WILARY WINN

STRENGTHENING FINANCIAL INSTITUTIONS

Accounting for Credit Union Mergers

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Introduction

Credit unions historically accounted for mergers under the pooling of interest method. The accounting was relatively straightforward and was accomplished by combining the book values of the two entities. Beginning in 2009, the Financial Accounting Standards Board ("FASB") required credit union mergers and acquisitions to be recorded at fair value, making the accounting much more difficult.

Since the purchase accounting rules became effective, we have worked on over 600 merger and acquisition transactions of all sizes, including organizations as small as $2M and as large as over $10B in total assets. This white paper is designed to share what we have learned along the way and to address the most common questions we encounter. We hope you find it useful.

We begin with accounting requirements on Day One – the opening journal entries. Next, we discuss the rules for Day Two – the ongoing accounting. Finally, we discuss assessing the goodwill for potential impairment.

KEY TAKEAWAY

FASB requires that all credit union mergers and acquisitions be recorded at fair value. This white paper discusses the accounting requirements for both day one and ongoing accounting.

CLIENT-FOCUSED SOLUTIONS

Since 2003, Wilary Winn has provided independent, objective, fee-based advice to financial institutions and now serves more than 600 clients across the country.

Our main service lines include:

> ASSET LIABILITY MANAGEMENT (ALM)

> CURRENT EXPECTED CREDIT LOSS (CECL)

> MERGERS & ACQUISITIONS (M&A)

> VALUATION OF LOAN SERVICING

> FAIR VALUE DETERMINATIONS

Credit Union Purchase Accounting

FASB ASC 805 *Business Combinations* requires credit unions to use purchase accounting and to record the transaction at fair value. This requires determining both the fair value of the credit union to be merged in ("acquired credit union") as well as the fair value of all its assets and liabilities. The valuation must also include potential intangible assets such as the core deposit intangible. The fair value estimates must be made in accordance with the requirements of FASB ASC 820 *Fair Value Measurements and Disclosures*. Please refer to Appendix A for a comparison of the "old" rules to the "new" rules.

> Wilary Winn notes that the purchase accounting rules can apply to a transaction that is not a full merger, including branch acquisitions, purchase and assumption agreements, etc.

Determining whether a financial institution has acquired a business or has consummated an asset purchase is a critical first step because:

- Goodwill is recognized in a business combination, but not in an asset acquisition;
- Acquisition costs are generally expensed as incurred by the acquirer in a business combination, while the same costs are considered part of the acquisition cost in an asset acquisition; and
- Assets acquired and liabilities assumed in a business combination are measured at fair value, while assets acquired and liabilities assumed in an asset acquisition are measured by allocating the total cost of the net assets based on the fair values of the individual assets acquired and liabilities assumed.

Day One Accounting

The first step a credit union should take upon acquiring the assets of another financial institution is to determine whether it has acquired a business. We note that under FASB ASC 805, a business combination occurs when an acquirer obtains control of a business through a transaction or other event. A "business" includes inputs and processes that are at least capable of producing outputs. However, a business need not include all of the inputs or processes that the seller used in operating the business if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes.[1]

When a financial institution enters into a transaction to combine with another entire institution, the result is clearly a business combination. Wilary Winn believes that the acquisition of a credit union branch also meets the definition of a business combination because the branch has inputs, processes, and can produce outputs. On the other hand, an acquisition of a loan portfolio would not meet the definition of a business. Determining whether sufficient inputs and processes have been acquired can require considerable judgment, and we encourage acquirers to discuss the accounting implications of an acquisition with their external accountants and primary regulators.

[1] FASB ASC 805-10-55-5

Once it has determined that it has entered into a business combination, the acquiring credit union must undertake several steps to ensure it has the information it needs to properly record the transaction.

It must determine the:

- Overall value of the acquired credit union;
- Fair value of the acquired credit union's financial assets and liabilities;
- Fair value of the acquired credit union's non-financial assets and liabilities;
- Fair value of any intangible assets – the most common being the core deposit intangible;
- Value of the trade name; and
- Amount of goodwill/bargain purchase gain resulting from the transaction.

OVERALL VALUE OF THE ACQUIRED CREDIT UNION

Valuation experts generally use differing methods to determine fair value. Wilary Winn employs three basic methods to estimate the overall value of the entity: discounted cash flow ("DCF"), guideline transaction ("GT"), and guideline public company ("GPC"). The DCF method is an income approach, whereas the GT and GPC methods are market approaches.

Discounted Cash Flow Method

To determine the fair value of an entity using the DCF method, business appraisers generally first estimate the organization's probable future cash flows. They then discount the cash flows back to the valuation date at an appropriate discount rate. However, Wilary Winn believes that the use of future cash flows is not a reliable indicator of value for financial institutions because items like capital expenditures, working capital and debt are not clearly defined. As a result, we base our analysis on future earnings. Wilary Winn uses an approach that is based on a detailed review of the credit union's recent financial performance. We note that the future earnings to be used for this determination are the earnings that the acquired credit union could generate as a standalone entity and should be based on the assumptions used by market participants.

> This means that the fair value of the acquired credit union can be different than its value to the acquirer.

For example, for purposes of the valuation, it does not include the acquiring institution's strategies relating to cross-selling, growth, cost cutting, etc., whereas an acquiring credit union is likely to include these factors when building internal projections.

Before we perform our pro-forma projections, we first examine the credit union's capital levels to determine whether or not the institution has excess capital. We do not believe a market participant would pay a premium for any excess capital and we remove it from our projections and add it back dollar for dollar.

To determine value under the DCF method, we work with our clients to estimate future earnings by developing pro-forma balance sheets and income statements for at least five, and often 10 years, into the future. Key assumptions within our modeling include:

- Capital adequacy threshold – including excess capital
- Growth rates – based on historic growth rates and expectations of future growth
- Repricing rates – based on underlying instrument detail and future market interest rates
- Non-interest income
- Non-interest expense
- Loan loss provision

The key metrics we consider as we develop our pro-formas are:

Capital Adequacy

- Complex credit union leverage ratio ("CCULR")
- Risk-based capital ("RBC")

Profitability

- Return on assets
- Net interest margin
- Return on equity
- Earning assets to total assets
- Non-interest expense to total assets
- Efficiency ratio
- Assets to employee ratio

Asset Quality

- Non-current loans to total loans
- Loan loss reserve to total loans
- Provision for loan loss to total loans
- Loan loss reserve to non-performing loans
- Net charge-offs to total loans

Liquidity

- Loan to deposit ratio
- Loan to total assets ratio
- Investments to total assets ratio

Wilary Winn notes that a portion of the future earnings are required to be held in the organization in order for the organization to maintain adequate capital as it grows. This portion would not be available to dividend out, and therefore, we exclude this portion from the present value calculation of future earnings.

Our final steps under the DCF method are to discount these earnings back to the valuation date and to estimate the value of the residual. Wilary Winn uses a Capital Asset Pricing Model ("CAPM") approach in order to determine the discount rate to use in our income approaches. We generally rely on Kroll's

U.S. Industry Benchmarking dataset. We note that the calculated cost of capital is based on after-tax cash flows. Wilary Winn uses the after-tax cash flow discount rate because credit unions do not pay income taxes and have, as an industry, passed this benefit on to their members by offering lower rates on loans and higher rates on deposits than their commercial banking competitors. Thus, we believe the earnings themselves reflect the tax effect and that the use of an after-tax discount rate is appropriate. An example of our DCF method is shown below.

Xyz Credit Union
Projected Statement of Income and Expense

For the Period Ending	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
Total Interest Income	495,341	5,933,462	6,005,881	6,220,675	6,501,549	6,832,139	7,216,936	7,658,168	8,126,059	8,543,232	
Total Interest Expense	116,779	1,205,854	1,172,038	1,192,386	1,321,421	1,461,280	1,638,537	1,780,914	1,925,743	2,091,864	
Net Interest Income	378,562	4,727,608	4,833,843	5,028,289	5,180,128	5,370,859	5,578,399	5,877,254	6,200,316	6,451,368	
Total Non-interest Income	130,939	1,695,236	1,740,828	1,796,816	1,860,800	1,929,231	2,000,663	2,074,964	2,152,137	2,217,517	
Total Non-interest Expense	436,807	5,116,373	5,239,241	5,367,237	5,547,491	5,733,831	5,926,077	6,124,355	6,328,821	6,536,333	
Net Operating Income	72,694	1,306,471	1,335,430	1,457,868	1,493,437	1,566,259	1,652,985	1,827,863	2,023,632	2,132,552	
Provision for Loan and Lease Losses	22,722	301,221	276,833	270,606	362,904	356,880	380,680	406,682	422,349	424,221	
Net Income (Loss)	49,972	1,005,250	1,058,597	1,187,262	1,130,533	1,209,380	1,272,305	1,421,181	1,601,283	1,708,331	
Retained Earnings Adjustment to Maintain Equity	49,972	223,119	272,545	323,190	332,520	342,121	352,001	362,168	372,631	318,209	Year 10 Earnings Cap
Dividendable Income	0	782,132	786,052	864,072	798,013	867,259	920,304	1,059,012	1,228,652	1,390,122	17,592,940
											NPV
											10.90%
											12,201,800

Market Approaches

In addition to the DCF method, we utilize two market approaches – Guideline Transaction and Guideline Public Company. Under the GT method, we obtain deal results and financial information for recent bank acquisitions of similar size, similar profitability, and in similar geographic areas to credit unions we are valuing. To obtain our estimate of value, we use the median price to tangible book value from our pool of deal results. An example of our GT method is shown below.

Buyer Name / Target Name	Announcement Date	Assets	Tangible Equity / Tangible Assets	Loans / Deposits	NPA / Assets	LTM ROAA*	LTM Efficiency Ratio*	Deal Value / Tangible Book
Acquirer Bank 1/Target Bank 1	3/25/2025	128,362	8.19%	69.86%	0.50%	0.55	78.05	160.61
Acquirer Bank 2/Target Bank 2	8/13/2025	222,473	12.99%	84.67%	0.64%	0.48	71.73	100.00
Acquirer Bank 3/Target Bank 3	7/14/2025	249,237	13.83%	95.35%	0.95%	0.72	82.21	120.30
Acquirer Bank 4/Target Bank 4	11/6/2025	357,614	8.27%	90.39%	0.11%	0.56	71.76	110.25
Acquirer Bank 5/Target Bank 5	10/9/2024	344,359	8.27%	78.13%	0.58%	0.36	83.37	137.57
Acquirer Bank 6/Target Bank 6	7/7/2025	467,105	10.60%	95.51%	0.23%	0.43	83.51	111.35
Acquirer Bank 7/Target Bank 7	4/17/2024	154,230	13.03%	70.69%	0.73%	0.68	74.33	124.42
Acquirer Bank 8/Target Bank 8	5/9/2025	66,955	13.35%	72.03%	0.00%	0.63	76.70	114.94
Median		235,855	11.80%	81.40%	0.54%	0.56	77.38	117.62
Xyz Credit Union								
Xyz CU Financial Ratios		160,688	8.71%	49.24%	0.30%	0.48	89.04	

Under the GPC method, we obtain recent financial information on publicly traded community banks of similar size, similar profitability, and in similar geographic areas to the credit unions we are valuing. To obtain our estimate of value, we use the median price to tangible book value from our pool of community banks. We then adjust for the premium a market participant would pay for majority control of the entity. An example of our GPC method is shown below.

Company Name	State	Total Assets (in thousands)	Tangible Equity / Tangible Assets	Loans / Deposits	5 Yr Average ROAA	5 Yr Average Growth	date P/E Ratio - Trailing 4 Quarters	date Price to TBV	date P/E Ratio - Trailing 4 Quarters	date Price to TBV
Bank 1	PA	262,310	6.31%	90.57%	0.45	5.92	28.16	0.70	38.27	0.66
Bank 2	NJ	410,158	9.37%	87.55%	0.66	6.15	7.71	0.67	7.60	0.66
Bank 3	IL	497,349	7.23%	70.95%	0.64	7.20	6.58	0.72	NA	NA
Bank 4	PA	392,265	6.94%	64.46%	0.42	8.66	7.26	0.60	8.22	0.60
Bank 5	NY	198,528	13.77%	85.67%	0.45	11.58	19.79	0.56	20.90	0.52
Bank 6	LA	185,450	11.13%	93.21%	0.13	6.85	51.00	1.07	45.16	0.84
Bank 7	OH	176,172	13.98%	99.49%	0.48	7.35	15.20	0.65	NA	NA
Bank 8	NY	316,458	7.46%	90.96%	0.50	6.08	85.77	0.87	NA	NA
Bank 9	PA	367,301	7.49%	86.84%	0.59	9.65	NA	0.84	NA	0.77
Bank 10	TX	439,485	12.17%	86.24%	0.08	10.91	19.02	0.89	20.58	0.91
Bank 11	PA	488,219	6.48%	90.58%	0.64	12.24	17.31	1.16	NA	NA
Bank 12	IN	348,963	3.36%	79.16%	0.69	12.36	6.14	0.94	NA	NA
Median		358,132	7.47%	87.19%	0.49	8.01	17.31	0.78	20.74	0.66
Xyz Credit Union										
Xyz CU Financial Ratios		160,688	8.71%	49.24%	0.49	5.48				

Finally, we reconcile the valuation estimates derived under the three methods and determine the overall fair value of the acquired credit union. We note that we weight the DCF method the highest, as we believe this method is most representative of the credit union's current financial position and potential future earnings. We apply lower weightings to the market-based approaches, recognizing these approaches are based on bank statistics. Please see Appendix B for a breakdown of these weightings.

> The overall fair value estimate is the amount of equity that can be recorded on Day One. See the $15,379,071 in the example valuation summary attached as Appendix B.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The financial assets and liabilities consist primarily of loans, investments, shares, and debt. Accrued interest receivable, accounts receivable, accrued interest payable and accounts payable are also considered to be financial assets or liabilities.

Investments

Investments generally consist of certificates of deposits ("CDs") and "vanilla" bonds. To determine the value of a CD, Wilary Winn discounts the expected cash flows using an estimated market interest rate over its expected remaining life. We can generally identify a price for the bonds using Bloomberg or another pricing service. We occasionally encounter illiquid securities, which we value using a discounted cash flows approach.

Wilary Winn notes that there are benefits to having the acquiring institution's bond accounting service value the investments. In this instance, we perform a reasonability check to ensure the investments are appropriately priced.

Accounts Receivable and Payable

Wilary Winn generally values the short-term accruals, accounts receivable and accounts payable at book value, because we believe the present value effect is immaterial.

Shares

The fair value of the share accounts is dependent on whether they are time or non-time deposits. The non-time share deposits are recorded at book value. The value of the non-time deposits is reflected in the "core deposit intangible." The valuation of intangible assets is discussed in the Intangible Assets section later in this paper.

Wilary Winn estimates the value of time deposits in a manner similar to the one we use for certificate of deposit investments.

Debt

Wilary Winn generally values two differing types of credit union debt: Federal Home Loan Bank ("FHLB") advances and subordinated debt. For FHLB advances, Wilary Winn discounts the expected cash flows using an estimated market interest rate over its expected remaining life.

Given recent changes to the NCUA's subordinated debt regulations, instances of credit unions merging with subordinated debt are becoming more common. We use a discounted cash flow approach to value the subordinated debt.

Loans

Wilary Winn believes determining the fair value of the loans is one of the most complex undertakings under the purchase accounting rules. The marketplace for seasoned loans is not active. As a result, valuation experts generally value the loans using a discounted cash flow analysis. Two approaches are permissible under GAAP[2]. One approach is to discount the contractual cash flows at an "all in" estimated market discount rate, which by its nature includes a credit spread. The other approach is to develop a "best estimate of expected cash flows" and discount the amounts back to the valuation date at an appropriate discount rate. We employ the second method.

We estimate the fair value of the loan portfolio by performing a discounted cash flow analysis using a proprietary valuation model. The valuation is performed at the loan level on real estate loans and at the cohort level for all other loan types, and is based on the objective attributes of the loans in the portfolio (e.g., the rate of interest on the loan, the original term of the loan, the current term of the loan, etc.) and current statistical performance variables used in the marketplace. Our analysis is based on the contractually specified amounts of principal and interest to be received, modified by our estimates of prepayment, default and loss severity to be experienced prospectively. Our prepayment, default and loss severity assumptions are applied at the loan or cohort level based on the characteristics of the loan (type of loan – new car, FICO – prime, non-prime, sub-prime, etc.).

[2] FASB ASC 820-10-55-4

We derive our expected prepayments using a conditional repayment rate (CRR), which is the annual amount of expected voluntary payoffs as a percentage of the principal amount outstanding at the beginning of the year. We model our defaults using a conditional default rate (CDR), which is the annual amount of expected defaults as a percentage of the principal amount outstanding at the beginning of the year. Finally, our loss severity is equal to the liquidated principal balance minus any recovered amount divided by the principal balance. The combination of the CDR and loss severity derives our future lifetime loss assumptions.

We develop a "best estimate of expected cash flows" for all loans and use a buildup method to develop our discount rate. We begin with an appropriate risk-free rate based on the term of the loan (adjusted for amortization, voluntary, and involuntary prepayments), and add a spread for uncertainty, liquidity, and increased costs to service for loans with lower FICO scores or delinquent loans. Because we are using expected cash flows net of credit losses, our discount rates for loans do not include a credit spread. Wilary Winn believes including the credit spread in the discount rate would be "double counting."

The book value of the loans is thus adjusted for an interest rate differential (discount rate adjustment) and an estimate of expected credit losses (credit loss discount).

> Due to the estimated fair value of the loans, including the estimated credit losses, the allowance for credit losses is recorded at zero on day one.

See the adjustments to loans in the example loan summary attached as Appendix C – the interest rate discount – $2,345,427 in total, and the credit loss discounts – $721,546 in total. See the Day Two accounting section of this white paper for more details.

Prepaid Expenses

The treatment of prepaid expenses can be complex. One should consider whether the prepaid item would have benefit to market participants. For example, a multi-year prepaid contract that cannot be used after the merger would have no "fair value" and would be recorded at zero in the Day One journal entry.

Accrued Liabilities

Wilary Winn recognizes that prior to the change in the accounting rules, many acquiring organizations had the acquired credit union accrue the costs of the merger on its financial statements prior to the merger so the expenses would not flow through the income statement of the combined entity. This is another significant change to the rules.

> In general, the costs of the merger and any restructuring costs should flow through the income statement of the acquiring credit union[3].

[3] FASB ASC 805-10-25-23

The theory is that if the party that receives the primary benefit is the acquirer or the combined entity, the cost should run through its income statement. In our experience, the types of costs that can be accrued as part of the merger are quite limited. An example would be a compensation arrangement that was in place before the merger was contemplated, which just happens to be triggered as a result of the merger. The required payout can be accrued on the acquired credit union's financial statements as of the merger date. By way of contrast, a payout negotiated as part of the merger should run through the income statement of the acquiring credit union.

The acquiring credit union should also ensure that the acquired credit union has properly accrued its expenses. In other words, the organization should ensure that the acquired credit union does not have any unrecorded liabilities.

FAIR VALUE OF NON-FINANCIAL ASSETS AND LIABILITIES

The most significant non-financial assets are generally land and buildings. We generally require our clients to obtain commercial real estate appraisals if these assets are material.

Real estate leases are another item that must be evaluated in a merger. If the lease price is less than the market rate, then an asset should be recorded. On the other hand, if the lease price is over the market rate, a liability should be recorded. We calculate these items by discounting the difference in cash flows back over the remainder of the lease term to the valuation date at the acquired credit union's estimated cost of capital.

INTANGIBLE ASSETS

The value of intangible assets should be recorded as well in the Day One journal entry.

> Recognition of an intangible asset requires that the asset be separable or have a contractual or legal benefit.

The most common intangible assets in a credit union merger are:

- Mortgage servicing rights
- Core deposit intangible
- Member relationships
- Value of the acquired credit union's trade name
- Goodwill

Mortgage Servicing Rights

Mortgage servicing rights are the rights to service a loan that has been sold into the secondary market in exchange for a fee. The market for bulk sales of mortgage servicing rights is quite limited. As a result, the value of mortgage servicing rights is generally determined via a discounted cash flow analysis. The most sensitive input in the valuation is the assumption regarding the rate at which the loans will prepay.

Core Deposit Intangible

The premise underlying the core deposit intangible asset is that a rational buyer would be willing to pay a premium to obtain a group of core deposit accounts that are less expensive than the buyer's marginal cost of funds. Wilary Winn believes the core deposit intangible benefit depends on the type of account. For example, share draft accounts have very different economics and behavior than high-rate money market shares. To calculate the estimated fair value of the core deposit intangible, we first segment the accounts by type. Next, we estimate the likely decay, average life, and terminal economic life. The rate paid on the deposit, the non- interest income generated, and the non-interest expense incurred also affect the value of the core deposit intangible. Wilary Winn estimates the value of the core deposit intangible through a discounted cash flow analysis.

Member Relationships

Wilary Winn believes that the value of the member relationships is imbedded in the overall value of the entity and the core deposit intangible. We believe it would be quite difficult to separately determine the value of member relationships in terms of the ability to cross-sell loans or shares at lower cost, or higher rates of penetration, and therefore, have generally not seen such items recorded.

Acquired Credit Union's Trade Name

A trade name can have value based on how widely it is recognized. If the brand is well known and the acquiring credit union intends to continue to utilize it, the trade name has value. Trade names can also have a defensive value. That is, it can have value even though the acquiring credit union plans to retire the name. For example, imagine the value to Pepsi of acquiring rights to the Coca-Cola brand name.

Goodwill Or Bargain Purchase

On Day One, the acquiring credit union records the overall fair value of the acquired credit union, the fair value of the assets acquired and liabilities assumed, and the fair value of any intangible assets.

> The amount required to balance the Day One journal entry is Goodwill or a Bargain Purchase. Wilary Winn believes a merger transaction will generally result in goodwill, as opposed to a bargain purchase gain.

In fact, GAAP requires the acquiring credit union to "double check" its work before recording a bargain purchase[4].

The resulting goodwill can be amortized as it was under the old rules. Alternatively, it can remain on the balance at recorded value subject to annual impairment testing, the details of which are contained later in this white paper.

[4] FASB ASC 805-30-25-4

See Appendix B for an example comparing the fair value of the balance sheet to the book value at the merger date. Appendix D shows how to record the acquisition on Day One, including the accounts used to adjust book value to fair value.

Wilary Winn further notes that GAAP allows the acquiring credit union to true up the Day One journal entry for up to 12 months after the merger date to reflect new information that would have affected the valuation amounts had they been known[5].

We note that the "new" information is relative to the acquisition date only. The adjustment is designed to reflect information that existed as of the valuation date that was not known at the time. It is not intended to reflect changes in facts and circumstances as of the valuation date. Instead, it is designed to reflect a clarification of facts that existed as of the valuation date. For example, if a loan at the valuation date was a modified loan and was not disclosed as such, an adjustment would be appropriate. On the other hand, if the acquired credit union obtained an appraisal for a branch location at the acquisition and due to changes in market conditions, the value of the branch was less 11 months later, an adjustment would not be appropriate.

Day Two Accounting

Many find the day one accounting to be relatively complex. The ongoing accounting for the recorded premiums and discounts is also quite complex. The following is a quick summary for the items other than loans, followed by a detailed description of the required ongoing accounting for the acquired loans.

The premiums or discounts for the investments acquired are amortized or accreted into income over the estimated life of the investment as an adjustment to interest income. Premiums reduce interest income, whereas discounts have the opposite effect.

The premiums or discounts on the acquired debt and time deposits are amortized or accreted into expense over the estimated life of the liability as an adjustment to interest expense. Premiums reduce interest expense, whereas discounts increase interest expense.

Mortgage servicing rights acquired in the merger are generally amortized on a level-yield basis over the estimated life of the loans. The amortization is recorded as a reduction to servicing income. We note that mortgage servicing rights can also be measured and reported on an ongoing basis at fair value, with the change in fair value running through the income statement. This fair value accounting is generally used by large institutions, which have generally hedged the portfolio against interest rate risk.

The core deposit intangible is amortized on a level-yield over the estimated lives of the non-time deposits. The expense should be recorded as a reduction to non-interest income.

The fair value of the fixed assets acquired becomes the basis for depreciation. The fixed assets should be depreciated over their estimated remaining lives, which can be longer or shorter than the term used to calculate depreciation before the acquisition.

[5] FASB ASC 805-10-25-13

The most complex ongoing accounting relates to the acquired loans.

NON-PCD ASSETS AND PURCHASED FINANCIAL ASSETS WITH CREDIT DETERIORATION

The Current Expected Credit Losses ("CECL") standard (FASB ASC 326) requires the acquirer in a business combination to estimate lifetime expected credit losses on all acquired financial assets.

Historically, this created two separate accounting frameworks, purchased credit deteriorated ("PCD") and non-PCD, each with different implications for the day one measurement of acquired loans, as described below.

PCD Assets: These assets have experienced "more-than-insignificant" deterioration in credit quality since origination based on an assessment by the acquirer as of the acquisition date. Under the PCD model, the acquirer records an allowance for credit losses ("ACL") related to the PCD assets and also records an offsetting entry as an addition to the purchase price of these assets. In other words, the initial amortized cost basis that would be recorded for PCD assets is equal to the sum of the purchase price and the ACL. This method is typically referred to as the gross-up approach. Furthermore, any remaining purchase discount or premium that is not credit-related is accreted or amortized to interest income over the life of the assets.

Non-PCD Assets: These acquired assets do not meet the PCD criteria and are accounted for in a manner consistent with originated financial assets. Specifically, the acquirer must provision for these assets on Day 1 as a charge to credit loss expense. Additionally, the institution would record the amortized cost basis of these assets at the purchase price paid for them. Thereafter, any purchase discount or premium is accreted or amortized to interest income over the life of the assets. As a result of the Day 1 charge to credit loss expense and lack of a step-up in basis for expected credit losses, many industry participants describe this accounting as the "Day 1 double count."

Please see an example below highlighting the difference in day one impact between PCD and non-PCD assets.

Non-PCD Loans	
Total Loans	15,000,000
Less: Discount Rate Adjustment	(400,000)
Less: Credit Adjustment	(100,000)
Net Balance	14,500,000
ACL %	0.7%
Allowance for Credit Losses	(100,000)
Net Balance including ACL	14,400,000

PCD Loans	
Total Loans	15,000,000
Less: Discount Rate Adjustment	(400,000)
Less: Credit Adjustment	(100,000)
Plus: Allowance for Credit Losses	100,000
Net Balance	14,600,000
ACL %	0.7%
Allowance for Credit Losses	(100,000)
Net Balance including ACL	14,500,000

Non-PCD loans result in double counting of the credit adjustment and a provision expense for CECL. PCD loans result in no double count and no day one provision expense.

Stakeholders expressed that the dual approach was operationally complex, inconsistent, and unintuitive. Investors, preparers, and other stakeholders have advocated for a uniform treatment of all acquired financial assets. Specifically, they indicated that they preferred the gross-up approach applied to PCD assets, citing improved comparability, reduced complexity, and alignment with economic substance.

On November 12, 2025, the FASB issued ASU 2025-08, delivering long-awaited reform to the CECL standard. This update establishes a single accounting model for acquired loans. Under the updated guidance, all loans acquired in a business combination, except for credit cards, are classified as purchased seasoned loans ("PSLs") and accounted for using the gross-up approach previously applied only to PCD loans. Accordingly, the initial amortized cost basis of PSLs equals the purchase price plus the initial ACL recorded at acquisition. The non-credit discount or premium is subsequently accreted or amortized to interest income over the expected life of the loans.

PURCHASED SEASONED LOANS

Key provisions relating to FASB's recent update are highlighted below.

Objective: The FASB retained the current accounting for PCD assets but revised the ASU to improve the accounting for non-PCD assets that did not fall under the PCD scope. As a result, the current PCD accounting model is unchanged.

Scope: All acquired loans except for credit cards will be classified as PSLs and be subject to PCD framework.

Seasoning: All loans, except for credit cards, would be considered seasoned and fall under the scope of the new standard if they are acquired through a business combination. In an instance where a pool of loans is purchased via an asset acquisition, the acquirer must then perform a seasoning test to determine whether the acquired loans would qualify to be accounted for under the gross-up approach. This seasoning test classifies loans purchased 90+ days after origination and where the buyer was not involved in the origination as PSLs.

Disclosure, Transition, and Effective Date: The ASU's guidance is effective for annual reporting periods beginning after December 15, 2026, including interim reporting periods, and entities must apply it prospectively. Entities may early adopt the guidance "in an interim or annual reporting period in which financial statements have not yet been issued or made available for issuance." An entity that adopts the amendments in an interim reporting period may apply them "as of the beginning of that interim reporting period or the beginning of the annual reporting period that includes that interim reporting period."

In summary, the specifics for PSLs are as follows:

- At acquisition, a financial institution will estimate and record an allowance for credit loss, which is then added to the purchase price.
- Favorable and unfavorable changes in expected credit-related cash flows will run through the allowance and credit loss expense.

- Non-credit premium or discount will be accounted for based on the effective yield after the gross-up for the allowance.

PURCHASED SEASONED LOANS – EXAMPLE

The example shown below illustrates the accounting for PSLs under CECL. The financial institution purchased a loan with a principal balance of $100,000 for $77,500. It set the initial reserve for expected credit losses at $15,000. It also recorded a purchase discount of $7,500, which it will amortize on a level-yield basis.

The contractual P&I payment is $1,887 per month. The stated interest rate on the loan is 5%.

At the end of month two, the financial institution reevaluates the loan and determines that the loan is riskier than it thought. It records a $5,000 increase in the credit reserve based on its new estimate of the amount of principal it will receive.

In month three, it agrees to extend the maturity date of the loan because it believes the extension will aid the borrower and will result in the receipt of $11,500 in additional principal over the life of the loan. Therefore, it reduces the credit reserve by $11,500. The contractual P&I is modified to $1,045 per month. In addition, it lowers the amount of discount accreted from $251 to $128, reflecting the lengthening of the maturity date from 5 years to 10 years.

In month four, the borrower informs the financial institution that it has a firm offer on the property and intends to repay the loan with the proceeds in full. The financial institution believes there no longer is a credit risk on the loan and relieves the remaining ACL amount of $8,500 to provision expense.

In month five, the borrower repays the loan in full. The remaining discount is released into income.

The monthly journal entries are shown below along with a table summarizing the results.

MONTH 1		**DEBIT**	**CREDIT**
1)	Loan	100,000	
	Purchase Discount		7,500
	Allowance for Loan Losses		15,000
	Cash		77,500
	Record Purchase		
MONTH 2			
1)	Cash	1,887	
	Interest Income		417
	Loan		1,470
	Record Payment Received		
2)	Purchase Discount	251	

	Interest Income		251
	Amortize Discount		
3)	Provision Expense	5,000	
	Allowance for Loan Losses		5,000
	Revise Credit Loss Estimate		

MONTH 3

1)	Cash	1,045	
	Interest Income		411
	Loan		635
	Record Payment Received		
2)	Purchase Discount	128	
	Interest Income		128
	Amortize Discount		
3)	Allowance for Loan Losses	11,500	
	Provision Expense		11,500
	Revise Credit Loss Estimate		

MONTH 4

1)	Cash	1,045	
	Interest Income		408
	Loan		637
	Record Payment Received		
2)	Purchase Discount	127	
	Interest Income		127
	Amortize Discount		
3)	Allowance for Loan Losses	8,500	
	Provision Expense		8,500
	Revise Credit Loss Estimate		

MONTH 5

1)	Cash	97,663	
	Interest Income		405
	Loan		97,258
	Record Payment Received		
2)	Purchase Discount	6,993	
	Interest Income		6,993

The ASU directly addresses one of the industry's most significant CECL pain points: non-PCD loans required a Day 1 provision despite the fair value determination already reflecting expected losses. The result was an unintuitive double count of the credit mark. By expanding gross-up accounting to PSLs,

ASU 2025-08 represents a significant improvement to purchase loan accounting since the CECL standard's introduction, as it simplifies purchase accounting, improves comparability, and better reflects economic reality.

Finally, we note that examples of templates used to amortize/accrete the fair value adjustments for all the accounts, including the loan adjustments, are attached as Appendix E.

Accounting For Goodwill

As we indicated earlier, the goodwill recorded in a merger transaction can be amortized or the carrying amount can remain on the balance sheet, subject to annual impairment testing.

If a credit union elects to amortize the goodwill, the amount can be amortized over a period not to exceed 10 years.

> Wilary Winn cautions that in order to use this method, the credit union must make an irrevocable accounting election. The election affects the existing goodwill, as well as any additional goodwill acquired in the future[6].

If the credit union does not make the election to amortize the goodwill, it is subject to annual impairment testing. The process begins by determining the entity to be assessed. Perhaps counter-intuitively, the goodwill test is nearly always performed at the combined entity level instead of at the level of the acquired credit union. The test would be performed at the acquired credit union level only if it were deemed to be a separate operating segment or a component of a separate operating segment. An entity must have all the following characteristics to be deemed a separate operating segment[7]:

- It engages in business activities from which it may earn revenue and incur expenses;
- Its *discrete financial information is available*; and
- Its operating results are *regularly reviewed* by the chief operating decision maker ("CODM") to make decisions about *resources to be allocated* to the segment and assess its performance.

Wilary Winn believes it would be rare for an acquired credit union to be considered a separate operating segment. This implies that the branches of the acquired credit union would have separate pricing, separate asset liability management, etc. We further believe that over time members will migrate from the acquired credit union's branches to the acquiring credit union's branches and vice versa, further clouding the distinction.

The assessment for goodwill impairment can be qualitative or quantitative.

[6] FASB ASC 350-20-35-62
[7] FASB ASC 280-10-50-1

QUALITATIVE TESTING

A credit union may assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the reporting unit is less than its carrying amount, including goodwill. In evaluating whether to perform the qualitative test, the guidance requires an entity to assess relevant events and circumstances. Examples of such events and circumstances include the following[8]:

- *Macroeconomic conditions*, such as deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets.

- *Industry and market considerations*, such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline (both absolute and relative to its peers) in market-dependent multiples or metrics, a change in the market for an entity's products or services, or a regulatory or political development.

- *Cost factors*, such as increases in raw materials, labor, or other costs, that have a negative effect on earnings.

- *Overall financial performance*, such as negative or declining cash flows or a decline in actual or planned revenue or earnings.

- *Other relevant entity-specific events*, such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation.

- *Events affecting a reporting unit*, such as a change in the carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a portion of, a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

QUANTITATIVE TESTING

If after assessing the totality of events or circumstances described in the paragraphs above, a credit union determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the credit union must perform a quantitative goodwill impairment test.

The quantitative test (previously called “Step One”) determines whether the fair value of the combined entity exceeds its book value using the income and market approaches described at the beginning of this white paper. If the fair value of the combined entity exceeds the book value, the goodwill is not

[8] FASB ASC 350-20-35-3C

impaired[9]. If the fair value of the combined entity does not exceed book value, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value.

Wilary Winn notes that the FASB issued guidance in January 2017 that eliminated the requirement to calculate the implied fair value of goodwill (e.g., Step Two of the previous goodwill impairment test) to measure a goodwill impairment charge. Entities record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., based on today's Step One). The standard did not change the guidance on completing Step One of the goodwill impairment test. Additionally, an entity can still perform the current qualitative goodwill impairment test prior to determining whether to proceed to Step One.

Regulatory Reporting – 5300 Call Report

The NCUA call report requires credit unions to use purchase accounting and to record the transaction at fair value. Additionally, specific call report requirements relating to credit union mergers is described below.

REGULATORY CAPITAL

For regulatory capital reporting purposes, the acquiring credit union does not include the equity acquired in the merger (the overall fair value of the acquired credit union – the $15,379,071 in our example, included as Appendix B). Instead, it reports the acquired credit union's retained earnings as of the valuation date – the $13,882,152 in our example, attached as Appendix B.

> Thus, for regulatory capital purposes, the acquiring credit union is able to count the acquired credit union's book value of retained earnings.

For GAAP purposes, the equity acquired in the merger is reported in the Equity Section on line 12. The amount on line 12 is not carried over to the PCA Net Worth Calculation Worksheet. Instead, the acquired credit union's retained earnings are reported on line 7b of the Worksheet[10]. See Appendix D for more details.

We further note that in the case of involuntary, regulatory-assisted mutual-to-mutual credit union combinations, the amount of regulatory capital flowing to the acquiring credit union is zero. In other words, the acquired credit union's retained earnings as of the valuation date do not count toward regulatory capital.

Finally, in our experience, the external auditors will specifically perform a review as of the acquisition date to ensure that the amount of regulatory capital reported is in accordance with GAAP.

[9] FASB ASC 350-20-35-4
[10] 12 CFR Part 702.2 (f) (3)

GOODWILL AND BARGAIN PURCHASE GAINS

Any goodwill recognized in a business combination is recorded on line 23.a of the Statement of Financial Condition. Any gain recognized from a bargain purchase should be reported on line 21 of the Statement of Income/Expense.

The NCUA formally adopted the Risk-Based Capital ("RBC") rule for credit unions in October 2015 with the final rule taking effect on January 1, 2022, for credit unions with total assets exceeding $500 million. The final rule increased the minimum risk-based capital ratios for credit unions to 8.00% in order to be considered "adequately capitalized" and to 10.00% to be considered "well capitalized." In calculating the risk-based capital ratio, the risk-based capital amount will be divided by the organization's risk-weighted assets. Risk-based capital is equal to total capital less certain deductions, including goodwill and the NCUSIF capitalization deposit. The goodwill deduction is subject to a 10-year phase-in for goodwill arising from a supervisory merger or combination that was completed on or before December 28, 2015. The goodwill arising from these transactions can be included in risk-based capital until January 1, 2029.

We note the CCULR (net worth ratio) is an option for the following institutions to meet their risk-based net worth requirement without having to calculate an RBC ratio. We note credit unions ***do not*** deduct goodwill from this ratio.

- CCULR of 9 percent or greater
- Total off-balance sheet exposures of 25 percent or less of total assets
- Sum of total trading assets and total trading liabilities of 5 percent or less of total assets
- Sum of total goodwill and total other intangible assets of 2 percent or less of total assets

Wilary Winn notes that any assistance provided by the NCUA is recorded as a reduction of goodwill. Assistance would result in a bargain purchase only if the amount of the assistance exceeded the goodwill and the gain would be only the excess amount. We further note that the amount of bargain purchase gain must be deducted from the combined entity's retained earnings when calculating regulatory capital. We note that this reduction is subject to a floor of zero. In other words, if the bargain purchase is greater than acquired credit union's net worth, the acquiring credit union would reduce regulatory capital by the amount of acquired credit union's retained earnings only[11].

PURCHASED FINANCIAL ASSETS WITH CREDIT DETERIORATION

The CECL standard (FASB ASC 326) requires the acquirer in a business combination to estimate lifetime expected credit losses on all acquired financial assets. Historically, this created two separate accounting frameworks, purchased credit deteriorated ("PCD") and non-PCD, each with different implications for the day one measurement of acquired loans. Recently, FASB issued ASU 2025-08, which establishes a single accounting model for acquired loans. We discussed the details surrounding the accounting for these loans earlier in this white paper.

[11] 12 CFR Part 702.2 (f) (3)

Despite the recent update from FASB, regulatory reporting still requires documentation supporting loans acquired with credit deterioration. This is recorded on line 4 on page 9 of the call report.

Conclusion

While the initial and ongoing required accounting can be complex, Wilary Winn does not believe the rules should deter transactions that otherwise make sense. We have worked with our clients, their external auditors, and the regulators to ensure our clients have the information and knowledge they need to successfully undertake these transactions. We hope you have found this white paper to be informative and useful.

Appendix A

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Issue	Previous Requirement	New Requirement
Definition of a Business	Business had to have inputs, processes, and outputs	Business does not have to outputs thus expanded scope
Combination of mutual entities including credit unions	Pooling of Interests	Purchase accounting
Allowance for credit losses	Recorded at appropriate amount - book value if correct	Recorded at zero - fair value includes reduction related to credit losses
Assets acquired and liabilities assumed	Recorded at book value	Recorded at estimated fair value
Restructuring Costs - involuntary severance, contract termination, etc	Generally recognized as a liability in connection with the merger	Generally an expense to the combined institution
Adjustments to fair value estimates within one year measurement period	Recognized prospectively	Make changes retroactive to the acquisition
Non-contractual asset or liability contringencies	Account for under FAS 5- probable and measurable	Record if "more likely than not"
Assets that acquirer does not intend to sue	Generally assigned limited or no value	Recroded at fair value - highest and best use
Bargain Purchase	Extraordinary when fair value of assets (after reduction of certain long term assets to zero) exceeded consideration given	Bargain purchase if fair value of assets assumed exceeds fair value of liabiltites assumed and consideration given
Goodwill	Amortized	Subject to annual impairment testing

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XYZ Credit Union
Assets & Liabilities as of *date*

	Balance	Coupon	Market Pricing	Remaining Term in Months	Estimated Fair Value %	Estimated Fair Value $	Difference
ASSETS							
Cash	1,482,557				100.0%	1,482,557	-
Cash on Deposit	19,176,262				100.0%	19,176,262	-
Time and Other Deposits	-				-	-	-
Equity Securities	-				-	-	-
Trading Debt Securities	-				-	-	-
Available-for-Sale Debt Securities	9,003,384				101.3%	9,123,788	120,404
Held-to-Maturity Debt Securities	52,445,833				93.8%	49,174,520	(3,271,313)
Held-to-Maturity Debt Securities - Miscellaneous Variance	(2)				100.0%	(2)	-
Held-to-Maturity Debt Securities - Premium	54,645				0.0%	-	(54,645)
Held-to-Maturity Debt Securities - Discount	(105,336)				0.0%	-	105,336
Unrealized Gain/Loss on Investment Securities	120,403				0.0%	-	(120,403)
Allowance for Credit Losses on Investment Securities	-				-	-	-
Total Membership and Paid In Capital	412,493				100.0%	412,493	-
All Other Investments	103,100				100.0%	103,100	-
Loans Held for Sale	-				-	-	-
Total Loans and Leases	69,619,539				95.6%	66,552,567	(3,066,973)
Total Loans and Leases - Loan Participation Premiums	98,416				0.0%	-	(98,416)
Total Loans and Leases - Loss Allowance	(758,936)				0.0%	-	758,936
Foreclosed and Repossessed Assets	-				-	-	-
Land and Building	2,360,917				100.0%	2,360,917	-
Other Fixed Assets	308,660				100.0%	308,660	-
NCUA Share Insurance Capitalization Deposit	1,356,867				100.0%	1,356,867	-
Intangible Assets	-				-	-	-
All Other Assets	5,008,725				100.0%	5,008,725	-
Total Assets	160,687,525				96.5%	155,060,452	(5,627,073)
LIABILITIES							
Accounts Payable, Accrued Interest on Borrowings, & Other Liabilities	5,085,123				100.0%	5,085,123	-
Accrued Dividends and Interest Payable	-				-	-	-
Other Borrowings	-				-	-	-
Allowance for Credit Losses on Off-Balance Sheet Credit Exposures	-				-	-	-
Share Drafts	19,953,054				100.0%	19,953,054	-
Regular Shares	69,428,349				100.0%	69,428,349	-
Money Market Shares	21,354,881				100.0%	21,354,881	-
IRA/KEOGH Accounts without Defined Maturities	2,187,026				100.0%	2,187,026	-
All Other Shares	269,631				100.0%	269,631	-
Non-Member Deposits	-				-	-	-
Share Certificates	26,054,148	3.2%	3.6%	5.5	99.8%	26,003,018	(51,130)
IRA/KEOGH Certificates	2,352,757	2.7%	3.6%	8.2	99.4%	2,338,556	(14,201)
Total Liabilities	146,684,969				100.0%	146,619,639	(65,331)
EQUITY	14,002,555					8,440,814	(5,561,742)

Value of Assets and Liabilities	8,440,814
Value of Core Deposits	4,497,642
Total Fair Value of Net Assets Including Value of Core Deposits	12,938,456

	Base	Weighting	Weighted
Estimated Value of XYZ Credit Union - Discounted Cash Flow Method	15,334,961	75%	11,501,221
Estimated Value of XYZ Credit Union - Guideline Transaction Method	16,469,806	15%	2,470,471
Estimated Value of XYZ Credit Union - Guideline Public Company Method	14,073,798	10%	1,407,380
Estimated Value of XYZ Credit Union - Total Wtd Avg		100%	15,379,071

Goodwill / (Bargain Purchase) (Total Estimated Value of the Entity less Fair Value of Net Assets Including Core Deposits)	2,440,615

Appendix C

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XYZ Credit Union
Loan Valuation as of *date*

	Principal Balance	# of Loans	Avg FICO	Avg Risk Ranking	Avg LTV*	60+ DQ%	WAC	Lifetime WAC	Age	WAM	Avg Life	CPR %	CRR %	CDR %	Severity%	Future Loss %	Risk-Free Discount Rate	Discount Spread	Discount Rate	Fair Value %	Fair Value $	Difference	Undiscounted Principal Losses	Discount Rate Difference
Fixed Rate Mortgage	6,235,389	37	750		61%	0.0%	4.4%	4.4%	61	190	5.5	8.3%	7.7%	0.6%	9.4%	0.33%	5.6%	0.1%	5.7%	93.7%	5,844,929	(390,460)	(20,299)	(370,161)
Home Equity 1st	19,846,053	200	759		44%	1.5%	3.7%	3.7%	41	139	3.8	9.7%	9.3%	0.4%	8.0%	0.14%	6.1%	0.3%	6.4%	91.3%	18,117,870	(1,728,183)	(28,433)	(1,699,750)
Home Equity 2nd	10,594,143	215	728		58%	0.3%	6.6%	6.6%	28	106	3.1	14.9%	14.3%	0.7%	15.5%	0.25%	6.6%	0.2%	6.8%	99.3%	10,520,806	(73,337)	(26,047)	(47,291)
HELOC 2nd	13,388,728	217	739		63%	0.6%	6.8%	7.1%	47	228	5.0	15.4%	14.5%	0.8%	12.8%	0.41%	7.3%	0.3%	7.5%	97.9%	13,102,990	(285,738)	(54,722)	(231,016)
Taxi Medallion Loans	775,954	3	n/a	8	n/a	0.0%	1.9%	1.9%	50	95	1.3	85.2%	2.0%	83.2%	61.7%	57.08%	8.2%	9.8%	18.0%	35.8%	277,731	(498,223)	(442,888)	(55,335)
Commercial and Industrial Loans	5,484,893	7	n/a	4	n/a	0.0%	7.1%	7.2%	16	91	5.4	6.4%	6.0%	0.4%	51.0%	0.97%	4.9%	2.2%	7.1%	99.8%	5,471,383	(13,510)	(53,268)	39,758
Unsecured Commercial Loans	96,176	3	n/a	4	n/a	0.0%	8.2%	8.2%	2	89	3.4	6.4%	6.0%	0.4%	100.0%	1.20%	7.0%	0.8%	7.8%	100.4%	96,591	415	(1,159)	1,574
New Vehicle - Direct	1,946,528	97	752		n/a	1.5%	5.5%	5.5%	24	45	1.6	18.9%	17.3%	1.6%	33.5%	0.59%	5.3%	0.8%	6.1%	98.7%	1,921,799	(24,729)	(11,537)	(13,192)
Used Vehicle - Direct	7,107,368	534	743		n/a	0.5%	6.6%	6.6%	20	41	1.5	18.8%	17.5%	1.3%	34.0%	0.51%	5.5%	1.1%	6.7%	99.4%	7,065,227	(42,141)	(36,230)	(5,911)
Used Vehicle - Indirect	1,739,379	63	739		n/a	0.0%	8.1%	8.1%	11	66	2.1	18.7%	17.8%	0.9%	38.9%	0.71%	6.3%	0.5%	6.8%	101.7%	1,769,065	29,686	(12,293)	41,979
Motorcycle	74,871	8	718		n/a	0.0%	8.3%	8.3%	24	30	1.1	14.8%	13.4%	1.4%	35.0%	0.36%	7.7%	1.7%	9.4%	98.7%	73,925	(946)	(272)	(674)
RV	14,962	2	768		n/a	0.0%	6.4%	6.4%	42	16	0.7	14.0%	13.9%	0.1%	61.1%	0.04%	7.8%	0.0%	7.8%	99.0%	14,818	(144)	(5)	(138)
MBL - Other Secured	104,294	2	n/a	4	n/a	0.0%	9.1%	9.2%	99	17	1.1	6.3%	6.0%	0.3%	51.0%	0.16%	3.4%	4.2%	7.7%	101.5%	105,821	1,526	(164)	1,690
Personal LOC	7,463	20	619		n/a	10.0%	11.5%	11.5%	n/a	52	1.8	26.1%	16.4%	9.7%	100.0%	10.79%	10.2%	3.0%	13.3%	89.2%	6,661	(803)	(805)	2
Signature	1,960,947	523	712		n/a	0.5%	11.7%	11.7%	12	26	1.0	21.0%	18.8%	2.2%	100.0%	1.70%	10.2%	1.9%	12.1%	98.0%	1,921,132	(39,815)	(33,424)	(6,390)
Share Secured	200,313	42	785		n/a	0.0%	5.1%	5.1%	35	37	1.3	27.4%	27.3%	0.1%	0.0%	0.00%	4.9%	0.0%	4.9%	100.0%	200,401	88	-	88
Other Secured	42,079	6	713		n/a	0.0%	3.4%	3.4%	13	27	0.9	28.6%	23.4%	5.2%	0.0%	0.00%	4.9%	0.0%	4.9%	98.4%	41,418	(661)	-	(661)
Total	69,619,539	1,979	745		54%	0.7%	5.7%	5.8%	36	133	3.7	13.8%	12.2%	1.7%	32.8%	1.04%	6.3%	0.7%	7.0%	95.6%	66,552,567	(3,066,973)	(721,546)	(2,345,427)

* The LTV shown here on loans in the second lien position is the combined loan to value.

For definitions of column headers, please see Appendix F

Appendix D

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ABC Credit Union
XYZ Credit Union - Valuation

Journal Entries to Adjust Acquired's Book Value (GAAP)

	Debit	Credit	Net Summary	5300 Reference	5300 Acct Code	Future Lifetime Impact on Income	
Investments							
Available-for-Sale Debt Securities	120,404	-				(120,404)	Decrease in Interest Income
Held-to-Maturity Debt Securities	-	3,271,313				3,271,313	Increase in Interest Income
Held-to-Maturity Debt Securities - Premium	-	54,645					
Held-to-Maturity Debt Securities - Discount	105,336	-					
Unrealized Gain/Loss on Investment Securities	-	120,403	(3,220,620)				
Loans							
Allowance for Credit Losses							
Fixed Rate Mortgage	-	20,299					
Home Equity 1st	-	28,433					
Home Equity 2nd	-	26,047					
HELOC 2nd	-	54,722					
Taxi Medallion Loans	-	442,888					
Commercial and Industrial Loans	-	53,268					
Unsecured Commercial Loans	-	1,159					
New Vehicle - Direct	-	11,537					
Used Vehicle - Direct	-	36,230					
Used Vehicle - Indirect	-	12,293					
Motorcycle	-	272					
RV	-	5					
MBL - Other Secured	-	164					
Personal LOC	-	805					
Signature	-	33,424	(721,546)				
Accretable / Amortizable Adjustment							
Fixed Rate Mortgage	-	370,161					
Home Equity 1st	-	1,699,750					
Home Equity 2nd	-	47,291					
HELOC 2nd	-	231,016					
Taxi Medallion Loans	-	55,335					
Commercial and Industrial Loans	39,758	-					
Unsecured Commercial Loans	1,574	-					
New Vehicle - Direct	-	13,192					
Used Vehicle - Direct	-	5,911					
Used Vehicle - Indirect	41,979	-					
Motorcycle	-	674					
RV	-	138					
MBL - Other Secured	1,690	-					
Personal LOC	2	-					
Signature	-	6,390					
Share Secured	88	-					
Other Secured	-	661	(2,345,427)			2,345,427	Increase in Interest Income
Total Loans and Leases - Loan Participation Premiums	-	98,416					
Total Loans and Leases - Loss Allowance	758,936	-	660,521				
Other Assets							
Core Deposit Intangible	4,497,642	-	4,497,642	Page 2, Line 23 c.	AS0032	(4,497,642)	Decrease in Non-Interest Income
Shares							
Share Certificates	51,130	-				(51,130)	Increase in Interest Expense
IRA/KEOGH Certificates	14,201	-	65,331			(14,201)	Increase in Interest Expense
Equity							
Equity (removal of existing equity accounts)	14,002,555	-					
Equity (record equity acquired in merger)	-	15,379,071		Page 3, Line 12	658A		
Goodwill	2,440,615	-	1,064,099	Page 2, Line 23 a.	009D2		
	22,075,912	22,075,912	-			933,363	Net Future Income Impact

Acquirer's Equity before OCI Adjustment	75,816,602
Plus: Equity Acquired in Prior Mergers	14,957,392
Plus: Acquirer's OCI Adjustment	(3,935,496)
Acquirer's Pre-Merger GAAP Equity	86,838,497
Plus: Equity Acquired in Merger	15,379,071
Acquirer's Post-Merger GAAP Equity	102,217,569

PCA Net Worth Merger Entries (Regulatory Only, Non-GAAP)

Acquirer's Pre-Merger GAAP Equity	86,838,497		
Less: OCI Adjustment	(3,935,496)		
Less: Equity Acquired in Prior Mergers	14,957,392		
Plus: Adjustments to Retained Earnings through Prior Business Combinations	14,957,392	Page 22, Line 7 a.	1004A
Plus: CECL Transition Provision	348,071		
Acquirer's Pre-Merger Equity for PCA Net Worth Calculation	91,122,065		
Plus: Adjustments to Retained Earnings through Business Combinations	13,882,152	Page 22, Line 7 b.	1004B
Acquirer's Post-Merger Equity for PCA Net Worth Calculation	105,004,217		

WILARY WINN

Appendix E

ABC Credi Union
ASC 805 Fair Value Amortization Schedule
Sum of Years' Digits/Straight Line Methods
Income Summary

Month	Fixed Rate Mortgage	Home Equity 1st	Home Equity 2nd	HELOC 2nd	Taxi Medallion Loans	Commercial and Industrial Loans	Unsecured Commercial Loans	New Vehicle - Direct	Used Vehicle - Direct	Used Vehicle - Indirect	Motorcycle	RV	MBL - Other Secured	Personal LOC	Signature	Share Secured	Other Secured	Total Loans	Available-for-Sale Debt Securities	Held-to-Maturity Debt Securities	**Income**	Core Deposit Intangible	Share Certificates	IRA/KEOGH Certificates	**Expense**	**Net**
0																										
1	5,783.76	40,470.23	1,390.91	7,574.28	3,074.17	(1,204.79)	(74.95)	599.64	274.91	(1,499.24)	43.50	16.25	(241.41)	(0.21)	473.35	(4.63)	48.96	56,724.73	(8,026.94)	155,776.80	**204,474.59**	128,504.07	10,225.95	1,775.13	**140,505.16**	**63,969.44**
2	5,738.22	39,982.64	1,370.15	7,448.04	2,986.33	(1,186.25)	(73.12)	585.70	268.36	(1,471.98)	42.05	15.23	(222.84)	(0.20)	455.15	(4.51)	47.08	55,980.05	(7,750.15)	151,977.36	**200,207.27**	126,641.69	10,225.95	1,775.13	**138,642.78**	**61,564.49**
3	5,692.68	39,495.05	1,349.39	7,321.80	2,898.50	(1,167.72)	(71.30)	571.75	261.82	(1,444.72)	40.60	14.22	(204.27)	(0.19)	436.94	(4.38)	45.20	55,235.37	(7,473.35)	148,177.93	**195,939.94**	124,779.32	10,225.95	1,775.13	**136,780.40**	**59,159.54**
4	5,647.14	39,007.45	1,328.63	7,195.57	2,810.67	(1,149.18)	(69.47)	557.81	255.27	(1,417.46)	39.15	13.20	(185.70)	(0.18)	418.74	(4.26)	43.31	54,490.68	(7,196.56)	144,378.49	**191,672.61**	122,916.94	10,225.95	1,775.13	**134,918.02**	**56,754.59**
5	5,601.60	38,519.86	1,307.87	7,069.33	2,722.83	(1,130.65)	(67.64)	543.86	248.73	(1,390.20)	37.70	12.19	(167.13)	(0.17)	400.53	(4.13)	41.43	53,746.00	(6,919.77)	140,579.06	**187,405.28**	121,054.56	10,225.95	1,775.13	**133,055.65**	**54,349.64**
6	5,556.05	38,032.27	1,287.11	6,943.09	2,635.00	(1,112.11)	(65.81)	529.92	242.18	(1,362.95)	36.25	11.17	(148.56)	(0.16)	382.32	(4.01)	39.55	53,001.31	(6,642.98)	136,779.63	**183,137.96**	119,192.18	-	1,775.13	**120,967.31**	**62,170.64**
7	5,510.51	37,544.67	1,266.35	6,816.85	2,547.17	(1,093.58)	(63.98)	515.97	235.64	(1,335.69)	34.80	10.16	(129.99)	(0.15)	364.12	(3.88)	37.66	52,256.63	(6,366.19)	132,980.19	**178,870.63**	117,329.80	-	1,775.13	**119,104.94**	**59,765.69**
8	5,464.97	37,057.08	1,245.59	6,690.61	2,459.33	(1,075.04)	(62.15)	502.03	229.09	(1,308.43)	33.35	9.14	(111.42)	(0.14)	345.91	(3.76)	35.78	51,511.95	(6,089.40)	129,180.76	**174,603.30**	115,467.43	-	1,775.13	**117,242.56**	**57,360.75**
9	5,419.43	36,569.49	1,224.83	6,564.38	2,371.50	(1,056.51)	(60.33)	488.08	222.54	(1,281.17)	31.90	8.12	(92.85)	(0.13)	327.71	(3.63)	33.90	50,767.26	(5,812.61)	125,381.32	**170,335.98**	113,605.05	-	-	**113,605.05**	**56,730.93**
10	5,373.89	36,081.90	1,204.07	6,438.14	2,283.67	(1,037.97)	(58.50)	474.14	216.00	(1,253.91)	30.45	7.11	(74.28)	(0.12)	309.50	(3.50)	32.01	50,022.58	(5,535.82)	121,581.89	**166,068.65**	111,742.67	-	-	**111,742.67**	**54,325.98**
11	5,328.35	35,594.30	1,183.31	6,311.90	2,195.83	(1,019.44)	(56.67)	460.19	209.45	(1,226.65)	29.00	6.09	(55.71)	(0.11)	291.30	(3.38)	30.13	49,277.89	(5,259.03)	117,782.46	**161,801.32**	109,880.29	-	-	**109,880.29**	**51,921.03**
12	5,282.81	35,106.71	1,162.55	6,185.66	2,108.00	(1,000.90)	(54.84)	446.25	202.91	(1,199.39)	27.55	5.08	(37.14)	(0.10)	273.09	(3.25)	28.25	48,533.21	(4,982.24)	113,983.02	**157,533.99**	108,017.91	-	-	**108,017.91**	**49,516.08**
13	5,237.26	34,619.12	1,141.79	6,059.42	2,020.17	(982.37)	(53.01)	432.30	196.36	(1,172.13)	26.10	4.06	(18.57)	(0.09)	254.88	(3.13)	26.36	47,788.53	(4,705.45)	110,183.59	**153,266.67**	106,155.54	-	-	**106,155.54**	**47,111.13**
14	5,191.72	34,131.52	1,121.03	5,933.19	1,932.33	(963.83)	(51.19)	418.36	189.82	(1,144.87)	24.65	3.05	-	(0.08)	236.68	(3.00)	24.48	47,043.84	(4,428.65)	106,384.15	**148,999.34**	104,293.16	-	-	**104,293.16**	**44,706.18**
15	5,146.18	33,643.93	1,100.27	5,806.95	1,844.50	(945.30)	(49.36)	404.41	183.27	(1,117.62)	23.20	2.03	-	(0.07)	218.47	(2.88)	22.60	46,280.59	(4,151.86)	102,584.72	**144,713.44**	102,430.78	-	-	**102,430.78**	**42,282.66**
16	5,100.64	33,156.34	1,079.51	5,680.71	1,756.67	(926.76)	(47.53)	390.47	176.73	(1,090.36)	21.75	1.02	-	(0.07)	200.27	(2.75)	20.71	45,517.33	(3,875.07)	98,785.29	**140,427.55**	100,568.40	-	-	**100,568.40**	**39,859.14**
17	5,055.10	32,668.74	1,058.75	5,554.47	1,668.83	(908.22)	(45.70)	376.52	170.18	(1,063.10)	20.30	-	-	(0.06)	182.06	(2.63)	18.83	44,754.08	(3,598.28)	94,985.85	**136,141.65**	98,706.03	-	-	**98,706.03**	**37,435.62**
18	5,009.56	32,181.15	1,037.99	5,428.23	1,581.00	(889.69)	(43.87)	362.58	163.64	(1,035.84)	18.85	-	-	(0.05)	163.85	(2.50)	16.95	43,991.84	(3,321.49)	91,186.42	**131,856.77**	96,843.65	-	-	**96,843.65**	**35,013.12**
19	4,964.02	31,693.56	1,017.23	5,302.00	1,493.17	(871.15)	(42.05)	348.63	157.09	(1,008.58)	17.40	-	-	(0.04)	145.65	(2.38)	15.07	43,229.60	(3,044.70)	87,386.98	**127,571.88**	94,981.27	-	-	**94,981.27**	**32,590.61**
20	4,918.47	31,205.96	996.47	5,175.76	1,405.33	(852.62)	(40.22)	334.68	150.54	(981.32)	15.95	-	-	(0.03)	127.44	(2.25)	13.18	42,467.36	(2,767.91)	83,587.55	**123,287.00**	93,118.89	-	-	**93,118.89**	**30,168.11**
21	4,872.93	30,718.37	975.71	5,049.52	1,317.50	(834.08)	(38.39)	320.74	144.00	(954.06)	14.50	-	-	(0.02)	109.24	(2.13)	11.30	41,705.12	(2,491.12)	79,788.11	**119,002.12**	91,256.51	-	-	**91,256.51**	**27,745.61**
22	4,827.39	30,230.78	954.95	4,923.28	1,229.67	(815.55)	(36.56)	306.79	137.45	(926.80)	13.05	-	-	(0.01)	91.03	(2.00)	9.42	40,942.89	(2,214.33)	75,988.68	**114,717.24**	89,394.14	-	-	**89,394.14**	**25,323.10**
23	4,781.85	29,743.18	934.19	4,797.04	1,141.83	(797.01)	(34.73)	292.85	130.91	(899.54)	11.60	-	-	-	72.82	(1.88)	7.53	40,180.65	(1,937.54)	72,189.25	**110,432.36**	87,531.76	-	-	**87,531.76**	**22,900.60**
24	4,736.31	29,255.59	913.43	4,670.81	1,054.00	(778.48)	(32.91)	278.90	124.36	(872.29)	10.15	-	-	-	54.62	(1.75)	5.65	39,418.40	(1,660.75)	68,389.81	**106,147.47**	85,669.38	-	-	**85,669.38**	**20,478.09**
25	4,690.77	28,768.00	892.67	4,544.57	966.17	(759.94)	(31.08)	264.96	117.82	(845.03)	8.70	-	-	-	36.41	(1.63)	3.77	38,656.15	(1,383.95)	64,590.38	**101,862.57**	83,807.00	-	-	**83,807.00**	**18,055.57**
26	4,645.23	28,280.40	871.91	4,418.33	878.33	(741.41)	(29.25)	251.01	111.27	(817.77)	7.25	-	-	-	18.21	(1.50)	1.88	37,893.90	(1,107.16)	60,790.94	**97,577.68**	81,944.63	-	-	**81,944.63**	**15,633.06**
27	4,599.68	27,792.81	851.15	4,292.09	790.50	(722.87)	(27.42)	237.07	104.73	(790.51)	5.80	-	-	-	-	(1.38)	-	37,131.65	(830.37)	56,991.51	**93,292.79**	80,082.25	-	-	**80,082.25**	**13,210.55**
28	4,554.14	27,305.22	830.39	4,165.85	702.67	(704.34)	(25.59)	223.12	98.18	(763.25)	4.35	-	-	-	-	(1.25)	-	36,389.50	(553.58)	53,192.08	**89,027.99**	78,219.87	-	-	**78,219.87**	**10,808.12**
29	4,508.60	26,817.62	809.63	4,039.62	614.83	(685.80)	(23.77)	209.18	91.64	(735.99)	2.90	-	-	-	-	(1.13)	-	35,647.34	(276.79)	49,392.64	**84,763.19**	76,357.49	-	-	**76,357.49**	**8,405.70**
30	4,463.06	26,330.03	788.87	3,913.38	527.00	(667.27)	(21.94)	195.23	85.09	(708.73)	1.45	-	-	-	-	(1.00)	-	34,905.18	-	45,593.21	**80,498.39**	74,495.11	-	-	**74,495.11**	**6,003.27**
31	4,417.52	25,842.44	768.11	3,787.14	439.17	(648.73)	(20.11)	181.29	78.55	(681.47)	-	-	-	-	-	(0.88)	-	34,163.02	-	41,793.77	**75,956.79**	72,632.74	-	-	**72,632.74**	**3,324.06**
32	4,371.98	25,354.85	747.35	3,660.90	351.33	(630.20)	(18.28)	167.34	72.00	(654.21)	-	-	-	-	-	(0.75)	-	33,422.31	-	37,994.34	**71,416.65**	70,770.36	-	-	**70,770.36**	**646.29**
33	4,326.44	24,867.25	726.59	3,534.66	263.50	(611.66)	(16.45)	153.40	65.45	(626.96)	-	-	-	-	-	(0.63)	-	32,681.60	-	34,194.91	**66,876.51**	68,907.98	-	-	**68,907.98**	**(2,031.47)**
34	4,280.89	24,379.66	705.83	3,408.43	175.67	(593.13)	(14.62)	139.45	58.91	(599.70)	-	-	-	-	-	(0.50)	-	31,940.89	-	30,395.47	**62,336.36**	67,045.60	-	-	**67,045.60**	**(4,709.24)**
35	4,235.35	23,892.07	685.07	3,282.19	87.83	(574.59)	(12.80)	125.51	52.36	(572.44)	-	-	-	-	-	(0.38)	-	31,200.18	-	26,596.04	**57,796.22**	65,183.22	-	-	**65,183.22**	**(7,387.00)**
36	4,189.81	23,404.47	664.31	3,155.95	-	(556.06)	(10.97)	111.56	45.82	(545.18)	-	-	-	-	-	(0.25)	-	30,459.47	-	22,796.60	**53,256.08**	63,320.85	-	-	**63,320.85**	**(10,064.77)**
37	4,144.27	22,916.88	643.55	3,029.71	-	(537.52)	(9.14)	97.62	39.27	(517.92)	-	-	-	-	-	(0.13)	-	29,806.60	-	18,997.17	**48,803.77**	61,458.47	-	-	**61,458.47**	**(12,654.70)**
38	4,098.73	22,429.29	622.79	2,903.47	-	(518.99)	(7.31)	83.67	32.73	(490.66)	-	-	-	-	-	-	-	29,153.72	-	15,197.74	**44,351.46**	59,596.09	-	-	**59,596.09**	**(15,244.63)**
39	4,053.19	21,941.69	602.03	2,777.24	-	(500.45)	(5.48)	69.73	26.18	(463.40)	-	-	-	-	-	-	-	28,500.72	-	11,398.30	**39,899.02**	57,733.71	-	-	**57,733.71**	**(17,834.69)**
40	4,007.65	21,454.10	581.27	2,651.00	-	(481.92)	(3.66)	55.78	19.64	(436.14)	-	-	-	-	-	-	-	27,847.72	-	7,598.87	**35,446.59**	55,871.34	-	-	**55,871.34**	**(20,424.75)**
41	3,962.10	20,966.51	560.51	2,524.76	-	(463.38)	(1.83)	41.84	13.09	(408.88)	-	-	-	-	-	-	-	27,194.72	-	3,799.43	**30,994.15**	54,008.96	-	-	**54,008.96**	**(23,014.80)**
42	3,916.56	20,478.91	539.75	2,398.52	-	(444.84)	-	27.89	6.55	(381.62)	-	-	-	-	-	-	-	26,541.72	-	-	**26,541.72**	52,146.58	-	-	**52,146.58**	**(25,604.86)**
43	3,871.02	19,991.32	519.00	2,272.28	-	(426.31)	-	13.95	-	(354.37)	-	-	-	-	-	-	-	25,886.89	-	-	**25,886.89**	50,284.20	-	-	**50,284.20**	**(24,397.31)**
44	3,825.48	19,503.73	498.24	2,146.05	-	(407.77)	-	-	-	(327.11)	-	-	-	-	-	-	-	25,238.61	-	-	**25,238.61**	48,421.82	-	-	**48,421.82**	**(23,183.22)**
45	3,779.94	19,016.13	477.48	2,019.81	-	(389.24)	-	-	-	(299.85)	-	-	-	-	-	-	-	24,604.27	-	-	**24,604.27**	46,559.45	-	-	**46,559.45**	**(21,955.18)**
46	3,734.40	18,528.54	456.72	1,893.57	-	(370.70)	-	-	-	(272.59)	-	-	-	-	-	-	-	23,969.93	-	-	**23,969.93**	44,697.07	-	-	**44,697.07**	**(20,727.14)**
47	3,688.86	18,040.95	435.96	1,767.33	-	(352.17)	-	-	-	(245.33)	-	-	-	-	-	-	-	23,335.59	-	-	**23,335.59**	42,834.69	-	-	**42,834.69**	**(19,499.10)**
48	3,643.31	17,553.35	415.20	1,641.09	-	(333.63)	-	-	-	(218.07)	-	-	-	-	-	-	-	22,701.25	-	-	**22,701.25**	40,972.31	-	-	**40,972.31**	**(18,271.06)**
49	3,597.77	17,065.76	394.44	1,514.86	-	(315.10)	-	-	-	(190.81)	-	-	-	-	-	-	-	22,066.92	-	-	**22,066.92**	39,109.93	-	-	**39,109.93**	**(17,043.02)**
50	3,552.23	16,578.17	373.68	1,388.62	-	(296.56)	-	-	-	(163.55)	-	-	-	-	-	-	-	21,432.58	-	-	**21,432.58**	37,247.56	-	-	**37,247.56**	**(15,814.98)**
51	3,506.69	16,090.57	352.92	1,262.38	-	(278.03)	-	-	-	(136.29)	-	-	-	-	-	-	-	20,798.24	-	-	**20,798.24**	35,385.18	-	-	**35,385.18**	**(14,586.94)**
52	3,461.15	15,602.98	332.16	1,136.14	-	(259.49)	-	-	-	(109.04)	-	-	-	-	-	-	-	20,163.90	-	-	**20,163.90**	33,522.80	-	-	**33,522.80**	**(13,358.90)**
53	3,415.61	15,115.39	311.40	1,009.90	-	(240.96)	-	-	-	(81.78)	-	-	-	-	-	-	-	19,529.56	-	-	**19,529.56**	31,660.42	-	-	**31,660.42**	**(12,130.86)**
54	3,370.07	14,627.80	290.64	883.67	-	(222.42)	-	-	-	(54.52)	-	-	-	-	-	-	-	18,895.22	-	-	**18,895.22**	29,798.05	-	-	**29,798.05**	**(10,902.82)**
55	3,324.52	14,140.20	269.88	757.43	-	(203.89)	-	-	-	(27.26)	-	-	-	-	-	-	-	18,260.89	-	-	**18,260.89**	27,935.67	-	-	**27,935.67**	**(9,674.78)**
56	3,278.98	13,652.61	249.12	631.19	-	(185.35)	-	-	-	-	-	-	-	-	-	-	-	17,626.55	-	-	**17,626.55**	26,073.29	-	-	**26,073.29**	**(8,446.74)**
57	3,233.44	13,165.02	228.36	504.95	-	(166.82)	-	-	-	-	-	-	-	-	-	-	-	16,964.95	-	-	**16,964.95**	24,210.91	-	-	**24,210.91**	**(7,245.96)**
58	3,187.90	12,677.42	207.60	378.71	-	(148.28)	-	-	-	-	-	-	-	-	-	-	-	16,303.35	-	-	**16,303.35**	22,348.53	-	-	**22,348.53**	**(6,045.18)**
59	3,142.36	12,189.83	186.84	252.48	-	(129.75)	-	-	-	-	-	-	-	-	-	-	-	15,641.76	-	-	**15,641.76**	20,486.16	-	-	**20,486.16**	**(4,844.40)**
60	3,096.82	11,702.24	166.08	126.24	-	(111.21)	-	-	-	-	-	-	-	-	-	-	-	14,980.16	-	-	**14,980.16**	18,623.78	-	-	**18,623.78**	**(3,643.62)**
61	3,051.28	11,214.64	145.32	-	-	(92.68)	-	-	-	-	-	-	-	-	-	-	-	14,318.56	-	-	**14,318.56**	16,761.40	-	-	**16,761.40**	**(2,442.84)**
62	3,005.73	10,727.05	124.56	-	-	(74.14)	-	-	-	-	-	-	-	-	-	-	-	13,783.20	-	-	**13,783.20**	14,899.02	-	-	**14,899.02**	**(1,115.82)**
63	2,960.19	10,239.46	103.80	-	-	(55.61)	-	-	-	-	-	-	-	-	-	-	-	13,247.84	-	-	**13,247.84**	13,036.64	-	-	**13,036.64**	**211.20**
64	2,914.65	9,751.86	83.04	-	-	(37.07)	-	-	-	-	-	-	-	-	-	-	-	12,712.48	-	-	**12,712.48**	11,174.27	-	-	**11,174.27**	**1,538.22**
65	2,869.11	9,264.27	62.28	-	-	(18.54)	-	-	-	-	-	-	-	-	-	-	-	12,177.12	-	-	**12,177.12**	9,311.89	-	-	**9,311.89**	**2,865.24**
66	2,823.57	8,776.68	41.52	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,641.77	-	-	**11,641.77**	7,449.51	-	-	**7,449.51**	**4,192.25**
67	2,778.03	8,289.08	20.76	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11,087.87	-	-	**11,087.87**	5,587.13	-	-	**5,587.13**	**5,500.74**
68	2,732.49	7,801.49	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,533.98	-	-	**10,533.98**	3,724.75	-	-	**3,724.75**	**6,809.22**
69	2,686.94	7,313.90		-	-	-	-	-	-	-	-	-	-	-	-	-	-	10,000.84	-	-	**10,000.84**	1,862.38	-	-	**1,862.38**	**8,138.46**
70	2,641.40	6,826.30		-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,467.71	-	-	**9,467.71**	-	-	-	-	**9,467.71**
71	2,595.86	6,338.71		-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,934.57	-	-	**8,934.57**	-	-	-	-	**8,934.57**
72	2,550.32	5,851.12		-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,401.44	-	-	**8,401.44**	-	-	-	-	**8,401.44**
73	2,504.78	5,363.52		-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,868.30	-	-	**7,868.30**	-	-	-	-	**7,868.30**
74	2,459.24	4,875.93		-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,335.17	-	-	**7,335.17**	-	-	-	-	**7,335.17**
75	2,413.70	4,388.34		-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,802.03	-	-	**6,802.03**	-	-	-	-	**6,802.03**
76	2,368.15	3,900.75		-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,268.90	-	-	**6,268.90**	-	-	-	-	**6,268.90**
77	2,322.61	3,413.15		-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,735.77	-	-	**5,735.77**	-	-	-	-	**5,735.77**
78	2,277.07	2,925.56		-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,202.63	-	-	**5,202.63**	-	-	-	-	**5,202.63**
79	2,231.53	2,437.97		-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,669.50	-	-	**4,669.50**	-	-	-	-	**4,669.50**
80	2,185.99	1,950.37		-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,136.36	-	-	**4,136.36**	-	-	-	-	**4,136.36**
81	2,140.45	1,462.78		-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,603.23	-	-	**3,603.23**	-	-	-	-	**3,603.23**
82	2,094.91	975.19		-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,070.09	-	-	**3,070.09**	-	-	-	-	**3,070.09**
83	2,049.36	487.59		-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,536.96	-	-	**2,536.96**	-	-	-	-	**2,536.96**
84	2,003.82	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,003.82	-	-	**2,003.82**	-	-	-	-	**2,003.82**
85	1,958.28	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,958.28	-	-	**1,958.28**	-	-	-	-	**1,958.28**
86	1,912.74	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,912.74	-	-	**1,912.74**	-	-	-	-	**1,912.74**
87	1,867.20	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,867.20	-	-	**1,867.20**	-	-	-	-	**1,867.20**
88	1,821.66	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,821.66	-	-	**1,821.66**	-	-	-	-	**1,821.66**
89	1,776.12	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,776.12	-	-	**1,776.12**	-	-	-	-	**1,776.12**
90	1,730.57	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,730.57	-	-	**1,730.57**	-	-	-	-	**1,730.57**
91	1,685.03	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,685.03	-	-	**1,685.03**	-	-	-	-	**1,685.03**
92	1,639.49	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,639.49	-	-	**1,639.49**	-	-	-	-	**1,639.49**
93	1,593.95	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,593.95	-	-	**1,593.95**	-	-	-	-	**1,593.95**
94	1,548.41	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,548.41	-	-	**1,548.41**	-	-	-	-	**1,548.41**
95	1,502.87	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,502.87	-	-	**1,502.87**	-	-	-	-	**1,502.87**
96	1,457.33	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,457.33	-	-	**1,457.33**	-	-	-	-	**1,457.33**
97	1,411.78	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,411.78	-	-	**1,411.78**	-	-	-	-	**1,411.78**
98	1,366.24	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,366.24	-	-	**1,366.24**	-	-	-	-	**1,366.24**
99	1,320.70	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,320.70	-	-	**1,320.70**	-	-	-	-	**1,320.70**
100	1,275.16	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,275.16	-	-	**1,275.16**	-	-	-	-	**1,275.16**
101	1,229.62	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,229.62	-	-	**1,229.62**	-	-	-	-	**1,229.62**
102	1,184.08	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,184.08	-	-	**1,184.08**	-	-	-	-	**1,184.08**
103	1,138.54	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,138.54	-	-	**1,138.54**	-	-	-	-	**1,138.54**
104	1,092.99	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,092.99	-	-	**1,092.99**	-	-	-	-	**1,092.99**
105	1,047.45	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,047.45	-	-	**1,047.45**	-	-	-	-	**1,047.45**
106	1,001.91	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,001.91	-	-	**1,001.91**	-	-	-	-	**1,001.91**
107	956.37	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	956.37	-	-	**956.37**	-	-	-	-	**956.37**
108	910.83	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	910.83	-	-	**910.83**	-	-	-	-	**910.83**
109	865.29	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	865.29	-	-	**865.29**	-	-	-	-	**865.29**
110	819.75	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	819.75	-	-	**819.75**	-	-	-	-	**819.75**
111	774.20	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	774.20	-	-	**774.20**	-	-	-	-	**774.20**
112	728.66	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	728.66	-	-	**728.66**	-	-	-	-	**728.66**
113	683.12	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	683.12	-	-	**683.12**	-	-	-	-	**683.12**
114	637.58	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	637.58	-	-	**637.58**	-	-	-	-	**637.58**
115	592.04	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	592.04	-	-	**592.04**	-	-	-	-	**592.04**
116	546.50	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	546.50	-	-	**546.50**	-	-	-	-	**546.50**
117	500.96	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	500.96	-	-	**500.96**	-	-	-	-	**500.96**
118	455.41	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	455.41	-	-	**455.41**	-	-	-	-	**455.41**
119	409.87	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	409.87	-	-	**409.87**	-	-	-	-	**409.87**
120	364.33	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	364.33	-	-	**364.33**	-	-	-	-	**364.33**
121	318.79	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	318.79	-	-	**318.79**	-	-	-	-	**318.79**
122	273.25	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	273.25	-	-	**273.25**	-	-	-	-	**273.25**
123	227.71	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	227.71	-	-	**227.71**	-	-	-	-	**227.71**
124	182.17	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	182.17	-	-	**182.17**	-	-	-	-	**182.17**
125	136.62	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	136.62	-	-	**136.62**	-	-	-	-	**136.62**
126	91.08	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	91.08	-	-	**91.08**	-	-	-	-	**91.08**
127	45.54	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	45.54	-	-	**45.54**	-	-	-	-	**45.54**
Total	**370,160.74**	**1,699,749.81**	**47,290.83**	**231,015.54**	**55,335.01**	**(39,758.01)**	**(1,573.98)**	**13,192.16**	**5,910.52**	**(41,978.73)**	**674.19**	**138.12**	**(1,689.89)**	**(2.37)**	**6,390.29**	**(87.99)**	**660.99**	**2,345,427.23**	**(120,404.04)**	**3,271,312.71**	**5,496,335.90**	**4,497,642.49**	**51,129.77**	**14,201.05**	**4,562,973.31**	**933,362.59**

WILARY WINN

Fair Value Loan Valuation Definitions

Principal Balance:	Outstanding principal balance on the loan as of the valuation date.
# of Loans:	Count of loans.
Avg FICO:	Weighted Average FICO credit score. Weighted by balance and only loans with a valid credit score are included in the weighting. FICO scores are as of *date*.
Avg Risk Ranking:	Weighted Average current risk ranking. Average is weighted by balance and only loans with a valid risk ranking are included. We note the risk rankings provided are based on XYZ CU's risk ranking scale from 1 to 10. Under XYZ CU's scale, 1 is classified as "Superior" and 10 is classified as "Loss." We best mapped XYZ CU U's risk ranking scale to Wilary Winn's risk ranking scale which ranges from 1 to 8.
Avg LTV*:	Weighted Average Loan to Value ("LTV"). Outstanding loan balance divided by the current appraised home value. Average is weighted by balance and only loans with a valid LTV are included in the weighting. The LTV shown on the loans in second position is a Combined LTV which is the sum of the 1st mortgage plus the 2nd mortgage balance divided by the current appraised value. Appraised values are as of *date*.
WAC:	Weighted Average Coupon. This is the contractual rate of interest on the loan.
Age:	Number of months elapsed since the loan was originated.
WAM:	Weighted Average Maturity. Number of months remaining until the loan is due on the contractual loan payment schedule.
Avg Life:	The average number of years that the Principal Balance will remain outstanding. This calculated amount indicates how many years it will take to repay half of the outstanding Principal Balance. This calculation is

dependent on the loan's scheduled amortization and our CPR% assumption.

CPR %: Conditional Prepayment Rate. Annual % of expected voluntary and involuntary payoffs (defaults). CRR% plus CDR% = CPR%. CPR% compares to the Public Securities Association ("PSA") standard prepayment speed, and a PSA of 100% equates to a 6% CPR% in month 30 and beyond. CPR% is also similar to an annualized Single Monthly Mortality ("SMM") rate. A CPR% of 10% roughly indicates that 10% of the starting Principal Balance will be paid off by the end of a one year period.

CRR %: Conditional Repayment Rate. Annual amount of expected voluntary payoffs as a percentage of the principal amount outstanding at the beginning of the year.

CDR %: Conditional Default Rate. Annual amount of expected defaults as a percentage of the principal amount outstanding at the beginning of the year.

Severity %: Loss Severity expected on a loan that does go into default. This is equal to the liquidated Principal Balance minus any recovered amount divided by the Principal Balance. Severity % is the inverse of a recovery rate.

Future Loss %: Future expected net cumulative losses expressed as a % of current Principal Balance.

Discount Rate: Rate used to present value the expected gross cashflows back to the valuation date. The rate used on the top two FICO score buckets (>719) are the observable current market rates. For FICO scores that are below 720, we have used a build-up methodology. Please see the report for more details on this methodology.

Fair Value %: Fair Value dollar amount expressed as a percent of the current Principal Balance.

Fair Value $: Present value of the expected future cashflows. Expected future gross cashflows are dependent on the contractual terms of the loan (interest rate, term), our repayment assumptions (CRR %), our default assumption (CDR %), and our loss Severity % assumptions. For accounting purposes, the gross cash flows are considered to be a single best estimate assumption. The gross cashflows are discounted using the Discount Rate.

Difference:	Fair Value $ minus Principal Balance. This difference is broken out further into a Credit Only Difference and a Discount Rate Difference.
Undiscounted Principal Losses:	The Fair Value Difference that arises only from our credit assumptions (CDR % and Severity %). This number is the total expected lifetime nominal losses on the loans. To estimate an annualized loss amount, take this Undiscounted Principal Losses amount divided by the Avg Life.
Discount Rate Difference:	The Fair Value Difference that arises from our Discount Rate assumption. This amount is derived by calculating the present value of the gross cash flows of the loans at our Discount Rate as compared to the WAC.