

**NATIONAL CREDIT UNION ADMINISTRATION**

REGION II

**Letter of Understanding and Agreement
By and Between
The Pennsylvania Department of Banking,
The National Credit Union Administration,
and
Federation Credit Union**

JUN 28 1999

This Letter of Understanding and Agreement (LUA) sets forth the significant adverse conditions identified by the National Credit Union Administration (NCUA) as a result of its Year 2000 (Y2K) review of Federation Credit Union, dated March 31, 1999, and the agreements reached with the credit union's officials to resolve them.

The significant adverse conditions are:

1. The board of directors did not comply with the following milestone dates for achieving Y2K compliance as required in NCUA Letter to Credit Unions 98-CU-4, dated February 19, 1998:
 - a) Credit Unions must have all critical systems renovated prior to January 31, 1999. The credit union's computer hardware being utilized, consisting of one PC, is not Y2K compliant.
 - b) Credit Unions must demonstrate progress in Y2K compliance testing of all critical systems by December 31, 1998. Management has not begun testing of the credit union's critical software.
2. Management has not determined the impact achieving Y2K compliance will have on the credit union's financial condition, i.e., earnings and net capital.
3. Monthly board minutes do not include adequate documentation relating to Y2K to provide an administrative record of the credit union's due diligence in assuring the credit union is ready to operate in the new millennium. Monthly progress reports to the board of directors specifying the credit union's Y2K progress are not documented in the board minutes.
4. The board of directors written Y2K Business Resumption plan does not include the required provisions as set forth in NCUA Letter to Credit Unions 99-CU-1, dated January 1999.
5. The board of directors has not developed a written Y2K Liquidity plan as required by NCUA Letter to Credit Unions, 99-CU-2, dated March 1999.
6. Management is not completing the NCUA Y2K Quarterly Report, as required.



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REGION II

AGREEMENTS AND TIME FRAMES

1. The board of directors will take the appropriate action to comply with the following Y2K milestone dates:
 - a) Management will install the Y2K compliant software on the Y2K compliant hardware by no later than June 30, 1999. Testing of the software must be done on the credit union's Y2K compliant hardware, or similar hardware.
 - b) Y2K testing of the critical software must be completed by no later than June 30, 1999. The board of directors must also review and document acceptance of the test results prior to June 30, 1999.
2. The board of directors will determine, by June 30, 1999, the impact achieving Y2K compliance will have on earnings and net capital. The following, at a minimum, must be considered in this determination:
 - a) Costs of installing the software on the Y2K compliant computer, and,
 - b) Costs of paying outside resources to conduct and document Y2K testing of the software by June 30, 1999.
3. The monthly board of director's meeting minutes must include detailed documentation to support all Y2K related discussions. This documentation must include monthly Y2K updates specifically addressing progress made in complying with all items within this LUA.
4. The board of directors will revise the written Y2K Business Resumption plan by no later than June 30, 1999. Reference must be made to the March 31, 1999, Document of Resolution for items which must be included in this plan.
5. The board of directors will develop a written Y2K Liquidity plan by no later than June 30, 1999. Reference must be made to the March 31, 1999, Document of Resolution for specific guidance in developing this plan.
6. The board of directors will ensure NCUA Quarterly reports are completed and submitted by the end of each quarter.

This Letter of Understanding and Agreement will be published and will remain in effect until canceled by mutual agreement of Federation Credit Union and the National Credit Union Administration. If the agreed upon actions are not completed in the stated time frames, NCUA may take administrative action including the assessment of civil money penalties.



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REGION II

For Federation Credit Union:

Stanley D Scott
Chairman of the Board of Directors

6-24-99
Date

Thomas J. Don
Treasurer

6-24-99
Date

Hilda A. Brown
Secretary

6-24-99
Date

For the National Credit Union Administration:

Curt M. Schroeman III
Examiner

JUNE 24, 1999
Date

Thomas A. Stralucher
Supervisory Examiner

6/24/99
Date

for Jay Lee
Regional Director

6/30/99
Date

For The Pennsylvania Department of Banking:

State Supervisory Authority

Date