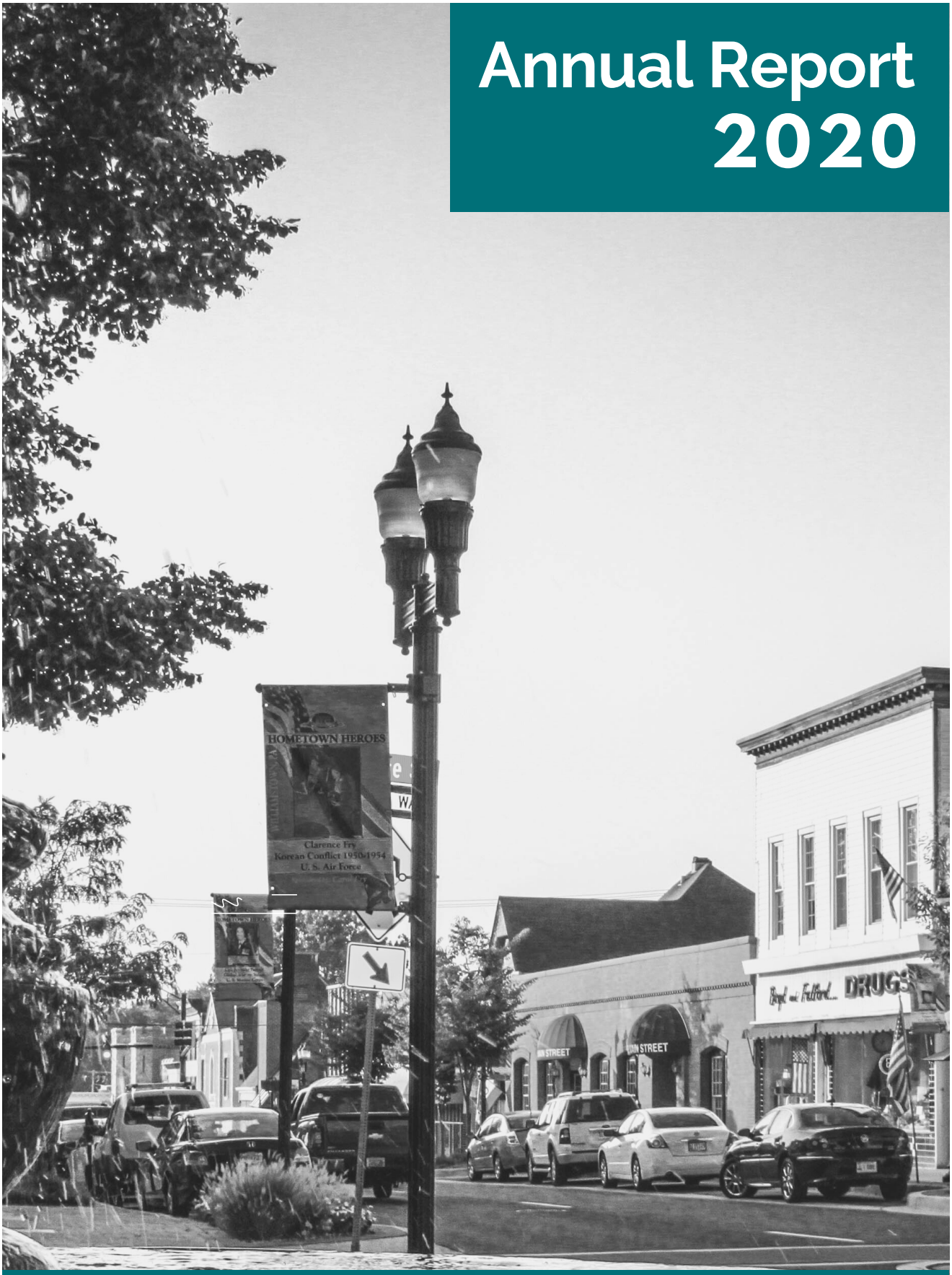
Annual Report 2020



Har-co Credit Union

Experience the difference.

Har-co Credit Union
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Annual Meeting Agenda

Determine Quorum Present

Approval of Minutes of the 2019 Annual Meeting

Chairman's Report

Supervisory Committee's Report

Treasurer's Report

Unfinished Business

New Business Other than Elections

Elections

Adjournment

15 MARCH 2021

President/CEO's Report

This time last year, in my Annual Report letter to you, our Members, I spoke about 2020 being a year of Focus. Little did I know that one of the major focus areas would be the Covid19/Pandemic. Beginning the year, I knew that Har-co and its Associates would need to stay open to change. As it turns out, the effects and implications of Covid19 represented a new definition and much complication to that change. All in all though, we adjusted, altered, redesigned and refocused our expectations and plans, not bowing to the emotional side of that change.

In the first quarter of the year, before the implications of Covid 19, we knew we needed to make measured changes to some of our financial methodologies to accommodate our desired growth. At the expense of current earnings, those changes resulted in bringing much more sound and robust practices to our organization. In the second quarter, we saw market rates fall to levels that could never be anticipated, further impacting earnings. These rate drops, significantly altered our returns on variable rate loans and our investment portfolio.

As we moved into the back half of the second quarter, having adjusted to the required steps (Wear/Wash/Distance) to curb and protect Staff and Members, we benefited greatly from our 2019 decision in establishing a relationship with United Wholesale Mortgage. Establishing that relationship brought the earnings stream we needed to dampen the financial effects of the measured methodology changes mentioned above.

The second half of the year was marked with a renewed focus on reinstituting major elements of our 2020 plan. Establishing our Commercial Lending/Business Banking line of business, completing the construction of our Business Resource Center, and ramping up our efforts on Data Analytics and Social Media were just some of the many changes and implementations we instituted.

Communications and support of our Community was a major element of our effort in 2020. We are proud to have filmed over 30 Community Spotlight segments on topics that we felt were relevant to the times we all were living in. We hope you enjoyed them and found them relevant to you. I hope you also got to know us better with our "Take a Moment to Meet" segments. We are excited to continue these pieces into 2021.

We look forward to 2021 with a strong commitment towards Member Experience. We are developing new products and services to continue and better serve your needs. We are enhancing our platforms and technology, to bring you an even better experience. We value the trust you have placed in us and will continue to work hard every day to provide you with the Experience we pledged to honor.

Gilbert F. Kennedy, III
President and CEO

Member Experience Pledge

HAR-CO Credit Union is built on the foundation of delivering a strong member focused experience. We believe that our success will only occur by upholding the values and principles of a culture where members, both internal and external, feel rewarded in a relationship. As stewards of this culture, we must be consistent in our actions and beliefs that every point the member touches will yield a satisfying result for them.

Therefore, we pledge:

- To be courteous and kind, treating everyone in an open, fair and helpful manner.
- To be alert and attentive throughout the workday and maintain a positive, optimistic attitude.
- To dress and behave in a professional manner.
- To tell the truth in every communication that we have, delivering it in the most respectful manner possible.
- To treat members with respect and professionalism, ensuring the highest quality service.
- To take ownership and follow through to resolve member concerns in a timely manner and not simply “pass the buck”.
- To collaborate with, support, encourage and value our colleagues in these efforts to deliver great member experiences.
- To make the extra effort to accommodate requests, only saying “NO” as a last resort.

We embrace these principles and commit to striving to exceed these actions every day.
Therefore, I pledge to uphold the spirit and intentions of this document.

Supervisory Committee's Report

The Supervisory Committee is a group of individuals forming a "link" between an elected Board of Directors and the membership. This Committee helps make the credit union a member-controlled organization.

The Board of Directors may appoint five HAR-CO Credit Union members to serve on the Supervisory Committee. The Committee aids in overseeing the operations of the credit union. All Supervisory Committee members take an active role in fulfilling the duties and responsibilities of the Committee. The responsibilities of the Supervisory Committee are to assure that the credit union is soundly managed and members' assets are safeguarded. One way in which we do this is to oversee an annual audit and a Bank Secrecy Act (BSA) audit of the credit union. Rowles and Company, Certified Public Accountants, completed these comprehensive audits for the year ended December 31, 2020.

Other tasks performed by the Supervisory Committee include reviewing credit union operational procedures and regularly examining accounting books, loan files, and credit union documents. Financial statements, new and closed accounts, cash counts, and overdrawn accounts are checked by the Supervisory Committee on a regular basis. Committee members attend Board of Directors' meetings, serve on various committees with Board members, and generally see that the credit union is well managed.

The Supervisory Committee extends a sincere thank you to the members for their continued support and to the credit union staff for their assistance throughout the year. The Committee offers a special thank you to the Board of Directors and the management for their hard work in maintaining a strong financial institution and making sure that the credit union will be ready for the challenges of tomorrow. We, the Supervisory Committee, remain committed to overseeing the financial operations to the benefit of our members.

Teresa R. Knox

Teresa R. Knox
Chairman, Supervisory Committee

Report of Independent Auditors

Supervisory Committee
HAR-CO Credit Union
Bel Air, Maryland

Report of Independent Auditors

Report on the Financial Statements

We have audited the accompanying financial statements of HAR-CO Credit Union, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Rowles & Company, LLP

Baltimore, Maryland
March 1, 2021

Balance Sheets

December 31,	**2020**	2019
Assets		
Cash and cash equivalents	**$ 67,110,868**	$ 30,083,727
Loans to members, net	**133,426,722**	135,668,087
Investment securities available for sale	**-**	7,993,740
Investment securities held to maturity	**7,500,000**	10,000,000
Certificates of deposit in other financial institutions	**1,984,000**	-
National Credit Union Share Insurance Fund deposit	**1,820,572**	1,681,526
Loans held for sale	**160,000**	-
Accrued interest receivable	**320,317**	402,677
Property and equipment	**2,774,344**	2,656,631
Prepaid expenses and other assets	**913,172**	715,286
Total assets	**$216,009,995**	$ 189,201,674
Liabilities and Members' Equity		
Members' share accounts	**$195,877,423**	$ 169,109,742
Official checks payable	**1,026,075**	725,870
Accrued expenses and other liabilities	**381,258**	475,936
Total liabilities	**197,284,756**	170,311,548
Members' equity		
Regular reserve	**7,362,884**	7,272,717
Undivided earnings	**11,362,355**	11,623,669
Accumulated other comprehensive income (loss)	**-**	(6,260)
Total members' equity	**18,725,239**	18,890,126
Total liabilities and members' equity	**$216,009,995**	$ 189,201,674

The accompanying notes are an integral part of these financial statements.

Statements of Income

Years Ended December 31,	**2020**	2019
Interest income		
Interest on loans	**$5,461,864**	$5,926,192
Interest on investments	**243,333**	860,859
	5,705,197	6,787,051
Interest expense		
Dividends on members' shares	**429,682**	322,188
Net interest income	**5,275,515**	6,464,863
Provision for loan losses	**285,830**	314,875
Net interest income after provision for loan losses	**4,989,685**	6,149,988
Noninterest income		
Share draft fees	**393,865**	542,335
Card services	**500,976**	508,409
ATM fees	**29,221**	80,077
Mortgage broker fees	**86,032**	113,510
Gain on sale of loans held for sale	**340,773**	-
NCUSIF premium refund	**-**	30,817
Other	**140,548**	147,112
	1,491,415	1,422,260
Noninterest expense		
Compensation and benefits	**3,648,435**	3,991,548
Office occupancy	**594,400**	599,883
Office operations	**1,782,832**	2,100,615
Education and promotion	**145,061**	187,334
Loan servicing	**199,656**	262,248
Professional and outside services	**173,873**	192,872
Other	**107,990**	125,626
	6,652,247	7,460,126
Net income (loss)	**$ (171,147)**	$ 112,122

The accompanying notes are an integral part of these financial statements.

Statements of Comprehensive Income

Years Ended December 31,	**2020**	2019
Net income (loss)	**$ (171,147)**	$112,122
Other comprehensive income		
Unrealized gain on investment securities available for sale	**6,260**	149,200
Comprehensive income (loss)	**$ (164,887)**	$261,322

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Members' Equity

Years Ended December 31, 2020 and 2019

	Regular reserve	Undivided earnings	Accumulated other comprehensive income (loss)
Balance, December 31, 2018	$ 7,272,717	$ 11,511,547	$(155,460)
Net income	-	112,122	-
Unrealized gain on investment securities available for sale	-	-	149,200
Balance, December 31, 2019	7,272,717	11,623,669	(6,260)
Transfer undivided profits to regular reserve	90,167	(90,167)	-
Net loss	-	(171,147)	-
Unrealized gain on investment securities available for sale	-	-	6,260
Balance, December 31, 2020	**$7,362,884**	**$11,362,355**	**$ -**

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

Years Ended December 31,	2020	2019
Cash flows from operating activities		
Net income (loss)	**$ (171,147)**	$ 112,122
Reconciliation of net income (loss) to cash provided by operating activities		
Depreciation	**360,102**	277,491
Provision for loan losses	**285,830**	314,875
Decrease in deferred loan origination costs and fees, net	**104,528**	94,025
Origination of loans held for sale	**(20,954,120)**	-
Proceeds from the sale of loans held for sale	**21,134,893**	-
Gain on sale of loans held for sale	**(340,773)**	-
(Increase) decrease in accrued interest and other assets	**(115,526)**	171,720
Increase (decrease) in accrued expenses and other liabilities	**205,527**	(24,154)
Net cash provided by operating activities	**509,314**	946,079
Cash flows from investing activities		
Loans made, net of principal collected	**1,851,007**	(12,049,689)
Purchase of investments available for sale	**-**	(7,000,000)
Purchase of investments held to maturity	**(10,000,000)**	(1,000,000)
Proceeds from maturity or call of investments available for sale	**8,000,000**	15,000,000
Proceeds from maturity or call of investments held to maturity	**12,500,000**	7,000,000
Purchase of certificates of deposits in other financial institutions	**(1,984,000)**	-
Purchase of property and equipment	**(477,815)**	(257,885)
(Increase) decrease in NCUSIF	**(139,046)**	29,714
Net cash provided by investing activities	**9,750,146**	1,722,140
Cash flows from financing activities		
Net increase in members' shares	**26,767,681**	1,002,017
Net increase in cash and cash equivalents	**37,027,141**	3,670,236
Cash and cash equivalents, beginning of year	**30,083,727**	26,413,491
Cash and cash equivalents, end of year	**$ 67,110,868**	$ 30,083,727

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

1. **Summary of Significant Accounting Policies**

Business operations

HAR-CO Credit Union provides lending and deposit services to its members, who are mainly current or former employees and students of public and private schools and colleges in Harford County, Maryland. The Credit Union has a community charter allowing anyone that lives, works, or worships in Harford County to become a member. The Credit Union is chartered in the State of Maryland. The Credit Union retains federal insurance under the National Credit Union Share Insurance Fund.

Method of accounting

The accounting and reporting policies reflected in the financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the credit union industry. Management makes estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of commitments and contingent liabilities at the balance sheet date, and income and expenses during the year. Actual results could differ from those estimates. Certain reclassifications have been made to the 2019 financial statements to conform to the current year presentation. These reclassifications did not affect net income.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts on deposit at banks, and federal funds sold which are generally purchased and sold for one-day periods.

Loans to members and allowance for loan losses

Loans are stated at the amount of unpaid principal adjusted for net deferred loan origination fees and costs, and less the allowance for loan losses. Interest on loans is recognized over the terms of the loans and is calculated using the simple-interest method on principal amounts outstanding. The Credit Union generally discontinues the accrual of interest when payments are 90 days past due or collection of all principal and interest is in question. Interest for such loans is accounted for on the cash basis. Loans are returned to accrual status when payments are current or less than 90 days past due. Loans are charged off when management believes the loan is uncollectible. Net deferred origination fees and costs are amortized to interest on loans using a method that approximates the interest method.

The allowance for loan losses represents an amount that, in management's judgment, is adequate to provide for probable loan losses based on management's review and analysis of the loan portfolio. The allowance for loan losses is increased by provisions charged to income and reduced by loans charged off, net of recoveries. Management's analysis is primarily based on the Credit Union's past loan loss experience by specific types of loans, using a 36-month net loss model with consideration given to known and other risks inherent in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions, such as changes in the delinquency rate as compared to prior periods. The allowance for loan losses also includes specific reserves on impaired loans. Loans are considered impaired when, based on current information, management considers it unlikely that collection of principal and interest payments will be made according to contractual terms. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued, or it is probable the loan will not be collected in full. Loan losses are charged to the allowance when management believes that collectability is unlikely. Collections of loans previously charged off are added to the allowance at the time of recovery.

Notes to Financial Statements *(Continued)*

1. **Summary of Significant Accounting Policies** (Continued)

Investment securities

Management classifies securities as held to maturity or available for sale at the time of purchase. Securities which may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in members' equity. Gains and losses on disposal are determined using the specific-identification method. Securities which management has the intent and ability to hold to maturity are carried at amortized cost, which is cost adjusted for amortization of premiums and accretion of discounts to maturity. The Credit Union amortizes premiums through the earliest call date and accretes discounts to maturity.

Loans held for sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value. All sales are made without recourse. Sales of loans are recorded when the proceeds are received, with any gain or loss recorded in gain on sale of loans held for sale.

National Credit Union Share Insurance Fund (NCUSIF) deposit

Members' share accounts are insured by the NCUSIF up to $250,000 per depositor. Separately, individual retirement accounts are also insured up to $250,000. The Credit Union is required to maintain a deposit with the NCUSIF in an amount equal to one percent of its insured shares. The deposit is refundable if the insurance coverage is terminated, insurance coverage is converted to another source, or the operations of the fund are transferred from the NCUA Board.

Property and equipment

Land is recorded at cost. Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the individual assets using the straight-line method.

Members' share accounts

Members' share accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Dividend rates on members' share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Regular reserve

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

Comprehensive income

Comprehensive income includes net income and certain other changes to members' equity, including unrealized gains and losses on securities classified as available for sale. At December 31, 2020 and 2019, accumulated other comprehensive income consisted entirely of unrealized gains and losses on securities available for sale.

Income taxes

The Federal Credit Union Act exempts credit unions from federal, state, and local income taxes. The Internal Revenue Service has ruled that this exemption does not extend to state chartered credit unions on their unrelated business income, such as ATM fees from nonmembers. The Credit Union has not made provisions for income taxes in these financial statements as the expenses related to offering these products exceeds the revenue.

Notes to Financial Statements *(Continued)*

1. **Summary of Significant Accounting Policies** (Continued)

Subsequent events

The Credit Union has evaluated events and transactions subsequent to December 31, 2020 through March 1, 2021, the date these financial statements were issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

2. **Cash and Cash Equivalents**

A summary of cash and cash equivalents at December 31 is as follows:

	2020	2019
Cash on hand and in commercial banks	**$ 19,062,168**	$ 7,179,958
Federal Reserve Bank and Federal Home Loan Bank deposits	**32,548,700**	10,410,951
Federal funds sold	**15,500,000**	12,492,818
	$ 67,110,868	$ 30,083,727

3. **Loans to Members and the Allowance for Loan Losses**

The composition of loans to members at December 31 is as follows:

	2020	2019
First mortgage	**$ 73,558,838**	$ 72,325,255
Second mortgage and home equity	**27,900,183**	29,392,898
Commercial real estate	**283,479**	-
Vehicle	**21,772,535**	22,616,065
Share secured	**516,545**	584,688
Unsecured	**2,245,797**	2,301,192
Credit card	**7,489,525**	8,552,517
	133,766,902	135,772,615
Net deferred loan origination costs	**322,950**	427,478
Allowance for loan losses	**(663,130)**	(532,006)
	$133,426,722	$135,668,087

Notes to Financial Statements *(Continued)*

3. **Loans to Members and the Allowance for Loan Losses** (Continued)

A composition of the loan portfolio by monitoring criteria as of December 31, 2020 and 2019, is as follows:

	Loan type							
December 31, 2020	First mortgage	Second mortgage and home equity	Commercial real estate	Vehicle	Share secured	Unsecured	Credit card	Total
Loans with credit criteria								
Credit risk profile based on Beacon credit scoring								
A credit (> 800)	$ -	$ -	$ -	$ 2,801,751	$ 30,859	$ 69,505	$ 336,969	$ 3,239,084
B credit (601-800)	-	-	-	16,424,092	442,688	1,796,440	6,526,221	25,189,441
C credit (401-600)	-	-	-	966,556	25,678	310,418	584,101	1,886,753
D credit (< 400)	-	-	-	-	-	-	-	-
	-	-	-	20,192,399	499,225	2,176,363	7,447,291	30,315,278
Credit risk profile based on loan to value (LTV)								
80% and below	64,661,149	26,312,892	283,479	-	-	-	-	91,257,520
Above 80% to 89.99%	2,648,815	1,126,330	-	-	-	-	-	3,775,145
90% to under 100%	6,129,267	219,524	-	-	-	-	-	6,348,791
100% and greater	119,607	241,437	-	-	-	-	-	361,044
	73,558,838	27,900,183	283,479	-	-	-	-	101,742,500
Loans without credit criteria								
Credit risk profile based on payment activity								
Performing	-	-	-	1,580,136	17,320	69,434	42,234	1,709,124
Nonperforming	-	-	-	-	-	-	-	-
	-	-	-	1,580,136	17,320	69,434	42,234	1,709,124
Total loans	$73,558,838	$27,900,183	$ 283,479	$21,772,535	$516,545	$2,245,797	$7,489,525	$133,766,902

The Beacon score in the preceding table, provided by Equifax, is as of December 2020. The loan to value (LTV) in the preceding table is as of the date the loans were originated. For loans with no available Beacon score or LTV, the loans are categorized by payment activities based on whether or not they are performing according to the original terms. Under NCUA standards, a nonperforming loan is any loan delinquent more than 60 days.

Notes to Financial Statements *(Continued)*

3. **Loans to Members and the Allowance for Loan Losses** (Continued)

	Loan type							
December 31, 2019	First mortgage	Second mortgage and home equity	Commercial real estate	Vehicle	Share secured	Unsecured	Credit card	Total
Loans with credit criteria								
Credit risk profile based on CFS credit scoring								
A credit (> 800)	$ -	$ -	$ -	$ 17,929,811	$ 465,499	$ 1,330,037	$ 6,671,923	$ 26,397,270
B credit (601-800)	-	-	-	2,502,560	53,128	516,024	649,974	3,721,686
C credit (401-600)	-	-	-	1,544,620	4,307	222,222	490,189	2,261,338
D credit (< 400)	-	-	-	613,429	61,754	183,673	292,835	1,151,691
	-	-	-	22,590,420	584,688	2,251,956	8,104,921	33,531,985
Credit risk profile based on loan to value (LTV)								
80% and below	65,385,509	27,319,866	-	-	-	-	-	92,705,375
Above 80% to 89.99%	2,061,942	1,317,235	-	-	-	-	-	3,379,177
90% to under 100%	4,755,402	360,731	-	-	-	-	-	5,116,133
100% and greater	122,402	395,066	-	-	-	-	-	517,468
	72,325,255	29,392,898	-	-	-	-	-	101,718,153
Loans without credit criteria								
Credit risk profile based on payment activity								
Performing	-	-	-	25,645	-	49,236	432,758	507,639
Nonperforming	-	-	-	-	-	-	14,838	14,838
	-	-	-	25,645	-	49,236	447,596	522,477
Total loans	$ 72,325,255	$ 29,392,898	$ -	$ 22,616,065	$ 584,688	$ 2,301,192	$ 8,552,517	$ 135,772,615

The CFS score and LTV in the preceding table are as of the date the loans were originated, except for loans with an LTV exceeding 80% at origination. Loans with an LTV exceeding 80% at origination were updated and are as of December 2019. For loans with no available CFS score or LTV, the loans are categorized by payment activities based on whether or not they are performing according to the original terms. Under NCUA standards, a nonperforming loan is any loan delinquent more than 60 days.

The Credit Union's internal risk ratings based on credit scores are as follows:

A credit (> 800) – Borrowers pose a nominal risk of loss. Other risk factors may be considered.
B credit (601-800) – Borrowers pose an average risk of loss. Other risk factors likely considered.
C credit (401-600) – Borrowers are either experiencing some stress or lack positive attributes to elevate their score. Other risk factors most likely considered.
D credit (< 400) – Borrowers pose an above average risk of loss or lack a prior credit history. Other risk factors required.

Notes to Financial Statements *(Continued)*

3. **Loans to Members and the Allowance for Loan Losses** (Continued)

The Credit Union's internal risk ratings based on loan to value are as follows:

80% and below LTV – Borrowers pose a nominal to average risk of loss. Collateral is most likely adequate to protect the loan against declining market values.

Above 80%, under 90% LTV – Borrowers pose an acceptable risk of loss. Collateral should be adequate to protect the loan, but the Credit Union is more susceptible to loss if market values decline.

Above 90%, under 100% LTV – Borrowers may pose an additional risk of loss. Collateral may not be adequate to protect the loan in a period of declining market values.

100% and greater LTV – Borrowers pose above average risk of loss. Collateral has deteriorated and is no longer adequate to protect the loan if the borrower can no longer demonstrate a capacity to repay.

Management considers loans to be impaired when circumstances indicate the Credit Union will not collect all principal and interest in accordance with the original terms of the promissory note. Loans classified by management as substandard nonaccrual status are specifically evaluated for impairment.

Transactions in the allowance for loan losses for the year ended December 31 were as follows:

						Allowance for loan losses ending balance evaluated for impairment		Outstanding loan balances evaluated for impairment	
December 31, 2020	Beginning balance	Provision for loan losses	Recoveries	Loans charged off	Ending balance	Individually	Collectively	Individually	Collectively
First mortgage	**$137,173**	**$ 94,089**	**$ 2,548**	**$ -**	**$233,810**	**$ 36,249**	**$ 197,561**	**$275,216**	**$ 73,283,622**
Second mortgage and home equity	**96,320**	**(46,542)**	**46,302**	**-**	**96,080**	**6,347**	**89,733**	**362,603**	**27,537,580**
Commercial real estate	**-**	**695**	**-**	**-**	**695**	**-**	**695**	**-**	**283,479**
Vehicle	**122,118**	**51,458**	**25,627**	**(63,376)**	**135,827**	**32,707**	**103,120**	**175,092**	**21,597,443**
Share secured	**16**	**4,541**	**-**	**-**	**4,557**	**4,501**	**56**	**-**	**516,545**
Unsecured	**30,393**	**62,680**	**11,146**	**(65,777)**	**38,442**	**-**	**38,442**	**11,541**	**2,234,256**
Credit card	**145,986**	**118,909**	**43,752**	**(154,928)**	**153,719**	**31,334**	**122,385**	**44,288**	**7,445,237**
	$532,006	**$285,830**	**$129,375**	**$(284,081)**	**$663,130**	**$ 111,138**	**$ 551,992**	**$868,740**	**$132,898,162**
December 31, 2019									
First mortgage	$ 53,774	$ 77,911	$ 8,276	$ (2,788)	$ 137,173	$ 28,487	$ 108,686	$ 483,619	$ 71,841,636
Second mortgage and home equity	159,104	(20,661)	6,576	(48,699)	96,320	43,613	52,707	277,908	29,114,990
Vehicle	83,622	97,470	29,041	(88,015)	122,118	-	122,118	-	22,616,065
Share secured	-	60	-	(44)	16	-	16	-	584,688
Unsecured	32,334	(10,268)	26,385	(18,058)	30,393	-	30,393	-	2,301,192
Credit card	98,726	170,363	41,100	(164,203)	145,986	-	145,986	-	8,552,517
	$ 427,560	$ 314,875	$ 111,378	$ (321,807)	$ 532,006	$ 72,100	$ 459,906	$ 761,527	$ 135,011,088

3. **Loans to Members and the Allowance for Loan Losses** (Continued)

Impaired loans as of December 31, 2020 and 2019, were as follows:

December 31, 2020	Unpaid contractual principal balance	Recorded investment with no allowance	Recorded investment with allowance	Total recorded investment balance	Related allowance
First mortgage	**$275,216**	**$174,480**	**$100,736**	**$275,216**	**$ 36,249**
Second mortgage and home equity	**362,603**	**344,406**	**18,197**	**362,603**	**6,347**
Vehicle	**175,092**	**19,956**	**155,136**	**175,092**	**32,707**
Share secured	**-**	**-**	**-**	**-**	**-**
Unsecured	**11,541**	**-**	**11,541**	**11,541**	**4,501**
Credit card	**47,083**	**-**	**44,288**	**44,288**	**31,334**
	$871,535	**$538,842**	**$329,898**	**$868,740**	**$111,138**
December 31, 2019					
First mortgage	$ 483,619	$ 382,240	$ 101,379	$ 483,619	$ 28,487
Second mortgage and home equity	277,908	234,295	43,613	277,908	43,613
Vehicle	-	-	-	-	-
Share secured	-	-	-	-	-
Unsecured	-	-	-	-	-
Credit card	-	-	-	-	-
	$ 761,527	$ 616,535	$ 144,992	$ 761,527	$ 72,100

A troubled debt restructuring (TDR) is a loan where an economic concession has been granted to a borrower who has experienced or is expected to experience financial difficulties. These concessions typically result from the Credit Union's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months. During the year ended December 31, 2020, the Credit Union restructured four loans that were considered TDRs. They are summarized as follows as of December 31, 2020:

December 31, 2020	Performing	Nonperforming	Total
First mortgage	**$ -**	**$ -**	**$ -**
Second mortgage and home equity	**-**	**300,375**	**300,375**
Vehicle	**-**	**19,956**	**19,956**
Share secured	**-**	**-**	**-**
Unsecured	**-**	**-**	**-**
Credit card	**6,736**	**-**	**6,736**
	$ 6,736	**$320,331**	**$327,067**

The Credit Union had not identified any loans as TDRs as of December 31, 2019.

There were no loans secured by one to four family residential properties in the process of foreclosure as of December 31, 2020 or 2019.

Notes to Financial Statements *(Continued)*

3. **Loans to Members and the Allowance for Loan Losses** (Continued)

The following is a breakdown of loans by delinquent status:

December 31, 2020	Current	30-59 days past due	60-179 days past due	180 days and greater past due	Total loans outstanding	90 days and and greater past due and accruing
First mortgage	**$ 72,626,581**	**$ 831,521**	**$ -**	**$100,736**	**$ 73,558,838**	**$ -**
Second mortgage and home equity	**27,671,820**	**228,363**	**-**	**-**	**27,900,183**	**-**
Commercial real estate	**283,479**	**-**	**-**	**-**	**283,479**	**-**
Vehicle	**21,587,030**	**104,752**	**43,065**	**37,688**	**21,772,535**	**6,340**
Share secured	**516,545**	**-**	**-**	**-**	**516,545**	**-**
Unsecured	**2,199,334**	**37,945**	**8,518**	**-**	**2,245,797**	**-**
Credit card	**7,280,932**	**191,436**	**17,157**	**-**	**7,489,525**	**-**
	$132,165,721	**$1,394,017**	**$ 68,740**	**$138,424**	**$133,766,902**	**$ 6,340**
December 31, 2019						
First mortgage	$ 71,836,692	$ 309,819	$ 178,744	$ -	$ 72,325,255	$ -
Second mortgage and home equity	29,262,563	73,470	34,890	21,975	29,392,898	-
Vehicle	22,299,928	155,856	104,404	55,877	22,616,065	-
Share secured	568,342	16,346	-	-	584,688	-
Unsecured	2,209,188	43,821	37,410	10,773	2,301,192	-
Credit card	8,312,674	148,427	55,751	35,665	8,552,517	-
	$ 134,489,387	$ 747,739	$ 411,199	$ 124,290	$ 135,772,615	$ -

The breakdown of aging follows the credit union industry practice of reporting on the quarterly 5300 Call Report.

Loans on which the accrual of interest has been discontinued at December 31, and the related interest not recorded, are as follows:

	2020		2019	
	Nonaccrual loan	**Nonaccrual interest**	Nonaccrual loan	Nonaccrual interest
First mortgage	**$ 275,216**	**$ 8,097**	$ -	$ -
Second mortgage and home equity	**362,603**	**96**	39,431	309
Vehicle	**168,219**	**401**	96,851	1,585
Unsecured	**11,541**	**201**	23,331	1,899
Credit card	**44,288**	**691**	75,118	3,920
	$ 861,867	**$ 9,486**	$ 234,731	$ 7,713

4. **Investment Securities**

The amortized cost and approximate fair value of investment securities are as follows:

December 31, 2020	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Held to maturity				
Federal agency securities	**$7,500,000**	**$14,000**	**$ -**	**$7,514,000**
December 31, 2019				
Available for sale				
Federal agency securities	$ 8,000,000	$ -	$ (6,260)	$ 7,993,740
Held to maturity				
Federal agency securities	$ 10,000,000	$ -	$ (40,950)	$ 9,959,050

The following table shows the gross unrealized losses and fair value of the Credit Union's federal agency security investments with temporary unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position at December 31, 2019.

	Less than 12 months		12 months or more		Total	
December 31, 2019	Fair value	Unrealized gain (loss)	Fair value	Unrealized gain (loss)	Fair value	Unrealized gain (loss)
Available for sale	$ -	$ -	$ 7,993,740	$ (6,260)	$ 7,993,740	$ (6,260)
Held to maturity	-	-	9,959,050	(40,950)	9,959,050	(40,950)
	$ -	$ -	$ 17,952,790	$ (47,210)	$ 17,952,790	$ (47,210)

All unrealized losses on securities as of December 31, 2019, are considered to be temporary losses because each security is expected to be redeemed at face value at or prior to maturity. In most cases, the temporary impairment in value is caused by market interest rate fluctuations.

There were no investments with unrealized losses as of December 31, 2020.

Notes to Financial Statements *(Continued)*

4. **Investment Securities** (Continued)

Contractual maturities of debt security investments available for sale at December 31, 2020, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to maturity	
	Amortized cost	Fair value
Within one year	$ -	$ -
After one to three years	-	-
After three to five years	7,500,000	7,514,000
	$ 7,500,000	$ 7,514,000

5. **Certificates of Deposits in Other Financial Institutions**

Certificates of deposits in other institutions consist of individual certificates in denominations of $248,000 to remain fully insured. As of December 31, 2020, certificates of deposits in other financial institutions are expected to mature as follows:

	2020
Within one year	**$ 992,000**
After one to three years	**992,000**
	$ 1,984,000

6. **Property and Equipment**

A summary of property and equipment and the related depreciation at December 31 is as follows:

	Useful lives	**2020**	2019
Land		**$ 735,301**	$ 735,301
Buildings and improvements	27 - 40 years	**5,420,155**	5,269,428
Furniture and equipment	2 - 6 years	**3,854,217**	3,684,809
		10,009,673	9,689,538
Accumulated depreciation		**7,235,329**	7,032,907
Net property and equipment		**$ 2,774,344**	$ 2,656,631
Depreciation expense		**$ 360,102**	$ 277,491

Notes to Financial Statements *(Continued)*

7. **Members' Share Accounts**

A summary of members' share accounts by type at December 31 is as follows:

	2020	2019
Type		
Regular shares	**$ 95,460,190**	$ 76,495,120
Share drafts	**43,183,130**	33,299,629
Money market shares	**26,118,471**	25,189,554
IRA and SEP accounts	**4,086,129**	3,813,802
Share and IRA certificates	**27,029,503**	30,311,637
	$195,877,423	$169,109,742
Share certificates mature as follows:		
Within one year	**$ 16,903,951**	$ 13,663,556
After one through two years	**4,530,448**	10,464,811
After two through three years	**4,327,372**	1,819,983
After three through four years	**663,407**	3,894,146
After four through five years	**604,325**	469,141
	$ 27,029,503	$ 30,311,637
Dividends paid	**$ 429,682**	$ 322,188

The amount of members' share certificate accounts with balances of $250,000 or more was **$1,342,413** and $1,212,880 at December 31, 2020 and 2019, respectively.

8. **Borrowed Funds**

The Credit Union has a $3,500,000 line of credit with its primary correspondent financial institution secured by securities held in safekeeping. The interest rates on advances would be variable. The Credit Union also has a line of credit with the Federal Home Loan Bank of Atlanta. The Credit Union could borrow up to $51,850,750 under the line. Advances would be limited by the amount of loans or securities the Credit Union could pledge. The interest rates on advances could be fixed or variable. There were no outstanding borrowings at December 31, 2020 or 2019. There was no interest paid in 2020 or 2019.

9. **Commitments and Contingent Liabilities**

Financial instruments with concentration of credit risk

As of December 31, 2020, the Credit Union's recorded cash and cash equivalent balances exceed the insured deposit limit by **$29,787,367**. This is the amount on deposit as of December 31, 2020, in accounts at other financial institutions which exceed the FDIC or NCUSIF insurance limit of $250,000 per depositor in interest earning accounts.

The Credit Union originates real estate and consumer loans to its members throughout Harford County and the surrounding region. The Credit Union's field of membership includes many groups. However, many of its members are current or former employees and students of public and private schools and colleges in Harford County, the Credit Union's primary sponsors. Although the Credit Union has a diversified loan portfolio, a substantial portion of its debtors' ability to repay their loans is dependent upon the employment trends of the sponsors and the regional economy.

Notes to Financial Statements *(Continued)*

9. **Commitments and Contingent Liabilities** (Continued)

Litigation

The Credit Union is party to various legal actions normally associated with a financial institution. In management's opinion, the aggregate effect is not material to the financial condition of the Credit Union.

Lease commitments

The Credit Union owns a freestanding facility at Constant Friendship, and pays monthly rent for the land. The lease term expires March 11, 2024, and includes various renewal options until July 2027. The Credit Union also owns a freestanding branch in the Aberdeen Marketplace and pays monthly rent for the land. The lease term expires August 31, 2024, and includes various renewal options until August 2039. Rent expense for the land was **$171,402** and $163,798 for 2020 and 2019, respectively.

Future minimum rents payable under operating leases, including unexercised options, are:

Year	Amount
2021	$ 171,403
2022	176,650
2023	183,996
2024	188,368
2025	197,112
Thereafter	1,764,882
	$2,682,411

Financial instruments with off-balance-sheet risk

Unused lines of credit at December 31 were as follows:

	2020	2019
Real estate	**$22,984,595**	$23,368,726
Unsecured	**1,814,458**	1,800,681
Credit card	**12,607,544**	11,985,163
	$37,406,597	$37,154,570

Commitments to extend credit at December 31 were as follows:

First mortgage	**$ 1,760,000**	$ -
Second mortgage and home equity	**273,000**	290,000
Vehicle	**68,121**	137,922
Unsecured	**11,000**	500
Credit card	**-**	41,000
	$ 2,112,121	$ 469,422

The Credit Union is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members, primarily in the form of commitments to extend credit. Lines of credit are agreements to lend to a member as long as there is no violation of any condition to the contract, and are made on the same terms, including rate and required collateral, as outstanding loans. Lines of credit are generally at fixed rates, although the Credit Union retains the right to change rates effective with any new draws on the lines. Such lines do not represent future cash requirements because it is unlikely that all members will draw upon their lines in full at any time.

10. **Related-Party Transactions**

The officials and senior executive staff of the Credit Union enter into loan transactions with the Credit Union in the normal course of business. The terms of these transactions are the same as the terms provided to other borrowers entering into similar loan transactions.

Activity in these loans was as follows:

	2020	2019
Beginning of year	**$ 832,645**	$ 323,327
Advances	**583,641**	586,201
Change in officials	**-**	(683)
Repayments	**(82,003)**	(76,200)
End of year	**$1,334,283**	$ 832,645

The total deposits in the Credit Union from the same officials and senior executives were **$695,329** and $648,936 at December 31, 2020 and 2019, respectively.

Payments to directors for professional, marketing, and loan services totaled **$62,689** and $21,470 during the years ended December 31, 2020 and 2019, respectively.

11. **Regulatory Capital**

Under capital adequacy guidelines and the National Credit Union Administration's framework for prompt corrective action (PCA), the Credit Union must meet specific net worth guidelines that involve quantitative measures of the Credit Union's assets and liabilities, as calculated under accounting principles generally accepted in the United States of America. The Credit Union is required to maintain minimum ratios, as set forth below, of net worth to assets. Failure to meet minimum net worth requirements can initiate certain mandatory actions by regulators that could have a direct material effect on the Credit Union's financial statements. Credit unions are also required to calculate a Risk-Based Net Worth (RBNW) requirement that establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW ratio as of December 31, 2020 and 2019, was **5.54%** and 5.94%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6.00%. Because the Credit Union's RBNW is less than 6.00%, it retains its original net worth category. Management believes that the Credit Union meets all capital adequacy requirements to which it is subject as of December 31, 2020.

As of December 31, 2020 and 2019, the Credit Union's net worth is categorized as well capitalized under the regulatory framework for PCA. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio, calculated under the optional "average of daily assets over the calendar quarter" method at December 31, 2020 and 2019, as follows:

	Actual		For capital adequacy purposes		To be well capitalized under PCA provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020	**$18,725,239**	**9.11%**	**$12,326,747**	**6.00%**	**$14,381,205**	**7.00%**
December 31, 2019	$ 18,896,386	10.10%	$ 11,355,344	6.00%	$ 13,247,901	7.00%

There have been no conditions or events that management believes would change the Credit Union's well capitalized status.

Notes to Financial Statements *(Continued)*

12. **Retirement Plan**

The Credit Union maintains a retirement plan that qualifies under Section 401(k) of the Internal Revenue Code. The plan covers all employees. Employees may make voluntary contributions to the plan, and the Credit Union will match 100% of the first 3% plus 50% of the next 2% of the employee deferrals. Employee elective deferrals are fully vested. Credit Union Safe Harbor matching contributions are fully vested. Retirement plan expense was **$94,030** and $75,150 during the years ended December 31, 2020 and 2019, respectively.

13. **Fair Value of Financial Instruments**

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Generally accepted accounting standards define fair value, establish a framework for measuring fair value, require certain disclosures about fair values, and establish a hierarchy for determining fair value measurements. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs that reflect the Credit Union's own assumptions about the asset or liability, in situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The Credit Union uses the following methods and significant assumptions to measure fair value:

Fair value measurements on a recurring basis

Investment securities available for sale: The fair value of investment securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges. If quoted prices are not available, fair value is determined using quoted prices for similar securities. As of December 31, 2020, the Credit Union did not have investment securities available for sale.

December 31, 2019	Total	Quoted prices in active markets identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available for sale				
Federal agency securities	$ 7,993,740	$ -	$ 7,993,740	$ -

13. **Fair Value of Financial Instruments** (Continued)

Fair value measurements on a nonrecurring basis

Foreclosed real estate and impaired loans are the only instruments that are measured at fair value on a nonrecurring basis.

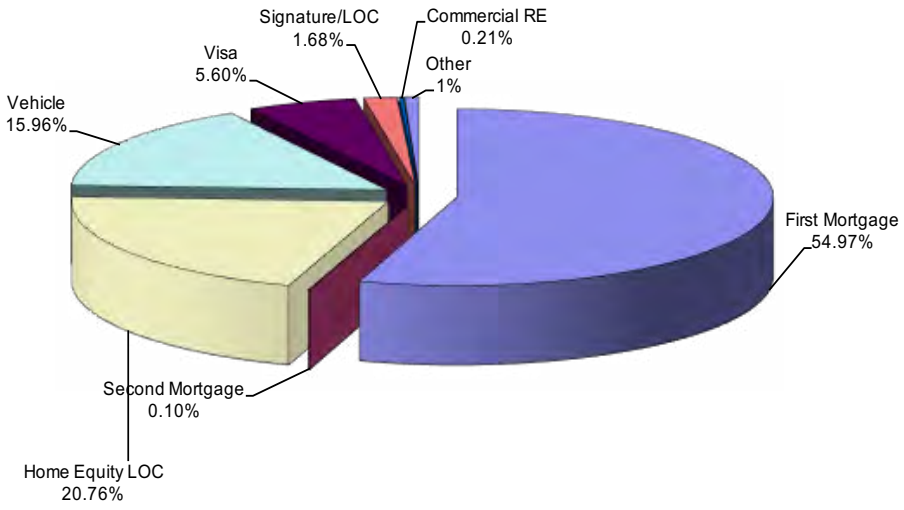
The Credit Union's foreclosed real estate is measured at fair value less costs to sell. Fair value is based on offers and/or appraisals. Costs to sell the real estate are based on standard market factors.

The Credit Union's impaired loans are measured by subtracting any specific reserve from outstanding principal. Specific reserves on impaired loans are based on many factors, including management's estimate of probable loss of principal of significantly delinquent real estate loans, and on the approximate market value of loans with LTVs exceeding 100%.

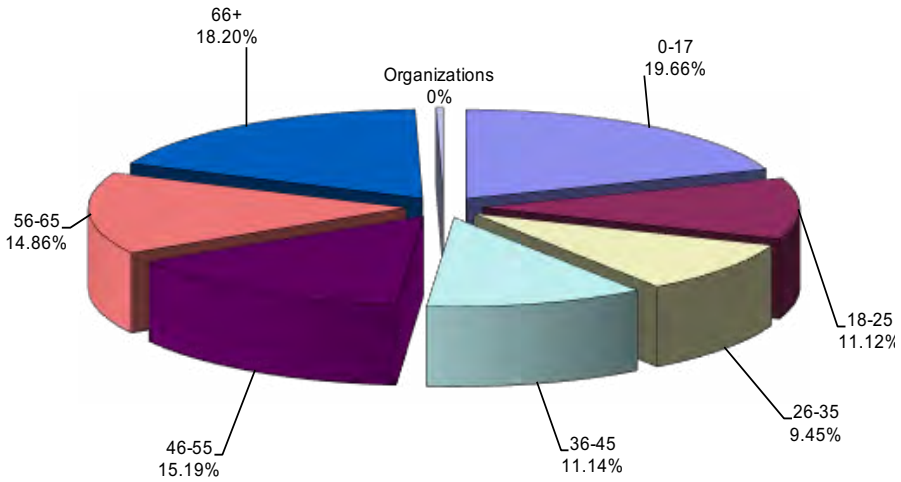
December 31, 2020	Total	Quoted prices in active markets identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired loans	**$ 757,602**	**$ -**	**$ -**	**$ 757,602**
December 31, 2019				
Impaired loans	$ 689,427	$ -	$ -	$ 689,427

Financial Strength

LOAN PORTFOLIO



AGE DISTRIBUTION OF ALL 14,503 MEMBERSHIPS



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