

HCU Management Discussion & Analysis

Independent Auditors' Report

Hope Credit Union (HCU) received an unmodified, or 'clean' audit for FY 2024.

Balance Sheet Analysis

HCU's total assets stood at \$684 million on December 31, 2024, up approximately \$103 million (17.7%) from \$581 million at December 31, 2023. This growth primarily resulted from increases in loans (\$116 million), which more than offset reductions in debt securities (\$20 million). As HCU's securities portfolio matured and was reinvested at higher rates, HCU's securities portfolio carried lower Unrealized Losses (i.e., Accumulated Other Comprehensive Loss) of \$10.7 million at the end of 2024 compared to \$11.9 million at the end of 2023. None of the Unrealized Losses are related to credit factors but, rather, recognize the changes in market values of fixed-income securities in a rising rate environment. HCU has adequate sources of liquidity to fund loan demand and operations and does not anticipate realizing any of the losses in the portfolio.

As detailed in the following schedule, loan related assets are the largest category of HCU's assets:

	2024	2023
Loans receivable – net	420,654,268	304,727,908
Foreclosed and Repossessed Assets	971,593	1,417,606
Total	421,625,861	306,145,514
Percent of total assets	62%	53%

HCU's asset growth was primarily funded by an increase of \$102 million (17.4%) in liabilities, from \$586 million at December 31, 2023 to \$688 million at December 31, 2024. Increases in Members' Shares (\$65 million) and Borrowed Funds (\$38 million) were primary drivers for the increased in liabilities. In 2022, HOPE added \$92 million in secondary capital funded by the Emergency Capital Investment Program (ECIP). ECIP is a historic \$9 Billion investment by at the US Treasury Department to capitalize CDFI and MDI depositories and increase investment in historically underserved areas. HCU's share deposits remained stable in terms of cost of funds but HCU's certificates experienced increases due to continued increases in the interest rate environment. Overall, HCU's cost of funds increased by 64 bps in 2024 to 1.33% but remained below its national peer group's cost of funds at 1.82%. Since 2020, HCU has raised close to \$150 million in lower-cost Transformational Deposits which has been an important factor in maintaining a low cost of funds.

The increase in secondary capital via the 2022 ECIP investment radically transformed HCU's capital position, situating the credit union for significant growth. Under 12 CFR 701.34(b), low-income designated credit unions such as HCU may accept subordinate debt as secondary capital, which is recognized as net worth for regulatory purposes. Secondary Capital decreased slightly (\$1.5 million) in 2024 as some of HCU's older secondary capital was retired as regulatory capital.

As described above, HCU's Unrealized Losses in its securities portfolio are reflected as Accumulated Other Comprehensive Loss (AOCL) in its Equity section of the balance sheet. However, AOCL is excluded from regulatory capital calculations. The following schedule details HCU's regulatory capital for 2023 and 2024:

	2024	2023
Secondary Capital, net	139,885,485	141,400,839
Undivided Earnings	6,825,731	6,554,730
Total	146,711,216	147,955,569
Percent of total assets	21.5	25.5

Earnings Analysis

Interest income increased \$6.5 million (27.7%) in 2024 to \$30.1 million from \$23.5 million in 2023. Interest on the loan portfolio grew by \$6.1 million due to strong portfolio growth and performance. Interest on the securities portfolio increased by \$0.6 million due higher interest rates in the bond market for new investments.

Total interest expense increased from \$3.8 million in 2023 to \$8.3 million in 2024. Interest expense related to member shares and certificates increased from \$2.0 million in 2023 to \$4.8 million in 2024, reflecting the impact of the higher interest rate environment. At the end of 2024, HCU's cost of funds was 50 bps lower than its peers.

Interest expense related to borrowed funds increased from \$1.8 million in 2023 to \$3.5 million in 2024. During 2023, HCU borrowed funds from the Federal Reserve Bank (FRB) Term Funding Program to assist with maintaining a higher liquidity position in response to market concerns about the regional bank liquidity events in early 2023. These borrowings were repaid in 2024 and replaced with advances from FHLB and FRB, as needed, to support HCU's growth. The ECIP investment was made at 0% for the first 24 months and then escalated to a maximum rate of 2% at the end of Q2 2024. HCU has an opportunity to reduce the rate on the ECIP investment to as low as 0.5% based on its lending volume in high-impact markets. Thus far, HCU has achieved one of the highest levels of qualified and deep impact lending among ECIP recipients.

The provision for loan losses decreased to \$2.5 million in 2024 from \$2.9 million in 2023 as the loan portfolio continued to perform well. HCU implemented CECL on January 1, 2023 with no transition reserve needed.

Non-interest income increased from \$15.5 million in 2023 to \$18.3 million in 2024. Service charges and fees increased from \$4.4 million in 2023 to \$5.1 million in 2024, while Other Noninterest Income decreased from \$2.7 million in 2023 to \$1.7 million in 2024. Grant and contract revenue increased from \$8.3 million in 2023 to \$11.6 million in 2024.

Non-interest expenses increased \$5.3 million from \$32 million in 2023 to \$37.3 million in 2024. In 2023 and 2024, HCU made significant investments in personnel and systems to support future growth related to the ECIP investment.



Alan Branson
Chief Financial Officer



William Bynum
Chief Executive Officer

HOPE FEDERAL CREDIT UNION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2024 AND 2023



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**HOPE FEDERAL CREDIT UNION
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INDEPENDENT AUDITORS' REPORT

Supervisory Committee and Board of Directors
Hope Federal Credit Union
Jackson, Mississippi

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Hope Federal Credit Union, which comprise the statements of financial condition as of December 31, 2024 and 2023, and the related statements of income, comprehensive income, changes in members' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Federal Credit Union as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hope Federal Credit Union and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hope Federal Credit Union's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hope Federal Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hope Federal Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Addison, Texas
March 20, 2025

**HOPE FEDERAL CREDIT UNION
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2024 AND 2023**

	2024	2023
ASSETS		
Cash and Cash Equivalents	\$ 77,167,034	\$ 71,269,113
Interest Bearing Deposits	225,153	-
Debt Securities - Available-for-Sale	152,196,055	172,594,411
Other Investments	4,053,107	3,562,674
Loans, Net	420,654,268	304,727,908
Accrued Interest Receivable	2,665,282	2,267,525
Receivable from Hope Enterprise Corporation	-	970,865
Foreclosed and Repossessed Assets	971,593	1,417,606
Premises and Equipment, Net	21,484,508	17,548,366
NCUSIF (National Credit Union Share Insurance Fund) Deposit	2,020,775	2,054,089
Other Assets	2,513,339	4,104,815
Total Assets	\$ 683,951,114	\$ 580,517,372
LIABILITIES AND MEMBERS' DEFICIT		
LIABILITIES		
Members' Share and Savings Accounts	\$ 457,515,945	\$ 391,582,288
Borrowed Funds	78,671,441	40,858,261
Secondary Capital Loans, Net	139,885,485	141,400,839
Accrued Interest Payable	740,419	403,275
Payable to Hope Enterprise Corporation	3,051,653	-
Accrued Expenses and Other Liabilities	7,988,517	11,657,475
Total Liabilities	687,853,460	585,902,138
MEMBERS' DEFICIT		
Undivided Earnings	6,825,731	6,554,730
Accumulated Other Comprehensive Loss	(10,728,077)	(11,939,496)
Total Members' Deficit	(3,902,346)	(5,384,766)
Total Liabilities and Members' Deficit	\$ 683,951,114	\$ 580,517,372

See accompanying Notes to Financial Statements.

HOPE FEDERAL CREDIT UNION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
INTEREST INCOME		
Loans	\$ 22,564,412	\$ 16,539,585
Securities	7,512,364	6,924,172
Total Interest Income	30,076,776	23,463,757
INTEREST EXPENSE		
Members' Share and Savings Accounts	4,793,017	2,009,945
Borrowed Funds	3,521,401	1,821,130
Total Interest Expense	8,314,418	3,831,075
Net Interest Income	21,762,358	19,632,682
PROVISION FOR LOAN LOSSES	2,518,153	2,946,048
Net Interest Income After Provision for Loan Losses	19,244,205	16,686,634
NONINTEREST INCOME		
Service Charges and Fees	5,057,555	4,405,969
Other Noninterest Income	1,679,694	2,687,226
Grants and Contracts Revenue	11,552,275	8,296,745
Net Gains on Sales and Impairments of Foreclosed and Repossessed Assets	6,216	149,674
Total Noninterest Income	18,295,740	15,539,614
NONINTEREST EXPENSE		
Employee Compensation and Benefits	16,485,032	14,517,568
Occupancy	5,478,024	4,477,151
Operations	6,991,220	6,036,361
Professional and Outside Services	2,681,244	2,808,111
Educational and Promotional	1,453,894	335,281
Loan Servicing	3,026,321	2,776,585
Other Operating Expenses	1,184,207	1,034,272
Total Noninterest Expense	37,299,942	31,985,329
NET INCOME	\$ 240,003	\$ 240,919

See accompanying Notes to Financial Statements.

**HOPE FEDERAL CREDIT UNION
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
NET INCOME	\$ 240,003	\$ 240,919
OTHER COMPREHENSIVE INCOME:		
Securities - Available-for-Sale		
Unrealized Holding Gain Arising During the Period	<u>1,211,419</u>	<u>3,636,392</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 1,451,422</u>	<u>\$ 3,877,311</u>

See accompanying Notes to Financial Statements.

**HOPE FEDERAL CREDIT UNION
STATEMENTS OF CHANGES IN MEMBERS' DEFICIT
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	Undivided Earnings	Accumulated Other Comprehensive Loss	Total
BALANCES - DECEMBER 31, 2022	\$ 6,313,811	\$ (15,575,888)	\$ (9,262,077)
Net Income	240,919	-	240,919
Other Comprehensive Income	-	3,636,392	3,636,392
BALANCES - DECEMBER 31, 2023	6,554,730	(11,939,496)	(5,384,766)
Net Income	240,003	-	240,003
Other Comprehensive Income	-	1,211,419	1,211,419
Equity Acquired by Acquisition	30,998	-	30,998
BALANCES - DECEMBER 31, 2024	<u>\$ 6,825,731</u>	<u>\$ (10,728,077)</u>	<u>\$ (3,902,346)</u>

See accompanying Notes to Financial Statements.

**HOPE FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 240,003	\$ 240,919
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,227,226	969,719
Accretion of Security Premiums and Discounts, Net	(327,125)	(278,695)
Provision for Loan Losses	2,518,153	2,946,048
Amortization of Net Loan Origination Fees	826,235	529,381
Net Gains from Sales of Foreclosed and Repossessed Assets	(6,216)	(149,674)
Changes in:		
Accrued Interest Receivable	(397,757)	(559,968)
Other Assets	1,591,476	(1,745,227)
Payable to Hope Enterprise Corporation	3,051,653	(2,546,708)
Receivable from Hope Enterprise Corporation	970,865	(970,865)
Accrued Interest Payable	337,144	256,737
Accrued Expenses and Other Liabilities	(3,668,958)	4,979,856
Net Cash Provided by Operating Activities	6,362,699	3,671,523
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (Increase)/Decrease in Deposits in Other Financial Institutions	(225,153)	-
Net Cash Received in Acquisition	30,998	
Purchase of Securities - Available-for-Sale	(6,918,426)	(7,554,728)
Proceeds from Paydowns of Securities - Available-for-Sale	28,855,326	13,993,041
(Purchase) Sales of Other Investments	(490,433)	197,685
Loan Originations Net of Principal Collected on Loans to Members	(120,463,406)	(54,131,606)
Decrease in NCUSIF Deposit	33,314	1,260,186
Proceeds from Sales of Foreclosed Assets	1,644,887	1,457,481
Expenditures for Premises and Equipment	(5,163,368)	(5,618,794)
Net Cash Used by Investing Activities	(102,696,261)	(50,396,735)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Members' Share and Savings Accounts	65,933,657	20,121,604
Advances of Borrowed Funds	56,694,625	20,000,000
Repayments and Maturities of Borrowed Funds	(20,396,799)	(4,240,484)
Net Cash Provided by Financing Activities	102,231,483	35,881,120
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,897,921	(10,844,092)
Cash and Cash Equivalents - Beginning of Year	71,269,113	82,113,205
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 77,167,034	\$ 71,269,113

See accompanying Notes to Financial Statements.

**HOPE FEDERAL CREDIT UNION
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH AND CASH FLOW INFORMATION		
Borrowed Funds Cash Paid for Interest	<u>\$ 3,195,534</u>	<u>\$ 1,777,153</u>
Members' Share and Savings Accounts Cash Paid for Interest	<u>\$ 4,781,740</u>	<u>\$ 1,797,185</u>
Transfers of Loans to Foreclosed and Repossessed Assets	<u>\$ 1,192,658</u>	<u>\$ 1,535,033</u>

See accompanying Notes to Financial Statements.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Hope Federal Credit Union (Credit Union) is a federal-chartered cooperative association headquartered in Jackson, Mississippi, organized in accordance with the provisions of the Federal Credit Union Act of 1934 for the purpose of promoting thrift among and creating a source of credit for its members, and under the supervision of the National Credit Union Administration.

The Credit Union is designated as a Community Development Financial Institution (CDFI) and a Minority Depository Institution (MDI) by the U.S. Treasury Department and is also recognized as a Low-Income Credit Union (LICU) by the National Credit Union Administration (NCUA). The Credit Union's Mission, Vision, and Values are summarized as follows:

Mission

To strengthen communities, build assets, and improve lives in economically distressed areas of the Deep South by providing access to high quality financial products and related services.

Vision

To be a community development financial institution that: provides a substantial number of low-wealth people and communities with the financial tools and resources needed to achieve a better quality of life; influences policies and resources that impact our constituents and our interests; and is financially self-sufficient.

Core Values

Three core values undergird the Credit Union's work. The Credit Union adheres to these values without regard to circumstantial or environmental changes. The core values define the Credit Union's corporate identity. The Credit Union's dedication to these values must be evident in our products, services and operations:

- Equal Access to Economic Opportunity: Our work should reflect a commitment to fair and equal access to the economic opportunities that life has to offer.
- Excellence: The people and communities we serve have a right to expect excellence, and we have a responsibility to provide it. A commitment to excellence is a statement of respect for our customers, depositors, funders, investors, board of directors, and each other.
- Bridge Builder: Recognizing both the limitations of our own human and financial resources and the necessity of broad support to address the development needs that face distressed people and communities, HOPE will seek to support partners and to engage, attract, and influence the support of others to achieve our mission.

From its beginnings in 1995 at a single African American United Methodist Church in Jackson, MS, the Credit Union has grown to more than 25 locations serving over 39,000 members in the Deep South states of Alabama, Arkansas, Louisiana, Mississippi, and Tennessee.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Membership

Participation in this Credit Union is limited to those who qualify for membership as defined in the Credit Union's Charter and Bylaws. This generally consists of individuals who have contributed to the Credit Union's primary sponsor, Hope Enterprise Corporation (HEC). As described in Note 11 to these financial statements, HEC also operates as a Community Development Financial Institution (CDFI) for the purpose of providing capital to rural and economically disadvantaged communities and target markets.

In addition to a regularly qualified member, the spouse of a member, the blood or adoptive relatives of either of them and their spouses may be members. Most members reside in the Deep South states of Mississippi, Louisiana, Tennessee, Arkansas, and Alabama.

Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the valuation of securities available-for-sale and the determination of the allowance for credit losses.

Financial Instruments with Concentrations of Risk

The Credit Union is exposed to credit risk from a regional economic standpoint because significant concentrations of its borrowers work or reside within the Deep South.

However, the loan portfolio is well diversified, and the Credit Union does not have any significant concentrations of credit risk except for commercial and residential real estate loans.

Cash and Cash Equivalents

For purposes of the statements of financial condition and statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from financial institutions and highly liquid debt instruments classified as cash which were purchased with original maturities of three months or less.

The Credit Union maintains cash in deposit accounts at financial institutions approved by the board of directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits.

Deposits in Other Financial Institutions

Deposits in other financial institutions include certificates of deposit which are stated at cost. The certificates of deposit all mature within one year.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Securities

Debt securities are classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains and losses on debt securities available-for-sale are included in other noninterest income and, when applicable, are reported as a reclassification adjustment in other comprehensive income. Gains and losses on sales of debt securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. For callable debt securities purchased at a premium, the amortization period is shortened to the earliest call date.

For available for sale debt securities in an unrealized loss position, the Credit Union first assesses whether it intends to sell or is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. If either of these criteria are met, the debt security's amortized costs basis is written down to fair value through income. If these criteria are not met, the Credit Union evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized costs, any changes in the underlying credit rating of the debt security, and adverse conditions specifically related to the debt security, among other factors. If it is determined that a credit loss exists, the present value of cash flows expected to be collected from the debt security are compared to the amortized cost basis of the debt security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, which is limited by the amount that the fair value is less than the amortized costs basis. Any impairment that has not been recorded through an allowance for credit losses is recognized as a component of other comprehensive income. Changes in the allowance for credit losses are recorded as a provision for credit loss.

Other Investments

Other investments are carried at cost and are evaluated for credit events resulting in impairment.

Loans, Net

The Credit Union originates consumer, residential real estate, and commercial loans directly to members and also purchases and sells loan participations. A substantial portion of the loan portfolio is represented by residential real estate and commercial 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, adjusted for an allowance for credit losses on loans and net deferred loan origination fees and costs. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The accrual of interest on a loan is discontinued at the time the loan is 90 days delinquent. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net (Continued)

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

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using methods approximating the interest method over the estimated life of the loans.

The Credit Union maintains multiple loan portfolio segments. These portfolio segments and their risk characteristics are described as follows:

Consumer: This portfolio is usually comprised of a large number of small loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators may be closely correlated to the credit quality of these loans. Weak economic trends may indicate the borrowers' capacity to repay their obligations may be deteriorating.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. Economic trends determined by unemployment rates and other key economic indicators may be closely correlated to the credit quality of these loans. Weak economic trends may indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Commercial: Commercial loans generally possess a higher inherent risk of loss than residential real estate portfolio segments. Adverse economic developments, or an overbuilt market, impact commercial real estate project and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations. All other commercial loans are generally underwritten to existing cash flows or inventories of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators may be closely correlated to the credit quality of these loans.

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

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans, Net (Continued)

The risk ratings for commercial loans can be grouped into the following major categories, defined as follows:

Pass: Loans classified as Pass are loans with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Loans classified as Special Mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Credit Union to sufficient risk to warrant adverse classification.

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

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

Loss: Loans classified as Loss are considered uncollectible and anticipated to be charged off.

Allowance for Credit Losses

The allowance for credit losses on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The allowance for credit losses on loans is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected at the balance sheet date. Loan losses are charged off against the allowance for credit losses on loans when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance for credit losses on loans.

The measurement of expected credit losses encompasses information about historical events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Qualitative adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, or delinquencies, as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)

Expected credit losses are estimated on a collective basis for groups of loans that share similar risk characteristics. Factors that may be considered in aggregating loans for this purpose include but are not necessarily limited to, product or collateral types. For loans that do not share similar risk characteristics with other loans such as collateral dependent loans, expected credit losses are estimated on an individual basis.

Expected credit losses are estimated over the contractual terms of the loans, adjusted for expected prepayments. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Credit Union.

Loans are charged off against the allowance for credit losses on loans in the period in which they are deemed uncollectible, and recoveries are credited to the allowance for credit losses on loans when received. Expected recoveries on loans previously charged off and expected to be charged-off are included in the allowance for credit losses on loans estimate. Once loans are downgraded to substandard, an assessment of collateral value is made; any outstanding loan balance in excess of fair value less cost to sell is charged off at no later than 90 days delinquency. Additionally, any outstanding balance in excess of fair value of collateral less cost to sell is charged off when the asset is foreclosed by the Credit Union.

Commercial and other consumer loans are charged off when, in management's judgment, they are considered to be uncollectible.

The Credit Union utilized the Open Pool/Snapshot method in determining expected future credit losses for all loan pools. The Open Pool/Snapshot method considers taking a snapshot of a loan portfolio at a point in time in history and tracks that loan portfolio's performance in the subsequent periods until its ultimate disposition. Charge-offs in the subsequent periods are aggregated to derive an unadjusted lifetime historical charge-off rate.

The Credit Union's expected loss estimate is anchored in historical credit loss experience, with an emphasis on all available portfolio data. The Credit Union's historical look-back period includes January 2013 through the current period, on a quarterly basis. When historical credit loss experience is not sufficient for a specific portfolio, the Credit Union may supplement its own portfolio data with external models or data.

Qualitative reserves reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization, such as enterprise and concentration management, along with other credit-related analytics as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses (Continued)

The CECL methodology applied focuses on evaluation of qualitative and environmental factors, including but not limited to: (i) evaluation of facts and issues related to specific loans; (ii) management's ongoing review and grading of the loan portfolio; (iii) consideration of historical loan loss and delinquency experience on each portfolio segment; (iv) trends in past due and nonperforming loans; (v) the risk characteristics of the various loan segments; (vi) changes in the size and character of the loan portfolio; (vii) concentrations of loans to specific borrowers or industries; (viii) existing economic conditions; (ix) the fair value of underlying collateral; and (x) other qualitative and quantitative factors which could affect expected credit losses.

The Credit Union's CECL estimate applies a forecast that incorporates macroeconomic trends and other environmental factors. Management utilized national, regional, and local leading economic indexes, as well as management judgment, as the basis for the forecast period. The historical loss rate was utilized as the base rate, and qualitative adjustments were utilized to reflect the forecast and other relevant factors such as peer groups.

The Credit Union establishes a specific reserve for individually evaluated loans which do not share similar risk characteristics with the loans evaluated from collective or pooled basis. These individually evaluated loans are removed from the pooling approach discussed above for the quantitative baseline and include non-accrual loans and other loans deemed appropriate by management.

Although management believes the allowance for credit losses on loans to be adequate, ultimate losses may vary from its estimates. At least quarterly, the board of directors reviews the adequacy of the allowance for credit losses on loans, including consideration of the relevant risks in the portfolio, current economic conditions, and other factors.

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Credit Union, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Credit Union does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Off-Statement of Financial Condition Credit Related Financial Instruments

In the ordinary course of business, the Credit Union has entered into commitments to extend credit. Such financial instruments are recorded when they are funded.

Payables from Hope Enterprise Corporation

As described in Note 11 to these financial statements, HEC and the Credit Union have entered into a contractual agreement wherein HEC agrees to reimburse the Credit Union for certain operating expenses and losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions. HEC has also purchased participated interests in commercial loans serviced by the Credit Union.

Amounts due to the Credit Union related to contractual reimbursements and payables to HEC regarding loan servicing and other costs are presented net on the statements of financial condition. Management evaluates the net receivable or payable for collectibility and determined that no reserve was required as of December 31, 2024 and 2023.

Foreclosed and Repossessed Assets

Assets acquired through, or in lieu of, loan repossession or foreclosure are held for sale and are initially recorded at fair value less estimated costs to sell at the date of repossession or foreclosure, establishing a new cost basis. Subsequent to repossession or foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in noninterest expense.

Premises and Equipment, Net

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

Impairment of Long-Lived Assets

The Credit Union tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

NCUSIF Deposit

The deposit in the NCUSIF is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to 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.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Share and Savings Accounts

Members' share and savings accounts are subordinated to certain other liabilities of the Credit Union upon liquidation. Dividends and interest on members' share and savings accounts, except for interest on certificates of deposit which are set in advance, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the board of directors, based on an evaluation of current and future market conditions.

Members' Deficit

The Credit Union is subject to various regulatory net worth requirements by the NCUA.

During the year ended December 31, 2024, the Credit Union acquired New Pilgrims Credit Union. This resulted in acquired equity which was immaterial to the financial statements.

Comprehensive Income

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

Revenue Recognition

The Credit Union recognizes revenue in accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Credit Union has elected to use the following optional exemptions that are permitted under the *Topic 606*, which have been applied consistently to all contracts within all reporting periods presented:

- The Credit Union recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Credit Union would have recognized is one year or less.
- For performance obligations satisfied over time, if the Credit Union has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Credit Union's performance completed to date, the Credit Union will generally recognize revenue in the amount to which the Credit Union has a right to charge.
- The Credit Union does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Credit Union recognizes revenue in the amount to which the Credit Union has a right to charge.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans, securities, and deposits held in other financial institutions. In addition, certain noninterest income streams, such as income from fees and charges on loans and grant contributions, are also not within the scope of the guidance. Noninterest income considered to be within the scope of *Topic 606* is discussed as follows:

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

HEC Contractual Revenue

Under the terms of the contractual arrangements, the Credit Union has agreed to provide financial products and service offerings in certain low-income communities in which HEC has a mission to promote economic development. In consideration for these contractual services, HEC has agreed to reimburse the Credit Union for its normal operating expenses, excluding dividend payments, on a monthly basis. The contractual arrangement provides for HEC to pay the Credit Union an amount to cover all normal operating expenses sufficient to enable the Credit Union to maintain a net income of no less than \$240,000 annually. The performance obligation to HEC is satisfied through the incurrence of the aforementioned costs, and the revenue is recognized over time, typically one month.

Service Charges and Deposit Account Fees

The Credit Union earns fees from its deposit members for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Credit Union fulfills the member's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Credit Union satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the member's account balance.

Debit Card Interchange Fees

When members use their debit cards to pay merchants for goods or services, the Credit Union retains a fee from the related deposit account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized at the point in time when the funds are collected and transferred to the payment network. Card holder rewards, which are a cost of obtaining interchange fee income, are immaterial to the financial statements.

Income Taxes

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

Advertising Costs

Advertising and promotion costs totaled approximately \$1,454,000 and \$335,000 for the years ended December 31, 2024 and 2023, respectively, and are expensed as incurred.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Credit Union categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Credit Union adopted the policy to value certain financial instruments at fair value. The Credit Union has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Leases

ROU assets represent the Credit Union's right to use an underlying asset for the lease term and lease liabilities represent the Credit Union's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Credit Union will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification of 2023 Data

Data in the 2023 financial statements has been reclassified to conform with the presentation of the 2024 financial statements. This reclassification did not result in any change to net income or members' deficit.

Subsequent Events

In preparing these financial statements, the Credit Union has evaluated events and transactions for potential recognition or disclosures through March 20, 2025, the date the financial statements were available to be issued.

NOTE 2 REVENUE FROM CONTRACTS WITH MEMBERS

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

	<u>2024</u>	<u>2023</u>
<i>In Scope of ASC 606</i>		
HEC Contractual Revenue	\$ 7,433,233	\$ 7,338,845
Service Charges and Deposit Account Fees	2,589,340	3,151,636
Debit Card Interchange Fees	<u>1,275,980</u>	<u>1,251,697</u>
Total Noninterest Income in Scope of ASC 606	11,298,553	11,742,178
Noninterest Income Not Within Scope of ASC 606	<u>6,997,187</u>	<u>3,797,436</u>
Total Noninterest Income	<u>\$ 18,295,740</u>	<u>\$ 15,539,614</u>

The Credit Union does not typically enter into long-term revenue contracts with customers and, therefore, does not experience significant contract balances. As of December 31, 2024 and 2023, the Credit Union did not have any significant contract balances or capitalize any contract acquisition costs.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 3 DEBT SECURITIES AND OTHER INVESTMENTS

The amortized cost and fair value of debt securities available-for-sale are as follows:

	2024			Fair Value (Carrying Value)
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government and Federal Agency Securities	\$ 6,080,995		\$ (335,031)	\$ 5,745,964
U.S. Treasury Notes	12,796,564		(389,064)	12,407,500
Federal Agency Mortgage- Backed Securities	46,201,531	1,826	(4,021,442)	42,181,915
Collateralized Mortgage Obligation Securities	54,145,675	19,996	(3,806,410)	50,359,261
Small Business Administration Securities	6,766,167		(677,557)	6,088,610
Municipal Bonds	36,933,200	39,787	(1,560,182)	35,412,805
Total	<u>\$ 162,924,132</u>	<u>\$ 61,609</u>	<u>\$ (10,789,686)</u>	<u>\$ 152,196,055</u>
	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Carrying Value)
U.S. Government and Federal Agency Securities	\$ 15,969,101	\$ -	\$ (555,973)	\$ 15,413,128
U.S. Treasury Notes	17,678,447	-	(769,072)	16,909,375
Federal Agency Mortgage- Backed Securities	52,318,225	48,050	(4,242,961)	48,123,314
Collateralized Mortgage Obligation Securities	53,195,695	1,154	(4,092,133)	49,104,716
Small Business Administration Securities	6,212,592	-	(724,133)	5,488,459
Municipal Bonds	38,669,847	135,111	(1,739,539)	37,065,419
Negotiable Certificates of Deposit	490,000	-	-	490,000
Total	<u>\$ 184,533,907</u>	<u>\$ 184,315</u>	<u>\$ (12,123,811)</u>	<u>\$ 172,594,411</u>

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 3 DEBT SECURITIES AND OTHER INVESTMENTS (CONTINUED)

There were no sales of debt securities available-for-sale during the years ended December 31, 2024 and 2023.

The amortized cost and estimated fair value of debt securities, at December 31, 2024, 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.

	<u>Amortized Cost</u>	<u>Fair Value (Carrying Value)</u>
U.S. Government and Federal Agency Securities, U.S. Treasury Notes and Municipal Bonds		
Less Than One Year	\$ 10,742,629	\$ 10,604,556
One to Five Years	21,810,420	20,599,050
Five to Ten Years	11,962,200	11,134,303
After Ten Years	<u>11,295,510</u>	<u>11,228,360</u>
Subtotal	55,810,759	53,566,269
Federal Agency Mortgage-Backed, Collateralized Mortgage Obligation and Small Business Administration Securities	<u>107,113,373</u>	<u>98,629,786</u>
Total	<u><u>\$ 162,924,132</u></u>	<u><u>\$ 152,196,055</u></u>

Temporarily Impaired Securities

Information pertaining to debt securities with gross unrealized losses aggregated by investment category and length of time that individual debt securities have been in a continuous loss position, is shown below:

	2024			
	<u>Less Than Twelve Months</u>		<u>Greater Than Twelve Months</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Government and Federal Agency Securities	\$ -	\$ -	\$ (335,031)	\$ 5,640,845
U.S. Treasury Notes	-	-	(389,064)	12,407,500
Federal Agency Mortgage- Backed Securities	(40,852)	2,151,436	(3,980,590)	39,147,645
Collateralized Mortgage Obligation Securities	(1,213)	941,843	(3,805,197)	47,697,479
Small Business Administration Securities	(31,005)	812,595	(646,552)	5,276,015
Municipal Bonds	(114,316)	5,228,988	(1,445,866)	20,270,479
Total Available-for-Sale	<u><u>\$ (187,386)</u></u>	<u><u>\$ 9,134,862</u></u>	<u><u>\$ (10,602,300)</u></u>	<u><u>\$ 130,439,963</u></u>

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Temporarily Impaired Securities (Continued)

	2023			
	Less Than Twelve Months		Greater Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Government and Federal Agency Securities	\$ (2,962)	\$ 933,123	\$ (553,011)	\$ 14,480,005
U.S. Treasury Notes	-	-	(769,072)	16,909,375
Federal Agency Mortgage-Backed Securities	(40,083)	2,069,476	(4,202,878)	43,542,581
Collateralized Mortgage Obligation Securities	-	-	(4,092,133)	48,907,556
Small Business Administration Securities	-	-	(724,133)	5,488,459
Municipal Bonds	(19,525)	2,025,475	(1,720,014)	23,753,302
Total Available-for-Sale	<u>\$ (62,570)</u>	<u>\$ 5,028,074</u>	<u>\$ (12,061,241)</u>	<u>\$ 153,081,278</u>

The Credit Union does not believe that the available-for-sale debt securities that were in an unrealized loss position as of December 31, 2024, which were comprised of 213 individual debt securities, represent a credit loss impairment. The gross unrealized loss positions were primarily related to mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These debt securities carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the debt securities were purchased, and not due to the credit quality of the debt securities. The Credit Union does not intend to sell the debt securities that were in an unrealized loss position and it is not more likely than not that the Credit Union will be required to sell the debt securities before recovery of their amortized cost basis, which may be at maturity.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

Other Investments

Other investments are summarized as follows:

	December 31,	
	2024	2023
Contributed Capital Accounts and Deposits	\$ 1,594,880	\$ 1,233,747
FHLB Stock	2,352,800	2,223,500
Loans to, and Investments in, CUSOs	105,427	105,427
Total	<u>\$ 4,053,107</u>	<u>\$ 3,562,674</u>

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 3 SECURITIES AND OTHER INVESTMENTS (CONTINUED)

Other Investments (Continued)

Contributed Capital Accounts and Deposits

The Credit Union maintains contributed capital accounts and deposits with various corporate credit unions and service providers that are uninsured.

These uninsured deposits are subject to impairment or loss in the event the corporate credit union or other entity is required to merge, is placed into conservatorship, incurs significant losses, or is liquidated.

FHLB Stock

The Credit Union has an investment in Federal Home Loan Bank of Dallas (FHLB) stock that allows the Credit Union access to other FHLB financial services. The stock qualifies as a restricted stock and as such is not subject to investment security accounting treatment and is, therefore, reported at cost, subject to impairment.

Loans to, and Investments in, Credit Union Service Organizations (CUSOs)

The Credit Union has minor ownership interests in CUSOs providing services to the credit union market. Such investments, as a practical expedient, are recorded at cost, less impairment, plus or minus observable price changes.

NOTE 4 LOANS, NET

The composition of loans is as follows:

	December 31,	
	2024	2023
Consumer:		
Auto	\$ 27,329,304	\$ 20,196,435
Share Secured	1,415,838	1,652,844
Other Secured	5,317,411	1,943,655
Unsecured	5,560,076	5,095,593
Subtotal	39,622,629	28,888,527
Residential Real Estate	165,523,982	140,259,646
Commercial	221,767,637	141,859,119
Total Loans	426,914,248	311,007,292
Net Deferred Loan Origination Costs	2,215,712	1,389,915
Allowance for Credit Losses	(8,475,692)	(7,669,299)
Loans, Net	<u>\$ 420,654,268</u>	<u>\$ 304,727,908</u>

The Credit Union elected to exclude accrued interest receivable from the amortized cost basis of loans. As of December 31, 2024 and 2023, accrued interest receivables for loans totaled approximately \$1,931,000, and \$1,450,000, respectively, and is included in accrued receivables on the statements of financial condition.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 4 LOANS, NET (CONTINUED)

The Credit Union has purchased loan participations originated by other financial institutions which are secured by commercial property. These loan participations were purchased without recourse and the originating financial institution performs all loan servicing functions on these loans. The total loan participations included in the commercial segment above totaled approximately \$21,201,000 and \$14,871,000 at December 31, 2024 and 2023, respectively.

The Credit Union has sold loan participations to various other financial institutions, which are secured by commercial property. These loan participations were sold without recourse and the Credit Union performs all loan servicing functions on these loans. Loan participations sold and excluded from the commercial loan segment above, totaled approximately \$15,063,000 and \$9,039,000 at December 31, 2024 and 2023, respectively.

The Credit Union offers nontraditional commercial and residential mortgage loans to its members. These loans include hybrid and variable interest only mortgages. Hybrid loans consist of loans that are fixed for an initial period of three, five, or seven years. After this period, the mortgages are converted to variable rates using an indexed rate, which can result in significant payment shock to the borrower. The interest only loans allow the borrower to pay only interest for a specified number of years. These types of loans may result in a lack of principal amortization or even negative amortization if the minimum payment is less than the interest accruing on the loan.

Nontraditional mortgage loans may have significantly different credit risk characteristics than traditional fixed and variable rate mortgages. However, the Credit Union believes it has established prudent underwriting standards as well as adequate risk management functions to monitor the additional risk. Nontraditional mortgage loans, which are included in the real estate and commercial loan captions above, totaled approximately \$3,115,000 and \$3,011,000 at December 31, 2024 and 2023, respectively.

A summary of the activity in the allowance for credit losses on loans for the years ended December 31, 2024 and 2023, respectively, are as follows. The Credit Union adopted CECL as of January 1, 2023.

	2024			
	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	\$ 930,291	\$ 2,380,191	\$ 4,358,817	\$ 7,669,299
Provision for Loan Losses	1,249,887	1,712,078	(443,812)	2,518,153
Loans Charged-Off	(2,328,365)	-	(386,381)	(2,714,746)
Recoveries of Loans Previously Charged-Off	824,716	153,949	24,321	1,002,986
Balance at End of Year	<u>\$ 676,529</u>	<u>\$ 4,246,218</u>	<u>\$ 3,552,945</u>	<u>\$ 8,475,692</u>

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 4 LOANS, NET (CONTINUED)

	2023			
	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Balance at Beginning of Year	\$ 511,339	\$ 3,022,413	\$ 3,265,339	\$ 6,799,091
(Credit) Provision for Loan Losses	2,336,738	(514,890)	1,124,200	2,946,048
Loans Charged-Off	(2,597,424)	(145,000)	(361,657)	(3,104,081)
Recoveries of Loans Previously Charged-Off	679,638	17,668	330,935	1,028,241
Balance at End of Year	<u>\$ 930,291</u>	<u>\$ 2,380,191</u>	<u>\$ 4,358,817</u>	<u>\$ 7,669,299</u>

The provision for credit losses is determined by the Credit Union as the amount to be added to the allowance for credit losses for various types of financial instruments including loans, investment securities, and unfunded commitments after net charge-offs have been deducted to bring the allowance for credit losses to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments. The components of the provision for credit losses related to unfunded commitments and investments was not material as of December 31, 2024 and 2023.

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the estimated fair value of the collateral at the balance sheet date, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. The following tables present collateral dependent loans by portfolio segment and collateral type, including those loans with and without a related allowance allocation.

The allowance for credit losses for loans considered to be collateral dependent as of December 31, 2024 and 2023 is as follows:

	2024			
	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Ending Balance: Collateral Dependent	\$ -	\$ 1,415,709	\$ 929,104	\$ 2,344,813
Loans:				
Ending Balance: Collateral Dependent	\$ -	\$ 16,873,764	\$ 11,073,950	\$ 27,947,714

	2023			
	Consumer	Residential Real Estate	Commercial	Total
Allowance for Loan Losses:				
Ending Balance: Collateral Dependent	\$ -	\$ 734,085	\$ 873,104	\$ 1,607,189
Loans:				
Ending Balance: Collectively Dependent	\$ -	\$ 3,442,423	\$ 14,365,323	\$ 17,807,746

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 4 LOANS, NET (CONTINUED)

Collateral dependent commercial real estate loans, both owners occupied, and non-owner occupied, are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals.

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

	<u>2024</u>	<u>2023</u>
Risk Rating:		
Pass	\$ 195,874,296	\$ 128,458,105
Special Mention	15,381,731	9,566,847
Substandard	9,955,194	3,750,190
Doubtful	556,416	83,977
Loss	-	-
Total	<u>\$ 221,767,637</u>	<u>\$ 141,859,119</u>

The following tables show the classes within the homogeneous loan portfolio segments allocated by payment activity. Loans are deemed performing if they are less than 90 days delinquent and still accruing interest.

	<u>2024</u>		
	<u>Payment Activity</u>		
	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
Consumer:			
Auto	\$ 27,217,500	\$ 111,804	\$ 27,329,304
Share Secured	1,415,838	-	1,415,838
Other Secured	5,317,411	-	5,317,411
Unsecured	5,512,488	47,588	5,560,076
Residential Real Estate	154,246,376	11,277,606	165,523,982
Total	<u>\$ 193,709,613</u>	<u>\$ 11,436,998</u>	<u>\$ 205,146,611</u>

	<u>2023</u>		
	<u>Payment Activity</u>		
	<u>Performing</u>	<u>Nonperforming</u>	<u>Total</u>
Consumer:			
Auto	\$ 19,992,711	\$ 203,724	\$ 20,196,435
Share Secured	1,650,314	2,530	1,652,844
Other Secured	1,941,667	1,988	1,943,655
Unsecured	4,985,664	109,929	5,095,593
Residential Real Estate	130,558,158	9,701,488	140,259,646
Total	<u>\$ 159,128,514</u>	<u>\$ 10,019,659</u>	<u>\$ 169,148,173</u>

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 4 LOANS, NET (CONTINUED)

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

	2024				
	Accruing Interest				Total Loans
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	
Consumer:					
Auto	\$ 25,923,868	\$ 1,293,632	\$ -	\$ 111,804	\$ 27,329,304
Share Secured	1,402,572	13,266	-		1,415,838
Other Secured	5,287,375	30,036	-		5,317,411
Unsecured	5,366,866	145,622	-	47,588	5,560,076
Residential Real Estate	132,526,430	21,719,946	-	11,277,606	165,523,982
Commercial	220,024,062	1,410,863	-	332,712	221,767,637
Total	<u>\$ 390,531,173</u>	<u>\$ 24,613,365</u>	<u>\$ -</u>	<u>\$ 11,769,710</u>	<u>\$ 426,914,248</u>
	2023				
	Accruing Interest				Total Loans
	Current	30-89 Days Past Due	90 Days or More Past Due	Nonaccrual 90 Days or More Past Due	
Consumer:					
Auto	\$ 18,913,351	\$ 1,079,360	\$ -	\$ 203,724	\$ 20,196,435
Share Secured	1,573,110	77,204	-	2,530	1,652,844
Other Secured	1,811,592	130,075	-	1,988	1,943,655
Unsecured	4,764,627	221,037	-	109,929	5,095,593
Residential Real Estate	105,835,248	24,722,910	-	9,701,488	140,259,646
Commercial	141,250,250	574,464	-	34,405	141,859,119
Total	<u>\$ 274,148,178</u>	<u>\$ 26,805,050</u>	<u>\$ -</u>	<u>\$ 10,054,064</u>	<u>\$ 311,007,292</u>

Interest income foregone on nonaccrual loans was immaterial for the years ended December 31, 2024 and 2023.

The Credit Union does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are in nonaccrual.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 4 LOANS, NET (CONTINUED)

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. The following table presents the amortized cost basis of loan modifications made to borrowers experiencing financial difficulty during the years ended December 31, 2024, and 2023:

December 31, 2024					
	Type of Concession			Total	% of Total Segment of Loans
	Term Extension	Interest Rate Reduction	Payment Daily & Term Extension		
Consumer	\$ -	\$ -	\$ -	\$ -	0%
Residential Real Estate	-	593,087	-	593,087	0.36%
Commercial	-	-	-	-	0%
Total	<u>\$ -</u>	<u>\$ 593,087</u>	<u>\$ -</u>	<u>\$ 593,087</u>	

December 31, 2023					
	Type of Concession			Total	% of Total Segment of Loans
	Term Extension	Interest Rate Reduction	Payment Daily & Term Extension		
Consumer	\$ -	\$ -	\$ -	\$ -	0%
Residential Real Estate	-	1,306,974	-	1,306,974	0.81%
Commercial	-	-	-	-	0%
Total	<u>\$ -</u>	<u>\$ 1,306,974</u>	<u>\$ -</u>	<u>\$ 1,306,974</u>	

For the year ended December 31, 2024, interest rate modification made to borrowers experiencing financial difficulty included:

- Residential Real Estate – Increased weighted-average contractual interest rate from 5.87% to 6.16%.

For the year ended December 31, 2024, payment delays and term extensions made to borrowers experiencing financial difficulty included:

- Residential Real Estate – Added a weighted-average of 4.6 years to the life of loans, which reduced monthly payment amounts for the borrowers.

For the year ended December 31, 2023, interest rate modification made to borrowers experiencing financial difficulty included:

- Residential Real Estate – Reduced weighted-average contractual interest rate from 3.52% to 3.07%.

For the year ended December 31, 2023, payment delays and term extensions made to borrowers experiencing financial difficulty included:

- Residential Real Estate – Added a weighted-average of 4.9 years to the life of loans, which reduced monthly payment amounts for the borrowers.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 5 FORECLOSED AND REPOSSESSED ASSETS

Activity in foreclosed and repossessed assets is as follows:

	Years Ended December 31,	
	2024	2023
Balance - Beginning of Year	\$ 1,417,606	\$ 1,190,380
Transfers from Loans to Foreclosed Assets	1,192,658	1,535,033
Sales of Foreclosed Assets	(1,644,887)	(1,457,481)
Gain on Sales of Foreclosed Assets	6,216	149,674
Balance - End of Year	<u>\$ 971,593</u>	<u>\$ 1,417,606</u>

NOTE 6 PREMISES AND EQUIPMENT, NET

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

	December 31,	
	2024	2023
Land	\$ 4,020,397	\$ 4,020,397
Buildings and Improvements	15,470,720	12,141,099
Furniture and Equipment	11,737,705	10,188,348
Construction in Progress	3,042,114	2,784,629
Total	<u>34,270,936</u>	<u>29,134,473</u>
Less: Accumulated Depreciation	<u>(12,786,428)</u>	<u>(11,586,107)</u>
Total	<u>\$ 21,484,508</u>	<u>\$ 17,548,366</u>

Construction in progress is related to Hope Federal Credit Union's new branches which has an expected total cost of completion of approximately \$7,082,000 as of December 31, 2024.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 7 MEMBERS' SHARE AND SAVINGS ACCOUNTS

Members' share and savings accounts are as follows:

	December 31,	
	2024	2023
Share Savings	\$ 98,553,716	\$ 94,278,272
Share Drafts	95,429,650	60,671,335
Money Market	71,914,559	72,612,394
IRA Deposits	2,968,779	3,237,337
Other Deposits	21,995,811	11,702,369
Share and IRA Certificates	166,653,430	149,080,581
Total	<u>\$ 457,515,945</u>	<u>\$ 391,582,288</u>

The aggregate amounts of certificates of deposit in denominations of \$250,000 or more was approximately \$112,656,000 and \$84,553,000 at December 31, 2024 and 2023, respectively.

As of December 31, 2024, scheduled maturities of share and IRA certificates are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2025	\$ 83,058,248
2026	66,491,740
2027	11,806,994
2028	1,692,541
2029	3,603,907
Total	<u>\$ 166,653,430</u>

Member accounts are insured to at least \$250,000 by the NCUSIF. The NCUSIF is a federal insurance fund backed by the full faith and credit of the U.S. government.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 8 BORROWED FUNDS

The Credit Union has entered into an Advances, Pledge, and Security Agreement with the FHLB whereby specific mortgage loans of the Credit Unions with advance equivalents of approximately \$60,987,000 and \$45,268,000 at December 31, 2024 and 2023, respectively, were pledged to the FHLB as collateral in the event the Credit Union requests any advances on the line. Outstanding balances were \$42,837,799 and \$16,143,174 as of December 31, 2024 and 2023, respectively. The rate on these borrowings is determined at the time of advance and ranged from 1.10% to 4.54% as of December 31, 2024.

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

Year <u>Maturing</u>	Interest <u>Rate</u>	2024	2023
2024	2.35% - 2.44%	\$ -	\$ 130,212
2025	1.10% - 2.22%	1,997,171	2,727,293
2026	1.99% - 4.54%	30,145,084	251,403
2027	2.42% - 2.75%	2,442,270	3,194,396
2028	3.27%	594,492	748,368
2029	1.95% - 2.11%	2,783,749	3,329,385
2030	1.65% - 2.18%	4,875,033	5,762,117
Total		<u>\$ 42,837,799</u>	<u>\$ 16,143,174</u>

At December 31, 2024 and 2023, the Credit Union had an available line of credit with National Cooperative Bank of \$12,000,000. The interest rates applied on any borrowing are determined on that date. As of December 31, 2024 and 2023, the Credit Union had securities safe kept with Merrill Lynch pledged for this line of credit arrangement. The line has no expiration date but is subject to review and change by the issuing institution. There were no balances outstanding on this line at December 31, 2024 and 2023.

At December 31, 2024 and 2023, the Credit Union had an available line of credit with the United States Department of Agriculture (USDA) of \$30,000,000. The interest rate is 2.375%. There were no assets pledged against this borrowing. Payments are due monthly. The Credit Union had a balance of approximately \$1,288,000 and \$1,314,000 as of December 31, 2024 and 2023, respectively. The maturity date is December 15, 2056.

At December 31, 2024 and 2023, the Credit Union had a note payable with Bank of America. The balance was approximately \$-0- and \$370,000 as of December 31, 2024 and 2023, respectively. The note has monthly payments beginning September 10, 2023 and was paid off in 2024. The interest rate is 1%.

During the year ended December 31, 2024, the Credit Union took two notes payable of \$20,000,000 and \$10,000,000 with the Federal Reserve Bank. The \$20,000,000 note matures January 28, 2025, and has an interest rate of 5.00%. The \$10,000,000 note matures January 7, 2025, and has an interest rate of 4.50%. During the year ended December 31, 2023, the Credit Union took a note payable of \$20,000,000 with the Federal Reserve Bank. The note matured December 4, 2024, and had an interest rate of 4.89%. The Credit Union pledged certain investment securities totaling approximately \$49,936,000 and \$66,922,000 as of December 31, 2024 and 2023, respectively.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 9 SECONDARY CAPITAL LOANS, NET

Secondary capital loans consist of funding from private sources or affiliates of the Credit Union's primary sponsor. Secondary capital loans are available to cover any and all quarterly operating losses that exceed Hope's net available reserves and undivided earnings. Secondary capital loans used to cover operating losses are not required to be repaid and are recognized as income in the period the losses are incurred.

On June 28, 2022, the Credit Union entered into an agreement for receipt in secondary capital funds under the U.S. Treasury's Emergency Capital Investment Program (ECIP) from the NCUA. Receiving the award totaling \$92,569,000. The purpose of the award recognizes secondary capital accounts for low-income designated credit unions as capital accounts.

The agreement grants the Credit Union two years interest free. After the second anniversary of the disbursement of the loan, interest is payable quarterly in arrears each year at a rate determined by the qualified lending, ranging from 0.5% to 2.0%. Principal payments will be paid, pending approval from the NCUA, on the 30th anniversary of the disbursement of the loan.

Secondary capital loans consisted of the following:

<u>Description</u>	<u>2024</u>	<u>2023</u>
Fixed Rate Note from First Horizon Bank at an interest rate of 3.50%, maturing on June 4, 2026	\$ 2,000,000	\$ 2,000,000
Fixed Rate Note from Regions Bank at an interest rate of 1.00%, maturing on April 1, 2027	76,774	76,774
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on September 30, 2027 Maturity date was extended from September 30, 2026	550,000	550,000
Fixed Rate Notes from Kresge Foundation at an interest rate of 3.00%, maturing on October 14, 2027	3,000,000	3,000,000
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on December 20, 2027 Maturity date was extended from December 20, 2026	550,000	550,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on January 13, 2028 Maturity date was extended from January 13, 2027	2,000,000	2,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on January 13, 2028 Maturity date was extended from January 13, 2027	3,000,000	3,000,000
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on June 22, 2028 Maturity date was extended from June 22, 2027	825,000	825,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on April 29, 2028 Maturity date was extended from April 29, 2027	1,000,000	1,000,000

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 9 SECONDARY CAPITAL LOANS, NET (CONTINUED)

<u>Description (Continued)</u>	<u>2024</u>	<u>2023</u>
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2028 Maturity date was extended from December 31, 2027	\$ 5,000,000	\$ 5,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2028 Maturity date was extended from December 31, 2027	1,500,000	1,500,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2028 Maturity date was extended from December 31, 2027	14,560,775	14,560,775
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2028 Maturity date was extended from December 31, 2027	3,000,000	3,000,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 1.00%, maturing on December 31, 2028 Maturity date was extended from December 31, 2027	2,000,000	2,000,000
Fixed Rate Note from MetLife at an interest rate of 3.00%, maturing on February 27, 2029	2,500,000	2,500,000
Fixed Rate Note from W.K Kellogg Foundation at an interest rate of 2.00%, maturing on August 14, 2029	1,500,000	1,500,000
Fixed Rate Note from ECD New Markets, LLC at an interest rate of 1.00%, maturing on January 1, 2030 Maturity date was extended from January 1, 2029	1,050,000	1,050,000
Fixed Rate Note from Hope Enterprise Corporation at an interest rate of 3.00%, maturing on December 17, 2030 Maturity date was extended from December 17, 2029	3,000,000	3,000,000
Fixed Rate Note from Inclusive 2nd Capital at an interest rate of 2.50%, maturing on December 20, 2031	4,750,000	4,750,000
Fixed Rate Note from ECIP at an interest rate of 2.00%, maturing on June 28, 2052	<u>92,569,000</u>	<u>92,569,000</u>
Subtotal	144,431,549	144,431,549
Less: Maturity Reclassification	<u>(4,546,064)</u>	<u>(3,030,710)</u>
Total	<u>\$ 139,885,485</u>	<u>\$ 141,400,839</u>

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 9 SECONDARY CAPITAL LOANS, NET (CONTINUED)

The Credit Union is allowed to offer secondary capital loans which are considered a component of net worth for regulatory purposes until they reach a maturity of five years or less. Secondary capital loans with maturities of five years or less are reclassified as subordinated debt, through a maturity reclassification adjustment of one-fifth of the amount due. As of December 31, 2024 and 2023, approximately \$4,546,000 and \$3,031,000, respectively, were reclassified under these regulatory requirements and are included in borrowed funds on the statements of financial condition.

A summary of the maturity of the secondary capital loans by year over the next five years are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2025	\$ -
2026	2,000,000
2027	4,176,774
2028	32,885,775
2029	4,000,000
Thereafter	101,369,000
Total	<u>\$ 144,431,549</u>

NOTE 10 REGULATORY NET WORTH REQUIREMENTS

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-statement of financial condition items as calculated under accounting principles generally accepted in the United States of America. The Credit Union's capital amounts and net worth classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

On June 28, 2022, the Credit Union entered into an agreement for receipt in secondary capital funds under the U.S. Treasury's Emergency Capital Investment Program (ECIP) from the NCUA and received an award totaling \$92,569,000. The purpose of this award recognizes secondary capital accounts for low-income designated credit unions as capital accounts.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table following) of net worth to total assets (as defined by the regulation). Effective December 31, 2021, and earlier, credit unions were also required to calculate a Risk-Based Net Worth Requirement (RBNWR) which established whether or not the Credit Union will be considered "complex" under the regulatory framework. The minimum ratio to be considered complex under the regulatory framework was 6.00%.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 10 REGULATORY NET WORTH REQUIREMENTS (CONTINUED)

As of December 31, 2024, the most recent call reporting period, the NCUA categorized the Credit Union as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized,” the Credit Union must maintain a minimum net worth ratio of 9% of assets. There are no conditions or events since that notification that management believes have changed the institution’s category.

The Credit Union’s actual capital amounts and ratios are also presented in the table following.

	2024					
	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Worth	\$ 146,711,216	21.45%	\$ 41,037,067	6.00%	\$ 61,555,600	9.00%

	2023					
	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provision		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Worth	\$ 147,955,569	25.49%	\$ 34,831,042	6.00%	\$ 52,246,563	9.00%

In performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

The Credit Union has unsecured secondary capital in the form of subordinated debt and is able to include the subordinated debt in the net worth calculation. At December 31, 2024 and 2023, the Credit Union applied approximately \$139,885,000 and \$141,401,000 of subordinated debt towards the net worth calculation.

NOTE 11 RELATED PARTY TRANSACTIONS

Included in loans, net at December 31, 2024 and 2023, are loans to the Credit Union’s board of directors, committee members, and senior executive staff of approximately \$2,225,000 and \$2,286,000, respectively. Advances and repayments on loans were not significant to the financial statements.

Deposits from the Credit Union’s board of directors, committee members, and senior executive staff held by the Credit Union at December 31, 2024 and 2023 are approximately \$794,000 and \$795,000, respectively.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 11 RELATED PARTY TRANSACTIONS (CONTINUED)

As described in Note 1, Hope Enterprise Corporation (HEC) is the primary sponsoring organization of the Credit Union and operates as a community development financial institution for the purpose of providing capital to rural and economically disadvantaged communities. As part of its strategy, HEC and certain of its affiliates have provided grants and secondary capital loans to the Credit Union in order to provide an affordable lending program to low-income communities. HEC and the Credit Union have entered into certain contractual agreements wherein HEC had agreed to reimburse the Credit Union for certain operating expenses and for certain losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions.

Under the terms of the contractual arrangements, the Credit Union has agreed to provide financial products and service offerings in certain low-income communities in which HEC has a mission to promote economic development. In consideration for these contractual services, HEC had agreed to reimburse the Credit Union for its normal operating expenses, excluding dividend payments, on a monthly basis. The contractual arrangement provides for HEC to pay the Credit Union an amount to cover all normal operating expenses sufficient to enable Hope to maintain a net income of no less than \$240,000 annually.

During 2024 and 2023, the Credit Union recognized contractual service revenue of approximately \$7,433,000 and \$7,339,000, respectively, related to these arrangements. The Credit Union received grants from third parties of approximately \$287,000 and \$1,259,000 in 2024 and 2023, respectively, that were passed to the Credit Union from HEC and its affiliates.

As of December 31, 2024 and 2023, the Credit Union had secondary capital loans outstanding to Hope and its affiliates of approximately \$38,036,000. Interest expense related to the affiliated secondary capital loans was approximately \$440,000 in 2024 and 2023.

As of December 31, 2024 and 2023, HEC had deposit accounts with the Credit Union totaling approximately \$65,955,000 and \$36,382,000, respectively.

In addition, the Credit Union had a real estate secured loan receivable outstanding from HEC which was approximately \$709,000 and \$730,000 as of December 31, 2024 and 2023, respectively. Interest income on this loan was immaterial as of December 31, 2024 and 2023.

As described in Note 1, accounts (payable) receivable of approximately (\$3,052,000) and \$971,000 as of December 31, 2024 and 2023, respectively. These balances represent amounts due from or to HEC for certain loan closings, net of amounts due to the Credit Union relative to service arrangements, and operational expenses.

HEC has purchased participation interests in certain commercial loans originated by the Credit Union. See Note 4 to these financial statements for more information regarding participations.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 12 COMMITMENTS AND CONTINGENT LIABILITIES

Off-Statement of Financial Condition Activities

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

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

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2024	2023
Commitments to Grant Collateralized Loans:		
Commercial	\$ 29,985,545	\$ 38,643,033
Unfunded Unsecured Commitments Under		
Lines of Credit:		
Overdraft Protection	4,408,178	3,857,928
Credit Card Commitments	1,611,245	1,552,447
Other	3,195,794	2,508,580
Total	\$ 39,200,762	\$ 46,561,988

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include consumer assets, residential real estate, and member share balances.

Off-Statement of Financial Condition Activities (Continued)

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

Legal Contingencies

The Credit Union is a party to various collection related legal actions normally associated with financial institutions, the aggregate effect of which, in management's opinion, would not be material to the financial condition of the Credit Union.

**HOPE FEDERAL CREDIT UNION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023**

NOTE 13 FAIR VALUE

Recurring Basis

The Credit Union uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Credit Union measures fair value, refer to Note 1 – Summary of Significant Accounting Policies. The following tables present the balances of the assets and liabilities measured at fair value on a recurring basis.

	2024			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities	\$ -	\$ 5,745,964	\$ -	\$ 5,745,964
U.S. Treasury Notes	-	12,407,500	-	12,407,500
Federal Agency Mortgage-Backed Securities	-	42,181,915	-	42,181,915
Collateralized Mortgage Obligation Securities	-	50,359,261	-	50,359,261
Small Business Administration Securities	-	6,088,610	-	6,088,610
Municipal Bonds	-	35,412,805	-	35,412,805
Total	\$ -	\$ 152,196,055	\$ -	\$ 152,196,055
2023				
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-Sale Securities:				
U.S. Government and Federal Agency Securities	\$ -	\$ 15,413,128	\$ -	\$ 15,413,128
US Treasury Notes	-	16,909,375	-	16,909,375
Federal Agency Mortgage-Backed Securities	-	48,123,314	-	48,123,314
Collateralized Mortgage Obligation Securities	-	49,104,716	-	49,104,716
Small Business Administration Securities	-	5,488,459	-	5,488,459
Municipal Bonds	-	37,065,419	-	37,065,419
Negotiable Certificates of Deposit	-	490,000	-	490,000
Total	\$ -	\$ 172,594,411	\$ -	\$ 172,594,411

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investment Securities: When available, the Credit Union uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Credit Union's securities where quoted prices are not available for identical securities in an active market, the Credit Union determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources.

**HOPE FEDERAL CREDIT UNION
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NOTE 13 FAIR VALUE (CONTINUED)

Recurring Basis (Continued)

These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued.

Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained or cannot be corroborated, a security is generally classified as Level 3.

Nonrecurring Basis

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

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

	Fair Value at December 31, 2024			
	Level 1	Level 2	Level 3	Impairment Losses
Collateral Dependent Loans	\$ -	\$ -	\$ 25,602,901	\$ 2,344,813
Foreclosed Assets	-	-	971,593	-
	Fair Value at December 31, 2023			
	Level 1	Level 2	Level 3	Impairment Losses
Collateral Dependent Loans	\$ -	\$ -	\$ 16,200,557	\$ 1,607,189
Foreclosed Assets	-	-	1,417,606	-

**HOPE FEDERAL CREDIT UNION
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NOTE 13 FAIR VALUE (CONTINUED)

Nonrecurring Basis (Continued)

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

	December 31, 2024			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Collateral Dependent Loans	\$ 25,602,901	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	971,593	Appraisal	Appraisal Adjustment	Not Meaningful

	December 31, 2023			
	Fair Value	Valuation Technique	Unobservable Input	Range (Average)
Collateral Dependent Loans	\$ 16,200,557	Evaluation of Collateral	Estimation of Value	Not Meaningful
Foreclosed Assets	1,417,606	Appraisal	Appraisal Adjustment	Not Meaningful

Collateral Dependent Loans: Collateral dependent loans were individually evaluated under CECL for the years ended December 31, 2024 and 2023. Collateral dependent commercial real estate loans, both owner occupied and non-owner occupied are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals.

Foreclosed Assets: Foreclosed assets are recorded at fair value based on property appraisals, less estimated selling costs, at the date of the transfer with any impairment amount charged to the allowance for loan losses. Subsequent to the transfer, foreclosed assets are carried at the lower of cost or fair value, less estimated selling costs with changes in fair value or any impairment amount recorded in other noninterest expense. Values are estimated using Level 3 inputs based on customized discounting criteria. The carrying value of foreclosed assets is not re-measured to fair value on a recurring basis but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs.



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