PURDUE FEDERAL
CREDIT UNION

OFFERING STABILITY IN A CHANGING WORLD.

Here for you since 1969

Your credit union takes great pride in providing excellent service to our more than 83,000 members. Unfortunately, the COVID-19 pandemic of 2020 disrupted our usual operations, but we responded quickly to the situation by creating two primary objectives for the year:

1. To protect the health of our members and team.
2. To maintain high member service levels given the constraints of the situation.

With these objectives in mind, we relocated our team to safe working environments and made the difficult decision to close our branch lobbies for several months. Despite these changes, your credit union had a significant demand for mortgages, business loans (including Paycheck Protection Program loans) and help with payment issues during 2020. We managed to serve this record number of members even with employees working in very different environments.

On behalf of our leadership team and board, we want to share how very proud we are of our team during this time. They continued serving our members' needs at the highest level possible in new ways. We also appreciate our members' flexibility in using the many options—digital banking, video tellers, curbside mortgage closings and more—we had available to serve them.

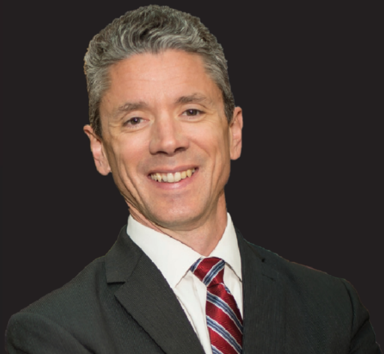
Purdue Federal entered this pandemic in the strongest financial position we've ever been, which helped us easily navigate the many challenges of the year. Our position allowed us to help qualifying members impacted financially with free financial counseling, deferred loan payments, furlough loans and forbearance options.

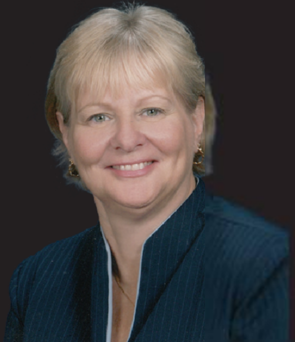
As you will see in our Annual Report, your credit union ended 2020 financially strong. We've been here for you since 1969 and will be here for you into the future—ready to serve your needs as we move out of the pandemic.

Sincerely,

Bob Falk
President/CEO

Lucia M. Anderson
Board Chair





myMEMBERPERKS!

$5,845,922

given back to members during 2020.

MEMBERSHIP SUCCESS

Membership grew 1.7% in 2020.

83,923 members to end the year.

HONORS EARNED

Neuhoff Media

2020 BEST OF THE WABASH

Best

FINANCIAL INSTITUTION

+

MORTGAGE LENDER

MEMBER & BUSINESS SUPPORT IN THE PANDEMIC

- **256** Paycheck Protection Program loans
- **144** Mortgages in forebearance
- **1,290** Installment & Credit Card deferrals
- **571** Credit Counseling sessions

ACCOUNT GROWTH

Business Loans
+21.8%

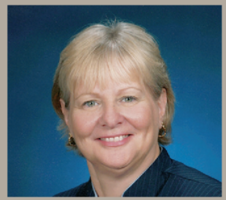
Student Loans
+16.9%

First Mortgages
+16.3%

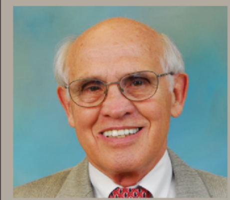
Deposits
+19.6%

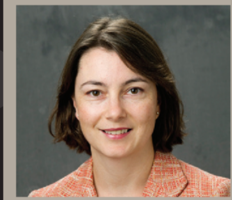
Your **Trusted** Financial Partner for Life

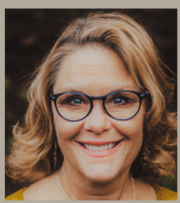
BOARD OF DIRECTORS


Lucia M. Anderson
Chair


David J. Kish
Vice Chair

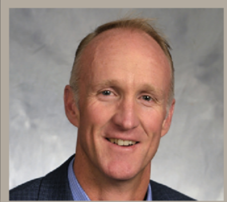

John A. Schneider
Treasurer

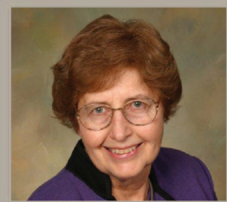

Cristina D. Farmus
Secretary

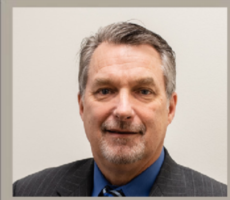

Laura Carson
Director

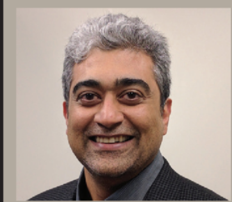
*Appointed November 17, 2020


Edgar J. Cyr
Director


Rick Davis
Director


Christiane E. Keck
Director


Steven D. Mogensen
Director

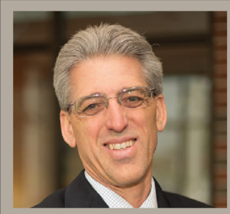

Sundeep S. Rao
Director

*Retired October 20, 2020

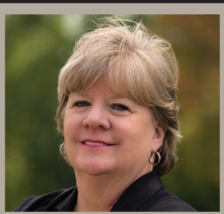
EXECUTIVE LEADERSHIP


Bob Falk
President & CEO


Jackie Hofman
Senior Vice President
Human Resources &
Marketing


Brian Musser
Senior Vice President
Finance & CFO


Sam Burns
Vice President
Business Services


Laura Feeney
Vice President
Retail Sales
& Service


Nikki Gaylord
Vice President
Lending


Matthew Lerzak
Vice President
Information
Technology


Evelyn Royer
Vice President
Operations


Cathleen Wyatt
Vice President
Enterprise Risk
Management &
General Counsel

*Joined Sept. 14, 2020

VOLUNTEER COMMITTEES

Asset & Liability

John Schneider, Chair
Laura Carson
Rick Davis
Ben McCartney
(Appointed Nov. 17, 2020)
Charlene Sullivan

Member Business Services

Christiane Keck, Chair
Rick Davis
Steven Mogensen

Membership Services

Cristina Farmus, Chair
Laura Carson
(Appointed Nov. 17, 2020)
Sundeep Rao
(Retired Oct. 20, 2020)
John Schneider

Supervisory

David Kish, Chair
Dan Collins
Jillian Henry
Christopher Martin
Ben McCartney
(Retired Oct. 20, 2020)
Sundeep Rao
(Appointed Jan. 7, 2021)

PURDUE FEDERAL
CREDIT UNION

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Purdue Federal Credit Union

TREASURER'S REPORT

SUPERVISORY COMMITTEE'S REPORT

INDEPENDENT AUDITOR'S REPORT and CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

PURDUE FEDERAL
CREDIT UNION

Treasurer's Report *on 2020*

"People helping people" was the driving principle when Purdue Federal Credit Union was founded in 1969. That principle rang true over the past year as we navigated through a global pandemic, the likes of which we had only ever known from history books. The health and safety of our members and employees was of the utmost importance and we all were asked to help each other virtually whenever possible. Since our humble beginnings the guiding principal has evolved to being our members' trusted financial partner for life. In the year of a pandemic this showed up by offering members loan deferrals and processing Payment Protection Program (PPP) loans for our business members.

Member capital ended 2020 at 10.2%, well above the 7% deemed well-capitalized by the National Credit Union Association (NCUA); however, the ratio was down slightly compared to 2019 as we saw deposits increase by $225 million or 20%. Total loans increased by $112 million to $1.1 billion, mainly driven by growth in first mortgage and business loans. My Member Perks, Purdue Federal's member giveback program, returned an additional $5.8 million in cooperative benefits throughout the year.

Your Board of Directors and Senior Leadership Team remain committed to making sound financial decisions that are in the membership's best interest and ensuring that Purdue Federal remains your trusted financial partner for life. The credit union is financially sound and well positioned for a successful year in 2021.

Respectfully submitted on behalf of the Purdue Federal Credit Union Board of Directors.

John A. Schneider

John Schneider, Treasurer

PURDUE FEDERAL
CREDIT UNION

Supervisory Committee's Report *on 2020*

The Supervisory Committee is a volunteer group of Purdue Federal members that is appointed annually by the Board of Directors. The purpose of the Supervisory Committee is to ensure the financial condition of the credit union is accurately and fairly presented in the organization's financial statements, and also that the credit union's management practices and procedures are in accordance with federal regulations and are sufficient to safeguard members' assets and sensitive information.

Under the direction of the Supervisory Committee, an annual audit is performed by an independent, outside accounting firm with proven knowledge of credit union regulations and operations. This year that firm is BKD. The committee then works with the board and Purdue Federal's Leadership Team to address any areas of concern raised in the audit.

After completion of this year's external audit, BKD met with the Supervisory Committee on March 18, 2021. The discussion items included a complete review of the financial statements and audit reports. BKD has issued an unmodified opinion of Purdue Federal's financial statements and did not note any material weaknesses or significant deficiencies relating to internal controls at Purdue Federal. All financial and required letters were reviewed with no major exceptions found. We are pleased that our financial condition and management practices play a role in helping Purdue Federal to be the area's leader in financial services.

The audit opinion from BKD reflects the good leadership and careful work of the Internal Audit, Finance, and Accounting Departments, as well as the Purdue Federal Credit Union Leadership Team.

The Internal Audit Department staff also report to the Supervisory Committee at regular meetings throughout the year. The basic work performed by the Internal Audit Department consists of internal audits, internal control testing, and coordination of specialized external audits, such as those surrounding information technology and information security. All items are supervised by the Assistant Vice President of Internal Audit and overseen by the Vice President of Enterprise Risk Management.

The Supervisory Committee would like to acknowledge the outstanding support and professionalism exhibited by the credit union's staff. We thank the Leadership Team for the exceptional care and high ethical standards shown during this past year.

I would also like to acknowledge and thank all the members of the Supervisory Committee for volunteering their time and expertise.

It is a pleasure to serve you, the members.

David J. Kish
Supervisory Committee Chair

Purdue Federal Credit Union

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2020 and 2019

Purdue Federal Credit Union
December 31, 2020 and 2019

Contents

BKD
CPAs & Advisors

201 N. Illinois Street, Suite 700 | P.O. Box 44998 | Indianapolis, IN 46244-0998
317.383.4000 | Fax 317.383.4200 | bkd.com

Independent Auditor's Report

Board of Directors and Supervisory Committee
Purdue Federal Credit Union
West Lafayette, Indiana

We have audited the accompanying consolidated financial statements of Purdue Federal Credit Union and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Purdue Federal Credit Union and its subsidiary 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.

BKD, LLP

Indianapolis, Indiana
March 19, 2021

Purdue Federal Credit Union

Consolidated Balance Sheets

December 31, 2020 and 2019

Assets

	2020	2019
Cash and due from banks	$ 10,641,818	$ 9,426,409
Interest-bearing demand deposits	57,961,724	47,246,395
Cash and cash equivalents	68,603,542	56,672,804
Interest-bearing time deposits	4,165,000	5,390,000
Available-for-sale securities	236,539,738	199,974,835
Other investments with a readily determinable fair value	43,620,454	3,036,387
Loans held for sale at fair value	48,714,754	35,788,055
Loans, net of allowance for loan losses of $6,925,488 and $4,834,360 at December 31, 2020 and 2019	1,102,763,881	992,879,470
Premises and equipment, net	27,288,688	26,761,491
National Credit Union Share Insurance Fund (NCUSIF) deposit	11,125,489	9,360,743
Federal Home Loan Bank stock, at cost	5,400,000	5,400,000
Cash surrender value of life insurance	11,135,109	10,856,110
Interest receivable	2,722,471	2,872,501
Other	22,942,778	14,521,210
Total assets	$ 1,585,021,904	$ 1,363,513,606

Liabilities

	2020	2019
Members' deposits	$ 1,369,479,274	$ 1,144,675,770
Borrowings	45,000,000	70,000,000
Other liabilities	18,255,770	13,911,821
Total liabilities	1,432,735,044	1,228,587,591

Members' Equity

	2020	2019
Regular reserve	7,502,640	7,502,640
Undivided earnings	144,657,755	128,493,613
Accumulated other comprehensive income (loss)	126,465	(1,070,238)
Total members' equity	152,286,860	134,926,015
Total liabilities and members' equity	$ 1,585,021,904	$ 1,363,513,606

Purdue Federal Credit Union

Consolidated Statements of Income

Years Ended December 31, 2020 and 2019

	2020	2019
Interest Income		
Loans	$ 45,152,806	$ 43,704,699
Securities	3,833,931	4,461,914
Interest-earning deposits with other financial institutions	285,355	1,460,922
	49,272,092	49,627,535
Interest Expense		
Members' deposits	6,424,378	7,194,849
Short-term borrowings	793,948	442,538
Total interest expense	7,218,326	7,637,387
Net Interest Income	42,053,766	41,990,148
Provision for Loan Losses	3,762,412	1,333,597
Net Interest Income After Provision for Loan Losses	38,291,354	40,656,551
Other Income		
Customer service fees	5,078,368	4,213,924
Card transaction interchange	10,306,844	10,483,114
Net gains on loan sales	7,853,547	2,365,148
Gain on sales of securities (reclassified from accumulated other comprehensive loss)	496,527	14,574
Loss on sale/disposal of premises and equipment	4,252	(25,587)
Other income	1,733,071	2,347,557
Total other income	25,472,609	19,398,730
Other Expenses		
Salaries and employee benefits	22,703,467	20,187,686
Net occupancy expense	2,447,259	2,293,145
Office operations and equipment expense	7,013,618	6,375,630
Loan servicing	1,233,358	1,041,988
Credit card loan servicing expense	7,370,299	8,039,888
ATM and debit card expense	3,056,893	3,348,768
Advertising and marketing expense	1,854,623	1,807,877
Other expenses	1,920,304	2,101,121
Total other expenses	47,599,821	45,196,103
Net Income	$ 16,164,142	$ 14,859,178

Purdue Federal Credit Union

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

	2020	2019
Net Income	$ 16,164,142	$ 14,859,178
Other Comprehensive Income (Loss)		
Change in fair value of derivative financial instruments	(3,466,794)	(2,955,500)
Unrealized appreciation on available-for-sale securities	5,160,024	2,674,077
Less: reclassification adjustment for realized gain included in net income	496,527	14,574
	1,196,703	(295,997)
Comprehensive Income	$ 17,360,845	$ 14,563,181

Purdue Federal Credit Union

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

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2019	$ 7,502,640	$ 113,640,580	$ (774,241)	$120,368,979
Net income		14,859,178		14,859,178
Adoption of ASU 2017-12		(6,145)		(6,145)
Other comprehensive loss			(295,997)	(295,997)
Balance, December 31, 2019	7,502,640	128,493,613	(1,070,238)	134,926,015
Net income		16,164,142		16,164,142
Other comprehensive income			1,196,703	1,196,703
Balance, December 31, 2020	$ 7,502,640	$ 144,657,755	$ 126,465	$152,286,860

Purdue Federal Credit Union

Consolidated Statements of Cash Flows

Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Net income	$ 16,164,142	$ 14,859,178
Items not requiring (providing) cash		
Depreciation and amortization	3,307,285	2,663,548
Provision for loan losses	3,762,412	1,333,597
Accretion and amortization	1,206,431	863,077
Gain on sale of available-for-sale securities	(496,527)	(14,574)
Gain on other investments with a readily determinable fair value	(523,445)	(677,387)
Loss on the sale/disposal of premises and equipment	21,875	25,587
Changes in		
Interest receivable	150,028	(321,591)
Loans held for sale	(12,926,699)	(10,869,087)
Other assets	(7,700,567)	(1,475,610)
Other liabilities	462,506	1,519,024
Net cash provided by operating activities	3,427,441	7,905,762
Investing Activities		
Proceeds from maturities of available-for-sale securities	60,438,096	42,452,487
Proceeds from sales of available-for-sale securities	20,794,841	257,688
Net change in interest-bearing time deposits	1,225,000	490,000
Net change in loans	(113,646,823)	(109,379,835)
Purchase of available-for-sale securities	(113,844,246)	(100,879,883)
Purchase of other investments with a readily determinable fair value	(40,060,622)	-
Purchase of premises and equipment	(3,441,707)	(8,137,038)
Net change on NCUSIF deposit	(1,764,746)	(288,991)
Purchase of FHLB stock	-	(1,508,800)
Investment in limited liability company	(1,000,000)	-
Net cash used in investing activities	(191,300,207)	(176,994,372)
Financing Activities		
Net change in members' deposits	224,803,504	85,019,779
Proceeds from borrowings	182,255,047	392,159,375
Repayment of borrowings	(207,255,047)	(322,159,375)
Net cash provided by financing activities	199,803,504	155,019,779
Increase (Decrease) in Cash and Cash Equivalents	11,930,738	(14,068,831)
Cash and Cash Equivalents, Beginning of Year	56,672,804	70,741,635
Cash and Cash Equivalents, End of Year	$ 68,603,542	$ 56,672,804
Supplemental Cash Flows Information		
Interest paid	$ 7,162,888	$ 7,581,948

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

Principles of Consolidation

The consolidated financial statements include the accounts of Purdue Federal Credit Union and its wholly owned credit union service organization, CU Channels, LLC (CUSO). All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations

Purdue Federal Credit Union (Credit Union) is a federally chartered credit union with locations in Tippecanoe, LaPorte, and Lake counties in Indiana. The Credit Union offers a broad range of consumer and commercial financial services to its members. The Credit Union's primary services include accepting members' deposits and making loans. The Credit Union grants loans primarily to members who are individuals (including family members) employed at or attending Purdue University campuses. The majority of its loans are collateralized by specific items, including consumer and commercial assets, residential and commercial real estate and member deposit balances. Additional services include financial planning, investment, trust and insurance services to Credit Union members through CUNA Brokerage Services, Inc., a third-party provider.

Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported and disclosed in the consolidated financial statements, and future results could differ from those estimates. A significant area involving the use of management's estimates and assumptions is the allowance for loan losses.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, loan servicing rights and derivative asset. The uncertainties related to the COVID-19 pandemic could cause significant changes to these estimates compared to what was known at the time these consolidated financial statements were prepared.

Cash and Cash Equivalents

The Credit Union considers all liquid investments with original maturities of three months or less to be cash equivalents.

At December 31, 2020, the Credit Union's cash accounts exceeded the insured limits by approximately $56,898,466. This amount represents uninsured funds held with the Federal Reserve Bank and Federal Home Loan Bank of Indianapolis, which are not federally insured.

The Credit Union is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2020 and 2019 was $0 and $33,000, respectively.

Interest-Bearing Time Deposits

The fair value of interest-bearing time deposits approximates cost.

Available-for-Sale Securities

Available-for-sale securities, which include any federal agencies, mortgage-backed securities and corporate bonds for which the Credit Union has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded in other comprehensive income (loss).

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses).

Other Investments With a Readily Determinable Market Value

Equity securities and mutual funds, which are traded in active markets, are measured at fair value with changes recognized in net income. Gains and losses on sales of securities are determined on the specific-identification method.

Federal Home Loan Bank (FHLB) Stock

FHLB stock is a required investment based upon predetermined formulas and is carried at cost. The FHLB stock may only be sold to the FHLB at par value.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market under mandatory pricing agreements are carried at fair value to facilitate hedging of the loans. Gains and losses resulting from changes in fair value are included in other income. Loans sold in the secondary market are sold with the servicing of the loans being retained.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage, commercial and consumer loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual 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 nonaccrual or charged off are 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.

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 income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the 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 any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Credit Union's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect 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 commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Credit Union does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and Equipment

Premises and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Leasehold improvements are amortized over the shorter of the estimated useful lives of the related assets or the lease term.

Long-Lived Asset Impairment

The Credit Union evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2020 and 2019.

Mortgage-Servicing Rights

Mortgage-servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Credit Union are initially measured at fair value at the date of transfer. The Credit Union subsequently measures each class of servicing asset using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date.

Fair value is based on market prices for comparable mortgage-servicing contracts, when available, or alternatively, is based 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. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage-servicing right and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with net gains on loan sales on the income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

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 mortgage-servicing rights is netted against loan servicing fee income.

Investment in Limited Liability Company

The Credit Union has entered into a subscription agreement to purchase units in a limited liability company. The Credit Union measures equity investments without a readily determinable fair value at cost, minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or a similar investment. This investment is included in other on the consolidated balance sheets.

NCUSIF Deposit

The National Credit Union Share Insurance Fund (NCUSIF) is required by NCUA regulations in an amount equal to one percent of the Credit Union's insured shares. The noninterest-earning deposit is intended to provide insurance coverage on members' deposits.

NCUA Insurance Premiums

A credit union may be required to pay an annual insurance premium to the NCUSIF equal to one-twelfth of one percent of its total insured shares. There were no premiums assessed for 2020 or 2019.

The fund was created by Congress in 1970 to insure member deposits in credit unions and currently insures member deposits up to $250,000. Administered by NCUA, the NCUSIF is backed by the "full faith and credit" of the U.S. Government. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

Members' Deposits

Members' deposits are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' deposits is based on available earnings and is not guaranteed by the Credit Union. Interest rates on members' deposits are set by the board of directors, based on an evaluation of a number of factors, including market conditions.

Members' Equity

The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of interest to members.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive loss includes unrealized gains and losses on securities available for sale and change in derivative financial instruments that qualify for hedge accounting, which is recognized as a separate component of members' equity.

Advertising Expenses

Advertising expenses are expensed as incurred.

Income Taxes

The Credit Union is exempt by statute from federal and state income taxes.

Revenue Recognition

A description of the Credit Union's revenue streams accounted for under Topic 606 are as follows:

Customer Service Fees. The Credit Union generates revenues through fees charged to members related to deposit account maintenance fees, overdrafts, ATM fees, wire transfers and additional miscellaneous services provided at the request of the depositor. For deposit-related services, revenue is recognized when performance obligations are satisfied, which is, generally, at a point in time.

Card Transaction Interchange. The Credit Union earns interchange fees from card transaction interchange conducted through credit card payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Derivative Instruments

On January 1, 2019, the Credit Union adopted the provisions of ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The amendments expand and refine hedge accounting for nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The change was applied under a modified retrospective approach by recording a cumulative-effect adjustment to the opening balances of members' equity.

Derivative instruments can be designated as fair value hedges or cash flow hedges. The Credit Union uses interest rate swaps to hedge risk associated with interest rate volatility, either as hedges of the change in value of certain fixed-rate assets or as hedges of the variability in cash flows related to floating-rate interest payments. Changes in the fair value of fair value hedges are recorded in the same consolidated statements of income line item as the related hedged item. Changes in fair value of cash flow hedges are reported as a component of AOCI and are reclassified into earnings in the same period – and same income statement line as the hedged item – when the hedged transaction affects earnings.

At the inception of a qualifying hedge accounting relationship, the Credit Union designates each qualifying hedge relationship as a hedge of the fair value of a specifically identified asset or liability (fair value hedge), or as a hedge of the variability of cash flows to be received or paid, related to a recognized or forecasted asset or liability (cash flow hedge). The Credit Union formally documents all relationships between hedging instruments and hedged items, as well as the risk management objectives for undertaking such hedge transactions. Both at hedge inception and on an ongoing basis, the Credit Union formally assesses whether the derivatives that are used in hedging relationships are highly effective in offsetting changes in fair values or cash flows of hedged items.

Changes in the fair value of derivative instruments qualifying as fair value hedges, along with the gain or loss on the hedged asset or liability attributable to the hedged risk, are recorded in current period earnings. For qualifying cash flow hedges, changes in the fair value of the derivative financial instruments are recorded in accumulated other comprehensive income (loss), and recognized in the income statement when the hedged cash flows affect earnings. Hedge accounting treatment is no longer applied if a derivative financial instrument is terminated, the hedge designation is removed, or the derivative instrument is assessed to be no longer highly effective. For terminated fair value hedges, any changes to the hedged asset or liability remain as part of the basis of the hedged asset or liability and are recognized into income over the remaining life of the hedged item. For terminated cash flow hedges, unless the forecasted cash flows are probable not to occur within a specified period, any changes in fair value of the derivative financial instrument previously recognized remain in accumulated other comprehensive income (loss), and are reclassified into earnings in the same period that the hedged cash flows affect earnings. In all instances, after hedge accounting is no longer applied, any subsequent changes in fair value of the derivative instrument will be recorded into earnings. Changes in the fair value of derivative financial instruments held for risk management purposes that are not designated as accounting hedges under GAAP are reported in current period earnings.

Reclassifications

Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 consolidated financial statement presentation. These reclassifications had no effect on net income.

Note 2: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of available-for-sale securities are as follows:

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities				
Government-sponsored entities (GSE) residential	$ 192,667,430	$ 4,557,154	$ (91,410)	$ 197,133,174
Private CMO	5,338,504	86,233	(5,487)	5,419,250
Corporate bonds	33,234,429	754,374	(1,489)	33,987,314
Total investment securities	$ 231,240,363	$ 5,397,761	$ (98,386)	$ 236,539,738

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities				
Government-sponsored entities (GSE) residential	$ 154,540,518	$ 750,095	$ (525,301)	$ 154,765,312
Private CMO	2,228,750	2,226	(1,391)	2,229,585
Corporate bonds	42,569,690	412,893	(2,645)	42,979,938
Total investment securities	$ 199,338,958	$ 1,165,214	$ (529,337)	$ 199,974,835

The amortized cost and fair value of available-for-sale securities at December 31, 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale Amortized Cost	Available-for-Sale Fair Value
Within one year	$ 10,264,461	$ 10,349,410
One to five years	22,969,968	23,637,904
	33,234,429	33,987,314
Mortgage-backed securities		
Government-sponsored entities (GSE) residential	192,667,430	197,133,174
Private CMO	5,338,504	5,419,250
Totals	$ 231,240,363	$ 236,539,738

Gross gains of approximately $501,363 resulting from sales of available-for-sale securities were realized for 2020. Gross gains of approximately $15,863 resulting from sales of available-for-sale securities were realized for 2019. Gross losses of approximately $4,837 resulting from sales of available-for-sale securities were recognized for 2020. Gross losses of approximately $1,288 resulting from sales of available-for-sale securities were recognized for 2019.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2020 and 2019 was approximately $12,111,000 and $87,160,000, which is 5% and 44%, respectively, of the Credit Union's available-for-sale investment portfolio. These declines in fair values primarily resulted from changes in market interest rates.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

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 the other-than-temporary impairment is identified.

The following tables show the Credit Union's investments' gross unrealized losses and fair value of the Credit Union's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019:

	2020					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities						
GSE residential	$ 11,030,070	$ (91,410)	$ -	$ -	$ 11,030,070	$ (91,410)
Private CMO	827,935	(5,487)	-	-	827,935	(5,487)
Corporate bonds	253,465	(1,489)	-	-	253,465	(1,489)
Total	$ 12,111,470	$ (98,386)	$ -	$ -	$ 12,111,470	$ (98,386)

	2019					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities						
GSE residential	$ 47,225,400	$ (312,500)	$ 31,887,577	$ (212,801)	$ 79,112,977	$ (525,301)
Private CMO	796,159	(1,391)	-	-	796,159	(1,391)
Corporate bonds	-	-	7,251,305	(2,645)	7,251,305	(2,645)
Total	$ 48,021,559	$ (313,891)	$ 39,138,882	$ (215,446)	$ 87,160,441	$ (529,337)

The unrealized losses on corporate bonds and mortgage-backed securities at December 31, 2020 and 2019 were primarily due to changes in interest rates and illiquidity. The Credit Union expects to recover the amortized cost basis of these securities over the terms of the securities. Because the Credit Union does not intend to sell the investments, and it is not likely the Credit Union will be required to sell the investments before recovery of their amortized cost basis prior to maturity, the Credit Union does not consider these investments to be other-than-temporarily impaired at December 31, 2020.

Other Investments With a Readily Determinable Market Value

Other investments with a readily determinable fair value are carried at fair value, which include mutual funds and equity securities with changes in fair value recognized in other income in the consolidated statements of income.

The amortized cost and estimated fair value of other investments with a readily determinable fair value at December 31 are summarized as follows:

	2020		2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Bond mutual funds	$ 40,060,622	$ 40,092,476	$ -	$ -
Equity securities	2,502,964	3,527,978	2,502,964	3,036,387
Other investments with a readily determinable market value	$ 42,563,586	$ 43,620,454	$ 2,502,964	$ 3,036,387

Certain information concerning changes in fair value of investments with a readily determinable fair value for the years ended December 31 was as follows:

	2020	2019
Net unrealized gains recognized	$ 523,445	$ 677,387

Note 3: Loans

Portfolio segments of loans at December 31 include:

	2020	2019
Consumer - secured	$ 80,717,341	$ 86,897,990
Consumer - unsecured	85,260,300	97,366,136
Residential - first mortgage	556,299,329	478,450,337
Residential - home equity	64,904,633	69,350,272
Commercial	321,677,567	264,011,875
Subtotal	1,108,859,170	996,076,610
Net deferred loan origination costs	830,199	1,187,220
Allowance for loan losses	(6,925,488)	(4,384,360)
	$ 1,102,763,881	$ 992,879,470

In the normal course of business, the Credit Union makes loans to directors, supervisory committee members, other committee members and executive officers (related parties). The aggregate dollar of these loans amounted to approximately $2,509,000 and $2,866,000 at December 31, 2020 and 2019, respectively.

The risk characteristics of each loan portfolio segment are as follows:

Consumer Secured, Consumer Unsecured, Residential First Mortgage, Residential Home Equity

Consumer and residential loans consist of four segments - consumer secured, consumer unsecured, residential first mortgage and residential home equity loans. Consumer secured loans are secured by personal assets, such as automobiles or recreational vehicles. Consumer unsecured loans are primarily made up of outstanding VISA credit card balances. For residential first mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Credit Union generally establishes a maximum loan-to-value ratio of 80% and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family primary residences. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial

The Credit Union's commercial loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Credit Union's commercial real estate portfolio are diverse. However, most properties are located within the Credit Union's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria.

The following presents, by portfolio segment, the activity in the allowance for loan losses for the years ended December 31, 2020 and 2019:

	2020					
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Commercial	Total
Beginning Balance	$ 277,650	$ 2,091,483	$ 212,415	$ 122,360	$ 1,680,452	$ 4,384,360
Provision	468,694	857,253	360,255	204,390	1,871,820	3,762,412
Loans charged off	(272,367)	(1,402,595)	-	-	(7,212)	(1,682,174)
Recoveries	68,168	390,956	-	-	1,766	460,890
Ending Balance	$ 542,145	$ 1,937,097	$ 572,670	$ 326,750	$ 3,546,826	$ 6,925,488

	2019					
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Commercial	Total
Beginning Balance	$ 214,509	$ 1,835,558	$ 266,100	$ 297,726	$ 1,723,225	$ 4,337,118
Provision (credit)	174,862	1,402,867	(53,684)	(162,679)	(27,769)	1,333,597
Loans charged off	(156,132)	(1,586,299)	-	(22,311)	(22,995)	(1,787,737)
Recoveries	44,411	439,357	-	9,624	7,990	501,382
Ending Balance	$ 277,650	$ 2,091,483	$ 212,416	$ 122,360	$ 1,680,451	$ 4,384,360

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on the portfolio segment and impairment method as of December 31, 2020 and 2019:

	2020					
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Commercial	Total
Allowance Balances:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	542,145	1,937,097	572,670	326,750	3,546,826	6,925,488
Total allowance for loan losses	$ 542,145	$ 1,937,097	$ 572,670	$ 326,750	$ 3,546,826	$ 6,925,488
Loan Balances:						
Individually evaluated for impairment	$ -	$ -	$ 103,022	$ -	$ -	$ 103,022
Collectively evaluated for impairment	80,717,341	85,260,300	556,196,307	64,904,633	321,677,567	1,108,756,148
Total loan balances	$ 80,717,341	$ 85,260,300	$ 556,299,329	$ 64,904,633	$ 321,677,567	$ 1,108,859,170

	2019					
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Commercial	Total
Allowance Balances:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 88,837	$ 88,837
Collectively evaluated for impairment	277,650	2,091,483	212,416	122,360	1,591,614	4,295,523
Total allowance for loan losses	$ 277,650	$ 2,091,483	$ 212,416	$ 122,360	$ 1,680,451	$ 4,384,360
Loan Balances:						
Individually evaluated for impairment	$ -	$ -	$ 103,022	$ -	$ 1,385,458	$ 1,488,480
Collectively evaluated for impairment	86,897,990	97,366,136	478,347,315	69,350,272	262,626,417	994,588,130
Total loan balances	$ 86,897,990	$ 97,366,136	$ 478,450,337	$ 69,350,272	$ 264,011,875	$ 996,076,610

Management's general practice is to proactively classify loans individually evaluated for impairment to the fair value on the underlying collateral. Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. Generally, charge-offs occur within six months or when collateral is obtained, whichever is later. The Credit Union's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

Management grades all loans except commercial loans as performing or nonperforming. Nonperforming are defined as those loans that are more than 90 days past due and nonaccruing.

The following tables present the credit risk profile of the Credit Union's consumer and residential loan portfolio based on rating category and payment activity as of December 31, 2020 and 2019:

	2020				
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Total
Grade:					
Performing	$ 80,643,013	$ 84,930,313	$ 555,590,265	$ 64,824,993	$ 785,988,584
Nonperforming	74,328	329,987	709,064	79,640	1,193,019
Total	$ 80,717,341	$ 85,260,300	$ 556,299,329	$ 64,904,633	$ 787,181,603

	2019				
	Consumer Secured	Consumer Unsecured	Residential First Mortgage	Residential Home Equity	Total
Grade:					
Performing	$ 86,710,979	$ 96,603,204	$ 478,279,807	$ 69,237,857	$ 730,831,847
Nonperforming	187,011	762,932	170,530	112,415	1,232,888
Total	$ 86,897,990	$ 97,366,136	$ 478,450,337	$ 69,350,272	$ 732,064,735

For commercial loans, the Credit Union promptly classifies loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations.

Internal Risk Categories

Commercial loan grades are numbered 1 through 8. Grades 1 through 4 are considered satisfactory grades. The grades of 5-6, or Substandard, 7, or Doubtful, and 8, or Loss, refer to assets that are classified. The use and application of these grades by the Credit Union will be uniform and shall conform to the Credit Union's policy.

Pass (1-4) loans are of reasonable credit strength and repayment ability providing an acceptable credit risk due to one or more underlying weaknesses.

Special Mention (5) loans that do not currently exhibit a sufficient degree of risk to warrant adverse classification, but do possess credit deficiencies deserving close attention by management. These credits are considered criticized.

Substandard (6) loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful (7) loans have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Loss (8) loans are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

The majority of the loans downgraded from Pass in 2019 to Special Mention in 2020 are hotel and lodging loans that were negatively impacted by the COVID-19 pandemic.

Purdue Federal Credit Union

Notes to Consolidated Financial Statements
December 31, 2020 and 2019

The following table presents the credit risk profile of the Credit Union's commercial loan portfolio based on internal rating category and payment activity as of December 31, 2020 and 2019:

	Commercial 2020	Commercial 2019
Grade:		
Pass (1-4)	$ 276,628,226	$ 258,288,875
Special Mention (5)	45,049,341	5,444,583
Substandard (6)	-	278,417
Doubtful (7)	-	-
Loss (8)	-	-
Total	$ 321,677,567	$ 264,011,875

The following tables present the Credit Union's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2020 and 2019:

2020

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Consumer - secured	$ 279,173	$ 242,988	$ 74,328	596,489	$ 80,120,852	$ 80,717,341
Consumer - unsecured	605,449	330,925	329,987	1,266,361	83,993,939	85,260,300
Residential - first mortgage	487,903	163,760	709,064	1,360,727	554,938,602	556,299,329
Residential - home equity	231,373	126,365	79,640	437,378	64,467,255	64,904,633
Commercial	102	8,479	20,147	28,728	321,648,839	321,677,567
Total loans	$ 1,604,000	$ 872,517	$ 1,213,166	$ 3,689,683	$ 1,105,169,487	$ 1,108,859,170

2019

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Consumer - secured	$ 592,811	$ 35,560	$ 187,011	$ 815,382	$ 86,082,608	$ 86,897,990
Consumer - unsecured	798,170	337,820	762,932	1,898,922	95,467,214	97,366,136
Residential - first mortgage	893,270	642,660	170,530	1,706,460	476,743,877	478,450,337
Residential - home equity	413,342	41,264	112,415	567,021	68,783,251	69,350,272
Commercial	36,104	16,131	-	52,235	263,959,640	264,011,875
Total loans	$ 2,733,697	$ 1,073,435	$ 1,232,888	$ 5,040,020	$ 991,036,590	$ 996,076,610

All loans greater than 90 days past due are nonaccrual loans. There were no accruing loans delinquent 90 days or more at December 31, 2020 and 2019.

The following tables present impaired loans for the years ended December 31, 2020 and 2019:

	2020				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Residential - first mortgage	$ 103,022	$ 103,022	$ -	$ 102,500	$ 3,300
Total impaired loans with no related specific reserve	$ 103,022	$ 103,022	$ -	$ 102,500	$ 3,300
Impaired loans with a specific valuation allowance:					
Residential - first mortgage	$ -	$ -	$ -	$ -	$ -
Total impaired loans with an allowance recorded	$ -	$ -	$ -	$ -	$ -
Total impaired loans	$ 103,022	$ 103,022	$ -	$ 102,500	$ 3,300

	2019				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Residential - first mortgage	$ 103,022	$ 103,022	$ -	$ 418,122	$ 15,190
Commercial	1,110,680	1,110,680	-	1,393,552	76,927
Total impaired loans with no related specific reserve	$ 1,213,702	$ 1,213,702	$ -	$ 1,811,674	$ 92,117
Impaired loans with a specific valuation allowance:					
Residential - first mortgage	$ -	$ -	$ -	$ -	$ -
Commercial	274,778	274,778	88,837	329,122	21,152
Total impaired loans with an allowance recorded	$ 274,778	$ 274,778	$ 88,837	$ 329,122	$ 21,152
Total impaired loans	$ 1,488,480	$ 1,488,480	$ 88,837	$ 2,140,796	$ 113,269

Interest income on loans individually classified as impaired is recognized on a cash basis after all past due and current principal payments have been made.

Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Credit Union requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

When cash payments are received on impaired loans in any loan classification, the Credit Union records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the negotiated rate if the loan is in compliance with the modified terms, no principal reduction has been granted and the loan has demonstrated the ability to perform in accordance with renegotiated terms for a period of at least six months.

In the course of working with borrowers, the Credit Union may choose to restructure the contractual terms of certain loans. In this scenario, the Credit Union attempts to optimize collectability of the loan. Any loans that are modified are reviewed by the Credit Union to identify if a troubled debt restructuring (TDR) has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Credit Union grants concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms or a combination of the two. If such efforts by the Credit Union do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Credit Union may terminate foreclosure proceedings if the borrower is able to work out a satisfactory payment plan.

It is the Credit Union's policy that any restructured loans on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance, at which time management would consider its return to accrual status. If a loan was accruing at the time of restructuring, the Credit Union reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan.

There were no newly classified troubled debt restructuring in 2020 and there was one newly classified troubled debt restructuring in 2019. In 2019, a residential first mortgage of $103,022 was restructured with a rate modification.

There were no troubled debt restructurings modified in the past 12 months that subsequently defaulted.

Impact of COVID-19 on the Credit Union

In March 2020, the COVID-19 coronavirus was identified as a global pandemic and began affecting the health of large populations around the world. As a result of the spread of COVID-19, economic uncertainties arose, which can ultimately affect the financial position, results of operations and cash flows of the Credit Union, as well as the Credit Union's customers. In response to economic concerns over COVID-19, in March 2020, the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was passed into law by Congress. The CARES Act included relief for individual Americans, health care workers, small businesses and certain industries hit hard by the COVID-19 pandemic. The *2021 Consolidated Appropriations Act,* passed by Congress in December 2020, extended certain provisions of the CARES Act affecting the Credit Union into 2021.

The CARES Act included several provisions designed to help financial institutions like the Credit Union in working with their members. Section 4013 of the CARES Act, as extended, allows a financial institution to elect to suspend generally accepted accounting principles and regulatory determinations with respect to qualifying loan modifications related to COVID-19 that would otherwise be categorized as a troubled debt restructuring (TDR) until January 1, 2022. The Credit Union has taken advantage of this provision to extend certain payment modifications to loan customers in need. As of December 31, 2020, the Credit Union has 105 loans for $38,232,000 that were modified during 2020 under the CARES Act guidance. These loans do not qualify for TDR reporting through the CARES Act guidance.

The CARES Act also approved the Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA) with funding provided by financial institutions. The *2021 Consolidated Appropriations Act* approved a new round of PPP loans in 2021. The PPP provides loans to eligible businesses through financial institutions like the Credit Union, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets certain requirements. The SBA guarantees repayment of the loans to the Credit Union if the borrower's loan is not forgiven and is then not repaid by the customer. The Credit Union earns a 1% interest rate on PPP loans, plus a processing fee from the SBA for processing and originating a loan. The Credit Union originated approximately $16,852,000 in PPP loans during 2020, of which approximately $10,473,000 are still outstanding at December 31, 2020.

Note 4: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2020	2019
Land	$ 2,883,567	$ 2,883,567
Buildings	18,262,208	18,133,998
Furniture, fixtures and equipment	18,504,487	18,403,005
Construction in process	4,590,716	6,436,817
Leasehold improvements	2,369,813	1,091,029
	46,610,791	46,948,416
Less accumulated depreciation	(19,322,103)	(20,186,925)
	$ 27,288,688	$ 26,761,491

Note 5: Mortgage-Servicing Rights

Mortgage loans sold and serviced for Purdue Federal Credit Union members are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced was approximately $466,445,671 and $465,131,116 at December 31, 2020 and 2019, respectively.

Custodial escrow balances maintained in connection with the loan servicing, and included in demand deposits, were approximately $2,581,586 and $2,615,494 at December 31, 2020 and 2019, respectively.

Activity in the balance of mortgage-servicing rights was as follows:

	2020	2019
Amortized cost		
Balance beginning of year	$ 1,322,372	$ 1,415,738
Additions	939,580	538,217
Amortization	(829,927)	(631,583)
Balance end of year	$ 1,432,025	$ 1,322,372
Fair value disclosures		
Fair value as of the beginning of the period	$ 3,890,000	$ 5,067,000
Fair value as of the end of the period	2,938,700	3,890,000

Note 6: Members' Deposits

	2020	2019
Checking	$ 384,654,584	$ 298,897,089
Regular and IRA savings accounts	463,049,047	345,392,393
Money market accounts	347,933,540	303,550,356
Share and IRA certificate accounts	173,842,103	196,835,932
	$ 1,369,479,274	$ 1,144,675,770

Individual share certificates of $250,000 or more were approximately $51,934,159 and $56,813,478 at December 31, 2020 and 2019, respectively.

At December 31, 2020, scheduled maturities of certificates for the next five years were as follows:

2021	$ 107,050,900
2022	42,951,114
2023	17,818,214
2024	3,438,602
2025	2,583,273
	$ 173,842,103

Deposits from related parties held by the Credit Union at December 31, 2020 and 2019 totaled $4,483,000 and $3,932,000, respectively.

Note 7: Borrowings

The Federal Home Loan Bank advances are secured by mortgage loans totaling $45,000,000 and $70,000,000 at December 31, 2020 and 2019, respectively. Advances, at interest rates from 1.64 to 1.72 percent and maturity dates ranging from 2023 to 2025, are subject to restrictions or penalties in the event of prepayment.

Aggregate annual maturities at December 31, 2020 are:

2021	$ -
2022	-
2023	15,000,000
2024	15,000,000
2025	15,000,000
	$ 45,000,000

The Credit Union has a $300,000,000 Board-approved advance borrowing agreement with the Federal Home Loan Bank, of which $25,000,000 is available as an overnight line of credit. The overnight line of credit agreement was renewed in August 2019. At December 31, 2020 and 2019, the Credit Union has approximately $520,576,646 and $449,623,122, respectively, of mortgage loans pledged to FHLB. Additionally, the Credit Union has available a $178,088,383 and $188,159,399 line of credit from the Federal Reserve Bank with no maturity date and $339,851,243 and $330,184,385 in loans pledged as collateral to the Federal Reserve Bank at December 31, 2020 and 2019, respectively. There were no borrowings on these lines of credit at December 31, 2020 and 2019.

Note 8: Derivative Financial Instruments

The Credit Union uses derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities. The Credit Union enters into forward contracts for the future delivery of mortgage loans to third-party investors and enters into interest rate lock commitments (IRLC) with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. The forward contracts are entered into in order to economically hedge the effect of changes in interest rates resulting from the Credit Union's commitment to fund the loans.

Derivatives Not Designated as Hedging Instruments

These items are considered derivatives, but are not designated as accounting hedges, and are recorded at fair value with changes in fair value reflected in net gain on loan sales on the consolidated statements of income. The fair value of derivative instruments with a positive fair value are reported in other on the consolidated balance sheets while derivative instruments with a negative fair value are reported in other liabilities on the consolidated balance sheets.

The notional amount and fair value of IRLCs and forward contracts utilized by the Credit Union were as follows for the years ended December 31, 2020 and 2019:

	2020		
	Balance Sheet Location	Fair Value	Notional Amount
Asset Derivatives			
Derivatives not designated as hedging instruments			
Interest rate lock commitments	Other assets	$ 924,241	$ 21,416,542
Liability Derivatives			
Derivatives not designated as hedging instruments			
Forward contracts	Other liabilities	$ (191,437)	$ 62,100,000

	2019				
	Balance Sheet Location		Fair Value		Notional Amount
Asset Derivatives					
Derivatives not designated as hedging instruments					
Interest rate lock commitments	Other assets	$	120,464	$	8,649,455
Liability Derivatives					
Derivatives not designated as hedging instruments					
Interest rate lock commitments	Other liabilities	$	(2,039)	$	221,410
Forward contracts	Other liabilities		(99,516)		40,300,000

Fair values of derivative financial instruments were estimated using changes in mortgage interest rates from the date the Credit Union entered into the IRLC and the balance sheet date. Periodic changes in the fair value of the derivative financial instruments on the consolidated statements of income for the years ended December 31, 2020 and 2019 were as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized		Amount of Gain (Loss) Recognized in Income 2020
Interest rate lock commitments	Net gain on loan sales	$	805,816
Forward contracts	Net gain on loan sales		(3,387,221)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized		Amount of Gain (Loss) Recognized in Income 2019
Interest rate lock commitments	Net gain on loan sales	$	16,417
Forward contracts	Net gain on loan sales		(768,629)

Derivatives Designated as Hedging Instruments

As a strategy to maintain acceptable levels of exposure to the risk due to interest rate fluctuations, the Credit Union has entered into various interest rate swap agreements for portions of its loans and deposit accounts to its members. The agreements provide for the Credit Union to receive interest from the counterparty at the monthly weighted-average of the daily FedFunds index and to pay interest to the counterparty at a fixed rate. Under the agreement, the Credit Union pays or receives the net interest amount monthly, with the monthly settlements included within interest income for loans (Fair Value Hedge) and interest expense for deposits (Cash Flow Hedge).

Cash is pledged as collateral to counterparties that the derivatives have been executed with to mitigate unsecured financial transactions. The amount pledged to counterparties totaled $4,860,000 and $1,850,000 as of December 31, 2020 and 2019, respectively.

The following table presents amounts that were recorded in the consolidated balance sheets related to cumulative basis adjustments for interest rate swap derivatives designated as fair value accounting hedges as of December 31, 2020 and 2019.

	Carrying Amount of Hedged Assets/(Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of Hedged Assets/(Liabilities)	
Line Item in the Consolidated Balance Sheet in Which the Hedged Item is Included Included	**December 31, 2020**	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
Loans	$ 225,203,143	$ -	$ (497,326)	$ -

These amounts include the amortized cost basis of closed portfolios used to designate hedging relationships in which the hedged item is the last layer expected to be remaining at the end of the hedging relationship.

The following tables present a summary of interest rate swap derivatives designated as fair value accounting hedges of fixed-rate receivables and member deposits used in the Credit Union's asset/liability management activities at December 31, 2020 and 2019, identified by the underlying interest rate-sensitive instruments.

December 31, 2020

Instruments Associated With	Notional Value	Weighted-Average Remaining Maturity Years	Fair Value	Weighted-Average Rate Receive	Weighted-Average Rate Pay
Loans	$ 95,000,000	4	$ (4,769,078)	0.09%	1.52%

December 31, 2019

Instruments Associated With	Notional Value	Fair Value	Pay
Member Deposits	$ 72,000,000	$ (1,706,115)	.21%-2.40%

The fair values of interest rate swaps were estimated using a discounted cash flow method that incorporates current market interest rates as of consolidated balance sheet dates. Fair values of IRLCs and forward contracts were estimated using changes in mortgage interest rates from the date the Credit Union entered into the IRLC and the consolidated balance sheet date.

2020

	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate swaps	Other assets	$ 111,130	Other liabilities	$ (4,769,078)

2019

	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate swaps	Other assets	$ -	Other liabilities	$ (1,706,115)

There were no gains or losses recognized on cash flow hedges for the years ended December 31, 2020 and 2019. The following table presents the effects of the Credit Union's interest rate swap agreements designated as hedging instruments on the consolidated statements of income during the years ended December 31, 2020 and 2019.

Line Item in Consolidated Statements of Income	Year Ended December 31, 2020	2019
Interest Income (Expense)		
Loans	$ (448,971)	$ -
Members deposits	(672,284)	173,455

De-Designated Cash Flow Hedges

Effective September 1, 2020, the Credit Union de-designated the existing notional amount under its cash flow hedge with deposits and re-designated the swap agreement to loans under a fair value hedge. Upon de-designation, the Credit Union is reclassifying balances held in accumulated other comprehensive income (loss) related to the previous cash flow hedges to earnings during the same periods in which the hedged forecasted transaction affects earnings. The Credit Union recognized $414,649 of expense during the year ended December 31, 2020.

Note 9: Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), included in members' equity, are as follows:

	2020	2019
Net unrealized gain on available-for-sale securities	$ 5,299,375	$ 635,877
Net unrealized loss on derivatives used for cash flow hedges	(5,172,910)	(1,706,115)
	$ 126,465	$ (1,070,238)

Note 10: Retirement Plan

The Credit Union maintains a defined-contribution pension plan (401(k) Plan and Trust) covering substantially all employees who meet certain age and service requirements. The Credit Union's contribution and expense for the pension plan is a discretionary amount approved by the Board of Directors. The 2020 and 2019 contribution was 8% (reduced by forfeitures) of annual wages for eligible employees and was approximately $1,190,000 and $960,000 in 2020 and 2019, respectively.

The Credit Union participates in a Split Dollar Supplemental Retirement Plan (Retirement Plan) covering a key executive of the Credit Union's management team. The Retirement Plan provided a collateralized loan to the executive which funded a split dollar life insurance policy and an annuity contract. The loan is collateralized by the insurance policy and annuity contract and is due upon death of the executive or upon termination with cause (as defined in the agreement) of employment. The Credit Union initially funded $5,866,604 into the plan in 2015.

The receivable related to the Retirement Plan totaled $6,647,839 and $6,509,755 as of December 31, 2020 and 2019. This amount is included in other assets on the consolidated balance sheets.

Note 11: Disclosures About Fair Value of Assets

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 at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 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 for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Available-for-Sale Securities, Equity Securities and Mutual Funds

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models and quoted prices of securities with similar characteristics. The fair value measurements consider observable data, which may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions. Pricing models typically include a technique known as matrix pricing, which is a mathematical technique used in the financial institution industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but, rather, relying on the investment securities' relationship to other benchmark quoted investment securities. Level 2 securities include mortgage-backed securities and corporate bonds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. No securities are classified within Level 3. The Credit Union obtains all fair value measurements from an independent pricing service.

Loans Held-for-Sale (Mandatory Pricing Agreements)

The fair value of loans held-for-sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2).

Interest Rate Swap Agreements

Certain variable rate money market accounts have been synthetically converted to fixed rate deposits by entering into interest rate swap agreements. The fair value is estimated using forward-looking interest rate curves and is calculated using discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Forward Contracts

The fair values of forward contracts on to-be-announced securities are determined using quoted prices in active markets, or benchmarked thereto (Level 1).

Interest Rate Lock Commitments

The fair value of interest rate lock commitments (IRLCs) are determined using the projected sale price of individual loans based on changes in market interest rates, projected pull-through rates (the probability that an IRLC will ultimately result in an originated loan), the reduction in the value of the applicant's option due to the passage of time and the remaining origination costs to be incurred based on management's estimate of market costs (Level 3).

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020 and 2019:

		2020 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage-backed securities				
Government-sponsored entities residential	$ 197,133,174	$ -	$ 197,133,174	$ -
Private CMO	5,419,250	-	5,419,250	-
Corporate bonds	33,987,314	-	33,987,314	-
Other investments with a readily determinable fair value	43,620,454	43,620,454	-	-
Loans held-for-sale (mandatory pricing agreements)	48,714,754	48,714,754	-	-
Forward contracts	(191,437)	(191,437)	-	-
Interest rate lock commitments - asset	924,241	-	-	924,241
Interest rate swap agreements - asset	111,130	-	111,130	-
Interest rate swap agreements - liability	(4,769,078)	-	(4,769,078)	-

		2019 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage-backed securities				
Government-sponsored entities residential	$ 154,765,312	$ -	154,765,312	$ -
Private CMOs	2,229,585	-	2,229,585	-
Corporate bonds	42,979,938	-	42,979,938	-
Other investments with a readily determinable fair value	3,036,387	3,036,387	-	-
Loans held-for-sale (mandatory pricing agreements)	35,788,055	35,788,055	-	-
Forward contracts	(99,516)	(99,516)	-	-
Interest rate lock commitments - asset	120,464	-	-	120,464
Interest rate lock commitments - liability	(2,039)	-	-	(2,039)
Interest rate swap agreements - liability	(1,706,115)	-	(1,706,115)	-

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated balance sheets using significant unobservable (Level 3) inputs:

	Interest Rate Lock Commitments
Balance as of January 1, 2019	$ 102,008
Total realized gains, net	
Included in net income	16,417
Balance as of December 31, 2019	118,425
Total realized gains, net	
Included in net income	805,816
Balance, December 31, 2020	$ 924,241

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020 (none) and December 31, 2019:

		2019 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral-dependent impaired loans	$ 271,891	$ -	$ -	$ 271,891

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Collateral-Dependent Impaired Loans, Net of ALLL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Credit Union considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value.

Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Vice President of Operation's office. Appraisals are reviewed for accuracy and consistency by the Vice President of Operation's office. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed and reviewed by management by comparison to historical results.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	Fair Value at December 31, 2020	Valuation Technique	Unobservable Inputs	Range
IRLCs	$ 924,241	Discounted cash flow	Loan closing rates	90% - 98%

	Fair Value at December 31, 2019	Valuation Technique	Unobservable Inputs	Range
Collateral-dependent impaired loans	$ 271,891	Market comparable properties	Marketability discount and selling costs	35% - 57%
IRLCs	120,464	Discounted cash flow	Loan closing rates	90% - 98%
IRLCs	(2,039)	Discounted cash flow	Loan closing rates	90%

Note 12: The Fair Value Option

The Credit Union has elected to measure certain loans held for sale at fair value. The Credit Union hedges its mortgage banking pipeline by entering into forward contracts for the future delivery of mortgage loans to third-party investors and entering into IRLCs with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. To facilitate the hedging of the loans, the Credit Union has elected the fair value option for loans originated and intended for sale in the secondary market under mandatory pricing agreements.

Included in the accompanying consolidated balance sheets are loans held for sale reported at fair value of $48,714,754 and $35,788,055 at December 31, 2020 and 2019, respectively. See Note 11 for additional disclosures regarding fair value of loans held for sale.

Note 13: Commitments and Contingent Liabilities

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the accompanying consolidated financial statements. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Credit Union uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk as of December 31 were as follows:

	2020	2019
Commitments to extend credit	$ 515,874,293	$ 502,437,188

The Credit Union has entered into a noncancelable operating lease and other agreements. The leases are for office space.

Future minimum commitments at December 31, 2020 for the noncancelable lease and other agreements are summarized as follows:

2021	$ 1,382,235
2022	1,371,983
2023	1,334,841
2024	799,035
2025	287,896
Thereafter	1,373,008
	$ 6,548,998

The amount expensed for 2020 and 2019 related to the lease and other agreements was approximately $1,540,000 and $1,633,000, respectively.

In the normal course of business, the Credit Union is subject to various legal actions. Management believes that the results of these legal actions will not have a material adverse effect on the Credit Union's consolidated financial position.

Note 14: Regulatory Capital

The Credit Union is subject to regulatory net worth ratio requirements by the NCUA. In addition, the NCUA has also established Risked Based Net Worth (RBNW) requirements for complex credit unions based on risk-weighting formulas on specific assets, liabilities and off-balance sheet items, which qualify under the regulations. Failure to meet minimum net worth or RBNW 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.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table below) of net worth (as defined in the regulations) to assets (as defined) and RBNW ratios (as defined). Management believes, as of December 31, 2020, that the Credit Union meets all capital adequacy requirements to which it is subject and no events have occurred since that date that would change the Credit Union's classification. As of December 31, 2020 and 2019, the Credit Union's RBNW was 6.6% and 6.7%, respectively.

As of December 31, 2020 and 2019, the Credit Union's net worth is categorized 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% and exceed its RBNW ratio. The Credit Union's RBNW ratio requirement of 6.6% is below the net worth ratio of 10.2%, the Credit Union retains its original classification of well capitalized.

	Actual		Minimum Required to be Well Capitalized		Risk-Based Requirement	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollar amounts in millions)					
December 31, 2020	$ 152.0	10.2%	$ 104.5	7.0%	$ 97.8	6.6%
December 31, 2019	$ 136.0	10.5%	$ 91.1	7.0%	$ 86.5	6.7%

Note 15: Subsequent Events

Subsequent events have been evaluated through March 19, 2021, which is the date the consolidated financial statements were available to be issued.