

# 2010 Annual Report



**Value**

**Service**

**Convenience**

  
**Bethpage**<sup>™</sup>  
Federal Credit Union

## **Our Vision**

Commitment to extraordinary  
**value** and **service**,  
anytime, anywhere.

# Main Office

899 S. Oyster Bay Road, Bethpage, NY 11714  
800-628-7070 lovebethpage.com

## Directory

### Public Access Branches

Bethpage (Main Office) 899 South Oyster Bay Road	Lynbrook 613 Sunrise Highway
Bay Shore 591 Montauk Highway	Massapequa 6257 Sunrise Highway
Bay Shore (King Kullen Supermarket) 834 Sunrise Highway	Melville 722 Walt Whitman Road (Rte. 110)
Central Islip 233 South Research Place	Mineola 131 Jericho Turnpike
Commack (King Kullen Supermarket) 120 Veterans Highway	North Babylon 1350 Deer Park Avenue
Elmont 1633 Dutch Broadway	Port Jefferson 4802 Nesconset Highway
Farmingdale 1033 Route 109	Riverhead 1095 Old Country Road
Freeport 210 West Merrick Road	Roosevelt 405 Nassau Road
Glen Cove 111 School Street	Seaford 4006 Merrick Road
Hempstead 170 Fulton Avenue	Smithtown 240 Middle Country Road
Huntington 33 Gerard Street	Westbury 750 Old Country Road
Levittown (King Kullen Supermarket) 3284 Hempstead Turnpike	

### Limited Access Branch

Islandia (CA employees only)

### Local Shared Service Centers

First Entertainment CU	Qside FCU
Island FCU	Skyline FCU
Justice FCU	Suffolk FCU
LOMTO FCU	Sperry Associates FCU
Long Island State EFCU	Teachers FCU
Melrose FCU	Winthrop-University Hospital CU
Nassau Educators FCU	
Nassau Financial FCU	
Oceanside Christopher FCU	

### Coming in 2011

Patchogue  
West Babylon

For a Shared Service Center near you,  
please visit [www.creditunion.net](http://www.creditunion.net).

# Corporate Information

## Board of Directors

Richard B. Turan, Chair  
Robert F. Kelly, Ph.D., Vice Chair  
Don Balducci, Secretary  
Philip Gandolfo, Treasurer  
Thomas D. Gill  
John C. Komst  
Jorge A. Martinez  
Michelle Nearon, Ph.D.  
Sam Piazzola

## Associate Directors

Jeffrey Alter  
Francis E. Campbell  
Jaci Clement

## Supervisory Committee

Joseph Moliterno, Chair  
John Scano, Secretary  
Ann Butera  
Les Poinelli

## Executive Team

Kirk Kordeleski  
President & Chief Executive Officer

Wayne N. Grossé  
Chief Operating Officer

Brian Clarke  
Senior Vice President &  
Chief Financial Officer

Linda Armyn  
Senior Vice President, Corporate  
Development & Government Affairs

James Breen  
Senior Vice President,  
Information Technology

Michele Dean  
Senior Vice President, Lending & Investment  
Operations, COO-CUSO Operations

Robert Hoppenstedt  
Senior Vice President, Operations & Marketing

Douglas O'Neill  
Senior Vice President, Human Resources

Melissa Feeney  
Vice President, Human Resources & Learning

Gary Jendras  
Vice President, Internal Audit

Lawrence Jones  
Vice President, Commercial Lending

Robert Lund  
Vice President, Residential Mortgage Lending

Gerard Schmitt  
Vice President, Marketing



We do business in accordance with the Federal Fair Housing Law and the Equal Credit Opportunity Act.



Your savings are federally insured to at least \$250,000 and backed by the full faith and credit of the United States Government.

# President's Message



Last year was another extraordinary one for Bethpage Federal Credit Union. Although the economy presented many of the same challenges that we saw in 2009, Bethpage had record income and we succeeded once again in meeting the financial needs of a growing number of Long Islanders. As a non-profit financial cooperative, we stand apart from all the banks on Long Island—we don't chase profits for shareholders—we work for you, our member-owners.

Bethpage has established its reputation by providing extraordinary value, service and convenience, built on a foundation of sound business practices and financial strength. In 2010, our assets grew to more than \$4 billion, and today we are the largest credit union on Long Island as well as in New York State, and 19th nationwide.

## Bethpage Provides the Best Rates on Long Island

As Long Island's premier community financial institution, we are able to turn our financial strength into benefits for each of you through lower fees and loan rates as well as higher deposit rates. In 2010, Bethpage provided more than \$1 billion in loans for the second year in a row. Our members took advantage of record low interest rates to refinance their homes, purchase new and used autos, and consolidate their debt.

Last year we also introduced Bethpage Bonus Checking, the best free checking account in the market, and Long Islanders responded by opening almost 18,000 new accounts. Additionally, more than 22,000 new members joined Bethpage last year. Our growth benefits all our members, and more and more people are turning to Bethpage as their primary financial institution!

## New Colors, Same Great Service

As we grow and expand, we do so to better serve our member owners. At the beginning of 2010 we launched a comprehensive rebranding initiative to generate greater awareness of Bethpage among all Long Islanders. Our fresh new colors made a statement, as did the two additions to our team—Beth & Paige! Our message is simple: Bethpage is a better place to bank because we are a credit union. Here you are a person, not a number, and our mission is to serve you first and foremost.

No matter what color we wear, one of the things you can count on at Bethpage is extraordinary service. We work hard every day, as a team, to live up to that commitment and earn your trust. When a major snowstorm hit the region early last winter, other financial institutions closed. We dug out and opened for business. We were there for members who depended on us, especially those who had real estate transactions that required closings that day.

We will never take your trust for granted, which is why we work diligently to obtain member input about what we are doing right and where there is room for improvement. Last

year we were once again ranked #1 in service for the Mid-Atlantic region by a well-known national research firm. And thanks to each of you, Bethpage was also voted Best Financial Institution on Long Island in the Annual Best of Long Island Awards sponsored by the *Long Island Press*. In order to provide you with the best products and services, we will continue to survey members. We appreciate your participation in these surveys and greatly value your feedback.

## Long Island's Most Convenient Place to Bank

What started out as a small financial cooperative for Grumman employees in 1941 today has 24 branches throughout Nassau and Suffolk Counties. In 2010, we celebrated grand openings in Westbury and Roosevelt, and opened a new Seaford location. In 2011, three new branches will open including a second location in Bay Shore—a King Kullen branch providing service seven days a week!

With over 350 surcharge-free ATMs on Long Island—you can always find a place to withdraw funds at no cost! In addition to the ATMs located at Bethpage branches and Credit Union Shared Service Centers, surcharge-free ATMs can be found at local Walgreens, 7-Eleven, Costco and King Kullen stores. In 2010 alone, there were more than 1.2 million member transactions at these locations. Each of these ATMs is free to you because of the extensive networks Bethpage belongs to—so whether you are visiting friends in Southold or South Dakota—chances are you can find an ATM that is surcharge-free for Bethpage members.

The Credit Union Shared Service Center network is another way we make banking more convenient for you. By being a part of this network, Bethpage provides access to over 60 branches on Long Island and more than 4,300 branches around the world. And for those who prefer to bank from home or on the go, we provide free telephone, online and mobile banking services.

In 2010, we also established a social media presence to provide yet another channel for communications. We launched our Facebook page in March 2010 and today have over 2,700 fans! We use Facebook as a way to share new developments as well as our community and charitable outreach. Through Facebook we were even able to help a member who was on vacation in Rio.

## Extraordinary value and service, anytime, anywhere—that is our commitment to you!

Thank you for your continued loyalty and for choosing Bethpage as your trusted financial partner.

**Kirk Kordeleski**  
President and Chief Executive Officer

# Chairman's Message



This past year has been one of the most successful in the history of Bethpage Federal Credit Union. As indicated in the President's Message, we had unprecedented growth and record income. Once again, your credit union ended the year in a position of financial strength, with membership growing to almost 180,000.

Your Board of Directors spends considerable time reviewing financial performance and considering strategic issues to benefit members. Our primary goal is to return value to each of you, our members, through the best rates, lower fees, more conveniences and the extraordinary service you deserve. It is because we have members instead of stockholders, that we consider each of you to be our partners and neighbors and that for us to succeed we must always do what is best for you.

As new members join the Bethpage family, we never lose sight of existing members and their contribution to our history and strength as an organization. One group, in particular, that we recognize annually is our Charter Members. These members are people who have banked with us for over 50 years. They are the reason we opened our doors in the first place, and they constitute the very fabric of Bethpage Federal Credit Union. In 2010, we had over 350 registered Charter Members. We thank them for their loyalty and are proud to serve their financial needs.

Because your Credit Union has performed so well financially, I have elected to focus the rest of my report on our efforts last year to improve the quality of life on Long Island.

## Investing in Long Island

Doing what is best for our members isn't always financial, and it often starts with our commitment to the Long Island community. For 70 years, Bethpage's philosophy has included a deep and abiding commitment to the people who work and live in our region. We believe that helping our neighbors, across our many communities, is a prerequisite to being the premier community financial institution on Long Island.

Our employees are proud to serve their communities by volunteering at dozens of events across Long Island. Whether working at our annual Turkey Drive or putting hammer to wood to help build homes for Habitat for Humanity, volunteering is an inherent part of Bethpage's culture. With our participation and support of festivals, grants, walks and runs, fundraisers, food drives, concerts and numerous other community activities, the "Heart of Bethpage" is there with you.

Over the past four years, Bethpage volunteers have logged nearly 10,000 hours of service. We are honored to be part of the spirit of giving that makes Long Island a wonderful place to live and work. In 2010, our employee Walk/Run Club raised money for more than a dozen charities, including the Girl Scouts of Nassau, the Interfaith Nutrition Network and United Cerebral Palsy of Suffolk. Bethpage was proud to be the premier sponsor for the Ocean to Sound 50 Mile Relay and the 60th Anniversary of the UCP of Suffolk "Life Without Limits" 5K Walk & Wheel, raising funds and bringing awareness to two great causes.

The spirit of generosity was also alive and well at the second annual Bethpage Federal Credit Union Turkey drive. Individuals, companies and other organizations donated more than 2,000 turkeys and 6,000 pounds of food. The donations provided thousands of Long Island families with a traditional Thanksgiving dinner knowing that their community cares.

Another important initiative is Bethpage's participation in the Volunteer Income Tax Assistance (VITA) program, which has been part of our community outreach for almost eight years! Last year, we successfully completed more than 1,100 tax returns, resulting in \$1.3 million in refunds to Long Island taxpayers. This year, we processed almost 1,300 returns for a total refund of nearly \$1.8 million.

In addition to providing assistance to Long Islanders in need, Bethpage is also committed to enhancing the quality of life on Long Island through sponsored activities and events. Our premier event, the Bethpage Federal Credit Union Air Show at Jones Beach, has entertained as many as 500,000 people over the Memorial Day weekend. Last year's show featured dozens of high flying acts including the Navy's Blue Angels and elite groups from every other branch of the military.

As you can see, Bethpage is far more than just a place to do your banking. We are committed to helping Long Islanders in every aspect of their lives and to making our island a better place for everyone. At the core of that mission is doing what's best for each of you—our member-owners.

It has been an honor to serve you and the community we are proud to call home. As we celebrate our 70th anniversary in 2011, we look forward to serving you for many years to come.

A handwritten signature in black ink that reads "Richard Turan". The signature is written in a cursive style with a large initial "R".

**Richard Turan**  
Chairman of the Board

# Supervisory Committee's Message

The Supervisory Committee is composed of independent volunteers who are primarily responsible for ensuring that the financial condition of Bethpage Federal Credit Union is accurately stated and presented.

The Committee's major responsibilities are to you, the members of Bethpage Federal Credit Union. The Committee:

- Ensures compliance with NCUA guidelines and regulations.
- Monitors the financial reporting by management.
- Oversees the role of the Internal Audit department.
- Makes sure that Bethpage Federal Credit Union responds to the concerns of the members.

During 2010, the Committee engaged the services of Grant Thornton LLP to conduct the annual audit of Bethpage Federal Credit Union's financial statements. An annual audit is required by federal regulations. The 2010 audited financial statements of the credit union, and related independent auditor's reports, are included as part of the 2010 annual report. The NCUA examination conducted during 2010 found Bethpage to be a safe and sound financial institution.

The year 2010 was an extraordinary year for Bethpage as we once again emerged from the year a strong institution, while simultaneously maintaining its service commitment to its members. A new branch was opened in Seaford and plans for future branch locations were well under way as the year came to a close.

Bethpage continues to focus on measuring operational efficiency, service to members and financial performance. This is accomplished by use of internal and external scorecards and independent surveys. Use of these tools allows Bethpage to constantly deliver to its members exceptional service and value.

All of these accomplishments show the continued commitment by Bethpage to provide extraordinary value and service to each of you, the member-owners. These steps ensure the members' needs are being addressed while providing assurance that Bethpage Federal Credit Union's financial condition is accurately stated and presented.



**Joseph Moliterno**  
Supervisory Committee Chair

# Report of Independent Certified Public Accountants

To the Members of  
Bethpage Federal Credit Union

We have audited the accompanying consolidated statements of financial condition of Bethpage Federal Credit Union and Subsidiaries (the "Credit Union") as of December 31, 2010 and 2009, and the related consolidated statements of income, members' equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. 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 as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting.

Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bethpage Federal Credit Union and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

**Grant Thornton LLP**  
New York, New York  
March 29, 2011

# Consolidated Statements of Financial Condition

December 31, 2010 and 2009 (in thousands)

	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 24,193	\$ 20,852
Investments		
Available-for-sale	1,763,527	1,560,823
Other	49,936	115,561
Loans held for sale	46,949	19,125
Loans receivable, net	2,028,566	1,897,685
Mortgage servicing rights, net	14,416	11,184
Accrued interest receivable	15,970	15,485
Property and equipment	20,507	19,959
National Credit Union Share Insurance Fund deposit	32,769	30,329
Real estate acquired through foreclosure	5,714	839
Other assets	8,786	4,924
	<u>\$ 4,011,333</u>	<u>\$ 3,696,766</u>
<b>Liabilities and members' equity</b>		
Liabilities		
Members' shares	\$ 3,586,771	\$ 3,246,851
Borrowed funds	18,205	100,324
Accrued expenses and other liabilities	74,050	55,000
	<u>3,679,026</u>	<u>3,402,175</u>
Commitments and contingent liabilities		
Members' equity		
Retained earnings	315,446	277,364
Accumulated other comprehensive income	16,861	17,227
	<u>332,307</u>	<u>294,591</u>
	<u>\$ 4,011,333</u>	<u>\$ 3,696,766</u>

# Consolidated Statements of Income

Years ended December 31, 2010 and 2009 (in thousands)

	2010	2009
<b>Interest income</b>		
Interest on loans receivable	\$ 100,236	\$ 101,399
Interest on investments and cash equivalents	<u>59,625</u>	<u>57,701</u>
Total interest income	<u>159,861</u>	<u>159,100</u>
<b>Interest expense</b>		
Dividends on members' shares	53,749	68,258
Interest on borrowed funds	<u>2,887</u>	<u>2,930</u>
Total interest expense	<u>56,636</u>	<u>71,188</u>
Net interest income	103,225	87,912
<b>Provision for loan losses</b>	<u>16,551</u>	<u>21,385</u>
Net interest income after provision for loan losses	<u>86,674</u>	<u>66,527</u>
<b>Non-interest income</b>		
Members' shares service charges and other fees	10,386	9,663
Mortgage servicing and loan fees	2,057	1,401
Gain on sale of mortgage loans	14,444	16,380
Investment services and insurance fees – commissions	7,359	8,911
Other non-interest income (loss)	<u>380</u>	<u>(676)</u>
Total non-interest income	<u>34,626</u>	<u>35,679</u>
Net income before expenses	<u>121,300</u>	<u>102,206</u>
<b>Non-interest expenses</b>		
Salaries and benefits	36,221	34,086
Operations	40,458	34,274
Occupancy	<u>6,539</u>	<u>5,833</u>
Total non-interest expenses	<u>83,218</u>	<u>74,193</u>
Net income	<u>\$ 38,082</u>	<u>\$ 28,013</u>

# Consolidated Statements of Members' Equity and Comprehensive Income

Years ended December 31, 2010 and 2009 (in thousands)

	Regular reserve	Undivided earnings	Total	Accumulated other comprehensive income	Comprehensive income
Balance, December 31, 2008	\$ 21,384	\$ 227,967	\$ 249,351	\$ (12,288)	
Net income	—	28,013	28,013	—	\$ 28,013
Net change in unrealized holding gains on available-for-sale investments	—	—	—	28,522	28,522
Net change due to pension	—	—	—	993	993
Comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ 57,528</u>
Balance, December 31, 2009	21,384	255,980	277,364	17,227	
Net income	—	38,082	38,082	—	\$ 38,082
Net change in unrealized holding gains on available-for-sale investments	—	—	—	331	331
Net change due to pension	—	—	—	(697)	(697)
Comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ 37,716</u>
Balance, December 31, 2010	<u>\$ 21,384</u>	<u>\$ 294,062</u>	<u>\$ 315,446</u>	<u>\$ 16,861</u>	

# Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009 (in thousands)

	2010	2009
<b>Cash flows from operating activities</b>		
Net income	\$ 38,082	\$ 28,013
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization and impairment of servicing rights	3,335	2,568
Amortization of net premium on investments	20,602	8,665
Amortization of gain on secured borrowing	(801)	(874)
Provision for loan losses	16,551	21,385
Other-than-temporary impairment	1,126	4,273
Gain on sale of available-for-sale investments	(1,284)	( 1,302)
Gain on sale of mortgage loans	(14,444)	( 16,380)
Depreciation and amortization	3,368	3,388
Write down of other real estate owned	912	—
Gain on sale of other real estate owned	(45)	(13)
Mortgage loans originated for sale	(696,850)	(942,596)
Proceeds from sale of mortgage loans	676,751	950,465
Increase in accrued interest receivable	(485)	(2,003)
Increase in other assets	(1,493)	(892)
Increase (decrease) in accrued expenses and other liabilities	16,137	(3,629)
Net cash provided by operating activities	<u>61,462</u>	<u>51,068</u>
<b>Cash flows from investing activities</b>		
Purchases of available-for-sale investments	(618,536)	(857,377)
Proceeds from maturities of available-for-sale investments	335,344	296,601
Proceeds from sale of available-for-sale investments	61,501	87,729
Proceeds from sale of other real estate owned	662	76
Net decrease (increase) in other investments	64,498	(11,882)
Net increase in loans receivable	(153,836)	(6,457)
Increase in the National Credit Union Share Insurance Fund deposit	(2,440)	(6,863)
Purchases of property and equipment	(3,916)	(3,200)
Net cash used in investing activities	<u>(316,723)</u>	<u>(501,373)</u>
<b>Cash flows from financing activities</b>		
Increase in borrowed funds	18,205	62,910
Repayment of borrowed funds	(99,523)	—
Net increase in members' shares	339,920	372,672
Net cash provided by financing activities	<u>258,602</u>	<u>435,582</u>
Increase (decrease) in cash and cash equivalents	3,341	(14,723)
<b>Cash and cash equivalents at beginning of year</b>	<u>20,852</u>	<u>35,575</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 24,193</u>	<u>\$ 20,852</u>
<b>Supplemental cash flow information:</b>		
Dividends paid on members' shares and interest paid on borrowed funds	<u>\$ 56,798</u>	<u>\$ 71,028</u>
<b>Schedule of non-cash investment activities:</b>		
Transfer from loans receivable, net to real estate acquired through foreclosure	<u>\$ 6,404</u>	<u>\$ 986</u>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009 (Dollars in thousands)

## Note 1. Significant Accounting Policies

### Organization

Bethpage Federal Credit Union (the "Credit Union") is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act.

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Credit Union and its wholly owned subsidiary, Bethpage Management Services, LLC ("BMS"). BMS owns 100% of Bethpage Risk Management, LLC, and 51% of Land Bound Services, LLC, and CU Settlements Services, LLC. All material intercompany balances and transactions have been eliminated in consolidation. Other affiliates in which there is at least 20% ownership are accounted for by the equity method; those in which there is less than 20% ownership are carried at cost.

### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. 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 consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

The principal estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, temporary impairment of investment securities, and fair value of derivative financial instruments. The evaluation of the adequacy of the allowance for loan losses includes an analysis of the individual loans and overall risk characteristics and size of the different loan portfolios, and takes into consideration current economic and market conditions, the capability of specific borrowers to pay specific loan obligations, as well as current loan collateral values. However, actual losses on specific loans, which are also encompassed in the analysis, may vary from estimated losses.

The Credit Union periodically evaluates each individual investment for impairment. Based upon the impairment testing completed as of December 31, 2010 and 2009, the Credit Union determined that certain investments in corporate member capital accounts were other than temporarily impaired. The Credit Union recorded other-than-temporary impairment charges of approximately \$1,100 and \$4,300 at December 31, 2010 and 2009, respectively, in other non-interest income (loss). As of December 31, 2010, investments in corporate member capital accounts have been written down 100%.

### Cash, Cash Equivalents and Cash Flows

Cash and cash equivalents consist of cash on hand, demand deposits, overnight investments, and non-term share deposits in a Corporate Credit Union. For purposes of reporting cash flows, loans receivable, other investments, and members' shares are reported net. Amounts due from financial institutions may exceed federally insured limits.

### Investments

Investments that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive income.

Gains and losses on available-for-sale securities are determined using the specific-identification method.

Amortization of premiums and discounts are recognized in interest income over the period to maturity. Declines in the fair value of individual available-for-sale securities below their respective costs that are other than temporary will result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. Other investments are classified separately and are stated at cost.

### Federal Home Loan Bank Stock

At year end, the Credit Union was required to hold Federal Home Loan Bank of New York ("FHLBNY") stock equal to the sum of 0.2% of mortgage-related assets and 4.5% of outstanding FHLBNY borrowings. The Credit Union has met these requirements for both 2010 and 2009.

No ready market exists for the FHLBNY stock, and it has no quoted market value. Therefore, the Credit Union's investment in FHLBNY stock is carried at cost and tested for impairment. At December 31, 2010 and 2009, management did not believe the stock was impaired.

### 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. Mortgage loans held for sale are sold with the mortgage servicing rights retained by the Credit Union.

### Loans Receivable and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and increased by deferred net loan origination costs. Interest on loans receivable is recognized over the terms of the loans and is calculated using the interest method on principal amounts outstanding. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

The Credit Union determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date.

The Credit Union maintains its allowance for loan losses in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 450, "Contingencies" and FASB ASC 310, "Receivables." Both statements require the Credit Union to evaluate the collectability of interest and principal loan payments. FASB ASC 450 requires the accrual of a loss when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. FASB ASC 310 requires that impaired loans be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loan's observable market price of fair value of the collateral. As the majority of the Credit Union's loans are collateral dependent, impairment is usually measured using the lower of cost or fair value of the collateral.

A loan is defined under FASB ASC 310 as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the provisions of FASB ASC 310, the Credit Union considers its investment in residential loans and consumer loans to be homogeneous and therefore excluded from individual identification for evaluation of impairment. These homogeneous loan groups are evaluated for impairment on a collective basis under FASB ASC 450. With respect to the Credit Union's investment in commercial and other loans, and its

# Notes to Consolidated Financial Statements

December 31, 2010 and 2009 (Dollars in thousands)

evaluation of impairment thereof, management believes such loans are collateral dependent and as a result impaired loans are carried as a practical expedient at the lower of cost or fair value of the collateral.

It is the Credit Union's policy to charge off unsecured loans that are more than 150 days delinquent. Similarly, non-homogeneous collateral-dependent loans which are more than ninety days delinquent are considered to constitute more than a minimum delay in repayment and are individually evaluated for impairment under FASB ASC 310 at that time.

The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. The allowance is an amount management believes will be adequate to absorb estimated losses on existing loans. Management's periodic evaluation of the adequacy of the allowance is based on the Credit Union's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes in economic conditions.

## Transfers and Servicing of Financial Assets

The Credit Union accounts for the right to service mortgage loans sold to others under FASB ASC 860, "Transfers and Servicing." Mortgage servicing rights have been recognized as a separate asset and are being amortized in proportion to and over the period of estimated net servicing income.

FASB ASC 860 requires the Credit Union to recognize as a separate asset the right to service mortgage loans for others. An institution that acquires mortgage servicing rights through either the purchase or the origination of mortgage loans and sells those loans with servicing rights retained must allocate a portion of the cost of the loans to the mortgage servicing rights. Under FASB ASC 860, the Credit Union could elect to either amortize the mortgage servicing rights over the life of the loan or carry the mortgage servicing rights at fair value. Under both methodologies, the mortgage servicing rights would be tested for impairment. Management elected to continue with the amortization method of accounting for mortgage servicing rights.

Mortgage servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market rates of interest and current expected future prepayment rates. For purposes of measuring impairment, the rights must be stratified by one or more predominant risk characteristics of the underlying loans. The Credit Union stratifies its capitalized mortgage servicing rights based on the type of loan, term, investor, interest rate, maturity date and origination date of the underlying loans. The amount of impairment recognized is the amount, if any, by which the amortized cost of the rights for each stratum exceed their fair value.

The mortgage servicing rights recorded by the Credit Union were segregated into pools for valuation purposes, using as pooling criteria the loan type, loan term, investor, interest rate, maturity date, origination date, and coupon rate. Once pooled, each grouping of loans was evaluated on a discounted earnings basis to determine the present value of future earnings that a purchaser could expect to realize from each portfolio. Earnings were projected from a variety of sources including loan servicing fees, interest earned on float, net interest earned on escrows, miscellaneous income, and costs to service the loans. The present value of future earnings is the economic value of the pool, i.e., the net realizable present value to an acquirer of the servicing rights.

The valuation of mortgage servicing rights is influenced by market factors, including servicing volumes and market prices, as well as management's assumptions regarding mortgage prepayment speeds and interest rates. Impairment is measured based on the fair value of each pool. Management utilizes periodic third-party valuations by market professionals to evaluate the fair value of its capitalized mortgage servicing assets.

## Accrued Interest on Loans

Interest is accrued as earned unless the collectability of the loan is in doubt. Accrual of interest on loans is discontinued when management believes that, after considering economics, business conditions, and collection efforts, the borrower's financial condition is such that collection of principal and interest is doubtful. The Credit Union's policy is to stop accruing interest when the loan becomes 90 days delinquent. All interest accrued but not collected for loans that are placed on nonaccrual status or subsequently charged off is reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic interest and principal payments has returned to normal and future payments are reasonably assured, in which case the loan is returned to accrual status.

## Property and Equipment

Land is carried at cost. Building, furniture and equipment, data processing and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings, furniture and equipment and data processing are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the terms of the related leases.

## National Credit Union Share Insurance Fund Deposit

The deposit in the National Credit Union Share Insurance Fund ("NCUSIF") is in accordance with National Credit Union Administration ("NCUA") regulations, which require the maintenance of a deposit by each federally insured Credit Union in an amount equal to 1% of its insured members' shares. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, if it converts its insurance coverage to another source, or if management of the fund is transferred from the NCUA board.

## Real Estate Acquired Through Foreclosure

Real estate acquired through foreclosure is carried at fair value on the date of acquisition plus certain capitalized costs, net of estimated disposal costs. Carrying costs such as maintenance, interest and taxes are charged to operations as incurred. Because of changing market conditions, there are inherent uncertainties in the assumptions with respect to the estimated fair value of other real estate owned. Because of these inherent uncertainties, the amount ultimately realized on other real estate owned may differ from the amounts reflected in the consolidated financial statements.

## Derivative Financial Instruments

Derivative financial instruments are recognized as assets and liabilities on the consolidated statements of financial condition. This information is presented in Note 10.

## Derivative Loan Commitments

Mortgage loan commitments are considered derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. Loan commitments that are derivative are recognized at fair value on the consolidated statements of financial condition in other assets or accrued expenses and other liabilities with changes in fair values recorded in gain on sale of mortgage loans.

The Credit Union records a zero value for the loan commitment at inception (at the time the commitment is issued to a borrower) and does not

# Notes to Consolidated Financial Statements

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recognize the value of the expected normal servicing rights until the underlying loan is sold. Subsequent to inception, changes in the fair value of the loan commitment are recognized based on changes in the fair value of the underlying mortgage loan due to interest rate changes, changes in the probability the derivative loan commitment will be exercised and the passage of time. In estimating fair value, the Credit Union assigns a probability to a loan commitment based on an expectation that it will be exercised and the loan will be funded.

## Forward Loan Sale Commitments

The Credit Union utilizes forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that might result from the exercise of the derivative loan commitments. Generally, the Credit Union's contracts meet the definition of derivative instruments. Accordingly, forward loan sale commitments are recognized at fair value on the consolidated statements of financial condition in other assets or accrued expenses and other liabilities with changes in their fair values recorded in gain on sale of mortgage loans.

The Credit Union estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

## Members' Shares

Members' shares are the deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinated to all other liabilities of the Credit Union upon liquidation. Dividends on members' shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's management.

## Income Taxes

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

## Pension Plan

The Credit Union has a qualified, noncontributory defined-benefit pension plan covering substantially all of its employees. The Credit Union's policy is to fund an amount in excess of the minimum amount required under the Employee Retirement Income Security Act ("ERISA"). The Credit Union accounts for the pension plan in accordance with FASB ASC 715, "Compensation." FASB ASC 715 requires an employer to (a) recognize in its balance sheet the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation; (b) measure a plan's assets and its obligations that determine its funded status as of the date of its year-end balance sheet; and (c) recognize as a component of other comprehensive income the actuarial gains and losses and the prior service costs and credits that arise during the period. FASB ASC 715 does not change how an employer determines the amount of net periodic benefit cost.

## Comprehensive Income/Loss

The Credit Union records unrealized gains and losses on available-for-sale securities in other comprehensive income in the members' equity section. Gains and losses on available-for-sale securities reclassified to net income as gains or losses are realized upon the sale of securities. Unrealized gains arising during 2010 approximated \$331 and are recorded in other comprehensive income net of a reclassification adjustment of approximately \$1,284 for gains included in net income. Unrealized gains arising during 2009 approximated \$28,522 and are recorded in other comprehensive income net of a reclassification adjustment of approximately \$1,302 for gains included in net income.

The Credit Union recorded \$697 in comprehensive losses and \$993 in comprehensive gains related to the pension plans in 2010 and 2009, respectively. See Note 11 – Employee Benefits for further information.

## Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, which amends the authoritative accounting guidance under ASC Topic 820 "Fair Value Measurements and Disclosures." The update requires the following additional disclosures: (1) separately disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and (2) separately disclose information about purchases, sales, issuances and settlements in the reconciliation for fair value measurements using Level 3. The update provides for amendments to existing disclosures as follows: (1) fair value measurement disclosures are to be made for each class of assets and liabilities; and (2) disclosures are to be made about valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements. The update also includes conforming amendments to guidance on employers' disclosure about postretirement benefit plan assets. The update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of this update did not have a material impact on the consolidated financial statements of the Credit Union.

In July 2010, the FASB issued ASU 2010-20, which amends the authoritative accounting guidance under ASC Topic 310 "Receivables." The update is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The update requires disclosures that facilitate financial statement users' evaluation of the following: (1) the nature of credit risk inherent in the entity's portfolio of financing receivables; (2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; and (3) the changes and reasons for those changes in the allowance for credit losses. An entity is required to provide disclosures on a disaggregated basis by portfolio segment and class of financing receivables. This update requires the expansion of currently required disclosures about financing receivables as well as requiring additional disclosures about financing receivables. For nonpublic companies, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. Adoption of this update is not expected to have a material effect on the Credit Union's results of operations or financial condition.

## Reclassifications

Certain account reclassifications have been made to the 2009 consolidated financial statements in order to conform to classifications used in the current year.

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## Note 2. Investments

Investments classified as available-for-sale consist of the following:

December 31, 2010	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Agency issued securities	\$ 75,188	\$ 1,801	\$ (37)	\$ 76,952
Agency issued MBS/CMOs*	1,331,576	29,570	(3,033)	1,358,113
Municipal bonds	285,627	7,276	(1,281)	291,622
Auction rate securities	37,850	—	(1,010)	36,840
	<u>\$1,730,241</u>	<u>\$ 38,647</u>	<u>\$ (5,361)</u>	<u>\$1,763,527</u>

\*MBS and CMO represents Mortgage Backed Securities and Collateralized Mortgage obligations, respectively.

December 31, 2009	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Agency issued securities	\$ 51,575	\$ 1,451	\$ —	\$ 53,026
Agency issued MBS/CMOs	1,221,344	28,579	(2,192)	1,247,731
Municipal bonds	205,599	6,941	(217)	212,323
Auction rate securities	49,350	—	(1,607)	47,743
	<u>\$1,527,868</u>	<u>\$ 36,971</u>	<u>\$ (4,016)</u>	<u>\$1,560,823</u>

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2010 and 2009 are as follows:

December 31, 2010	Continuous unrealized losses existing for						
	Fair value	No. of securities	Less than 12 months	No. of securities	12 months or greater	Total no. of securities	Total unrealized losses
<b>Available-for-sale</b>							
Agency issued securities	\$ 2,732	1	\$ (37)	—	\$ —	1	\$ (37)
Agency issued MBS/CMOs	243,595	54	(2,674)	11	(359)	65	(3,033)
Municipals	68,286	65	(1,270)	4	(11)	69	(1,281)
Auction rate certificates	27,940	—	—	4	(1,010)	4	(1,010)
	<u>\$342,553</u>	<u>120</u>	<u>\$ (3,981)</u>	<u>19</u>	<u>\$(1,380)</u>	<u>139</u>	<u>\$(5,361)</u>

December 31, 2009	Continuous unrealized losses existing for						
	Fair value	No. of securities	Less than 12 months	No. of securities	12 months or greater	Total no. of securities	Total unrealized losses
<b>Available-for-sale</b>							
Agency issued securities	\$ —	—	\$ —	—	\$ —	—	\$ —
Agency issued MBS/CMOs	180,459	46	(2,192)	—	—	46	(2,192)
Municipals	23,922	22	(217)	—	—	22	(217)
Auction rate certificates	43,743	—	—	7	(1,607)	7	(1,607)
	<u>\$248,124</u>	<u>68</u>	<u>\$(2,409)</u>	<u>7</u>	<u>\$(1,607)</u>	<u>75</u>	<u>\$(4,016)</u>

The unrealized losses associated with these investments are considered temporary as the Credit Union does not have the intention to sell nor will they be required to sell prior to recovery or maturity. Management believes that the temporary unrealized loss is due to the interest rate and liquidity environment. Such determination was based upon an evaluation of the creditworthiness of the issuers and/or guarantors, the underlying collateral, if applicable, as well as the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment condition. This includes, but is not limited to, an evaluation of the type of security and length of time

and extent to which the fair value has been less than cost, as well as certain collateral related characteristics.

Other investments consist of the following:

December 31	2010	2009
Certificates of deposit in banks and savings institutions	\$ 39,388	\$ 42,762
Share certificate in a corporate credit union	4,000	4,000
Federal Home Loan Bank stock	6,548	4,763
Credit Union System Investment Program (CU SIP)	—	60,910
Homeowners Affordability Relief Program (CU HARP)	—	2,000
Member capital account in a Corporate Credit Union	—	1,126
	<u>\$ 49,936</u>	<u>\$ 115,561</u>

Certificates are generally nonnegotiable and nontransferable, and may incur substantial penalties for withdrawal prior to maturity.

The member capital account is an uninsured equity capital account with a Corporate Credit Union. No ready market exists for the equity capital, and there is no quoted market value. The Credit Union's investment in the Corporate Credit Union is carried at cost and tested for impairment. An other-than-temporary impairment charge was recorded during the year ended December 31, 2010, to fully write off approximately \$1,126 of member capital. Other-than-temporary impairment charge was recorded during the year ended December 31, 2009, to partially write off approximately \$4,300 of a member capital account. Other-than-temporary impairment charges are included in other non-interest income (loss) on the consolidated statements of income.

At December 31, 2010 and 2009, there were approximately \$4,306 and \$12,691, respectively, in Credit Union and bank deposits with individual balances in excess of the insured limit.

The Credit Union participated in the 2009 Credit Union System Investment Program ("CU SIP"), which was designed by the NCUA to provide liquidity to corporate credit unions. Under this program, the Credit Union borrowed a total of \$60,900 and purchased NCUSIF-guaranteed CU SIP notes each with one year maturities. All borrowings and investments in notes matured in 2010. See Note 7 – Borrowed Funds for further information.

The Credit Union also participated in the Credit Union Homeowners Affordability Relief Program ("CU HARP") that was created by the NCUA to assist credit unions with costs associated with helping members restructure mortgages and avoid foreclosure. Under this program, the Credit Union borrowed a total of \$2,000 and purchased a corresponding NCUSIF-guaranteed HARP note at .5% which matured on December 31, 2010. See Note 7 – Borrowed Funds for further information.

Investments by maturity as of December 31, 2010, are summarized as follows:

	Available-for-sale		Other investments
	Amortized cost	Fair value	
No contractual maturity	\$ —	\$ —	\$ 6,548
Less than 1 year maturity	48,197	48,921	30,140
1–5 years maturity	286,149	293,209	13,248
5–10 years maturity	26,469	26,444	—
Mortgage-backed securities	1,331,576	1,358,113	—
Auction rate securities	37,850	36,840	—
	<u>\$1,730,241</u>	<u>\$1,763,527</u>	<u>\$ 49,936</u>

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Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to prepay the obligations and are, therefore, classified separately with no specific maturity date. FHLBNY stock has been classified with no contractual maturity.

There were \$150,013 in available-for-sale securities and \$6,548 in FHLBNY stock pledged as collateral for potential borrowings at December 31, 2010. There were \$178,732 in available-for-sale securities and \$4,763 in FHLBNY stock pledged to the FHLBNY and Federal Reserve Bank as collateral for potential borrowings at December 31, 2009. As of December 31, 2010 the Credit Union borrowed \$18,205 from the FHLBNY, there were no amounts borrowed from the FHLBNY or the Federal Reserve Bank at December 31, 2009. See Note 7 – Borrowed Funds for further information.

### Note 3. Loans Receivable

Loans receivable consist of the following:

December 31	2010	2009
Real estate loans		
Fixed rate mortgages	\$ 528,403	\$ 478,147
Hybrid/balloon mortgages	400,860	407,235
Home equity line of credit, variable rate	473,612	459,641
Home equity loans	153,563	169,258
Commercial loans	143,042	42,045
Commercial participation loans	63,384	82,593
	<u>1,762,864</u>	<u>1,638,919</u>
Vehicle loans	172,295	174,813
Vehicle participation loans	798	2,144
Consumer loans	48,594	51,061
Business loans	32,964	11,142
Credit card loans	33,742	35,666
	<u>2,051,257</u>	<u>1,913,745</u>
Deferred net loan origination costs	4,690	5,586
Allowance for loan losses	(27,381)	(21,646)
	<u>\$2,028,566</u>	<u>\$1,897,685</u>

The Credit Union has purchased commercial loan participations originated by various other credit unions and banks. All of these loan participations were purchased without recourse and are collateralized by real property. The Credit Union also purchased vehicle participation loans originated by various other credit unions that consist of pools of vehicle loans. These loans were purchased nonrecourse, full recourse and limited subordination. In limited subordination, the Credit Union is responsible for loan losses that exceed a threshold of 5%. The originating credit unions perform all servicing functions on these loans.

The Credit Union offers nontraditional hybrid/balloon mortgage loans to its members. Hybrid/balloon loans consist of loans that are fixed for an initial period of three, five, seven, or ten years. After this period, the mortgages are converted to variable rate using the fully indexed rate capped at an annual increase of two percent, which can result in significant payment increase to the borrower. During 2010 and 2009, the Credit Union did not engage in subprime lending.

The Credit Union entered into an agreement to sell the credit card loan portfolio in December 2006. Due to specific provisions of the sale agreement, the transaction is treated as a secured borrowing under FASB ASC 860, "Transfers and Servicing." Since the Credit Union did not release effective control over those assets, the loans were required to be classified as pledged. Credit card loans pledged under this participation loan agreement totaled \$35,666 as of December 31, 2009. On December 31,

2010 the Credit Union re-purchased the credit card loan portfolio for approximately \$34,269 with a recorded loss on extinguishment of the prior secured borrowings of \$239.

The following is an analysis of the allowance for loan losses:

Years ended December 31	2010	2009
Balance, beginning of year	\$ 21,646	\$ 10,209
Provision for loan losses	16,551	21,385
Recoveries	1,290	1,155
Loans charged off	(12,106)	(11,103)
Balance, end of year	<u>\$ 27,381</u>	<u>\$ 21,646</u>

In accordance with U.S. GAAP, the Credit Union is required to account for certain loan modifications or restructurings as "troubled debt restructurings." In general, such a modification or restructuring of a loan constitutes a troubled debt restructuring if the Credit Union grants a concession to a borrower experiencing financial difficulty. Loans modified in a troubled debt restructuring are considered impaired loans. Loans modified in a troubled debt restructuring, totaled \$19,119 and \$4,491 at December 31, 2010 and 2009, respectively.

The total amount of loans on non-accrual status was \$23,200 and \$13,604 at December 31, 2010 and 2009, respectively, including \$10,967 and \$4,341 of troubled debt restructuring loans.

If interest on those loans had been accrued at original contracted rates, interest income would have been approximately \$570 and \$392 higher for 2010 and 2009, respectively. The total amount of loans classified as impaired was \$34,226 and \$21,304 at December 31, 2010 and 2009, respectively. Impaired loans consist of troubled debt restructured loans at each year end, other non-accrual loans, and other accruing impaired loans of \$2,874 and \$7,550 at December 31, 2010 and 2009, respectively. The portion of the allowance for loan losses allocated to impaired loans was \$7,715 and \$5,947 at December 31, 2010 and 2009, respectively. During the years ended December 31, 2010 and 2009, the Credit Union recorded net losses of \$1,616 and \$5,679, respectively, related to impaired loans.

### Note 4. Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at December 31, 2010 and 2009 are summarized as follows:

December 31	2010	2009
Mortgage loans underlying pass-through securities		
Federal National Mortgage Association	\$1,641,903	\$1,199,219
Charlie Mac, LLC	10,751	15,101
Federal Home Loan Mortgage Corporation	383,595	375,096
	<u>\$2,036,249</u>	<u>\$1,589,416</u>

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares, were approximately \$12,738 and \$9,763 at December 31, 2010 and 2009, respectively.

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A summary of the changes in the balance of mortgage servicing rights in 2010 and 2009 was as follows:

Years ended December 31	2010	2009
Balance, beginning of year	\$ 11,184	\$ 4,446
Servicing assets recognized during the year	6,567	9,306
Amortization of servicing assets	(3,125)	(2,557)
Impairment of servicing assets	(210)	(11)
Balance, end of year	<u>\$ 14,416</u>	<u>\$ 11,184</u>
Fair value of mortgage servicing rights	<u>\$ 16,536</u>	<u>\$ 15,060</u>

## Note 5. Property and Equipment

Property and equipment are summarized as follows:

December 31	2010	2009
Land and improvements	\$ 1,800	\$ 1,770
Building	14,935	14,930
Furniture and equipment	10,342	8,973
Data processing	15,340	13,946
Leasehold improvements	13,134	12,008
	55,551	51,627
Accumulated depreciation and amortization	(35,044)	(31,668)
	<u>\$ 20,507</u>	<u>\$ 19,959</u>

The Credit Union leases various offices. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time. Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2010, are as follows:

Years ending December 31,	
2011	\$ 2,433
2012	2,387
2013	2,191
2014	2,024
2015	1,912
Subsequent years	11,822
	<u>\$ 22,769</u>

Rental expense for the years ended December 31, 2010 and 2009 for all facilities leased under operating leases totaled \$3,106 and \$2,562, respectively.

## Note 6. Members' Shares

Members' shares are summarized as follows:

December 31	2010	2009
Regular shares	\$ 383,160	\$ 322,521
Share draft accounts	301,881	252,949
Money market accounts	1,240,643	1,053,835
Individual retirement accounts – money market	117,959	110,448
Certificates	1,543,128	1,507,098
	<u>\$3,586,771</u>	<u>\$3,246,851</u>

Shares by maturity as of December 31, 2010 are summarized as follows:

No contractual maturity	\$2,043,643
0–1 year maturity	812,403
1–2 years maturity	348,658
2–3 years maturity	164,206
3–4 years maturity	66,050
4–5 years maturity	151,811
	<u>\$3,586,771</u>

Regular shares, share draft accounts, money market accounts, and individual retirement account shares have no contractual maturity. Certificate accounts have maturities of five years or less.

The National Credit Union Share Insurance Fund insures members' shares up to \$250. The aggregate amount of certificates in denominations of \$250 or more at December 31, 2010 and 2009 is approximately \$91,018 and \$80,092, respectively.

At December 31, 2010 and 2009, overdraft demand shares reclassified to loans totaled \$117 and \$128, respectively.

## Note 7. Borrowed Funds

Borrowed funds are summarized as follows:

December 31	2010	2009
Secured borrowing related to credit card loans	\$ —	\$ 37,414
Credit Union System Investment Program	—	60,910
Homeowners Affordability Relief Program	—	2,000
Federal Home Loan Bank advance	18,205	—
	<u>\$ 18,205</u>	<u>\$ 100,324</u>

As also discussed in Note 2 – Investments, the Credit Union became a participant in the CU SIP program during 2009. Under this program, the Credit Union received advances from the Central Liquidity Facility ("CLF") totaling \$60,900. We received three one-year advances during the year ended December 31, 2009 which have all matured in 2010:

- January 2010 for \$25,000 at a fixed rate of 0.565%
- February 2010 for \$25,000 at a fixed rate of 0.706%
- March 2010 for \$10,900 at a fixed rate of 0.829%

The proceeds of these advances were invested in NCUSIF-guaranteed CU SIP notes to provide liquidity to the corporate credit union network. All advances and notes related to the CU SIP program matured in 2010.

As also discussed in Note 2 – Investments, the Credit Union became a participant in the CU HARP program during 2009. Under this program, the Credit Union received advances from the CLF totaling \$2,000 at 0.5% which matured on December 31, 2010. The proceeds of the advances were invested in NCUSIF-guaranteed notes which also matured on December 31, 2010.

The Credit Union has lines of credits with various financial institutions. The terms of the agreements call for pledging assets as security for any and all obligations taken by the Credit Union. The agreements provide for a total credit limit of \$310,000 with interest charged at a rate determined by the lenders on a periodic basis. At December 31, 2010, the Credit Union borrowed \$18,205 at a rate of 0.40% from the FHLBNY with a maturity date of January 3, 2011. At December 31, 2009, there were no borrowings under these agreements. Additionally, there were no draws outstanding on these lines of credit for any material length of time in 2010 or 2009. The agreements are reviewed for continuation by the lender and the Credit Union annually. The Credit Union has been approved to borrow at the Federal Reserve Discount Window and has pre-pledged securities worth \$80,416 as collateral.

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## Note 8. Concentrations of Credit Risk

Participation in the Credit Union is limited to those individuals who qualify for membership. The field of membership is defined in the Credit Union's bylaws. Under a community charter approved during 2003 by the National Credit Union Administration ("NCUA"), the Credit Union's field of membership includes all individuals who live, work, worship, or attend school in New York's Nassau County and in substantially all of New York's Suffolk County. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of the overall geographic region in which borrowers reside.

## Note 9. Commitments and Contingent Liabilities

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

The Credit Union has approximately \$99,129 and \$44,684 in outstanding commitments to sell loans at December 31, 2010 and 2009, respectively. There are no commitments to sell investments at December 31, 2010 and 2009.

Outstanding mortgage loan commitments at December 31, 2010 and 2009 total approximately \$371,580 and \$100,066, respectively.

Outstanding commitments to fund home equity and unsecured lines of credit are summarized as follows:

December 31	2010	2009
Home equity	\$ 240,753	\$ 239,831
Credit card loans	125,509	—
Other consumer	126,096	119,155
Other unused member business loans	6,027	8,632
	<u>\$ 498,385</u>	<u>\$ 367,618</u>

Commitments for home equity and unsecured lines of credit may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future cash requirements of the Credit Union. These commitments are not reflected in the financial statements.

## Note 10. Derivative Financial Instruments

Certain derivative instruments do not meet the requirements to be accounted for as hedging instruments. These undesignated derivative instruments are recognized in other assets and accrued expenses and other liabilities on the consolidated statements of financial condition at fair value, with changes in fair value recorded in on sale of mortgage loans.

### Derivative Loan Commitments

Mortgage loan commitments are considered derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Credit Union enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Credit Union to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose the Credit Union to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to

increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases.

### Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, the Credit Union utilizes forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a forward loan sale contract, the Credit Union commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded.

Information regarding derivatives at December 31, 2010 is as follows:

December 31, 2010	Notional	Fair value asset	Fair value (liability)	Gain (Loss) recognized
Forward Loan Sale Commitment	\$ 99,129	\$ 2,369	\$ —	\$ 2,369
Derivative Loan Commitment	270,288	—	(1,440)	(1,440)

The Credit Union's use of derivative loan commitments and forward loan sale commitments was not material for the year ended December 31, 2009.

## Note 11. Employee Benefits

The Credit Union sponsors a funded, noncontributory defined benefit pension plan. The Credit Union also sponsors an unfunded, noncontributory, nonqualified defined benefit supplemental executive retirement plan. The plans call for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Credit Union and compensation levels at retirement. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future. Plan assets consist primarily of equity securities.

The Credit Union also sponsors a postretirement benefit plan to provide health care benefits to retirees of the Credit Union from retirement until Medicare benefits become available. The postretirement benefits take into account actuarial assumptions that consider employee's age, years to retirement, and years to Medicare benefits. Other assumptions include that the plan will pay a portion of the health care premium for the retirees, and a factor of the health care cost trend rate.

The accrued pension benefits and net periodic pension costs for the years ended December 31, 2010 and 2009 are as follows:

	Pension plans		Postretirement benefit	
	2010	2009	2010	2009
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 33,883	\$ 29,878	\$ 6,176	\$ 5,545
Service cost	1,341	1,068	372	277
Interest cost	2,111	1,920	377	360
Plan amendments	—	10	(508)	(498)
Benefits paid	(1,225)	(1,188)	(303)	(226)
Actuarial loss	2,836	2,195	993	718
Benefit obligation at end of year	<u>\$ 38,946</u>	<u>\$ 33,883</u>	<u>\$ 7,107</u>	<u>\$ 6,176</u>

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	Pension plans		Postretirement benefit	
	2010	2009	2010	2009
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 24,155	\$ 19,613	\$ —	\$ —
Actual return on plan assets	3,467	3,714	—	—
Employer contributions	2,240	2,016	303	226
Benefits paid	(1,225)	(1,188)	(303)	(226)
Fair value of plan assets at end of year	28,637	24,155	—	—
Funded status at end of year	\$ (10,309)	\$ (9,728)	\$ (7,107)	\$ (6,176)
Accumulated benefit obligation	\$ 35,013	\$ 30,544	\$ —	\$ —
Amounts recognized in the statement of financial position consist of:				
Accrued benefit liability	\$ (10,309)	\$ (9,728)	(7,107)	(6,176)
Accumulated other comprehensive income	\$ 14,857	\$ 14,650	\$ 1,568	\$ 1,078
Amounts recognized in accumulated other comprehensive income (loss) consist of:				
Net actuarial loss	\$ 15,114	\$ 15,047	\$ 2,828	\$ 1,935
Prior service credit	(257)	(397)	(1,260)	(857)
Total	\$ 14,857	\$ 14,650	\$ 1,568	\$ 1,078
Weighted-average assumptions used to determine benefit obligations as of Dec.31				
Discount rate	5.68%	6.11%	5.61%	6.05%
Rate of compensation increase	3.50%	4.00%	N/A	N/A
Weighted-average assumptions used to determine net periodic pension cost as of Dec. 31				
Discount rate	6.11%	6.43%	6.05%	6.50%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Inflation	3.00%	3.00%	N/A	N/A
Health care inflation				
Medical trend rates			8.0%–5.0%	8.0%–5.0%
Year of ultimate achievement			2015	2013
Dental trend rates			5.0%	5.0%
Year of ultimate achievement			N/A	N/A
Effect on total service and interest cost components			1% point increase	1% point decrease
Effect on postretirement benefit obligation			\$ 152	\$ (117)
			1,265	(984)

The funded, noncontributory defined benefit pension plan's expected long-term rate of return assumption is based on a building block approach, determining risk-free asset return assumptions, and applying a weighted average methodology to the proportion of plan assets in each applicable asset class.

The Credit Union's pension plan approximate weighted-average asset allocations by asset category are as follows:

Pension plans	
2010	2009
Equity securities (Level 1)	78%
Debt securities (Level 2)	20%
Other (Level 1)	2%
<u>100%</u>	<u>100%</u>

Equity securities (Level 1)  
Debt securities (Level 2)  
Other (Level 1)

The Credit Union's pension investment strategies are targeted to produce a total return that, when combined with the Credit Union's contributions to the plan, will maintain the fund's ability to meet all required benefit obligations. Risk is controlled through diversification of asset types and investments in domestic and international equities, fixed income securities and cash.

The minimum contribution requirement is \$2,200 for the pension plan and approximately \$263 to the postretirement benefit plan in 2011.

The following pension and postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

#### Years ending December 31,

2011	\$ 1,547
2012	1,612
2013	1,684
2014	1,814
2015	1,935
2016–2020	<u>12,863</u>
	<u>\$ 21,455</u>

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted. The Act established a prescription drug benefit under Medicare, known as "Medicare Part D," and a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Credit Union believes that benefits provided to certain participants will be at least actuarially equivalent to Medicare Part D and, accordingly, the Credit Union will be entitled to a subsidy.

The Credit Union has a defined contribution 401(k) plan that allows employees to defer a portion of their salary into the 401(k) plan. The Credit Union matches a portion of employees' wage contributions. Plan costs are accrued and funded on a current basis. The Credit Union contributed approximately \$781 and \$674, respectively, to the plan for the years ended December 31, 2010 and 2009.

The compositions of plan assets for the years ended December 31, 2010 and 2009 are all Level 1 and 2 securities.

#### Note 12. Members' Equity

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 guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. GAAP. The Credit Union's capital

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amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table below) of net worth to total assets. Further, Credit Unions over \$10,000 in assets are also required to calculate a risk-based net worth ("RBNW") requirement which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The Credit Union's RBNW requirements as of December 31, 2010 and 2009 were 5.79% and 5.87%, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6%. Management believes, as of December 31, 2010 and 2009, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent call reporting period, and 2009, the NCUA categorized the Credit Union as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Credit Union must maintain a minimum net worth ratio of 7% 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 presented in the following table:

	December 31, 2010		December 31, 2009	
	Amount	Ratio/ requirement	Amount	Ratio/ requirement
Amount needed to be classified as "adequately capitalized"	\$ 240,680	6.0%	\$ 221,806	6.0%
Amount needed to be classified as "well capitalized"	280,793	7.0%	258,774	7.0%
Actual net worth	315,446	7.9%	277,364	7.5%

Because the RBNW requirement is less than the net worth ratio, the Credit Union retains its original category. Further, in performing its calculation of total assets, the Credit Union used the quarter-end balance option, as permitted by regulation.

## Note 13. Related Party Transactions

In the normal course of business, the Credit Union extends credit to directors, supervisory committee members and executive officers. The aggregate loans to related parties at December 31, 2010 and 2009 are \$3,362 and \$3,239, respectively. Deposits from related parties at December 31, 2010 and 2009 amounted to \$2,488 and \$2,253, respectively.

## Note 14. Fair Value of Financial Instruments

The Credit Union generally holds its earning assets, other than securities available-for-sale and loans held for sale, to maturity and settles its liabilities at maturity. However, fair value estimates are made at a specific point in time and are based on relevant market information. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Credit Union's entire holdings of a particular instrument. Accordingly, as assumptions change, such as interest rates and prepayments, fair value estimates change and these amounts may not necessarily be realized in an immediate sale.

Disclosure of fair value does not require fair value information for items that do not meet the definition of a financial instrument or certain other financial instruments specifically excluded from its requirements. These items include property and equipment, leases, foreclosed properties, and equity.

Further, fair value disclosure does not attempt to value future income or business. These items may be material and, accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying "market" or franchise value of the Credit Union.

The Credit Union accounts for and discloses fair value using the guidance of FASB ASC 820, "Fair Value Measurement and Disclosures." FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement. There have been no material changes in valuation techniques as a result of the adoption of FASB ASC 820.

**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** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active for identical or similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** – Unobservable inputs that are supported by little or no market activity and significant to the fair value of the assets or liabilities that are developed using the reporting entities' estimates and assumptions, which reflect those that market participants would use.

### Assets and Liabilities Measured at Fair Value on a Recurring Basis

A description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis, as well as the classification of the instruments pursuant to the valuation hierarchy, are as follows:

Securities classified as available-for-sale are reported using Level 1, Level 2 and Level 3 inputs. Level 1 securities generally include equity securities valued based on quoted market prices in active markets. Level 2 instruments include U.S. Government agency obligations, municipal bonds, mortgage-backed securities, collateralized mortgage obligations and certain auction rate securities. For these securities, the Credit Union obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Level 3 securities available-for-sale consist of instruments that are not readily marketable and may only be redeemed with the issuer at par such as Federal Home Loan Bank stock and certain auction rate securities. These securities are stated at par value, which is deemed to approximate fair value.

Mortgage servicing rights are classified as Level 3 financial instruments with the methodology described in Note 1 – Significant Accounting Policies: Transfers and Servicing of Financial Assets.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of the recorded investment in the loan or market value. The loans identified as impaired are collateral dependent secured by

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real estate. Market value is determined by using the value of the collateral securing the loans and is therefore classified as a Level 3 hierarchy. The value of the real estate is determined by independent licensed appraisers contracted by the Credit Union to perform the assessment. The appraised value is then discounted based upon management's experience, which includes estimated disposal costs, understanding of the member and the member's business as well as economic conditions. Impaired loans are reviewed and evaluated on a quarterly basis for additional impairment and adjusted accordingly, based upon the pertinent conditions.

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

	Fair value measurement using			
	Quoted prices in active markets for identical assets/liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance Dec. 31 2010
Impaired loans	\$ —	\$ —	\$ 34,226	\$ 34,226
Real estate acquired through foreclosure	—	—	5,714	5,714
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 39,940</u>	<u>\$ 39,940</u>

	Fair value measurement using			
	Quoted prices in active markets for identical assets/liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance Dec. 31 2009
Impaired loans	\$ —	\$ —	\$ 21,304	\$ 21,304
Real estate acquired through foreclosure	—	—	839	839
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 22,143</u>	<u>\$ 22,143</u>

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

	Fair value measurement using			
	Quoted prices in active markets for identical assets/liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance Dec. 31 2010
Investments securities available-for-sale:				
Agency issued securities	\$ —	\$ 76,952	\$ —	\$ 76,952
Agency issued MBS/CMOs	—	1,358,113	—	1,358,113
Municipal bonds	—	291,622	—	291,622
Auction rate securities	—	—	36,840	36,840
Mortgage servicing rights	—	—	16,536	16,536
Loans held for sale	—	46,949	—	46,949
Total assets	<u>\$ —</u>	<u>\$ 1,773,636</u>	<u>\$ 53,376</u>	<u>\$ 1,827,012</u>

The above table includes \$5,361 in unrealized losses on the Credit Union's available-for-sale securities. The Credit Union has reviewed its investment portfolio at December 31, 2010, and has determined that the unrealized losses are temporary.

## Fair value measurement using

	Fair value measurement using			Balance Dec. 31 2009
	Quoted prices in active markets for identical assets/liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investments securities available-for-sale:				
Agency issued securities	\$ —	\$ 53,026	\$ —	\$ 53,026
Agency issued MBS/CMOs	—	1,247,731	—	1,247,731
Municipal bonds	—	212,323	—	212,323
Auction rate securities	—	—	47,743	47,743
Mortgage servicing rights	—	—	15,060	15,060
Loans held for sale	—	19,125	—	19,125
Total assets	<u>\$ —</u>	<u>\$ 1,532,205</u>	<u>\$ 62,803</u>	<u>\$ 1,595,008</u>

The above table includes \$4,016 in unrealized losses on the Credit Union's available-for-sale securities. The Credit Union has reviewed its investment portfolio at December 31, 2009, and has determined that the unrealized losses are temporary.

The following table sets forth the Credit Union's assets and liabilities that are carried at fair value on a recurring basis, classified within Level 3 of the valuation hierarchy for the period indicated:

December 31	Auction Rate Securities – Level 3	
	2010	2009
Balance, beginning of year	\$ 47,743	\$ 63,373
Securities called by the issuer	(11,500)	(24,000)
Change in unrealized losses included in other comprehensive loss	597	8,370
Balance, end of year	<u>\$ 36,840</u>	<u>\$ 47,743</u>

The estimated fair value amounts have been determined by the Credit Union using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Credit Union could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate fair values of financial instruments not previously discussed as disclosed herein:

### Loans Receivable, net and Loans Held for Sale

The estimated fair value for all fixed rate loans is determined by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities.

The estimated fair value for variable rate loans is the carrying amount. Credit card loans are considered, for estimation of fair value purposes, variable rate loans since interest rates may be changed by the Credit Union.

The impact of delinquent loans on the estimation of the fair values described above is not considered to have a material effect and, accordingly, delinquent loans have been disregarded in the valuation methodologies employed.

The estimated fair value of loans held for sale is determined in the aggregate based on the market price of similar loans.

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## Other Investments

For other investments the fair value is deemed to approximate cost.

## Members' Shares and Borrowed Funds

The estimated fair value of demand deposit accounts (regular shares, share draft accounts, money market accounts and individual retirement accounts) is the carrying amount. The fair value of fixed-maturity certificates and borrowed funds is estimated by discounting the estimated cash flows using the current rate at which similar certificates would be issued.

## Other On-Balance-Sheet Financial Instruments

Other on-balance-sheet financial instruments include cash and cash equivalents and accrued interest receivable. The carrying value of each of these financial instruments is a reasonable estimation of fair value.

## Off-Balance-Sheet Financial Instruments

The fair values for the Credit Union's off-balance-sheet commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the members. The estimated fair value of these commitments is not significant.

The estimated fair value of the Credit Union's financial instruments is summarized as follows:

	December 31, 2010		December 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	\$ 24,193	\$ 24,193	\$ 20,852	\$ 20,852
Investments available-for-sale	1,763,527	1,763,527	1,560,823	1,560,823
Other investments	49,936	53,409	115,561	115,370
Loans held for sale	46,949	46,949	19,125	19,125
Loans receivable, net	2,028,566	2,021,724	1,897,685	1,898,270
Financial liabilities				
Members' shares	3,586,771	3,546,487	3,246,851	3,253,410
Borrowed funds	18,205	18,205	100,324	100,324

## Note 15. Subsequent Events

The Credit Union evaluated subsequent events through March 29, 2011, the date the financial statements were available to be issued. The Credit Union is not aware of any subsequent events which require recognition or disclosure in the audited consolidated financial statements.





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