Report of Independent Auditors and
Consolidated Financial Statements for

Bethpage Federal Credit Union and Subsidiaries

December 31, 2015 and 2014

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Supervisory Committee
Bethpage Federal Credit Union and Subsidiaries

Report on Financial Statements
We have audited the accompanying consolidated financial statements of Bethpage Federal Credit Union and Subsidiaries (the "Credit Union"), which comprise the consolidated statements of financial condition as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

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

REPORT OF INDEPENDENT AUDITORS (continued)

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bethpage Federal Credit Union and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
March 30, 2016

BETHPAGE FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(dollars in thousands)

ASSETS

	December 31, 2015	December 31, 2014
Cash and cash equivalents	$ 42,516	$ 40,763
Investments:		
Available-for-sale	2,004,210	2,348,110
Other	13,353	12,656
Loans held for sale	30,746	24,293
Loans receivable, net	4,007,176	3,266,851
Accrued interest receivable	18,775	18,717
Mortgage servicing rights, net	21,246	18,025
Property and equipment, net	27,958	27,652
National Credit Union Share Insurance Fund deposit	48,691	46,389
Real estate acquired through foreclosure	6,459	4,010
Other assets	26,622	24,211
Total assets	$ 6,247,752	$ 5,831,677

LIABILITIES AND MEMBERS' EQUITY

	2015	2014
LIABILITIES		
Members' shares	$ 5,576,510	$ 5,199,290
Borrowed funds	26,500	33,600
Accrued expenses and other liabilities	121,991	108,566
Total liabilities	5,725,001	5,341,456
COMMITMENTS AND CONTINGENT LIABILITIES (NOTE 9)		
MEMBERS' EQUITY		
Retained earnings	531,257	490,814
Accumulated other comprehensive loss	(8,506)	(593)
Total members' equity	522,751	490,221
Total liabilities and members' equity	$ 6,247,752	$ 5,831,677

See accompanying notes.

BETHPAGE FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands)

	Years ended December 31, 2015	2014
INTEREST INCOME		
Interest and fees on loans receivable	$ 125,109	$ 110,381
Interest on investments and cash equivalents	45,852	50,118
Total interest income	170,961	160,499
INTEREST EXPENSE		
Dividends on members' shares	40,105	39,265
Interest on borrowed funds	414	203
Total interest expense	40,519	39,468
Net interest income	130,442	121,031
PROVISION FOR LOAN LOSSES	7,593	5,470
Net interest income after provision for loan losses	122,849	115,561
NON-INTEREST INCOME		
Members' shares service charges and other fees	17,844	16,033
Gain on sale of mortgage loans	10,137	5,409
Mortgage servicing and loan fees	9,964	7,626
Investment services and insurance fees - commissions	9,704	7,720
Other non-interest income	2,198	2,373
Total non-interest income	49,847	39,161
NON-INTEREST EXPENSES		
Salaries and benefits	53,921	49,611
Operations	34,773	30,026
Data processing	20,206	17,582
Occupancy	9,722	8,587
Education and promotional	8,339	8,094
Professional services	5,292	7,057
Total non-interest expenses	132,253	120,957
NET INCOME	$ 40,443	$ 33,765

See accompanying notes.

BETHPAGE FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	Years ended December 31, 2015	2014
NET INCOME	$ 40,443	$ 33,765
OTHER COMPREHENSIVE (LOSS) INCOME		
Unrealized gains/losses on securities:		
Net unrealized (losses) gains on securities available-for-sale arising during the period	(6,653)	21,255
Reclassification adjustment for realized gains from sales included in other non-interest income	(2,579)	(2,130)
Defined benefit pension plans:		
Net (loss) gain arising during the period	(490)	(16,256)
Reclassification adjustment for amortization of prior service cost and net losses included in salaries and benefits	1,809	1,771
Total other comprehensive (loss) income	(7,913)	4,640
COMPREHENSIVE INCOME	$ 32,530	$ 38,405

See accompanying notes.

BETHPAGE FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
(dollars in thousands)

	Retained Earnings		Total	Accumulated Other
	Regular Reserve	Undivided Earnings	Retained Earnings	Comprehensive Loss
Balance, December 31, 2013	$ 21,384	$ 435,665	$ 457,049	$ (5,233)
Net income	-	33,765	33,765	-
Other comprehensive income	-	-	-	4,640
Balance, December 31, 2014	21,384	469,430	490,814	(593)
Net income	-	40,443	40,443	-
Other comprehensive loss	-	-	-	(7,913)
Balance, December 31, 2015	$ 21,384	$ 509,873	$ 531,257	$ (8,506)

See accompanying notes.

BETHPAGE FEDERAL CREDIT UNION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Years ended December 31, 2015	2014
CASH FLOWS FROM OPERATING STATEMENTS		
Net income	$ 40,443	$ 33,765
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage servicing rights	3,449	4,176
Amortization of net premium on investments	45,880	52,403
Provision for loan losses	7,593	5,470
Gain on sale of available-for-sale investments	(2,579)	(2,130)
Gain on sale of mortgage loans	(10,137)	(5,409)
Mortgage loans originated for sale	(725,505)	(377,811)
Proceeds from sale of mortgage loans	723,287	371,031
Depreciation and amortization	4,971	4,315
Write down of real estate acquired through foreclosure	411	492
Loss on sale of real estate acquired through foreclosure	233	-
Increase in accrued interest receivable	(58)	(477)
Increase in other assets	(1,465)	(8,546)
Increase in accrued expenses and other liabilities	13,030	6,060
Net cash provided by operating activities	99,553	83,339
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale investments	(186,411)	(349,039)
Proceeds from maturities of available-for-sale investments	365,077	302,443
Proceeds from sale of available-for-sale investments	112,701	95,648
Proceeds from sale of other real estate owned	1,244	88
Net (increase) decrease in other investments	(697)	854
Net increase in loans receivable	(752,255)	(442,100)
Increase in the National Credit Union Share Insurance Fund deposit	(2,302)	(1,640)
Purchases of property and equipment	(5,277)	(10,182)
Net cash used in investing activities	(467,920)	(403,928)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in borrowed funds	-	33,600
Repayment of borrowed funds	(7,100)	(19,750)
Net increase in members' shares	377,220	311,502
Net cash provided by financing activities	370,120	325,352
CHANGE IN CASH AND CASH EQUIVALENTS	1,753	4,763
Cash and cash equivalents at beginning of year	40,763	36,000
Cash and cash equivalents at end of year	$ 42,516	$ 40,763
SUPPLEMENTAL CASH FLOW INFORMATION		
Dividends paid on members' shares and interest paid on borrowed funds	$ 40,512	$ 39,465
Schedule of noncash investment activities:		
Transfer from loans receivable to real estate acquired through foreclosure	$ 4,337	$ 526

See accompanying notes.

Note 1 – Organization and Summary of 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. The New York State Department of Financial Services and the National Credit Union Administration (NCUA) are the regulatory agencies that ensure the powers and privileges conferred on the Credit Union are used properly.

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% each of Land Bound Services, LLC, and CU Settlements Services, LLC. All material intercompany balances and transactions have been eliminated in consolidation. Amounts included in the consolidated financial statements and related footnote disclosures are presented in thousands.

Equity Method Investments

The Credit Union has certain investments which are accounted for under the equity method of accounting, whereby the Credit Union's net investment is increased or decreased by allocated profits and losses, respectively. Additional investments increase the Credit Union's investment while distributions decrease the Credit Union's net investment. See Note 13.

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, fair value of impaired loans, other than temporary impairment of investment securities, mortgage servicing rights, net realizable value of other real estate owned, fair value of derivatives and other financial instruments, and projected benefit obligations of defined benefit plans.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Cash, Cash Equivalents and Cash Flows

Cash and cash equivalents consist of cash on hand, demand deposits with other financial institutions, and overnight investments. Cash and cash equivalents generally have a maturity of 90 days or less at the time of purchase. 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. At December 31, 2015 and 2014, there were approximately $2,898 and $5,201, respectively, in credit union and bank deposits with individual balances in excess of the insured limit.

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 (loss). Realized gains and losses on sale of 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 carrying value 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.

The Credit Union periodically evaluates each individual investment for impairment. Based upon the impairment testing completed as of December 31, 2015, the Credit Union determined that there were no investments that were other than temporarily impaired.

Federal Home Loan Bank Stock

The Credit Union is a member of Federal Home Loan Bank of New York ("FHLBNY"). As a member of the FHLBNY, the Credit Union is required to acquire and hold shares of its capital stock. At December 31, 2015 and 2014, the Credit Union held FHLBNY stock with par value of $13,353 and $11,087.

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, 2015 and 2014, management did not believe the stock was impaired.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

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

Loans Receivable, Net of Allowance for Loan Losses and Deferred Net Loan Origination Costs

Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and adjusted by deferred net loan origination costs. Interest on loans receivable is recognized over the term of the loans and is calculated using the effective 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. The accrual of a loss is required when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Impaired loans are 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 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 impairment provisions of FASB ASC 310, the Credit Union considers its investment in consumer loans to be homogeneous and therefore they are 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 residential, commercial and other loans, and its 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.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

A troubled debt restructuring occurs when, due to a member's financial difficulty, the Credit Union grants a more than insignificant concession that it would not otherwise consider. The concession can take the form of an interest rate or principal reduction or an extension of payments of principal or interest, or a combination of concessions. As a result of these concessions, restructured loans are impaired as the Credit Union will not collect all amounts due, both principal and interest, in accordance with the original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans discounted at the interest rate of the original loan agreement to the loan's carrying value. The estimated value of the concession for these loans is included in the allowance for loan loss estimate. Restructured loans performing in accordance with their new terms are not included in nonaccrual loans unless there is uncertainty as to the ultimate collection of principal or interest.

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 adjusted by a provision for loan losses recorded as an 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 incurred 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. Additionally, state and federal regulations, upon examination, may require the Credit Union to make additional provisions or adjustments to its allowance.

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 or if the collection of principal or interest is considered doubtful. 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.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

The Credit Union's policy is that loans placed on nonaccrual will typically remain on nonaccrual status until all principal and interest payments are brought current and the prospect for future payment in accordance with the loan agreement appear relatively certain. The Credit Union's policy generally refers to six months of payment performance as sufficient to warrant a return to accrual status.

Transfers and Servicing of Financial Assets

FASB ASC 860, "Transfers and Servicing," 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 has elected amortize the mortgage servicing rights in proportion to and over the period of estimated net servicing income.

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 are stratified by one or more predominant risk characteristic 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 a potential 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, interest rates and servicing costs. Management also utilizes periodic third-party valuations by market professionals to evaluate the fair value of its capitalized mortgage servicing rights asset.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

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 estimated useful lives used to compute depreciation and amortization are as follows:

Building	10 – 40 years
Furniture and equipment	3 – 15 years
Data processing	2 – 5 years

The cost of leasehold improvements is amortized using the straight-line method over the shorter of the terms of related leases or the useful lives of the improvements.

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 expense as incurred. Subsequent impairments are recognized in non-interest expense. 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.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Derivative Financial Instruments

Mortgage 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, generally the value of these loan commitments decreases. Conversely, if interest rates decrease, generally the value of these loan commitments increases. Loan commitments that are derivatives are recognized at fair value on the consolidated statements of financial condition in other assets or other liabilities with changes in fair values recorded in gain on sale of mortgage loans.

The Credit Union records no value for a loan commitment at inception (at the time the commitment is issued to a borrower) and does not recognize the value of the expected normal servicing rights until the underlying loan is sold. Subsequent to inception, changes in the fair value of loan commitments 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. 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.

The Credit Union's forward sale contracts generally 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 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.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

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 federally chartered under the Federal Credit Union Act; therefore, no income tax returns are required to be filed. With few exceptions, the Credit Union is no longer subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2012. The Credit Union's wholly-owned subsidiaries are disregarded entities for tax purposes and, therefore, operations of the subsidiaries resulted in no income taxes for the years ended December 31, 2015 and 2014.

The Credit Union recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended December 31, 2015 and 2014, the Credit Union recognized no interest or penalties. Additionally, The Credit Union had no unrecognized tax benefits as of December 31, 2015 and 2014.

Employee Pension Plan Benefits

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) recognizes 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) measures a plan's assets and its obligations that determine its funded status as of the date of its year-end statement of financial condition; and (c) recognizes as a component of other comprehensive income (loss) 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.

(dollars in thousands)

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized or realized gains and losses on available-for-sale securities and pension liability adjustments, are reported as a separate component of the members' equity section of the statement of financial condition under the caption "Accumulated other comprehensive loss," and in the statements of comprehensive income.

The following is changes in accumulated other comprehensive income (loss) by component for the years ending December 31, 2015 and 2014:

	Unrealized Gains on Available-for-Sale Securities	Defined Benefit Pension Items	Total
December 31, 2014			
Beginning balance	$ 8,729	$ (13,962)	$ (5,233)
Other comprehensive income (loss) before reclassification	21,255	(16,256)	4,999
Amounts reclassified from accumulated other comprehensive (loss) income	(2,130)	1,771	(359)
Net current period other comprehensive income (loss)	19,125	(14,485)	4,640
Ending balance	$ 27,854	$ (28,447)	$ (593)
December 31, 2015			
Beginning balance	$ 27,854	$ (28,447)	$ (593)
Other comprehensive loss before reclassification	(6,653)	(490)	(7,143)
Amounts reclassified from accumulated other comprehensive (loss) income	(2,579)	1,809	(770)
Net current period other comprehensive (loss) income	(9,232)	1,319	(7,913)
Ending balance	$ 18,622	$ (27,128)	$ (8,506)

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

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, 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 fair value hierarchy includes 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.

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.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

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 agency issued securities, 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 ("FHLB") stock and certain auction rate securities.

The FHLB stock is stated at par value, which is deemed to approximate fair value. The auction rate securities are valued using a third-party pricing service. Due to their illiquidity, a discounted cash flow model is utilized, and assumptions are made for inputs such as discount rates, yield curves, and prepayment speeds based on comparability to the underlying terms of the securities.

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 real estate. Market value is determined using the value of the collateral securing the loans and is therefore classified as Level 3. 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.

Real estate acquired through foreclosure ("other real estate owned" or "OREO") is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy. Appraisals of OREO are obtained when the real estate is acquired and subsequently as deemed necessary by management.

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncement

In January 2016, the FASB issued Accounting Standard Update No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU"). The main provisions of this ASU address the valuation and impairment of equity securities along with enhanced disclosures about those investments and for non-public entities the option to reduce certain disclosures. Equity securities with readily determinable fair values will be treated in the same manner as other financial instruments. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption of certain provisions, as permitted. The Credit Union early adopted the provision allowing for reduced disclosure of certain financial instruments. The adoption of the remainder of the provisions in ASU No. 2016-01 are not expected to have a material impact on the Credit Union's consolidated financial statements.

Subsequent Events

Subsequent events are events or transactions that occur after the date of the consolidated statement of financial condition but before consolidated financial statements are issued. The Credit Union recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statements of financial condition, including the estimates inherent in the process of preparing the consolidated financial statements.

The Credit Union has evaluated subsequent events through March 30, 2016, which is the date the consolidated financial statements became available for issuance.

(dollars in thousands)

Note 2 – Investments

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

December 31, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Agency issued securities	$ 641,480	$ 7,002	$ (1,653)	$ 646,829
Agency issued MBS/CMOs*	1,188,054	14,586	(2,249)	1,200,391
Municipal bonds	156,054	1,243	(307)	156,990
	$ 1,985,588	$ 22,831	$ (4,209)	$ 2,004,210

December 31, 2014	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Agency issued securities	$ 734,316	$ 11,387	$ (2,706)	$ 742,997
Agency issued MBS/CMOs*	1,425,795	20,387	(3,514)	1,442,668
Municipal bonds	155,245	2,443	(143)	157,545
Auction rate securities	4,900	-	-	4,900
	$ 2,320,256	$ 34,217	$ (6,363)	$ 2,348,110

*MBS and CMO represent Mortgage Backed Securities and Collateralized Mortgage Obligations, respectively.

Gross gains of $2,579 and $2,130 resulting from sales of available-for-sale securities were realized for 2015 and 2014, respectively. No losses were realized in 2015 and 2014.

(dollars in thousands)

Note 2 – Investments (continued)

Gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in a continuous unrealized loss position at December 31, 2015 and 2014 are as follows:

	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2015						
Agency issued securities	$ 48,001	$ (511)	$ 152,346	$ (1,142)	$ 200,347	$ (1,653)
Agency issued MBS/CMOs	134,853	(1,274)	131,324	(975)	266,177	(2,249)
Municipal bonds	39,585	(264)	14,912	(43)	54,497	(307)
	$ 222,439	$ (2,049)	$ 298,582	$ (2,160)	$ 521,021	$ (4,209)

	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2014						
Agency issued securities	$ 25,498	$ (191)	$ 201,167	$ (2,515)	$ 226,665	$ (2,706)
Agency issued MBS/CMOs	36,581	(489)	328,420	(3,025)	365,001	(3,514)
Municipal bonds	428	(2)	32,591	(141)	33,019	(143)
	$ 62,507	$ (682)	$ 562,178	$ (5,681)	$ 624,685	$ (6,363)

There were a total of 86 available-for-sale investment securities in an unrealized loss position less than 12 months and a total of 72 available-for-sale investment securities in an unrealized loss position greater than 12 months at December 31, 2015. There were a total of 26 available-for-sale investment securities in an unrealized loss position less than 12 months and a total of 98 available-for-sale investment securities in an unrealized loss position greater than 12 months at December 31, 2014.

The unrealized losses associated with these investments are considered temporary as the Credit Union does not have the intention to sell nor does it expect to be required to sell the investments 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. These include, but are 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.

(dollars in thousands)

Note 2 – Investments (continued)

Other investments consist of the following:

	December 31, 2015	December 31, 2014
Certificates of deposit in banks and savings institutions	$ -	$ 1,569
Federal Home Loan Bank NY stock	13,353	11,087
	$ 13,353	$ 12,656

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

Investments by maturity as of December 31, 2015, are summarized as follows:

	Available-for-Sale Amortized Cost	Available-for-Sale Fair Value	Other Investments
No contractual maturity – FHLBNY stock	$ -	$ -	$ 13,353
Less than 1 year maturity	602,413	608,148	-
1–5 years maturity	120,460	121,453	-
5–10 years maturity	74,661	74,218	-
Mortgage-backed securities	1,188,054	1,200,391	-
	$ 1,985,588	$ 2,004,210	$ 13,353

Expected maturities of mortgage-backed and auction rate 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.

Collateral pledged for potential borrowings are summarized below:

	December 31, 2015	December 31, 2014
Available-for-sale securities	$ 278,632	$ 257,644
Federal Home Loan Bank stock	13,353	11,087

See Note 7 – Borrowed Funds for further information.

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality

Loans receivable consist of the following at December 31:

	Past Due					
	1 Month	2 Months	3 Months or More	Total	Current	2015 Total
Real estate loans						
Fixed rate mortgages	$ 782	$ 546	$ 7,725	$ 9,053	$ 514,096	$ 523,149
Hybrid/balloon mortgages	415	-	6,577	6,992	866,176	873,168
Home equity line of credit, variable rate	5,055	1,641	4,388	11,084	1,128,858	1,139,942
Home equity loans	3,528	921	6,307	10,756	251,838	262,594
Commercial real estate	-	-	-	-	675,364	675,364
Commercial participation loans	-	-	3,787	3,787	10,489	14,276
Vehicle loans	1,580	500	884	2,964	340,587	343,551
Vehicle participation loans	-	-	-	-	13	13
Consumer loans	387	144	411	942	58,842	59,784
Commercial loans	50	99	-	149	28,924	29,073
Consumer credit cards	352	242	512	1,106	86,320	87,426
	$ 12,149	$ 4,093	$ 30,591	$ 46,833	$3,961,507	4,008,340
Allowance for loan loss						(27,492)
Deferred origination costs						26,328
Total						$4,007,176

	Past Due					
	1 Month	2 Months	3 Months or More	Total	Current	2014 Total
Real estate loans						
Fixed rate mortgages	$ 1,137	$ 220	$ 7,362	$ 8,719	$ 553,433	$ 562,152
Hybrid/balloon mortgages	482	-	6,976	7,458	530,613	538,071
Home equity line of credit, variable rate	3,324	646	6,101	10,071	769,141	779,212
Home equity loans	1,656	795	5,728	8,179	246,079	254,258
Commercial real estate	-	-	3,555	3,555	622,392	625,947
Commercial participation loans	3,550	-	3,834	7,384	7,255	14,639
Vehicle loans	1,344	385	631	2,360	347,843	350,203
Vehicle participation loans	-	-	-	-	23	23
Consumer loans	364	199	205	768	52,689	53,457
Commercial loans	-	433	93	526	34,032	34,558
Consumer credit cards	293	205	328	826	64,565	65,391
	$ 12,150	$ 2,883	$ 34,813	$ 49,846	$3,228,065	3,277,911
Allowance for loan loss						(26,568)
Deferred origination costs						15,508
Total						$3,266,851

The Credit Union has purchased commercial loan participations originated by various other credit unions. All of these loan participations were purchased without recourse and are collateralized by real property.

Note 3 – Loans Receivable and Credit Quality (continued)

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.

The Credit Union categorizes loans into risk categories based on numerous factors. Some of those factors include, but are not limited to, financial strength, industry/economic trends, and credit history. Each loan is assessed individually and grouped into a sub-category such as commercial, commercial real estate, commercial loan participations – real estate, residential, and home equity and home equity lines of credit. An analysis of loans categorized and rated for risk is performed on a quarterly basis. The ratings listed below are used when each loan is analyzed:

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

Substandard – A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Credit Union will sustain some loss if the deficiencies are not corrected.

Doubtful – A doubtful loan has all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values.

All loans that are deemed to not fall within these risk ratings are given a "Pass" risk rating.

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

The following is a summary of the credit risk profile of the commercial and real estate loans (principal balance only):

	December 31, 2015				
	Commercial	Commercial Real Estate	Commercial Participation Loans	Residential	Home Equity Loans and Home Equity Lines of Credit
Grade					
Pass	$ 15,327	$ 666,668	$ 4,720	$ 1,350,999	$ 1,372,850
Special Mention	-	3,816	-	18,777	11,770
Substandard	1,005	4,880	5,769	8,047	5,191
Doubtful	12,741	-	3,787	18,494	12,725
Total	$ 29,073	$ 675,364	$ 14,276	$ 1,396,317	$ 1,402,536

	December 31, 2014				
	Commercial	Commercial Real Estate	Commercial Participation Loans	Residential	Home Equity Loans and Home Equity Lines of Credit
Grade					
Pass	$ 33,787	$ 619,023	$ 4,853	$ 1,052,472	$ 1,004,350
Special Mention	177	-	-	20,984	12,714
Substandard	594	6,924	5,953	8,564	5,634
Doubtful	-	-	3,833	18,203	10,772
Total	$ 34,558	$ 625,947	$ 14,639	$ 1,100,223	$ 1,033,470

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

For consumer loans, the Credit Union evaluates credit quality based on payment activity. Those loans that are 90 days or more past due are considered non-performing, while all remaining loans are evaluated as performing. The following is a summary of the credit risk profile of loans (principal balance only) by payment activity:

	December 31, 2015		
	Consumer Credit Card	Consumer Other	Vehicle Loans
Performing	$ 86,914	$ 59,353	$ 342,680
Non-performing	512	431	884
Total	$ 87,426	$ 59,784	$ 343,564

	December 31, 2014		
	Consumer Credit Card	Consumer Other	Vehicle Loans
Performing	$ 65,063	$ 53,252	$ 349,595
Non-performing	328	205	631
Total	$ 65,391	$ 53,457	$ 350,226

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

The following tables summarize loans that were individually evaluated for impairment at December 31:

	2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ -	$ -	$ -	$ 47	$ -
Residential	20,961	21,154	-	22,723	685
Home equity loans and home equity lines of credit	12,969	13,036	-	13,438	630
Consumer	38	38	-	497	4
Total	33,968	34,228	-	36,705	1,319
With an allowance recorded:					
Commercial	12,741	12,741	647	12,741	627
Commercial real estate including participations	12,027	12,030	2,699	14,356	500
Residential	24,155	24,403	3,348	23,424	798
Home equity loans and home equity lines of credit	17,020	17,198	5,448	15,984	682
Consumer	351	352	35	275	35
Total	66,294	66,724	12,177	66,780	2,642
Total impaired loans	$ 100,262	$ 100,952	$ 12,177	$ 103,485	$ 3,961

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

	2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial real estate	$ 93	$ 93	$ -	$ 47	$ 4
Residential	24,485	24,637	-	18,782	733
Home equity loans and home equity lines of credit	13,907	13,915	-	11,383	593
Consumer	956	953	-	848	38
Total	39,441	39,598	-	31,060	1,368
With an allowance recorded:					
Commercial real estate including participations	16,684	16,710	3,090	18,982	581
Residential	22,693	22,969	4,118	26,901	657
Home equity loans and home equity lines of credit	14,949	15,055	5,728	16,098	399
Consumer	199	199	30	241	19
Total	54,525	54,933	12,966	62,222	1,656
Total impaired loans	$ 93,966	$ 94,531	$ 12,966	$ 93,282	$ 3,024

Recorded investment as of December 31, 2015 and 2014 includes accrued interest and deferred net loan origination costs.

The allowance for loan losses is an estimate for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of all or part of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using, among other factors, past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, and economic conditions. Allocations to the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

As of December 31, 2015, the Credit Union's investment in residential loans collateralized by residential real estate property in process of foreclosure was $17,103.

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

The following table presents data regarding the allowance for loan losses and loans evaluated for impairment by class of loan:

	Commercial	Commercial Real Estate Including Participations	Consumer	Residential	Home Equity Loans and Home Equity Lines of Credit	Total at December 31, 2015
Allowance for loan losses:						
Beginning balance	$ 191	$ 5,493	$ 3,898	$ 5,858	$ 11,128	$ 26,568
Charge-offs	(399)	(749)	(4,457)	(1,003)	(1,412)	(8,020)
Recoveries	7	-	1,125	12	207	1,351
Provision	1,236	516	4,132	1,215	494	7,593
Ending balance	$ 1,035	$ 5,260	$ 4,698	$ 6,082	$ 10,417	$ 27,492
Ending balance: Individually evaluated for impairment	$ 647	$ 2,699	$ 35	$ 3,348	$ 5,448	$ 12,177
Ending balance: Collectively evaluated for impairment	$ 388	$ 2,561	$ 4,663	$ 2,734	$ 4,969	$ 15,315
Loans receivable						
Ending balance	$ 30,547	$ 685,489	$ 492,711	$ 1,399,600	$ 1,426,321	$ 4,034,668
Ending balance: Individually evaluated for impairment	$ 12,741	$ 12,027	$ 389	$ 45,116	$ 29,989	$ 100,262
Ending balance: Collectively evaluated for impairment	$ 17,806	$ 673,462	$ 492,322	$ 1,354,484	$ 1,396,332	$ 3,934,406

	Commercial	Commercial Real Estate Including Participations	Consumer	Residential	Home Equity Loans and Home Equity Lines of Credit	Total at December 31, 2014
Allowance for loan losses:						
Beginning balance	$ 348	$ 4,018	$ 3,779	$ 6,451	$ 11,754	$ 26,350
Charge-offs	(107)	(278)	(3,572)	(368)	(2,352)	(6,677)
Recoveries	11	15	1,120	3	276	1,425
Provision	(61)	1,738	2,571	(228)	1,450	5,470
Ending balance	$ 191	$ 5,493	$ 3,898	$ 5,858	$ 11,128	$ 26,568
Ending balance: Individually evaluated for impairment	$ -	$ 3,090	$ 30	$ 4,118	$ 5,728	$ 12,966
Ending balance: Collectively evaluated for impairment	$ 191	$ 2,403	$ 3,868	$ 1,740	$ 5,400	$ 13,602
Loans receivable						
Ending balance	$ 35,558	$ 636,607	$ 471,776	$ 1,100,637	$ 1,048,841	$ 3,293,419
Ending balance: Individually evaluated for impairment	$ -	$ 16,777	$ 1,155	$ 47,178	$ 28,856	$ 93,966
Ending balance: Collectively evaluated for impairment	$ 35,558	$ 619,830	$ 470,621	$ 1,053,459	$ 1,019,985	$ 3,199,453

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

The following table presents troubled debt restructurings that occurred during the years ended December 31, 2015 and 2014. The post-modification outstanding recorded investment presented below reflects the balance at the end of the period.

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
December 31, 2015			
Residential	19	$ 5,275	$ 5,326
Home equity loans and home equity lines of credit	30	3,589	3,559
Commercial real estate including participations	2	3,042	3,020
Commercial	14	12,938	12,936
Consumer	2	22	18
December 31, 2014			
Residential	34	$ 8,999	$ 9,346
Home equity loans and home equity lines of credit	30	3,425	3,381
Commercial real estate including participations	1	1,790	1,782
Consumer	6	53	45

The following table summarizes troubled debt restructured loans that defaulted during the period ended December 31, 2015 and 2014 and for which the default occurred within 12 months of the modification date. The recorded investment reflects the balance at the end of the period.

	Number of Contracts	Recorded Investment
December 31, 2015		
Residential	2	$ 755
Home equity loans and home equity lines of credit	4	558
December 31, 2014		
Residential	4	$ 1,152

(dollars in thousands)

Note 3 – Loans Receivable and Credit Quality (continued)

The following table summarizes loans balances in non-accrual status:

	December 31, 2015	December 31, 2014
Commercial	$ 12,935	$ 93
Commercial real estate including participations	6,673	7,388
Consumer		
Consumer – auto	884	430
Consumer – other	431	205
Consumer – credit cards	512	328
Residential	14,848	14,559
Home equity loans and home equity lines of credit	10,695	11,827
Total	$ 46,978	$ 34,830

Loans balances in non-accrual status include troubled debt restructurings of $12,808 and $10,798 as of December 31, 2015 and 2014, respectively.

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, 2015 and 2014 are summarized as follows:

	December 31, 2015	December 31, 2014
Mortgage loans underlying pass-through securities		
Federal National Mortgage Association	$ 3,042,008	$ 2,794,476
Federal Home Loan Mortgage Corporation	395,817	318,966
Government National Mortgage Association	69,547	61,396
Federal Home Loan Bank of New York	105,563	55,326
Conventional (other)	7,062	7,205
Charlie Mac, LLC	1,828	3,151
	$ 3,621,825	$ 3,240,520

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in members' shares, were approximately $23,972 and $20,974 at December 31, 2015 and 2014, respectively.

(dollars in thousands)

Note 4 – Loan Servicing (continued)

The following table presents a summary of the changes in the balance of mortgage servicing rights:

	Year Ended December 31, 2015	Year Ended December 31, 2014
Balance, beginning of year	$ 18,025	$ 18,691
Servicing assets recognized during the year	6,670	3,510
Amortization of servicing assets	(3,449)	(4,176)
Balance, end of year	$ 21,246	$ 18,025
Fair value of mortgage servicing rights	$ 33,435	$ 31,009

Note 5 – Property and Equipment, Net

Property and equipment are summarized as follows:

	Property and Equipment	Accumulated Depreciation and Amortization	Property and Equipment, net
December 31, 2015			
Land and improvements	$ 2,332	$ (494)	$ 1,838
Building	17,954	(11,249)	6,705
Furniture and equipment	14,844	(11,712)	3,132
Data processing	25,192	(20,750)	4,442
Automobile	64	(24)	40
Leasehold improvements	22,762	(10,961)	11,801
	$ 83,148	$ (55,190)	$ 27,958
December 31, 2014			
Land and improvements	$ 2,317	$ (483)	$ 1,834
Building	17,040	(10,624)	6,416
Furniture and equipment	15,269	(10,735)	4,534
Data processing	22,987	(18,855)	4,132
Automobile	38	(13)	25
Leasehold improvements	20,219	(9,508)	10,711
	$ 77,870	$ (50,218)	$ 27,652

(dollars in thousands)

Note 5 – Property and Equipment, Net (continued)

Depreciation expense was $4,971 and $4,315, respectively, for the years ended December 31, 2015 and 2014.

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, 2015, are as follows:

		Minimum Rental Payments
Years Ending December 31,	2016	$ 3,766
	2017	3,566
	2018	2,923
	2019	2,638
	2020	2,443
	Subsequent Years	12,551
		$ 27,887

Rental expense for the years ended December 31, 2015 and 2014 for all facilities leased under operating leases totaled $5,010 and $4,550, respectively.

Note 6 – Members' Shares

Members' shares are summarized as follows:

	December 31, 2015	December 31, 2014
Regular shares	$ 973,182	$ 822,075
Share draft accounts	818,229	674,613
Money market accounts	1,653,460	1,633,419
Individual retirement accounts - money market	117,435	118,236
Certificates	2,014,204	1,950,947
	$ 5,576,510	$ 5,199,290

(dollars in thousands)

Note 6 – Members' Shares (continued)

Certificates by maturity as of December 31, 2015 are summarized as follows:

0-1 year maturity	$ 1,120,781
1-2 years maturity	600,695
2-3 years maturity	133,077
3-4 years maturity	53,299
4-5 years maturity	106,352
	$ 2,014,204

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, 2015 and 2014 is approximately $209,595 and $177,470, respectively.

At December 31, 2015 and 2014, overdraft demand shares reclassified as loans totaled $499 and $366, respectively.

Note 7 – Borrowed Funds

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 borrowing capacity of $1,784,282, subject to certain collateral requirements, with interest charged at a rate determined by the lenders on a periodic basis. At December 31, 2015, the Credit Union had outstanding borrowings of $26,500 at a rate of 0.52% from the FHLBNY with a maturity date of January 2, 2016.

At December 31, 2014, the Credit Union had outstanding borrowings of $33,600 at a rate of 0.32% from the FHLBNY with a maturity date of January 2, 2015. Additionally, there were no draws outstanding on these lines of credit for any material length of time in 2015 or 2014. The agreements are reviewed for continuation by the lenders and the Credit Union annually.

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 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.

(dollars in thousands)

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.

Outstanding loan commitments are summarized as follows:

	Years Ended December 31,	
	2015	2014
Home equity	$ 806,958	$ 545,947
Consumer - credit card	254,628	236,857
Consumer - other	153,668	140,236
Commercial	7,565	18,787
Commercial - real estate	8,347	8,569
	$ 1,231,166	$ 950,396

Commitments 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 consolidated financial statements.

The Credit Union has approximately $159,768 and $91,798 in outstanding commitments to sell loans at December 31, 2015 and 2014, respectively. Outstanding mortgage loan commitments at December 31, 2015 and 2014 total approximately $299,140 and $245,085, respectively.

In the ordinary course of business, the Credit Union is exposed to potential claims and/or litigation under representations and warranties made to purchasers and insurers of mortgage loans as well as the purchasers of servicing rights. Under certain circumstances, the Credit Union may be required to repurchase mortgage loans or indemnify the purchasers of loans or servicing rights for losses if there has been a breach of representations or warranties. Any resulting liabilities would be recorded at the date the loss is probable and could be reasonably estimated. There were no repurchase or indemnification liabilities at December 31, 2015 and 2014.

(dollars in thousands)

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 other liabilities on the consolidated statements of financial condition at fair value, with changes in fair value recorded in gain on sale of mortgage loans.

Derivatives outstanding at the end of each year, and gains (losses) recognized during the year are summarized as follows:

	December 31, 2015			
	Notional Amount	Fair Value - Asset	Fair Value - (Liability)	Gain (Loss) Recognized
Forward loan sales commitment	$ 111,914	$ 172	$ -	$ 946
Mortgage loan commitment	159,768	273	-	(874)

	December 31, 2014			
	Notional Amount	Fair Value - Asset	Fair Value - (Liability)	Gain (Loss) Recognized
Forward loan sales commitment	$ 91,798	$ -	$ (775)	$ (1,235)
Mortgage loan commitment	145,543	1,148	-	1,165

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.

(dollars in thousands)

Note 11 – Employee Benefits (continued)

The accrued pension benefits and net periodic pension costs for the years ended December 31, 2015 and 2014 are as follows:

	Pension Plans		Postretirement Benefit	
	2015	2014	2015	2014
Change in benefit obligation				
Projected benefit obligation at beginning of year	$ 70,674	$ 53,852	$ 8,822	$ 9,105
Service cost	2,504	2,048	456	481
Interest cost	2,808	2,646	367	415
Plan amendments	-	-	-	(415)
Benefits paid	(1,672)	(2,518)	(142)	(137)
Actuarial (gain) loss	(4,638)	14,646	(438)	(627)
Projected benefit obligation at end of year	69,676	70,674	9,065	8,822
Change in plan assets				
Fair value of plan assets at beginning of year	50,245	48,505	-	-
Actual return (loss) on plan assets	(412)	2,407	-	-
Employer contributions	2,352	1,851	142	137
Benefits paid	(1,672)	(2,518)	(142)	(137)
Fair value of plan assets at end of year	50,513	50,245	-	-
Unfunded projected status at end of year	$ (19,163)	$ (20,429)	$ (9,065)	$ (8,822)
Accumulated benefit obligation	$ 62,537	$ 62,828	$ -	$ -

(dollars in thousands)

Note 11 – Employee Benefits (continued)

	Pension Plans		Postretirement Benefit	
	2015	2014	2015	2014
Amounts recognized in the statement of financial condition consist of:				
Accrued benefit liability	$ (19,163)	$ (20,429)	$ (9,065)	$ (8,822)
Accumulated other comprehensive gain (loss)	$ (27,228)	$ (28,534)	$ 100	$ 87
Amounts recognized in accumulated other comprehensive income (loss) consist of:				
Net actuarial loss	$ (26,017)	$ (28,509)	$ (3,195)	$ (3,913)
Prior service credit (cost)	(1,211)	(25)	3,295	4,000
Total	$ (27,228)	$ (28,534)	$ 100	$ 87
Weighted-average assumptions used to determine net periodic pension cost as of December 31:				
Discount rate	4.42%	4.02%	4.35%	4.01%
Rate of compensation increase	3.50%	3.50%	N/A	N/A
Weighted-average assumptions used to determine net periodic pension cost as of December 31:				
Discount rate	4.02%	5.00%	4.01%	5.02%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	3.50%	3.50%	N/A	N/A
Inflation	3.00%	3.00%	N/A	N/A
Health care inflation:				
Medical trend rates			4.5% - 7.25%	4.5% - 7.5%
Year of ultimate achievement			2020	2020
Dental trend rates			5.0%	5.0%
Year of ultimate achievement			N/A	N/A

Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plan. A one-percent point change in assumed health care trend rates would have the following effects on for the year ended December, 31, 2015:

	1% Point Increase	1% Point Decrease
Effect on total service and interest cost components	$ 178	$ (137)
Effect on postretirement benefit obligation	1,568	(1,237)

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.

(dollars in thousands)

Note 11 – Employee Benefits (continued)

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

	Pension Plans	
	2015	2014
Equity securities (Level 1)	73%	73%
Debt securities (Level 2)	25%	24%
Other (Level 1)	2%	3%
	100%	100%

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 approximately $2,000 for the pension plan and approximately $290 to the postretirement benefit plan in 2016.

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

		Pension/ Postretirement Benefit Payments
Years Ending December 31,	2016	$ 2,130
	2017	2,432
	2018	2,628
	2019	2,861
	2020	3,437
	2021–2025	20,189
		$ 33,677

The noncontributory defined benefit pension plan was amended as of June 1, 2012. The plan is closed to new hires on or after March 1, 2012.

Note 11 – Employee Benefits (continued)

The Credit Union also 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 $1,604 and $1,290, respectively, to the plan for the years ended December 31, 2015 and 2014.

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 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, 2015 and 2014 were 5.93% and 6.05%, respectively. The minimum requirement to be considered "complex" under the regulatory framework is 6%. Management believes, as of December 31, 2015 and 2014, that the Credit Union meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent call reporting period, and 2014, 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.

(dollars in thousands)

Note 12 – Members' Equity (continued)

The Credit Union's actual capital amounts and ratios are presented in the following table:

	December 31, 2015		December 31, 2014	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as "adequately capitalized"	374,865	6.0%	$ 349,901	6.0%
Amount needed to be classified as "well capitalized"	437,343	7.0%	408,217	7.0%
Actual net worth	531,257	8.7%	490,814	8.4%

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, 2015 and 2014 are $4,088 and $4,324, respectively. Deposits from related parties at December 31, 2015 and 2014 amounted to $3,887 and $3,650, respectively.

The Credit Union holds equity method investments in certain credit union service organizations ("CUSOs"). These CUSOs provide back-office and other operational services to the Credit Union.

The Credit Union owns a one third interest in S3 Shared Service Solutions, LLC ("S3") which provides various administrative services to the Credit Union. Two other credit unions ("CUs") also each own one third interests in S3. The investment is included in other assets on the consolidated statements of financial condition and totaled $3,804 at December 31, 2015 and 2014. Net expenses for services provided by S3 were $13,249 and $10,631 during the years ended December 31, 2015 and 2014, respectively, and are included in operations expenses on the consolidated statements of income. The investment in S3 is recorded using the equity method of accounting.

On May 31, 2013, the Credit Union entered into a Contracted Employees and Cost Sharing Agreement with S3 in which the Credit Union leases employees and office space from S3 to perform administrative services for the CUs. The agreement may be unilaterally terminated by either party after a notice period of up to one year. In addition, the Credit Union and the CUs entered into a correspondent service agreement (CSA) on May 31, 2013 which establishes that the Credit Union will be paid directly by the CUs on a monthly basis for costs of services provided. These payments amounted to $19,982 and $16,542 for the years ended December 31, 2015 and December 31, 2014, respectively. These payments are netted in the consolidated financial statements and had no effect on net income.

(dollars in thousands)

Note 13 – Related Party Transactions (continued)

The Credit Union owns a one third interest in Open Technology Solutions, LLC ("OTS") which provides data support services to the Credit Union. The investment, included in other assets on the consolidated statements of financial condition, totaled $942 at December 31, 2015 and 2014. Expenses for services provided by OTS were $6,298 and $5,236 for the years ended December 31, 2015 and 2014, respectively, and are included in operations expenses on the consolidated statements of income. The investment in OTS is recorded using the equity method of accounting. In addition, Bethpage and the CUs extended a loan to OTS during 2014 which had an interest rate of 3.25% and maturity date of December 31, 2018. The portion recorded as a receivable to Bethpage was $1,500 and $1,113 as of December 31, 2015 and 2014, respectively, and is included in other assets in the consolidated statement of financial condition.

Note 14 – Fair Value of Financial Instruments

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 December 31, 2015
Impaired loans	$ -	$ -	$ 88,085	$ 88,085
Real estate acquired through foreclosure	-	-	6,459	6,459
	$ -	$ -	$ 94,544	$ 94,544

	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 December 31, 2014
Impaired loans	$ -	$ -	$ 81,000	$ 81,000
Real estate acquired through foreclosure	-	-	4,010	4,010
	$ -	$ -	$ 85,010	$ 85,010

(dollars in thousands)

Note 14 – Fair Value of Financial Instruments (continued)

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 December 31, 2015
Investment securities available-for-sale				
Agency issued securities	$ -	$ 646,829	$ -	$ 646,829
Agency issued MBS/CMOs	-	1,200,391	-	1,200,391
Municipal bonds	-	156,990	-	156,990
Forward loan sales commitment	-	172	-	172
Mortgage loan commitments	-	273	-	273
Total assets	$ -	$ 2,004,655	$ -	$ 2,004,655

The above table includes $4,209 in unrealized losses on the Credit Union's available-for-sale securities. The Credit Union has reviewed its investment portfolio at December 31, 2015, and has determined that the unrealized losses are temporary.

	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 December 31, 2014
Investment securities available-for-sale				
Agency issued securities	$ -	$ 742,997	$ -	$ 742,997
Agency issued MBS/CMOs	-	1,442,668	-	1,442,668
Municipal bonds	-	157,545	-	157,545
Auction rate securities	-	-	4,900	4,900
Mortgage loan commitments	-	1,148	-	1,148
Total assets	$ -	$ 2,344,358	$ 4,900	$ 2,349,258
Forward loan sales commitment	$ -	$ (775)	$ -	$ (775)
Total liabilities	$ -	$ (775)	$ -	$ (775)

The above table includes $6,363 in unrealized losses on the Credit Union's available-for-sale securities. The Credit Union has reviewed its investment portfolio at December 31, 2014, and has determined that the unrealized losses are temporary.

(dollars in thousands)

Note 14 – Fair Value of Financial Instruments (continued)

The following table provides a description of valuation technique, significant unobservable inputs and qualitative information about the unobservable inputs for the Credit Union's assets and liabilities classified as level 3 and measured at fair value on a recurring and nonrecurring basis at December 31:

			Discount Range	
Financial Instruments	Valuation Technique	Unobservable Inputs	2015	2014
Impaired loans	Market comparable	Adjustments to appraised values	15%	15%
Real estate acquired through foreclosure	Market comparable	Adjustments to appraised values	10 - 20%	10 - 20%
Auction rate securities	Discounted cashflows	Discount rate	N/A	0 - 5%
		Prepayment rate	N/A	0 - 5%
		Default rate	N/A	0 - 5%

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:

	Auction Rate Securities – Level 3	
	December 31, 2015	December 31, 2014
Balance, beginning of year	$ 4,900	$ 8,971
Securitized called by the issuer	(4,900)	(4,100)
Change in unrealized losses	-	29
Balance, end of year	$ -	$ 4,900

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.

Note 15 – Securitizations

The Credit Union securitizes loans as a source of funding. In a securitization, debt securities are issued and are generally collateralized by a single class of transferred assets, such as residential mortgages. The Credit Union had $70,030 and $62,386 outstanding as of December 31, 2015 and 2014, respectively of GNMA guaranteed Residential Mortgage Backed Security securities (RMBS) while retaining the rights to servicing.

Under the provisions of the RMBS program, the Credit Union, as the issuer and servicer, in specific instances is obligated to collect certain “defaulted” mortgages that are subject to a specific collection process under FHA and HUD guidelines. Management has determined that under certain circumstances it is possible that the Credit Union might, in some instances, collect amounts that are less than the HUD guaranteed amount. Additionally, if a borrower prepays a loan at any time during any month other than at the end of the month the Credit Union cannot charge a prepayment penalty and must pay the bond holders interest as if the loan were outstanding all month.

As part of the securitization process the Credit Union enters into forward delivery contracts. At December 31, 2015 outstanding forward delivery contracts were $4,785. These agreements are matched to the dollar amount of each securitization trade.

Note 16 – Subsequent Event

On March 22, 2016, the Credit Union was notified by the NCUA that it was approved to acquire all assets and liabilities of Montauk Credit Union (Montauk), effective March 31, 2016. The Credit Union will account for the transaction as a business combination using the acquisition method of accounting. The acquisition is being undertaken to provide the Credit Union the ability to expand its geographic footprint and improve overall service to the consolidated member base. Based on Montauk’s current carrying values, the Credit Union expects to acquire total assets, loans, and share deposits of approximately $162,000, $159,000, and $158,000, respectively, once the acquisition is finalized on March 31, 2016. The fair value of the assets acquired, intangibles identified, and liabilities assumed, is in the process of determination, and the Credit Union anticipates substantial discounts to the loan portfolio. The Credit Union also expects to recognize an intangible asset related to the charter acquired, establish a reserve for acquired loan participants’ losses of up to $5 million and recognize goodwill as a result of this acquisition. The operations of Montauk from the date of the acquisition will be included in the consolidated operating results of Bethpage Federal Credit Union during the year ended December 31, 2016.