

American Airlines Federal Credit Union

Financial Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

Supervisory Committee
American Airlines Federal Credit Union

Report on the Financial Statements

We have audited the accompanying financial statements of American Airlines Federal Credit Union, which comprise the statements of financial condition as of December 31, 2019 and 2018, the related statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Airlines Federal Credit Union as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

RSM US LLP

Dallas, Texas
March 17, 2020

American Airlines Federal Credit Union

**Statements of Financial Condition
December 31, 2019 and 2018
(In Thousands)**

	2019	2018
Assets		
Cash and cash equivalents	\$ 233,862	\$ 268,036
Investments:		
Available for sale	2,444,012	2,413,574
Other	3,973	3,710
Loans, net	4,794,284	4,499,868
Accrued interest receivable	19,217	18,544
Share insurance fund deposit	59,282	55,646
Property and equipment, net	63,240	30,421
Assets held for sale	8,804	-
Other real estate owned (OREO), net	325	263
Other assets	30,643	15,443
	<u>\$ 7,657,642</u>	<u>\$ 7,305,505</u>
Liabilities and Members' Equity		
Liabilities:		
Members' shares	\$ 6,870,962	\$ 6,553,469
Dividends payable	8,660	10,069
Accrued expenses and other liabilities	34,840	42,343
Total liabilities	<u>6,914,462</u>	<u>6,605,881</u>
Commitments and contingencies (Notes 5 and 8)		
Members' equity:		
Retained earnings	742,489	701,649
Accumulated other comprehensive income (loss)	691	(2,025)
Total members' equity	<u>743,180</u>	<u>699,624</u>
	<u>\$ 7,657,642</u>	<u>\$ 7,305,505</u>

See notes to financial statements.

American Airlines Federal Credit Union

Statements of Income
Years Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Interest income:		
Loans	\$ 187,960	\$ 164,529
Investments and cash equivalents	69,073	56,783
	<u>257,033</u>	<u>221,312</u>
Interest expense:		
Members' shares	126,760	109,576
Net interest income	<u>130,273</u>	<u>111,736</u>
Provision for loan losses	18,166	11,859
Net interest income after provision for loan losses	<u>112,107</u>	<u>99,877</u>
Noninterest income:		
Fee income	35,723	35,535
Other operating income	8,475	11,500
Gain on sale of investments	440	481
Other gains	370	464
	<u>45,008</u>	<u>47,980</u>
Income before noninterest expenses	<u>157,115</u>	<u>147,857</u>
Noninterest expenses:		
Compensation and benefits	57,584	56,090
Facility occupancy	8,874	7,565
Office operations	31,189	28,468
Education and promotional	7,871	7,602
Loan servicing	1,450	1,688
Professional and outside services	4,098	3,974
Travel and conferences	1,053	1,150
(Gain) loss on sale of OREO	(8)	66
Miscellaneous operating	3,294	3,802
Other losses	870	-
	<u>116,275</u>	<u>110,405</u>
Net income	<u>\$ 40,840</u>	<u>\$ 37,452</u>

See notes to financial statements.

American Airlines Federal Credit Union

Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Net income	\$ 40,840	\$ 37,452
Other comprehensive income (loss):		
Net unrealized gains (losses) on investments available for sale	3,156	(4,435)
Reclassification adjustment for gains realized in net income	(440)	(481)
Other comprehensive income (loss)	2,716	(4,916)
Comprehensive income	\$ 43,556	\$ 32,536

See notes to financial statements.

American Airlines Federal Credit Union

Statements of Members' Equity
Years Ended December 31, 2019 and 2018
(In Thousands)

	Retained Earnings		Accumulated	Total
	Regular Reserve	Undivided Earnings	Other Comprehensive Income (Loss)	
Balance, December 31, 2017	\$ 61,769	\$ 602,428	\$ 2,891	\$ 667,088
Net income	-	37,452	-	37,452
Other comprehensive loss	-	-	(4,916)	(4,916)
Balance, December 31, 2018	61,769	639,880	(2,025)	699,624
Net income	-	40,840	-	40,840
Other comprehensive income	-	-	2,716	2,716
Balance, December 31, 2019	\$ 61,769	\$ 680,720	\$ 691	\$ 743,180

See notes to financial statements.

American Airlines Federal Credit Union

Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Cash flows from operating activities:		
Net income	\$ 40,840	\$ 37,452
Adjustments to reconcile net income to net cash provided by operating activities:		
(Accretion of discount) amortization of premium of investment securities, net	(726)	1,580
Provision for loan losses	18,166	11,859
Depreciation and amortization	4,541	4,419
Gain on sale of investments	(440)	(481)
(Gain) loss on sale of OREO	(8)	66
Other losses	870	1
Net change in:		
Accrued interest receivable	(673)	(4,581)
Other assets	(15,200)	(6,351)
Accrued expenses, dividends payable and other liabilities	(8,912)	169
Net cash provided by operating activities	38,458	44,133
Cash flows from investing activities:		
Purchases of available-for-sale investments	(1,444,621)	(1,308,184)
Proceeds from maturities of available-for-sale investments	408,332	413,964
Proceeds from sales and calls of available-for-sale investments	1,009,733	651,732
Net change in other investments	(263)	(126)
Net change in loans	(313,006)	(353,144)
Increase in share insurance fund deposits	(3,636)	(3,038)
Proceeds from sale of OREO	370	47
Purchases of property and equipment	(47,034)	(13,544)
Net cash used in investing activities	(390,125)	(612,293)
Cash flows from financing activities:		
Net increase in members' shares	317,493	591,987
Net cash provided by financing activities	317,493	591,987
(Decrease) increase in cash and cash equivalents	(34,174)	23,827
Cash and cash equivalents:		
Beginning of year	268,036	244,209
End of year	\$ 233,862	\$ 268,036
Supplemental disclosures of cash flow information:		
Dividends paid on members' shares	\$ 128,169	\$ 105,829
Property and equipment transferred to assets held for sale	\$ 8,804	\$ -
Loans transferred to other real estate owned	\$ 438	\$ 263

See notes to financial statements.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations: American Airlines Federal Credit Union (the Credit Union) is a cooperative association holding a corporate charter under the provisions of the Federal Credit Union Act. The Credit Union provides a variety of financial services to its members. Primary deposit products are share and certificate accounts. The Credit Union's primary lending products are real estate and consumer loans. The Credit Union is subject to competition from other financial institutions and non-credit financial service companies. The Credit Union is subject to the regulation of certain federal agencies and undergoes periodic examination by the National Credit Union Administration (NCUA).

Significant accounting policies: The Credit Union follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB establishes accounting principles generally accepted in the United States of America (GAAP). References to GAAP issued by the FASB in these footnotes are to the *FASB Accounting Standards Codification*, commonly referred to as the Codification or ASC.

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses and the fair value of investment securities available for sale.

Concentrations of credit risk: Membership in the Credit Union is open to those working in the Air Transportation Industry, their families, and household members. Most of the Credit Union's business activity is with its members who are current or former employees of American Airlines Group, Inc. (AAG). The Credit Union may be exposed to credit risk from a regional economic standpoint as a significant concentration of its borrowers reside in Texas. Although the Credit Union has a diversified loan portfolio, borrowers' ability to repay loans may be affected by the economic climate of either the air transportation industry or the overall geographic region in which they reside.

Fair value: The Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. Fair value is a market-based measurement, not an entity-specific measurement, and the fair value hierarchy gives the highest priority to quoted prices in active markets. Fair value measurements are disclosed by level within the hierarchy. A summary of the Credit Union's financial instruments and other accounts subject to fair value, including methodologies and resulting values, is presented in Note 11 to these financial statements.

Cash flows: For purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand and non-term savings deposits in various financial institutions. Amounts may exceed the federally insured limits, but the Credit Union has not experienced any losses. Cash flows are reported net for loans and share accounts, other investments, accretion of discount or amortization of premium of investment securities, and changes in accrued interest receivable, other assets and accrued expenses, dividend payable and other liabilities.

Investments: Investments that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sale have been accounted for as accumulated other comprehensive income. Losses, if any, associated with credit impairments are recorded through operations.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Gains and losses on the sale of available-for-sale investments are determined using the specific-identification method. Interest and dividends on investments are included in income when earned. Amortization of premiums and accretion of discounts are recognized in interest income over the period to maturity or until sold. Declines in the fair value of individual available-for-sale investments below their costs that are other than temporary would result in write-downs of the individual investments to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the investment by a rating agency, a significant deterioration in the financial condition of the issuer, or a determination that management would not have the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Other investments are classified separately and are stated at cost.

Loans: The Credit Union grants real estate, consumer and business loans to members. The ability of members to honor their contracts may be impacted by the real estate and/or general economic conditions of their particular area of residence.

Loans are stated at the amount of unpaid principal balances and net deferred fees and costs, reduced by an allowance for loan losses. Purchased loans are stated net of unamortized premiums and unaccreted discounts. Interest on loans is recognized over the terms of the loans and is calculated on principal amounts outstanding.

Accrual of interest income is discontinued when loans become 90 days delinquent. Income is subsequently recognized on a cash basis until the loan's delinquency status is less than 90 days.

Loan fees and origination costs are deferred, with the net fee or cost recognized as an adjustment to interest income using the interest method over the expected life of the related loan or until the loan is modified or paid in full.

Allowance for loan losses: The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. While management uses the best information available to make its evaluations, further adjustments to the allowance may be necessary if there are significant changes to economic conditions.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

The Credit Union's allowance for loan losses is that amount considered adequate to absorb probable losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. General allowances are established for loans that can be grouped into pools based on similar characteristics in compliance with GAAP and regulatory guidelines. In this process, general allowance factors are based on an analysis of historical net charge-off experience and expected losses given default ratios derived from the Credit Union's internal risk rating process. These factors are developed and applied to the portfolio by loan type. The qualitative factors associated with the allowance are subjective and require a high degree of management judgment. These factors include credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging data. Specific allowances are maintained for loans with characteristics that distinguish them from the pools of loans with similar, but nonspecific characteristics (such as delinquencies of 60 days or more, bankruptcies, troubled debt restructures, impaired loans, etc.).

Property and equipment: Land is carried at cost. Building, leasehold improvements, furniture and equipment are carried at cost, less accumulated depreciation and amortization. Building, furniture and equipment are depreciated using the straight-line method over the estimated useful life of the asset. Estimated useful lives are approximately three to ten years for furniture and equipment, with building life extending to 30 years. Leasehold improvements are generally amortized using the straight-line method over the lesser of five years or the term of the related lease.

Assets held for sale: Assets held for sale include land, building, furniture and equipment, which are recorded at the lower of their carrying amount or fair value less cost to sell. Assets held for sale are measured on a nonrecurring basis, and the fair value less costs to sell was used to determine the amount of the impairment. Impairment losses of \$610,000 and \$0 are included in other losses on the statements of income for the years ended December 31, 2019 and 2018, respectively.

Other real estate owned and foreclosed assets: Other real estate owned (OREO) is recorded at fair value less the estimated costs to sell the property at the date of transfer to other real estate owned, establishing a new cost basis. At the time a loan is transferred to OREO, any carrying amount in excess of the fair value less estimated costs to sell the property is charged off to the allowance for loan losses. Subsequently, should the fair value of an asset, less the estimated costs to sell, decline to less than the carrying amount of the asset, the deficiency is recognized in the statement of income in the period in which it becomes known. Maintenance costs of properties are included in noninterest expense. Gain or loss realized from sales of OREO is recorded in gain (loss) on sale of OREO.

Revenue recognition: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue earned for the transfer of promised goods or services to customers. The updated standard replaced most existing revenue recognition guidance in U.S. GAAP when it became effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. On January 1, 2019, the Credit Union adopted the provisions of ASU 2014-09 to ASC 606, "Revenue from Contracts with Customers." The Credit Union's revenue is primarily comprised of net interest income on financial assets and liabilities, which were excluded from the scope of the update. The Credit Union has evaluated the impact of the ASU on non-interest revenue streams, including various fee income streams, that the provisions of the update apply to and has determined that the adoption of the new provisions to ASC 606 did not have a significant impact to the financial statements or operations. No changes to the Credit Union's existing methods for recognizing revenue were made as a result of the update.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Other revenue recognition: Revenue from service charges and fees on member deposits is recognized as the services are provided.

National Credit Union Share Insurance Fund (NCUSIF) deposit: The deposit in the NCUSIF is in accordance with NCUA regulations, which requires the maintenance of a deposit by each federally insured credit union in an amount equal to one percent of its insured members' shares. The deposit would be refunded to the credit union if its insurance coverage was terminated, if it converted its insurance coverage to another source, or if management of the fund was transferred from the NCUA Board.

Members' shares: Members' shares are the deposit accounts of the owners of the Credit Union. Share ownership entitles members to vote in the annual election of the Board of Directors. Irrespective of the amount of shares owned, no member has more than one vote. Dividends on members' shares, excluding share certificates, are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are approved by the Credit Union's Board of Directors.

Income taxes: By statute, the Credit Union is exempt from federal and state income taxes.

Comprehensive income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on available for sale investments.

Recent accounting pronouncements: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Credit Union is currently evaluating the impact this guidance will have on its financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-04, *Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products*, which amends existing guidance on extinguishing financial liabilities for certain prepaid stored-value products. ASU 2016-04 requires a company to derecognize the amount related to the expected breakage in proportion to the pattern of rights expected to be exercised by the product holder to the extent that it is probable that a significant reversal of the recognized breakage amount will not subsequently occur. ASU 2016-04 was effective for the Credit Union for fiscal years beginning after December 15, 2018. On January 1, 2019, the Credit Union adopted the provisions of ASU 2016-04. The adoption of the new provisions did not have a significant impact to the financial statements or operations.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial instruments. The existing incurred loss model will be replaced with a current expected credit loss (CECL) model for both originated and acquired financial instruments carried at amortized cost and off-balance sheet credit exposures, including loans, loan commitments, held-to-maturity debt securities, financial guarantees, net investment in leases, and most receivables. Recognized amortized cost financial assets will be presented at the net amount expected to be collected through an allowance for credit losses. Expected credit losses on off-balance sheet credit exposures will be recognized through a liability. Expected credit losses on available-for-sale (AFS) debt securities will also be recognized through an allowance, however the allowance for an individual AFS debt security will be limited to the amount by which fair value is below amortized cost. Unlike current guidance, which requires certain favorable changes in expected cash flows to be accreted into interest income, both favorable and unfavorable changes in expected credit losses (and therefore the allowance) will be recognized through credit loss expense as they occur. With the exception of purchased financial assets with a more than insignificant amount of credit deterioration since origination, for which the initial allowance will be added to the purchase price of the assets, the initial allowance on financial assets subject to the scope (whether originated or acquired) will be recognized through credit loss expense.

Expanded disclosures will also be required. Transition will generally be on a modified retrospective basis, with certain prospective application transition provisions for securities for which other-than-temporary impairment had previously been recognized and for assets that had previously been accounted for in accordance with Subtopic 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*. The ASU is effective for fiscal years beginning after December 15, 2022. The Credit Union is currently evaluating the impact this guidance will have on its financial statements and related disclosures.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities*. This ASU requires certain premiums on callable debt securities to be amortized to the earliest call date. The amortization period for callable debt securities purchased at a discount will not be impacted. Under current GAAP, premiums on callable debt securities are generally amortized over the contractual life of the security. ASU 2017-08 will be effective for the Credit Union for fiscal years beginning after December 15, 2019. The Credit Union has evaluated the impact this guidance will have on its financial statements and related disclosures and has determined the impact will not be significant.

Subsequent events: The Credit Union has evaluated subsequent events for potential recognition and disclosure through March 17, 2020, the date on which the financial statements were available to be issued.

Note 2. Restrictions on Cash and Due From Banks

The Credit Union is required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. The total required reserve was approximately \$85,263,000 and \$76,690,000 at December 31, 2019 and 2018, respectively.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 3. Investments

Investments classified as available-for-sale consist of the following (in thousands):

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
December 31, 2019:				
Government agencies	\$ 918,249	\$ 1,216	\$ (259)	\$ 919,206
Negotiable certificates	924,369	759	(62)	925,066
Mortgage-backed securities	600,703	825	(1,788)	599,740
	<u>\$2,443,321</u>	<u>\$ 2,800</u>	<u>\$ (2,109)</u>	<u>\$2,444,012</u>
December 31, 2018:				
Government agencies	\$ 637,621	\$ 1,525	\$ (399)	\$ 638,747
Negotiable certificates	1,056,438	-	(2,532)	1,053,906
Mortgage-backed securities	721,540	796	(1,415)	720,921
	<u>\$2,415,599</u>	<u>\$ 2,321</u>	<u>\$ (4,346)</u>	<u>\$2,413,574</u>

Residential and commercial mortgage-backed securities held by the Credit Union are issued by U.S. government-sponsored enterprises.

Gross realized gains on sales of investments available for sale were \$440,000 in 2019 and \$481,000 in 2018. There were no gross realized losses on sales of investments available for sale in 2019 or 2018.

Investments by maturity as of December 31, 2019 are summarized as follows (in thousands):

	Available for Sale	
	Amortized Cost	Fair Value
Less than 1 year maturity	\$ 580,952	\$ 581,670
1-5 years maturity	1,261,666	1,262,602
Mortgage-backed securities	600,703	599,740
	<u>\$ 2,443,321</u>	<u>\$ 2,444,012</u>

As of December 31, 2019 and 2018, there were no securities pledged.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 3. Investments (Continued)

Gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2019 and 2018, are as follows (in thousands):

Description of Securities	Fair Value	Continuous Unrealized Losses Existing For		Total Unrealized Losses
		Less Than 12 Months	More Than 12 Months	
2019:				
Government agencies	\$ 219,786	\$ 259	\$ -	\$ 259
Negotiable certificates	238,283	62	-	62
Mortgage-backed securities	391,884	1,101	687	1,788
	<u>\$ 849,953</u>	<u>\$ 1,422</u>	<u>\$ 687</u>	<u>\$ 2,109</u>
2018:				
Government agencies	\$ 1,220,217	\$ 158	\$ 241	\$ 399
Negotiable certificates	953,906	2,532	-	2,532
Mortgage-backed securities	436,710	415	1,000	1,415
	<u>\$ 2,610,833</u>	<u>\$ 3,105</u>	<u>\$ 1,241</u>	<u>\$ 4,346</u>

As of December 31, 2019, the investment portfolio included 171 securities, 29 of which had unrealized losses that existed for longer than one year, and 56 of which had unrealized losses that existed for less than one year. As of December 31, 2018, the investment portfolio included 157 securities, 45 of which had unrealized losses that existed for longer than one year, and 43 of which had unrealized losses that existed for less than one year. All of these securities are considered to be acceptable credit risks. Based upon an evaluation of the available evidence, including recent changes in market rates, credit rating information and information obtained from regulatory filings, management believes the decline in fair value for these securities is temporary and driven by an increase in market interest rates. In addition, the Credit Union has the intent and ability to hold these investment securities for a period of time sufficient to allow for recovery and it is more likely than not that the Credit Union will not be required to sell the securities before anticipated recovery.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified. The Credit Union has not recognized any other-than-temporary impairment on any securities for the years ended December 31, 2019 or 2018.

Other investments consist of the following (in thousands):

	2019	2018
Share certificate in other credit union	\$ 250	\$ 250
Member capital account in corporate credit union	750	750
Federal Home Loan Bank (FHLB) stock	2,973	2,710
	<u>\$ 3,973</u>	<u>\$ 3,710</u>

As of December 31, 2019, FHLB stock of \$2,973,000 and Catalyst Corporate Federal Credit Union Perpetual Contributed Capital of \$750,000 are classified with no contractual maturity. A \$250,000 certificate in a natural person credit union is classified with less than one year maturity.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 3. Investments (Continued)

FHLB of Dallas stock: Although the stock is an equity interest in the FHLB, it does not have a readily determinable fair value as ownership is restricted and a market does not exist. The stock can be sold back to the FHLB or another member institution at its par value, subject to approval by the FHLB.

Management periodically evaluates the carrying amount of the stock for impairment and has determined that no impairment occurred during the years ended December 31, 2019 and 2018.

Note 4. Loans and Allowance for Loan Losses

Loans consist of the following at December 31 (in thousands):

	2019	2018
Real estate loans:		
Mortgage loans	\$ 2,049,035	\$ 1,880,827
Home equity loans	150,688	139,743
Total real estate loans	<u>2,199,723</u>	<u>2,020,570</u>
Consumer and business loans:		
Vehicle loans	810,417	764,772
Other consumer loans	1,814,135	1,741,250
Total consumer and business loans	<u>2,624,552</u>	<u>2,506,022</u>
Total loans receivable	4,824,275	4,526,592
Deferred net loan origination (fees) costs	(227)	526
Allowance for loan losses	(29,764)	(27,250)
	<u>\$ 4,794,284</u>	<u>\$ 4,499,868</u>

The Credit Union originates real estate, consumer and business loans to its members. The loan balances, interest rates, loan terms and collateral requirements vary according to the type of loan offered and creditworthiness of the borrowing member.

Real estate: The Credit Union grants long-term mortgage loans secured by real property belonging to members. Home equity fixed-rate loans with maturities up to 20 years and home equity lines of credit with maturities up to 25 years may also be offered. Acceptable property types include: single-family detached or attached housing, single condominium units, single units in a planned-unit-development, and 1–4 family residences. The Credit Union generally requires an analysis of collateral value and creditworthiness to determine the capacity of the borrower to repay the obligation.

Consumer: The Credit Union grants consumer loans which consist of vehicle, share secured, and unsecured products. The Credit Union generally requires an analysis of creditworthiness to determine the capacity of the borrower to repay the obligation.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 4. Loans and Allowance for Loan Losses (Continued)

Business: The Credit Union grants loans to business members which consist of 1–4 family dwellings that are not a member’s primary residence, commercial real estate, term loans (secured), revolving lines of credit (secured and unsecured), and unsecured credit cards. The Credit Union requires an analysis that includes collateral valuation (where applicable) and projected income and cash flow that allows for adequate coverage of required payments and obligations. As of December 31, 2019 and 2018, total business loans amounted to \$5,242,000 and \$4,817,000, respectively. These loans are included in mortgage and other consumer loans above.

Workout: The Credit Union grants workout loans to members who may be experiencing a change in financial condition and who have demonstrated a willingness and ability to repay their debts. Depending on the specific circumstance, workout options include loan refinance or loan modification for consumer loans, and repayment plan/forbearance agreement, loan modification, loan refinance, or troubled debt restructuring (TDR) for real estate loans. As of December 31, 2019 and 2018, total workout loans amounted to \$10,967,000 and \$12,218,000, respectively. These loans are spread among real estate and consumer loans above.

Impairment: A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. The Credit Union assesses real estate loans that are four or more months past due for impairment. Impairment is considered to exist when the unpaid balance of the loan exceeds the appraised property value less estimated costs to sell. Real estate loans considered a troubled debt restructuring are also evaluated for impairment. Impairment is the greater of the difference between the original loan contract and the present value of future discounted cash flows of the restructured loan contract or the difference between the outstanding loan balance and the market value of the property less costs to sell (assuming the outstanding loan balance is higher). Consumer loan troubled debt restructures are included in the allowance when the outstanding balance of the loan exceeds the total remaining bankruptcy court ordered loan repayments. The troubled debt restructures are considered in default when the borrower becomes three or more months past due under the new contract terms.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 4. Loans and Allowance for Loan Losses (Continued)

The schedule below presents impaired loans and nonperforming loans by class at December 31 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2019:					
Impaired loans with no related allowance recorded	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans with an allowance recorded:					
Real estate loans:					
Mortgage loans	8,933	8,933	410	8,441	150
Home equity loans	976	976	88	937	11
Total real estate loans	<u>9,909</u>	<u>9,909</u>	<u>498</u>	<u>9,378</u>	<u>161</u>
Consumer and business loans:					
Vehicle loans	2,660	2,660	1,999	2,427	78
Other consumer loans	10,375	10,375	6,805	9,219	135
Total consumer and business loans	<u>13,035</u>	<u>13,035</u>	<u>8,804</u>	<u>11,646</u>	<u>213</u>
Impaired loans with an allowance recorded	22,944	22,944	9,302	21,024	374
Total impaired loans	<u>\$ 22,944</u>	<u>\$ 22,944</u>	<u>\$ 9,302</u>	<u>\$ 21,024</u>	<u>\$ 374</u>
2018:					
Impaired loans with no related allowance recorded	\$ -	\$ -	\$ -	\$ -	\$ -
Impaired loans with an allowance recorded:					
Real estate loans:					
Mortgage loans	7,949	7,949	457	9,269	165
Home equity loans	899	899	46	1,146	16
Total real estate loans	<u>8,848</u>	<u>8,848</u>	<u>503</u>	<u>10,415</u>	<u>181</u>
Consumer and business loans:					
Vehicle loans	2,194	2,194	1,534	2,275	72
Other consumer loans	8,063	8,063	5,352	8,179	114
Total consumer and business loans	<u>10,257</u>	<u>10,257</u>	<u>6,886</u>	<u>10,454</u>	<u>186</u>
Impaired loans with an allowance recorded	19,105	19,105	7,389	20,869	367
Total impaired loans	<u>\$ 19,105</u>	<u>\$ 19,105</u>	<u>\$ 7,389</u>	<u>\$ 20,869</u>	<u>\$ 367</u>

A summary of impaired loans also classified as TDRs at December 31 is as follows (in thousands):

	2019	2018
Real estate	\$ 3,345	\$ 4,146
Consumer	345	341
	<u>\$ 3,690</u>	<u>\$ 4,487</u>

American Airlines Federal Credit Union

Notes to Financial Statements

Note 4. Loans and Allowance for Loan Losses (Continued)

The schedule below presents the recorded investment in nonaccrual loans by loan category as of December 31 (in thousands):

	2019	2018
Mortgage loans	\$ 4,686	\$ 3,737
Home equity loans	545	429
Vehicle loans	1,341	685
Other consumer loans, excluding credit cards and purchased loans	2,144	1,874
	<u>\$ 8,716</u>	<u>\$ 6,725</u>

The Credit Union charges-off loans that have been past due for over 180 days. Loans are classified by delinquency status.

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total	Loans Not Past Due	Total Loans
2019:						
Real estate loans:						
Mortgage loans	\$ 7,019	\$ 1,744	\$ 4,686	\$ 13,449	\$ 2,035,586	\$ 2,049,035
Home equity loans	604	191	545	1,340	149,348	150,688
Total real estate loans	<u>7,623</u>	<u>1,935</u>	<u>5,231</u>	<u>14,789</u>	<u>2,184,934</u>	<u>2,199,723</u>
Consumer and business loans:						
Vehicle	5,005	724	1,341	7,070	803,347	810,417
Other consumer loans	8,691	3,317	6,554	18,562	1,795,573	1,814,135
Total consumer and business loans	<u>13,696</u>	<u>4,041</u>	<u>7,895</u>	<u>25,632</u>	<u>2,598,920</u>	<u>2,624,552</u>
	<u>\$ 21,319</u>	<u>\$ 5,976</u>	<u>\$ 13,126</u>	<u>\$ 40,421</u>	<u>\$ 4,783,854</u>	<u>\$ 4,824,275</u>
2018:						
Real estate loans:						
Mortgage loans	\$ 9,995	\$ 2,057	\$ 3,737	\$ 15,789	\$ 1,865,038	\$ 1,880,827
Home equity loans	516	320	429	1,265	138,478	139,743
Total real estate loans	<u>10,511</u>	<u>2,377</u>	<u>4,166</u>	<u>17,054</u>	<u>2,003,516</u>	<u>2,020,570</u>
Consumer and business loans:						
Vehicle	3,898	782	685	5,365	759,407	764,772
Other consumer loans	8,403	2,690	4,907	16,000	1,725,250	1,741,250
Total consumer and business loans	<u>12,301</u>	<u>3,472</u>	<u>5,592</u>	<u>21,365</u>	<u>2,484,657</u>	<u>2,506,022</u>
	<u>\$ 22,812</u>	<u>\$ 5,849</u>	<u>\$ 9,758</u>	<u>\$ 38,419</u>	<u>\$ 4,488,173</u>	<u>\$ 4,526,592</u>

During the periods ended December 31, 2019 and 2018, the terms of certain loans were modified as troubled debt restructurings. The modification of such loans was a reduction of the stated interest rate or extension of the loan term.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 4. Loans and Allowance for Loan Losses (Continued)

The following is a summary of troubled debt restructurings during the 12 months ended December 31, 2019 and 2018, and loans that had been restructured during the previous 12 months ended December 31, 2018 and 2017, that subsequently defaulted during the 12 months ended December 31 2019 and 2018 (dollar amount in thousands):

	Troubled Debt Restructurings During the 12 Months Ended December 31			Troubled Debt Restructurings During the Previous 12 Months That Subsequently Defaulted During the 12 Months Ended December 31	
	Number of Contracts	Pre- Restructuring Outstanding Recorded Investment	Post- Restructuring Outstanding Recorded Investment	Number of Contracts	Recorded Investment
2019:					
Real estate loans:					
Mortgage loans	9	\$ 1,510	\$ 1,489	2	\$ 252
Home equity loans	1	21	18	-	-
Consumer and business loans:					
Vehicle	17	207	137	5	33
Other consumer loans	3	21	21	1	2
	<u>30</u>	<u>\$ 1,759</u>	<u>\$ 1,665</u>	<u>8</u>	<u>\$ 287</u>
2018:					
Real estate loans:					
Mortgage loans	3	\$ 447	\$ 441	4	\$ 911
Home equity loans	-	-	-	1	53
Consumer and business loans:					
Vehicle	9	139	129	7	99
Other consumer loans	3	28	26	-	-
	<u>15</u>	<u>\$ 614</u>	<u>\$ 596</u>	<u>12</u>	<u>\$ 1,063</u>

Allowance for loan losses: Management categorizes loans into risk categories based on class of loans (e.g., real estate, vehicle, and other consumer). Loan risk categories are reserved based on historical loss ratios, delinquency status, and legal status of the loan (bankruptcy).

American Airlines Federal Credit Union

Notes to Financial Statements

Note 4. Loans and Allowance for Loan Losses (Continued)

The table below presents the activity in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of and for the years ended December 31 (in thousands):

	Real Estate		Consumer and Business		Total
	Mortgage	Home Equity	Vehicle	Other	
2019:					
Allowance for loan losses:					
Balance, beginning of the year	\$ 2,635	\$ 205	\$ 4,442	\$ 19,968	\$ 27,250
Provision for loan losses	(915)	(97)	2,323	16,855	18,166
Loans charged to allowance	(16)	(17)	(2,373)	(15,611)	(18,017)
Recoveries of loans previously charged off	141	60	255	1,909	2,365
Balance, end of the year	\$ 1,845	\$ 151	\$ 4,647	\$ 23,121	\$ 29,764
Period-ended amount allocated to:					
Individually evaluated for impairment	\$ 410	\$ 88	\$ 1,999	\$ 6,805	\$ 9,302
Collectively evaluated for impairment	1,435	63	2,648	16,316	20,462
Ending balance	\$ 1,845	\$ 151	\$ 4,647	\$ 23,121	\$ 29,764
Loans:					
Individually evaluated for impairment	\$ 8,933	\$ 976	\$ 2,660	\$ 10,375	\$ 22,944
Collectively evaluated for impairment	2,040,102	149,712	807,757	1,803,760	4,801,331
Total ending loan balance	\$ 2,049,035	\$ 150,688	\$ 810,417	\$ 1,814,135	\$ 4,824,275
2018:					
Allowance for loan losses:					
Balance, beginning of the year	\$ 3,732	\$ 358	\$ 4,564	\$ 19,886	\$ 28,540
Provision for loan losses	(1,154)	11	1,670	11,332	11,859
Loans charged to allowance	(58)	(246)	(2,130)	(13,366)	(15,800)
Recoveries of loans previously charged off	115	82	338	2,116	2,651
Balance, end of the year	\$ 2,635	\$ 205	\$ 4,442	\$ 19,968	\$ 27,250
Period-ended amount allocated to:					
Individually evaluated for impairment	\$ 457	\$ 46	\$ 1,534	\$ 5,352	\$ 7,389
Collectively evaluated for impairment	2,178	159	2,908	14,616	19,861
Ending balance	\$ 2,635	\$ 205	\$ 4,442	\$ 19,968	\$ 27,250
Loans:					
Individually evaluated for impairment	\$ 7,949	\$ 899	\$ 2,194	\$ 8,063	\$ 19,105
Collectively evaluated for impairment	1,872,878	138,844	762,578	1,733,187	4,507,487
Total ending loan balance	\$ 1,880,827	\$ 139,743	\$ 764,772	\$ 1,741,250	\$ 4,526,592

American Airlines Federal Credit Union

Notes to Financial Statements

Note 5. Property and Equipment

Property and equipment as of December 31 are summarized as follows (in thousands):

	2019	2018
Furniture and equipment	\$ 27,094	\$ 32,795
Construction in process	53,602	10,361
Leasehold improvements	13,311	13,684
Land	-	1,711
Building	-	17,982
	<u>94,007</u>	<u>76,533</u>
Accumulated depreciation and amortization	(30,767)	(46,112)
	<u>\$ 63,240</u>	<u>\$ 30,421</u>

During the periods ended December 31, 2019 and 2018, \$9,011,000 and \$3,261,000, respectively, of property and equipment were retired, with incurred losses of \$260,000 and \$1,000, respectively.

The Credit Union leases multiple offices. The operating leases contain renewal options and provisions requiring the Credit Union to pay property taxes and operating expenses over base period amounts. All rental payments are dependent only upon the lapse of time.

Minimum rental payments under operating leases with initial or remaining terms of one year or more at December 31, 2019 are as follows (in thousands):

Years ending December 31:		
2020		\$ 1,616
2021		1,156
2022		775
2023		551
2024		457
Subsequent years		2,370
		<u>\$ 6,925</u>

Rental expense for the years ended December 31, 2019 and 2018, for all facilities leased under operating leases totaled \$1,824,000 and \$1,550,000, respectively.

Note 6. Members' Shares

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

	2019	2018
Regular shares	\$ 4,064,241	\$ 3,794,224
Share draft accounts	465,006	438,203
401(k) shares	1,192,783	1,333,031
Individual retirement account shares	167,439	172,312
Certificates	981,493	815,699
	<u>\$ 6,870,962</u>	<u>\$ 6,553,469</u>

American Airlines Federal Credit Union

Notes to Financial Statements

Note 6. Members' Shares (Continued)

Shares by maturity as of December 31, 2019 are summarized as follows (in thousands):

No contractual maturity	\$ 5,889,469
0-1 year maturity	317,707
Greater than 1 year to 2 years maturity	205,622
Greater than 2 years to 3 years maturity	189,072
Greater than 3 years to 4 years maturity	101,119
Greater than 4 years to 5 years maturity	167,973
	<u>\$ 6,870,962</u>

Regular, share draft, 401(k) and individual retirement account shares have no contractual maturity. Certificate accounts have maturities of five years or less.

NCUSIF insures members' share accounts up to a maximum federal deposit insurance level of \$250,000 per ownership category. The most common types of ownership categories are individual accounts, joint accounts, revocable trust accounts and certain retirement accounts such as 401(k) and IRA accounts. 401(k) shares represent funds which participants of AAG's various 401(k) plans have elected to invest in the Credit Union cash option of those plans.

The aggregate amount of certificates in denominations of \$250,000 or more at December 31, 2019 and 2018 is approximately \$79,623,000 and \$38,813,000, respectively.

Note 7. Borrowings

The Credit Union has a \$1,542,645,000 and \$1,413,414,000 line of credit available with the FHLB at December 31, 2019 and 2018, respectively. The line of credit is secured by the general assets of the Credit Union and accrues interest at variable interest rates, which depend on market interest rates. As of December 31, 2019 and 2018, there were no amounts outstanding under this line of credit. There is no expiration on this line of credit.

The Credit Union has a \$95,000,000 line of credit available with Catalyst Corporate Federal Credit Union at December 31, 2019 and 2018. This line of credit is secured by the general assets of the Credit Union with variable interest rates, which depend on market interest rates. As of December 31, 2019 and 2018, there were no amounts outstanding under this line of credit. There is no expiration on this line of credit.

Note 8. Commitments and Contingencies

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

The Credit Union is party to conditional commitments to lend funds in the normal course of business to meet the financing needs of its members. These commitments represent financial instruments to extend credit which include lines of credit, credit cards and home equity lines that involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements. The Credit Union follows the same credit policies in making commitments as it does for those loans recorded in the financial statements.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 8. Commitments and Contingencies (Continued)

Outstanding mortgage loan commitments at December 31, 2019 and 2018, total approximately \$156,717,000 and \$99,395,000, respectively.

Unfunded loan commitments under lines of credit at December 31 are summarized as follows (in thousands):

	2019	2018
Home equity	\$ 86,906	\$ 75,486
Credit card	415,069	348,867
Other consumer	435,020	431,350
	<u>\$ 936,995</u>	<u>\$ 855,703</u>

Commitments to extend credit are agreements to lend to a member consistent with conditions established in the contract. Certain commitments have fixed expiration dates or other termination clauses. Because some of the commitments are expected to expire without being drawn on, the total commitment amount does not necessarily represent future cash requirements. The amount of collateral obtained to secure borrowing on the lines of credit is based on management's credit evaluation of the member.

Unfunded commitments under revolving credit lines are commitments for possible future extensions of credit to existing members. Credit cards and other consumer lines of credit are generally uncollateralized but may be protected by a cross-collateralization clause or statutory lien if the member has other secured consumer loans or deposits with the Credit Union and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Credit Union is committed.

Note 9. Regulatory Matters

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital guidelines that involve quantitative measures of the Credit Union's assets, liabilities and certain off-balance sheet items as calculated under GAAP.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum amounts and ratios (set forth in the table, which follows) of net worth to total assets. Further, credit unions with assets over \$10,000,000 are also required to calculate a Risk-Based Net Worth (RBNW) requirement, which establishes whether or not the Credit Union will be considered "complex" under the regulatory framework. The minimum requirement to be considered "complex" under the regulatory framework is 6 percent. The Credit Union's RBNW requirements as of December 31, 2019 and 2018, were 4.95 and 4.67, respectively. Management believes, as of December 31, 2019 and 2018, that the Credit Union meets all capital adequacy requirements to which it is subject.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 9. Regulatory Matters (Continued)

Key aspects of the Credit Union's minimum capital amounts and ratios are summarized as follows as of December 31 (dollar amounts in thousands):

	2019		2018	
	Amount	Ratio/ Requirement	Amount	Ratio/ Requirement
Amount needed to be classified as "adequately capitalized"	\$ 459,459	6.0%	\$ 438,330	6.0%
Amount needed to be classified as "well capitalized"	536,035	7.0%	511,385	7.0%
Actual net worth	742,489	9.7%	701,649	9.6%

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

Note 10. Related-Party Transactions

Compensation and benefits of approximately \$56,768,000 and \$56,490,000 in 2019 and 2018, respectively, represent costs of payroll and benefits that are paid by AAG, and reimbursed by the Credit Union. In addition, AAG provides facilities at its headquarters and at various airports and provides other services to the Credit Union. Reimbursement to AAG for such items was approximately \$4,289,000 and \$5,022,000 in 2019 and 2018, respectively.

In the normal course of business, the Credit Union extends credit to its Directors, Supervisory Committee members, and officers (related parties) on the same terms and conditions as to other Credit Union members. The aggregate loans to related parties at December 31, 2019 and 2018, were approximately \$5,230,000 and \$4,383,000, respectively. Member shares from related parties at December 31, 2019 and 2018, amounted to approximately \$6,425,000 and \$5,817,000, respectively.

Note 11. Fair Value Measurements

Accounting guidance on fair value measurements defines fair value, establishes a framework for measuring fair value using a hierarchy system and requires disclosure of fair value measurements. The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs and includes three levels based on the valuation techniques used. The three levels are as follows:

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

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 11. Fair Value Measurements (Continued)

Investments available for sale: Where quoted prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments would include highly liquid government bonds and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics for Level 2 investments or using pricing models or discounted cash flows for Level 3 investments. Level 2 would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, investments are classified within Level 3 of the valuation hierarchy.

Impaired loans: Impaired loans represent certain loans for which an allowance for loan losses has been measured based on the present value of future discounted cash flows of the restructured loan contract or the market value of the collateral less costs to sell. When significant adjustments have been made to unobservable inputs, the resulting fair value measurement is categorized as a Level 3 measurement.

Other real estate owned (OREO): OREO is initially recorded and subsequently carried at fair value and generally based on a current independent third-party appraisal. The use of significant unobservable inputs by which to assess or estimate appraised values of collateral resulted in a Level 3 classification.

There have been no changes in valuation techniques used for any assets or liabilities measured at fair value during the year ended December 31, 2019 and no transfers between levels.

American Airlines Federal Credit Union

Notes to Financial Statements

Note 11. Fair Value Measurements (Continued)

The following table represents assets and liabilities reported on the statement of financial condition at their fair value as of December 31 by level within the fair value measurement hierarchy (in thousands):

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2019:			
Measured on a recurring basis:			
Assets:			
Government agencies	\$ 919,206	\$ 919,206	
Negotiable certificates	925,066	925,066	
Mortgage-backed securities	599,740	599,740	
Measured on a nonrecurring basis:			
Assets:			
Impaired loans	13,642		13,642
OREO	325		325
2018:			
Measured on a recurring basis:			
Assets:			
Government agencies	638,747	-	638,747
Negotiable certificates	1,053,906	-	1,053,906
Mortgage-backed securities	720,921	-	720,921
Measured on a nonrecurring basis:			
Assets:			
Impaired loans	11,716	-	11,716
OREO	263	-	263