



JUN 30 2009

National Credit Union Administration  
REGION IV

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**LETTER OF UNDERSTANDING AND AGREEMENT**

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Board of Directors and Other Officials  
Kappa Alpha Psi Federal Credit Union  
3701 Maywood Court  
Carrollton, TX 75007

During the most recent on-site contact with your credit union, the National Credit Union Administration (NCUA) noted adverse conditions and trends in the areas of:

- Recordkeeping – Outstanding items on bank reconciliations are over six months old and have not been cleared. Additionally, general ledger account reconciliations are not consistently performed in a timely manner and your recordkeeping process does not provide enough detail to identify the specific information about transactions. The Shares and Loans general ledger balances have not agreed to the member trial balance statistical reports since April 30, 2008.
- Lending practices – Loan documentation remains inadequate. Loan limits are not based on credit risk and income levels. Derogatory credit is not documented. Inadequate net worth exists to mitigate the amount of credit risks being taken.

This agreement modifies the Letter of Understanding Agreement dated August 13, 2008. This modified Letter of Understanding and Agreement (Agreement) outlines those actions you must take to ensure your credit union implements, in a timely manner, corrective measures to eliminate the adverse conditions and make your credit union financially safe and sound. This is for the benefit of both the National Credit Union Share Insurance Fund and, more importantly, your members.

In consideration of Kappa Alpha Psi Federal Credit Union entering into this modified Agreement, the undersigned Regional Director hereby agrees to refrain from recommending 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.

This modified Agreement underscores the seriousness of the conditions at your credit union; accordingly, the officials are expected to make a sustained and conscientious effort to resolve the credit union's problems. Likewise, you can expect NCUA will work with you to develop and monitor workable plans to resolve the problems. The following actions have been agreed upon by all parties to this Agreement and represent the principal actions and time frames for reasonable progress in resolving the major problem areas:

AGREED UPON ACTIONS	TIME FRAMES
1. Engage a qualified third party to reconcile the member share and loan trial balances and agree them with their general ledger balances. Provide documentation of the corrections to your assigned Examiner.	By July 15, 2009.
2. Research and clear all outstanding items on the 03/31/2009 Century Bank and Southwest Corporate FCU statements. Provide documentation of the corrections to your assigned Examiner.	By July 15, 2009.
3. Prepare reconciliations on Century Bank and Southwest Corporate FCU accounts and record adjustments in a timely manner. Provide a copy of the statements, general ledger history and reconciliations to your assigned Examiner.	Within 30 days following the bank statement date.
4. Provide all transactions and related documents to the contracted record keeping company on a timely basis.	Immediately.
5. Provide for a centralized repository for all original credit union records and make those records available upon request to your assigned Examiner.	By July 15, 2009.
<p>6. Revise and implement the following changes to your loan policy:</p> <ul style="list-style-type: none"> <li>1) Implement Risk Based Lending, creating credit tiers based on beacon scores at: <ul style="list-style-type: none"> <li>A- 700+</li> <li>B- 640-699</li> <li>C- 600-639</li> <li>D- 550-599</li> </ul> </li> <li>2) Limit debt ratios to no more than 45% of gross income for A and B credit borrowers and no more than 40% of gross income for C and D credit borrowers.</li> <li>3) Require cosigners or co-borrowers who individually qualify for the loan with B or better credit for all D borrowers.</li> <li>4) Limit all unsecured loans to \$2500.</li> </ul>	Within 30 days of receipt of this Agreement.

<p>5) Limit the aggregate of all loans to one borrower to less than 10 percent of unimpaired capital and surplus as required by the FCU Act.</p> <p>6) Limit secured loans (except for share secured loans) to C and D credit borrowers to no more than \$35,000 or 10% of the borrower's gross income whichever is greater.</p> <p>7) Limit Loan-to-Value ratios on Auto Loans as follows:</p> <table border="0"> <tr> <td style="padding-right: 20px;"><b>A Grade</b></td> <td><b>100% financing plus tax, title, license, credit life/disability insurance &amp; GAP insurance.</b></td> </tr> <tr> <td><b>B Grade</b></td> <td><b>95% financing plus tax, title, license, credit life/disability insurance &amp; GAP insurance.</b></td> </tr> <tr> <td><b>C Grade</b></td> <td><b>90% financing plus tax, title, license, credit life/disability insurance &amp; GAP insurance.</b></td> </tr> <tr> <td><b>D Grade</b></td> <td><b>85% financing plus tax, title, license, credit life/disability insurance &amp; GAP insurance.</b></td> </tr> </table> <p><b>(Value for new autos will be determined by MSRP. Value for used autos will be determined by NADA Retail or some other industry recognized valuation reference.)</b></p>	<b>A Grade</b>	<b>100% financing plus tax, title, license, credit life/disability insurance &amp; GAP insurance.</b>	<b>B Grade</b>	<b>95% financing plus tax, title, license, credit life/disability insurance &amp; GAP insurance.</b>	<b>C Grade</b>	<b>90% financing plus tax, title, license, credit life/disability insurance &amp; GAP insurance.</b>	<b>D Grade</b>	<b>85% financing plus tax, title, license, credit life/disability insurance &amp; GAP insurance.</b>	
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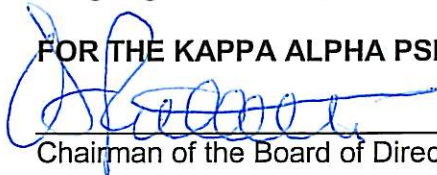
In the event the officials violate the terms of this Agreement, or NCUA discovers additional adverse conditions not addressed by this Agreement, it is understood the NCUA may, in its sole discretion, take appropriate administrative action pursuant to the Federal Credit Union Act, 12 U.S.C. §1786, et 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.

I trust the management of your credit union understands how seriously NCUA takes this responsibility to ensure the credit union system remains safe, strong and secure. It is NCUA's intent to work with you to identify and resolve problems to avoid more serious consequences.

The Crime Control Act of 1990 requires the Board to publish any written agreement or other written statement for which a violation may be enforced by the Board, unless the Board, in its discretion, determines publication would be contrary to the public interest. At this time the Regional Director has decided to reserve the option to publish the Agreement. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") amended the Federal Credit Union Act by adding Section 212. This addition resulted in the adoption of Sections 701.14, 741.205, and 747 Subpart J of the NCUA Rules and Regulations. Your credit union is subject to these regulations. It is imperative you become familiar and fully comply with these regulations.

The undersigned officials of the Kappa Alpha Psi Federal Credit Union, Charter Number 24732, located in Carrollton, TX as authorized by the board of directors, acknowledge this Agreement has been entered into with NCUA for the purpose of correcting the serious problems threatening the future viability of the credit union. We concur with the foregoing statements and conditions and agree to comply with the terms set forth above.

**FOR THE KAPPA ALPHA PSI FEDERAL CREDIT UNION**

  
Chairman of the Board of Directors

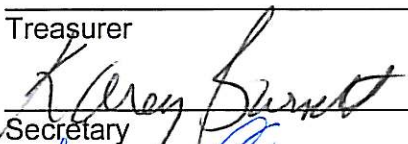
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Date

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Vice Chairman

\_\_\_\_\_  
Date

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Treasurer

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Date

  
Secretary

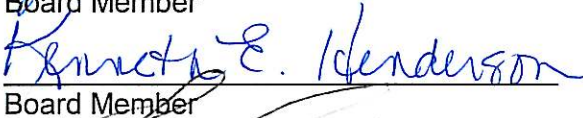
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Board Member

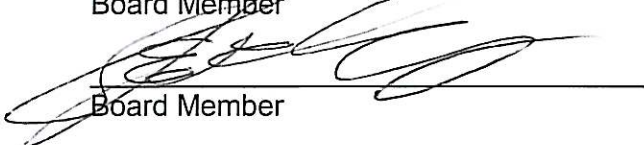
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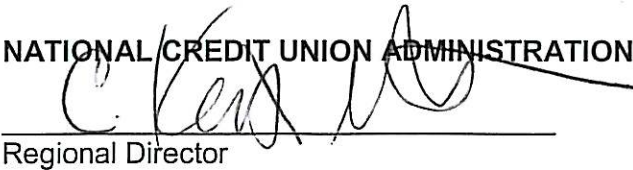
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\_\_\_\_\_  
Date

\_\_\_\_\_  
CEO/Manager

\_\_\_\_\_  
Date

**NATIONAL CREDIT UNION ADMINISTRATION**

  
Regional Director

7/2/2009  
Date





Supervisory Examiner

  
Examiner

6/29/09

Date

6/29/09

Date