected to perform according to the modified loan terms. Modifications generally provide the member with lower payments through either the reduction of the interest rate and/or the extension of the maturity date. Principal amounts are rarely forgiven. Because of the nature of the allowable TDR terms granted by the Credit Union, the financial effects of such modifications are considered insignificant to the Credit Union. TDRs are summarized as follows:

	December 31, 2020			
	Number of Contracts	Balance	Associated Allowance	Net Balance
Outstanding as of end of year:				
Residential real estate	40	\$ 7,632,664	\$ 831,268	\$ 6,801,396
Commercial	2	2,087,389	29,599	2,057,790
Consumer	611	5,884,828	280,472	5,604,357
Total	653	\$ 15,604,881	\$ 1,141,339	\$ 14,463,543

	December 31, 2019			
	Number of Contracts	Balance	Associated Allowance	Net Balance
Outstanding as of end of year:				
Residential real estate	56	\$ 12,011,515	\$ 1,412,522	\$ 10,598,993
Commercial	3	2,835,233	45,576	2,789,657
Consumer	863	9,144,620	524,163	8,620,457
Total	922	\$ 23,991,368	\$ 1,982,261	\$ 22,009,107

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Loans, Net (Continued)

	December 31, 2020		December 31, 2019	
	Number of Contracts	Post-Modification Balance	Number of Contracts	Post-Modification Balance
Loans modified during the year:				
Residential real estate:				
First mortgages	-	\$ -	-	\$ -
Consumer:				
Vehicles	73	1,229,596	191	3,211,307
Credit cards	21	152,378	28	232,025
Other	9	101,665	18	163,731
Total consumer	103	1,483,639	237	3,607,063
Total	103	\$ 1,483,639	237	\$ 3,607,063

	December 31, 2020		December 31, 2019	
	Number of Contracts	Post-Modification Balance	Number of Contracts	Post-Modification Balance
Modified loans for which payment default occurred (redefaults):				
Residential real estate:				
First mortgages	-	\$ -	-	\$ -
Consumer:				
Vehicles	1	12,391	1	19,948
Other	-	-	-	-
Total consumer	1	12,391	1	19,948
Total	1	\$ 12,391	1	\$ 19,948

As of December 31, 2020 and 2019, there are no commitments to lend additional funds to members whose loans have been modified as TDRs.

COVID-19 related modifications: During 2020, the Credit Union implemented principal and interest deferral programs to provide its borrowers relief from the economic impacts of the COVID-19 pandemic. In accordance with the CARES Act, the Credit Union has elected not to apply troubled debt restructuring classification to any COVID-19 related loan modifications that were performed after March 1, 2020 to borrowers who were current at December 31, 2019. Accordingly, these restructurings are not classified as troubled debt restructuring.

In addition, for loans modified in response to the COVID-19 pandemic that do not meet the above criteria (e.g., current payment status at December 31, 2019), the Credit Union is applying the guidance under the applicable interagency guidance issued by the Credit Union's regulatory agencies. This guidance states that loan modifications performed in light of the COVID-19 pandemic, including loan payment deferrals that are up to six months in duration, that were granted to borrowers who were current as of the implementation date of a loan modification program or modifications granted under government mandated modification programs, are not troubled debt restructuring. For loan modifications that include a payment deferral and are not troubled debt restructuring, the borrower's past due and nonaccrual status have not been impacted during the deferral period. The Credit Union has continued to accrue interest during the deferral period using a constant effective yield method, and the contractual interest that accrued during the deferral period is payable at the maturity of the loan. The Credit Union includes these amounts with the unpaid principal balance when computing its allowance for credit losses. Amounts that are subsequently deemed uncollectible are written off against the allowance for credit losses.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Loans, Net (Continued)

During 2020, the Credit Union granted CARES Act restructurings in the form of payment deferrals as follows:

Residential real estate: Total loans restructured in 2020 were approximately 1,900 loans with principal balances totaling approximately \$574,000,000. As of December 2020, the majority of these loans had resumed payments with the exception of 576 loans with remaining principal balances totaling approximately \$271,047,000.

Commercial: Total loans restructured in 2020 were approximately 70 loans with the principal balances totaling approximately \$148,802,000. As of December 2020, all loans had resumed payments.

Consumer: Total loans restructured in 2020 were approximately 13,500 loans with principal balances totaling \$183,520,000. As of December 2020, the majority of these loans had resumed payments with the exception of 267 loans with remaining principal balances totaling approximately \$3,211,000.

Note 4. Loan Servicing

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

	2020	2019
Residential loans serviced for:		
Federal National Mortgage Association (FNMA)	\$ 1,723,942,109	\$ 1,182,996,767
FHLB	205,965,231	323,111,204
Other investors	22,492,007	49,457,718
	<u>1,952,399,347</u>	<u>1,555,565,689</u>
Commercial loans serviced	201,579,559	265,478,404
	<u>\$ 2,153,978,906</u>	<u>\$ 1,821,044,093</u>

A summary of the changes in the balance of loan servicing rights for residential mortgage loans under the amortization method for the years ended December 31 is as follows:

	2020	2019
Balance, beginning of year	\$ 13,689,745	\$ 11,542,373
Servicing assets recognized during the year	9,091,588	4,298,405
Amortization of servicing assets	(4,495,038)	(2,151,033)
Valuation allowance	(5,925,058)	-
Balance, end of year	<u>\$ 12,361,237</u>	<u>\$ 13,689,745</u>

The fair value of servicing rights of residential mortgage loans was approximately \$12,361,000 and \$13,886,000 as of December 31, 2020 and 2019, respectively.

The Credit Union also recorded servicing rights of commercial mortgage loans at fair value of approximately \$2,114,000 and \$3,038,000 as of December 31, 2020 and 2019, respectively.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Loan Servicing (Continued)

Residential mortgage loan servicing rights assumptions: Significant assumptions made in the calculations of servicing assets include discount rates ranging from 9.0% to 12.0% for the year ended December 31, 2020, and 9.5% to 12.5% for the year ended December 31, 2019, and weighted prepayment speeds of 404 and 202 for the years ended December 31, 2020 and 2019, respectively, utilizing the Public Securities Association factors. The expected life of the loan portfolio associated with servicing assets was approximately 3.59 years and 5.78 years as of December 31, 2020 and 2019, respectively.

Commercial mortgage loan servicing rights assumptions: Significant assumptions made in the calculations of servicing assets include discount rate of 10% for both the years ended December 31, 2020 and 2019, and a conditional prepayment rate of 15% for both the years ended December 31, 2020 and 2019. For the year ended December 31, 2020, the prepayment assumptions have been benchmarked to the SBA 7(a) historic data, updated in Bloomberg as of December 2020 with prepayment rates ranging from 3.10% in year one and peak at 21.52% in year 10. For the year ended December 31, 2019, the prepayment assumptions have been benchmarked to the SBA 7(a) historic data, updated in Bloomberg as of December 2019 with prepayment rates ranging from 3.29% in year one and peak at 25.51% in year 10. The expected life of the loan portfolio associated with servicing assets was approximately 44 months and 34 months as of December 31, 2020 and 2019, respectively.

Servicing arrangements: The Credit Union has an existing master agreement with FNMA whereby sales of fixed-interest residential mortgage loans may be securitized and retained by the Credit Union in the form of Logix Federal Credit Union agency residential MBSs (see Note 2). Consistent with other loans sold, these sales are made without recourse, are subject to customary representations and warranties, and are guaranteed by FNMA.

In May 2016, the Credit Union became a member of the FHLB Original Mortgage Partnership Finance program to sell loans to the FHLB. The program calls for credit risk sharing with the FHLB up to a maximum of 8% of the loan amount, referred to as the credit enhancement (CE) obligation. A CE fee of 10 basis points of the outstanding master commitment balances is paid to the Credit Union by the FHLB on a monthly basis. The Credit Union entered into an agreement with the FHLB providing for a mandatory commitment of \$50 million in loans and a maximum CE amount of \$4 million. In the event of underdelivery, the Credit Union is subject to a pair-off or price-adjustment fee for any portion of the delivery commitment that is under or over the tolerance limit of 1%. In December 2020, the Credit Union terminated the MPF program with FHLB. As a result of the program termination, the Credit Union will continue this accounting for as long as the previously sold loans have balances subject to servicing.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Premises and Equipment, Net

Premises and equipment, net are summarized as follows at December 31:

	2020	2019
Land	\$ 20,880,029	\$ 19,607,618
Building	14,620,480	14,599,076
Furniture and equipment	44,834,893	40,653,058
Leasehold improvements	11,235,287	10,989,058
	<u>91,570,689</u>	<u>85,848,810</u>
Accumulated depreciation and amortization	(56,377,916)	(52,196,960)
	<u>35,192,773</u>	<u>33,651,850</u>
Construction in progress	98,435,328	84,485,906
	<u>\$ 133,628,101</u>	<u>\$ 118,137,756</u>

In June 2015, the Credit Union executed a purchase and sale agreement for the acquisition of a 12-acre parcel of land located in Santa Clarita, California, for approximately \$15.6 million. This acquired property is being developed as the site of the Credit Union's new headquarters. During 2020 and 2019, the Credit Union incurred approximately \$13,676,000 and \$39,686,000, respectively, for the ongoing construction of its new headquarters, which is inclusive of the total capitalized interest expense. For the years ended December 31, 2020 and 2019, the Credit Union capitalized interest expense totaling approximately \$952,400 and \$1,080,000, respectively. The Credit Union currently anticipates completion of this new headquarters by May 2021.

The Credit Union leases 17 offices, which are classified as operating leases and contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liabilities is as follows:

Years ending December 31:	
2021	\$ 3,002,000
2022	2,775,000
2023	2,516,000
2024	2,092,000
2025	1,726,000
Subsequent years	<u>3,647,000</u>
Less imputed interest	15,758,000
Discount	(568,000)
Lease liabilities	<u>\$ 15,190,000</u>

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Premises and Equipment, Net (Continued)

The following table presents information about the Credit Union's leases at December 31:

	<u>2020</u>
Lease liabilities	\$ 15,190,000
Right-of-use asset	14,342,000
Weighted average remaining lease term	6.3
Weighted average discount rate	1.24%
	<u>2020</u>
Operating lease cost for offices	\$ 2,956,000
Cash paid for amounts included in the measurement of lease liabilities	2,808,000

Right-of-use assets obtained in exchange for new operating lease liabilities were approximately \$18,287,000 for the year ended December 31, 2020, including approximately \$11,000,000, which resulted from the adoption of ASU 2016-02.

Rental expense for all operating leases (offices and short-term leases) totaled approximately \$4,112,000 and \$3,964,000, for the years ended December 31, 2020 and 2019, respectively.

Note 6. Members' Shares

Members' shares are summarized as follows at December 31:

	<u>2020</u>	<u>2019</u>
Regular shares	\$ 820,674,789	\$ 607,791,612
Share draft accounts	764,186,797	557,687,165
Money market accounts	3,715,152,563	2,823,075,357
Individual Retirement Account (IRA) shares	138,886,869	113,972,232
Certificates	1,038,393,185	1,038,696,119
	<u>\$ 6,477,294,203</u>	<u>\$ 5,141,222,485</u>

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Members' Shares (Continued)

Shares by maturity as of December 31, 2020, are summarized as follows:

No contractual maturity	<u>\$ 5,438,901,018</u>
Zero to one year maturity	831,488,943
One to two years maturity	129,026,648
Two to three years maturity	40,672,259
Three to four years maturity	19,541,165
Four to five years maturity	<u>17,664,170</u>
	<u>1,038,393,185</u>
	<u><u>\$ 6,477,294,203</u></u>

Regular shares, share draft accounts, money market accounts and IRA shares have no contractual maturity. Certificate accounts have maturities of five years or less.

The NCUSIF insures members' shares and certain IRAs and Keogh accounts up to a maximum federal deposit insurance level of \$250,000. This includes all account types, such as regular share, share draft, money market and certificates of deposit. IRA and Keogh account coverage remains at up to \$250,000 separate from other types of accounts owned.

The aggregate amount of certificates in denominations of \$250,000 or more at December 31, 2020 and 2019, is approximately \$243,000,000 and \$219,501,000, respectively.

Note 7. Borrowed Funds and Notes Payable

Borrowed funds: The Credit Union utilizes a demand loan agreement with the FHLB under a Securities-Backed Credit Program. The terms of the agreement call for pledging of certain debt securities held in safekeeping by the FHLB of approximately \$21,894,000 and \$26,160,000 at December 31, 2020 and 2019, respectively, as more fully described in Note 2. This current agreement provides for a maximum borrowing amount of approximately \$20,787,000.

The Credit Union also has a demand loan agreement with the FHLB under the Standard Credit Program. Any and all advances under this agreement are secured by certain first trust deeds of approximately \$1,872,205,000 and \$2,305,807,000 at December 31, 2020 and 2019, respectively, as more fully described in Note 3. This current agreement provides for a maximum borrowing amount of approximately \$1,872,205,000. There is an overall maximum financing availability of approximately \$1,557,200,000 at the FHLB.

At December 31, 2020, total borrowing under the above agreements was approximately \$250,000,000 with interest at 0.62%. All outstanding borrowing matures in March 2021. At December 31, 2019, total borrowing under the above agreements was approximately \$85,000,000 with interest at 1.66%.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. Borrowed Funds and Notes Payable (Continued)

The following is other pertinent data with respect to short-term borrowings with the FHLB for the years ended December 31:

	2020	2019
Average borrowings during the year	\$ 250,000,000	\$ 91,778,000
Maximum amount outstanding during the year	500,000,000	548,622,000
Weighted-average monthly interest on borrowings:		
During the year	0.5%	2.4%
At year-end	0.6%	1.7%

The Credit Union also has a borrowing agreement with the Federal Reserve Bank's Discount Window. The total borrowing limit under this agreement is based on any amount that can be pledged as collateral to cover any such advances. At December 31, 2020 and 2019, there were no borrowings under this agreement. In May 2018, for ease of financing, the Credit Union's borrowing agreement with the Federal Reserve Bank's Discount Window was amended. At December 31, 2020 and 2019, the Credit Union pledged \$400,001,000 and \$400,013,000, respectively, of consumer auto loans as collateral to cover any advances.

All outstanding borrowing matured and were paid in full on March 19, 2021.

Notes payable: The Credit Union has entered into notes payable agreements for the purchase of technology equipment, software and services. The financed assets serve as collateral for the borrowings which totaled \$1,875,000 and \$1,422,981 as of December 31, 2020 and 2019, respectively. The notes payable include interest of 0.80% and are due in periodic installment payments through September 2022 and September 2020 as of December 31, 2020 and 2019, respectively.

Note 8. Off-Balance-Sheet Activities

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

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

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. However, if all commitments were to be drawn upon, it would result in significant liquidity pressure for the Credit Union. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained to secure borrowings on the lines of credit is based on management's credit evaluation of the member.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Off-Balance-Sheet Activities (Continued)

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

Outstanding commitments to fund mortgage loans at December 31, 2020 and 2019, total approximately \$504,962,000 and \$103,766,000, respectively.

Unfunded loan commitments under lines of credit are summarized as follows at December 31:

	2020	2019
Credit card	\$ 729,624,000	\$ 696,073,000
Home equity	569,183,000	535,399,000
Other	19,779,000	18,853,000
	<u>\$ 1,318,586,000</u>	<u>\$ 1,250,325,000</u>

Note 9. Commitments and Contingent Liabilities

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

The Credit Union had approximately \$145,762,000 and \$89,436,000 in outstanding commitments to sell loans to the secondary market or for investment purposes at December 31, 2020 and 2019, respectively.

Note 10. Employee Benefits

Defined benefit pension plan: The Credit Union, through its subsidiary, sponsors a defined benefit pension plan for the benefit of its employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future.

Effective December 31, 2006, the plan was amended to freeze the benefit accrual for salaried employees who are under the age of 40 with less than five years of service as of December 31, 2006.

The Codification requires the Credit Union to recognize the funding status of its defined benefit pension plan in its consolidated statements of financial condition, with a corresponding adjustment to accumulated other comprehensive income. Net unrecognized actuarial losses and unrecognized prior service costs are recognized as net periodic pension plan cost pursuant to the Credit Union's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that are not recognized as net periodic pension cost in the same period will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension plan cost on the same basis as the amounts recognized in accumulated other comprehensive income.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Employee Benefits (Continued)

	2020	2019
Benefit obligation	\$ (100,479,611)	\$ (87,678,751)
Fair value of plan assets	89,852,612	78,434,305
Funded status	<u>\$ (10,626,999)</u>	<u>\$ (9,244,446)</u>

Amounts recognized in the consolidated statements of financial condition pension liability

	<u>\$ (10,626,999)</u>	<u>\$ (9,244,446)</u>
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Accumulated benefit obligation

	<u>\$ (92,990,119)</u>	<u>\$ (80,362,590)</u>
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	2020	2019
Net pension cost	\$ 1,361,634	\$ 2,875,049
Employer contribution	5,000,000	11,300,000
Plan participants' contribution	-	-
Benefit payments	2,739,168	2,492,397

Amounts recognized in accumulated other comprehensive loss at December 31 consist of the following:

	2020	2019
Loss	\$ 29,398,623	\$ 24,202,956
Prior service cost	1,128,460	1,303,208
	<u>\$ 30,527,083</u>	<u>\$ 25,506,164</u>

The following are the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic pension cost over the year ending December 31, 2021:

Loss	\$ 2,204,299
Prior service cost	207,569

	2020	2019
Assumptions used to determine benefit obligation:		
Discount rate	2.7%	3.4%
Rate of compensation increase	4.0%	4.0%

	2020	2019
Assumptions used to determine net pension cost:		
Discount rate	3.0%-3.5%	4.1%-4.4%
Expected long-term return on plan assets	6.6%	6.6%
Rate of compensation increase	4.0%	4.0%

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Employee Benefits (Continued)

Expected long-term return on plan assets is determined by using industry averages from other institutions with similar plan asset allocations.

The Credit Union's pension plan weighted-average asset allocations by asset category are as follows at December 31:

	2020	2019
Equity securities (including common collective trust funds)	50.3%	70.8%
Fixed-income securities	45.0%	24.8%
Money market funds	4.7%	4.4%
	<u>100.0%</u>	<u>100.0%</u>

The Credit Union has developed asset allocation and diversification guidelines, which are monitored for compliance by the Investment Committee on a quarterly basis. The guidelines were established to optimize the pension plan's expected return based on the Credit Union's risk tolerance.

The fair values of the Credit Union's pension plan assets by asset category are as follows:

Asset Category	Total	Fair Value Measurements at December 31, 2020		
		Level 1	Level 2	Level 3
Money market funds	\$ 4,500,053	\$ 4,500,053	\$ -	\$ -
Mutual funds:				
Fixed-income funds	40,305,783	40,305,783	-	-
Equity funds	45,046,776	45,046,776	-	-
Other equity funds	-	-	-	-
Balance funds	-	-	-	-
	<u>\$ 89,852,612</u>	<u>\$ 89,852,612</u>	<u>\$ -</u>	<u>\$ -</u>

Asset Category	Total	Fair Value Measurements at December 31, 2019		
		Level 1	Level 2	Level 3
Money market funds	\$ 3,576,070	\$ 3,576,070	\$ -	\$ -
Mutual funds:				
Fixed-income funds	19,428,600	19,428,600	-	-
Equity funds	11,647,996	11,647,996	-	-
Other equity funds	42,218,341	42,218,341	-	-
Balance funds	1,563,298	1,563,298	-	-
	<u>\$ 78,434,305</u>	<u>\$ 78,434,305</u>	<u>\$ -</u>	<u>\$ -</u>

The Credit Union expects to contribute \$5,000,000 to the plan for the year ending December 31, 2021.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Employee Benefits (Continued)

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Years ending December 31:		
2021	\$	3,210,098
2022		3,497,492
2023		3,731,549
2024		3,969,257
2025		4,246,420
2026 and thereafter		24,600,317
	<u>\$</u>	<u>43,255,133</u>

Other postretirement benefits plan: The Credit Union, through its subsidiary, sponsors a health care plan that provides postretirement medical and life insurance benefits to full-time employees who meet minimum age and service requirements. The plan is contributory with retiree contributions adjusted annually, and contains other cost-sharing features such as deductibles and co-insurance. The accounting for the plan anticipates future cost-sharing changes to the written plan that are consistent with the Credit Union's expressed interest to increase the retiree contribution rate annually for the expected general inflation rate for that year. The Credit Union's policy is to fund the cost of medical benefits in amounts determined at the discretion of management. There are no assets set aside to prefund the liability associated with the plan.

	2020	2019
Benefit obligation	\$ (1,652,752)	\$ (1,723,140)
Fair value of plan assets	-	-
Funded status	<u>\$ (1,652,752)</u>	<u>\$ (1,723,140)</u>
Accrued benefit cost recognized in the consolidated statements of financial condition	<u>\$ (1,652,752)</u>	<u>\$ (1,723,140)</u>
	2020	2019
Net periodic postretirement benefit cost	\$ (83,766)	\$ (87,471)
Employer contribution	71,291	73,710
Benefit payments	71,291	73,710

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Employee Benefits (Continued)

Amounts recognized in accumulated other comprehensive loss at December 31 consist of the following:

	2020	2019
Gain	\$ (1,495,719)	\$ (1,598,344)
Prior service cost	19,037	36,993
	<u>\$ (1,476,682)</u>	<u>\$ (1,561,351)</u>

The following are the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic postretirement benefit cost over the year ending December 31, 2021:

Gain	\$ (191,156)
Prior service cost	17,956

	2020	2019
Assumptions used to determine benefit obligation:		
Discount rate	2.7%	3.4%
Increase in health insurance premiums:		
Initial increase	6.8%	7.0%
Ultimate increase	4.3%	4.3%
Year ultimate reached	2034	2033

	2020	2019
Assumptions used to determine net postretirement benefit cost:		
Discount rate	3.4%	4.4%
Expected long-term return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

The plan is unfunded, so the Credit Union makes benefit payments as they become due. The benefit payments are made from the general assets of the Credit Union.

The Credit Union expects to contribute approximately \$72,000 to the plan for the year ending December 31, 2021.

The following postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Years ending December 31:	
2021	\$ 154,917
2022	176,454
2023	195,108
2024	192,708
2025	181,279
2026 and thereafter	574,574
	<u>\$ 1,475,040</u>

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Employee Benefits (Continued)

Supplemental executive retirement plan: The Credit Union, through its subsidiary, also sponsors a defined benefit supplemental executive retirement plan for selected employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. No contributions, except to fund benefit payments, have been made to the plan since inception. Therefore, there are no plan assets.

	2020	2019
Benefit obligation	\$ (11,374,849)	\$ (9,971,774)
Fair value of plan assets	-	-
Funded status	<u>\$ (11,374,849)</u>	<u>\$ (9,971,774)</u>
Accrued benefit cost recognized in the consolidated statements of financial condition	<u>\$ (11,374,849)</u>	<u>\$ (9,971,774)</u>
	2020	2019
Net periodic postretirement benefit cost	<u>\$ (1,415,487)</u>	<u>\$ (1,073,854)</u>

Amounts recognized in accumulated other comprehensive loss at December 31 consist of the following:

	2020	2019
Loss	\$ 5,417,673	\$ 4,662,876
Prior service cost	88,786	138,277
	<u>\$ 5,506,459</u>	<u>\$ 4,801,153</u>

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Employee Benefits (Continued)

The following are the amounts in accumulated other comprehensive income expected to be recognized as components of net period postretirement benefit cost over the year ending December 31, 2021:

Loss	\$	899,759
Prior service cost		19,245

	2020	2019
Assumptions used to determine benefit obligation:		
Discount rate	2.7%	3.4%
Rate of compensation increase	4.5%	4.5%
Pension increases for in-payment and deferred benefits	0.0%	0.0%

	2020	2019
Assumptions used to determine net postretirement benefit cost:		
Discount rate	3.4%	4.4%
Expected long-term return on plan assets	N/A	N/A
Rate of compensation increase	4.5%	4.5%

The plan is unfunded, so the Credit Union makes benefit payments as they become due. The benefit payments are made from the general assets of the Credit Union.

The Credit Union does not expect to contribute to the plan for the year ending December 31, 2020.

The following postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Years ending December 31:		
2021	\$	400,128
2022		427,825
2023		436,265
2024		445,584
2025		462,049
2026 and thereafter		2,684,300
	\$	<u>4,856,151</u>

401(k) plan: The Credit Union has a 401(k) defined contribution plan that allows eligible employees to defer a portion of their salary into the 401(k) plan. There is no minimum age or minimum service requirement for eligibility. The Credit Union matches a portion of employees' wage reductions. Plan costs are accrued and funded on a current basis. The Credit Union contributed approximately \$2,504,000 and \$2,292,000 to the plan for the years ended December 31, 2020 and 2019, respectively, which is included in noninterest expense in the consolidated statements of income.

Supplemental savings plan: The Credit Union has a supplemental savings plan for eligible executives that allows them to contribute in excess of their maximum 401(k) plan contribution. The Credit Union provides a corresponding matching amount for these executives at the Credit Union's discretion. The liability associated with this supplemental savings plan is approximately \$5,519,000 and \$5,314,000 at December 31, 2020 and 2019, respectively.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Members' Equity

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

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, credit unions over \$10,000,000 in assets are also required to calculate a Risk-Based Net Worth (RBNW) requirement that establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW requirements were 4.66% and 6.07% as of December 31, 2020 and 2019, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6%. Management believes, as of December 31, 2020 and 2019, that the Credit Union meets all capital adequacy requirements to which it is subject.

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

Key aspects of the Credit Union's minimum capital amounts and ratios at December 31 are summarized as follows:

	2020		2019	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as "adequately capitalized"	\$ 475,621,529	6.00%	\$ 382,093,338	6.07%
Amount needed to be classified as "well-capitalized"	554,891,784	7.00%	440,634,821	7.00%
Actual net worth	1,098,782,979	13.86%	1,005,777,490	15.98%

As of December 31, 2020 and 2019, the NCUA categorized the Credit Union as "well-capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well-capitalized," the Credit Union must maintain a minimum net worth ratio of 7% of assets. There are no conditions or events since that notification that management believes have changed the institution's category.

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

Note 12. Related-Party Transactions

The Credit Union has had, and may be expected to have in the future, transactions in the ordinary course of business with directors, supervisory committee members and executive officers (commonly referred to as related parties). In management's opinion, these loans and transactions were on the same terms as those for comparable loans and transactions with nonrelated parties.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 12. Related-Party Transactions (Continued)

Aggregate loan transactions with related parties for the years ended December 31 were as follows:

	2020	2019
Balance, beginning of year	\$ 7,405,000	\$ 4,756,000
New loans	2,153,000	3,637,000
Repayments	(2,442,000)	(988,000)
Balance, end of year	<u>\$ 7,116,000</u>	<u>\$ 7,405,000</u>

None of the loans are past due, nonaccrual or restructured to provide a reduction or deferral of interest or principal because of deteriorations in the financial position of the borrower. There were no loans to a related party that were considered classified loans at December 31, 2020 or 2019.

Total undisbursed loan commitments outstanding with related parties were approximately \$768,600 at December 31, 2020.

Shares from related parties at December 31, 2020 and 2019, amounted to approximately \$2,863,000 and \$2,587,000, respectively.

Note 13. Fair Value

The following methods and assumptions were used by the Credit Union in estimating fair values as disclosed herein:

Financial instruments: Fair value represents management's best estimates based on a range of methodologies and assumptions. The carrying value of short-term financial instruments (such as cash and cash equivalents), other investments, as well as receivables and payables arising in the ordinary course of business (such as accrued interest receivable and dividends payable) approximates fair value because of the relatively short period of time between the origination and expected realization. The fair value of the Credit Union's off-balance-sheet commitments are estimated using fees charged to others to enter into similar agreements, taking into account the remaining terms of the agreements and credit standing of the members. The estimated fair value of these commitments is not significant.

The Credit Union's policies for the determination of fair value of other financial instruments for disclosure or measurement are described below:

Debt securities: The Credit Union considers the inputs utilized to fair value the U.S. agency and U.S.-sponsored agency issued debt securities (callable and noncallable notes), private label securities, MBSs guaranteed by those agencies and CMOs issued by those agencies within Level 2 of the valuation hierarchy, which are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments, respectively. However, the fair value reported may not be indicative of the amounts that could be realized in an actual market exchange.

Impaired loans, net, and loans held for sale: When quoted market prices are not available, the fair value of loans receivable is generally based upon observable market prices of similar instruments, including loans with similar characteristics. If observable market prices are not available, fair value is based upon estimated cash flows adjusted for credit risk that are discounted using an interest rate appropriate for the maturity of the applicable loans or the unfunded commitments.

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Fair Value (Continued)

The inputs for the determination of the fair value of loans are generally classified within Level 2 of the valuation hierarchy. However, certain of the Credit Union's loans, including nonperforming loans, are classified within Level 3 due to the lack of observable pricing data. The fair value of these Level 3 loans is calculated with a discounted cash flows model using market-based credit spreads of comparable debt instruments or credit derivatives of the specific borrower or comparable borrowers. Results of discounted cash flow calculations may be adjusted, as appropriate, to reflect other market conditions or the perceived credit risk of the borrower.

Loans held for sale are required to be measured at the lower of cost or fair value. The market value represents fair value. Management obtains quotes or bids on all or part of these loans directly from the purchasing financial institutions, which is a Level 2 input. Premiums received or to be received on the quotes or bids are indicative of the fact that cost is lower than fair value.

Loan servicing rights: Loan servicing rights do not trade in an active, open market with readily observable prices. While sales of loan servicing rights do occur, the precise terms and conditions typically are not readily available. Accordingly, the Credit Union estimates the fair value of residential and commercial mortgage loan servicing rights and certain other retained interests in securitizations using discounted cash flow models incorporating numerous assumptions from the perspective of market participants, including servicing income, servicing costs, market discount rates, prepayment speeds and default rates. Due to the nature of the valuation inputs, commercial mortgage loan servicing rights are classified within Level 3 of the valuation hierarchy.

Nonfinancial assets: The Credit Union's primary nonfinancial assets subject to fair value measurement include foreclosed property.

Fair value on a recurring basis: The tables below present the balances of assets measured at fair value on a recurring basis:

	December 31, 2020			
	Total	Level 1	Level 2	Level 3
CMOs, agency residential	\$ 31,298,000	\$ -	\$ 31,298,000	\$ -
CMOs, private residential	7,099,000	-	7,099,000	-
Bond, Agency	17,347,025	-	17,347,025	-
MBSs, agency residential	920,300,000	-	920,300,000	-
Loan servicing rights, commercial	2,114,000	-	-	2,114,000
	<u>\$ 978,158,025</u>	<u>\$ -</u>	<u>\$ 976,044,025</u>	<u>\$ 2,114,000</u>

	December 31, 2019			
	Total	Level 1	Level 2	Level 3
CMOs, agency residential	\$ 16,463,000	\$ -	\$ 16,463,000	\$ -
CMOs, private residential	19,567,000	-	19,567,000	-
MBSs, agency residential	208,283,000	-	208,283,000	-
Loan servicing rights, commercial	3,038,000	-	-	3,038,000
	<u>\$ 247,351,000</u>	<u>\$ -</u>	<u>\$ 244,313,000</u>	<u>\$ 3,038,000</u>

Logix Federal Credit Union and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Fair Value (Continued)

Fair value on a nonrecurring basis: Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following tables present those assets, by caption and by level within the valuation hierarchy, and any nonrecurring change in fair value:

	Fair Value at December 31, 2020			
	Total	Level 1	Level 2	Level 3
Loans held for sale	\$ 145,762,000	\$ -	\$ 145,762,000	\$ -
Impaired loans, other than TDRs	37,039,000	-	-	37,039,000
TDRs	14,464,000	-	-	14,464,000
Loan servicing rights, residential	12,361,000	-	-	12,361,000
Foreclosed property	328,000	-	-	328,000

	Fair Value at December 31, 2019			
	Total	Level 1	Level 2	Level 3
Loans held for sale	\$ 72,870,000	\$ -	\$ 72,870,000	\$ -
Impaired loans, other than TDRs	23,516,000	-	-	23,516,000
TDRs	22,009,000	-	-	22,009,000
Foreclosed property	875,000	-	-	875,000

Nonrecurring basis fair value measurement instruments include certain impaired loans as described in Note 3. The tables above reflect the loan receivable amounts for impaired loans and TDRs after the application of valuation allowances and the expected cash flows model using the payment terms from loan modification agreements and the discount rates. The specific reserves for collateral-dependent impaired loans are based on the fair value of the collateral less estimated costs to sell. The fair value of collateral was determined based on appraisals or discounted cash flow models. In some cases, adjustments were made to the appraised values for various factors, including age of the appraisal, age of comparable included in the appraisal, and known changes in the market and in the collateral. When significant adjustments were based on unobservable inputs, the resulting fair value measurement has been categorized as a Level 3 measurement.

Foreclosed property consists of other real estate owned and repossessed automobiles. Note 1 describes the accounting policy applied to such assets. In accordance with U.S. GAAP, for fair value measurement purposes, the Credit Union excludes transaction costs such as costs to sell or dispose of the property.

Note 14. Subsequent Events

The Credit Union has evaluated subsequent events through April 13, 2021, the date on which the consolidated financial statements were available to be issued.