WRIGHT PATMAN CONGRESSIONAL FEDERAL CREDIT UNION

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

(With Independent Auditor's Report Thereon)

WRIGHT PATMAN CONGRESSIONAL FEDERAL CREDIT UNION

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Independent Auditor's Report

April 11, 2019

To the Supervisory Committee and Board of Directors
of Wright Patman Congressional Federal Credit Union

Report on the Financial Statements

We have audited the accompanying financial statements of Wright Patman Congressional Federal Credit Union, which comprise the statements of financial condition as of December 31, 2018 and 2017, and the related statements of income, comprehensive income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 audits 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.

DoerenMayhew

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wright Patman Congressional Federal Credit Union as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Doeren Mayhew

Doeren Mayhew
Miami, FL

WRIGHT PATMAN CONGRESSIONAL FEDERAL CREDIT UNION

STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2018 AND 2017

Assets	2018	2017
Cash and cash equivalents	$70,592,274	$49,636,785
Investments:		
Available-for-sale	264,479,571	284,085,342
Held-to-maturity	16,987,283	21,208,468
Loans held for sale	1,286,000	—
Loans to members, net of allowance for loan losses	572,001,338	529,547,021
Accrued interest receivable	2,074,614	2,022,156
Other receivables	18,027,690	21,128,742
Prepaid and other assets	9,588,973	9,036,714
Property and equipment, net	8,998,079	9,550,798
NCUSIF deposit	7,545,010	7,318,370
Total assets	$971,580,832	$933,534,396
Liabilities and Members' Equity		
Liabilities:		
Members' shares and savings accounts	$877,118,729	$841,827,412
Accrued expenses and other liabilities	7,624,663	10,481,906
Total liabilities	884,743,392	852,309,318
Commitments and contingent liabilities		
Members' equity:		
Regular reserve	6,256,136	6,256,136
Undivided earnings	81,493,033	74,566,079
Accumulated other comprehensive (loss)/income	(911,729)	402,863
Total members' equity	86,837,440	81,225,078
Total liabilities and members' equity	$971,580,832	$933,534,396

See accompanying notes to the financial statements.

WRIGHT PATMAN CONGRESSIONAL FEDERAL CREDIT UNION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Interest income:		
Loans to members	$25,143,306	$23,286,386
Investments	7,883,359	6,218,439
Total interest income	33,026,665	29,504,825
Interest expense:		
Members' shares and savings accounts	4,365,881	3,155,483
Net interest income	28,660,784	26,349,342
Provision for loan losses	1,918,774	2,007,435
Net interest income after provision for loan losses	26,742,010	24,341,907
Non-interest income:		
Interchange income	4,746,526	4,625,099
Fees, service charges and other income	3,879,098	3,859,428
Tenant income	671,853	658,955
Total non-interest income	9,297,477	9,143,482
Non-interest expenses:		
Compensation and employee benefits	15,008,756	13,694,433
Office operations	6,596,283	6,813,824
Loan servicing	2,821,283	2,730,137
Professional and outside services	1,481,699	1,730,972
Office occupancy	1,343,945	1,277,919
Other	1,211,510	965,024
Education and promotion	649,057	816,403
Total non-interest expense	29,112,533	28,028,712
Net income	$6,926,954	$5,456,677

See accompanying notes to the financial statements.

WRIGHT PATMAN CONGRESSIONAL FEDERAL CREDIT UNION

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Net income	$6,926,954	$5,456,677
Other comprehensive loss:		
Net unrealized holding losses on available-for-sale investments	(1,314,592)	(758,399)
Reclassification adjustments for investment (gains)/losses included in net income	—	—
Other comprehensive loss	(1,314,592)	(758,399)
Comprehensive income	$5,612,362	$4,698,278

See accompanying notes to the financial statements.

WRIGHT PATMAN CONGRESSIONAL FEDERAL CREDIT UNION

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, December 31, 2016	$6,256,136	$69,109,402	$1,161,262	$76,526,800
Net income	—	5,456,677	—	5,456,677
Other comprehensive loss	—	—	(758,399)	(758,399)
Balance, December 31, 2017	6,256,136	74,566,079	402,863	81,225,078
Net income	—	6,926,954	—	6,926,954
Other comprehensive loss	—	—	(1,314,592)	(1,314,592)
Balance, December 31, 2018	$6,256,136	$81,493,033	($911,729)	$86,837,440

See accompanying notes to the financial statements.

WRIGHT PATMAN CONGRESSIONAL FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Net income	$6,926,954	$5,456,677
Adjustments to net cash provided from operating activities:		
Provision for loan losses	1,918,774	2,007,435
Depreciation and amortization	1,262,945	1,184,282
Net amortization and accretion on investments	1,226,425	1,285,868
Changes in assets and liabilities:		
Loans held for sale	(1,286,000)	4,097,600
Accrued interest receivable	(52,458)	(374,129)
Other receivables	3,101,052	1,038,585
Prepaid and other assets	(552,259)	(511,314)
Accrued expenses and other liabilities	(2,857,243)	2,637,560
Total adjustments	2,761,236	11,365,887
Net cash provided from operating activities	9,688,190	16,822,564

See accompanying notes to the financial statements.

WRIGHT PATMAN CONGRESSIONAL FEDERAL CREDIT UNION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

Cash Flows (Continued)

	2018	**2017**
Cash flows from investing activities:		
Net change in loans to members	(44,373,091)	(33,265,798)
Proceeds from the sale, call, maturity or repayment of available-for-sale investments	68,640,547	70,188,064
Purchase of available-for-sale investments	(51,541,955)	(89,753,980)
Proceeds from the call, maturity or repayment of held-to-maturity investments	4,187,347	10,505,491
Purchase of property and equipment	(710,226)	(1,433,520)
Increase in NCUSIF deposit	(226,640)	(444,161)
Net cash used in investing activities	(24,024,018)	(44,203,904)
Cash flows from financing activities:		
Net change in members' shares and savings accounts	35,291,317	20,521,206
Net cash provided from financing activities	35,291,317	20,521,206
Net change in cash and cash equivalents	20,955,489	(6,860,134)
Cash and cash equivalents - beginning	49,636,785	56,496,919
Cash and cash equivalents - ending	$70,592,274	$49,636,785

Supplemental Information

Interest paid	$4,342,459	$3,129,572

See accompanying notes to the financial statements.

Note 1 - Nature of Business and Significant Accounting Policies

Organization

Wright Patman Congressional Federal Credit Union (the Credit Union) is a cooperative association organized in accordance with the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined by the Credit Union's Charter and Bylaws.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include the determination of the allowance for loan losses. The significant accounting principles and policies used in the preparation of these financial statements, together with certain related information, are summarized below.

Concentrations of Credit Risk

A significant amount of the Credit Union's business activity is with members who work or reside in the District of Columbia and surrounding states. Therefore, the Credit Union may be exposed to credit risk by the economic climate of the overall geographical region in which borrowers reside. Additionally, the Credit Union's field of membership includes many employer groups; however, a majority of its members are current or former employees of the House of Representatives (Congress). As a result, the ability of the Credit Union's borrowers being able to repay their loans is dependent upon the employment trends of the sponsor.

Comprehensive Income

Accounting principles generally require the recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive income. Other comprehensive loss relates to the change in unrealized gain/(loss) on available-for-sale investments. When available-for-sale investments are sold, the gain or loss realized on the sale is reclassified from accumulated other comprehensive (loss)/income to the gain/(loss) on sale of investment securities reported in the statements of income.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand and amounts due from banks and corporate credit unions (including cash items in the process of clearing) and interest bearing deposits in banks and corporate credit unions with an original maturity of 90 days or less. Amounts due from banks and corporate credit unions may, at times, exceed federally insured limits.

Investments

The Credit Union's investments in securities are classified and accounted for as follows:

Available-for-Sale: Mortgage-backed and collateralized mortgage obligation (CMOs) securities are classified available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value.

Held-to-Maturity: Mortgage-backed and collateralized mortgage obligation securities which the Credit Union has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.

Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in other comprehensive income. Purchase discounts are recognized in investment income using the interest method over the terms of the securities. Purchase premiums are amortized to investment income based on the underlying securities callable date or management’s estimate of the securities average life. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment (OTTI) losses, management considers (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, and (3) the intent and ability of the Credit Union to retain its investment in the issuer 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 on the trade date and the costs of securities sold are determined using the specific identification method.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Federal Home Loan Bank of Atlanta (FHLB) Stock

As a member of the FHLB, the Credit Union is required to invest in stock of the FHLB. The FHLB stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment and it has no quoted market value. The value of the FHLB stock was approximately $839,000 and $815,000 as of December 31, 2018 and 2017, respectively. The FHLB stock is included in prepaid and other assets in the statements of financial condition.

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 fair value. All sales are made without recourse. Loans sold typically carry a customary six month buy back period. Repurchase of a loan could be required in the event of fraud or violation of covenants.

Loans to Members

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

The recognition of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Loan origination fees and costs are deferred and amortized using the interest method or over the estimated life of the related loans. Deferred fees and costs are recognized as an adjustment to interest income on loans in the statements of income.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses

The allowance for loan losses ("allowance") is an estimate of loan losses inherent in the Credit Union's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Loan losses are charged off against the allowance when the Credit Union determines the loan balance to be uncollectible and approved by the Board of Directors. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

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

Management has an established methodology to determine the adequacy of the allowance that assess the risks and losses inherent in the loan portfolio. For purposes of determining the allowance, the Credit Union has segmented certain loans in the portfolio by type. Loans are divided into the following segments: consumer and real estate. The Credit Union also disaggregates these segments into classes based on the associated risks within those segments. Consumer loans are divided into five classes: automobile, credit cards, unsecured, other secured and student. Real estate loans are divided into two classes: first mortgage and home equity. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment.

The Credit Union uses an internally developed model in the process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented.

Consumer Portfolio Segment Allowance Methodology

Except for student loans and consumer loans not identified as impaired, the Credit Union determines the allowance on a collective basis utilizing historical and forecasted losses to represent the best estimate of inherent losses at the measurement date. Loans are pooled, generally by loan types with similar characteristics. As of December 31, 2018 and 2017, the historical loss time frame for each class was as follows:

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

- Automobile – rolling 12 months
- Unsecured – rolling 12 months
- Oher secured – rolling 12 months
- Credit cards – rolling 12 months
- Student loans – 1.15% of the outstanding loan balance

Real Estate Portfolio Segment Allowance Methodology

For real estate loans not identified as impaired or otherwise individually evaluated, the Credit Union determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. As of December 31, 2018 and 2017, the historical loss time frame for each class was a rolling 12 months.

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. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for trouble debt restructured loans and certain impaired real estate and consumer loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if its repayment is expected to be provided solely by the underlying collateral.

Troubled Debt Restructurings

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A loan restructuring represents a troubled debt restructuring ("TDR") if for economic or legal reasons related to the borrower's financial difficulties the Credit Union grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

Consumer and Real Estate Credit Quality Indicators

The majority of the Credit Union’s consumer and residential loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Credit Union’s collections department for resolution, which generally occurs fairly rapidly and can result in repossession and foreclosure as a final resolution. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts, and actual losses incurred.

The Credit Union evaluates the credit quality of loans in the consumer and real estate loan portfolio based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans and loans modified under troubled debt restructurings that are past due in accordance with the loans’ modified contractual terms are considered to be in a nonperforming status for purposes of credit quality evaluation.

Loan Charge-Off Policies

The Credit Union’s quality control process includes preparing lists to monitor and track delinquent loans and special mention loans. Tracking the loans on these lists enables management to assess the performance of the loan portfolio and act to mitigate risk therein through necessary changes in policy and procedures. The quality control process also serves as a tool to assist the Credit Union in identifying loans for charge-off on a timely basis. Consumer and real estate loans are generally charged off when:

- A loan is deemed uncollectible.
- Additional collection efforts are non-productive regardless of the number of days delinquent.
- A non-performing loan is more than 180 days past due.
- Management judges the underlying asset securing the loan to be uncollectible.
- A “skip” occurs and the Credit Union has had no contact for 90 days.
- The Credit Union has repossessed and sold the underlying collateral securing the loan.
- The Credit Union has foreclosed on a property and the property’s appraised market value, less estimated selling costs, creates a deficiency balance.
- A loss is determined on the loan of a deceased person.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment

Land is carried at cost. Buildings, building improvements and furniture and equipment are carried at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method based upon the useful lives of the related assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized.

NCUSIF Deposit

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

Other Receivables

Other receivables are comprised of the following:

	As of December 31,	
	2018	**2017**
ACH deposit payments receivable	$13,828,197	$17,367,435
Mortgage payments in process	1,762,992	1,004,274
Other	2,436,501	2,757,033
	$18,027,690	$21,128,742

Central Liquidity Facility (CLF) Stock

As a member of the CLF, the Credit Union is required to invest in stock of the CLF. The CLF stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment and it has no quoted market value. The carrying amount of the CLF stock was approximately $2,287,000 and $2,163,000 as of December 31, 2018 and 2017, respectively. The CLF stock is included in prepaid and other assets in the statements of financial condition.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Members' Shares and Savings Accounts

Members' shares are the savings deposit accounts of the owners of the Credit Union. Primary share ownership entitles the members to vote in annual elections of the Board of Directors. Irrespective of the number of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' shares and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Regular Reserve

The Credit Union is required to maintain a statutory reserve (regular reserve) in accordance with the Federal Credit Union Act. This statutory reserve represents a regulatory restriction and is not available for the payment of interest.

Income Taxes

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) clarifies accounting for uncertainty in income taxes reported in the financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the "more likely than not" standard for sustainability on examination by tax authorities. Federal credit unions are tax-exempt under Internal Revenue Code sections 501(c)(14)(a) and 501(c)(1)(a)(I). As such, the Credit Union has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, no interest or penalties have been recorded in the accompanying financial statements.

Recent Accounting Pronouncements

Accounting for Financial Instruments - Credit Losses

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments-Credit Losses. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The ASU will be effective for the Credit Union on January 1, 2022. Early application is permitted for annual periods beginning January 1, 2019.

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to increase transparency and comparability of accounting for lease transactions. The ASU will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective December 31, 2020 with an option to early adopt. The Credit Union is evaluating whether to early adopt and the effect that ASU 2016-02 will have on its financial statements, regulatory capital and related disclosures.

Subsequent Events

Management has evaluated subsequent events through April 11, 2019, the date the financial statements were available to be issued. No significant such events or transactions were identified.

Note 2 - Investments

The following tables present the amortized cost and estimated fair value of investments as of December 31, 2018:

	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available-for-sale:				
Mortgage-backed securities	$117,572,145	$759,229	($1,370,538)	$116,960,836
Private label CMOs	62,759,658	313,932	(705,439)	62,368,151
CMOs	85,059,497	396,798	(305,711)	85,150,584
Total	$265,391,300	$1,469,959	($2,381,688)	$264,479,571

Note 2 - Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
CMOs	$14,850,420	$123,621	($245,275)	$14,728,766
Mortgage-backed securities	2,136,863	40,428	(3,858)	2,173,433
Total	$16,987,283	$164,049	($249,133)	$16,902,199

The following tables present the amortized cost and estimated fair value of investments as of December 31, 2017:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Mortgage-backed securities	$120,287,759	$825,254	($1,055,703)	$120,057,310
Private label CMOs	81,733,615	719,688	(302,770)	82,150,533
CMOs	81,661,105	421,016	(204,622)	81,877,499
Total	$283,682,479	$1,965,958	($1,563,095)	$284,085,342

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity:				
CMOs	$18,425,152	$212,368	($122,738)	$18,514,782
Mortgage-backed securities	2,783,316	74,462	—	2,857,778
Total	$21,208,468	$286,830	($122,738)	$21,372,560

Note 2 - Investments (Continued)

The amortized cost and estimated fair value of debt securities as of December 31, 2018, by contractual maturity, are shown below. Expected maturities on mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		***Held-to-maturity***	
	Amortized Cost	**Market Value**	**Amortized Cost**	**Market Value**
Mortgage-backed securities	$117,572,145	$116,960,836	$2,136,863	$2,173,433
Private label CMOs	62,759,658	62,368,151	—	—
CMOs	85,059,497	85,150,584	14,850,420	14,728,766
Total	$265,391,300	$264,479,571	$16,987,283	$16,902,199

Information pertaining to investments with gross unrealized losses as of December 31, 2018, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		**12 Months or Longer**		**Total**	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Available-for-sale:						
Mortgage-backed securities	$21,923,094	($256,914)	$73,806,424	($1,113,624)	$95,729,518	($1,370,538)
Private label CMOs	38,287,976	(545,091)	7,552,735	(160,348)	45,840,711	(705,439)
CMOs	14,281,539	(44,185)	17,397,193	(261,526)	31,678,732	(305,711)
Total	$74,492,609	($846,190)	$98,756,352	($1,535,498)	$173,248,961	($2,381,688)

Note 2 - Investments (Continued)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-maturity:						
CMOs	$2,115,278	($62,213)	$10,204,246	($183,062)	$12,319,524	($245,275)
Mortgage-backed securities	—	—	460,977	(3,858)	460,977	(3,858)
	$2,115,278	($62,213)	$10,665,223	($186,920)	$12,780,501	($249,133)

Information pertaining to investments with gross unrealized losses as of December 31, 2017, aggregated by investment category and length of time that individual investments have been in a continuous loss position follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Mortgage-backed securities	$87,375,688	($942,816)	$6,450,653	($112,887)	$93,826,341	($1,055,703)
Private label CMOs	25,614,893	(218,650)	5,162,507	(84,120)	30,777,400	(302,770)
CMOs	9,795,397	(54,322)	11,682,511	(150,300)	21,477,908	(204,622)
Total	$122,785,978	($1,215,788)	$23,295,671	($347,307)	$146,081,649	($1,563,095)

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held-to-maturity:						
CMOs	$8,614,157	($19,988)	$2,531,176	($102,750)	$11,145,333	($122,738)

The Credit Union's mortgage-backed and CMOs are issued by the U.S. Government and its Agencies. Therefore, unrealized losses on securities, if any, have not been recognized into income because the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity. Unrealized losses on private-issue collateralized mortgage obligation securities are reviewed semi-annually for indicators of OTTI. In addition, an annual stress test is performed on private-issue collateralized mortgage obligations by a third-party to evaluate OTTI. There was no OTTI recorded during the years ended December 31, 2018 and 2017.

Note 3 - Loans to Members

The composition of loans to members as of December 31, 2018 and 2017 is as follows:

	2018	2017
Consumer:		
Automobile	$72,350,826	$68,194,853
Credit cards	69,667,115	70,786,869
Unsecured	35,094,448	37,543,315
Other secured	687,976	660,636
Student	1,597,578	1,904,780
	179,397,943	179,090,453
Real Estate:		
First mortgage	319,100,060	282,099,704
Home equity	76,457,242	70,977,087
	395,557,302	353,076,791
	574,955,245	532,167,244
Less: Allowance for loan losses	(2,953,907)	(2,620,223)
Loans to members, net	$572,001,338	$529,547,021

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2018:

	Consumer	Real Estate	Total
Allowance for loan losses:			
Beginning allowance	$1,953,426	$666,797	$2,620,223
Charge-offs	(1,912,163)	(85,501)	(1,997,664)
Recoveries	328,814	83,760	412,574
Provision for loan losses	1,275,587	643,187	1,918,774
Ending allowance	$1,645,664	$1,308,243	$2,953,907
Ending balance, individually evaluated for impairment	$32,912	$372,085	$404,997
Ending balance, collectively evaluated for impairment	1,612,752	936,158	2,548,910
Ending allowance	$1,645,664	$1,308,243	$2,953,907

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2018:

	Consumer	Real Estate	Total
Loans:			
Ending balance, individually evaluated for impairment	$489,041	$7,682,454	$8,171,495
Ending balance, collectively evaluated for impairment	178,908,902	387,874,848	566,783,750
Total loans	$179,397,943	$395,557,302	$574,955,245

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2017:

	Consumer	Real Estate	Total
Allowance for loan losses:			
Beginning allowance	$1,617,814	$869,423	$2,487,237
Charge-offs	(2,096,453)	(112,954)	(2,209,407)
Recoveries	321,068	13,890	334,958
Provision for loan losses	2,110,997	(103,562)	2,007,435
Ending allowance	$1,953,426	$666,797	$2,620,223
Ending balance, individually evaluated for impairment	$48,973	$386,335	$435,308
Ending balance, collectively evaluated for impairment	1,904,453	280,462	2,184,915
Ending allowance	$1,953,426	$666,797	$2,620,223

The following table presents a summary of the recorded investment in loans by portfolio segment as of December 31, 2017:

	Consumer	Real Estate	Total
Loans:			
Ending balance, individually evaluated for impairment	$567,376	$8,443,901	$9,011,277
Ending balance, collectively evaluated for impairment	178,523,077	344,632,890	523,155,967
Total loans	$179,090,453	$353,076,791	$532,167,244

Note 3 - Loans to Members (Continued)

Impaired Loans

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2018:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Real Estate:					
First mortgage	$3,622,677	$3,621,947	$—	$4,562,134	$—
Home equity	$10,028	$10,028	$—	$5,014	$—
With an allowance recorded:					
Consumer:					
Automobile	$287,354	$287,354	$5,676	$223,037	$—
Credit card	$106,541	$106,541	$13,901	$124,103	$—
Unsecured	$95,146	$95,146	$13,336	$181,069	$—
Real Estate:					
First mortgage	$3,398,496	$3,397,811	$232,314	$2,813,095	$—
Home equity	$651,253	$651,253	$139,770	$682,934	$—
Totals:					
Consumer	$489,041	$489,041	$32,913	$528,209	$—
Real Estate	7,682,454	7,681,039	372,084	8,063,177	—
Total	$8,171,495	$8,170,080	$404,997	$8,591,386	$—

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

The table below summarizes key information for impaired loans as of and for the year ended December 31, 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Real Estate:					
First mortgage	$5,501,592	$5,497,762	$—	$5,004,710	$—
Home equity	$—	$—	$—	$12,051	$—
With an allowance recorded:					
Consumer:					
Automobile	$158,719	$158,719	$13,700	$222,497	$—
Credit card	$141,666	$141,666	$12,228	$227,246	$—
Unsecured	$266,991	$266,991	$23,045	$298,300	$—
Real Estate:					
First mortgage	$2,227,694	$2,226,143	$229,254	$2,993,577	$—
Home equity	$714,615	$714,615	$157,081	$640,131	$—
Totals:					
Consumer	$567,376	$567,376	$48,973	$748,043	$—
Real Estate	8,443,901	8,438,520	386,335	8,650,469	—
Total	$9,011,277	$9,005,896	$435,308	$9,398,512	$—

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2018:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
Automobile	$1,131,749	$178,313	$181,102	$1,491,164	$70,859,662	$72,350,826
Credit cards	532,969	284,012	514,920	1,331,901	68,335,214	69,667,115
Unsecured	697,341	225,188	316,201	1,238,730	33,855,718	35,094,448
Other secured	9,468	—	—	9,468	678,508	687,976
Student	—	—	—	—	1,597,578	1,597,578
	2,371,527	687,513	1,012,223	4,071,263	175,326,680	179,397,943
Real Estate:						
First mortgage	4,029,116	1,122,584	2,377,438	7,529,138	311,570,922	319,100,060
Home equity	634,941	176,833	271,236	1,083,010	75,374,232	76,457,242
	4,664,057	1,299,417	2,648,674	8,612,148	386,945,154	395,557,302
Total	$7,035,584	$1,986,930	$3,660,897	$12,683,411	$562,271,834	$574,955,245

Loans on which the accrual of interest has been discontinued or reduced approximated $3,661,000 as of December 31, 2018. There were no loans 90 days or more past due and still accruing interest as of December 31, 2018.

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The following table presents the aging of the recorded investment in past due loans and loans on non-accrual as of December 31, 2017:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Consumer:						
Automobile	$1,149,392	$305,920	$311,714	$1,767,026	$66,427,827	$68,194,853
Credit cards	487,528	298,896	559,797	1,346,221	69,440,648	70,786,869
Unsecured	683,198	179,881	463,008	1,326,087	36,217,228	37,543,315
Other secured	—	—	—	—	660,636	660,636
Student	—	—	—	—	1,904,780	1,904,780
	2,320,118	784,697	1,334,519	4,439,334	174,651,119	179,090,453
Real Estate:						
First mortgage	5,584,944	1,867,242	2,813,467	10,265,653	271,834,051	282,099,704
Home equity	427,852	118,302	793,854	1,340,008	69,637,079	70,977,087
	6,012,796	1,985,544	3,607,321	11,605,661	341,471,130	353,076,791
Total	$8,332,914	$2,770,241	$4,941,840	$16,044,995	$516,122,249	$532,167,244

Loans on which the accrual of interest has been discontinued or reduced approximated $4,942,000 as of December 31, 2017. There were no loans 90 days or more past due and still accruing interest as of December 31, 2017.

Note 3 - Loans to Members (Continued)

Troubled Debt Restructurings

The income statement impact of approved TDRs was immaterial for financial statement disclosure for the years ended December 31, 2018, and 2017. Subsequently defaulted represents TDRs which were charged-off in the current reporting period.

The following table presents TDR activity by class of loans as of December 31, 2018:

	Number of Contracts	Recorded Investment in TDRs Approved	TDRs Which Subsequently Defaulted
Consumer:			
Automobile	5	$45,857	$—
Credit cards	5	43,005	—
Unsecured	16	168,418	—
Real Estate:			
First mortgage and home equity	3	211,654	—
Total	29	$468,934	$—

The following table presents TDR activity by class of loans as of December 31, 2017:

	Number of Contracts	Recorded Investment in TDRs Approved	TDRs Which Subsequently Defaulted
Consumer:			
Automobile	1	$7,531	$—
Credit cards	4	60,741	—
Unsecured	4	40,607	9,992
Real Estate:			
First mortgage and home equity	2	131,197	—
Total	11	$240,076	$9,992

Note 3 - Loans to Members (Continued)

Consumer and Real Estate Credit Quality

The Credit Union considers the performance of the loan portfolio and its impact on the allowance for loan losses. For real estate and consumer loan classes, the Credit Union evaluates credit quality based on the aging status of the loan and payment activity. Accordingly, nonaccrual loans are considered to be in a nonperforming status for purposes of credit quality evaluation.

The following tables present the loan balance based on performance indication as of December 31, 2018 and 2017:

	As of December 31, 2018		As of December 31, 2017	
	Performing Loans	Nonperforming Loans	Performing Loans	Nonperforming Loans
Consumer:				
Automobile	$72,169,724	$181,102	$67,883,139	$311,714
Credit cards	69,152,195	514,920	70,227,072	559,797
Unsecured	34,778,247	316,201	37,080,307	463,008
Other secured	687,976	—	660,636	—
Student	1,597,578	—	1,904,780	—
	178,385,720	1,012,223	177,755,934	1,334,519
Real Estate:				
First mortgage	316,722,622	2,377,438	279,286,237	2,813,467
Home equity	76,186,006	271,236	70,183,233	793,854
	392,908,628	2,648,674	349,469,470	3,607,321
Total	$571,294,348	$3,660,897	$527,225,404	$4,941,840

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2018 and 2017 by major classification as follows:

	2018	2017
Land	$1,433,000	$1,433,000
Building	7,427,179	7,427,179
Building improvements	5,702,026	5,702,026
Furniture and equipment	10,909,951	10,424,907
Leasehold improvements	861,129	1,025,002
	26,333,285	26,012,114
Less accumulated depreciation and amortization	(17,335,206)	(16,461,316)
	$8,998,079	$9,550,798

Depreciation and amortization charged to operations was approximately $1,263,000 and $1,184,000 for the years ended December 31, 2018 and 2017, respectively.

Note 5 - Members' Shares and Savings Accounts

Members' share and savings accounts are summarized as follows as of December 31, 2018 and 2017:

	2018	2017
Share drafts	$236,883,243	$225,298,382
Shares	179,307,884	171,506,492
Money market	314,236,753	297,887,295
IRA shares	13,857,048	14,120,579
Share and IRA certificates	132,833,801	133,014,664
	$877,118,729	$841,827,412

Note 5 - Members' Shares and Savings Accounts (Continued)

As of December 31, 2018, scheduled maturities of share and IRA certificates are as follows:

	2018
Within one year	$68,387,178
1 to 2 years	19,356,499
2 to 3 years	20,403,501
3 to 4 years	16,900,132
4 to 5 years	7,786,491
	$132,833,801

The aggregate amounts of members' time deposit accounts in denominations of $250,000 or more as of December 31, 2018 was approximately $29,938,000.

Note 6 - Borrowed Funds

Federal Home Loan Bank of Atlanta

As a member of the FHLB, the Credit Union has access to a pre-approved secured line of credit with the capacity to borrow based on the lending collateral value of its eligible mortgage loans of approximately $213,480,000, as defined in the FHLB Statement of Credit Policy. As of December 31, 2018 and 2017, the borrowing capacity was approximately $233,385,000 and $197,766,000, respectively. There were no borrowings outstanding as of December 31, 2018 or 2017.

Federal Reserve Bank of Richmond Discount Window

The Credit Union has a line of credit with the Federal Reserve Bank of Richmond's Discount Window. As of December 31, 2018 and 2017, the Credit Union has pledged select federal agency securities with book values of approximately $8,226,000 and $10,398,000, respectively. There were no borrowings outstanding as of December 31, 2018 or 2017.

Note 7 - Employee Benefit Plans

401(k) Savings Plan

The Credit Union has a 401(k) plan covering all employees who are 21 years of age or older and have completed at least 90 days of service. Employee contributions are subject to certain limits established by the Internal Revenue Service. Participants are always 100% vested in their voluntary contributions. The Credit Union's matching contributions are not vested until after two years of service when the employee becomes 100% vested. Total 401(k) pension expense approximated $592,000 and $534,000 for the years ended December 31, 2018 and 2017, respectively.

Deferred Compensation Plan

The Credit Union has a 457(b) non-qualified deferred compensation plan for certain members of management. The Credit Union matches employee contributions to the plan. The deferred compensation amounts are shown as both assets and liabilities in the Credit Union's statements of financial condition and are available to creditors in the event of the Credit Union's liquidation. As of December 31, 2018 and 2017, the balance of the deferred compensation assets and liabilities was approximately $1,009,000 and $792,000, respectively.

Note 8 - Commitments and Contingent Liabilities

Off Balance-Sheet Risk

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the statements of financial condition.

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. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2018, the total unfunded commitments under such lines of credit was approximately $291,179,000. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

Note 9 - Donated Space

The Credit Union has branch offices located in several buildings owned by the federal government, the Credit Union's primary sponsor. The Credit Union uses the space for these branches free of any rent or charge for utilities. The accompanying statements of income reflect other non-interest income and office occupancy expense of approximately $192,000 and $164,000 during the years ended December 31, 2018 and 2017, respectively. The amounts represent management's estimate of the fair value of the donated space.

Note 10 - Commitments to Lessor

The Credit Union owns and leases office space to various tenants at its Oakton office building. The minimum remaining noncancellable lease payments receivable approximated the following as of December 31, 2018:

Year ending December 31,	Amount
2019	$419,000
2020	210,000
2021	91,000
2022	—
2023	—
	$720,000

The cost and related accumulated depreciation of the building space that is leased as of December 31, 2018, approximated $4,952,000 and ($3,550,000), respectively, and $4,952,000 and ($3,395,000) as of December 31, 2017, respectively. Rental income under these leases was approximately $672,000 and $659,000 for the years ended December 31, 2018 and 2017, respectively.

Note 11 - Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting practices. The Credit Union's capital amounts and net worth 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 (as defined in *NCUA Regulations*) to total assets (as defined in *NCUA Regulations*). Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNWR as of December 31, 2018 and 2017 was 5.23% and 5.45%, respectively. The minimum requirement to be considered complex under the regulatory framework is 6.00%. Management believes, as of December 31, 2018 and 2017, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2018, the most recent call reporting period, 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 7.00% of assets. There are no conditions or events since that notification that management believes have changed the Credit Union's category.

The Credit Union's actual and required net worth amounts and ratios are as follows:

	As of December 31, 2018		**As of December 31, 2017**	
	Amount	**Ratio/ Requirement**	**Amount**	**Ratio/ Requirement**
Actual net worth	$87,749,169	9.03%	$80,822,215	8.66%
Amount needed to be classified as "adequately capitalized"	$58,294,850	6.00%	$56,012,064	6.00%
Amount needed to be classified as "well capitalized"	$68,010,658	7.00%	$65,347,408	7.00%

Because the RBNWR 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 option, as permitted by regulation.

Note 12 - Fair Values Measurements

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Basis of Fair Value Measurements

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 for substantially the full term of the asset or liability.

Level 3 - Valuation is generated from model-based techniques use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

Note 12 - Fair Values Measurements (Continued)

Assets measured at fair value on a recurring basis are summarized as follows:

	Assets at Fair Value as of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$116,960,836	$—	$116,960,836
Private label CMOs	—	62,368,151	—	62,368,151
CMOs	—	85,150,584	—	85,150,584
	$—	$264,479,571	$—	$264,479,571

	Assets at Fair Value as of December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Mortgage-backed securities	$—	$120,057,310	$—	$120,057,310
Private label CMOs	—	82,150,533	—	82,150,533
CMOs	—	81,877,499	—	81,877,499
	$—	$284,085,342	$—	$284,085,342

Assets Measured at Fair Value on a Non-Recurring Basis

Impaired Loans

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment by comparing the recorded investment in the loan to either the underlying collateral value or to estimated discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established require classification in the fair value hierarchy. The fair value of impaired loans is estimated using Level 3 inputs based on customized discounting criteria.

Assets measured at fair value on a non-recurring basis are summarized as follows:

	Assets at Fair Value as of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	$—	$—	$4,133,793	$4,133,793

Note 12 - Fair Values Measurements (Continued)

	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Impaired loans	$—	$—	$3,074,377	$3,074,377

Note 13 - Loan Servicing

Mortgage loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of these loans and the related custodial escrow balances approximate the following as of December 31, 2018 and 2017:

	2018	2017
Mortgage loan portfolio serviced for:		
Federal Home Loan Bank (FHLB)	$73,298,000	$67,883,000
Custodial escrow balances	$390,000	$335,000

Servicing income on mortgage loans sold and serviced approximated $172,000 and $134,000 for the years ended December 31, 2018 and 2017, respectively.

The following table presents mortgage servicing rights activity and fair value as of and for the years ended December 31, 2018 and 2017:

	2018	2017
Mortgage servicing rights:		
Balance, beginning of year	$627,680	$435,870
Capitalization	97,259	276,671
Amortization	(95,281)	(84,861)
Balance, end of year	$629,658	$627,680

	2018	2017
Fair value of mortgage servicing rights	$841,000	$748,000

As of December 31, 2018 and 2017, the fair value of mortgage servicing rights was determined by an independent third party using market value discount rates and prepayment speeds based on the specific characteristics of each pool of loans. The fair value of servicing rights was determined using average discount rates ranging from 5.5% to 9.9% as of December 31, 2018 and December 31, 2017 and prepayment speeds ranging from 8.0% to 8.7%, as of December 31, 2018 and from 7.9% to 8.7% as of December 31, 2017.

Note 14 - Related Party Transactions

Loans

In the ordinary course of business, the Credit Union grants loans to certain directors and executive officers. Such loans aggregated approximately $1,671,000 and $1,741,000 as of December 31, 2018 and 2017, respectively.

Deposits

Deposits of Credit Union directors and executive officers approximated $2,012,000 and $1,895,000 as of December 31, 2018 and 2017, respectively

* * * End of Notes * * *