



**Letter of Understanding and Agreement
By and Between
The National Credit Union Administration
and
Sperry Associates Federal Credit Union**

This Letter of Understanding and Agreement (LUA) is entered into as of May 28 2010, by and among the Sperry Associates Federal Credit Union of Garden City Park, NY (the credit union) and the National Credit Union Administration (NCUA)

This LUA sets forth significant adverse conditions identified by the NCUA as a result of its examination of Sperry Associates Federal Credit Union effective December 31, 2009 (12/31 exam), 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 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 Sperry Associates FCU entering into this LUA, NCUA Region I hereby agrees to refrain from recommending any formal administrative action in connection with the specific conditions addressed in this LUA provided that the Credit Union and its officials make a sustained, effective, and good faith effort, as determined by NCUA in its sole discretion, to comply with all terms of the terms, actions and corresponding timeframes prescribed in this LUA. However, this agreement to refrain from recommending formal administrative action does not extend to adverse conditions, unsafe or unsound practices or conditions, and violations of law or regulation that are *not addressed* in this LUA.

In the event NCUA determines, in its sole discretion, that the Credit Union or its officials have failed to make a sustained, effective, and good faith effort to comply with the terms, actions and corresponding timeframes prescribed in this LUA, it is understood that NCUA may undertake appropriate administrative action as provided by the Federal Credit Union Act, 12 U.S.C. §1786, et seq., 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.

The significant adverse conditions were:

1. **Strategic Risk.** The credit union's net worth is below its Risk Based Net Worth requirement as of December 31, 2009, effectively categorizing the credit union as undercapitalized as outlined in Section 702.102 of NCUA Rules and Regulations. Your credit union must charge off \$3.1MM in non-performing assets which will lower your net worth to approximately 5.17% as of March 31, 2010. You have not completed an enterprise wide risk assessment, and a thorough evaluation of your credit unions structure is necessary given your capital position.
2. **Credit Risk.** The credit union is holding three private label Collateralized Mortgage Obligations which have been downgraded to below permissible levels per Section 703.2 of

the NCUA Rules and Regulations, and there is potential for significant credit losses associated with these investments. Additionally, your credit union has not been performing proper due-diligence over its participation lending program evidenced by the large losses the credit union has suffered in this program, and you are granting loan modifications without a board approved policy or managerial procedure in place.

3. **Interest Rate Risk.** You have not been managing your balance sheet to comply with your stated interest rate risk tolerances noted in your policies. When the credit union's balance sheet is shocked up 300 bps under simulated conditions, the net worth position becomes negative.
4. **Liquidity Risk.** You are not operating in accordance with your stated liquidity risk tolerances levels, and your forecast of cash flows needs to be extended to 180 days.
5. **Transaction Risk.** The credit union has not tested the effectiveness of its disaster recovery program, or the security of its information security and technology program subjecting itself and its membership to undue risk. You have also not been performing proper due-diligence of your third-party vendor relationships.
6. **Compliance Risk.** The credit union has not had the effectiveness of its Bank Secrecy Act program tested since June of 2008.

To address the adverse conditions the following actions must be taken in the timeframes indicated:

1. Strategic Risk.

- a) The credit union will submit a net worth restoration plan (NWRP) to NCUA for approval. **This action will be completed in accordance with NCUA Rules and Regulations Part 702.206(g)(1).**
- b) As provided in the approved NWRP the credit union will make the necessary adjustments in operational expenses to achieve a minimum ROAA of 0% at 12/31/2010, .15% at 3/31/2011 and .25% by 12/31/2011. **This action will be completed as indicated.**
- c) Once approved, the credit union will diligently comply with its NWRP (i.e. restore net worth to a level equal to at least its risk based net worth requirement by December 31, 2011). **This action will be effective as of the date the NWRP is approved by the Regional Director.**
- d) The credit union will charge off \$1,267,057 in non-performing loans in the CalState 9 participation loan pool, and \$1,924,172 in the South Florida Properties participation loan. **This action will be completed within 30-days of the date of this LUA.**
- e) The credit union will perform an enterprise-wide risk assessment, and include but not be limited to: a review of the risks facing the credit union and the impact those risks can have on the entire credit union, as described in the Supplementary Facts section of the 12/31 examination report. **This action will be completed by September 30, 2010.**

- f) The board of directors will complete a written comprehensive review of the entire credit union operation, including: a five-year strategic plan; assess whether the current operational structure is supportable; and, whether current management is capable of effectively leading the organization. **This action will be completed by December 31, 2010.**

2. Credit Risk

- a) The credit union will cease entering into lending participation agreements until such time the credit union can demonstrate to the NCUA that it has developed a satisfactory comprehensive due-diligence process. **This action will be effective as of the date of this LUA and remain in effect until such time as the credit union is notified that the process has been approved by NCUA.**
- b) The credit union will engage the services of a qualified third-party to complete a portfolio analysis of its private-label Collateralized Mortgage Obligations, and will recognize any Other-Than-Temporary-Impairment (OTTI) losses, in accordance with Generally Accepted Accounting Principles (GAAP). **This action will be completed by June 30, 2010, and will be repeated no less frequently than annually at year-end.**
- c) The credit union will provide NCUA with the written report of the portfolio analysis, and what actions the credit union has taken as a result. **This action will be completed within 30 days of the receipt of the first and all successive reports.**
- d) The credit union will cease granting loan modifications until a board approved policy is developed and managerial procedures are in place, and the credit union can demonstrate to the NCUA that it has developed a satisfactory program. See the Supplementary Facts section of the 12/31 examination report for specific recommendations regarding policy and procedures. **This action will be effective as of the date of this LUA and remain in effect until such time as the credit union is notified that the policy has been approved by NCUA.**

3. Interest Rate Risk

- a) The credit union will actively manage the institution to restructure the balance sheet in order to comply with its stated interest rate risk tolerance levels of a 50 percent NEV volatility limit, and a maximum limit, as a percent of assets, of no more than 50 percent net long term assets. **This action will be initiated promptly and diligently commencing on the date of this LUA.**

4. Liquidity Risk

- a) The credit union will manage to its stated liquidity risk tolerance level of a minimum of 30 percent of total shares in share drafts and regular shares; and revise its monitoring procedures to include a 180-day forecast of cash flows. **This action will be initiated promptly and diligently commencing on the date of this LUA.**

5. Transaction Risk

- a) The credit union will perform or cause to be performed a comprehensive test of its disaster recovery/business continuity program, and submit a report of results to NCUA. The credit union will adopt all critically necessary corrective measures identified in the testing. **This action will be completed by September 30, 2010.**
- b) The credit union will engage a third-party to perform a comprehensive test of the security of its information security and technology program, and submit a report of results to NCUA. The credit union will adopt all critically necessary corrective measures identified in the testing. **This action will be completed by June 30, 2010, and will be ongoing.**

6. Compliance Risk

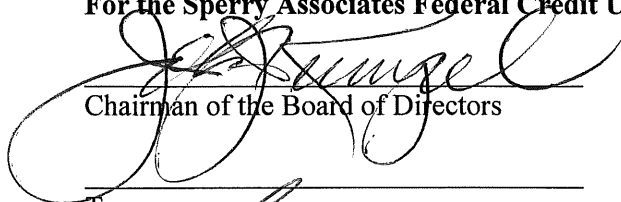
- a) The credit union will perform or cause to be performed an independent test of its Bank Secrecy Act compliance program, and provide NCUA with a report of the results. The credit union will adopt all necessary corrective measures identified in the testing. **This action will be completed by July 8, 2010.**

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 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 by NCUA independently of this LUA.

Term. This LUA shall remain in effect until terminated in writing by mutual agreement of the Credit Union, and NCUA, or until it is replaced by a subsequent LUA between the parties.

AGREED TO AND ACCEPTED by the undersigned on behalf of the Credit Union and the National Credit Union Administration.

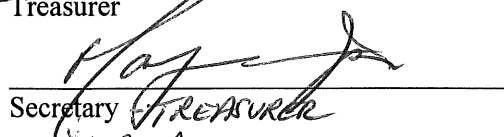
For the Sperry Associates Federal Credit Union:


Chairman of the Board of Directors

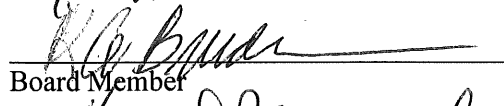
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Date

Treasurer

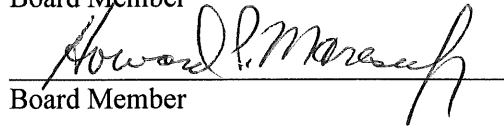
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Secretary

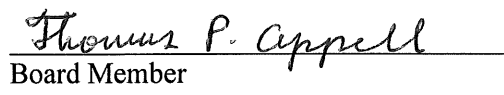
5/28/10
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Board Member

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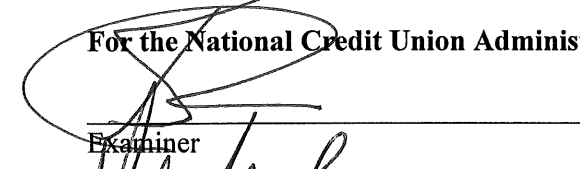
Board Member

Date

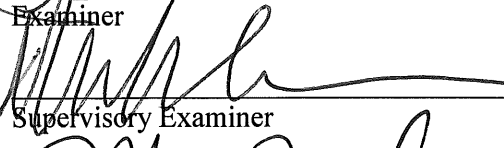
Board Member

Date

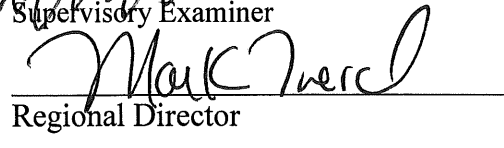
For the National Credit Union Administration:


Examiner

5/28/10
Date


Supervisory Examiner

5/28/10
Date


Regional Director

5/3/10
Date