

## **INDEPENDENT AUDITOR'S REPORT**

April 8, 2021

To the Supervisory Committee and Board of Directors of  
Catalyst Corporate Federal Credit Union

We have audited the accompanying consolidated financial statements of Catalyst Corporate Federal Credit Union and its subsidiaries, which comprise the consolidated statements of financial condition as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended and the related notes to the consolidated financial statements. We also have audited Catalyst Corporate Federal Credit Union's internal control over financial reporting, including controls over the preparation of regulatory consolidated financial statements in accordance with the instructions for the National Credit Union Administration's (NCUA) 5310 Call Report, as of December 31, 2020, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013).

### *Management's Responsibility for the Consolidated Financial Statements and Internal Control over Financial Reporting*

Catalyst Corporate Federal Credit Union's 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 effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying 2020 Management Report.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the entity's internal control over financial reporting 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 of material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of the consolidated financial statements 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. An audit of consolidated financial statements 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.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances.

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

#### *Definition and Inherent Limitations of Internal Control over Financial Reporting*

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 704.15 of the NCUA Regulations, our audit of Catalyst Corporate Federal Credit Union's internal control over financial reporting included controls over the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and with the NCUA 5310 Call Report instructions. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

To the Supervisory Committee and Board of Directors of  
Catalyst Corporate Federal Credit Union  
Page 3

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Opinion*

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of Catalyst Corporate Federal Credit Union as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, Catalyst Corporate Federal Credit Union maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*.

*Doeren Mayhew*

Doeren Mayhew  
Miami, FL

# Catalyst Corporate Federal Credit Union

## Consolidated Statements of Financial Condition

As of December 31, (in thousands)	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$1,959,032	\$871,915
Securities purchased under agreements to resell	300,000	250,000
Investments:		
Interest-bearing deposits	7,124	7,124
Available-for-sale	1,556,053	1,150,631
Central Liquidity Facility (CLF) capital stock	96,120	-
Federal Home Loan Bank (FHLB) capital stock	1,012	949
Investments in credit union service organizations (CUSOs)	6,580	6,439
Loans, net of allowance of \$62 and \$30 as of December 31, 2020 and 2019, respectively	185,988	180,089
Accounts receivables and other assets	33,006	32,588
Property and equipment, net	14,522	13,551
Goodwill and other intangible assets	8,098	2,768
National Credit Union Share Insurance Fund (NCUSIF) Deposit	2,479	2,480
<b>Total assets</b>	<b>\$4,170,014</b>	<b>\$2,518,534</b>
<b>Liabilities</b>		
Members' shares and certificates	\$3,823,083	\$2,210,446
Accrued expenses and other liabilities	20,572	16,853
<b>Total liabilities</b>	<b>3,843,655</b>	<b>2,227,299</b>
Commitments and contingent liabilities		
<b>Members' Equity</b>		
Perpetual contributed capital	178,199	177,836
Retained earnings	130,398	109,562
Non-controlling interest	4,998	746
Accumulated other comprehensive income	12,764	3,091
<b>Total members' equity</b>	<b>326,359</b>	<b>291,235</b>
<b>Total liabilities and members' equity</b>	<b>\$4,170,014</b>	<b>\$2,518,534</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

# Catalyst Corporate Federal Credit Union

## Consolidated Statements of Income

For the years ended December 31, (in thousands)	2020	2019
<b>Interest income</b>		
Available-for-sale investments	\$25,878	\$31,111
Federal Reserve Bank	3,814	20,147
Loans	2,817	4,556
Other	1,915	2,254
Total interest income	34,424	58,068
<b>Interest expense</b>		
Members' shares and certificates	3,311	22,016
Borrowed funds	-	2,497
Total interest expense	3,311	24,513
Net interest income	31,113	33,555
<b>Provision for loan losses</b>	35	30
Net interest income after provision for loan losses	31,078	33,525
<b>Non-interest income</b>		
Share draft and depository processing fees	19,193	20,294
Other fee income	13,989	11,267
Off-balance-sheet income	12,758	10,262
Total non-interest income	45,940	41,823
<b>Non-interest expenses</b>		
Compensation and benefits	33,770	30,890
Information technology	7,735	6,721
Outside processing and service costs	7,287	6,960
Other operating expenses	2,292	3,160
Professional fees	1,508	1,178
Office occupancy	1,156	1,155
Total non-interest expenses	53,748	50,064
<b>Other net gains</b>	53	86
<b>Net gain/(loss) attributable to non-controlling interest</b>	54	(93)
<b>Net income</b>	\$23,377	\$25,277

*The accompanying notes are an integral part of the consolidated financial statements.*

# Catalyst Corporate Federal Credit Union

## Consolidated Statements of Comprehensive Income

For the years ended December 31, (in thousands)	2020	2019
<b>Net income</b>	<b>\$23,377</b>	<b>\$25,277</b>
<b>Other comprehensive income</b>		
Net unrealized holding gains on investments classified as available-for-sale	9,712	4,200
Reclassification adjustment for net gains included in net income	(39)	(81)
Other comprehensive income	9,673	4,119
<b>Comprehensive income</b>	<b>\$33,050</b>	<b>\$29,396</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

# Catalyst Corporate Federal Credit Union

## Consolidated Statements of Members' Equity

For the years ended December 31, 2019 and 2020 (in thousands)	Perpetual Contributed Capital	Retained Earnings	Non- controlling Interest	Accumulated Other Comprehensive Income/(Loss)	Total
Balance at December 31, 2018	\$175,268	\$89,319	\$653	(\$1,028)	\$264,212
Net income	-	25,277	93	-	25,370
Perpetual contributed capital issued	2,570	-	-	-	2,570
Perpetual contributed capital released due to credit union liquidation	(2)	-	-	-	(2)
Dividends paid on perpetual contributed capital	-	(5,034)	-	-	(5,034)
Other comprehensive income	-	-	-	4,119	4,119
Balance at December 31, 2019	177,836	109,562	746	3,091	291,235
Net income	-	23,377	(54)	-	23,323
Partial sale of minority interest in CUSO	-	-	4,306	-	4,306
Perpetual contributed capital issued	363	-	-	-	363
Dividends paid on perpetual contributed capital	-	(2,541)	-	-	(2,541)
Other comprehensive income	-	-	-	9,673	9,673
Balance at December 31, 2020	\$178,199	\$130,398	\$4,998	\$12,764	\$326,359

*The accompanying notes are an integral part of the consolidated financial statements.*

# Catalyst Corporate Federal Credit Union

## Consolidated Statements of Cash Flows

For the years ended December 31, (in thousands)	2020	2019
<b>Cash flows from operating activities:</b>		
Net income	<b>\$23,377</b>	\$25,277
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment, net	<b>2,303</b>	1,972
Net loss on disposition of assets	<b>2</b>	-
Net gain on sale/redemption of investments available-for-sale	<b>(39)</b>	(81)
Net amortization/(accretion) of premiums and discounts on available-for-sale investments	<b>596</b>	(2,030)
Amortization of other intangible assets	<b>239</b>	-
Amortization of premium on loan participation	<b>30</b>	38
Provision for loan losses	<b>35</b>	30
Change in company-owned life insurance (COLI) policy	<b>(275)</b>	(306)
FHLB capital stock dividends	<b>(40)</b>	(187)
Net (gain)/loss attributable to non-controlling interest	<b>(54)</b>	93
Changes in operating assets and liabilities:		
Increase in accounts receivables and other assets	<b>(143)</b>	(2,022)
Increase in accrued expenses and other liabilities	<b>3,719</b>	1,477
Net cash provided by operating activities	<b>29,750</b>	24,261

*The accompanying notes are an integral part of the consolidated financial statements.*



# Catalyst Corporate Federal Credit Union

## Consolidated Statements of Cash Flows

For the years ended December 31, (in thousands) 2020                      2019

<b>Cash flows from investing activities:</b>		
Purchases of securities under agreements to resell	(1,099,999)	(1,360,000)
Proceeds from maturities of securities purchased under agreements to resell	1,049,999	1,110,000
Proceeds from redemption of available-for-sale investments	25,566	5,662
Proceeds from maturities and repayments of available-for-sale investments	1,151,170	585,657
Purchases of available-for-sale investments	(1,573,042)	(777,708)
Net change in interest-bearing deposits	-	(1,680)
(Purchase)/redemption of FHLB capital stock	(23)	5,962
Goodwill and other intangible assets from purchase of CUSO	(5,569)	-
Change in investments in CUSOs	(141)	(226)
Net change in loans	(5,964)	45,082
Purchase of CLF capital stock	(96,120)	-
Expenditures for property and equipment, net	(3,276)	(2,248)
Change in NCUSIF	1	16
Net cash used in investing activities	(557,398)	(389,483)
<b>Cash flows from financing activities:</b>		
Net change in members' shares and certificates	1,612,637	242,885
Proceeds from sale of non-controlling interest in CUSO	4,306	-
Perpetual contributed capital issued	363	2,570
Perpetual contributed capital released	-	(2)
Dividends paid on perpetual contributed capital	(2,541)	(5,034)
Net cash provided by financing activities	1,614,765	240,419
Net increase/(decrease) in cash and cash equivalents	1,087,117	(124,803)
Cash and cash equivalents at beginning of year	871,915	996,718
Cash and cash equivalents at end of year	\$1,959,032	\$871,915

**Supplemental disclosure of cash flow information:**

Cash paid for:

Interest on members' shares and certificates	\$3,325	\$21,967
Interest on borrowed funds	\$-	\$2,497

*The accompanying notes are an integral part of the consolidated financial statements.*

# **Catalyst Corporate Federal Credit Union**

## **Notes to the Consolidated Financial Statements**

### **1. ORGANIZATION**

Catalyst Corporate Federal Credit Union (Catalyst Corporate) is a federally chartered corporate credit union whose principal activity is to provide investment, credit, payment and correspondent services to its member credit unions. Catalyst Corporate's members can include federal and state-chartered credit unions, and other credit union organizations throughout the United States.

Catalyst Corporate derives its authority to operate from the United States federal government under the Federal Credit Union Act (the Act). The National Credit Union Administration (NCUA) serves as the regulatory agency responsible for enforcement of the Act. Pursuant to Section 122 of the Act, Catalyst Corporate is exempt from the payment of federal and state income taxes.

Catalyst Corporate wholly owns CUSOURCE, LLC (CUSOURCE), which is a credit union service organization (CUSO) that provides investment advisory and asset-liability management services to credit unions on a nationwide basis. CUSOURCE conducts business under the name "Catalyst Strategic Solutions." In addition, Catalyst Corporate owns 74 percent of TranzCapture, LLC (TranzCapture), a CUSO that was formed in 2015 for software development.

On May 28, 2020, Catalyst Corporate purchased Georgia-based Aptys Solutions, LLC (Aptys Solutions), a leading provider of real-time processing and electronic payment solutions. On May 29, 2020, Catalyst Corporate sold a minority ownership interest of the CUSO to Alloya Corporate Federal Credit Union (25 percent) and Vizo Financial Corporate Credit Union (24 percent), thus Catalyst Corporate owns 51 percent of Aptys Solutions.

All three CUSOs are formed as Texas limited liability companies, and that the federal income tax liability flows through to its owners, the CUSOs are not subject to federal and state income taxes.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Consolidated financial statements/Use of estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the fair value of financial instruments. The significant accounting principles and policies used in the preparation of these consolidated financial statements, together with certain related information, are summarized below. Management elected to round the consolidated financial statements to the nearest thousand dollars.

#### ***Principles of consolidation***

The consolidated financial statements include the accounts of Catalyst Corporate, CUSOURCE TranzCapture, and Aptys Solutions. All significant intercompany balances and transactions have been eliminated in the Catalyst Corporate consolidated financial statements.

## **Catalyst Corporate Federal Credit Union**

### **Notes to the Consolidated Financial Statements**

Note: 2 (continued)

#### ***Cash and cash equivalents***

Cash and cash equivalents include amounts due from the Federal Reserve Bank (FRB) and other banks, as well as cash maintained in various courier vaults. Amounts due from banks may, at times, exceed federally insured limits. Cash and cash equivalents include pass-through reserves deposited with FRB of \$133,544,000 as of December 31, 2019. Due to the pandemic and the significant inflow of funds, the FRB temporarily suspended the requirements of Regulation D, therefore, there were no pass-thru reserves deposited with the FRB as of December 31, 2020. Member credit unions' reserve balances are included in members' shares and certificates in the consolidated statements of financial condition.

#### ***Securities purchased under agreements to resell***

Catalyst Corporate entered into reverse repurchase agreements accounted for as secured borrowings at amortized cost. As the buyer-lender, Catalyst Corporate bought the securities with an agreement to resell them to the seller-borrower at a stated price plus interest at a specified date. The balance of outstanding reverse repurchase agreements as of December 31, 2020 and 2019, was \$300,000,000 and \$250,000,000, respectively.

#### ***Interest rate derivatives***

Catalyst Corporate utilizes interest rate swap agreements to manage the effects of interest rate volatility on net interest income. These swap transactions are designated as fair value hedges as they are used to hedge against the changes in the fair value of Catalyst Corporate's member term loans attributable to changes in interest rates. The fair values of these interest rate derivatives are recognized in the consolidated statements of financial condition as an asset or a liability at fair value. Gains and losses on the derivatives are reported in income along with the related gains and losses of the hedged financial instruments.

Interest rate swap gains and losses, and related accrued interest receivable and payable, are netted per counterparty. An interest rate derivative asset (or liability) is recognized when the net result for an individual counterparty is an asset (or a liability). Cash collateral receivables or payables are also offset against net derivative positions. Interest income and expense on swaps designated as hedges are recorded in income in conjunction with the income or expense of the hedged financial instrument.

#### ***FRB – Excess Balance Account (EBA) Program***

Catalyst Corporate, as agent, entered into an EBA agreement with participating member credit unions and the FRB, whereby the FRB opened EBA accounts for the benefit of the participants at the request of the agent. As such, the balances in the EBA accounts are not reflected in the Catalyst Corporate consolidated statements of financial condition. These balances totaled approximately \$10,257,416,000 and \$5,384,631,000 as of December 31, 2020 and 2019, respectively. Neither the participating member credit unions nor the agent may use the EBA for general payments or other activities. The aggregate balance in the EBA represents a deposit liability of the FRB solely to the participants. Catalyst Corporate, as agent, is solely responsible for calculating and distributing the interest payable to each participant on the participant's excess balance and for damages owed to participants for any inaccuracy in calculating the participant's excess balance and interest.

## **Catalyst Corporate Federal Credit Union**

### **Notes to the Consolidated Financial Statements**

Note: 2 (continued)

#### ***Investments***

Certain investments are classified as available-for-sale when Catalyst Corporate anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value.

Unrealized gains and losses on available-for-sale securities are recognized as direct increases or decreases in other comprehensive income/(loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the estimated fair value of available-for-sale securities below their cost that are other-than-temporary are reflected as realized losses in the consolidated statements of income. Factors affecting the determination of whether an other-than-temporary impairment (OTTI) has occurred include, among other things: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) that Catalyst Corporate does not intend to sell these securities, and (4) it is more likely than not that Catalyst Corporate will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date, and the cost of securities sold are determined using the specific identification method.

As of December 31, 2020 and 2019, interest-bearing deposits, CLF capital stock, FHLB capital stock and various investments in CUSOs are generally carried at cost, with the exception of certain investments in CUSOs, which are accounted for using the equity method of accounting.

In 2020, the U.S. Government enacted the Cares Act which included legislative changes to the CLF to provide greater access to liquidity for credit unions. The CLF is the channel for credit unions to access funds from the U.S. Treasury. This legislation is temporary and is set to expire on December 31, 2021. Catalyst Corporate, as a corporate credit union, can act as an agent on behalf of its member credit unions with assets under \$250,000,000. Catalyst Corporate may also become a direct member in the CLF. CLF capital stock at December 31, 2020 includes \$89,921,000 invested into the CLF by Catalyst Corporate on behalf of its member credit unions with assets under \$250,000,000, as well as approximately \$6,199,000 invested by Catalyst Corporate as a regular member of the NCUA CLF.

Catalyst Corporate is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. Capital stock may be redeemed after a five-year written notice to the FHLB. Capital stock in FHLB is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Cash and stock dividends are reported as income. Stock dividends are reinvested in FHLB capital stock. Catalyst Corporate held capital stock issued by FHLB of Dallas of approximately \$1,012,000 and \$949,000 as of December 31, 2020 and 2019, respectively.

## **Catalyst Corporate Federal Credit Union**

### **Notes to the Consolidated Financial Statements**

Note: 2 (continued)

#### ***Loans***

Loans include loans to members and loan participations, net of allowance. Loans to members are stated at the amount of unpaid principal. Interest on loans is accrued daily and is calculated using the simple-interest method on principal amounts outstanding. The accrual of interest is discontinued when management believes the collection of interest is doubtful. Catalyst Corporate reviews the loan portfolio for impairment on a regular basis.

Open-end credit lines are provided at a variable interest rate and must be repaid within 12 months of the date of each advance or upon demand. All of these lines are backed by either a general or specific pledge of the borrowing credit union's assets.

Term loans are provided in a variety of structures including fixed rate, variable rate, bullet and amortizing structures. These loans are backed by either a specific or general pledge of the borrowing credit union's assets. Catalyst Corporate offers term loans with maturities up to 10 years.

Loan participations, which are secured by vehicle loans, are considered as held for investment and are initially recorded at market value as of the settlement date, net of the allowance. The allowance is increased by provision for loan losses charged to expense and decreased by charge offs (net of recoveries). The allowance is maintained at an amount that represents management's estimate of losses that may be sustained in the liquidation of currently outstanding loans. Any difference between the market price and par value is recorded as a premium or discount. The accretable premium or discount is amortized to interest income or expense using the interest method over the expected weighted average life of the loan pool. Accrued interest on the loans is recorded to interest income. Principal and interest payments on the loans are applied monthly to reduce loan participation asset and accrued interest balances.

#### **Allowance for loan losses**

Catalyst Corporate's loans to members consists only of loans to credit unions, credit union leagues and CUSOs. Catalyst Corporate has segmented the portfolio into two types of loans (open-end credit lines and term loans) based on risk characteristics of each loan type. Each type of loan requires significant judgment to determine the amount of lines of credit and term loans to extend to any one member. The following methodology is used by management to determine the balance of the allowance for loan losses.

#### **Credit quality indicators**

Member loans are evaluated on a loan-by-loan basis. All open-end credit lines and term loans to credit unions, credit union leagues and CUSO members are secured by either a general pledge of assets or a specific pledge.

Approximately one half of the dollar volume of open-end credit lines and term loans are secured by a blanket lien on all assets. The remainder is secured by specific collateral. This collateral is pledged by the member prior to Catalyst Corporate extending loan advances. Loans to members can be offset against the members' share accounts, if necessary.

## **Catalyst Corporate Federal Credit Union**

### **Notes to the Consolidated Financial Statements**

Note: 2 (continued)

If management determines that a loan is impaired, then impairment is recognized by recording an allowance for loan losses. There were no impaired loans as of December 31, 2020 or 2019. Additionally, none of the loans were past due or had been modified as of December 31, 2020 or 2019. Catalyst Corporate places loans on non-accrual status when the loan reaches 90 days past due or when the collection of interest or principal becomes uncertain.

#### **Loan participations**

Loan participations, secured by vehicle loans, were purchased without recourse and the participating financial institution performs all loan servicing functions on these loans. Catalyst Corporate records an allowance for loan loss provision equal to the estimated inherent losses attributed to the current portfolio. The following methodology is used by management to evaluate loan participations.

#### **Loan Participation Credit Quality Indicators**

Loan participations are segmented by loan pool and the allowance is calculated by segment utilizing the following factors:

- Originating credit union historical loss rate for the loan type
- Level and trends in delinquencies and impaired loans
- Level and trends in charge-offs and recoveries
- Qualitative and environmental factors which may include lending policy and procedure changes, economic condition changes, and the depth of the originating credit union's management experience

As of December 31, 2020 and 2019, Catalyst Corporate recorded an allowance of \$62,000 and \$30,000, respectively.

#### ***Property and equipment, net***

Land is carried at cost. Property and equipment are carried at cost less accumulated depreciation. Buildings, capital improvements, software, hardware, furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Catalyst Corporate reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

#### ***Goodwill and other intangible assets***

Goodwill and intangible assets acquired in a purchase business combination determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that an impairment test should be performed. Catalyst Corporate has selected December 31 as the date to perform the annual impairment test, and any impairment is recognized in the period identified. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life in Catalyst Corporate's consolidated statements of financial condition. Other intangible assets consist of member relationships. The member relationship intangible is being amortized straight line over its estimated useful life of 10 years.

## **Catalyst Corporate Federal Credit Union**

### **Notes to the Consolidated Financial Statements**

Note: 2 (continued)

#### ***NCUSIF***

The deposit in the NCUSIF is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to the credit union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board. The NCUSIF deposit is required to be periodically reviewed for impairment.

#### ***Members' shares and certificates***

Members' shares and certificates are subordinated to all other liabilities of Catalyst Corporate other than perpetual contributed capital upon liquidation. Interest rates on members' shares and certificates are set by management under the direction of the Board of Directors.

#### ***Perpetual contributed capital (PCC)***

PCC is member credit union contributed capital that is perpetual, uninsured, and available to cover losses that exceed retained earnings. It is not negotiable or assignable but may be transferable to another eligible member credit union under certain provisions. PCC may not be pledged or used as security for borrowing. PCC dividends are non-cumulative and determined based on net earnings and the overall capital needs of Catalyst Corporate. Additionally, PCC dividends are not guaranteed and may be suspended if earnings are negative and/or capital levels fall below regulatory and/or policy minimum levels.

#### ***Comprehensive income/(loss)***

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive income/(loss). Other comprehensive income/(loss) is limited to the changes in unrealized gains/(losses) on available-for-sale investments. When available-for-sale investments are sold, the gain/(loss) realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the net gain/(loss) on sale of available-for-sale investments reported in the consolidated statements of income.

#### ***Federal and state tax exemption***

Catalyst Corporate is exempt from most federal, state and local taxes under the provisions of the Internal Revenue Code (IRC) and state tax laws. The Income Tax Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) clarifies accounting for uncertainty in income taxes reported in the consolidated financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they met the "more likely than not" standard for sustainability on examination by tax authorities. Federal credit unions are tax-exempt under IRC sections 501(c) (14) (a) and 501(c) (1) (a) (I). As such, Catalyst Corporate has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. Additionally, no interest or penalties have been recorded in the accompanying consolidated financial statements related to uncertain tax positions.

## **Catalyst Corporate Federal Credit Union**

### **Notes to the Consolidated Financial Statements**

Note: 2 (continued)

#### ***Revenue recognition***

Share draft and depository processing fees and other fee income: Catalyst Corporate earns fee income from its members for transaction-based services. Transaction-based services, which include services such as share-draft and deposit processing fees, coin and currency, and wiring fees, are recognized at the time the transaction is executed, as that is the point in time that Catalyst Corporate fulfills the member's request, concurrently with the correspondent banking expenses provided to the member.

Off-balance-sheet income: Catalyst Corporate also receives certain commissions and service fees. Commission income for investment trades is recognized in the month of trade activity. Commission income for certificate of deposit sales is recognized over the life of the corresponding certificates or in the month of trade activity depending on the certificate type. Service fee income is generated from asset liability management (ALM) modeling and investment advisory services.

ALM modeling revenue is recognized over a 12-month period. Investment advisory services revenue is recognized in the month the service has been performed. Off-balance-sheet income also includes agent income from the EBA Program. Catalyst Corporate, as an agent, earns income based on a spread differential as a function of the balances maintained at the FRB for the participant. Agent income is recognized in the month of activity.

#### ***Recent accounting pronouncements***

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, Leases, which is intended to increase transparency and comparability of accounting for lease transactions. The ASU will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective January 1, 2022 with an option to early adopt. Catalyst Corporate is currently evaluating the impact of the ASU.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The ASU will be effective for credit unions on January 1, 2023. Early application is permitted for annual periods beginning January 1, 2019. Catalyst Corporate is currently evaluating the impact of the ASU.



# **Catalyst Corporate Federal Credit Union**

## **Notes to the Consolidated Financial Statements**

Note: 2 (continued)

### ***Subsequent events***

Management has evaluated subsequent events through April 8, 2021, which is the date the consolidated financial statements were available to be issued. Management has not identified any items requiring recognition or disclosure.

### **3. CASH AND CASH EQUIVALENTS**

Catalyst Corporate acts as a pass-through correspondent for member credit unions that are required to deposit reserves with the FRB. Deposit reserves of approximately \$0 and \$133,544,000 as of December 31, 2020 and 2019, respectively, are included in cash and cash equivalents and members' shares and certificates in the consolidated statements of financial condition.

### **4. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL**

As of December 31, 2020, Catalyst Corporate has three reverse repurchase agreements with Amherst Pierpont Securities LLC (Amherst). The reverse repurchase agreements were collateralized by agency mortgage-backed securities held by J.P. Morgan Securities, LLC. As of December 31, 2020, the reverse repurchase agreements were for \$50,000,000, \$150,000,000, and \$100,000,000 and set to mature on January 20, 2021, February 12, 2021, and March 9, 2021, respectively.

As of December 31, 2019, Catalyst Corporate had four reverse repurchase agreements with Amherst. The reverse repurchase agreements were collateralized by agency mortgage-backed securities held by J.P. Morgan Securities, LLC. As of December 31, 2019, the reverse repurchase agreements were for \$50,000,000, \$100,000,000, \$50,000,000 and \$50,000,000 and set to mature on January 2, 2020, January 3, 2020, January 15, 2020 and January 27, 2020, respectively.

The fair value of the collateralized securities was approximately \$301,345,000 and \$249,263,000 as of December 31, 2020 and 2019, respectively. Amherst had cash collateral requirements with Catalyst Corporate for approximately \$4,040,000 and \$5,927,000 as of December 31, 2020 and 2019, respectively.

### **5. INTEREST RATE DERIVATIVES**

Interest rate derivatives as of December 31, 2020 and 2019, are comprised of eight interest rate swap agreements. Interest rate derivative assets are included in accounts receivables and other assets in the consolidated statements of financial condition. Interest rate derivative liabilities are included in accrued expenses and other liabilities in the consolidated statements of financial condition.

Fair value hedges are comprised of interest rate swap agreements in which Catalyst Corporate pays a fixed rate and receives a floating rate in return. Catalyst Corporate utilizes swap agreements to manage interest rate risk by hedging the fair value of its member term loans attributable to changes in interest rate. Catalyst Corporate assumes no ineffectiveness on these interest rate swaps which results in net zero gains/(losses) recognized in net income.

# Catalyst Corporate Federal Credit Union

## Notes to the Consolidated Financial Statements

Note: 5 (continued)

The following table summarizes the fair value of interest rate swaps, which are designated as fair value hedges, on a gross basis as of December 31 (in thousands):

<b>2020</b>	<b>Assets</b>	
	<b>Fair Value</b>	<b>Notional</b>
Derivatives designated as fair value accounting hedges:		
Interest rate swaps related to loans to members	<b>(\$3,956)</b>	<b>\$75,000</b>
Counterparty netting: accrued interest payable	<b>(9)</b>	-
Fair value of interest rate swaps	<b>(3,965)</b>	-
Less: cash collateral paid	<b>4,615</b>	-
<b>Total</b>	<b>\$650</b>	<b>\$75,000</b>
	<b>Liabilities</b>	
	<b>Fair Value</b>	<b>Notional</b>
Derivatives designated as fair value accounting hedges:		
Interest rate swaps related to loans to members	<b>(\$297)</b>	<b>\$7,500</b>
Counterparty netting: accrued interest payable	<b>(2)</b>	-
Fair value of interest rate swaps	<b>(299)</b>	-
Less: cash collateral paid	<b>280</b>	-
<b>Total</b>	<b>(\$19)</b>	<b>\$7,500</b>
<b>2019</b>	<b>Assets</b>	
	<b>Fair Value</b>	<b>Notional</b>
Derivatives designated as fair value accounting hedges:		
Interest rate swaps related to loans to members	<b>(\$141)</b>	<b>\$74,000</b>
Counterparty netting: accrued interest receivable	<b>64</b>	-
Fair value of interest rate swaps	<b>(77)</b>	-
Plus: cash collateral paid	<b>961</b>	-
<b>Total</b>	<b>\$884</b>	<b>\$74,000</b>

There were no interest rate derivative liabilities as of December 31, 2019.

Cash collateral is posted based on the position of the swap agreement. As of December 31, 2020, the Credit Union had posted collateral of approximately \$4,615,000 and \$280,000 with Wells Fargo, N.A. and J.P. Morgan Chase, respectively. Additionally, the Credit Union posted cash collateral with Wells Fargo, N.A. of approximately \$961,000 as of December 31, 2019.

In the event of counterparty default, credit risk on interest rate swap transactions is limited to the balance of interest rate derivative assets and collateral. Catalyst Corporate manages credit risk arising from interest rate swap transactions through credit approval procedures that include specific limits for individual counterparties and ongoing monitoring procedures to measure outstanding swap exposure against the established limits.

# Catalyst Corporate Federal Credit Union

## Notes to the Consolidated Financial Statements

Note: 5 (continued)

Catalyst Corporate's policies require swap transactions to be executed with counterparties that possess a minimum credit rating of single-A.

Credit risk is further mitigated by contractual arrangements with each of Catalyst Corporate's counterparties that provide for the netting of replacement cost gains and losses, and accrued interest receivable and payable, on multiple swap transactions with the same counterparty.

### 6. AVAILABLE-FOR-SALE INVESTMENTS

The amortized cost and estimated fair value of available-for-sale investments as of December 31 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>2020</b>				
Asset-backed securities	<b>\$1,112,161</b>	<b>\$5,138</b>	<b>(\$1,163)</b>	<b>\$1,116,136</b>
Agency commercial mortgage-backed securities	<b>343,204</b>	<b>7,656</b>	<b>(56)</b>	<b>350,804</b>
Agency mortgage-backed securities	<b>47,358</b>	<b>1,186</b>	<b>(2)</b>	<b>48,542</b>
Commercial paper	<b>36,967</b>	<b>5</b>	<b>-</b>	<b>36,972</b>
U.S. Treasury and federal agency securities	<b>3,599</b>	<b>2</b>	<b>(2)</b>	<b>3,599</b>
<b>Total</b>	<b>\$1,543,289</b>	<b>\$13,987</b>	<b>(\$1,223)</b>	<b>\$1,556,053</b>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>2019</b>				
Asset-backed securities	<b>\$790,161</b>	<b>\$3,456</b>	<b>(\$1,322)</b>	<b>\$792,295</b>
Agency commercial mortgage-backed securities	<b>227,739</b>	<b>2,047</b>	<b>(708)</b>	<b>229,078</b>
Agency mortgage-backed securities	<b>125,723</b>	<b>10</b>	<b>(408)</b>	<b>125,325</b>
U.S. Treasury and federal agency securities	<b>3,917</b>	<b>17</b>	<b>(1)</b>	<b>3,933</b>
<b>Total</b>	<b>\$1,147,540</b>	<b>\$5,530</b>	<b>(\$2,439)</b>	<b>\$1,150,631</b>

Catalyst Corporate's asset-backed securities are collateralized by the following asset types as of December 31 (in thousands):

Asset Type	<b>2020</b> Fair Value	2019 Fair Value
Credit card	<b>\$470,831</b>	\$260,766
Automobile	<b>348,373</b>	233,657
FFELP student loan	<b>197,783</b>	172,510
Equipment	<b>99,149</b>	125,362
<b>Total</b>	<b>\$1,116,136</b>	<b>\$792,295</b>

# Catalyst Corporate Federal Credit Union

## Notes to the Consolidated Financial Statements

Note: 6 (continued)

The following tables represent regulatory concentration limits based on parameters established in NCUA regulation 704.5 as of December 31, 2020 (in thousands):

By Security Type:	Fair Value	Capital Based Limit	Asset Based Limit
Credit card asset-backed securities	<b>\$470,831</b>	<b>\$1,510,394</b>	<b>\$1,042,503</b>
Agency commercial mortgage-backed securities	<b>350,804</b>	<b>\$906,236</b>	<b>\$625,502</b>
Automobile asset-backed securities	<b>348,373</b>	<b>\$1,510,394</b>	<b>\$1,042,503</b>
FFELP student loan asset-backed securities	<b>197,783</b>	<b>\$3,020,788</b>	<b>\$2,085,007</b>
Equipment asset-backed securities	<b>99,149</b>	<b>\$1,510,394</b>	<b>\$1,042,503</b>
Agency mortgage-backed securities	<b>48,542</b>	<b>\$3,020,788</b>	<b>\$2,085,007</b>
Commercial paper	<b>36,972</b>	<b>\$3,020,788</b>	<b>\$2,085,007</b>
U.S. Treasury and federal agency securities	<b>3,599</b>	<b>\$3,020,788</b>	<b>\$2,085,007</b>
<b>Total</b>	<b>\$1,556,053</b>		

By Issuer (top ten issuers of asset-backed securities):	Fair Value	Regulatory Limit
COMET 2019-A1 A1	<b>\$61,000</b>	<b>\$151,039</b>
AMXCA 2019-3 A	<b>\$41,181</b>	<b>\$151,039</b>
DCENT 2018-A5 A5	<b>\$40,885</b>	<b>\$151,039</b>
CCCIT 2018-A1 A1	<b>\$35,039</b>	<b>\$151,039</b>
DCENT 2017-A2 A2	<b>\$30,388</b>	<b>\$151,039</b>
SYNCT 2016-2 A	<b>\$28,636</b>	<b>\$151,039</b>
CHAIT 2012-A7 A7	<b>\$25,569</b>	<b>\$151,039</b>
COMET 2018-A2 A2	<b>\$25,048</b>	<b>\$151,039</b>
VFET 2020-1A A2	<b>\$25,020</b>	<b>\$75,520</b>
HAROT 2020-3 A2	<b>\$22,010</b>	<b>\$75,520</b>

Catalyst Corporate's available-for-sale securities portfolio consists entirely of securities that return principal based on payments received on the underlying collateral. Asset-backed, agency commercial mortgage-backed, agency mortgage-backed, and federal agency securities have expected weighted-average lives of one to five years; however, return of principal may differ from expectation based on fluctuations in market interest rates and prepayment speeds of the underlying collateral. U.S. Treasury securities mature within one year.

Proceeds of \$13,140,000 and gross gains of \$79,000 from the sale of one investment classified as available-for-sale were realized for the year ended December 31, 2020. There was no sale of investments classified as available-for-sale during the year ended December 31, 2019.

# Catalyst Corporate Federal Credit Union

## Notes to the Consolidated Financial Statements

Note: 6 (continued)

During 2020, Catalyst Corporate received proceeds of approximately \$12,426,000 and recognized gross losses of approximately \$40,000 from one asset-backed security that was called and redeemed at a discount. During 2019 Catalyst Corporate received proceeds of approximately \$5,662,000 and recognized gross gains of approximately \$81,000 from asset-backed securities that were called and redeemed for a premium.

The following tables show the gross unrealized losses and fair value of available-for-sale investments as of December 31 (in thousands), aggregated by length of time individual securities have been in a continuous unrealized loss position.

2020	Continuous unrealized loss position less than 12 months		Continuous unrealized loss position 12 months or greater		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities	\$126,015	\$242	\$98,204	\$921	\$224,219	\$1,163
Agency commercial mortgage-backed securities	19,158	39	11,296	17	30,454	56
Agency mortgage-backed securities	1,001	1	79	1	1,080	2
U.S. Treasury and federal agency securities	-	-	334	2	334	2
Total	\$146,174	\$282	\$109,913	\$941	\$256,087	\$1,223

2019	Continuous unrealized loss position less than 12 months		Continuous unrealized loss position 12 months or greater		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities	\$105,299	\$972	\$49,105	\$350	\$154,404	\$1,322
Agency commercial mortgage-backed securities	123,376	532	30,873	176	154,249	708
Agency mortgage-backed securities	97,338	136	21,104	272	118,442	408
U.S. Treasury and federal agency securities	572	1	-	-	572	1
Total	\$326,585	\$1,641	\$101,082	\$798	\$427,667	\$2,439

Catalyst Corporate evaluates each asset-backed security and commercial paper for OTTI by considering Catalyst Corporate's ability to hold each security for a sufficient time to allow for recovery of unrealized losses. Catalyst Corporate also considers the credit rating of each security as well as the tranche and underlying collateral in evaluating each security for OTTI.

# Catalyst Corporate Federal Credit Union

## Notes to the Consolidated Financial Statements

Note: 6 (continued)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because of the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline.

Management has the intent and ability to hold all securities through to recovery of fair value, which may be maturity. There was no OTTI recognized for the years ended December 2020 or 2019.

### 7. INVESTMENTS IN CUSOs

Investments in CUSOs are comprised of the following as of December 31 (in thousands):

	2020	2019
Investment in CO-OP	<b>\$3,082</b>	\$3,082
Investment in Primary Financial, LLC	<b>1,713</b>	1,663
Investment in CU Business Group	<b>1,155</b>	1,064
Investment in Constellation Digital Partners, LLC	<b>500</b>	500
Investment in CU Investment Solutions, LLC	<b>100</b>	100
Investment in Members Development Company, LLC	<b>30</b>	30
Total	<b>\$6,580</b>	\$6,439

The investments in Primary Financial, LLC and CU Business Group are equity method investments. The investments in CO-OP, Constellation Digital Partners, LLC, CU Investment Solutions, LLC, and Members Development Company, LLC are cost method investments. Gains/(losses) on equity method investments are included within other fee income reported in the consolidated statements of income.

### 8. LOANS

The composition of loans is as follows as of December 31 (in thousands):

#### 2020

Open-end credit lines	<b>\$20,519</b>
Term loans	<b>163,523</b>
Total loans to members	<b>184,042</b>
Loan participations (secured by vehicle loans)	<b>2,008</b>
Less: allowance for loan losses	<b>(62)</b>
Total loan participations, net of allowance	<b>1,946</b>
Total	<b>\$185,988</b>

# Catalyst Corporate Federal Credit Union

## Notes to the Consolidated Financial Statements

Note: 8 (continued)

2019

Open-end credit lines	\$39,238
Term loans	137,361
Total loans to members	176,599
Loan participations (secured by vehicle loans)	3,520
Less: allowance for loan losses	(30)
Total loan participations, net of allowance	3,490
Total	\$180,089

Term loan balances include term loans totaling \$82,500,000 and \$74,000,000 that are accounted for at fair value based on the interest rate swap as of December 31, 2020 and 2019, respectively. Fair value premiums totaling approximately \$4,443,000 and \$141,000 were recognized as of December 31, 2020 and 2019, respectively. One swap for \$6,500,000 was unwound with Wells Fargo N.A. effective March 9, 2020 with the approximate fee of \$232,000 being amortized over the remaining life of the loan through September 20, 2024, of which approximately \$190,000 is unamortized as of December 31, 2020.

The estimated principal payments on term loans based on contractual maturity as of December 31, 2020 are shown below (in thousands):

2021	<b>\$6,000</b>
2022	<b>29,597</b>
2023	<b>40,635</b>
2024	<b>29,690</b>
2025	<b>10,585</b>
Thereafter	<b>47,016</b>
Total	<b>\$163,523</b>

### ALLOWANCE FOR LOAN LOSSES (ALLOWANCE)

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the years ended December 31 (in thousands):

**2020**

Allowance:	Term Loans	Loan Participations	Total
Beginning allowance	\$-	\$30	\$30
Charge-offs	-	(3)	(3)
Recoveries	-	-	-
Provision for loan losses	-	35	35
Total	\$-	\$62	\$62

# Catalyst Corporate Federal Credit Union

## Notes to the Consolidated Financial Statements

Note: 8 (continued)

2019

Allowance:	Term Loans	Loan Participations	Total
Beginning allowance	\$-	\$-	\$-
Charge-offs	-	-	-
Recoveries	-	-	-
Provision for loan losses	-	30	30
Total	\$-	\$30	\$30

There were no impaired loans as of December 31, 2020 or 2019.

### AGE ANALYSIS OF PAST DUE LOANS

The following table presents the aging of the recorded investment in past due loans as of December 31 (in thousands):

**2020**

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Term loans	\$-	\$-	\$-	\$-	\$163,523	\$163,523
Open-end credit lines	-	-	-	-	20,519	20,519
Loan participations	6	1	2	9	1,999	2,008
Total	\$6	\$1	\$2	\$9	\$186,041	\$186,050

2019

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Term loans	\$-	\$-	\$-	\$-	\$137,361	\$137,361
Open-end credit lines	-	-	-	-	39,238	39,238
Loan participations	28	3	4	35	3,485	3,520
Total	\$28	\$3	\$4	\$35	\$180,084	\$180,119

None of the loans had been modified as of December 31, 2020 or 2019.

Catalyst Corporate reviews all lines of credit on a semi-annual basis by reviewing the member credit unions' financial condition and key ratios. A watch list is created of member credit unions that represent a credit risk to Catalyst Corporate.



# Catalyst Corporate Federal Credit Union

## Notes to the Consolidated Financial Statements

Note: 8 (continued)

The criteria used to determine whether a loan will be placed on the watch list include, but not limited to the following:

Credit Quality Indicators:

- Current period Net return on assets (ROA) based on a sliding scale with highest Net ROA of 0.75% or higher given the best rating and lowest or negative Net ROA given the worst rating and/or,
- Current period Net Capital based on a sliding scale with highest Net Capital of 10% or greater given the best rating and lowest or negative Net Capital given the worst rating. (Net Capital is calculated by subtracting the dollar amounts of the following from total capital: 10% of all foreclosed and repossessed assets, 10% of loans 2 to 6 months delinquent, 50% of loans 6 to 12 months delinquent, 90% of loans more than 12 months delinquent, 0.5% of all non-delinquent loans, 100% of loans subject to bankruptcy, 50% of all fixed assets, 25% of other assets, and 5% of investments with maturities greater than 3 years).

Member credit unions placed on the watch list due to credit quality have lines of credit of approximately \$189,787,000 and \$50,701,000 and outstanding loan balances of approximately \$0 and \$900,000 as of December 31, 2020 and 2019, respectively.

Lines of credit and loans issued to credit unions are collateralized 100% or more by a general or specific pledge of the borrowing credit union's assets. Catalyst Corporate has not experienced any losses on loans to credit union members.

Catalyst Corporate recognized net gains of approximately \$14,000 and \$5,000 related to the early prepayment of \$750,000 and \$5,000,000 in term loans during each of the years ended December 31, 2020 and 2019, respectively. These gains are included in other net gains in the consolidated statements of income.

### 9. PROPERTY AND EQUIPMENT, NET

A summary of Catalyst Corporate's property and equipment is as follows as of December 31 (in thousands):

	2020	2019
Land	<b>\$1,028</b>	\$1,028
Building	<b>7,792</b>	7,792
Software	<b>12,030</b>	9,820
Hardware	<b>7,558</b>	6,990
Furniture and equipment	<b>1,076</b>	999
Capital improvements	<b>1,446</b>	1,215
	<b>30,930</b>	27,844
Less: accumulated depreciation	<b>(16,408)</b>	(14,293)
Total	<b>\$14,522</b>	\$13,551

# Catalyst Corporate Federal Credit Union

## Notes to the Consolidated Financial Statements

### 10. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill of approximately \$2,768,000 was recognized related to the merger of Southwest Bridge Corporate Federal Credit Union and Georgia Corporate Federal Credit Union (Georgia Corporate) effective September 6, 2011, and the purchase and assumption of Western Bridge Corporate Federal Credit Union (Western Bridge) effective July 1, 2012. Goodwill of approximately \$1,469,000 and intangible assets of \$4,100,000 consisting of customer relationships were recognized related to the Aptys Solutions acquisition in May 2020. Amortization of the customer relationships intangible totaled approximately \$239,000 for 2020.

### 11. BORROWED FUNDS/LINES OF CREDIT

Catalyst Corporate had access to an advised line of credit with FHLB of Dallas that approximated \$385,470,000 and \$337,928,000 as of December 31, 2020 and 2019, respectively. There were no borrowings outstanding as of December 31, 2020 or 2019.

Catalyst Corporate also had access to a repurchase agreement line of credit with J.P. Morgan Securities, LLC, that approximated \$1,004,523,000 and \$713,066,000 as of December 31, 2020 and 2019, respectively, and a \$30,000,000 unsecured Fed Funds line of credit with J.P. Morgan Chase Bank as of December 31, 2020 and 2019. There were no outstanding borrowings from either of these lines of credit as of December 31, 2020 or 2019.

The advised line of credit with FHLB of Dallas and the repurchase agreement line of credit with J.P. Morgan Securities LLC are fully secured by specific qualified investment securities.

### 12. MEMBERS' SHARES AND CERTIFICATES

Members' shares are summarized as follows as of December 31 (in thousands):

	2020	2019
Cash management	\$2,642,003	\$1,527,477
Performance tiered	952,739	483,206
Reg D reserve	-	133,544
Other	86,440	45,938
Total	\$3,681,182	\$2,190,165

Members' share certificate balances are \$141,901,000 and \$20,281,000 as of December 31, 2020 and 2019, respectively.

The maturities of the members' share certificate balances as of December 31, 2020 are shown below (in thousands):

2021	\$133,707
2022	8,194
Total	\$141,901

## **Catalyst Corporate Federal Credit Union**

### **Notes to the Consolidated Financial Statements**

Note: 12 (continued)

The aggregate amount of members' share certificate balances in denominations of \$250,000 or more was \$127,575,000 and \$14,600,000 as of December 31, 2020 and 2019, respectively.

#### **13. EMPLOYEE BENEFITS**

Catalyst Corporate sponsors a defined contribution plan (the Plan) established under Section 401(k) of the IRC. The Plan allows employees to contribute up to the Internal Revenue Service maximum allowable percentage of their compensation. Catalyst Corporate matches 100% of the first 6% of each employee's contribution to the Plan. In addition, Catalyst Corporate may elect to make a discretionary contribution to the Plan annually. This election requires approval by the Board of Directors. The Board of Directors approved a 1% discretionary contribution to be funded in 2021 based on 2020 compensation. A 1% discretionary contribution was also made in 2020 based on 2019 compensation. Catalyst Corporate's total contribution to the Plan was approximately \$1,485,000 and \$1,451,000 for the years ended December 31, 2020 and 2019, respectively.

Catalyst Corporate purchased a company-owned life insurance (COLI) group policy to provide additional life insurance for members of the management team while employed at Catalyst Corporate. There is no life insurance benefit or liability paid to the individuals once they are no longer employed at Catalyst Corporate. Catalyst Corporate is an additional beneficiary to the policy.

As of December 31, 2020 and 2019, Catalyst Corporate recorded the cash surrender value of approximately \$11,929,000 and \$11,654,000, respectively, as a component of accounts receivables and other assets in the consolidated statements of financial condition.

Earnings from the COLI are used to cover employee benefit-related expenses as a cost offset and long-term cost recovery, and are included within off-balance-sheet income reported in the consolidated statements of income.

#### **14. OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK**

Catalyst Corporate is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its member credit unions. These financial instruments include agreements to extend credit. Catalyst Corporate issues lines of credit to its members that are both uncommitted or "stand-by" and committed or "guaranteed." Virtually all lines of credit issued by Catalyst Corporate are uncommitted in that through provisions in its loan agreements, Catalyst Corporate is in no way obligated or committed to make any loan advances under the "stand-by" lines of credit. Advances under these "stand-by" lines of credit are subject to funds availability. In addition, these "stand-by" lines of credit are all secured by a pledge of the members' total assets or specific assets of the member such as securities or an auto loan portfolio.

## **Catalyst Corporate Federal Credit Union**

### **Notes to the Consolidated Financial Statements**

Note: 14 (continued)

Catalyst Corporate also issues letters of credit to its members in various amounts for various purposes. When a letter of credit is issued to a member, the amount of the letter of credit is subtracted from the member's line of credit.

The face amount of the lines of credit represents the exposure to loss, before considering member collateral or ability to repay. Such line of credit amounts are recorded when they are funded.

Catalyst Corporate has unused "stand-by" lines of credit issued to member credit unions of approximately \$9,908,075,000 and \$9,960,331,000 as of December 31, 2020 and 2019, respectively. Catalyst Corporate evaluates each member credit union's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member. Additionally, Catalyst Corporate has committed "stand-by" letters of credit issued to member credit unions of approximately \$2,030,000 as of December 31, 2020 and 2019. The "stand-by" letters of credit, which are secured by either a general or a specific pledge of the member credit union assets, are issued with a term of one to five years and are generally used for various operational reasons.

#### **15. REGULATORY CAPITAL**

Catalyst Corporate 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 Catalyst Corporate's consolidated financial statements.

Failure to meet minimum capital requirements would require Catalyst Corporate to submit a plan of action to correct the shortfall. Additionally, the NCUA could require an increase in capital to specific levels, reduction of interest, and ceasing or limiting Catalyst Corporate's ability to accept deposits.

The NCUA has established requirements for corporate credit unions to meet a certain leverage ratio (retained earnings and PCC adjusted for various items divided by the 12-month average of daily net assets), tier 1 risk-based capital ratio (retained earnings and PCC adjusted for various items divided by the 12-month moving average of net risk-weighted assets), and a total risk-based capital ratio (total capital divided by the 12-month moving monthly average of net risk-weighted assets).

As of December 31, 2020 and 2019, Catalyst Corporate's retained earnings ratios were 3.92% and 4.51%, respectively. As of December 31, 2020 and 2019, Catalyst Corporate exceeded all of the regulatory capital requirements under section 704.3 of the NCUA Regulations.

# Catalyst Corporate Federal Credit Union

## Notes to the Consolidated Financial Statements

Note: 15 (continued)

Catalyst Corporate's actual and required capital ratios were as follows as of December 31:

Capital Ratio	2020 Ratio	2019 Ratio	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Leverage ratio	9.07%	11.56%	4.00%	5.00%
Tier 1 risk- based capital ratio	28.33%	34.83%	4.00%	6.00%
Total risk- based capital ratio	28.33%	34.83%	8.00%	10.00%

### 16. RELATED PARTY TRANSACTIONS

Catalyst Corporate's Board of Directors and committees are made up of executive officers from several of its member credit unions. These related parties maintained approximately \$115,176,000 and \$72,808,000 on deposit at Catalyst Corporate in various deposit products as of December 31, 2020 and 2019, respectively. These totals include approximately \$9,697,000 and \$7,818,000 of PCC as of December 31, 2020 and 2019, respectively. Interest rates on these deposits are the same rates paid to other member credit unions. Outstanding loan balances to related parties were approximately \$0 and \$2,350,000 as of December 31, 2020 and 2019, respectively.

Catalyst Corporate holds investments in various CUSOs. Members of management serve on the Board of Directors of Primary Financial, LLC, CU Business Group, CU Investment Solutions, LLC, TranzCapture, LLC and Aptys Solutions, LLC and as principal of Catalyst Strategic Solutions.

### 17. FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the FASB ASC provides a framework for measuring fair value that requires an entity to derive fair value from the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date within its principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability.

To increase consistency and comparability in fair value measurements and related disclosures, a three-level hierarchy prioritizes the inputs to valuation techniques used to measure fair value with the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (Level 2), and the lowest priority to unobservable inputs (Level 3). The methodologies and associated inputs used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

# Catalyst Corporate Federal Credit Union

## Notes to the Consolidated Financial Statements

Note: 17 (continued)

Furthermore, while Catalyst Corporate believes its valuation methods and associated inputs are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement.

Certain assets and liabilities may be required to be measured at fair value on a non-recurring basis. These non-recurring fair value measurements usually result from the application of lower of cost or market accounting or the write-down of individual assets due to impairment. There were no items required to be measured on a non-recurring basis as of December 31, 2020 or 2019.

### **RECURRING BASIS**

#### **AVAILABLE- FOR- SALE SECURITIES**

Catalyst Corporate receives pricing for available-for-sale securities from a third-party pricing service. These securities are classified as a Level 2 in the fair value hierarchy. Fair value information for the available-for-sale securities (asset-backed, agency commercial mortgage-backed, agency mortgage-backed, and U.S. Treasury and federal agency) was valued based on quoted market prices on similar assets in the marketplace and the vintage of the underlying collateral.

#### **HEDGED TERM LOANS**

The fair value of fixed-rate hedged loans is determined based on the associated interest rate swap agreements.

#### **INTEREST RATE DERIVATIVES**

The fair value of Catalyst Corporate's interest rate swap derivatives is determined based on quoted prices from brokers as of the last business day of the year.

The following tables set forth by level, within the fair value hierarchy, Catalyst Corporate's financial instruments at fair value as of December 31 (in thousands):

#### **2020**

	Assets at Fair Value			Total
	Level 1	Level 2	Level 3	
Asset-backed securities	\$-	\$1,116,136	\$-	\$1,116,136
Agency commercial mortgage-backed securities	-	350,804	-	350,804
Agency mortgage-backed securities	-	48,542	-	48,542
Commercial paper	-	36,972	-	36,972
U.S. Treasury and federal agency securities	-	3,599	-	3,599
Hedged term loans	-	86,943	-	86,943
Total assets at fair value	\$-	\$1,642,996	\$-	\$1,642,996

# Catalyst Corporate Federal Credit Union

## Notes to the Consolidated Financial Statements

Note: 17 (continued)

		Liabilities at Fair Value		
	Level 1	Level 2	Level 3	Total
Interest rate derivatives	\$-	<b>\$4,253</b>	\$-	<b>\$4,253</b>
Total liabilities at fair value	\$-	<b>\$4,253</b>	\$-	<b>\$4,253</b>

2019

		Assets at Fair Value		
	Level 1	Level 2	Level 3	Total
Asset-backed securities	\$-	\$792,295	\$-	\$792,295
Agency commercial mortgage-backed securities	-	229,078	-	229,078
Agency mortgage-backed securities	-	125,325	-	125,325
U.S. Treasury and federal agency securities	-	3,933	-	3,933
Hedged term loans	-	74,141	-	74,141
Total assets at fair value	\$-	\$1,224,772	\$-	\$1,224,772

		Liabilities at Fair Value		
	Level 1	Level 2	Level 3	Total
Interest rate derivatives	\$-	\$141	\$-	\$141
Total liabilities at fair value	\$-	\$141	\$-	\$141

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of amounts that could be realized in a market exchange.

\*\*\*End of Notes\*\*\*

# 2020 Management Report

---

## **Statement of Management's Responsibilities**

The management of Catalyst Corporate Federal Credit Union ("Catalyst Corporate") is responsible for preparing Catalyst Corporate's annual financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report; and for complying with the Federal laws, if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure.

## **Management's Assessment of Compliance with Safety and Soundness Laws and Regulations**

The management of Catalyst Corporate has assessed Catalyst Corporate's compliance with the Federal and, if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure during the fiscal year that ended on December 31, 2020. Based upon its assessment, management has concluded that Catalyst Corporate complied with the Federal laws and, if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure during the fiscal year that ended on December 31, 2020.

## **Management's Assessment of Internal Control over Financial Reporting**

Catalyst Corporate's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., NCUA 5310- Corporate Credit Union Call Report. The institution's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporate; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting



principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of Catalyst Corporate are being made only in accordance with authorizations of management and directors of Catalyst Corporate; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of Catalyst Corporate's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

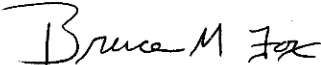
Management assessed the effectiveness of Catalyst Corporate's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report, as of December 31, 2020, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework (2013)*.

Based upon its assessment, management has concluded that, as of December 31, 2020, Catalyst Corporate's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report, is effective based on the criteria established in *Internal Control--Integrated Framework (2013)*.

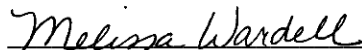
Catalyst Corporate's internal control over financial reporting as of December 31, 2020 has been audited by Doeren Mayhew, CPAs and Advisors, an independent registered public accounting firm, as stated in their accompanying report which expresses an unmodified opinion on the effectiveness of Catalyst Corporate's internal control over financial reporting as of December 31, 2020.

Catalyst Corporate Federal Credit Union

Date: April 8, 2021



Bruce Fox, Chief Executive Officer



Melissa Wardell, Chief Financial Officer