



During the most recent examination with your credit union, the National Credit Union Administration (NCUA) noted adverse conditions and trends. We are concerned that your credit union's future may be in serious jeopardy. For this reason, we are asking you to join with us to formally recognize the seriousness of the credit union's situation. By so doing, you agree to vigorously dedicate yourself to the task of ensuring that your credit union is restored to a safe and sound condition. This is for the benefit of the National Credit Union Share Insurance Fund, your credit union, and more importantly, your members.

Please understand that by signing this Agreement, credit union officials are expected to make a sustained and conscientious effort to successfully correct the numerous deficiencies noted and minimize the opportunity for further operational deterioration.

**The adverse conditions are identified as follows:**

**Management** – Officials are not actively striving to correct the credit union's problems and comply with regulations. Monthly board meetings are not held, new officials were not submitted for approval, the 2004 audit has not started, and the supervisory committee has not developed or implemented an effective internal audit program.

**Delinquency** – Collection efforts are not being performed in house, credit reports are obtained but not used in lending decisions and loans are not being charged off in a timely manner.

**Recordkeeping** – Records are still out of balance, we noted numerous general ledger accounts that still have out of balance conditions.

To resolve the conditions noted above, the actions described below have been mutually agreed upon by all parties to the agreement. In consideration of Vitelco Employees Federal Credit Union entering into this Agreement, the undersigned Regional Director hereby agrees to refrain from recommending the initiation of any formal administrative action in connection with the specific conditions addressed in this Agreement as long as the credit union and its officials make a sustained, effective, and good faith effort to comply with all terms of this Agreement, including any required timeframes, or unless such administrative action is required by law or regulation.

Vitelco Employees Federal Credit Union  
Page 2 of 6

### **AGREED UPON ACTIONS AND TIME-FRAMES**

#### **Management**

1. Beginning immediately and monthly thereafter, the board will hold board meetings where a quorum is present and prepare detailed minutes encompassing discussions and approvals made during such meetings. The Board Secretary will send copies of these minutes to the NCUA District Examiner by the 18<sup>th</sup> of each month.
2. Beginning immediately and ongoing, the board will comply with Sections 701.14 and 741.205 of the NCUA Rules and Regulations regarding changes in officials of the credit union. This includes the manager, senior executive officers, board members, supervisory committee members, and credit committee members.
3. By September 30, 2005, the board will prepare a formal budget for the last quarter of 2005 and all of 2006, which includes at a minimum:
  - Plans and goals for net worth attainment;
  - Delinquency as a percentage of loans; and
  - Net return on average assets of at least 0.4 percent.

The Treasurer will provide a monthly report to the board regarding progress made in achieving these goals.

4. By September 30, 2005, the supervisory committee will have an outside auditor complete and deliver a certified opinion audit of the credit union's books and records that renders an unqualified opinion on the credit union's financial statements. In addition, the supervisory committee will:
  - Require that the audit date be at least the most current quarter end before the work begins;
  - Ensure that the audit covers the entire period since the last audit; and,
  - Ensure that the audit agreement complies with Part 715 of NCUA Rules and Regulations.
5. By September 30, 2005, the supervisory committee will:
  - Develop and implement an internal/interim audit program;
  - Perform the audit steps outlined in this program; and,
  - Hold regular meetings at least quarterly.

Vitelco Employees Federal Credit Union  
Page 3 of 6

### Delinquency

1. Beginning immediately, the board will ensure that management begins an in house collection program which:

- Ensures timely contacts of delinquent accounts via phone and mail;
- Ensures filing of legal suits where appropriate; and,
- Ensures accurate and timely documentation of all collection efforts on each delinquent loan or overdrawn share account.

2. Beginning immediately and ongoing, the board will charge off all loans that are 6 months or more delinquent and have not had a payment toward principal within the last 90 days.

3. Beginning immediately and ongoing, the credit committee and loan officer will use credit reports to:

- Ensure that all debts are listed on applications received, and included in the debt ratio calculation;
- Deny loans to members with adverse credit histories where the member cannot provide a reasonable explanation for the adverse credit rating;
- Explain in each loan file, for those loans granted, the reason for the adverse credit history. This documentation should explain the credit union's reasoning for not denying the loan; and,
- Establish, and monitor, a cap on the volume of such loans as a percent of total loans.

### Recordkeeping

1. By September 30, 2005, the board will ensure that the accounting exceptions listed in the Examiner's Findings section of the March 31, 2005, examination report are corrected.

2. Beginning immediately and ongoing, the board will ensure that management reviews the quarterly 5300 call report for accuracy prior to submission to NCUA.

4. By September 30, 2005, and monthly thereafter, the board will require that staff reconcile every general ledger account by the 20<sup>th</sup> of each month, retain all supporting documentation (reconciliations, subsidiary ledgers, etc.), and keep the credit union's books current and in balance at all times.

It is our hope that management of your credit union understands how seriously we take our responsibility to ensure that the credit union system remains safe, strong and secure. In the event that the officials or the credit union violate the terms of this

Vitelco Employees Federal Credit Union  
Page 4 of 6

Agreement, including any required timeframes, or NCUA discovers additional adverse conditions not addressed by this Agreement, it is understood that the NCUA may, in its sole discretion, take, appropriate administrative action pursuant to the Federal Credit Union Act, 12 U.S.C. § 1786, et seq., including, but not limited to, civil money penalties, cease and desist orders, removal and prohibition orders, or orders to liquidate, conserve or merge the credit union.

The Regional Director will publish this agreement.

Therefore, the following individuals indicate that they understand and agree with the contents of this Agreement by affixing their signatures to Page 4 and 5 of this Letter. This Agreement may be modified only by mutual written agreement by the board of directors and the NCUA Regional Director.

FOR THE VITELCO EMPLOYEES FEDERAL CREDIT UNION

|  |                        |
|--|------------------------|
| <u>Brenda Fredericks</u><br>Chairman of the Board of Directors | <u>9/13/05</u><br>Date |
| <u>Jean M. Schwan</u><br>Vice-Chairman                         | <u>9/9/05</u><br>Date  |
| <u>Janette Percival</u><br>Treasurer                           | <u>9/14/05</u><br>Date |
| _____<br>Secretary   | _____<br>Date          |
| _____<br>Board Member - President CEO                          | _____<br>Date          |
| <u>[Signature]</u><br>Board Member                             | <u>9/9/05</u><br>Date  |
| <u>Cathy Scott</u><br>Board Member                             | <u>9/9/05</u><br>Date  |
| <u>Yvonna Stanciaro</u><br>Board Member                        | <u>9/14/05</u><br>Date |
| _____<br>Board Member  | _____<br>Date          |

Vitelco Employees Federal Credit Union  
Page 5 of 6

Board Member

*Michael P. Furet*

Credit Committee Chairperson

Date

*9/14/05*

Date

Credit Committee Member

*[Signature]*

*9/14/2005*

Date

Credit Committee Member

Date

Supervisory Committee Chairperson

*Manuel Lantz*

Supervisory Committee Member

Date

*9/14/05*

Date

Supervisory Committee Member

*[Signature]*

*9/15/05*

Date

FOR THE NATIONAL CREDIT UNION ADMINISTRATION

Regional Director, Alonzo A. Swann III

*[Signature]*

Date

*9/28/05*

Supervisory Examiner, David Freeman

*[Signature]*

Date

*9/26/05*

Examiner, Jodi Kaufman

*[Signature]*

Date

*9/22/05*

Vitelco Employees Federal Credit Union  
Page 6 of 6

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