

SOUND FINANCIAL BANCORP, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements

Note 10 – Borrowings

The Company utilizes a loan agreement with the FHLB. The terms of the agreement call for a blanket pledge of a portion of the Company's mortgage and commercial and multifamily portfolio based on the outstanding balance. At December 31, 2019 and 2018, the amount available to borrow under this credit facility was \$321.9 million and \$321.5 million, respectively, subject to the amount of pledged collateral. At December 31, 2019, the credit facility was collateralized as follows: one- to four- family mortgage loans with an advance equivalent of \$111.4 million, commercial and multifamily mortgage loans with an advance equivalent of \$126.1 million and home equity loans with an advance equivalent of \$6.9 million. At December 31, 2018, the credit facility was collateralized as follows: one-to-four family mortgage loans with an advance equivalent of \$128.4 million, commercial and multifamily mortgage loans with an advance equivalent of \$119.8 million and home equity loans with an advance equivalent of \$6.3 million. The Company had outstanding borrowings under this arrangement of \$7.5 million and \$84.0 million at December 31, 2019 and 2018, respectively. The weighted-average interest rate of the Company's borrowings was 3.05% at December 31, 2019 and was 2.72% at December 31, 2018. Additionally, the Company had outstanding letters of credit from the FHLB of Des Moines with a notional amount of \$19.1 million and \$14.5 million at December 31, 2019 and 2018, respectively, to secure public deposits. The remaining amount available to borrow as of December 31, 2019 and 2018, was \$217.8 million and \$156.0 million, respectively. Fixed rate advances of \$7.5 million, with a weighted-average interest rate of 3.05% are due within a year.

The maximum amount outstanding from the FHLB under term advances at month-end during 2019 was \$72.8 million and during 2018 was \$99.5 million. The average balance outstanding was \$24.4 million during 2019 and \$69.9 million during 2018. The weighted-average interest rate on the borrowings was 3.08% in 2019 and 2.18% in 2018.

As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in the FHLB of Des Moines stock based on specific percentages of its outstanding FHLB advances. At December 31, 2019 and 2018, the Company had an investment of \$1.2 million and \$4.1 million, respectively, in FHLB of Des Moines stock.

The Company participates in the Federal Reserve Bank Borrower-in-Custody program, which gives the Company access to the discount window. The terms of the program call for a pledge of specific assets. The Company pledges commercial and consumer loans as collateral for this line of credit. The Company had unused borrowing capacity of \$41.7 million and \$47.3 million and no outstanding borrowings under this program at December 31, 2019 and 2018, respectively.

The Company has access to an unsecured Fed Funds line of credit from the Pacific Coast Banker's Bank. The line has a one-year term maturing on June 30, 2020 and is renewable annually. As of December 31, 2019, the amount available under this line of credit was \$10.0 million. There was no balance on this line of credit as of December 31, 2019 and 2018, respectively.

The Company has access to an unsecured Fed Funds line of credit from The Independent Bank. As of December 31, 2019, the amount available under this line of credit was \$10.0 million. The agreement may be terminated by either party. There was no balance on this line of credit as of December 31, 2019 and 2018, respectively.

Note 11 – Fair Value Measurements

The Company determines the fair values of its financial instruments based on the requirements established in ASC 820, *Fair Value Measurements*, which provides a framework for measuring fair value in accordance with U.S. GAAP and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 defines fair values for financial instruments as the exit price, the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions. The Company's fair values for financial instruments at December 31, 2019 were determined based on these requirements.