
**LETTER OF UNDERSTANDING AND AGREEMENT
BY AND BETWEEN
THE COMMONWEALTH OF MASSACHUSETTS DIVISION OF BANKS,
THE NATIONAL CREDIT UNION ADMINISTRATION,
AND
TREMONT CREDIT UNION**

This Letter of Understanding and Agreement (LUA) is entered into as of April 26, 2010, by and among the Tremont Credit Union of Braintree, Massachusetts (the Credit Union), the Commonwealth of Massachusetts Division of Banks (the Division), and the National Credit Union Administration (NCUA).

This LUA sets forth the significant adverse conditions that were identified by NCUA and the Division in their Report of Joint Examination of the Credit Union effective June 30, 2009 (the "6/30/09 Joint Exam Report"), and the agreements by the Credit Union's officials to resolve them. If left unresolved, these deficiencies may jeopardize the financial condition and/or operations of the Credit Union. By signing this LUA, the Board of Directors of the Credit Union, without admitting or denying any allegation of fact in the 6/30/09 Joint Exam Report, thereby acknowledges that serious areas of concern exist and agrees to take the necessary action to restore the Credit Union to a safe and sound condition. The corrective actions set forth in this LUA are directed to the Credit Union, which may be referred to herein as "Credit Union" or "Board."

In consideration of Tremont Credit Union entering into this LUA, NCUA and the Division hereby agree to refrain from recommending any formal administrative action in connection with the specific conditions addressed in this LUA as long as the Credit Union and its officials make a sustained, effective, and good faith effort, as determined by NCUA and the Division, to comply with all terms of this LUA, including any required timeframes, or unless such administrative action is required by law or regulation.

In the event that the officials fail to make a sustained, effective, and good faith effort to comply with the terms of this LUA, or either NCUA or the Division discovers additional adverse conditions not addressed by this LUA, it is understood that NCUA and Division each may take appropriate administrative action, including but not limited to assessing civil money penalties, issuing orders to cease and desist, the removal and prohibition of officials, placing the Credit Union into conservatorship or liquidation, or merging the Credit Union.

I. UNSAFE AND UNSOUND PRACTICES

The following significant unsafe and unsound practices were discovered as reflected in the 6/30/09 Joint Exam Report:

1. Operating without adequate supervision and direction by the Credit Union's Board of Directors over the senior operating management of the Credit Union to prevent unsafe and unsound banking practices;
2. Failing to prevent insiders from abusing their powers in the lending and operations areas;
3. Instances of self-dealing and insider abuse by officers of the Credit Union;
4. Failing to provide for an effective system to mitigate or identify problem assets and prevent deterioration of the net worth of the Credit Union;
5. Engaging in unsafe lending, including, but not limited to, poor credit administration practices and unsound underwriting standards and practices;
6. Engaging in actions that produce an excessive volume of criticized assets;
7. Operating with an inadequate Allowance for Loan and Lease Losses for the volume, type, and quality of loans held;
8. Operating in violation of applicable laws and regulations including but not limited to NCUA Rules and Regulations Part 723 and Part 748, Parity regulation 209 CMR 50.12 (4)(b)(2), and Massachusetts General Laws Chapter 171, Section 16;
9. Operating without proper internal routine and controls in areas such as account access restrictions, segregation of duties, internal loan review, and NCUA Call report preparation;
10. Operating with deficient earnings; and
11. Operating with inadequate written policies and procedures including but not limited to Lending policies, Liquidity policy, Member Business Lending policy, and the Wire Transfer policy.

II. AGREEMENTS AND TIMEFRAMES

1. Approval to Change Officials. Due to the severity of the concerns identified in this examination, as required by Part 701.14 of NCUA Rules and Regulations, the Credit Union must notify both the Division and the NCUA in writing of any proposed changes in the Board of Directors, committee members, or senior executive staff, thirty (30) days prior to any changes, and obtain approval from both agencies.
2. Investigation of Insider Abuses. Within thirty (30) days of the effective date of this LUA, the Credit Union shall contract with an independent third party consultant to investigate instances of lending abuse, insider abuse, and self-dealing noted within the 6/30/09 Joint Exam Report, or other abuses noted during the consultant's review. The Credit Union shall provide the Division with a copy of the proposed engagement letter or contract with the consultant for review and comment before it is executed. The contract or engagement letter, at a minimum, should include:
 - (i) A description of the work to be performed under the contract or engagement letter;

- (ii) The responsibilities of the consultant;
- (iii) An identification of the professional standards covering the work to be performed;
- (iv) Identification of the specific procedures to be used when carrying out the work to be performed;
- (v) The qualifications of the employee(s) who are to perform the work;
- (vi) The time frame for completion of the work;
- (vii) Any restrictions on the use of the reported findings; and
- (viii) A provision for unrestricted examiner access to work papers of the consultant.

The Credit Union shall provide NCUA and the Division with a copy of the consultant's Investigation Report. The Credit Union shall file bond claims and Suspicious Activity Reports (SARs) for any suspected fraudulent activity and review suspected loans for possible charge-off or reserve purposes.

3. CEO Search Committee. Within thirty (30) days of the effective date of this LUA, the Credit Union shall establish a Committee for the purpose of initiating a search for a permanent Chief Executive Officer.
4. Loan Analysis by External Auditor. Within thirty (30) days of the effective date of this LUA, the Credit Union shall engage an external audit firm for the purpose of performing a loan analysis or scrub in order to determine the level of asset quality problems.
5. Management Plan.
 - a. Within sixty (60) days of the effective date of this LUA, the Credit Union shall retain a qualified independent third party consultant to develop a written analysis and assessment of the Credit Union's management and staffing needs (Management Plan) for the purpose of providing qualified management for the Credit Union.
 - b. The Credit Union shall provide the Division with a copy of the proposed engagement letter or contract with the consultant for review before it is executed. The contract or engagement letter, at a minimum, should include:
 - (i) A description of the work to be performed under the contract or engagement letter;
 - (ii) The responsibilities of the consultant;
 - (iii) An identification of the professional standards covering the work to be performed;
 - (iv) Identification of the specific procedures to be used when carrying out the work to be performed;

- (v) The qualifications of the employee(s) who are to perform the work;
 - (vi) The time frame for completion of the work;
 - (vii) Any restrictions on the use of the reported findings; and
 - (viii) A provision for unrestricted examiner access to work papers of the consultant.
- c. The Management Plan shall be developed within one hundred and twenty (120) days after the effective date of this LUA and submitted to the Division for review and comment. Within thirty (30) days from the receipt of any comments from the Division, and after the adoption of any recommended changes, the Credit Union shall approve the Management Plan, and record its approval in the minutes of the Board meeting. Thereafter, the Credit Union shall implement and follow the Management Plan. At a minimum, the Management Plan shall include:
- (i) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Credit Union;
 - (ii) Evaluation of all Credit Union officers at the level of vice president and above to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to the Credit Union's established policies and practices, and restoration and maintenance of the Credit Union in a safe and sound condition; and
 - (iii) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer positions identified in the Management Plan.

6. Independent Loan Review.

- a. Within ninety (90) days of the effective date of this LUA, the Credit Union shall develop a program of independent loan review (Independent Loan Review) that will provide for a periodic review of the Credit Union's loan portfolio and the identification and categorization of problem credits. At a minimum, the Independent Loan Review shall provide for:
- (i) Prompt identification of loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason why the loan warrants special attention, and assessment of the degree of risk that the loan will not be fully repaid according to its terms;
 - (ii) Action plans to reduce the Credit Union's risk exposure from each identified relationship;

- (iii) Prompt identification of all outstanding balances and commitments attributable to each obligor identified under the requirements of subparagraph (i), including outstanding balances and commitments attributable to related interests of such obligors, including the obligor of record, relationship to the primary obligor identified under subparagraph (i), and an assessment of the risk exposure from the aggregate relationship;
 - (iv) Identification of trends affecting the quality of the loan portfolio, potential problem areas, and action plans to reduce the Credit Union's risk exposure;
 - (v) Assessment of the overall quality of the loan portfolio;
 - (vi) Identification of credit and collateral documentation exceptions and an action plan to address the identified deficiencies;
 - (vii) Identification and status of violations of laws, rules, or regulations with respect to the lending function and an action plan to address the identified violations;
 - (viii) Identification of loans that are not in conformance with the Credit Union's lending policy and an action plan to address the identified deficiencies;
 - (ix) Identification of loans to directors, officers, and their related interests;
 - (x) An assessment of the ability of individual members of the lending staff to operate within the framework of the Credit Union's loan policies and applicable laws, rules, and regulations, and an action plan to address the identified deficiencies; and
 - (xi) A mechanism for reporting periodically, but in no event less than quarterly, the information developed in (i) through (x) above to the Board. The report should also describe the action(s) taken by management with respect to problem credits.
- b. The Credit Union shall submit the Independent Loan Review to the Division for review. Within thirty (30) days from receipt of any comment from the Division, and after incorporation and adoption of any required changes, the Board shall approve the Independent Loan Review, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Credit Union shall implement and fully comply with the Independent Loan Review.
- c. Upon implementation of the Independent Loan Review, a copy of each report prepared pursuant thereto shall be submitted to the Board, as well as documentation of the actions taken by the Credit Union or recommendations to the Board that address identified deficiencies in specific loan relationships or the Credit Union's policies, procedures, strategies, or other elements of the Credit Union's lending activities. Such reports and recommendations, as well as any resulting determinations, shall be recorded and retained in the minutes of the meeting of the Board.

7. Loan Policy Review.

a. Within ninety (90) days from the effective date of this LUA, and annually thereafter, the Board shall conduct a review of the Credit Union's loan policies and procedures for adequacy (Loan Policy Review), including the member business loan policy, and, based upon the Loan Policy Review, shall make all appropriate revisions to the policies and procedures necessary to strengthen the Credit Union's asset quality and lending functions and to prevent further deterioration of the loan portfolio and the net worth position. Pursuant to the Loan Policy Review, the Credit Union's loan policies and procedures shall include, at a minimum, provisions and practices that:

(i) Identify the general fields of lending in which the Credit Union will engage and the types and kinds of loans and acceptable collateral;

(ii) Establish lending limits for each officer by type of loan, including limitations on the aggregate level of credit to any one borrower that can be granted without the prior approval of the Credit Union's Credit Committee;

(iii) Cease the practice of granting member business loans until there is full compliance with NCUA Rules and Regulations, Part 723, regarding member business lending;

(iv) Establish lending limits for the Credit Union's Credit Committee, including limitations on the aggregate level of credit to any one borrower that can be granted without the prior approval of the Board;

(v) Establish review and monitoring procedures to ensure that all lending personnel are adhering to established lending procedures, and that the Board is receiving timely and fully documented reports on loan activity, including reports that identify deviations from established policy and the loan officers responsible for the deviations;

(vi) Establish limitations on the maximum volume of loans in aggregate by loan type in relation to total assets and to net worth;

(vii) Require that all extensions of credit originated or renewed by the Credit Union, including loans purchased from a third party (loan participations):

A) Have a clearly defined and stated purpose;

B) Have a predetermined and realistic repayment source and schedule, including secondary source of repayment;

C) Are supported by complete loan documentation, including lien searches, perfected security interests, and collateral valuations; and

D) Are supported by current financial information, profit and loss statements or copies of tax returns, and cash flow projections, as applicable, which shall be maintained throughout the term of the loan; and are otherwise in conformance with the Credit Union's lending policies and procedures;

- (viii) Establish standards for extending unsecured credit;
 - (ix) Incorporate limitations on the amount that can be loaned in relation to established collateral values, require the source of collateral valuations to be identified, require that collateral valuations be completed prior to the commitment to lend funds, and require that collateral valuations be performed on a periodic basis over the term of the loan;
 - (x) Require that extensions of credit to any of the Credit Union's executive officers or directors be reviewed for compliance with the provisions of both Section 701.21(d)(5), "Nonpreferential Treatment," of NCUA Rules and Regulations, and the Division's Regulatory Bulletin 4.1-101, "Loans & Fees to Directors and Senior Management Employees."
 - (xi) Require accurate reporting of past due loans to the Board or the Credit Union's Credit Committee at least monthly;
 - (xii) Establish standards for collection efforts for past due loans;
 - (xiii) Establish guidelines for timely recognition of loss through charge-off;
 - (xiv) Require a non-accrual policy in accordance with Generally Accepted Accounting Principles;
 - (xv) Address concentrations of credit and diversification of risk, including goals for portfolio mix, establishment of limits within loan and other asset categories, and development of a tracking and monitoring system for the economic and financial condition of specific geographic locations, industries, and groups of borrowers;
 - (xvi) Require the establishment and maintenance of a loan grading system and internal loan watch list;
 - (xvii) Require Credit Committee review and monitoring of the status of repayment and collection of overdue and maturing loans, as well as all loans adversely classified in writing either by NCUA or the Division and loans similarly classified internally by the Credit Union;
 - (xviii) Prohibit extending the maturity date, advancing additional credit, or renewing a consumer loan until appropriate controls are implemented. Ensure loan policies require at least six months of payments before rewriting and the borrower evidences the ability to repay the loan;
- b. The Credit Union shall submit the revised loan policies and procedures resulting from the Loan Policy Review to the Division for review. Within thirty (30) days from receipt of any comment from the Division, and after incorporation and adoption of any required changes, the Credit Union shall approve the loan policies and procedures resulting from the Loan Policy Review, with its approval recorded in the minutes of the Board meeting.

Thereafter, the Credit Union shall implement and fully comply with the loan policies and procedures resulting from the Loan Policy Review.

8. Extensions of Credit. While this LUA is in effect, the Credit Union shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit or obligation with the Credit Union that has been, in whole or in part, charged off or adversely classified in writing by either NCUA or the Division and is uncollected. The requirements of this paragraph shall not prohibit the Credit Union from renewing, after collecting in cash all interest and fees due from a borrower, any credit already extended to the borrower. This provision shall not apply if the Credit Union's failure to extend further credit to a particular borrower would be detrimental to the best interests of the Credit Union provided that, prior to extending such additional credit, whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Board, or a designated committee thereof, who shall certify, in writing:

(a) Why failure of the Credit Union to extend such credit would be detrimental to the best interests of the Credit Union;

(b) That the extension of such credit would improve the Credit Union's position, including an explanatory statement of how the Credit Union's position would improve; and

(c) An appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

The signed certification shall be made a part of the minutes of the meeting of the Board, or designated Committee, with a copy retained in the borrower's credit file.

9. Allowance for Loan and Lease Losses (ALLL).

- a. Within thirty (30) days from the effective date of this LUA, the Credit Union shall review the methodology for the adequacy of the ALLL and ensure that the methodology complies with the NCUA's Interpretive Ruling and Policy Statement 02-3. In addition, the review shall consider using environmental and economic factors in the methodology, and document the analysis of such factors.
- b. A deficiency in the ALLL shall be remedied in the calendar quarter in which it is discovered by a charge to current operating earnings and prior to the Credit Union's submission of its Report of Condition and Report of Income. The Credit Union shall thereafter maintain an appropriate Allowance.
- c. While this LUA is in effect, the Credit Union shall submit to NCUA and the Division documents sufficient to support the determination of the adequacy of the ALLL. These submissions may be made at such times as the Credit Union files the quarter-end progress reports otherwise required by this LUA. In the event that NCUA or the Division

determines that the Credit Union's ALLL is inadequate, the Credit Union shall increase the ALLL and amend its Consolidated Reports of Condition and of Income accordingly.

10. Earnings Plan.

a. Within sixty (60) days of the effective date of this LUA, the Credit Union shall develop a written earnings plan (Earnings Plan). At a minimum, the Earnings Plan shall include:

(i) Identification of the major areas in, and means by, which the Board will seek to improve the Credit Union's operating performance;

(ii) A comprehensive budget for two years for all income and expense categories based on realistic assumptions, and benchmarks for net worth;

(iii) A budget review process to monitor the income and expenses of the Credit Union and compare actual results with budget projections; and

(iv) A description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(v) The assignment of share pricing to either the Asset-Liability Management Committee or a new Share Pricing Committee, with the Board having ultimate approval of rates in accordance with Massachusetts General Laws chapter 171, section 13.

(vi) A suspension of travel by Credit Union directors until the Credit Union reaches a consistent level of profitability that supports capital augmentation.

(vii) Discontinuation of reimbursement of airfare to attend the monthly Board or committee meetings.

b. The Credit Union shall submit the Earnings Plan to the Division for review and comment. Within thirty (30) days of receipt of any comments from the Division, and after incorporation and adoption of all such comments, the Credit Union shall approve the Earnings Plan, which approval shall be recorded in the minutes of the meetings of the Board. Thereafter, the Credit Union shall implement and fully comply with the Earnings Plan. The Board shall review the Credit Union's adherence to the Earnings Plan, at a minimum, on a monthly basis. Copies of the reviews and updates shall be submitted quarterly to NCUA and the Division as part of the progress reports required by this LUA.

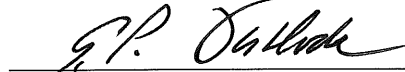
11. Charge-off of "Loss" Assets. Within thirty (30) days after the receipt of any written notice from NCUA or the Division, the Credit Union shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in any report of NCUA or the Division that have not been previously collected or charged off.

12. Violations of Law or Regulation. The Credit Union shall correct the violations of laws and regulations cited within the 6/30/09 Joint Exam Report and implement policies and procedures to prevent future violations in the identified areas within the time frames agreed to in the Document of Resolution.

13. Action Plan. Within thirty (30) days of the effective date of this LUA, the Credit Union shall develop a written action plan (Action Plan) to address the remaining weaknesses and recommendations within the 6/30/09 Joint Exam Report, not specifically referenced previously within this LUA. The Action Plan should identify the item, required corrective action, responsibility for implementing the corrective action, and date by which each item will be corrected. The Action Plan shall be submitted to the Commissioner for review and comment. Within thirty (30) days of receipt of all such comments from the Commissioner, and after incorporation and adoption of all such comments, the Credit Union shall approve the Action Plan, which approval shall be recorded in the minutes of the meetings of the Board. Thereafter, the Credit Union shall implement and fully comply with the Action Plan. The Board shall review the Credit Union's adherence to the Action Plan, at a minimum, on a monthly basis. Copies of the reviews and updates shall be submitted quarterly to NCUA and the Division as part of the progress reports required by this LUA.
14. Progress Reports. Within thirty (30) days of the effective date of this LUA, and quarterly thereafter, the Credit Union shall furnish written progress reports to NCUA and the Division detailing the form, manner, and results of any actions taken to secure compliance with this LUA. In addition, the Credit Union shall furnish such other reports as requested by NCUA and the Division, including the monthly balance sheet and income statement, Delinquency Summary report, Board of Directors minutes including Special meetings and Executive Session meeting minutes, and Audit, Credit, and Asset-Liability Management/Investment Committee meeting minutes, within fifteen (15) days of the prior month-end, beginning in March 2010. All progress reports and other written responses to this LUA shall be reviewed by the Board and made a part of the minutes of the Board meeting.
15. Publication. This LUA shall be published pursuant to 12 U.S.C. 1786(s)(1)(a) and as such is an enforceable contract between the Credit Union on the one hand, and NCUA and the Division on the other. Further, a violation of the terms of this LUA that independently constitutes a violation of law or regulation may be enforced as such.
16. Term. This LUA shall remain in effect until terminated in writing by mutual agreement of the Credit Union, NCUA and the Division, or until it is replaced by a subsequent LUA by and among the parties.

AGREED TO AND ACCEPTED by the undersigned on behalf of Tremont Credit Union, the Commonwealth of Massachusetts Division of Banks, and the National Credit Union Administration.

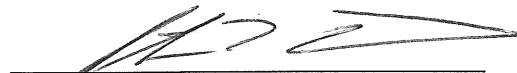
For the Tremont Credit Union:



Gary P. Fishlock
Interim President and CEO

Date April 22, 2010

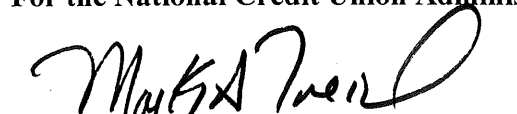
For the Commonwealth of Massachusetts Division of Banks:



Steven L. Antonakes,
Commissioner of Banks

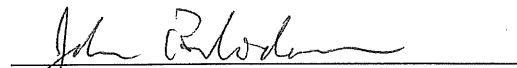
Date 4/26/10

For the National Credit Union Administration:



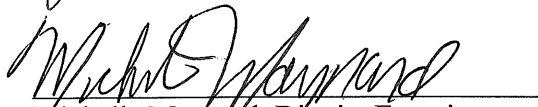
Mark A. Treichel, Regional Director

Date 4/23/10



John Bilodeau, Supervisory Examiner

Date 4/22/10



Michelle Maynard, District Examiner

Date 4/22/10