Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Lawrence Tonomura
Name of the Holding Company Director and Official

Trustee
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

3-31-2021
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- ☐ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☒ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2020
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

The Mark & Pamela Okada Family Trust
Legal Title of Holding Company

2515 McKinney Ave, Suite 1100
(Mailing Address of the Holding Company) Street / P.O. Box

Dallas	TX	75201
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Stacy Hodges	CFO
Name	Title

(972) 934-4721
Area Code / Phone Number / Extension

(972) 934-4785
Area Code / FAX Number

stacy.hodges@nexbankcapital.com
E-mail Address

N/A
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes **1**

In accordance with the General Instructions for this report (check only one),
1. a letter justifying this request is being provided along with the report .... ☒
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

NexBank Capital, Inc
Legal Title of Subsidiary Holding Company

2515 McKinney Ave, Suite 1100
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

Dallas	TX	75201
City	State	Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

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City State Zip Code

Physical Location (if different from mailing address)

NEXBANK CAPITAL, INC.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

BKD
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 | Dallas, TX 75254-2961
972.702.8262 | Fax 972.702.0673 | bkd.com

Independent Auditor's Report

Audit Committee and Board of Directors
NexBank Capital Inc. and Subsidiaries
Dallas, Texas

Report on the Consolidated Financial Statements and Internal Control

We have audited the accompanying consolidated financial statements of NexBank Capital Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements. We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

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 also is responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of Internal Control over Financial Reporting.

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 from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of 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.

We believe that the audit evidence we have 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 112 of the *Federal Deposit Insurance Corporation Improvement Act* (FDICIA), our audit of the Company'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 instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9-C). 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 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.

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.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the COSO.

Prior Year Audited by Other Auditors

The 2019 consolidated financial statements were audited by other auditors, and their report thereon, dated March 31, 2020, expressed an unmodified opinion.

BKD, LLP

Dallas, Texas
March 30, 2021

NEXBANK CAPITAL, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2020 and 2019

(In Thousands)

	2020	2019
ASSETS		
Cash and cash equivalents	$ 1,393,599	$ 1,076,536
Interest bearing time deposits in other banks	1,524	475
Securities available for sale	1,776,711	1,634,178
Loans held for sale, at fair value	930,022	1,143,654
Loans, net	4,628,103	5,511,184
Mortgage servicing rights	44,512	52,926
Premises and equipment, net	579	5,056
Unconsolidated investments	770	1,115
Other real estate owned	292	1,045
Goodwill	750	750
Company owned life insurance	140,708	131,135
Other assets	243,447	222,957
	$ 9,161,017	$ 9,781,011
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest bearing	$ 2,897,679	$ 3,234,150
Interest bearing	4,234,741	3,523,768
Total deposits	7,132,420	6,757,918
Advances from Federal Home Loan Bank	1,025,000	2,108,000
Junior subordinated debentures	15,464	15,464
Other borrowings ($208,500 and $216,300 face amount; less debt issuance costs of $2,382 and $2,836, respectively)	206,118	213,464
Accrued expenses and other liabilities	367,582	195,438
Total liabilities	8,746,584	9,290,284
Stockholders' equity:		
Capital stock		
Preferred stock	100	100
Common stock	1	1
Total capital stock	101	101
Paid-in capital	215,028	212,471
Retained earnings	406,546	347,287
Accumulated other comprehensive income (loss)	(207,242)	(69,132)
Total stockholders' equity	414,433	490,727
	$ 9,161,017	$ 9,781,011

See accompanying notes to consolidated financial statements.

NEXBANK CAPITAL, INC. AND SUBSIDIARIES

Consolidated Statements of Income

For the Years Ended December 31, 2020 and 2019

(In Thousands)

	2020	2019
Interest income:		
Interest and fees on loans	$ 224,532	$ 202,528
Interest and dividends on investment securities	48,381	71,198
Other	3,558	11,404
Total interest income	276,471	285,130
Interest expense:		
Interest on deposit accounts	76,409	100,894
Interest on borrowings and other	22,721	27,794
Total interest expense	99,130	128,688
Net interest income	177,341	156,442
Provision for loan losses	33,095	8,105
Net interest income after provision for loan losses	144,246	148,337
Noninterest income:		
Net gain on sales of mortgage loans held for sale	36,727	28,123
Net loan servicing fees	(23,909)	(12,733)
Consulting revenue	2,315	2,878
Title premiums	814	1,352
Net gains on sales of securities	7,572	4,998
Realized/unrealized net gain on interest rate swaps	3,772	(33,944)
Gains/(losses) on company owned life insurance	(3,015)	5,804
Gains on sale of foreclosed assets	155	-
Other	4,482	8,134
Total noninterest income	28,913	4,612
Noninterest expense:		
Salaries and employee benefits	38,917	41,658
Occupancy expense	2,967	3,190
Data processing	3,905	3,343
Regulatory assessments	3,491	3,470
Legal and professional fees	6,786	6,175
Other	18,525	18,979
Total noninterest expense	74,591	76,815
Net income before income taxes	98,568	76,134
Federal income taxes	21,810	14,654
Net income	76,758	61,480
Preferred stock dividends	7,499	6,249
Net income allocable to common stockholders	$ 69,259	$ 55,231

See accompanying notes to consolidated financial statements.

NEXBANK CAPITAL, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2020 and 2019

(In Thousands)

	2020	2019
Net income	$ 76,758	$ 61,480
Other comprehensive (loss) income:		
Interest rate swaps:		
Unrealized gains/(losses) on cash flow hedges	(162,871)	(95,662)
Reclassification adjustment for net (gains)/losses included in net income	(8,716)	(8,716)
Income tax effect	36,033	21,919
Securities available for sale:		
Unrealized gains/(losses) during the period on available for sale securities	4,336	49,098
Reclassification adjustment for net (gains)/losses included in net income	(7,571)	(5,023)
Income tax effect	679	(9,255)
Other comprehensive income/(loss)	(138,110)	(47,639)
Total comprehensive income/(loss)	$ (61,352)	$ 13,841

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2020 and 2019

(In Thousands except Share Amounts)

	Preferred Stock, $1 par value; 500,000 shares authorized at at December 31, 2020 and 2019, respectively		Common Stock, $.001 par value; 2,500,000 shares authorized at December 31, 2020 and 2019, respectively						
	Shares	Amount	Shares	Amount	Paid-In Capital Preferred	Paid-In Capital Common	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balances, December 31, 2018	99,987	$ 100	1,352,397	$ 1	$ 99,900	$ 110,149	$ 292,056	$ (21,493)	$ 480,713
Net income	-	-	-	-	-	-	61,480	-	61,480
Other comprehensive loss	-	-	-	-	-	-	-	(47,639)	(47,639)
Share-based compensation	-	-	16,577	-	-	2,422	-	-	2,422
Distributions to stockholders	-	-	-	-	-	-	(6,249)	-	(6,249)
Balances, December 31, 2019	99,987	$ 100	1,368,974	$ 1	$ 99,900	$ 112,571	$ 347,287	$ (69,132)	$ 490,727
Net income	-	-	-	-	-	-	76,758	-	76,758
Other comprehensive loss	-	-	-	-	-	-	-	(138,110)	(138,110)
Share-based compensation	-	-	56,916	-	-	2,557	-	-	2,557
Common stock dividends	-	-	-	-	-	-	(10,000)	-	(10,000)
Preferred stock dividends	-	-	-	-	-	-	(7,499)	-	(7,499)
Balances, December 31, 2020	99,987	$ 100	1,425,890	$ 1	$ 99,900	$ 115,128	$ 406,546	$ (207,242)	$ 414,433

See accompanying notes to consolidated financial statements.

NEXBANK CAPITAL, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

(In Thousands)

	2020	2019
Cash flows from operating activites		
Net income	$ 76,758	$ 61,480
Adjustments to reconcile net income to net		
cash (used) provided by operating activites:		
Depreciation and amortization, net of accretion	4,362	4,630
Net (gains) losses on sale of securities available for sale	(7,571)	(4,998)
Net (gains) losses on sale of mortgage loans held for sale	(36,727)	(28,123)
Proceeds of sales of loans held for sale	4,170,687	2,116,020
Loans held for sale originated	(3,926,446)	(2,913,222)
Realized/unrealized net (gain) loss on interest rate swaps	(3,772)	33,944
Provison for loan losses	33,095	8,105
Fair Value adjustment-mortgage servicing rights	35,329	22,198
Net (gains) losses on other real estate	(10)	24
Net (gains) losses on company owned life insurance	3,015	(5,804)
Net (gains) losses on disposition of fixed assets	155	10
Equity in earnings of unconsolidated investments	263	124
Share-based compensation expense	2,557	2,422
Deferred tax expense	1,505	12,821
Net change in other assets	(46,675)	(57,587)
Net change in accrued expense and other liabilities	(3,312)	(5,853)
Net cash provided by (used in) operating activities	303,213	(753,809)
Cash flows from investing activities		
Purchases of securities available for sale	(2,219,184)	(2,870,236)
Proceeds from sales of AFS securities	1,431,412	747,855
Proceeds from sale of loans transferred to held for sale	552,854	110,657
Proceeds from maturities, paydowns and calls of AFS	647,272	2,461,923
Increase in interest bearing time deposits in other banks	(1,049)	(10)
Net decrease (increase) in loans	300,636	(982,185)
Purchase of company owned life insurance	(12,588)	(21,294)
Net disposals (additions) to premises and equipment	3,216	(1,949)
Net proceeds from sales of real estate	1,007	80
Net redemption of FHLB and other stock	43,731	17,488
Proceeds from sale of Unconsolidated investments	345	5,168
Return of capital from unconsolidated investments	-	236
Net cash provided by/(used) in investing activities	747,652	(532,267)
Cash flows from financing activities		
Net increase (decrease) in DDA, NOW and savings accounts	438,229	1,916,141
Net increase (decrease) in certificates of deposit	(63,728)	(268,452)
Net increase (decrease) in FHLB advances	(1,083,000)	(320,000)
Proceeds from other borrowings	-	17,800
Repayments of other borrowings	(7,800)	-
Preferred stock dividends paid	(7,503)	(6,249)
Common stock dividends paid	(10,000)	-
Net cash provided by (used in) financing activities	(733,802)	1,339,240
Net increase in cash and cash equivalents	317,063	53,164
Cash and cash equivalents at beginning of year	1,076,536	1,023,372
Cash and cash equivalents at end of year	$ 1,393,599	$ 1,076,536

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

The accounting and reporting policies of NexBank Capital, Inc. and Subsidiaries (together referred to as the Company) conform to generally accepted accounting principles and to practices generally followed within the banking and broker dealer industries. The following is a description of the more significant of these policies.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of NexBank Capital, Inc. (NCI) and its wholly-owned subsidiaries, NexBank Securities, Inc. (NSI), NexBank Title, Inc., NexBank Land Advisors, Inc. (NLA) and NexBank (Bank). NCI is a financial holding company registered under the Bank Holding Company act of 1956 while the Bank is a Texas state chartered bank.

On November 30, 2015, the Bank acquired 100% of the issued and outstanding common stock of College Savings Bank (CSB), a state savings bank based in New Jersey. Simultaneous with the acquisition, CSB was merged with and into the Bank, with the Bank being the survivor. CSB's primary business was the origination and marketing nationwide of various certificates of deposit to families saving for college through qualified tuition programs under section 529 of the Internal Revenue Code.

All significant inter-company transactions and balances have been eliminated in consolidation.

The Bank's primary sources of revenue are interest and fees on loans, interest and dividends on securities and contracts, fees it receives for agency services and origination and resale of single family residential mortgage loans. The Bank is subject to competition from other financial institutions. The Bank is also subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

NSI is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). NSI operates under certain exemptive provisions of SEC Rule 15c3-3(k)(2)(i). NSI is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. NSI's primary sources of revenue include fees it receives for operations advisory services and real estate management services.

Use of Estimates

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and funds due from banks. For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The Company's cash balance includes $330,680,000 and $169,702,000 of restricted cash related to margin deposits on derivative transactions as of December 31, 2020 and 2019, respectively.

The Company has cash deposits at unaffiliated commercial banks totaling $101,118,000 and $40,755,000 at December 31, 2020 and 2019, respectively, which were not insured by the Federal Deposit Insurance Corporation.

Cash Flows

Cash flows from customer loan and deposit transactions, interest bearing deposits in other financial institutions, FHLB advances, and other borrowings are reported on a net basis.

Interest-Bearing Time Deposits in Other Financial Institutions

Interest-bearing time deposits in other financial institutions generally have maturities of greater than one year and are carried at cost.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost, net of any other-than-temporary impairment for the credit portion (recognized through earnings) and the noncredit related portion (recognized through accumulated other comprehensive income). Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (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) the intent to sell, or if it is more likely than not that it will be required to sell, before recovery of the amortized cost basis, and (4) pricing model valuations by third parties. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment (OTTI) related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

From time to time, the Company participates in Fannie Mae’s or Ginnie Mae’s MBS Program whereby it securitizes homogenous one-to-four family loans into mortgage-backed securities and retains 100% ownership interest. During 2020 and 2019, the Company securitized approximately $730,788,000 and $1,759,000 of such loans, respectively. At December 31, 2020 and 2019, the fair values of the remaining mortgage-backed securities that were securitized during the year amounted to approximately $0 and $1,826,000, respectively.

Loans Held for Sale

The Company originates mortgage loans both for sale and for investment purposes. The designation of mortgage loans is made by management at the time of origination. The Company has elected the fair value option for financial reporting for loans held for sale. Fair value is based on the contract prices at which the mortgage loans will be sold or, if the loans are not committed for sale, the current market price. Net unrealized gains or losses are recognized through earnings.

Transfers and Servicing of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The Company acquires mortgage servicing rights (MSRs) through the sale of loans it originates or through the purchase of bulk servicing portfolios. Generally, purchased MSRs are capitalized at the cost to acquire the rights and are carried at fair value. Originated MSRs are capitalized based on the relative fair value of the servicing right to the fair value of the loan and the servicing right and are carried at fair value.

Fair values of servicing rights are determined at the date of transfer. For originations, a portion of the cost of originating a mortgage loan is allocated to the mortgage servicing right based on its relative fair value. To determine the fair value of MSRs the Company uses market prices for comparable mortgage servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Company incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates, late fees and losses.

Management has elected the fair value measurement method (see Note 8) to report its MSRs. Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of MSRs in earnings in the period in which the changes occur, and are included in net loan servicing income in the accompanying consolidated statements of income. The fair values of MSRs are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds, default rates and losses. The valuations resulted in losses of $35,329,000 and $22,198,000 for the years ended December 31, 2020 and 2019, respectively.

Loan servicing fee income is recorded for fees earned for servicing mortgage loans under servicing agreements with, principally, the Federal National Mortgage Association (FNMA). The fees are based on a contractual percentage of the outstanding principal balance or a fixed amount per loan and are recorded as income when earned. These fees have been included in net loan servicing fees in the accompanying consolidated statements of income in the approximate amounts of $11,402,000 and $9,440,000 for the years ended December 31, 2020 and 2019, respectively.

Loans

The Company grants commercial, real estate, and consumer loans to customers. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the area where the underlying collateral is located.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for chargeoffs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance.

The Company records syndicated loan purchases in the secondary market at the earlier of the settlement date or the delayed settlement compensation commencement date (the date of economic ownership). Interest income is recognized on an accrual basis.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, the Company considers the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to the Company's collateral position. Regulatory provisions typically require the placement of a loan on nonaccrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection or (ii) full payment of principal and interest is not expected. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Interest on nonaccrual loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual status. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

Loan Origination/Risk Management

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

One-to-four family residential loans account for a significant portion of the Company's loan portfolio. The Company originates these loans through both wholesale and correspondent channels as well as through the establishment of warehouse facilities for large mortgage bankers. Additionally, the Company purchases pools of one-to-four family loans from unrelated financial institutions. Originations of one-to-four family loans are subject to underwriting standards that incorporate various factors, including, but not limited to, analysis of loan to value, the borrower's ability to repay, the borrower's credit rating, and the location of the property. For purchases of one-to-four family loans, management obtains a data tape of the loans to be included, screens the loans, obtains and verifies necessary underwriting documents, and summarizes the pool highlights. The Company has a concentration of one-to-four family loans in the states of Texas, California, Washington, Georgia, Colorado and Florida.

Commercial loans at December 31, 2020 and 2019 include approximately $120,171,000 and $295,227,000, respectively in corporate loan facilities often referred to as shared or syndicated national credits (SNCs). These credit facilities generally have multiple pari-passu tranches including a revolving line of credit and one or more term loans. The Company generally limits its investments in SNCs to larger, broadly syndicated facilities that are covered under the FDIC SNC program. When contemplating investing in one of these facilities, management will source the opportunity from a host of investment grade rated agent banks originating the credit. A bank book is provided by these institutions which details data about the company, industry, sponsor, management, and facility. This data is analyzed by the Company's credit and underwriting department in conjunction with other industry market information from various sources (Bloomberg, investment reports, etc.). Financial analysis is required to assess the borrower's ability to service the underlying debt. Additionally, a collateral analysis is performed to support a secondary source of repayment. This review includes an analysis of both historical as well as projected financial statements. Per FDIC guidance, the Company has identified four primary criteria with regard to ratings on SNCs. The primary criteria are: (1) reasonableness of borrower's business plan; (2) ability of borrower to deliver over a five to seven year period (50% of total debt and 100% of senior secured debt); (3) ability of borrower to have and maintain a fixed charge coverage ratio of at least 1.0X; and (4) ability of borrower to have and maintain a leverage ratio of not more than 4.0X for senior secured debt and 6.0X for total debt.

Other commercial loans include loans to mortgage companies collateralized by mortgage servicing rights and loans to bank holding companies collateralized by stock of the underlying subsidiary bank. Such loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guaranty. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans include triple net lease loans (NNN) and are subject to underwriting standards and processes similar to other commercial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. In addition, management tracks the level of owner-occupied commercial real estate loans as a percentage of capital.

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral up to the unpaid principal balance of the loan, if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment based on historical loss experience, current economic conditions, and performance trends.

Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Troubled Debt Restructured (TDR) Loans

A TDR loan is a loan which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The loan terms, which have been modified or restructured due to a borrower's financial difficulty, include, but are not limited to, a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals, renewals, and rewrites. A TDR loan would generally be considered impaired in the year of modification and will be assessed periodically for further impairment.

The coronavirus (COVID-19) pandemic has placed significant health, economic and other major pressures on the communities we serve, the United States and the entire world. In March 2020, Congress passed the CARES Act, which was designed to provide comprehensive relief to individuals and businesses following the unprecedented impact of the COVID-19 pandemic.

The provisions of the CARES Act included an election to not apply the guidance on accounting for TDRs to loan modifications, such as extensions or deferrals, related to COVID-19 made between March 1, 2020 and the earlier of (i) Janaury 1, 2022 or (ii) 60 days after the President terminates the COVID-19 national emergency declaration. The relief can only be applied to modifications for borrowers that were not more than 30 days past due as of December 31, 2019. The Company elected to adopt these provisions of the CARES Act.

Fees and Costs Associated with Originating Loans

Loan origination fees, net of certain direct loan origination costs, are deferred and recognized in interest income using the level-yield or straight-line methods without anticipating prepayments. The level yield method is used for amortizing loans (those loans which contractually call for regularly scheduled principal and interest payments), and the straight line method is used for loans that are essentially interest only, such as SNCs. Management believes the straight-line method approximates the level-yield method.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to provide for probable incurred loan losses in the loan portfolio. The allowance for loan losses includes allowance allocations calculated in accordance with ASC Topic 310, "Receivables" and allowance allocations calculated in accordance with ASC Topic 450, "Contingencies". The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The allowance consists of specific and general allocations. The specific allocation relates to loans that are impaired. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general allocation is calculated using loss rates delineated by risk rating and product type. Factors considered when assessing loss rates include the value of the underlying collateral, the industry of the obligor, the obligor's liquidity, and other financial and qualitative factors. These statistical models are updated regularly for changes in economic and business conditions. Included in the analysis of these loan portfolios are reserves, which are maintained to cover uncertainties that affect the Company's estimate of probable losses including economic uncertainty and large single defaults.

Purchased Credit Impaired Loans

Loans acquired through the completion of a transfer that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the "accretable yield," is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "nonaccretable difference," are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairment. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received).

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Premises and Equipment

Land is carried at cost. Premises and furniture and equipment are carried at cost, less accumulated depreciation and amortization computed using the straight-line method.

Unconsolidated Investments

The Company's unconsolidated investments include NSI's investment in real estate interests and are generally accounted for under the equity method of accounting as the Company has a significant influence over the operations of the entity but does not have a controlling financial interest. These interests are evaluated to determine if the Company has controlling financial interest based on the variable interest entity (VIE) model. The Company currently is not the primary beneficiary of any VIEs. Results of operations of these interests are presented on a one-line basis in the accompanying Statement of Operations.

The Company's unconsolidated investments also include NCI's ownership of $464,000 in equity in the special purpose entity (SPE) which issued preferred securities to the Bank. See note 10.

Federal Home Loan Bank (FHLB) Stock

The Bank 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. FHLB stock is carried at cost, classified as an other asset, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Company Owned Life Insurance

The Company has purchased separate account life insurance policies on certain key executives and employees. Company owned life insurance is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts that are probable at settlement.

Goodwill

Goodwill represents the unidentifiable portion of the excess of purchase price paid over net fair value of assets and identifiable intangible assets. Goodwill is tested annually for impairment. At December 31, 2020 and 2019, management has determined that there has been no impairment of recorded goodwill.

Deposits

Included in deposits at December 31, 2020 and 2019 are CSB's exclusive former deposit products known as the CollegeSure® Certificate of Deposit (the CollegeSure CD) and the InvestorSure® Certificate of Deposit (the InvestorSure CD). CSB had marketed these deposit products in connection with their management of the Arizona Family College Savings Plan and the Indiana Family College Savings Plan.

The CollegeSure CD pays interest on July 31 each year. CollegeSure CDs issued prior to March 28, 2011 accrue interest at a rate (the index rate) linked to the annual change in the dollar value of the Independent College 500® Index (IC 500), a college inflation index published by the College Board on an annual basis, subject to a stated minimum interest rate. Since the actual interest rate of CollegeSure CDs can only be determined retrospectively on each July 31 when the IC 500 is published, the crediting of interest to the respective CollegeSure CD and depositor's account is done on that date. Accordingly, management must accrue for financial statement purposes estimated CollegeSure CD interest expense during all interim periods. Effective March 28, 2011, terms and conditions of newly issued CollegeSure CDs were revised. CollegeSure CDs issued after that date pay interest each year at a variable interest rate equal to the prior July 31 college inflation rate, as measured by the IC 500 index change, less an issue margin determined at the deposit origination date. The variable interest rate is subject to a maximum rate also determined on the deposit origination date.

InvestorSure CDs are a five year variable rate CD indexed to the Standard & Poors® 500 Composite Stock Index (S&P 500®).

Interest rate exposure on the InvestorSure CDs is hedged by buying a call option on the S&P 500®. The hedging derivative instrument and bifurcated embedded derivative are measured at fair value, with net changes in fair value recognized in earnings.

Derivative Instruments

The Company records derivatives on its balance sheet at fair value. Derivative instruments are recognized as either assets or liabilities on the balance sheet and are measured at fair value and the corresponding change in fair value is reported in Accumulated Other Comprehensive Income if accounted for as a hedge and in earnings if hedge accounting was not applied. Derivative instruments that are used as part of the Company's market risk strategy consist of interest rate swaps, interest rate lock commitments, options to buy-sell mortgage backed securities and forward sale commitments. These instruments are utilized to manage market rate risk on the Company's variable rate deposits as well as its mortgage pipeline. The Company uses the forward sale commitments and options to hedge the risk of changes in the fair value of the pipeline due to changes in market interest rates.

Due to the InvestorSure CD coupons being linked to the performance of an equity index, contingent payment components of these deposit obligations meet the definition of an embedded derivative in the Derivatives and Hedging Topic of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC or Codification). Additionally, derivative instruments are utilized to economically hedge exposures to interest rate risks associated with these CDs, although hedge accounting is not employed. In accordance with the Derivatives and Hedging Topic of the Codification, embedded derivatives have been bifurcated from the host contracts and have been measured at fair value. The InvestorSure CD embedded derivatives are reported in the 2020 and 2019 consolidated balance sheets along with deposits, and the economic hedging derivative is reported in other assets.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded and are generally secured by cash or cash equivalents.

Revenue Recognition – Non-Bank Subsidiaries

Consulting and administrative services performed by NSI are accrued and recognized as they are earned. Management fee and other income are recognized as they are earned and billed. Real estate interests are calculated and recorded on a monthly basis as per contractual agreement.

Liability for Mortgage Loan Repurchase Losses

The Company has established a liability for mortgage loan repurchase losses which is included in accrued expenses and other liabilities in the accompanying consolidated financial statements. Because the level of mortgage loan repurchase losses depends upon economic factors, investor demand strategies, and other external conditions that may change over the life of the underlying loans, the level of the liability for mortgage loan repurchase losses is difficult to estimate and requires considerable management judgment. Management maintains regular contact with the Government Sponsored Enterprises (GSEs), the Federal Housing Finance Agency (FHFA), and other significant investors to monitor their repurchase demand practices and issues as part of their process to update the repurchase liability estimate as new information becomes available.

Advertising

Advertising consists of the Company’s advertising in its local market area. Advertising is expensed as incurred. Advertising expense was approximately $431,000 and $798,000 for the years ended December 31, 2020 and 2019, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in stockholders’ equity during a period, except those resulting from transactions with stockholders. In addition to net income, other components of the Company’s comprehensive income include the effect of changes in net unrealized gain/loss on securities available for sale and the change in fair value of hedged interest rate swaps.

Stock-Based Compensation

Compensation cost to be recognized is established for restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. The fair market price of the Company’s common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes

Effective January 1, 2018, the Company's management decided and through voluntary termination by shareholders holding at least 50% of the outstanding stock, changed the tax filing status from an "S" Corporation to a "C" Corporation. As a result, the Company became subject to Federal income tax. Income tax expense in 2018 included the effect of establishing the deferred tax assets and liabilities for the difference between the carrying amounts and the tax basis of assets and liabilities as of January 1, 2018, along with the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Fair Values of Financial Instruments

ASC Topic 820, "Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Reclassification

Certain amounts previously reported have been reclassified to conform to the current format.

Adoption of New Accounting Pronouncements

Recently Issued Accounting Pronouncements

<table>
<tr><td colspan="2">ASU 2016-13, Financial Instruments - Credit Losses (Topic 326)</td></tr>
<tr><td>Description</td><td>In June 2016, FASB issued guidance to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor.</td></tr>
<tr><td>Date of Adoption</td><td>For non-SEC filers, the standard will be effective for fiscal years beginning after December 15, 2022, including interim periods within that fiscal year. The Company will adopt the standard for the fiscal year beginning January 1, 2023.</td></tr>
<tr><td>Effect on the Financial Statements</td><td>Transition
● For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively
● Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.
● For all other assets within the scope of CECL, a cumulative effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

The company has formed a CECL committee that is implementing systems and procedures to evaluate the impact of adopting the new guidance and complete implementation. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective. At this time, the impact is being evaluated.</td></tr>
</table>

2. Statement of Cash Flows

The Company has chosen to report on a net basis its cash receipts and cash payments for time deposits accepted and repayments of those deposits, loans made to borrowers and principal collections on those loans and interest bearing deposits in other financial institutions.

The Company uses the indirect method to present cash flows from operating activities. Supplemental cash flow information for the years ended December 31, 2020 and 2019 is presented as follows (in thousands):

	2020	2019
Cash transactions:		
Interest expense paid	$ 100,709	$ 128,205
Income taxes paid	$ 36,583	$ 25,775
Noncash transactions:		
Purchase of loans held for investment to be settled in subsequent year, net of prior year settlements	$ -	$ (30,481)
Mortgage servicing rights originated	$ 26,915	$ 17,275
Loans held for investment transferred to other real estate owned	$ 244	$ 945
Stock grants vested, net of forfeitures	$ 2,557	$ 2,422
Loans transferred from held for investment to held for sale	$ 549,106	$ 111,134
Lease liabilities arising from right-of-use assets	$ 8,875	$ 2,900

3. Debt Securities

Debt securities have been classified in the consolidated balance sheet according to management's intent. The carrying amount of securities and their approximate fair values at December 31, 2020 and 2019 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2020:				
Mortgage-backed securities and collateralized mortgage obligations	$ 1,230,386	$ 5,481	$ 925	$ 1,234,942
Private label mortgage-backed securities and collateralized mortgage obligations	5,897	-	510	5,387
Municipal securities	41,009	1,025	1,100	40,934
Corporate securities	11,123	192	-	11,315
Collateralized loan obligations	498,240	54	14,161	484,133
	$ 1,786,655	$ 6,752	$ 16,696	$ 1,776,711
December 31, 2019:				
Mortgage-backed securities and collateralized mortgage obligations	$ 1,073,861	$ 11,947	$ 214	$ 1,085,594
Private label mortgage-backed securities and collateralized mortgage obligations	6,765	-	359	6,406
Municipal securities	23,080	481	579	22,982
Corporate securities	39,080	1,048	-	40,128
Collateralized loan obligations	498,101	30	19,063	479,068
	$ 1,640,887	$ 13,506	$ 20,215	$ 1,634,178

The Company had no securities classified as held to maturity or as trading securities at December 31, 2020 or 2019.

The Bank has $1.2 billion and $1.0 billion of Securities Available for Sale on its financial statements as of December 31, 2020 and 2019, respectively, which are recorded as mortgage-backed securities that represent securities issued by a Trust, which is affiliated with, but is not required to be consolidated by, the Bank. The Trust was created to purchase past due loans purchased out of a GNMA pool, securitize the loans and sell the resulting debt security to the Bank. The Bank purchases all of the securities created by the Trust. The Trust has no other ancillary activity other than the purchase and securitization of the loans. As of December 31, 2020, the Trust has an investment in loans of $1.2 billion and an offsetting liability in the form of debt securities for the same amount. The Trust periodically purchases the loan pools, securitizes the pool into a single debt security and sells that security to the Bank. Each pool is a separate security. The Bank pledges these securities to the Federal Home Loan Bank as collateral. Consequently, at any point in time, 100% of the value of the assets in the Trust are recorded on the financial statements of the Bank.

The loans owned by the Trust are non-performing when purchased but, as with all loans purchased out of GNMA pools, carry insurance from the Federal Housing Agency, the Veteran's Administration or the US Department of Agriculture. The loans are insured as to principal and interest by these U.S. Government entities, which reduces the credit risk profile of the loan. The primary exposure to the Company is the timing of the cash flows of the security.

The Trust has entered into a Servicing Agreement with a licensed GNMA servicer who is responsible for servicing the loans, which includes modifying the terms of the loans in order to bring them current or foreclosing on the property, disposing the property and colleting the insurance claim when warranted.

Proceeds from sales of securities available for sale during 2020 and 2019 amounted to approximately $1,431,412,000 and $747,855,000, respectively. Gross gains recognized on these sales during 2020 and 2019 amounted to approximately $7,762,000 and $5,234,000, respectively. Gross losses recognized on these sales during 2020 and 2019 amounted to approximately $191,000 and $236,000, respectively.

At December 31, 2020 and 2019, investment securities with fair values of approximately $1,228,820,000 and $1,084,098,000, respectively, were pledged as collateral for Federal Home Loan Bank advance purposes.

The amortized cost and estimated market value of debt securities at December 31, 2020 are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties (in thousands).

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 474	$ 474
Due from one year to five years	19,246	18,580
Due from five years to ten years	24,856	25,493
Due after ten years	7,557	7,702
Mortgage-backed securities, private label mortgage backed, collateralized mortgage obligations, and collateralized loan obligations	1,734,523	1,724,462
	$ 1,786,656	$ 1,776,711

Unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2020 and 2019 are summarized as follows (in thousands):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities Available for Sale						
December 31, 2020:						
Mortgage-backed securities and collateralized mortgage obligations	$ 3,926	$ 925	$ -	$ -	$ 3,926	$ 925
Private label mortgage-backed securities and collateralized mortgage obligations	-	-	5,386	510	5,386	510
Municipal securities	253	1	3,848	1,099	4,101	1,100
Corporate securities	-	-	-	-	-	-
Collateralized loan obligations	14,762	238	455,203	13,923	469,965	14,161
	$ 18,941	$ 1,164	$ 464,437	$ 15,532	$ 483,378	$ 16,696
December 31, 2019:						
Mortgage-backed securities and collateralized mortgage obligations	$ 509	$ 4	$ 17,188	$ 210	$ 17,697	$ 214
Private label mortgage-backed securities and collateralized mortgage obligations	-	-	6,406	359	6,406	359
Municipal securities	-	-	6,588	579	6,588	579
Corporate securities	-	-	-	-	-	-
Collateralized loan obligations	19,785	215	454,353	18,848	474,138	19,063
	$ 20,294	$ 219	$ 484,535	$ 19,996	$ 504,829	$ 20,215

Impairment

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis and may perform analysis more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than a security's amortized cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent to sell, or if it is more likely than not that it will be required to sell, before recovery of the amortized cost basis. At December 31, 2020 and 2019, certain collateralized loan obligations have unrealized losses with fair values which are significantly lower than the Company's amortized cost basis. These unrealized losses are generally due to current market conditions. Management believes that the carrying amounts of all other securities are recoverable at December 31, 2020.

In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and reviews industry analysts' reports. Additionally, management utilizes estimated default rates, prepayment speed assumptions, and severity assumptions to perform a net present value analysis to determine whether the present value of expected cash flows or held to maturity value is less than amortized cost basis of the security. For the purpose of this determination, management discounts projected cash flows at a rate equal to the coupon of the underlying security. Management believes that this discount rate is appropriate since the securities were purchased at or near par. For the purpose of determining fair value, management uses discount rates which correlate to required rates of return by current investors of such securities.

4. Loans Held for Sale

The Company has elected the fair value option for loans held for sale with the change in fair value recognized in earnings. These loans are intended for sale and the Company believes that fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on loans held for investment. Of these loans, $5,388,000 and $610,000 were 90 days or more past due or on nonaccrual as of December 31, 2020 and 2019 respectively.

As of December 31, 2020 and 2019, the aggregate fair value, contractual balance and gain or loss was as follows (in thousands):

	2020	2019
Aggregate fair value	$ 930,022	$ 1,143,654
Contractual balance	907,589	1,118,852
Unrealized (loss) gain	$ 22,433	$ 24,802

5. Loans and Allowance for Loan Losses

Loans at December 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Real estate:		
Construction, land development, land	$ 134,296	$ 133,611
1-4 family residential properties	1,761,065	2,739,893
Multi-family residential	607,242	710,949
Nonfarm nonresidential owner occupied	24,492	25,710
Nonfarm nonresidential other	718,272	744,825
Total real estate	3,245,367	4,354,988
Commercial	231,168	429,846
Consumer	18,720	7,392
Nondepository financial institutions	1,182,289	756,928
Lease financing receivables	-	200
	4,677,544	5,549,354
Allowance for loan losses	(49,441)	(38,170)
	$ 4,628,103	$ 5,511,184

Allowance for Loan Losses

An analysis of the allowance for loan losses for the years ended December 31, 2020 and 2019 is as follows (in thousands):

	Beginning Balance	Provision	Chargeoffs	Recoveries	Ending Balance
December 31, 2020:					
Real estate:					
Construction, land development, land	$ 2,066	$ 552	$ (144)	$ -	$ 2,474
1-4 family residential properties	14,467	5,307	(1,804)	124	18,094
Multi-family residential	3,886	1,229	-	-	5,115
Nonfarm nonresidential owner occupied	226	42	-	-	268
Nonfarm nonresidential other	4,358	3,488	-	-	7,846
Total real estate	25,003	10,618	(1,948)	124	33,797
Commercial	7,188	15,337	(20,000)	-	2,525
Consumer	59	145	-	-	204
Nondepository financial institutions	5,920	6,995	-	-	12,915
Lease financing receivables	-	-	-	-	-
	$ 38,170	$ 33,095	$ (21,948)	$ 124	$ 49,441
December 31, 2019:					
Real estate:					
Construction, land development, land	$ 2,486	$ (320)	$ (100)	$ -	$ 2,066
1-4 family residential properties	12,189	3,809	(1,531)	-	14,467
Multi-family residential	3,308	578	-	-	3,886
Nonfarm nonresidential owner occupied	274	(48)	-	-	226
Nonfarm nonresidential other	5,274	(916)	-	-	4,358
Total real estate	23,531	3,103	(1,631)	-	25,003
Commercial	5,090	2,096	-	2	7,188
Consumer	97	(38)	-	-	59
Nondepository financial institutions	2,976	2,944	-	-	5,920
Lease financing receivables	-	-	-	-	-
	$ 31,694	$ 8,105	$ (1,631)	$ 2	$ 38,170

The Company's individual ALLL allocations are established for probable losses on specific loans. The Company's general ALLL allocations are established based upon historical loss experience for similar loans with similar characteristics and on economic conditions and other qualitative risk factors both internal and external to the Company. Further information pertaining to the allowance for loan losses (ALLL) at December 31, 2020 and 2019 is as follows (in thousands):

	Loan Evaluation			ALLL Allocations		
	Individually	General	Total loans	Individually	General	Total ALLL
December 31, 2020:						
Real estate:						
Construction, land development, land	$ 115	$ 134,181	$ 134,296	$ 21	$ 2,453	$ 2,474
1-4 family residential properties	11,745	1,749,320	1,761,065	168	17,926	18,094
Multi-family residential	-	607,242	607,242	-	5,115	5,115
Nonfarm nonresidential owner occupied	-	24,492	24,492	-	268	268
Nonfarm nonresidential other	-	718,272	718,272	-	7,846	7,846
Total real estate	11,860	3,233,507	3,245,367	189	33,608	33,797
Commercial	43,275	187,893	231,168	5,000	(2,475)	2,525
Consumer	-	18,720	18,720	-	204	204
Nondepository financial institutions	-	1,182,289	1,182,289	-	12,915	12,915
Lease financing receivables	-	-	-	-	-	-
	$ 55,135	$4,622,409	$4,677,544	$ 5,189	$ 44,252	$ 49,441
December 31, 2019:						
Real estate:						
Construction, land development, land	$ 154	$ 133,457	$ 133,611	$ 8	$ 2,058	$ 2,066
1-4 family residential properties	16,250	2,723,643	2,739,893	384	14,083	14,467
Multi-family residential	-	710,949	710,949	-	3,886	3,886
Nonfarm nonresidential owner occupied	-	25,710	25,710	-	226	226
Nonfarm nonresidential other	-	744,825	744,825	-	4,358	4,358
Total real estate	16,404	4,338,584	4,354,988	392	24,611	25,003
Commercial	14,548	415,298	429,846	-	7,188	7,188
Consumer	-	7,392	7,392	-	59	59
Nondepository financial institutions	-	756,928	756,928	-	5,920	5,920
Lease financing receivables	-	200	200	-	-	-
	$ 30,952	$5,518,402	$5,549,354	$ 392	$ 37,778	$ 38,170

Impaired Loans

Impaired loans include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. Average impaired loans during 2020 and 2019 were approximately $64,893,000 and $19,386,000, respectively. No significant interest income was recognized on impaired loans during 2020 and 2019. Approximately $2,623,000 and $285,000 of additional interest would have been recognized if the loans had been on accrual status during 2020 and 2019, respectively. The following is a summary of information pertaining to impaired loans at December 31, 2020 and 2019 (in thousands):

	Unpaid	Recorded Investment			
	Principal Balance	With No Allowance	With Allowance	Total	Related Allowance
December 31, 2020:					
Real estate:					
Construction, land development, land	$ 115	$ 85	$ 30	$ 115	$ 21
1-4 family residential properties	11,745	10,323	1,422	11,745	168
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential owner occupied	-	-	-	-	-
Nonfarm nonresidential other	-	-	-	-	-
Total real estate	11,860	10,408	1,452	11,860	189
Commercial	43,275	33,958	9,317	43,275	5,000
Consumer	-	-	-	-	-
Nondepository financial institutions	-	-	-	-	-
Lease financing receivables	-	-	-	-	-
	$ 55,135	$ 44,366	$ 10,769	$ 55,135	$ 5,189
December 31, 2019:					
Real estate:					
Construction, land development, land	$ 154	$ 84	$ 70	$ 154	$ 8
1-4 family residential properties	16,250	14,738	1,512	16,250	384
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential owner occupied	-	-	-	-	-
Nonfarm nonresidential other	-	-	-	-	-
Total real estate	16,404	14,822	1,582	16,404	392
Commercial	14,548	14,548	-	14,548	-
Consumer	-	-	-	-	-
Nondepository financial institutions	-	-	-	-	-
Lease financing receivables	-	-	-	-	-
	$ 30,952	$ 29,370	$ 1,582	$ 30,952	$ 392

The recorded investment in loans excludes accrued interest receivable due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

The Company is not committed to lend additional funds to debtors whose loans have been modified.

Past Due Loans

The following table presents the aging of the recorded investment in past due loans at December 31, 2020 and 2019 by class of loans (in thousands):

	30-89 Days Past Due	Past Due 90 Days or More Still Accruing	Past Due 90 Days or More Non-accrual	Loans Not Past Due	Total
December 31, 2020:					
Real estate:					
Construction, land development, land	$ -	$ 82	$ 115	$ 134,099	$ 134,296
1-4 family residential properties	8,274	17,753	11,745	1,723,293	1,761,065
Multi-family residential	-	-	-	607,242	607,242
Nonfarm nonresidential owner occupied	-	-	-	24,492	24,492
Nonfarm nonresidential other	-	-	-	718,272	718,272
Total real estate	8,274	17,835	11,860	3,207,398	3,245,367
Commercial	-	-	30,428	200,740	231,168
Consumer	-	-	-	18,720	18,720
Nondepository financial institutions	-	-	-	1,182,289	1,182,289
Lease financing receivables	-	-	-	-	-
	$ 8,274	$ 17,835	$ 42,288	$ 4,609,147	$ 4,677,544
December 31, 2019:					
Real estate:					
Construction, land development, land	$ 4,359	$ 25	$ 216	$ 129,011	$ 133,611
1-4 family residential properties	45,904	967	16,189	2,676,833	2,739,893
Multi-family residential	-	-	-	710,949	710,949
Nonfarm nonresidential owner occupied	-	-	-	25,710	25,710
Nonfarm nonresidential other	-	-	-	744,825	744,825
Total real estate	50,263	992	16,405	4,287,328	4,354,988
Commercial	-	-	-	429,846	429,846
Consumer	-	-	-	7,392	7,392
Nondepository financial institutions	-	-	-	756,928	756,928
Lease financing receivables	-	-	-	200	200
	$ 50,263	$ 992	$ 16,405	$ 5,481,694	$ 5,549,354

Troubled Debt Restructurings

The restructuring of a loan is considered a troubled debt restructuring (TDR) if both the borrower is experiencing financial difficulties and the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. During 2019, the Company modified one loan of approximately $272,000 that was not impaired as a TDR. That loan has a current balance of approximately $253,000 and is the only loan considered a TDR.

The provisions of the CARES Act included an election to not apply the guidance on accounting for TDRs to loan modifications, such as extensions or deferrals, related to COVID-19 made between March 1, 2020 and the earlier of (i) January 1, 2022 or (ii) 60 days after the President terminates the COVID-19 national emergency declaration. The relief can only be applied to modifications for borrowers that were not more than 30 days past due as of December 31, 2019. The Company elected to adopt these provisions of the CARES Act.

During 2020, the Company modified a total of 1,466 loans totaling $970,913,000 to customers affected by COVID-19. As of December 31, 2020, the remaining loans on modification consisted of 299 loans with current balances of $282,014,000.

Credit Quality Information

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, including: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. All loans are analyzed on a monthly basis, using relevant data such as delinquency status for residential loans, financial information for certain commercial loans or other information available to the bank. The Company uses the following definitions for risk ratings:

Pass

Loans classified as pass are loans with low to average risk.

Special Mention

Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Company's credit position at some future date.

Substandard

Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful

Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

As of December 31, 2020 and 2019, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2020:					
Real estate:					
Construction, land development, land	$ 134,181	$ -	$ 115	$ -	$ 134,296
1-4 family residential properties	1,749,320	-	11,745	-	1,761,065
Multi-family residential	607,242	-	-	-	607,242
Nonfarm nonresidential owner occupied	24,492	-	-	-	24,492
Nonfarm nonresidential other	718,272	-	-	-	718,272
Total real estate	3,233,507	-	11,860	-	3,245,367
Commercial	187,893	-	43,275	-	231,168
Consumer	18,720	-	-	-	18,720
Nondepository financial institutions	1,182,289	-	-	-	1,182,289
Lease financing receivables	-	-	-	-	-
	$ 4,622,409	$ -	$ 55,135	$ -	$ 4,677,544
December 31, 2019:					
Real estate:					
Construction, land development, land	$ 133,458	$ -	$ 154	$ -	$ 133,612
1-4 family residential properties	2,723,644	-	16,250	-	2,739,894
Multi-family residential	710,949	-	-	-	710,949
Nonfarm nonresidential owner occupied	25,710	-	-	-	25,710
Nonfarm nonresidential other	744,825	-	-	-	744,825
Total real estate	4,338,586	-	16,404	-	4,354,990
Commercial	415,297	-	14,548	-	429,845
Consumer	7,391	-	-	-	7,391
Nondepository financial institutions	756,928	-	-	-	756,928
Lease financing receivables	200	-	-	-	200
	$ 5,518,402	$ -	$ 30,952	$ -	$ 5,549,354

6. Loan Pool Purchases

During the years ended December 31, 2020 and 2019, the Company purchased individual loans as well as various pools of residential 1-4 family loans. The Company has applied the provisions of FASB ASC 310-20, "Nonrefundable Fees and Other Costs" to loans and loan pools acquired with no evidence of deterioration of credit quality since origination at the purchase date. Management believes that the discount was solely attributable to interest rate movements, and, thus, non-credit related. Accordingly, the entire discount was deemed to be accretable by management. The purchase price of these loans is included in the accompanying consolidated balance sheet as loans receivable at December 31, 2020 and 2019. A summary of the unpaid principal balances of the loans acquired and the related purchase price is as follows (in thousands):

	2020	2019
Loans purchased at a premium:		
Purchase price	$ 894,498	$ 1,453,846
Unpaid principal balance at acquisition	882,021	1,420,937
Premium paid	$ 12,477	$ 32,909
Loans purchased at a discount or par:		
Purchase price	$ 1,936	$ 289,978
Unpaid principal balance at acquisition	1,937	297,882
Discount	$ (1)	$ (7,904)

The premium and discount have been included as a component of the carrying value of the purchased loans and are being recognized as an adjustment of yield over the life of the relating loans under methods which approximate the interest method.

The Company has applied the provisions of FASB ASC 310-30, "Purchased Loans with Deteriorated Credit Quality" to loans and loan pools acquired with evidence of deterioration of credit quality since origination at the purchase date. The Company made no such purchases in the years 2020 and 2019.

7. Premises and Equipment

Premises and equipment at December 31, 2020 and 2019 are summarized as follows (in thousands):

	2020	2019
Building and improvements	$ 4,169	$ 8,503
Furniture fixtures and equipment	3,532	3,532
	7,701	12,035
Accumulated depreciation	(7,122)	(6,979)
	$ 579	$ 5,056

Depreciation expense was $412,000 and $707,000 for the years ended December 31, 2020 and 2019, respectively.

8. Mortgage Banking Activities

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheet. The unpaid principal balance of mortgage loans serviced for others was as follows at December 31, 2020 and 2019 (in thousands):

	2020	2019
Mortgage loan portfolios serviced for:		
FNMA	$ 3,624,045	$ 3,620,924
FHLMC	1,964,253	708,823
GNMA	110,812	121,332
FHLB	574,646	1,085,069
	$ 6,273,756	$ 5,536,148

Custodial escrow balances maintained in connection with serviced loans were approximately $44,662,000 and $95,271,000 at December 31, 2020 and 2019, respectively. These balances are included in noninterest bearing deposits in the accompanying consolidated balance sheets at December 31, 2020 and 2019.

Mortgage Servicing Rights

An analysis of net mortgage servicing rights for the years ended December 31, 2020 and 2019 is as follows (in thousands):

	2020	2019
Balance, January 1	$ 52,926	$ 57,849
Originations	26,915	17,275
Purchases	-	-
Change in fair value	(35,329)	(22,198)
Balance, December 31	$ 44,512	$ 52,926

As previously discussed in Note 1 to the accompanying consolidated financial statements, the Company has elected the fair value option for accounting for its mortgage servicing rights.

Key economic assumptions used in measuring the initial servicing rights resulting from sales and securitizations of residential mortgage loans during the year include expected prepayment speed, weighted average life, and discount rate. Management uses current prepayment speed assumptions of Bloomberg consensus broker opinions as of the month of sale or securitization. Weighted average lives are based on contractual terms and prepayment speeds for the respective residential mortgage loans as of the date of sale or securitization.

Key economic assumptions are as follows as of December 31, 2020 and 2019 (dollar amounts in thousands):

	Residential Mortgage Loans	
	2020	2019
Fair value of servicing rights	$ 44,512	$ 52,926
Weighted-average life (in years)	3.88	5.35
Prepayment speed assumption/Constant prepayment rate	369/22.1%	248/14.9%
Residual cash flows discount rate (annual)	9.0% - 11%	9.5% - 11%

The fair value of servicing rights is estimated by management with assistance from a third party specializing in the valuation of mortgage servicing rights. The susceptibility to movements in interest rates affect the cash flows generated from the mortgage servicing rights. Interest rate risk is a significant market risk which could potentially have a significant effect on the financial statements. Changes in fair value based on various assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

Liability for Mortgage Loan Repurchase Losses

Included in accrued expenses and other liabilities in the accompanying consolidated balance sheet is the liability for mortgage loan repurchase losses. Because the level of mortgage loan repurchase losses depends upon economic factors, investor demand strategies, and other external conditions that may change over the life of the underlying loans, the level of the liability for mortgage loan repurchase losses is difficult to estimate and requires considerable management judgment. Management maintains regular contact with the GSEs, the FHFA, and other significant investors to monitor their repurchase demand practices and issues as part of its process to update the repurchase liability estimate as new information becomes available. Management has evaluated currently available information and established a liability for mortgage loan repurchase losses of $555,000 and $110,000 for the years ended December 31, 2020 and 2019, respectively.

9. Other Assets

Other assets at December 31, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Federal Home Loan Bank and other stock	$ 46,069	$ 89,800
Accrued interest receivable	63,809	65,304
Mortgage and other receivables	5,473	3,787
Software	677	867
Deferred tax asset	76,718	38,835
Prepaid expenses and other assets	50,701	24,364
	$ 243,447	$ 222,957

10. Investment in Special Purpose Entity and Junior Subordinated Debentures

Junior subordinated debentures of $15,464,000 at both December 31, 2020 and 2019 represent amounts payable to a SPE in conjunction with the Company's sponsorship of the SPE. The SPE has one issuance outstanding totaling $15,000,000 in trust preferred securities and $464,000 in common stock (wholly-owned by NCI) at December 31, 2020 and 2019, respectively. Both the junior subordinated debentures and the related trust preferred securities yield annual distribution rates at the 90 day LIBOR rate plus 1.75% (2.00% at December 31, 2020), became redeemable beginning March 15, 2012 (without penalty) and mature March 2037.

The trust preferred securities are tax-advantaged issues that currently qualify as Tier 1 Capital for the Company. Distributions on these securities are included as interest expense on other borrowings. The underlying trust is a statutory business trust organized for the sole purpose of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of the Company, the sole asset of the trust. The trust preferred securities of the trust represent preferred beneficial interests in the assets of the trust and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of the trust are wholly-owned by the Company. The trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Company making payment on the related junior subordinated debentures. The Company's obligations under the junior subordinated debentures and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Company of the trust's obligations under the trust securities issued by the trust.

The Dodd-Frank Act eliminated the use of trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital for depository institution holding companies, such as the Company. However, because the Company had less than $15 billion of consolidated assets as June 30, 2011, the Company will be permitted to include any trust preferred securities issued before May 19, 2010 as an element of Tier 1 capital, but not be able to include any trust preferred securities issued after May 19, 2010 as a component of Tier 1 capital. Further, the Board of Governors of the Federal Reserve System (Board) has determined that trust preferred securities are restrictive core capital elements in computing Tier I capital of bank holding companies. The Board has limited restricted core capital elements (as defined) to 25% of core capital elements. Accordingly, the Company is limited on the trust preferred securities which it can include in its Tier I capital.

Under the revised BASEL III guidelines effective January 1, 2015, these borrowings qualified for Tier 1 Capital Ratio purposes up to 25%, but did not qualify for Common Equity Tier 1 Capital Ratio purposes.

11. Deposits

Deposits at December 31, 2020 and 2019 are summarized as follows (in thousands):

	2020		2019	
	Amount	Percent	Amount	Percent
Noninterest bearing demand accounts	$ 2,897,679	40.6	$ 3,234,150	47.9
Interest bearing demand accounts	562,863	7.9	117,994	1.7
Savings accounts	3,477,312	48.8	3,147,480	46.6
Certificates of deposit, $250,000 and greater	31,451	0.4	26,624	0.4
Certificates of deposit, less than $250,000	163,115	2.3	231,670	3.4
	$ 7,132,420	100.0	$ 6,757,918	100.0

At December 31, 2020 and 2019, the Company held approximately $883,719,000 and $505,333,000, respectively, in brokered deposits.

The Company's core deposit base includes large institutional deposit accounts, including deposits from mortgage companies. Concentrated deposits, which are accounts that represent greater than 2% of total deposits were 32.6% and 44.8% as of December 31, 2020 and 2019, respectively.

At December 31, 2020, scheduled maturities of certificates of deposit accounts are as follows (in thousands):

	Amount
Less than 1 year	$ 138,188
1 to 3 years	44,421
Over 3 years	11,957
	$ 194,566

Included in certificates of deposit at December 31, 2020 are CollegeSure and InvestorSure CDs in the approximate amounts of $30,018,000 and $2,059,000, respectively. Included in certificates of deposit at December 31, 2019 are CollegeSure and InvestorSure CDs in the approximate amounts of $42,816,000 and $5,505,000, respectively.

12. Advances From Federal Home Loan Bank

Advances from the Federal Home Loan Bank amounted to $1,025,000,000 and $2,108,000,000 at December 31, 2020 and 2019, respectively. The borrowings are collateralized by a security agreement, which requires the Company to maintain a certain level of qualified first mortgage collateral and investment securities in relation to the amount of outstanding debt. Qualified first mortgage collateral as of December 31, 2020 was approximately $3,032,000,000. Borrowings at December 31, 2020 in the amount of $450,000,000 mature in January 2021 with all unpaid principal and interest due at maturity, and bear interest at 0.10%. There are two fifteen year advances where the Federal Home Loan Bank has a quarterly call option. These advances are in the amounts of $325,000,000 and $250,000,000 with rates of 1.62% and 1.18% respectively. They mature in November 2033 and May 2034. The Company has additional borrowing capacity under this line of credit of approximately $2,185,788,000 at December 31, 2020.

The borrowings which mature in January 2021 were not renewed.

The Company has letters of credit (LOC's) outstanding for the benefit of Fannie Mae and certain public fund depositors in the aggregate amount of $364,051,000 at December 31, 2020. These LOC's mature at various dates beginning January 29, 2021 through June 18, 2021. As of December 31, 2020, no amounts had been drawn under these LOC's.

13. Other Borrowings

Other borrowings consist of the following at December 31, 2020 and 2019 (in thousands):

	December 31, 2020			December 31, 2019		
	Principal	Unamortized Debt Issuance Costs	Net Amount	Principal	Unamortized Debt Issuance Costs	Net Amount
Senior unsecured notes payable	$ 144,500	$ 1,653	$ 142,847	$ 144,500	$ 1,968	$ 142,532
Subordinated notes	54,000	729	53,271	54,000	868	53,132
Revolving line of credit - unaffiliated commercial bank	10,000	-	10,000	15,000	-	15,000
Term loan	-	-	-	2,800	-	2,800
	$ 208,500	$ 2,382	$ 206,118	$ 216,300	$ 2,836	$ 213,464

Senior Unsecured Notes Payable

On March 15, 2016, the Company completed a senior unsecured notes offering in the amount of $50,000,000 effectively refinancing its existing other borrowings with an unpaid principal balance of approximately $59,909,000 at December 31, 2015. Additionally, the Company reopened its senior unsecured notes offering on September 1, 2016, and increased them by $25,000,000. On February 15, 2017, the Company reopened its senior unsecured notes offering, increasing them by $80 million with identical terms. Finally, on September 19, 2017, the Company repurchased $10,500,000 of its senior notes. The senior unsecured notes aggregate to $144,500,000 as of December 31, 2020.

The senior unsecured notes call for quarterly interest only payments beginning June 15, 2016 at a fixed rate of 5.50% through March 15, 2021; and are redeemable beginning on March 15, 2021 (at which time they convert to a floating rate of three-month LIBOR plus 435.5 basis points). The notes mature March 15, 2026. The notes contain certain financial covenants, all of which the Company was in compliance with as of December 31, 2020 and 2019.

Subordinated Notes

In September of 2017, the Company completed a subordinated notes offering in the amount of $54 million. The subordinated notes call for quarterly interest only payments beginning December 30, 2017 at a fixed rate of 6.375% through September 30, 2022; are redeemable beginning September 30, 2022 (at which time they convert to a floating rate of three-month LIBOR plus 458.5 basis points). The notes mature September 30, 2027. The notes contain certain financial covenants, all of which the Company was in compliance with as of December 31, 2020 and 2019.

Revolving Line of Credit – Unaffiliated Commercial Bank

The Company has a revolving line of credit with an unaffiliated commercial bank with a borrowing capacity of $30,000,000. The revolving line of credit calls for monthly interest payments only at a floating rate of prime (3.25% at December 31, 2020); contains a maturity date of March 15, 2023, is collateralized by substantially all assets of the Company, including the stock of its wholly-owned subsidiaries, and contains compliance requirements with certain financial covenants, all of which the Company was in compliance with as of and for the years ended December 31, 2020 and 2019. The revolving line of credit also contains a conditional facility increase to $50 million if the lender obtains commitment from one or more participants in the facility. The Company has borrowing capacity under this revolving line of credit of $20,000,000 at December 31, 2020.

Term Loan

In December 2019 the Company executed a term loan with an unaffiliated commercial bank with an initial and current balance of $2,800,000 and no current balance. The term loan had an initial maturity date of January 10, 2024 and calls for monthly principal and interest payments with a twenty-five year amortization and interest fixed at 4.60% per annum through the initial maturity date. The term loan may be extended to January 10, 2027 in accordance with the terms of the loan agreement. The effective rate from the initial maturity date through the extended maturity date shall be a fixed rate equal to the greater of: (i) the swap rate in effect and calculated as of the initial maturity date, (ii) the treasury rate in effect and calculated as of the initial maturity date or (iii) 4.00% per annum. This loan was paid in full in 2020.

14. Income Taxes

Income tax expense (benefit) was as follows for December 31, 2020 and 2019 (in thousands):

	2020	2019
Tax Expense		
Current tax expense	$ 23,316	$ 27,475
Deferred tax expense	(1,506)	(12,821)
Total	$ 21,810	$ 14,654

Effective tax rates differ from the Federal statutory rate of 21% for 2020 and 2019 applied to income before income taxes due to the following for December 31, 2020 and 2019 (in thousands):

	2020	2019
Federal statutory rate times pretax income	$ 20,699	$ 15,988
Tax-exempt interest	(198)	(252)
Bank-owned life insurance	633	(1,219)
Other	676	137
Total	$ 21,810	$ 14,654

Year-end deferred tax assets and liabilities were due to the following at December 31, 2020 and 2019 (in thousands):

	2020	2019
Deferred tax assets		
Interest rate swaps	$ 66,582	$ 33,165
Allowance for loan losses	10,605	8,016
Accrued compensation	3,310	2,784
Available for sale securities	2,088	1,409
Other	575	997
Total deferred tax assets	83,160	46,371
Deferred tax liabilities		
Mortgage Servicing Rights	$ (6,015)	$ (6,912)
Other	(427)	(624)
Total deferred tax liabilities	(6,442)	(7,536)
Net deferred tax asset	$ 76,718	$ 38,835

Deferred tax assets are recognized when their benefit is more likely than not to be realized. No valuation allowance for deferred tax assets was recorded at December 31, 2020 and 2019 as management believes it is more likely than not that all of the deferred tax assets will be realized.

The Company does not have any uncertain tax positions and does not have any interest and penalties recorded in the income statement for the years ended December 31, 2020 and 2019. The Company is no longer subject to examination by the US Federal tax jurisdiction for the years prior to 2016.

15. Related Party Transactions

The Company has and may continue to have transactions, including borrowings, with its executive officers, directors and their affiliates. At December 31, 2020 and 2019, the aggregate amounts of such loans were approximately $67,756,000 and $81,239,000, respectively. During the year ended December 31, 2020, new loans funded amounted to approximately $1,577,000 and repayments totaled approximately $29,749,000. During the year ended December 31, 2019, new loans funded amounted to approximately $13,955,000 and repayments totaled approximately $5,361,000.

NSI derives a significant portion of its income on management services it performs for and on behalf of Highland Capital Management, L.P. (HCMLP) and its affiliates. HCMLP is an affiliate through common ownership. Approximately $2,315,000 (90% of NSI's total revenue) and $8,393,000 (89% of NSI's total revenue) was derived from transactions involving HCMLP and/or various other affiliated entities during 2020 and 2019, respectively.

Certain expenses incurred by HCMLP or other Company affiliates are allocated to NSI pursuant to the terms of a management agreement between these entities. Total expenses allocated to NSI and expensed by NSI during 2020 amounted to approximately $466,000, including rent allocation of approximately $10,000, as discussed in Note 19. Total expenses allocated to NSI and expensed by NSI during 2019 amounted to approximately $523,000, including rent allocation of approximately $10,000, as discussed in Note 19.

NSI had total payables to affiliates of approximately $22,000 and $22,000 at December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, the Company had approximately $107,283,000 and $70,314,000, respectively, in deposits from related parties, including directors, stockholders, and their related affiliates.

16. Preferred Stock

In 2018 the Company amended the Articles of Incorporation to authorize 500,000 of the Company's shares to be issued as preferred stock. On December 1, 2018, the Board of Directors authorized a dividend of preferred stock shares to each of the Company's common stockholders. The divided was equal to .07394 shares of Series A preferred stock for every one share of common stock. The Company issued 99,987 shares of Series A preferred stock and paid $13,000 in cash to shareholders for cash in lieu of whole shares.

The Series A preferred stock is noncumulative perpetual preferred stock designed to qualify as Tier 1 capital of NCI under applicable regulations. The preferred stock dividend rate is 7.5% fixed for five years and then reverts to a floating rate or a fixed rate of three month LIBOR plus 500 basis points. The preferred stock is not redeemable prior to January 1, 2024, at which date the stock become redeemable at any time at the option of the Company at a redemption price of $1,000 per share plus the per share amount of any authorized, declared but unpaid dividends. The preferred stock has a preference in voluntary or involuntary liquidation of $1,000 per share plus any declared but unpaid dividends. The Company's Board of Directors declared dividends on the preferred stock during equal to the 7.5% fixed rate and paid a total of $7,499,000 and $7,499,000 in dividends for the years ended December 31, 2020 and 2019, respectively.

17. Financial Instruments

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. At December 31, 2020 and 2019, the approximate amounts of these financial instruments were as follows (in thousands):

	2020	2019
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 1,048,556	$ 756,452
Standby letters of credit	655	630
	$ 1,049,211	$ 757,082

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. In addition, the majority of the commitments are secured by cash deposits at the Company. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount and type of collateral obtained if deemed necessary by the Company upon extension of credit, varies and is based on management's credit evaluation of the borrower.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral and the nature of such collateral is essentially the same as that involved in making commitments to extend credit.

Although the maximum exposure to loss is the amount of such commitments, management currently anticipates no material losses from such activities.

18. Employee Benefits

The Company has a noncontributory profit sharing plan integrated with a contributory 401(k) employee benefit plan (Plan) covering substantially all employees. Employees generally become eligible in the Plan upon attainment of the age of 21, with entry dates of January 1 and July 1 of each year. Under the Plan, the Board of Directors may contribute, at their discretion and subject to annual limitations, certain amounts in the form of matching, profit sharing and/or qualified non-elective contributions. Plan expense for the years ended December 31, 2020 and 2019 amounted to approximately $2,150,000 and $1,912,000, respectively.

During 2015, the Company amended its stock award plan providing for up to 300,000 shares of Company stock that is administered by the board of directors. Prior to the amendment, the stock award plan provided for up to 100,000 shares of Company stock. It is a performance based plan that is dependent on the results of operations, but involves judgment on the part of the board. Stock awards for any given year are generally granted shortly after year end. Stock compensation expense is recognized over the requisite service period. A portion of the awards are typically vested on the grant date in order to reflect the prior year service (service inception date). An accrual is necessary to recognize the expense when the service inception date is prior to the grant date and that accrual is carried in accrued expenses and other liabilities on the balance sheet. In some cases, the Company has paid additional bonuses in amounts necessary to cover the participant's income tax burden. At December 31, 2020 and 2019 approximately $1,564,000 and $1,191,000, respectively, was accrued related to stock awards and related bonuses to cover the participant's tax burden. At December 31, 2020, there are 125,355 shares available for grant under the stock award plan. Included in shares granted are shares that vest over a four year period for which the awardees elected to be taxed at the time of the grant under special provisions of the Internal Revenue Code, and, accordingly contain all rights associated with ownership of the stock during the vesting period.

A summary of the status of the Company's nonvested shares at December 31, 2020 and 2019 is as follows:

	2020			2019		
	Shares		Weighted Average Grant Date Fair Value	Shares		Weighted Average Grant Date Fair Value
Nonvested at January 1	22,858	$	102.01	19,586	$	183.47
Granted during the year	56,916	$	42.96	16,577	$	24.75
Vested during the year	(28,111)	$	(90.33)	(13,305)	$	(130.70)
Forfeited during the year	-	$	-	-	$	-
Nonvested at December 31	51,663	$	43.31	22,858	$	102.01

Total stock compensation expense (included in salaries and benefits in the accompanying consolidated financial statements) for the years ended December 31, 2020 and 2019 amounted to approximately $2,577,000 and $1,754,000, respectively. As of December 31, 2020, there was approximately $2,238,000 of total unrecognized compensation cost related to nonvested stock awards. The cost is expected to be recognized over a weighted average period of 1.0 years.

The Company is the beneficiary of whole life insurance policies covering certain key executives and officers. The recorded values of the related policies at December 31, 2020 and 2019 were approximately $140,708,000 and $131,135,000, respectively. Management has at times classified certain investments within its separate account company owned life insurance as substandard. At December 31, 2020 and 2019, investments classified substandard amounted to approximately $0 and $2,975,000, respectively. Gains (losses) recognized on these policies amounted to approximately ($3,015,000) and $5,804,000 for the years ended December 31, 2020 and 2019, respectively. The Company's policies are in separate account insurance policies.

19. Commitments and Contingencies

Contingencies:

During 2016, the Company entered the Federal Home Loan Bank's Mortgage Partnership Finance Program (MPF Program) whereby it agrees to sell certain 1-4 family residential loans to the Federal Home Loan Bank (FHLB) and, in turn, commits to indemnify the FHLB for a portion of future losses incurred should one or more of the sold loans default. At December 31, 2020, the outstanding balance of loans sold was approximately $574,623,000 in such loans, resulting in a maximum indemnification contingent liability of approximately $36,095,000. The Company believes that its liability for mortgage loan repurchase losses (as more fully discussed in note 8) is sufficient to absorb any potential losses inherent in its participation in the MPF Program.

From time to time, the Company is involved in various other legal actions arising from normal business activities. Management does not believe that there now are such matters that will have a material effect on the financial statements.

Lease Commitments:

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date base on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing rate, adjusted for the lease term and other factors.

On January 1, 2019 (date of adoption of ASU 2016-02), the Company recorded a right of use asset and operating lease liability of $2,900,000 and $3,100,000, respectively, in 2019 related to this arrangement. These amounts were determined based on the present value of the remaining minimum lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption of 5.5%.

The Company leases portions of its facilities from unaffiliated third parties under operating lease agreements which expire at various dates through 2032. Following is a summary of future minimum lease commitments under these agreements (in thousands):

Year	Amount
2021	895
2022	890
2023	590
Thereafter	8,491
Total minimum lease payments	10,866
Less amount representing interest	1,991
Present value of net minimum lease payments	$ 8,875

Total lease expense under the above lease agreements was approximately $974,000 and $948,000 for the years ended December 31, 2020 and 2019, respectively.

Included in lease expense are amounts paid by related parties of approximately $10,000 and $10,000 for the years ended December 31, 2020 and 2019 (see also Note 15). The rent expense incurred during 2020 and 2019 was allocated to NSI by the Bank.

20. Derivatives

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Interest Rate Swaps Designated as Cash Flow Hedges

Interest rate swaps with notional amount totaling $2.0 billion and $2.0 billion as of December 31, 2020 and 2019, respectively, were designated as cash flow hedges of certain mortgage escrow deposit liabilities. The Company adopted the provision of ASU 2017 -12 "Derivatives & Hedging; Targeted Improvements to Accounting for Hedging Activities" in 2017 which eliminates the requirement to record hedge ineffectiveness in earnings. Consequently, the fair value of the swaps is recorded in other assets or other liabilities with the full change in fair value of the interest rate swaps recorded in other comprehensive income. If the hedged swaps are terminated or no longer meet the requirements for hedged accounting treatment, the unrealized gain or loss on the interest rate swap is retained in other comprehensive income and is amortized to interest income/expense over the remaining life of the swap. If the hedged transaction is no longer forecasted to occur within the original timeframe, the unrealized gain/loss is immediately recognized in earnings. The Company expects the hedges to remain fully effective during the remaining term of the swaps.

Summary information about the interest rate swaps designated as cash flow hedges as of December 31, 2020 and 2019, respectively is as follows:

	2020	2019
Notional amount	$2.0 billion	$2.0 billion
Pay rates	2.5910% to 3.1025%	2.5910% to 3.1025%
Receive rates	3 Month LIBOR	3 Month LIBOR
Maturity	May 2028 to January 2029	May 2028 to January 2029
Fair value of cash flow swaps	$ (322,055,687)	$ (159,185,000)

Interest expense recorded on swap transactions totaled $38,753,000 in 2020 and $7,354,000 during 2019 and is reported as a component of other interest expense.

In addition to the above, interest rate swaps designated as cash flow hedges with a total notional amount of $1.6 billion were terminated during 2018. Following is a roll forward of the deferred gains from these swaps included in other comprehensive income (in thousands):

	2020	2019
Beginning balance of deferred gains in accumulated other comprehensive income	$ 43,563	$ 52,278
Gains amortized to interest income/expense	(8,716)	(8,715)
	$ 34,847	$ 43,563

The following reflects the composition of accumulated other comprehensive income (loss), net of tax, associated with all cash flow hedges described above for the years ending December 31, 2020 and 2019:

	2020	2019
Unrealized loss on hedges after date of designation	$ (287,236)	$ (123,700)
Unamortized gains on terminated hedges	34,847	43,563
Tax effect	53,001	16,304
	$ (199,388)	$ (63,833)

Other Interest Rate Swap

The Company had one $500 million notional interest rate swap purchased on January 7, 2019 that was initially recorded as a mark-to-market swap. The Company recorded $35,201,000 in unrealized loss in the Consolidated Statement of Income on this swap in 2019 until it was designated as a hedging transaction on September 13, 2019.

The liability associated with unrealized loss on this interest rate swap at December 31, 2020 and 2019 was recorded in other liabilities in the accompanying consolidated balance sheet. Following is a summary of unrealized and realized interest rate swap gains and losses associated with this non-hedged interest rate swap included in the statements of income for the years ended December 31, 2020 and 2019 (in thousands):

	2020	2019
Unrealized gains (loss) recorded in consolidated statement of income	$ -	$ (35,201)
Accretion of unrealized loss recorded on mark to market swap designated as hedge	3,772	1,257
	$ 3,772	$ (33,944)

Mortgage Banking Derivatives

As of December 31, 2020 and 2019, the Company had short-term rate commitments amounting to approximately $475,985,000 and $156,227,000, respectively, to fund mortgage loan applications in process (the Committed Pipeline). Substantially all of these commitments are for periods of 60 days or less.

In order to mitigate the risk that a change in interest rates will result in a decline in the value of the Committed Pipeline, the Company enters into derivative transactions. The Committed Pipeline is hedged with forward contracts for the sale of mortgage backed securities (MBS).

Due to the variability of closings in the Committed Pipeline, which is driven primarily by interest rates, the Company hedges a substantial portion of the Committed Pipeline. As of December 31, 2020 and 2019, the Company had net forward contracts to sell MBS with aggregate notional amounts of approximately $680,000,000 and $583,000,000, respectively. These forward contracts are short-term in nature, generally with expiration dates of less than 90 days.

All mortgage banking derivatives are recognized on the balance sheet at their fair value, with changes in fair value recognized through earnings. As of December 31, 2020 the Company recorded a liability for the fair value of forward contracts of $3,418,000, and in December 31, 2019, the Company recorded an asset for the fair value of forward contracts of approximately $856,000 in the accompanying consolidated balance sheets. Changes in the fair value of the forward contracts are recorded in current period earnings. The Company recognized net gains/(losses) on the mark to market of the forward commitments of ($4,274,000) and $4,470,000 for the years ended December 31, 2020 and 2019, respectively. The net recognized gains for the years ended December 31, 2020 and 2019 have been included as a component of the net gain on sale of loans in the accompanying consolidated statement of income.

By using derivative instruments, the Company exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Company's credit risk will equal the fair-value gain in a derivative. The Company minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by the Company's risk management department. The Company's derivative activities are monitored by its investment committee as part of that committee's oversight of the Company's asset/liability and treasury functions.

The Company enters into interest rate lock commitments to fund loans at specified rates within specified time frames. These products are not linked to specific assets and liabilities that appear on the balance sheet or to a forecasted transaction and, therefore, interest rate locks are marked to market in the consolidated statement of operations. The Company is exposed to the risk that the actual closings in the Committed Pipeline may deviate from the estimated closings due to a change in interest rates. Although interest rates are the primary determinant, the actual loan closings from the Committed Pipeline are influenced by many factors, including the composition of the Committed Pipeline and remaining commitment periods.

The Company's estimated closings are based on historical data of loan closings as influenced by recent developments. As of December 31, 2020 and 2019, the fair values of interest rate lock commitments of approximately $4,133,000 and $4,251,000, respectively, have been included in other assets in the accompanying consolidated financial statements.

At December 31, 2020, the Company does not expect to incur significant losses nor does it expect to realize significant gains related to its Committed Pipeline due to changes in interest rates, net of gains or losses on associated hedge positions.

InvestorSure CD Option Contracts

A summary of InvestorSure CD option contracts at December 31, 2020 and 2019 is as follows:

	12/31/2020	12/31/2019
Notional amounts	$ 1,454,000	$ 3,896,000
S&P call option	$ 588,000	$ 1,148,000
Embedded derivative	$ (588,000)	$ (1,148,000)
Maturity	2/2021 to 8/2021	2/2020 to 8/2021

Generally, the above CD option contracts are comprised of 5-year S&P 500 index call option trades. The S&P call option (included in other assets) and InvestorSure CD embedded derivative (included as a component of deposits) are marked to market with unrealized gains or losses reflected in current earnings.

21. Fair Value Disclosures

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability (exit price) in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820, "Fair Value Measurements and Disclosures," establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies 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 estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Assets and liabilities measured at fair value at December 31, 2020 and 2019 are as follows (in thousands):

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
December 31, 2020:			
Asset (liability):			
Securities available for sale (1)	$ -	$ 1,776,711	$ -
Loans held for sale (2)	-	930,022	-
Mortgage servicing rights (3)	-	44,512	-
Interest rate swaps (4)	-	(322,056)	-
Interest rate locks (5)	-	4,133	-
Forward sale commitments (5)	-	(3,418)	-
Hedging derivative instrument (S&P call option) (6)	-	588	-
Embedded derivative (6)	-	(588)	-
December 31, 2019:			
Asset (liability):			
Securities available for sale (1)	$ -	$ 1,634,178	$ -
Loans held for sale (2)	-	1,143,654	-
Mortgage servicing rights (3)	-	52,926	-
Interest rate swaps (4)	-	(163,958)	-
Interest rate locks (5)	-	4,251	-
Forward sale commitments (5)	-	856	-
Hedging derivative instrument (S&P call option) (6)	-	1,148	-
Embedded derivative (6)	-	(1,148)	-

(1) Securities available for sale are measured at fair value on a recurring basis, generally monthly.
(2) Fair value of loans held for sale is based on contract prices at which the loans will be sold and is measured on a recurring basis, generally monthly.
(3) Fair value of mortgage servicing rights is measured on a recurring basis, generally quarterly, utilizing various market inputs.
(4) Fair value of the interest rate swaps are measured daily, utilizing observable market input data.
(5) Rate locks and forward sale commitments are measured at fair value generally monthly using significant observable market inputs and assumptions.
(6) The hedging derivative instrument (S&P call option) and relating embedded derivative are measured at fair value generally monthly using significant observable market inputs and assumptions.

Certain non-financial assets measured at fair value include other real estate owned and repossessed assets (upon initial acquisition and subsequent impairment). Other real estate owned, repossessed assets, and lots held for residential development upon initial acquisition, are remeasured and reported at fair value through a charge to the allowance for loan losses and certain other real estate owned, repossessed assets, and lots held for residential development, subsequent to their initial recognition, are remeasured at fair value through a write-down included in other non-interest expense. The fair values of other real estate owned, repossessed assets, and lots held for residential development are estimated using Level 3 inputs based on observable market data.

The following table presents other real estate owned, repossessed assets, and lots held for residential development that were remeasured and reported at fair value on a non-recurring basis during the years ended December 31, 2020 and 2019 (in thousands):

	2020	2019
Other Real Estate Owned:		
Remeasured subsequent to initial acquisition:		
Carrying value prior to measurement	$ -	$ 1,046
Write-downs included in other non-interest income	-	(1)
	$ -	$ 1,045

The following table presents quantitative information about level 3 fair value measurements for assets measured at fair value on a non-recurring basis at December 31, 2020 and 2019 (in thousands):

	Fair Value	Valuation Technique	Unobservable Inputs
December 31, 2020			
Other real estate owned	$ -	Sales comparison approach	Adjustment for differences between the comparable sales
December 31, 2019			
Other real estate owned	$ 1,045	Sales comparison approach	Adjustment for differences between the comparable sales

At December 31, 2020 and 2019, the Company also had approximately $10,769,000 and $1,582,000, respectively, of impaired loans measured at fair value on a nonrecurring basis. Management believes that impaired loans are immaterial to the consolidated financial statements, and therefore do not merit disclosure relating to quantitative information about level 3 fair value measurements.

22. Regulatory Matters

Under banking law, there are legal restrictions limiting the amount of dividends that the Bank can declare. Approval of the regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels.

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Basel III added a 2.5% "capital conservation buffer" which was designed for banking institutions to absorb losses during periods of economic stress. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and was 2.5% and 2.5% for 2020 and 2019, respectively. Banking institutions with capital ratios below the minimum for capital adequacy purposes plus the capital conservation buffer will face constraints on dividends, equity repurchases, and executive compensation relative to the amount of the shortfall. Management believes as of December 31, 2020, the Company and Bank meet all capital adequacy requirements to which they are subject. The capital adequacy requirements below do not include consideration of the capital conservation buffer.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year end 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

Unrealized gains or losses on available for sale securities and hedged interest rate swaps are not included in computing regulatory capital.

The Company's actual and required capital amounts and ratios are as follows at December 31, 2020 and 2019 (dollar amounts in thousands):

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company:						
As of December 31, 2020:						
Common equity tier 1 (to risk-weighted assets)	$ 520,925	8.8%	$ 265,466	4.5%	n/a	n/a
Tier 1 capital (to risk weighted assets)	$ 636,389	10.8%	$ 353,955	6.0%	n/a	n/a
Total capital (to risk weighted assets)	$ 739,101	12.5%	$ 471,940	8.0%	n/a	n/a
Tier I capital (to total assets)	$ 636,389	6.9%	$ 371,020	4.0%	n/a	n/a
As of December 31, 2019:						
Common equity tier 1 (to risk-weighted assets)	$ 453,005	7.5%	$ 273,248	4.5%	n/a	n/a
Tier 1 capital (to risk weighted assets)	$ 568,469	9.4%	$ 364,331	6.0%	n/a	n/a
Total capital (to risk weighted assets)	$ 659,770	10.9%	$ 485,775	8.0%	n/a	n/a
Tier I capital (to total assets)	$ 568,469	6.0%	$ 381,458	4.0%	n/a	n/a

The Bank's actual capital amounts and ratios along with the capital requirements under the framework for prompt corrective action are as follows at December 31, 2020 and 2019 (dollar amounts in thousands):

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bank:						
As of December 31, 2020:						
Common equity tier 1 (to risk-weighted assets)	$ 791,202	13.4%	$ 265,177	4.5%	$ 383,033	6.5%
Tier I capital (to risk weighted assets)	$ 791,202	13.4%	$ 353,569	6.0%	$ 471,425	8.0%
Total capital (to risk weighted assets)	$ 840,643	14.3%	$ 471,425	8.0%	$ 589,282	10.0%
Tier I capital (to average total assets)	$ 791,202	8.5%	$ 370,638	4.0%	$ 463,298	5.0%
As of December 31, 2019:						
Common equity tier 1 (to risk-weighted assets)	$ 761,367	12.5%	$ 273,052	4.5%	$ 394,409	6.5%
Tier I capital (to risk weighted assets)	$ 761,367	12.5%	$ 364,070	6.0%	$ 485,426	8.0%
Total capital (to risk weighted assets)	$ 799,536	13.2%	$ 485,426	8.0%	$ 606,783	10.0%
Tier I capital (to average total assets)	$ 761,367	8.0%	$ 381,133	4.0%	$ 476,417	5.0%

NSI:

NSI is required by Rule 15c3-3(k)(2)(i) of the Securities Exchange Act of 1934 to maintain minimum net capital as defined, which is the greater of $5,000 or 6 2/3 % of total aggregate indebtedness.

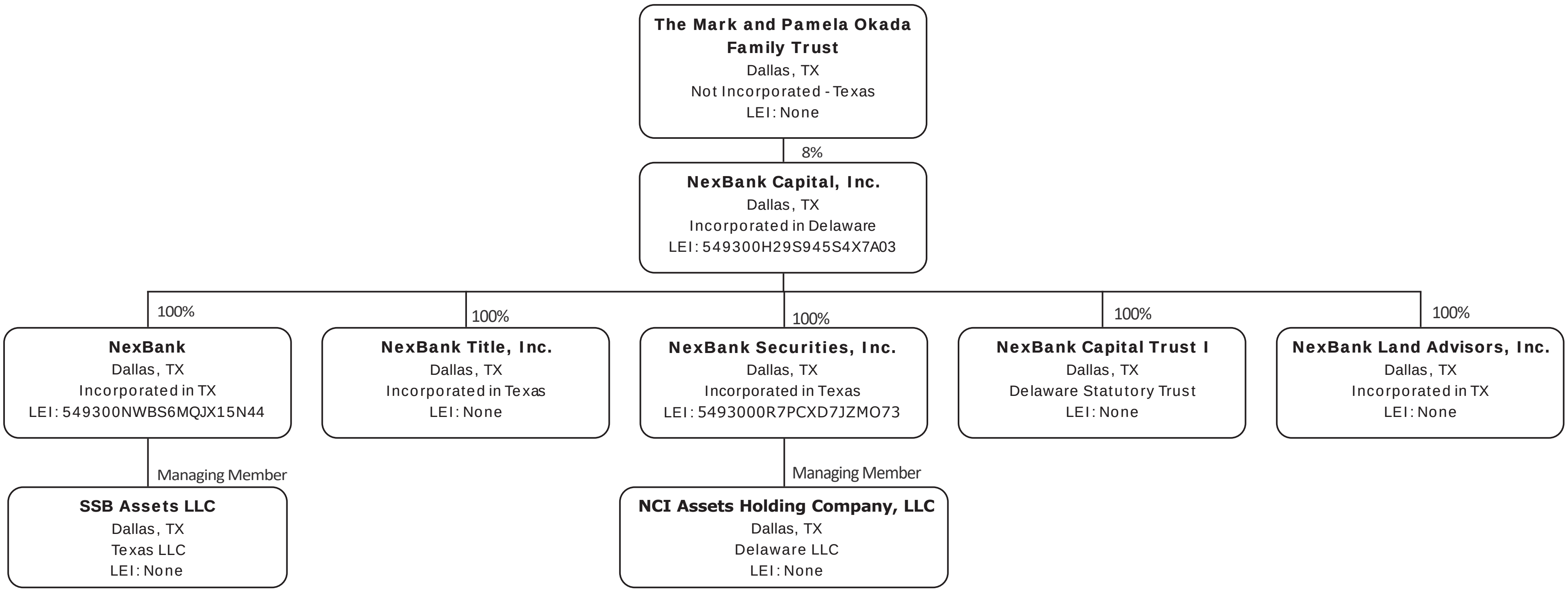
At December 31, 2020, NSI had total net capital and total aggregate indebtedness, as defined, of approximately $2,103,000 and $1,089,000, respectively, resulting in a ratio of aggregate indebtedness to net capital of 0.52 to 1.00. Total net capital was approximately $2,030,000 above the minimum required net capital of approximately $73,000.

At December 31, 2019, NSI had total net capital and total aggregate indebtedness, as defined, of approximately $1,580,000 and $1,627,000, respectively, resulting in a ratio of aggregate indebtedness to net capital of 1.03 to 1.00. Total net capital was approximately $1,472,000 above the minimum required net capital of approximately $108,000.

23. Subsequent Events

The Company has evaluated events and transactions for potential recognition or disclosure through March 30, 2021, the date the financial statements were available to be issued.

Appendix A: The Mark and Pamela Okada Family Trust Organization Chart



As of 12/31/20

Results: A list of branches for your holding company: MARK AND PAMELA OKADA FAMILY TRUST, THE (3864614) of DALLAS, TX.
The data are as of 12/31/2020. Data reflects information that was received and processed through 01/05/2021.

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	652874	NEXBANK	2515 MCKINNEY AVENUE, 11TH FLOOR	DALLAS	TX	75201	DALLAS	UNITED STATES	Not Required	Not Required	NEXBANK	652874	
OK		Full Service	4367644	PRESTON CENTER BRANCH	6121 LUTHER LANE	DALLAS	TX	75225	DALLAS	UNITED STATES	Not Required	Not Required	NEXBANK	652874	

Form FR Y-6

The Mark and Pamela Okada Family Trust
Dallas, TX
Fiscal Year Ending December 31, 2020

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2020		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Lawrence Tonomura, Trustee Dallas, TX	USA	Trustee of The Mark and Pamela Okada Family Trust; controls 100% of The Mark and Pamela Okada Family Trust	N/A		

Form FR Y-6

NexBank Capital, Inc.
Dallas, TX
Fiscal Year Ending December 31, 2020

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2020			Securities Holders not listed in 3(1)(a) through (3)(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2020		
(1)(a) Name & Address (City, State, Country)	**(1)(b)** Country of Citizenship or Incorporation	**(1)(c)** Number and Percentage of Each Class of Voting Securities	**(2)(a)** Name & Address (City, State, Country)	**(2)(b)** Country of Citizenship or Incorporation	**(2)(c)** Number and Percentage of Each Class of Voting Securities
Grant James Scott, Individual and Trustee of The SLHC Trust Raleigh, NC	USA	858,083 Shares 60.18% (common stock)	N/A		
Mark Okada Dallas, TX	USA	124,205 Shares 8.71% (common stock)	N/A		
Lawrence Tonomura, Individual and Trustee of The Mark and Pamela Okada Family Trust Dallas, TX	USA	119,935 Shares 8.41% (common stock)	N/A		
James Dondero Dallas, TX	USA	104,399 Shares 7.32% (common stock)	N/A		

Form FR Y-6

The Mark and Pamela Okada Family Trust
Dallas, TX
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders
(1)(a)(b)(c) and (2)(a)(b)(c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Securities in Bank Holding Company	(4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Lawrence Tonomura, Dallas, TX	Attorney	Trustee	N/A	N/A	100.00%	8.41%, NexBank Capital Inc.	N/A

Form FR Y-6

NexBank Capital, Inc.
Dallas, TX
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders
(1)(a)(b)(c) and (2)(a)(b)(c)

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Securities in Bank Holding Company	(4)(b) Percentage of Voting Securities in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
James Dondero Dallas, TX	Investor	Director/Chairman	Director (NexBank)	Refer to confidential volume	7.32%	N/A	Refer to confidential volume
Donald Luskin Chicago, IL	CIO	Director	Director (NexBank)	CIO TrendMacro	0.14%	N/A	N/A
John Holt Tyler, TX	N/A	Director/President/ CEO	Chairman/President /CEO (NexBank)	Member, Holt, Logan and Associates, LLC	4.84%	N/A	Holt, Logan and Associates, LLC 50%
Mark Okada Dallas, TX	Investor	Director	Director (NexBank)	Refer to confidential volume	8.71%	N/A	Refer to confidential volume
Matt Siekielski Dallas, TX	N/A	Director/COO	Director/COO (NexBank)	N/A	2.99%	N/A	N/A
The SLHC Trust Dallas, TX	N/A	N/A	N/A	N/A	59.54%	N/A	N/A
Ken Hanks Dallas, TX	N/A	Director	Director (NexBank)	N/A	0.30%	N/A	N/A
Brice Tarzwell Dallas, TX	N/A	Director	Director (NexBank)	N/A	0.22%	N/A	N/A
Stacy Hodges Dallas, TX	N/A	Officer/CFO	Officer/CFO (NexBank)	N/A	0.15%	N/A	N/A
Rhett Miller Dallas, TX	N/A	Officer/CCO	Officer/CCO (NexBank)	N/A	0.15%	N/A	N/A