



LETTER OF UNDERSTANDING AND AGREEMENT
 By and Between
 The National Credit Union Administration
 And
 Charleston County Teachers Federal Credit Union
 Charter Number 10875

During the most recent on-site contact 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 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:

- **Strategic Risk** - Management of the credit union is inadequate. Key operational goals, policies, procedures, and controls are lacking in quality and in execution resulting in declining net worth that is insufficient in relationship to the quality of assets owned by the credit union. Credit union management does not demonstrate skills sufficient to ensure that credit union operations are of adequate quality.
- **Credit Risk** - Loan and collection policies and procedures are inadequate. Management and officials routinely fail to follow and enforce loan and collection policies and procedures resulting in high delinquency and declining net worth.
- **Transaction Risk** - Internal Controls are insufficient and not adequately enforced to safeguard the shares on deposit at the credit union. The books and records are not reconciled timely. Daily work is not completed timely, properly, or correctly. The filing system is inadequate and loan due dates are changed without adequate analysis and documentation. Credit union management does not demonstrate skills sufficient to ensure that credit union operations are of adequate quality.
- **Reputation Risk** - Officials of the credit union and their family members take unfair advantage of the credit union by not making loan payments timely and by allowing their loans to remain delinquent. Delinquent loans to insiders represent approximately 57 percent of total delinquency. In addition, adequate collection procedures are not applied to these insider accounts. Credit union management does not demonstrate skills sufficient to ensure that credit union operations are of adequate quality.

To resolve the conditions noted above, the actions described below have been mutually agreed upon by all parties to the agreement. The following are the principal corrective actions agreed upon, and the allotted time frames for their completion.

AGREED UPON ACTIONS AND TIME-FRAMES

STRATEGIC RISK - MANAGEMENT

1. By May 31, 2003, officials and management staff will determine their willingness to accept and fulfill their fiduciary responsibility to the credit union, their readiness to establish financial and operational goals, and their commitment to ensure the credit union successfully achieves the goals. Officials will decide which of the following options to pursue:

- Continue as an ongoing institution
- Merge with a successful credit union
- Begin voluntarily liquidation procedures

2. By June 30, 2003, officials and management staff will develop and submit to NCUA for approval, a detailed written workout plan that is realistic in relation to the credit union's operational condition and includes the following:

- Monthly net worth and earnings goals beginning with the third quarter of 2003 and continuing until capital is sufficient to ensure the credit union's successful operation on an ongoing basis
- Loan delinquency and charge-off goals
- An outline of operational changes projected to improve credit union operations including the implementation date of each change
- A contingency plan in the event the credit union is unable to achieve projected net worth and earnings goals

CREDIT RISK - ASSET QUALITY

1. By June ³⁰~~15~~, 2003, officials and management staff will establish and implement revised loan policies and procedures that are adequate to improve the quality of loans in the portfolio and reduce delinquency.

2. By June 30, 2003, officials and management staff will establish and implement revised collection policies and procedures adequate to ensure effective collection efforts on delinquent loans consistent for all members including officials of the credit union.

3. Beginning immediately, credit union staff will cease extending any delinquent loan, or changing the next due date on the computer system, until after the member has made at least three consecutive monthly payments.

TRANSACTION RISK - INTERNAL CONTROLS

1. Beginning immediately and ongoing, the officials and management staff will ensure that the following is accomplished:

- All daily work is completed daily, correctly, and in accordance with board established policies and procedures
- Bank reconciliations and all month-end work are completed by the 15th of the following month
- An efficient filing system is developed, implemented, and maintained for all records
- No loan checks are disbursed to members until after all supporting loan documentation is correctly prepared and approved

2. By June 30, 2003, and at least quarterly thereafter, the supervisory committee will perform or contract with an outside vendor to perform a review of all new loans, the general ledger, the subsidiary ledger accounts, reconciliations of accounts, and the credit union's corporate visa card statement to ensure all transactions are completed properly and in accordance with board established policies and safe and sound business practices.

REPUTATION RISK - INSIDER DEALINGS

1. By June 30, 2003, all officials and their family members, as defined in 12 C.F.R. § 701.21, will bring their accounts current, without an extension agreement, and maintain them current. Officials unwilling or unable to bring their accounts current will resign their position.

2. Beginning immediately, officials and management staff will ensure that all transactions on the credit union's corporate visa account are approved as valid business expenses and that proper documentation is maintained and filed for easy retrieval and review.
3. Beginning immediately and ongoing, the board of directors will ensure that management applies the same standards for lending and collections to all officials and their immediate family members as are applied to each member.

This Letter of Understanding and Agreement will be published.

In the event that the officials violate the terms of this Agreement, it is understood that the NCUA Board may, in its sole discretion, take any administrative action provided for in the Federal Credit Union Act, including, but not limited to, assess civil money penalties against the officials or credit union, issue cease and desist orders, issue removal or prohibition orders, liquidate, conserve, or merge the credit union.

Therefore, the following individuals indicate that they understand and agree with the contents of this Agreement by affixing their signatures to Pages 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 CHARLESTON COUNTY TEACHERS FEDERAL CREDIT UNION

Delores C. Brown
Chairman of the Board of Directors

May 29, 2003
Date

Emmanuel Williams
Vice-Chairman

May 29, 2003
Date

Janie S. Bingley
Treasurer

May 29, 2003
Date

Secretary

Date

Board Member

Board Member

Board Member

Manager

FOR THE NATIONAL CREDIT UNION ADMINISTRATION

Regional Director

Supervisory Examiner

Examiner

Ruth Mae Giles (Under Protest)

Jivan B. Pettigrew (New board member)

Mildred H. Rouse

5-29-03

Date

5-29-03

Date

Date

5-29-2003

Date

6/6/03

Date

5/29/2003

Date

5/29/2003

Date