

**NORTHWEST FEDERAL
CREDIT UNION AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017
(With Independent Auditor's Report Thereon)

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Condition	3
Consolidated Statements of Earnings	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Members’ Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Committee of
Northwest Federal Credit Union and Subsidiary

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated 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 did not audit the 2017 financial statements of NW Capital Management, LLC, a wholly-owned subsidiary, which statements reflect total assets of \$33,890,207 and \$31,551,536 as of December 31, 2018 and 2017, respectively, and total revenues of \$15,106,507 and \$13,574,408 for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for NW Capital Management, LLC as of December 31, 2018, and for the year then ended, is based solely on the report of the other auditors. 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.

Auditor's Responsibility (Continued)

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, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northwest Federal Credit Union and Subsidiary as of December 31, 2018 and 2017, 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.



Troy, Michigan
March 20, 2019

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 121,616	\$ 182,073
Investment securities (note 2):		
Available-for-sale	397,008	508,404
Loans held-for-sale	19,364	21,254
Loans to members, net of allowance for loan losses (note 3)	2,731,006	2,545,628
Accrued interest receivable	10,713	10,218
Prepaid and other assets	46,956	46,080
FHLB participation stock	11,556	9,191
Property and equipment (note 4)	46,322	44,436
Goodwill (note 1)	2,967	4,091
Share insurance deposit	24,953	23,930
	<u>\$ 3,412,461</u>	<u>\$ 3,395,305</u>
Total assets	<u>\$ 3,412,461</u>	<u>\$ 3,395,305</u>
<u>Liabilities and Members' Equity</u>		
Liabilities:		
Members' shares and savings accounts (note 6)	\$ 2,800,148	\$ 2,851,429
Borrowed funds (note 5)	200,000	150,000
Accrued interest and dividends payable	484	146
Accrued expenses and other liabilities	68,010	68,714
	<u>3,068,642</u>	<u>3,070,289</u>
Total liabilities	<u>3,068,642</u>	<u>3,070,289</u>
Commitments and contingent liabilities (note 9)		
Members' equity - substantially restricted (note 7)	<u>343,819</u>	<u>325,016</u>
Total liabilities and members' equity	<u>\$ 3,412,461</u>	<u>\$ 3,395,305</u>

See accompanying notes to consolidated financial statements

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF EARNINGS
(IN THOUSANDS)
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Interest income:		
Loans receivable	\$ 126,823	\$ 106,469
Investment securities	15,458	17,081
	<u>142,281</u>	<u>123,550</u>
Total interest income		
Interest expense:		
Members' shares and savings accounts	25,737	23,173
Interest on borrowed funds	4,594	3,503
	<u>30,331</u>	<u>26,676</u>
Total interest expense		
Net interest income	111,950	96,874
Provision for loan losses	<u>19,881</u>	<u>13,601</u>
Net interest income after provision for loan losses	92,069	83,273
Non-interest income:		
Fees and service charges	37,103	33,980
Gain on sale of loans, net	2,950	5,234
Rental income	1,952	1,046
Gain on sales of investments	-	557
	<u>42,005</u>	<u>40,817</u>
Total non-interest income		
Non-interest expenses:		
Compensation and employee benefits	58,603	54,476
Operating and occupancy expenses	17,698	30,623
Advertising and promotion expenses	2,771	2,447
Loan servicing expenses	12,856	5,927
Legal and professional services expense	3,070	4,023
Education, travel and officials expense	676	1,846
Other expenses	12,287	3,803
Losses on sales of investments	1,404	-
	<u>109,365</u>	<u>103,145</u>
Total non-interest expenses		
Net earnings	<u>\$ 24,709</u>	<u>\$ 20,945</u>

See accompanying notes to consolidated financial statements

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(IN THOUSANDS)
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Net earnings	\$ 24,709	\$ 20,945
Other comprehensive (loss) income:		
Net changes in unrealized holding gains and losses on investments classified as available-for-sale arising during the period	(5,906)	3,041
Reclassification adjustments for investment gains and losses included in net earnings	<u>-</u>	<u>(557)</u>
Other comprehensive (loss) income	<u>(5,906)</u>	<u>2,484</u>
Comprehensive income	<u>\$ 18,803</u>	<u>\$ 23,429</u>

See accompanying notes to consolidated financial statements

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
(IN THOUSANDS)
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Regular Reserves	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Members' equity - January 1, 2017	\$ 18,008	\$ 293,019	\$ (9,440)	\$ 301,587
Comprehensive income	-	20,945	2,484	23,429
Members' equity - December 31, 2017	18,008	313,964	(6,956)	325,016
Comprehensive income (loss)	-	24,709	(5,906)	18,803
Members' equity - December 31, 2018 (note 7)	<u>\$ 18,008</u>	<u>\$ 338,673</u>	<u>\$ (12,862)</u>	<u>\$ 343,819</u>

See accompanying notes to consolidated financial statements

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Cash flows from operating activities:		
Net earnings	\$ 24,709	\$ 20,945
Adjustments:		
Provision for loan losses	19,881	13,601
Depreciation and amortization	4,770	4,995
Net amortization of premiums/discounts on investment securities	3,774	6,859
Fair value adjustment of mortgage servicing rights	1,416	2,376
Capitalization of mortgage servicing rights	(1,319)	(1,647)
Amortization of goodwill	1,124	1,624
Gain on sale of loans, net	(2,950)	(5,234)
Proceeds from loans sold	214,628	154,219
Loans originated for sale	(209,788)	(170,239)
Losses (gains) on sales of investments	1,404	(557)
Changes in assets and liabilities (net):		
Increase in accrued interest receivable	(495)	(368)
Increase in prepaid and other assets	(973)	(12,666)
Increase in accrued interest and dividends payable	338	114
(Decrease) increase in accrued expenses and other liabilities	(704)	10,863
Total adjustments	31,106	3,940
Net cash provided from operating activities	55,815	24,885

See accompanying notes to consolidated financial statements

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Cash flows from investing activities:		
Increase in loans to members (net)	\$ (205,259)	\$ (450,018)
Proceeds from maturities, sales and repayment of available-for-sale investments	100,884	312,187
Purchase of available-for-sale investments	(572)	(69,588)
Increase in share insurance deposit	(1,023)	(1,944)
Acquisition of FHLB participation stock	(2,365)	(2,156)
Acquisition of property and equipment	(6,656)	(2,999)
Net cash used in investing activities	(114,991)	(214,518)
Cash flows from financing activities:		
(Decrease) increase in members' shares and savings accounts (net)	(51,281)	182,537
Proceeds from borrowed funds	150,000	3,375,000
Repayment of borrowed funds	(100,000)	(3,325,000)
Net cash (used in) provided from financing activities	(1,281)	232,537
Net (decrease) increase in cash and cash equivalents	(60,457)	42,904
Cash and cash equivalents - beginning	182,073	139,169
Cash and cash equivalents - ending	\$ 121,616	\$ 182,073
<u>Supplemental Information</u>		
Interest paid	\$ 30,331	\$ 26,676

See accompanying notes to consolidated financial statements

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 1 - Nature of Business and Significant Accounting Policies

Nature of Business

Northwest Federal Credit Union (the “Credit Union”) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act for the purpose of promoting thrift among, and creating a source of credit for, its members. The principal operations of the Credit Union are located in the Washington, D.C. metropolitan area. Participation in the Credit Union is limited to those individuals that qualify for membership. The field of membership is defined in the Credit Union’s bylaws.

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and its wholly-owned Credit Union Service Organization (CUSO), NW Capital Management, LLC. The CUSO provides insurance and financial services to Credit Union members. All significant intercompany balances and transactions have been eliminated in consolidation.

Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses (ALL) and the fair value of securities. The significant accounting principles and policies used in the preparation of these consolidated financial statements, together with certain related information, are summarized below.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, due from banks, due from corporate credit unions and federal funds sold. Amounts due from banks and corporate credit unions may, at times, exceed federally insured limits. The Credit Union believes no significant concentration of credit risk exists with respect to these cash investments.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

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

Investment Securities

Investments are classified as available-for-sale. Investment securities classified as available-for-sale are measured at fair value as of the consolidated statement of financial condition date. Unrealized gains and losses for available-for-sale investments are reported as a separate component of members' equity. Realized gains and losses on sales of available-for-sale securities are determined using the specific-identification method. Premiums are amortized and discounts are accreted as an adjustment to interest income on investments over the terms of the investment by a method which approximates the interest method.

Declines in the fair value of available-for-sale securities below their cost that are other-than-temporary are reflected as realized losses. In estimating other-than-temporary impairment (OTTI), management considers: (1) the Credit Union's intent to sell the debt security prior to recovery and (2) whether it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Credit Union does not intend to sell a security, and it is more likely than not, the Credit Union will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in accumulated other comprehensive income (loss).

Loans Held-for-Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. Mortgage loans are sold without recourse; however, the Credit Union may be required to contractually repurchase loans for violation of a representation or warranty made in connection with the sale of the loan.

Federal Home Loan Bank Participation Stock

As a member of the Federal Home Loan Bank (FHLB) system, the Credit Union is required to maintain an investment in capital stock of the FHLB. The minimum stock investment is based on a formula developed by the FHLB that considers the Credit Union's total assets and outstanding advances from the FHLB. The stock is a restricted investment security, carried at cost, and evaluated for impairment on an annual basis. No ready market exists for the FHLB stock, and it has no quoted market value.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

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

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 discounts. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on 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 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 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.

Direct loan origination costs are recognized in expense when incurred; however, real estate loan origination points and fees and dealer reserve fees are deferred over the average life of the loan as an adjustment to loan yield.

Allowance for Loan Losses

Management has an established methodology to determine the adequacy of the ALL that assesses the risk and losses inherent in the loan portfolio. Management applies judgment to develop its own view of loss probability within that range, using both external and internal parameters, with the objective of establishing an ALL inherent within the portfolio as of the reporting date. This amount is the result of the Credit Union's judgment of the risks inherent in the portfolio, economic uncertainties, historical loss experience and other subjective factors, including industry trends, general trends of real estate values, the trends of existing borrower FICO scores and other data incorporated into the Credit Union's judgment of the adequacy of the ALL which is intended to better reflect management's view of risk in each loan portfolio. No single statistic or measurement determines the adequacy of the ALL.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

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

Allowance for Loan Losses (Continued)

For purposes of determining the ALL, the Credit Union has segmented certain loans in the portfolio by product type. Loans are divided into the following segments: consumer, real estate and commercial. The Credit Union further disaggregates these segments into classes based on the associated risks within those segments. Consumer loans are divided into seven classes: new indirect, used indirect, new vehicle, used vehicle, unsecured, credit cards and other secured. Real estate loans are divided into three classes: first mortgages, second mortgages and home equity loans. Commercial loans are divided into two classes: Live Oak and other loans. 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 ALL are independently validated and reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end-user controls are appropriate and properly documented. The following is how management determines the balance of the ALL for each segment or class of loans:

Consumer Portfolio Segment ALL Methodology

For consumer loans not identified as impaired, the Credit Union determines the ALL on a collective basis utilizing historical 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 the trailing 12 months.

The consumer ALL model primarily uses historic delinquency and default experience, loss severity, unemployment trends and other key economic variables that may influence the frequency and severity of losses for each class of loan within the consumer segment. For any consumer loans identified as impaired, the consumer ALL includes an amount for the estimated losses on loans evaluated individually for impairment.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

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

Allowance for Loan Losses (Continued)

Real Estate Portfolio Segment ALL Methodology

For real estate loans not identified as impaired, the Credit Union determines the ALL on a collective basis utilizing historical 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 the trailing 12 months.

The real estate ALL model primarily uses historic delinquency and default experience, loss severity, home price trends, unemployment trends and other key economic variables that may influence the frequency and severity of losses for each class of loan within the consumer segment. For any real estate loans identified as impaired, the ALL includes an amount for the estimated losses on loans evaluated individually for impairment.

Commercial Portfolio Segment ALL Methodology

The commercial loan portfolio is segmented into two categories - Live Oak and other. Live Oak represents loans purchased from Live Oak Bank.

Upon being originated, or in the case of participations, when they are purchased, commercial loans are evaluated, assessed and graded based on their estimated risk of potential loss. Periodically, the evaluation of these loans is updated and the loan's grade is affirmed or changed as dictated by current information analyzed in the periodic review.

Based on credit risk assessment and management's analysis of leading predictors of losses, additional loss multipliers are applied to loan balances. These loss estimates are adjusted as appropriate based on additional analysis of long-term average loss experience compared to previously forecasted losses, external loss data or other risks identified from current economic conditions and credit quality trends. The commercial ALL also includes an amount for the estimated losses on individually impaired loans.

For commercial loans not identified as impaired, the Credit Union determines the ALL on a collective basis utilizing historical losses to represent the best estimate of inherent losses at the measurement date. As of December 31, 2018 and 2017, the historical loss time frame for each class was the trailing 12 months.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

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

Allowance for Loan Losses (Continued)

Commercial Portfolio Segment ALL Methodology (Continued)

The commercial ALL model primarily used historic delinquency and default experience, loss severity, home price trends, unemployment trends and other key economic variables that may influence the frequency and severity of losses for each class of loan within the commercial segment. For any commercial loans identified as impaired, the ALL also includes an amount for the estimated losses on loans evaluated individually for impairment.

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. The following is a description of the Credit Union's loan charge-off policies:

Consumer, real estate and commercial loans are generally charged-off when:

- A loan is deemed uncollectible, where 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 asset to be uncollectible;
- A loan is classified as a "skip" and the Credit Union has had no contact for 90 days;
- The Credit Union has repossessed, but not yet sold, collateral on hand;
- A loss is determined on the loan of a deceased person; and
- The asset has been classified as a loss by either the internal loan review process or external examiners.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

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

Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through the sale of financial assets. Fair value is based on market prices for comparable mortgage servicing contracts and Small Business Administration (SBA) contracts when available, or alternatively, is based on a valuation model that calculates the present value estimates future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are measured at fair value with changes in the fair value of the servicing assets reported as earnings. Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned.

Property and Equipment

Land is carried at cost. Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are stated at cost, less accumulated amortization. Amortization is completed on the straight-line method over the length of the lease term, or the estimated life of the asset, whichever is less. Assets classified as construction-in-process are not depreciated until the asset has been completed and placed into service. 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.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with the National Credit Union Administration's (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 reviewed for impairment, including consideration of the refundability of the deposit.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

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

Goodwill

The Credit Union has recorded goodwill of \$2,967 and \$4,091, net of accumulated amortization of (\$4,514) and (\$3,390), as of December 31, 2018 and 2017, respectively. The Credit Union has elected to amortize goodwill over a period of 7 years. Included in other expenses is amortization expense for goodwill of \$1,124 and \$1,124 for the years ended December 31, 2018 and 2017, respectively. The Credit Union expects the remaining goodwill to be fully amortized over the next three years. The Credit Union evaluates impairment of goodwill on an annual basis. As of December 31, 2018 and 2017, goodwill was not determined to be impaired.

Members' Shares and Savings Accounts

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' shares accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Comprehensive Income

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

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

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

Income Taxes

The Credit Union is exempt, by statute, from Federal, state and local income taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of FASB ASC clarifies accounting for uncertainty in income taxes reported in the consolidated financial statements. The interpretation provides criteria for assessment of individual 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 consolidated financial statements. Additionally, no interest or penalties have been recorded in the accompanying consolidated financial statements related to uncertain tax positions.

Subsequent Events

The date to which events occurring after December 31, 2018, the date of the most recent consolidated statement of financial condition, have been evaluated for possible adjustment to the consolidated financial statements or disclosure is March 20, 2019, which is the date the consolidated financial statements were available to be issued.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 2 - Investment Securities

The carrying amounts of investment securities as shown in the consolidated statements of financial condition of the Credit Union and their approximate fair values at December 31, 2018 and 2017 are as follows:

	December 31, 2018			
	<u>Amortized</u>	<u>Gross</u>	<u>Gross</u>	<u>Fair</u>
	<u>Cost</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>(Losses)</u>	
Securities available-for-sale:				
U.S. Treasuries	\$ 59,638	\$ -	\$ (1,104)	\$ 58,534
SBA loan pools	133,536	72	(4,170)	129,439
Agency securities	32,524	-	(735)	31,789
Mortgage-backed securities	122,712	-	(4,272)	118,440
Mutual funds	39,603	-	(2,232)	37,371
Equity securities	4,206	431	-	4,637
Municipal bonds	2,641	12	(72)	2,580
Corporate bonds	<u>15,045</u>	<u>14</u>	<u>(841)</u>	<u>14,218</u>
 Total securities available-for-sale	 <u>\$ 409,905</u>	 <u>\$ 529</u>	 <u>\$ (13,426)</u>	 <u>\$ 397,008</u>
	December 31, 2017			
	<u>Amortized</u>	<u>Gross</u>	<u>Gross</u>	<u>Fair</u>
	<u>Cost</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>(Losses)</u>	
Securities available-for-sale:				
U.S. Treasuries	\$ 59,661	\$ 80	\$ (758)	\$ 58,983
SBA loan pools	181,509	199	(2,903)	178,805
Agency securities	33,016	-	(614)	32,402
Mortgage-backed securities	180,729	81	(3,168)	177,642
Mutual funds	38,699	91	(708)	38,082
Equity securities	4,206	743	-	4,949
Municipal bonds	2,669	93	(6)	2,756
Corporate bonds	<u>14,870</u>	<u>158</u>	<u>(243)</u>	<u>14,785</u>
 Total securities available-for-sale	 <u>\$ 515,359</u>	 <u>\$ 1,445</u>	 <u>\$ (8,400)</u>	 <u>\$ 508,404</u>

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 2 - Investment Securities (Continued)

The Credit Union is generally restricted from investing in certain security types as defined in the NCUA Rules and Regulations under 12 CFR Sec 703. The Credit Union has invested in otherwise non-permissible securities for the purposes of benefit prefunding and charitable contributions in accordance with 12 CFR Sec 701.19(c) and Sec 721.3(2). All investments in mutual funds, equity securities, municipal bonds, and corporate bonds were acquired for the purposes of benefit prefunding and charitable contributions.

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

	Securities Available-for-Sale	
	Amortized Cost	Fair Value
Due in less than one year	\$ 1,997	\$ 1,991
Due in one year to less than five years	87,441	85,643
Due in five years to less than ten years	14,093	13,357
Due in more than ten years	6,317	6,130
SBA loan pools	133,536	129,439
Mortgage-backed securities	122,712	118,440
Mutual funds	39,603	37,371
Equity securities	<u>4,206</u>	<u>4,637</u>
Total	<u>\$ 409,905</u>	<u>\$ 397,008</u>

The proceeds from the sale of investment securities classified as available-for-sale approximated \$86,088 and \$378,911 during the years ended December 31, 2018 and 2017, respectively. Gross gains of \$-0- and \$2,447 were realized from these sales during the years ended December 31, 2018 and 2017, respectively. Gross losses of approximately \$1,650 and \$1,801 were realized from these sales during the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, investment securities with a fair value of approximately \$331,530 and \$400,572 were pledged as security for the Credit Union's borrowed funds with the FHLB.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 2 - Investment Securities (Continued)

The following tables show the gross unrealized losses and fair value of investments, aggregated by length of time individual securities have been in a continuous unrealized loss position.

Description of Securities	December 31, 2018					
	Continuing Unrealized Losses for Less Than 12 Months		Continuing Unrealized Losses for 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasuries	\$ 2,066	\$ (18)	\$ 56,468	\$ (1,086)	\$ 58,534	\$ (1,104)
SBA loan pools	40,893	(686)	77,373	(3,484)	118,266	(4,170)
Agency securities	-	-	31,789	(735)	31,789	(735)
Mortgage-backed securities	18,131	(334)	100,309	(3,938)	118,440	(4,272)
Mutual funds	15,356	(1,433)	22,015	(799)	37,636	(2,232)
Municipal bonds	1,333	(40)	325	(32)	1,658	(72)
Corporate bonds	<u>7,124</u>	<u>(311)</u>	<u>6,281</u>	<u>(530)</u>	<u>13,405</u>	<u>(841)</u>
	<u>\$ 84,903</u>	<u>\$ (2,822)</u>	<u>\$ 294,560</u>	<u>\$ (10,604)</u>	<u>\$ 379,463</u>	<u>\$ (13,426)</u>

Description of Securities	December 31, 2018					
	Continuing Unrealized Losses for Less Than 12 Months		Continuing Unrealized Losses for 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasuries	\$ 49,477	\$ (574)	\$ 7,338	\$ (184)	\$ 56,815	\$ (758)
SBA loan pools	48,743	(519)	92,292	(2,384)	141,035	(2,903)
Agency securities	5,421	(64)	26,981	(550)	32,402	(614)
Mortgage-backed securities	62,074	(803)	94,268	(2,365)	156,342	(3,168)
Mutual funds	-	-	24,589	(708)	24,589	(708)
Municipal bonds	-	-	355	(6)	355	(6)
Corporate bonds	<u>2,553</u>	<u>(17)</u>	<u>4,723</u>	<u>(226)</u>	<u>7,276</u>	<u>(243)</u>
	<u>\$ 168,268</u>	<u>\$ (1,977)</u>	<u>\$ 250,546</u>	<u>\$ (6,423)</u>	<u>\$ 418,814</u>	<u>\$ (8,400)</u>

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 2 - Investment Securities (Continued)

The securities in an unrealized loss position as of December 31, 2018 and 2017, were temporarily impaired due to the current interest rate environment and not due to increased credit risk. Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of securities and the possibility of temporary unrealized losses. Investments in federal agency securities, U.S. Treasuries, SBA loan pools and mortgage-backed securities are issued by U.S. Government agencies and U.S. Government sponsored enterprises. Municipal bonds, mutual funds and corporate bonds are subject to credit risk. The Credit Union does not invest in bonds rated below investment-grade. The Credit Union reviews all of its securities for impairment at least quarterly. The Credit Union has determined there was no OTTI related to these securities as of December 31, 2018 and 2017.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members

The composition of loans to members is as follows:

	2018	2017
Consumer:		
New indirect	\$ 812,985	\$ 742,804
Used indirect	569,578	528,017
New vehicle	63,725	68,084
Used vehicle	98,967	103,591
Unsecured	90,911	59,977
Credit cards	96,159	96,131
Other secured	4,682	41,093
Total consumer	1,737,007	1,639,697
Real estate:		
First mortgages	757,452	658,170
Second mortgages	46,115	36,597
Home equity	110,692	107,915
Total real estate	914,259	802,682
Commercial:		
Live Oak	23,109	32,688
Other	77,276	88,393
Total commercial	100,385	121,081
Total	2,751,651	2,563,460
Less: allowance for loan losses	20,645	17,832
Total loans to members	\$ 2,731,006	\$ 2,545,628

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses and Recorded Investment in Loans

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method at December 31, 2018 and 2017:

	December 31, 2018			
	Consumer	Real Estate	Commercial	Total
Allowance for loan losses:				
Beginning balance	\$ 14,807	\$ 649	\$ 2,376	\$ 17,832
Charge-offs	(19,258)	(101)	(744)	(20,103)
Recoveries	2,793	122	120	3,035
Provision (recapture)	20,039	(79)	(79)	19,881
	18,381	591	1,673	20,645
Ending balance individually evaluated for impairment	920	343	963	2,226
Ending balance collectively evaluated for impairment	\$ 17,461	\$ 248	\$ 710	\$ 18,419
Loans:				
Ending balance individually evaluated for impairment	\$ 1,698	\$ 3,434	\$ 963	\$ 6,095
Ending balance collectively evaluated for impairment	1,735,309	910,825	99,422	2,745,556
Total recorded investment in loans	\$ 1,737,007	\$ 914,259	\$ 100,385	\$ 2,751,651

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Allowance for Loan Losses and Recorded Investment in Loans (Continued)

	December 31, 2017			
	Consumer	Real Estate	Commercial	Total
Allowance for loan losses:				
Beginning balance	\$ 13,757	\$ 628	\$ 3,363	\$ 17,748
Charge-offs	(15,169)	(345)	(602)	(16,116)
Recoveries	2,281	227	91	2,599
Provision (recapture)	13,938	139	(476)	13,601
	14,807	649	2,376	17,832
Ending balance individually evaluated for impairment	-	138	1,536	1,674
Ending balance collectively evaluated for impairment	\$ 14,807	\$ 511	\$ 840	\$ 16,158
Loans:				
Ending balance individually evaluated for impairment	\$ -	\$ 4,319	\$ 7,379	\$ 11,698
Ending balance collectively evaluated for impairment	1,639,697	798,363	113,702	2,551,762
Total recorded investment in loans	\$ 1,639,697	\$ 802,682	\$ 121,081	\$ 2,563,460

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Impaired Loans

A loan is impaired when it is probable, based on current information and events, that the Credit Union will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreements. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operations or liquidation of the collateral. In these cases, management uses the current fair value of collateral, less selling costs, when foreclosure is probable, instead of discounted cash flows. If management determined that the fair value of the impaired loan is less than the recorded investment in the loan, impairment is recognized through an ALL estimate or a charge-off to the ALL.

The following tables include the recorded investment and unpaid principal balances for impaired loans with the associated ALL amount, if applicable. Also presented are the average recorded investments in the impaired loans. The average balances are calculated based on the quarter end balances of the loans for the period reported. Payments received on impaired loans are recorded as a reduction of principal or as interest income depending on the modified terms of the loan.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

The following tables summarize key information for impaired loans:

	December 31, 2018			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no allowance recorded:				
Consumer:				
Used vehicle	\$ 49	\$ 49	\$ -	\$ 24
Unsecured	116	116	-	58
Real estate:				
First mortgages	1,199	1,199	-	1,731
Second mortgages	391	391	-	418
Home equity	46	46	-	134
Commercial:				
Live Oak	-	-	-	1,460
Other	-	-	-	570
With an allowance recorded:				
Consumer:				
New indirect	695	695	294	347
Used indirect	217	217	86	109
Used vehicle	45	45	13	23
Unsecured	576	576	527	288
Real estate:				
First mortgages	1,660	1,660	248	1,471
Second mortgages	138	138	95	121
Commercial:				
Live Oak	854	854	854	871
Other	109	109	109	2,286
Totals:				
Consumer	\$ 1,698	\$ 1,698	\$ 920	\$ 849
Real estate	\$ 3,434	\$ 3,434	\$ 343	\$ 3,875
Commercial	\$ 963	\$ 963	\$ 963	\$ 5,187

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Impaired Loans (Continued)

	December 31, 2017			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no allowance recorded:				
Real estate:				
First mortgages	\$ 2,269	\$ 2,269	\$ -	\$ 1,135
Second mortgages	445	445	-	503
Home equity	221	221	-	203
Commercial:				
Live Oak	1,460	1,460	-	730
Other	570	570	-	235
With an allowance recorded:				
Real estate:				
First mortgages	1,281	1,281	114	1,790
Second mortgages	103	103	24	196
Commercial:				
Live Oak	887	887	887	887
Other	4,462	4,462	649	2,675
Totals:				
Real estate	\$ 4,319	\$ 4,319	\$ 138	\$ 3,827
Commercial	\$ 7,379	\$ 7,379	\$ 1,536	\$ 4,527

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans

The following tables provide an age analysis of past due loans by class:

	December 31, 2018					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans
Consumer:						
New indirect	\$ 13,091	\$ 3,863	\$ 6,931	\$ 23,885	\$ 789,100	\$ 812,985
Used indirect	9,554	3,376	4,752	17,682	551,896	569,578
New vehicle	357	19	87	463	63,262	63,725
Used vehicle	1,564	288	355	2,207	96,760	98,967
Unsecured	1,153	423	1,103	2,679	88,232	90,911
Credit cards	896	382	851	2,129	94,030	96,159
Other secured	-	4	-	4	4,678	4,682
Total	26,615	8,355	14,079	49,049	1,687,958	1,737,007
Real estate:						
First mortgages	3,060	1,207	508	4,775	752,677	757,452
Second mortgages	573	264	81	918	45,197	46,115
Home equity	342	32	51	425	110,267	110,692
Total	3,975	1,503	640	6,118	908,141	914,259
Commercial:						
Live Oak	43	-	255	298	22,811	23,109
Other	-	264	-	264	77,012	77,276
Total	43	264	255	562	99,823	100,385
Grand total	\$ 30,633	\$ 10,122	\$ 14,974	\$ 55,729	\$ 2,695,922	\$ 2,751,651

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

	December 31, 2017					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans
Consumer:						
New indirect	\$ 12,293	\$ 2,938	\$ 4,639	\$ 19,870	\$ 722,934	\$ 742,804
Used indirect	9,606	2,513	3,918	16,037	511,980	528,017
New vehicle	658	100	30	788	67,296	68,084
Used vehicle	1,699	584	829	3,112	100,479	103,591
Unsecured	1,097	236	645	1,978	57,999	59,977
Credit cards	756	207	249	1,212	94,919	96,131
Other secured	233	69	34	336	40,757	41,093
Total	26,342	6,647	10,344	43,333	1,596,364	1,639,697
Real estate:						
First mortgages	7,436	1,911	610	9,957	648,213	658,170
Second mortgages	896	20	-	916	35,681	36,597
Home equity	536	23	118	677	107,238	107,915
Total	8,868	1,954	728	11,550	791,132	802,682
Commercial:						
Live Oak	462	69	-	531	32,157	32,688
Other	-	-	4,137	4,137	84,256	88,393
Total	462	69	4,137	4,668	116,413	121,081
Grand total	<u>\$ 35,672</u>	<u>\$ 8,670</u>	<u>\$ 15,209</u>	<u>\$ 59,551</u>	<u>\$ 2,503,909</u>	<u>\$ 2,563,460</u>

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Age Analysis of Past Due Loans (Continued)

The Credit Union places loans on nonaccrual status when the loan reaches 90 days past due or when the collection of interest or principal becomes uncertain. Loans on which the accrual of interest has been discontinued or reduced was approximately \$18,694 and \$15,209 as of December 31, 2018 and 2017, respectively. There were no loans 90 days or more past due and still accruing interest as of December 31, 2018 and 2017.

Troubled Debt Restructurings

The Credit Union's loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Credit Union's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions.

When the Credit Union modifies a loan, management evaluates impairment using the current fair value of the collateral, less selling costs. The loan is further analyzed for consideration of the risk of re-default. If management determines that the value of the modified loan is less than the recorded investment in the loan, impairment is recognized by segment or class of loan, as applicable, through the ALL.

The following tables include the recorded financial impact of TDRs. Below is the recorded investment in TDRs modified within the last year and those that were subsequently charged-off in the current reporting period. The Credit Union defines a TDR as a subsequent charge-off when the TDR is 90 days past due, the member fails to complete six consecutive payments, or the member files for bankruptcy.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Troubled Debt Restructurings (Continued)

The following tables present the activity on TDRs:

	TDRs Approved During the Audit Period	
	2018	2017
Consumer:		
New indirect	\$ 29	\$ -
Used indirect	9	-
Used vehicle	34	-
Unsecured	18	-
Real estate:		
First mortgages	545	-
Second mortgages	149	-
Home equity	-	-
Total	\$ 784	\$ -

	TDRs Charged-off During the Audit Period	
	2018	2017
Consumer:		
New indirect	\$ 49	\$ 13
Used indirect	-	16
New vehicle	-	5
Used vehicle	6	54
Unsecured	19	77
Real estate:		
First mortgages	-	85
Second mortgages	-	29
Home equity	-	62
Total	\$ 74	\$ 341

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Consumer Credit Quality Indicators

Consumer credit quality is measured, assessed and quantified through analysis of current delinquencies and credit losses within each segment of the consumer loan portfolio as well as on the portfolio as a whole. Additionally, historical loss trends are factored into management's evaluation of credit performance along with local and regional economic trends and other external variables that may impact portfolio performance. The adequacy of the allowance for loan losses allocated to the consumer loan portfolio is then evaluated on these various sets of data.

Real Estate Credit Quality Indicators

The following tables represent real estate credit exposures by credit score. The use of creditworthiness categories to grade loans permits management to estimate a portion of the credit risk. Category ratings are reviewed each quarter, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performance. Loans that trend upward toward higher levels generally have lower risk factors associated. Whereas, loans that migrate toward lower ratings generally will result in a higher risk factor being applied to those related loan balances.

The Credit Union's internal risk ratings are as follows:

- 800 and above - Member poses little to no risk
- 750 to 799 - Member poses a nominal risk of loss
- 650 to 749 - Member poses an average risk of loss
- 600 to 649 - Member is experiencing some degree of financial difficulty
- 599 and below - Member is showing above average risk
- No score - no credit score was available

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Real Estate Credit Quality Indicators (Continued)

The tables below summarize key information for real estate credit quality:

Real Estate Credit Quality Indicators As of December 31, 2018				
	First Mortgages	Second Mortgages	Home Equity	Total
800 and above	\$ 129,221	\$ 2,572	\$ 7,308	\$ 139,101
750 to 799	346,844	12,849	26,185	385,878
650 to 749	203,651	17,607	28,834	250,092
600 to 649	14,088	3,072	3,851	21,011
599 and below	7,332	9,941	39,549	56,822
No score	56,316	74	4,965	61,355
	\$ 757,452	\$ 46,115	\$ 110,692	\$ 914,259

Real Estate Credit Quality Indicators As of December 31, 2017				
	First Mortgages	Second Mortgages	Home Equity	Total
800 and above	\$ 120,443	\$ 1,939	\$ 6,200	\$ 128,582
750 to 799	307,097	6,649	20,386	334,132
650 to 749	182,135	12,051	21,203	215,389
600 to 649	16,916	2,268	2,994	22,178
599 and below	8,085	247	104	8,436
No score	23,494	13,443	57,028	93,965
	\$ 658,170	\$ 36,597	\$ 107,915	\$ 802,682

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Commercial Credit Quality Indicators

The Credit Union categorizes commercial loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as: current financial information, historical payment experience, credit documentation and current economic trends among other factors. These credit quality indicators are used to assign a risk rating to each individual credit. The risk ratings can be grouped into six major categories, defined as follows:

Pass: A Pass credit is a strong loan with no existing or known potential weaknesses deserving management's close attention.

Watch: A Watch credit is a loan that otherwise meets the definition of a standard or minimum acceptable quality loan, but which requires more than normal attention due to any of the following items: deterioration of borrower financial condition less severe than those warranting more adverse grading, deterioration of repayment ability and/or collateral value, increased leverage, adverse effects from a downturn in the economy, local or market industry, adverse changes in local or regional employer, management changes (including illness, disability and death) and adverse legal action. Payments are current per the terms of the agreement. If conditions persist or worsen, a more severe risk grade may be warranted.

Special Mention: A Special Mention credit is a loan that has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the loan or in the Credit Union's position at some future date. Special Mention credits are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

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

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

Loss: Credits classified as Loss are loans considered uncollectible and charged-off upon receiving board approval.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 3 - Loans to Members (Continued)

Commercial Credit Quality Indicators (Continued)

The following tables summarize the credit risk profile of the commercial loan portfolio by class:

Commercial Credit Quality Indicators
As of December 31, 2018

Credit Grade	Live Oak	Other	Total
Pass	\$ 18,373	\$ 65,694	\$ 84,067
Watch	2,662	11,017	13,679
Special mention	-	-	-
Substandard	1,400	565	1,965
Doubtful	510	-	510
Loss	164	-	164
	<u>\$ 23,109</u>	<u>\$ 77,276</u>	<u>\$ 100,385</u>

Commercial Credit Quality Indicators
As of December 31, 2017

Credit Grade	Live Oak	Other	Total
Pass	\$ 26,789	\$ 58,772	\$ 85,561
Watch	3,552	24,790	28,342
Special mention	-	-	-
Substandard	1,604	635	2,239
Doubtful	571	59	630
Loss	172	4,137	4,309
	<u>\$ 32,688</u>	<u>\$ 88,393</u>	<u>\$ 121,081</u>

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 4 - Property and Equipment

The principal categories of property and equipment may be summarized as follows:

	2018	2017
Land and improvements	\$ 15,840	\$ 15,840
Building and improvements	38,336	38,267
Computer equipment	20,387	17,759
Furniture and equipment	4,175	3,922
Leasehold improvements	13,761	10,108
Total cost	92,499	85,896
Less accumulated depreciation	(46,177)	(41,460)
Undepreciated cost	\$ 46,322	\$ 44,436

Note 5 - Borrowed Funds

As of December 31, 2018 and 2017, in aggregate, the Credit Union maintained \$55,000 in unsecured line-of-credit agreements with Sun Trust Bank and PNC Bank. No amounts were outstanding on these line-of-credit agreements as of December 31, 2018 and 2017.

As of December 31, 2017, in aggregate, the Credit Union maintained \$50,000 in a line-of-credit agreement with Sun Trust Bank, which is secured by a blanket security interest in the Credit Union's investment portfolio. No amount was outstanding on this line-of-credit agreement as of December 31, 2017.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 5 - Borrowed Funds (Continued)

As of December 31, 2018 and 2017, the Credit Union had access to a pre-approved line-of-credit for \$800,326 and \$689,952, respectively, from the FHLB, secured by investment securities as defined in the FHLB Statement of Credit Policy. As of December 31, 2018 and 2017, the Credit Union has advanced \$200,000 and \$150,000, respectively, under the terms of this agreement. The following summarizes the borrowed funds as of December 31, 2018:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
FHLB	2.55%	3/28/2019	\$ 25,000
FHLB	2.45%	4/25/2019	25,000
FHLB	2.69%	6/11/2019	25,000
FHLB	2.55%	11/29/2019	25,000
FHLB	2.14%	11/30/2020	25,000
FHLB	2.96%	7/30/2021	25,000
FHLB	3.02%	7/29/2020	25,000
FHLB	2.35%	11/30/2022	<u>25,000</u>
Total			<u>\$ 200,000</u>

Note 6 - Members' Shares and Savings Accounts

	<u>2018</u>	<u>2017</u>
Share draft accounts	\$ 429,870	\$ 382,570
Shares and equivalents	518,554	526,383
Money market accounts	877,586	957,833
Individual retirement accounts (IRA) shares	59,572	62,125
Share and IRA certificates of deposit	<u>914,566</u>	<u>922,518</u>
Total members' shares and savings accounts	<u>\$ 2,800,148</u>	<u>\$ 2,851,429</u>

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 6 - Members' Shares and Savings Accounts (Continued)

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

2019	\$ 459,259
2020	146,779
2021	140,874
2022	34,049
2023	<u>133,605</u>
Total	<u>\$ 914,566</u>

The aggregate amount of members' time deposit accounts in denominations of \$250 or more at December 31, 2018 and 2017 is approximately \$304,806 and \$275,225, respectively.

Note 7 - Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary actions by regulators, that if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines involving quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under regulatory 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 of net worth to total assets. Credit unions are also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which establishes whether or not the credit union will be considered complex under the regulatory framework. The Credit Union's RBNWR ratio as of December 31, 2018 and 2017 was 5.41% and 5.57%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6.0%.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 7 - Regulatory Capital (Continued)

As of December 31, 2018 and 2017, the Credit Union was 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 as follows:

	Actual		To Be Well Capitalized Under the Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio
	December 31, 2018 Net worth	\$ 356,681	10.45%	\$ 238,872
December 31, 2017 Net worth	\$ 331,972	9.77%	\$ 237,671	7.00%

Note 8 - Related Party Transactions

The majority of employees and all members of the Board of Directors have member accounts at the Credit Union, including share, deposit and loan accounts. The terms of transactions involving these accounts (i.e., rates charged and paid) are comparable to other members.

Included in loans receivable at December 31, 2018 and 2017 are loans of approximately \$6,000 and \$3,613, respectively, to directors and officers of the Credit Union. Such loans are made in the ordinary course of business at normal credit terms including interest rates and collateralization.

Note 9 - Commitments and Contingent Liabilities

The principal commitments of the Credit Union are as follows:

Lease Commitments

At December 31, 2018 and 2017, the Credit Union had outstanding commitments under noncancellable operating leases for office space for several branch locations. Net rent expenses under the operating leases, included in expenses, were \$744 and \$623 for the years ended December 31, 2018 and 2017, respectively.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 9 - Commitments and Contingent Liabilities (Continued)

Lease Commitments (Continued)

The projected minimum rental payments under the terms of the leases at December 31, 2018 are as follows:

Year Ending December 31st:

2019	\$	871
2020		853
2021		699
2022		701
2023		781
Five years thereafter		<u>3,023</u>
Total	\$	<u>6,928</u>

At December 31, 2018 and 2017, the Credit Union has leased office space at its main office location under a noncancellable operating lease. Rental income under the operating leases, included in non-interest income, were \$1,620 and \$1,365 for the years ended December 31, 2018 and 2017, respectively.

The projected minimum rental payments under the terms of the leases at December 31, 2018 are as follows:

Year Ending December 31st:

2019	\$	1,501
2020		1,328
2021		1,371
2022		1,402
2023		1,273
Five years thereafter		<u>1,150</u>
Total	\$	<u>8,025</u>

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 9 - Commitments and Contingent Liabilities (Continued)

Loan Commitments

At December 31, 2018, the Credit Union had outstanding commitments for unused lines-of-credit that are not reflected in the accompanying consolidated financial statements, as follows:

Home equity lines-of-credit	\$ 126,687
Unsecured lines-of-credit	36,856
Credit card	381,531
Commercial lines-of-credit	<u>3,758</u>
Total	\$ <u>548,832</u>

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. Those instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated 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. 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.

Financial instruments whose contract amounts represent credit risk:

Commitments to extend credit, generally unsecured	\$ 418,387
Commitments to extend credit, home equity secured	126,687
Commitments to extend credit, commercial lending	<u>3,758</u>
Total	\$ <u>548,832</u>

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

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 9 - Commitments and Contingent Liabilities (Continued)

The Credit Union is involved in a dispute related to the termination of a contract with the National Association of Realtors related to licensing and marketing. The Credit Union has recorded a contingent liability related to the dispute in the amount of \$3,950 and \$2,925, included in accrued expenses and other liabilities, as of December 31, 2018 and 2017, respectively. The Credit Union has resolved the dispute and settled for \$3,950 in January 2019.

The Credit Union may be exposed to credit risk from a regional economic standpoint, since a significant concentration of its borrowers work or reside in the Washington, D.C. area. However, the loan portfolio is well diversified and the Credit Union does not have any significant concentrations of credit risk, except unsecured loans, when by their nature, increase the risk of loss compared to those loans that are collateralized.

Note 10 - Employee Benefits

401(k) Savings Plan

Participation in the 401(k) savings plan is available to all employees who are 18 years of age. Employee contributions to the plan are subject to certain limits established by the Internal Revenue Service. Participants are always 100% vested in the voluntary contributions. The Credit Union may make discretionary matching contributions equal to a uniform percentage of an employee's salary deferral and/or a discretionary profit sharing contribution. Credit Union contributions vest at 33% after one year of service, 67% after two years of service and 100% after three years of service. During the years ended December 31, 2018 and 2017, the Credit Union contributed a matching contribution up to 7% and 6.5%, respectively, of employee compensation. The Credit Union's expense for the 401(k) savings plan for the years ended December 31, 2018 and 2017 was approximately \$2,442 and \$2,006, respectively.

Postretirement Plan

The Credit Union has a postretirement benefit plan in place for select retired employees to cover the period between the participants retirement age and their eligibility to receive Medicare. The Credit Union has recorded approximately \$295 and \$370 related to the accrued benefits under this plan as of December 31, 2018 and 2017, respectively. Benefits paid to these retirees approximated \$57 and \$77 for the years ended December 31, 2018 and 2017, respectively.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 10 - Employee Benefits (Continued)

Insurance

The Credit Union acts as a self-insurer and assumes liability for medical insurance. The Credit Union pays medical claims up to defined maximum limits; amounts paid in excess of these limits are covered by insurance. At year end, the Credit Union records an accrual for the Credit Union's exposure for claims incurred but not yet settled based on management's analysis of information received from its outside administrator. Medical insurance expenses for the years ended December 31, 2018 and 2017 amounted to approximately \$4,746 and \$3,754, respectively.

Collateral Assigned Split Dollar Life Insurance

During 2017, the Credit Union has entered into agreements and granted loans to fund life insurance premium payments for certain key employees. The loans are collateralized by the assignment of the respective life insurance policies which are full recourse. The policies are owned by the executives and they have sole control over the listed beneficiaries. The total value of the loans, included in other assets, was \$4,500 at December 31, 2018. The key employee may use other funds to pay back the loan, however the death benefit of the life insurance policy is intended to be the primary source of repayment.

Note 11 - Fair Value Measurements

The accounting standards provide a framework for measuring fair value that requires an entity to derive fair value from 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 within its principal market for the asset or liability. To increase consistency and comparability in fair value measurements and related disclosures, a three-level hierarchy prioritizes the inputs to valuation techniques used to measure fair value with the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) as further described below:

Basis of Fair Value Measurements

Level 1 - Valuation is based on quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 11 - Fair Value Measurements (Continued)

Basis of Fair Value Measurements (Continued)

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 based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

The methodologies and associated inputs used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Credit Union believes its valuation method and associated inputs are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Certain assets and liabilities may be required to be measured at fair value on a non-recurring basis. These non-recurring fair value measurements usually result from the application of lower of cost or market accounting or the write-down of individual assets due to impairment. There were no items required to be measured on a non-recurring basis as of December 31, 2018 and 2017.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 11 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at December 31, 2018 and 2017 are summarized as follows:

	Fair Value Measurements at December 31, 2018, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
Available-for-sale securities	\$ 42,008	\$ 355,000	\$ -	\$ 397,008
Mortgage servicing rights	-	-	17,188	17,188
Total	<u>\$ 42,008</u>	<u>\$ 355,000</u>	<u>\$ 17,188</u>	<u>\$ 414,196</u>

	Fair Value Measurements at December 31, 2017, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
Available-for-sale securities	\$ 43,031	\$ 465,373	\$ -	\$ 508,404
Mortgage servicing rights	-	-	14,453	14,453
Total	<u>\$ 43,031</u>	<u>\$ 465,373</u>	<u>\$ 14,453</u>	<u>\$ 522,857</u>

The Credit Union records mortgage servicing rights at fair value using Level 3 inputs. The activity in the Level 3 inputs is disclosed in Note 13.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 12 - Servicing Portfolio

The Credit Union was servicing approximately \$1,402,950 and \$1,452,000 of unpaid Fannie Mae (FNMA) mortgage balances at December 31, 2018 and 2017, respectively.

Custodial funds in escrow represent member payments for principal and interest, as well as for taxes and insurance. These amounts are held in escrow, with a corresponding liability recorded until the date that such funds are released by the Credit Union for their intended purpose. As of December 31, 2018 and 2017, the Credit Union held \$6,499 and \$6,498 in escrow related to the loans serviced for FNMA.

The Credit Union was servicing approximately \$22,085 and \$29,924 of unpaid Small Business Administration (SBA) loans at December 31, 2018 and 2017, respectively.

The Credit Union was servicing approximately \$405,502 and \$534,086 of unpaid indirect auto loan balances at December 31, 2018 and 2017, respectively.

The Credit Union was servicing approximately \$17,997 and \$19,206 of unpaid Jumbo First Mortgage balances at December 31, 2018 and 2017, respectively.

**NORTHWEST FEDERAL CREDIT UNION
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS)
DECEMBER 31, 2018 AND 2017**

Note 13 - Servicing Rights

Included in other assets are servicing rights related to servicing mortgage and commercial loans. The following is an analysis of the change in capitalized servicing rights:

	2018	2017
Balance - beginning	\$ 14,453	\$ 15,182
Capitalized servicing rights	1,319	1,647
Fair value adjustment	1,416	(2,376)
Balance - ending	\$ 17,188	\$ 14,453

Mortgage servicing rights are carried at their fair values as of December 31, 2018 and 2017. The fair value of mortgage servicing rights was determined by an independent third-party using a discounted cash flow model which estimates the present value of cash flows over individual strata of loan serviced. The significant assumptions used include a discount rate ranging from 7% to 9% for 2018 and 8.85% to 12.11% for 2017, and prepayment speeds ranging from 4.70% to 9.38% for 2018 and 8.85% to 10.64% for 2017 over the individual strata of cash flows analyzed in the model.

The Credit Union has recorded servicing rights related to the servicing income from the sale of the SBA loans in the amount of \$337 and \$699 at December 31, 2018 and 2017, respectively.

The Credit Union has recorded servicing rights related to the servicing income from the sale of Jumbo first mortgage loans in the amount of \$367 and \$392 at December 31, 2018 and 2017, respectively.

*** * * End of Notes * * ***