



**Letter of Understanding and Agreement
By and Between
The National Credit Union Administration
and
LTV Steel Employees Federal Credit Union**

National Credit Union Administration (NCUA) Examiner Charles Jones conducted a follow-up review of your credit union effective August 31, 2000. The review revealed that the board of directors have not fully complied with the plans for corrective action outlined in the Document of Resolution (DOR), included in the January 31, 2000, examination report, have not fully complied with all the requirements outlined in the April 21, 2000, Preliminary Warning Letter (PWL), and are not operating within the constraints of the financial projections submitted with the fixed asset waiver request package. As a result, adverse conditions and trends continue to worsen. For that reason, we are asking you to join with us in formal recognition of the credit union's situation. By doing so, the board of directors 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. This agreement will benefit your credit union, its members and creditors, and the National Credit Union Share Insurance Fund (NCUSIF).

The adverse conditions and trends are as follows:

- I. PROFITABILITY:** The credit union has a year-to-date loss of \$108,106 due to high operating expenses and its provision of loan loss (PLL) expense. Net income, before PLL expense, is minimal at 0.4 percent of average assets due to high and uncontrolled operating expenses of 6.4 percent. The PLL expense is \$151,306 or 1.4 percent. The net income level is below the DOR goals included in the January 31, 2000, examination report, and the year 2000 net income projections included in the credit union's fixed assets waiver package. The fixed assets waiver was approved based on the goals and net income projections reflected in the waiver request package.

- II. DELINQUENCY:** Delinquency continues to escalate. In actual dollars, total delinquency is almost three times higher than it was in December of 1998. The high delinquency is due to previously poor lending practices that allowed loans to borrowers with high debt ratios, excessive exposure to unsecured debt, and weak visa collection procedures. The maximum debt ratio limit was lowered. However, the aggregate unsecured loan limit, per borrower, was raised to \$22,000 despite agreeing to an \$18,000 limit at the March 22, 2000, meeting with Examiner Jones. An in-house visa collection program has not been implemented. As a result, visa delinquency increased from 4.4 percent to 6.7 percent since January 31, 2000. Total delinquency increased from 2.4 percent to 3.3 percent.

III. LIQUIDITY: The credit union is borrowing funds due to uncontrolled loan growth and poor planning. Loan volume has increased approximately \$2.4 million, or 23 percent since the end of 1999. As a result, the credit union has a \$624,885 note payable as of July 31, 2000. Despite being in a borrowed funds position, management increased the unsecured and maximum aggregate loan limits, per borrower, above the limits outlined in the January 31, 2000, DOR. Increasing loan limits while borrowing funds is a highly questionable practice, and not in the best interest of the credit union. A liquidity plan has not been established as required by the January 31, 2000, DOR.

IV. MANAGEMENT: The lack of direction, control, and planning by the board of directors and inadequate performance by operating staff has led to further deterioration of the credit union. Approving a large expenditure of approximately \$48,000 for a conference while operating at a loss is inappropriate. Policies for cell phone usage, travel expenses, and corporate credit card usage are not in place. Despite employing four managers, the credit union is dependent on outside assistance to reconcile key general ledger accounts, an additional expense. Full and fair disclosure requirements are not being reported, as management is not analyzing the adequacy of the Allowance for Loan Losses (ALL) account. The credit union failed to contact its outside auditor to complete the November 30, 1999, supervisory committee audit, causing the audit to be unacceptable.

In order to resolve the conditions and reverse the trends noted above, the following actions and schedules for accomplishment have been mutually agreed upon by all parties to this agreement.

AGREEMENTS AND TIME FRAMES

I. PROFITABILITY

- A. Develop a plan, by November 30, 2000, to maximize net income, before PLL expense, for the fourth quarter of year 2000. However, at a minimum, achieve a fourth quarter net income level of at least 0.15 percent of average asset, before any PLL expense.
- B. All new fourth quarter expenses in excess of \$5,000 must be approved by the NCUA, (excluding the PLL expense). PLL expenses will be recognized immediately.
- C. Fourth quarter dividends must be approved by the NCUA. Send at least three dividend expense projections to Examiner Jones by December 15, 2000.
- D. Analyze and adjust the ALL account prior to payment of quarterly dividends. Send your analysis of the ALL account to Examiner Jones by December 15, 2000.

and the credit union will achieve
RS

E. Develop a year 2001 budget by December 1, 2000. The budget will require an annual net income level of at least ~~1.0~~ percent of average assets (~~0.25~~ percent per quarter), before PLL expense, and a positive net income level after all expenses. However, a higher net income level, before PLL expense, will be achieved if PLL expense causes a negative income position.
for 2001 and 1.0 percent for 2000
RS

F. Achieve the 2001 budgeted net income goals by:

1. Controlling PLL expense through sound lending and aggressive collection practices.
 - a. Analyze and adjust the adequacy of the ALL account at least quarterly prior to payment of dividends. Send your analysis of the ALL account to Examiner Jones at least 15 days prior to the end of each quarter.

2. Controlling cost of funds.
 - a. ~~Eliminate~~ ^{Reduce the} cost of borrowed funds expense by implementing appropriate asset / liability management strategies ^{with the goal of eliminating this - RS} by the end of 2001.
RS - RS
 - b. Year 2001 dividends must be approved by the NCUA. Send at least three dividend expense projections to Examiner Jones at least 15 days prior to the end of each quarter.

3. Reducing operating expenses.
 - a. Establish a goal to reduce operating expenses to at least 5.7 percent of average assets by end of year 2001.
 - b. All new operating expenses exceeding \$5,000, excluding PLL expense, must be approved by the NCUA until the budgeted goals are achieved for at least two consecutive quarters.
 - c. PLL expense will be recognized immediately.

II. DELINQUENCY

- A. Revise the loan policy by December 31, 2000, to include, but not be limited to the following:
 1. Reduce the maximum aggregate unsecured limit, per borrower, to at least \$18,000.
 2. Reduce the maximum aggregate total loan limit, per borrower, to at least \$55,000.
 3. Establish an initial credit card limit of no more than \$1,000 for classic and \$5,000 for gold.

- B. Bring the visa collection activity in-house to gain better control of visa delinquency. Monitor the effects of the visa collection program by establishing goals to be met without excessive charge offs and refinances. Establish a goal to reduce the visa delinquent loan ratio by 50 basis points per quarter during 2001 and the total delinquent loan ratio by 25 basis points per quarter.
- C. Document all collection contacts for visa and regular loans.
- D. Develop a written charge off loan policy by December 31, 2000, that ensures timely recognition of loan losses.

III. LIQUIDITY

- A. Improve the liquidity position of the credit union by developing a written liquidity plan by December 31, 2000, that includes, but is not limited to the following:
 1. Timely repayment of the note payable;
 2. Maximum loan to assets and/or share ratio.
 3. Procedures that ensures adequate liquidity when loan volume approaches the maximum loan to assets and/or share ratio; and
 4. Appropriate laddering of investment maturities to ensure maintenance of adequate liquidity.
- B. Cease and desist approving visa credit card limit increases until an adequate liquidity position is achieved, including total repayment of the note payable.

IV. MANAGEMENT

- A. Continue to obtain outside assistance in reconciling the general ledger accounts outlined in item 5 of the Record Keeping section of the January 31, 2000, DOR. The outside assistance will continue until management is adequately trained in reconciling those accounts.
- B. Reduce cost and dependency on outside assistance by ensuring that the assistant manager and an alternate receive training in accounting and reconciling the general ledger accounts outlined in item 5 of the Record Keeping section of the January 31, 2000, DOR, by ~~March 31~~, 2001.
JUNE 30, [Signature] - R.S.
- C. Contact your outside auditor, Mr. Jim Shull, by November 30, 2000, to review the accounts outlined in item 10 of the Record Keeping section of the January 31, 2000, DOR. If Mr. Shull cannot complete this review by November 30, 2000, obtain another accountant to review those accounts.

- D. Ensure that the year 2000 audit is completed by February 28, 2001. The 2000 audit must be performed by an outside, independent, certified public accountant (CPA). The audit must be an opinion audit due to weaknesses in overall record keeping and failure to follow-up on the previous audit concerns.
- E. Develop a written cell phone usage policy that includes but is not limited to the following:
 - 1. Ensures the use of cell phone calls solely for credit union business purposes;
 - 2. Requires an itemization of each phone call on the monthly statements; and
 - 3. Places limitations on the monthly expense per individual.
- F. Develop a written training/conference travel expense policy by December 31, 2000. The policy will include but not be limited to the following:
 - 1. Limiting the number of attendees to any annual event;
 - 2. A basis for the approved per diem rates;
 - 3. Reimbursement of personal expenses within a specific timeframe; and
 - 4. Supervisory Committee review for appropriate credit union paid expenditures
- G. Develop an official board policy statement on Corporate Credit Card usage by December 31, 2000.
- H. Develop written job descriptions and detailed job responsibilities for each manager and key office staff by January 31, 2001. Require written annual performance appraisals.

The management of your credit union should understand how seriously NCUA takes its responsibility to ensure that the credit union system remains safe, strong, and secure. We want to work with you to identify and resolve problems to avoid more serious consequences. However, if conditions worsen, or the "agreed upon actions" are not finalized within the stated "time frames," NCUA may take appropriate action to remove any official or management personnel, or use other available administrative remedies, including merger, conservatorship, liquidation of the credit union, or civil money penalties.

Therefore, the officials indicate that they understand and agree with the contents of this Agreement by affixing their signatures to this letter. This Agreement may be modified only by the mutual consent of the board of directors and the NCUA regional director.

This Letter of Understanding and Agreement will be published.

FOR THE LTV STEEL EMPLOYEES FEDERAL CREDIT UNION:

Ronald Stungill
Chairman of the Board of Directors

11-21-00
Date

Delores Wheeler
Treasurer

11-21-00
Date

Eddie Gonzales
Secretary

11-21-00
Date

Catherine [Signature] 11/21/00
Manager/President

Main [Signature] 11/21/00

Date

Jerry Johnson 11/21/00
Clarence Lancaster 11/21/00

FOR THE NATIONAL CREDIT UNION ADMINISTRATION:

Charles P. Jones
Examiner

11-21-00
Date

[Signature]
Supervisory Examiner

11-21-00
Date

for [Signature]
Regional Director

11-21-00
Date