JEFFERSON COUNTY
FEDERAL CREDIT UNION

A COMMUNITY CREDIT UNION

Board Packet

Your savings federally insured to at least $250,000
and backed by the full faith and credit of the United States Government

NCUA

National Credit Union Administration, a U.S. Government Agency

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*** Indicates Documentation Attached**

JEFFERSON COUNTY FEDERAL CREDIT UNION

MINUTES - BOARD OF DIRECTORS MEETING

DATE: June 23, 2010
TIME: 8:30 AM
LOCATION: Board Room – Main Office

Roll Call

William Eskridge - Chairman	(WE)	Present
Steve Schweitzer - Vice-Chairman	(SS)	Present
Wendell Wright – Treasurer	(WW)	Present
Ed Davis - Secretary	(ED)	Present
Larry Dodson - Director	(LD)	Present
Marilynn Hettich - Director	(MH)	Present
Barbara Hays - Director	(BH)	Excused
Susan Clifton – Supv. Comm.		(SC) Present
Stan Robinson – Supv. Comm.	(SR)	Present
Joshua Jackson – Supv. Comm.	(JJ)	Present
Gary Fischer – Supv. Comm.	(GF)	Excused
Carl Hicks - President and CEO	(CH)	Present
Gary Edelen – Sr. Vice President	(GE)	Present

Chairman Eskridge called the meeting to order at 8:30 AM.

A motion was made by SS and duly seconded by MH to approve the minutes of 05-26-10, 06-09-10, 06-17-10 and 05-26-10. Vote Taken – Motion Carried.

All correspondence listed was discussed and explained to the Board's satisfaction by CH.

TREASURER'S REPORT

WW reported the following. There was an increase in deposits from the previous month of $655,000 leaving an increase of $2,673,000 year to date. Loan volume for the month showed a decrease of $95,000 and net loans showed a decrease of $270,000 leaving an increase of $274,000 year to date. We will continue to closely monitor the competition and the overall operation for additional adjustments to dividend and income to benefit the members. Our bottom line was $24,915 or $4,800 below budget. Our ROA was .17%. We would be at .29% without the NCUA/KCFCU mandated write off in March. Also bear in mind we are accruing $26,759 out of our bottom line monthly ($133,795 YTD) for the NCUSIF premium payable in September. A motion was made by ED and duly seconded by SS to approve the report as printed and presented. Vote Taken - Motion Carried.

PRESIDENT'S REPORT

CH discussed and explained all of the printed report that ultimately becomes a part of these minutes as well as the additional items enumerated below.

1. The newsletter was reviewed and discussed.
2. The new committee list was distributed.
3. The AARP article was reviewed and discussed
4. It was agreed that the August Executive meeting would be held at IHOP on Hurstbourne Lane

A motion was made by MH and duly seconded by WW to approve the entire report as printed and discussed. Vote Taken – Motion Carried.

SENIOR VICE PRESIDENT'S REPORT

GE reported that we had 80 TV and31 radio commercials on three stations. Our business development person has been working on outside marketing and is doing more on site enrollments. She also assisted the LABA with the annual Lyndon Fair. Richard Brooks is concentrating on his insurance products and is no longer opening accounts. A motion was made by MH and duly seconded by WW to approve as printed and discussed. Vote Taken - Motion Carried.

ANNUAL MEETING COMMITTEE - No Report

EMPLOYEE GRIEVANCE COMMITTEE - No Report

EXECUTIVE COMMITTEE – No Report

FACILITIES COMMITTEE – No Report

INVESTMENT & ASSET/LIABILITY COMMITTEE - Contained in President's report.

MARKETING COMMITTEE - Contained in President's report.

NOMINATING/BYLAWS COMMITTEE – No Report

PERSONNEL & POLICY COMMITTEE – No Report

PLANNING COMMITTEE – No Report

POLICY COMMITTEE – No Report

RISK MANAGEMENT COMMITTEE - No Report

SUPERVISORY COMMITTEE
SC reported they had a meeting this morning and reviewed and accepted the audit report on the first quarter's procedural review as well as normal monthly items.

UNFINISHED BUSINESS - None

NEW BUSINESS

A motion was made by LD and duly seconded by WW to approve the loan officer's report. Vote Taken - Motion Carried.

A motion was made by SS and duly seconded by MH to approve the Investment & Asset Liability/Committee's report. Vote Taken - Motion Carried.

AIPL – No action taken.

A motion was made by WW and duly seconded by ED to approve the loan charge off exception of 3 loans for $13,792.40. Vote Taken - Motion Carried.

A motion was made by SS and duly seconded by LD to approve the loan charge off of 14 loans for $42,147.62. Vote Taken - Motion Carried.

A motion was made by SS and duly seconded by LD to approve a reduction of $20,000.00 of the budgeted June funding of the ALLL and transfer $182.00 back to income. Vote Taken - Motion Carried.

A motion was made by WW and duly seconded by LD to forego the budgeted $75.00 transfer from June's income for allowance for loan overdraft loans and transfer $150.00 of that account back to income. Vote Taken - Motion Carried.

A motion was made by MH and duly seconded by WW to approve the dividend rates as enumerated in the President's report for the second quarter 2010. Vote Taken - Motion Carried.

A motion was made by ED and duly seconded by MH to approve the changes and updates to the lending and delinquent policies. Vote Taken - Motion Carried.

A motion was made by MH and duly seconded by WW to adjourn at 9:35 AM. Vote Taken - Motion Carried.

____________________________________ ____________________________________

Chairman Secretary

JEFFERSON COUNTY FEDERAL CREDIT UNION

MINUTES - BOARD OF DIRECTORS SPECIAL MEETING

DATE: July 7, 2010

TIME: 3:30 P.M.

LOCATION: Via Conference Call

Directors Present

William Eskridge - Chairman	(WE)
Steve Schweitzer - Vice Chairman	(SS)
Wendell Wright – Treasurer	(WW)
Ed Davis - Secretary	(ED)
Larry Dodson - Director	(LD)
Marilynn Hettich - Director	(MH)
Barbara Hays – Director	(BH)
Carl Hicks - President	(CH)

Directors Absent
None

Chairman Eskridge called the meeting to order at 3:30 P.M.

The purpose of the meeting was to discuss replacing the company vehicles. The following facts were presented and a discussion ensued. We last purchased vehicles in July 2007 for a total expenditure of $33,085. Both vehicles now need tires desperately at an approximate cost of $2,000. If we keep them we should spend another $3,200 for limited "after factory warranty" with a healthy deductible per problem or prepare for additional maintenance and repair bills. Our dealership recently helped us get reimbursement from Oxmoor Ford via Ford Motor Co. for a problem on Gary's that was $785 even though the warranty was up.

We can replace the vehicles with a 2010 Explorer and a 2011 Edge for about $33,000 which is the same as we spent 3 years ago. We obviously end up with new warranties, tires and no risk of additional repair cost, time and hassle for 36 months. Considering all the factors it was agreed that replacement seems to be a better alternative expenditure than to risk a minimum of $5,200 and ongoing repairs on the existing ones. The $5,200 actually reduces the net replacement cost to $28,000. Gary's cost is up a little but mine is actually down due to ordering the 2010 model in lieu of the 2011. The lead time is six weeks so we still have to milk the tires and have some luck on no additional repairs. The dead line to order the 2010 Explorer is the middle of this month. The information on the 2011 Explorer is sketchy on price and availability. A motion was made by WW and duly seconded by ED to approve as presented and discussed. Vote Taken - Motion Carried.

A motion to adjourn at 4:00 P.M. was made by ED and duly seconded by BH. Vote Taken - Motion Carried

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Chairman

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Secretary

JEFFERSON COUNTY FEDERAL CREDIT UNION

MINUTES - SUPERVISORY COMMITTEE MEETING

DATE: June 23, 2010
TIME: 8:00 A.M.
LOCATION: Board of Directors Conference Room - Main Office

<u>Members Present</u>

Susan Clifton	(SC) – Chair
Stan Robinson	(SR)
Josh Jackson	(JJ)

The audit was received from the first quarter agreed upon procedures. All items came back with no exceptions. It was thoroughly reviewed and unanimously accepted.

The expense disbursements for the last month were reviewed. All were found to be in order.

The new and closed accounts were reviewed for the past few months and verification letters were sent on a random basis to the closed ones.

There being no further business SC adjourned the meeting at 8:30 AM.

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Susan Clifton - Chair

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 DUKE STREET, ALEXANDRIA, VA 22314

DATE: **June 2010** **LETTER NO.: 10-CU-07**
TO: **Federally Insured Credit Unions**
SUBJ: **Commercial Real Estate Loan Workouts**
ENCL: **Interagency Policy Statement on Prudent Commercial Real Estate Loan Workouts**

Dear Board of Directors:
In October 2009, the Federal Financial Institutions Examination Council (FFIEC) *(The FFIEC consists of the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), and the State Liaison Committee.)* It released a policy statement supporting prudent commercial real estate (CRE) loan workouts. This policy statement provides beneficial guidance for examiners, and for credit unions that are working with member business loan borrowers who are experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties. NCUA recognizes that these are challenging economic times and encourages credit unions to work constructively with member-borrowers to implement prudent member business loan workouts that are in the best interest of both the credit union and the member-borrower.

The policy statement addresses NCUA's position and expectations regarding credit unions' risk management practices for member business loan workout programs and individual member business loan workout arrangements. Specifically:

- Risk management practices for renewing and restructuring member business loans should be appropriate for the complexity and nature of the lending activity and consistent with safe and sound lending practices and regulatory requirements;
- Prudent loan workout arrangements should improve the prospects for repayment of principal and interest, and should be supported by a comprehensive analysis of the member-borrower's willingness and ability to repay the loan, an evaluation of support provided by guarantors, and a current assessment of the value of the underlying collateral;
- Workout arrangements should be reported in accordance with NCUA 5300 Call Report instructions; and,
- Loan loss estimates should comply with:
    - ✓ Generally accepted accounting principles (GAAP);
    - ✓ *Interpretative Ruling and Policy Statement ("IRPS") 02-3 Allowance for Loan and Lease Losses Methodologies and Documentation for Federally Insured Credit Unions (May 2002); and*
    - ✓ *Accounting Bulletin 06-1 (December 2006)* Interagency Advisory addressing the ALLL that reiterates key concepts and requirements including GAAP and existing ALLL supervisory guidance.

The policy statement includes examples of CRE loan workouts. The examples, provided for illustrative purposes only, reflect examiners' analytical processes for evaluating accounting and reporting treatment for restructured loans. The policy statement also includes sources of relevant supervisory and accounting guidance. If you have questions, please contact your NCUA Regional Office or State Supervisory Authority.

Sincerely – Deborah Matz, Chairman

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 DUKE STREET, ALEXANDRIA, VA 22314

DATE: **June 2010** **LETTER NO.: 10-CU-08**

TO: All Federally Insured Credit Unions
SUBJ: Guidance for National Flood Insurance Program Authority Lapses
ENCL: Guidance on the Lapse of FEMA's Authority to Issue Flood Insurance Contracts

Dear Board of Directors:
The purpose of this letter is to remind credit unions of their continuing responsibilities during a lapse in the National Flood Insurance Program (NFIP) authority. The attached guidance provides information for credit unions about issues that may arise during lapse periods when the NFIP is not available.

The authority of the Federal Emergency Management Agency (FEMA) to issue flood insurance contracts under the NFIP lapsed on June 1, 2010 at 12:01 a.m. This guidance applies to the current lapse period and will also apply to any future lapses in the NFIP. Current separate FEMA guidance to companies and agents who handle NFIP policies is available online at: http://www.fema.gov/pdf/nfip/w_10063.pdf.

If you have questions concerning the guidance, please contact your regional office, state supervisory authority, or examiner.

ENCLOSURE for 10-CU-08

Guidance on the Lapse of FEMA's Authority to Issue Flood Insurance Contracts

This guidance assists credit unions in meeting their compliance obligations under the National Flood Insurance Program (NFIP) during periods when the statutory authority of the Federal Emergency Management Agency (FEMA) to issue flood insurance contracts under the NFIP lapses. Congressional authorization of the NFIP lapsed from March 1 to 2, 2010, but was temporarily reauthorized through March 28, 2010. The NFIP again lapsed between March 28 and April 16, 2010, and was reauthorized until midnight on May 31, 2010. The NFIP again lapsed at 12:01 a.m. on June 1, 2010. This guidance applies to the current lapse period and will continue to apply if there are future lapses in the NFIP.

Background: The Flood Disaster Protection Act of 1973, (Flood Act) as amended, prohibits lenders from making, increasing, extending, or renewing loans secured by improved real property or a mobile home located in a special flood hazard area (SFHA) where federal flood insurance is available unless the building or mobile home is covered by flood insurance. *See* 42 U.S.C. § 4012a. This requirement is generally satisfied with coverage obtained through the NFIP.

When Congress does not reauthorize the NFIP, the authority of FEMA to issue new flood insurance policies, issue increased coverage on existing policies, and issue renewal policies expires. At that point, borrowers are not able to obtain NFIP insurance to close, renew, or increase loans secured by property located in a SFHA until the NFIP is reauthorized, except under the circumstances described below. This guidance addresses issues that may arise during a period of lapsed authorization for lenders and borrowers concerning loans that are or will be secured by property located in a SFHA.

Summary: When the NFIP is not available, credit unions may continue to make loans subject to the Flood Act and 12 C.F.R. Part 760 without flood insurance. This is not considered a violation of Part 760, but lenders must continue to make flood determinations, provide timely, complete, and accurate notices to borrowers, and comply with other parts of the flood insurance regulations. In addition, they must evaluate safety and soundness and legal risks and prudently manage those risks during the lapse period. Further, lenders need to have a system in place so that policies are obtained as soon as available following reauthorization for properties subject to mandatory flood insurance coverage.

Discussion:

Ability to Make Loans Unaffected by Lack of Authority

- Does a lapse in FEMA flood insurance authority mean that loans secured by improved real property located in special flood hazard areas may not be made by lenders?

No, it does not. Lenders are not precluded during a lapse in flood insurance authority from making loans due to a lack of NFIP flood insurance. During a lapse, a lender may legally make a loan to a borrower secured by improved real property in a SFHA without requiring the borrower to obtain flood insurance coverage. Nevertheless, a lender is not relieved of other obligations under federal flood insurance law and safety and soundness considerations cannot be disregarded. These matters are discussed in more detail below.

Retroactivity of Reauthorized Flood Insurance Policies

- Why does retroactivity matter?

If authorization is not retroactive, new or renewal policies cannot be obtained for the period when the program was not authorized, unless they were obtained before the lapse. Thus, if authorization is not provided retroactively, new policies or renewals issued after the lapse will be effective on the date of reauthorization, at the earliest. In this situation, flood losses will not be covered by the NFIP if they occur in the period subsequent to the lapse, but before the date of congressional reauthorization. Lenders should ensure borrowers understand this risk.

In the past, FEMA has stated that, if the authorization is retroactive, a flood insurance policy applied and paid for during the lapse period will be deemed effective as of the date of application and payment. In other words, retroactive application of FEMA's flood insurance authority to cover the lapse period will provide coverage in the event of a flood between the start of the lapse and the date of reauthorization for those borrowers who apply and pay for NFIP flood insurance during the lapse.

Premium Payments Received Before a Lapse

- What about flood insurance payment premiums received before an expiration of FEMA's flood insurance issuance authority?

Generally, if a completed application (including payment) or a renewal payment is received by NFIP Servicing Agents before a lapse begins, the covered property will be protected in the event of a flood after that date. Claims under existing policies and policies issued based on premiums received before the lapse will be processed without delay. Therefore, a borrower who applied for flood insurance and paid the premium before a lapse begins will receive coverage even if the effective date of the policy is after the lapse starts. Borrowers who renewed policies before a lapse begins, which would otherwise have expired during the lapse period, will receive coverage.

Duty of Lenders to Make Flood Hazard Determinations and Provide Notice to Consumers Unaffected

- Does a lender still have to make flood hazard determinations during a lapse?

Yes, during a lapse, lenders must continue to make standard flood hazard determinations and lenders must also give borrowers the notice of special flood hazards and availability of federal disaster relief, if applicable, as required by 12 C.F.R. Part 760.

Flood Insurance Coverage During the Lapse

- What are a lender's options regarding new loans that will be affected by a lapse?

The following are options lenders may consider to address a lapse:

  - Lenders may have a borrower complete the application and pay the premium, which the insurance company will hold for processing pending congressional reauthorization.
    - These applications will be processed as soon as the program is reauthorized and will be made effective to the fullest extent of that authority. If authorization is not granted, the premiums will be refunded and the new and renewal policies, which had been on hold, will not be issued.

        - Lenders should advise borrowers that remittance of the application and payment will not result in immediate NFIP coverage and cannot legally be required until reauthorization, as well as advising borrowers about the consequences of non-retroactive reauthorization.

        - Lenders should ensure borrowers with property in flood hazard areas are similarly informed of the implications of closing on a mortgage loan during a lapse.

    - Lenders may determine that the risk of loss is sufficient to justify postponing closing a loan until the NFIP has been reauthorized.

    - Lenders may still require that the borrower obtain private flood insurance where available; however, the cost of such insurance may be a factor that would influence the lender or the borrower to postpone closing rather than incur a long-term obligation to address a possible short-term lapse.

    - Lenders may make the loan without requiring the borrower to apply for flood insurance and pay the premium pending reauthorization, but this option poses a number of risks that lenders should carefully evaluate. Moreover, if Congress reauthorizes the NFIP, flood insurance must be obtained for these loans after the lapse, including, if necessary, by forced placement as provided in 12 C.F.R. §760.7. Before making such loans, lenders should ensure borrowers are aware of the flood insurance requirements and that force-placed insurance is typically more costly than borrower-obtained insurance. Lenders need to have a system to keep track of and identify these loans so they can ensure insurance is purchased if the NFIP is made available subsequent to closing.

Each lender remains responsible for protecting its collateral from risk in a manner appropriate to the circumstances and that ensures the overall safety and soundness of its loan portfolio. Lenders should consider the options above in the context of the overall credit quality of their loan portfolio, safe and sound lending practices, and effective risk management principles. Among the factors to consider are volume and concentration of lending in SFHAs, including loans already in a portfolio that may be subject to renewal and those to be made during a lapse period. Lenders with an elevated level of flood hazard risk should take advantage of the available options to minimize undue risk.

Renewals of Flood Insurance Policies

- What happens to renewals during a lapse?

For applications and premiums received on or after a lapse begins, FEMA generally processes all renewals as soon as the program is reauthorized. Lenders are encouraged to notify their servicers that flood insurance payment premiums may continue to be accepted during the lapse. Lenders who act as their own servicers may also continue to accept payments during the period of lapsed authority.

Alternatively, depending on the terms of the mortgage, lenders may be able to require borrowers to obtain coverage outside the NFIP, as a risk management measure.

Securitization of Mortgage Loans and the Secondary Market

- Will lenders be able to sell loans on the secondary market that do not have flood insurance coverage?

That will depend on the secondary market purchaser's decisions. Lenders should consult the purchaser about eligibility requirements and post closing obligations before closing a loan affected by this problem.

Federal Housing Authority (FHA) and Veterans Administration (VA) Loans

- Will lenders be able to make FHA and VA loans and other federally guaranteed or insured loans during a lapse?

Lenders should consult with FHA, VA or other federal guarantee agencies, as appropriate.

Agency Flood Insurance Enforcement

- Will credit unions violate 12 C.F.R. Part 760 by not obtaining flood insurance coverage of loans made during a lapse in the NFIP statutory authority?

No, but credit unions must still meet other requirements under the flood rule and, upon reauthorization, will have to obtain coverage.

The flood insurance rule defines a "designated loan" as a loan secured by a building or a mobile home that is located or to be located in a SFHA in which flood insurance is available under the NFIP. Because no flood insurance will be available under the NFIP during a lapse, credit unions will not be in violation of the prohibition against making loans without flood insurance coverage during that period.

Lenders, however, must still make flood determinations, provide timely, complete, and accurate notices to borrowers, and comply with other parts of the flood insurance regulations that have not lapsed. Moreover, lenders must carefully evaluate safety and soundness risks and prudently manage those risks during the lapse period. Upon reauthorization, flood insurance coverage must be obtained for any loan where it would have been required but for the lapse in FEMA authority. If necessary, this must be accomplished through forced placement of flood insurance by the lender. Failure to obtain insurance after it becomes available would constitute a violation of Part 760.

Sincerely – Deborah Matz, Chairman

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 DUKE STREET, ALEXANDRIA, VA 22314

DATE: **June 2010** **LETTER NO: 10-CU-09**
TO: **Federally Insured Credit Unions**
SUBJ: **Temporary Corporate Credit Union Stabilization Fund Assessment**

Dear Board of Directors:
At an open meeting on June 17, the NCUA Board took two necessary actions to continue spreading out the costs of the Corporate Credit Union Stabilization program while minimizing the annual expenses for natural-person credit unions.
The NCUA Board unanimously:
1) Approved an assessment of 0.134% (13.4 basis points) of credit unions' insured shares.
2) Established September 30, 2010 as the deadline for NCUA to repay $1.5 billion borrowed from the U.S. Department of Treasury.

Collecting this assessment *within 60 days* will enable NCUA to repay the $1.5 billion to the Treasury before the deadline.
The NCUA Board's decision to levy this assessment was not taken lightly.
NCUA considered numerous factors, including:
- Summer liquidity needs of the Temporary Corporate Credit Union Stabilization Fund, which was created by Congress to assess credit unions for corporate losses over seven years, rather than having to collect it all in one lump sum;
- Current downward pressure on natural-person credit union earnings, which will be reduced by the amount of each assessment;
- Serious long-term consequences if NCUA had decided to forego the Corporate Stabilization Fund assessment this year, which would have required even larger assessments to be levied over the next five years.

The following pages provide further explanations of why and how NCUA must collect assessments.

Corporate Stabilization Fund

The purpose of the Corporate Stabilization Fund is to repay the Treasury over multiple years for borrowings necessary to stabilize the corporate credit union system.

A stable corporate credit union system is essential to maintain liquidity and investment services for thousands of natural-person credit unions, and to provide payment systems which settle billions of electronic transactions for millions of credit union members.

NCUA must repay the Treasury borrowings through assessments to credit unions during the seven-year life of the Corporate Stabilization Fund, which currently has six years remaining.

Status

As of May 31, 2010, the Corporate Stabilization Fund recorded net borrowing from the Treasury of $690 million, plus an additional $6.4 billion liability based on the most recent estimates of costs associated with the guarantee and insurance of shares in corporate credit unions. The $690 million net consists of an initial $1 billion borrowed from the Treasury, minus $310 million repaid in February 2010 after the first Corporate Stabilization Fund assessment. On June 14, the Corporate Stabilization Fund borrowed an additional $810 million from the Treasury, bringing the net borrowing balance to $1.5 billion.

NCUA's borrowings from the Treasury are being deposited into corporate credit unions this summer, in order to raise liquidity during a period when natural-person credit unions historically experience seasonal outflows of shares.

Assessment Amount

As NCUA continues to stabilize the corporate credit union system, the agency is striving to be as transparent as possible. Therefore, the amount of the 2010 Corporate Stabilization Fund assessment should not come as a surprise. ***This assessment of 13.4 basis points falls within the projected range announced at an open NCUA Board meeting.*** On November 19, 2009, the NCUA Board projected a range of 5-to-15 basis points for the Corporate Stabilization Fund assessment in 2010. This year's Corporate Stabilization Fund assessment will be calculated based on 0.134% of each credit union's insured shares and deposits as of March 31, 2010. This assessment will provide approximately $1 billion toward repaying the current $1.5 billion in net borrowings from the Treasury. The additional $500 million will come from a reduction in the liquidity assistance provided to corporate credit unions in September.

Recording

Each credit union should record the assessment expense on the June 2010 Call Report. Use the line for NCUSIF Stabilization Expense (Account Code 311). The dollar amount of the expense can be calculated by multiplying the March 31 level of insured shares and deposits (Account Code 069A) by 0.00134.

Timing

NCUA will invoice credit unions for this assessment in late July or early August. ***Each credit union's payment will be due in mid-August.***

Impact

The NCUA Board recognizes that 2010 is a challenging year for all financial institutions, and that assessments will impact the financial performance of all credit unions. ***The NCUA Board has reminded examiners to factor out the adverse impact of assessments when evaluating and rating credit union earnings.*** The 2010 Corporate Stabilization Fund assessment will reduce net worth ratios of credit unions by not more than 13 basis points and reduce the annualized return on assets by 11 basis points on average. If first-quarter earnings trends continue for the remainder of this year, this assessment would cause about 10% of credit unions that otherwise would have been profitable in 2010 to report negative earnings. NCUA also projects about 63 credit unions will experience a decline in their net worth ratio below 7% of assets, making them subject to the statutory earnings retention requirement of PCA. Also as required by law, another 27 credit unions would need to prepare a Net Worth Restoration Plan due to net worth declining below 6% of assets. ***NCUA will be as flexible as the law allows in reviewing and approving a Net Worth Restoration Plan for every credit union that falls into Prompt Corrective Action (PCA) due to assessments.***

Separate Assessments

Last year's single assessment was actually a combination of payments for the Corporate Stabilization Fund and for the National Credit Union Share Insurance Fund. ***This year, to assist credit unions in setting their assessment budgets, NCUA has separated the assessment for the Corporate Stabilization Fund from the assessment***

for the Share Insurance Fund. This separation will not increase the total amount of assessments – but it will clarify exactly what each assessment is for:

- ***The Corporate Stabilization Fund assessment covers losses at corporate credit unions.***
- ***The Share Insurance Fund assessment will cover losses at natural-person credit unions.***

Separating these two assessments will continue to improve the transparency of NCUA's assessment process. At every open NCUA Board meeting, the agency releases a report on the financial conditions of both funds. At the June 17 open meeting, NCUA reported that Corporate Stabilization Fund liabilities are going to cover the costs of corporate credit union losses. At the same time, losses in natural-person credit unions are reducing the Share Insurance Fund's equity ratio so that it is now near the bottom of its normal operating range. Thus it is important to clarify that the first assessment this year is only for the Corporate Stabilization Fund.

Share Insurance Fund

Later this year, the NCUA Board will consider an assessment for the Share Insurance Fund.

In November 2009, *the NCUA Board projected a range for the 2010 Share Insurance Fund assessment of 10-to-25 basis points.*

The actual amount will be based on four factors:

1) Losses in failed natural-person credit unions;
2) Exposure to further losses indicated by trends in troubled CAMEL codes;
3) Earnings on the Share Insurance Fund's assets;
4) Growth in insured shares.

Controlling Expenses

NCUA will continue to allocate significant resources to minimize expenses of all assessments to natural-person credit unions. Yet the ultimate cost of the Corporate Stabilization program will be contingent on the performance of the underlying assets held by corporate credit unions. And the ultimate cost of the Share Insurance Fund assessments will be contingent on the risk management practices of natural-person credit unions. This is why NCUA is taking extraordinary measures to work with all federally insured credit unions to manage interest rate risks, concentration risks, and third-party risks. NCUA is exercising rigorous supervision of credit unions holding high concentrations of fixed-rate mortgages, or failing to do their own due diligence on indirect loans, member business loans, or participation loans. ***Ultimately it is credit unions – not NCUA – that control the amounts of their assessments.*** Many credit union officials have asked whether NCUA can ease the burden of assessments for credit unions that are prudently managing their risks. However, the law makes no provisions for risk-weighted premiums or risk-based assessments. The Federal Credit Union Act maintains that any premiums or assessments must be shared cooperatively by all credit unions based on their insured shares. Knowing all of this may not make it easier to pay this year's assessment invoices. But once you understand all of the factors that lead to assessments, you will be empowered to help keep future assessments as reasonable as possible.

Choices Ahead

Looking ahead, natural-person credit unions will have crucial choices to make about the future of corporate credit unions. Those decisions will include whether to:

- **Recapitalize their corporate credit union;**
- **Switch to another corporate credit union;**
- **Seek similar services from a non-credit union.**

NCUA plans to do its part to resolve the issues within the corporate credit union system. In the coming months, NCUA will propose a plan to remove the toxic assets that have depleted capital from investors in corporate credit unions. NCUA will also finalize a new corporate credit union regulation that will prevent the concentration of high-risk assets and build a stronger buffer to protect capital. The asset plan will ensure that new corporates begin with clean balance sheets. And the new regulation will ensure that corporates *maintain* clean balance sheets. Once this new regulatory regime is in place, the board of each natural-person credit union will be well positioned to determine where to obtain their liquidity, investments, and settlement services.

Resources Available

NCUA understands the challenge that volunteer board members face in keeping up with the fast-paced evolution of credit union issues. This is why NCUA is taking steps to provide volunteers with added resources.

To help board members understand the corporate credit union system and weigh their options, NCUA has posted a series of auditory presentations at www.ncua.gov. These presentations are also being produced on DVDs that will be mailed free of charge to every credit union. The presentations explain in detail the origin, the impact, and the coming resolution of the corporate credit union system. ***All credit union board members are***

encouraged to watch these presentations and discuss them as a group with their credit union's management team – before you make your final decisions about where to find the needed services that have traditionally been provided by corporate credit unions. Board members have always faced tremendous responsibilities on behalf of their credit unions – but soon, board members will also be in a position to influence the strategic direction of the credit union industry as a whole. Serving as a credit union volunteer has never been so complex, or so significant. NCUA staff, as always, is available to answer your questions and work with you to protect the safety and soundness of your credit union.

Sincerely – Deborah Matz, Chairman

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 DUKE STREET, ALEXANDRIA, VA 22314

DATE:	**June 2010**	**LETTER NO: 10- CU 10**
TO:	**Federally Insured Credit Unions**	
SUBJ:	**2010 Hurricane Season and Ongoing Disaster, Emergency, and Pandemic Preparedness and Planning**	
ENCL:	**Resources for Hurricane, Disaster, Emergency, and Pandemic Planning and Preparedness**	

Dear Board of Directors:
NCUA urges all federally insured credit unions to perform a review of their disaster preparedness and response plans in preparation for the 2010 hurricane season and for ongoing readiness to respond to other incidents.

The National Hurricane Center (NHC) predicts one of the most active hurricane seasons on record for the six-month season from June through November, 2010. The greater risk of storms brings a greater risk of landfall.

The NHC prediction is available at the following link:
http://www.noaanews.noaa.gov/stories2010/20100527_hurricaneoutlook.html.

The NHC outlook is not only a guide to expected seasonal threats; it is also a warning to take action now to ensure your credit union is prepared for any disaster, year-round.

Business Continuity and Disaster Recovery Plans
Management's plans should be commensurate with the complexity of your credit union's operations. Plans should focus on minimizing interruptions of service to members and maintaining member confidence in times of emergency. Previous disasters have provided many "lessons learned" in working through the numerous issues that develop. Following are the principal "lessons learned:"

- Implement pre-disaster actions to ensure a constant state of readiness, and take steps to safeguard assets and vital records if an early warning is received;
- Communicate disaster preparedness and response efforts before, during, and after an emergency to keep members, volunteers, employees, and regulators fully aware of the situation;
- Utilize a cross-section of people to develop, test, and implement disaster preparedness and response plans;
- Ensure back-ups are available not only for data but also personnel, worksites, equipment, vendors, and other resources; and
- Treat disaster preparedness and response plans as "living documents" to be updated as circumstances change.

NCUA Assistance in a Disaster or Other Emergency
In the event of a disaster or other emergency, NCUA works with affected credit unions, state credit union organizations, and state regulators to ensure federally insured credit unions are aware of assistance available from NCUA. When necessary, NCUA reschedules routine examinations of affected credit unions.

Depending on the nature of the event, NCUA also encourages an extra level of credit union assistance to impacted members, such as special loan terms and reduced documentation requirements. If necessary, credit unions can reach NCUA at: 1-703-518-6300 or http://www.ncua.gov/Contact.aspx .

Special Considerations for Reviewing Pandemic Preparedness and Response Plans
Federally insured credit unions need to periodically review their pandemic preparedness and response plans to ensure they are current and appropriate for the credit union's operation. Pandemic planning, unlike most natural or technical disasters and malicious acts, presents unique challenges to credit unions. The impact of a pandemic is much more difficult to determine.

As experienced with the recent H1N1 flu, pandemics can be focused to specific regions of the world or the United States, but can spread quickly and cause health officials to close schools and other public gathering facilities or events.

Experts believe the most significant challenge for businesses in a pandemic may be the severe staffing shortages likely to result from a pandemic outbreak.

Pandemic plans should include:
- Preventative programs to reduce the likelihood that operations will be significantly affected by a pandemic event;
- Documented strategies which provide for scaling pandemic events including provisions for possible second and third waves of a pandemic;
- Comprehensive listings of facilities, systems, or procedures to continue critical operations if a large number of staff are unavailable for prolonged periods;
- Testing programs to ensure that pandemic planning practices and capabilities are effective;
- Evaluations of critical service provider plans for operating during a pandemic; and
- Oversight programs to ensure ongoing reviews and updates are made to the pandemic plan.

A list of resources is enclosed to assist you in reviewing your credit union's disaster preparedness and response plans.

If you have any questions or concerns, please contact your NCUA Regional Office or State Supervisory Authority.

Sincerely – Deborah Matz, Chairman

ENCLOSURE for 10-CU-10

Resources for Hurricane, Disaster, Emergency, and Pandemic Planning and Preparedness

NCUA Resources:
- National Credit Union Administration Web Site:
http://www.ncua.gov
- NCUA Rules and Regulations Part 748–Security Program, Report of Suspected Crimes, Suspicious Transactions, Catastrophic Acts, and Bank Secrecy Act Compliance
http://www.ncua.gov/Resources/RegulationsOpinionsLaws/index.aspx
- NCUA Rules and Regulations Part 749–Records Preservation Program And Appendices-Record Retention Guidelines; Catastrophic Act Preparedness Guidelines
http://www.ncua.gov/Resources/RegulationsOpinionsLaws/index.aspx
- Letter to Credit Unions 10-CU-04, Grants Available from NCUA (information about potential urgent needs grant for credit unions designated as low-income credit unions)
http://www.ncua.gov/Resources/LettersCreditUnion2010.aspx
- Letter to Credit Unions 08-CU-01, Guidance on Pandemic Planning
http://www.ncua.gov/letters/2008/CU/08-CU-01.pdf
- Letter to Credit Unions 06-CU-12, Disaster Preparedness and Response Examination Procedures
http://www.ncua.gov/letters/2006/CU/06-CU-12.pdf

- Letter to Credit Unions 06-CU-11, Interagency Guidance Lessons Learned by Institutions Affected by Hurricane Katrina
  http://www.ncua.gov/letters/2006/CU/06-CU-11.pdf
- Letter to Credit Unions 06-CU-06, Influenza Pandemic Preparedness
  http://www.ncua.gov/letters/2006/CU/CU-06-06.doc
- Risk Alert 06-CU-01, Disaster Planning and Response
  http://www.ncua.gov/Resources/RiskAlert/2006/06-Risk-01.pdf
- Letter to Credit Unions 01-CU-21, Disaster Recovery and Business Resumption Contingency Plans
  http://www.ncua.gov/letters/2001/01-CU-21.pdf

Interagency Resources:

- FFIEC IT Handbook Booklet: Business Continuity Planning
  http://www.ffiec.gov/ffiecinfobase/booklets/bcp/bus_continuity_plan.pdf

Other Resources:

- Ready.Gov - Business Emergency Planning Guidance http://www.ready.gov/business/index.html
- The National Strategy for Pandemic Influenza
  http://www.pandemicflu.gov/.
- The Department of Homeland Security (DHS) published The Pandemic Influenza Preparedness, Response, and Recovery Guide
  http://www.pandemicflu.gov/plan/pdf/cikrpandemicinfluenzaguide.pdf.
- National Hurricane Center
  http://www.nhc.noaa.gov/
- Department of Health and Human Services (DHHS)
  http://www.hhs.gov/disasters/
- Business Pandemic Influenza Planning (DHHS)
  http://www.hhs.gov/pandemicflu/plan/
- Avian Flu Website (DOD)
  http://fhp.osd.mil/factsheetDetail.jsp?fact=3
- Centers for Disease Control (CDC)
  http://www.cdc.gov/flu/avian/index.htm
- World Health Organization (WHO)
  http://www.who.int/csr/disease/avian_influenza/en/
- Department of Agriculture (USDA)
  http://foodsafety.nal.usda.gov/nal_display/index.php?info_center=16&tax_level=2&tax_subject=469&level3_id=0&level4_id=0&level5_id=0&topic_id=1927&&placement_default=0
- Department of Labor Occupational Safety and Health Administration (OSHA)
  http://www.osha.gov/dsg/guidance/avian-flu.html
- Department of State
  http://travel.state.gov/travel/tips/tips_1232.html
- National Oceanic and Atmospheric Administration (NOAA)
  http://www.facebook.com/usnoaagov

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 DUKE STREET, ALEXANDRIA, VA 22314

DATE: **June 2010** **LETTER NO: 10- CU 11**
TO: **Federally Insured Credit Unions**
SUBJECT: **Information on NCUA's Merger and Purchase & Assumption Process**

Dear Board of Directors:

This Letter and Appendix provide information on NCUA's merger and purchase & assumption (P&A) process. NCUA has received numerous inquiries and questions on the subject. In an effort to improve transparency, this letter addresses several topics involving mergers and P&As including:

- An explanation of the P&A process and the various types of mergers;
- The criteria used to evaluate mergers and P&As;
- The identification of merger and P&A partners; and
- The selection of an acquirer in the limited circumstances when NCUA is involved in making the choice.

Available Options

When a credit union's board of directors determines it is no longer feasible for its credit union to continue as a going concern, or NCUA or the respective State Supervisory Authority (SSA) for a state-chartered credit union determines the credit union's problems cannot be resolved permitting it to continue as an independent entity, the following options are available.

- A voluntary liquidation;
- An involuntary liquidation;
- An involuntary liquidation followed by a Purchase and Assumption; (**Generally referred to as a Purchase and Assumption or P&A).** or
- A merger (voluntary, unassisted supervisory, or assisted).

NCUA's involvement in each of the above options varies. For those options where continuing credit union service is maintained (e.g. mergers and P&As), information on the level of NCUA's involvement is discussed in this letter. For additional information and a comparison of each of the options, please refer to the Appendix to this letter.

<u>Voluntary Mergers</u>

NCUA generally does not participate in the identification and selection process concerning voluntary mergers, which typically occurs when two healthy credit unions decide to merge based on business decisions made by their respective boards of directors. Voluntary mergers generally do not involve financial assistance from NCUA to consummate the action for the continuing credit union, nor NCUA approving a waiver of the membership vote.

NCUA's role in voluntary mergers is limited to the appropriate regional director providing a decision (e.g. approval, deferral if incomplete, or denial) on the merger application. The selection of the continuing credit union partner resides solely with the acquired credit union's board of directors. However, NCUA can deny the acquired credit union's selected partner based on safety and soundness issues, or field of membership compatibility if the acquirer is federally chartered. **(NCUA determines field of membership compatibility when the continuing credit union is a federal charter. The respective SSA determines the field of membership compatibility requirements when the continuing credit union is a state charter.)**

<u>Unassisted Supervisory Mergers</u>

NCUA may or may not participate in the identification process concerning unassisted supervisory mergers. Unassisted supervisory mergers, like voluntary mergers, do not involve financial assistance from NCUA to consummate the action for the continuing credit union, nor NCUA approving a waiver of the membership vote. However, unassisted supervisory mergers generally involve credit unions which are less than adequately capitalized under Prompt Corrective Action, Part 702 of NCUA's Rules and Regulation. NCUA has authority under certain net worth classifications to either require a credit union to merge or to accept a credit union's Net Worth Restoration Plan identifying a timeframe for which it will merge.

In fact, if a credit union is solvent but has a net worth ratio of "critically undercapitalized" (less than 2 percent), than within 90 calendar days after the effective date. **(When a board of directors is officially notified of the classification, i.e. joint conference date.)** of the credit union being classified as "critically undercapitalized," NCUA is mandated to take one of three actions. NCUA must place the credit union into conservatorship, into liquidation (possibly followed with a purchase and assumption), or take other corrective action (including requiring a merger).

NCUA's involvement will generally be at a level to ensure the action is completed as needed or as agreed upon.

<u>Assisted Mergers and P&As</u>

NCUA's role concerning assisted mergers and P&As is much greater, including the identification and selection of the continuing credit union partner, since assisted mergers and P&As generally involve financial assistance from

NCUA. Also, P&As can involve NCUA retaining some of the failing credit union's assets, liabilities, contracts or off balance sheet items. However, the degree of involvement and approach taken largely depends upon the unique set of circumstances in each case, such as the:

- Potential loss to the National Credit Union Share Insurance Fund (NCUSIF);
- Size and complexity of the acquired credit union;
- Financial stability of the acquired credit union; or

  Degree of urgency (**NCUA determines the degree of urgency based upon various internal and external factors surrounding the acquired credit union; therefore, the degree of urgency may evolve over time. An example of an internal factor could be where credit union management cannot effect the merger in a timely, efficient, and effective manner thereby increasing the risk of loss to the NCUSIF. An example of an external factor could be where members become knowledgeable of problems at the failing credit union and begin withdrawing shares (generally referred to as a run on shares) thereby creating, or adding to, a liquidity concern.)**
  (An emergency merger or emergency P&A also permits a continuing federal credit union to permanently retain the acquired credit union's field of membership regardless of future changes to its own charter (i.e. converting to a single common bond charter, a multiple common bond charter, or a community charter). An emergency merger or emergency to consummate the assisted merger or P&A.

Evaluation Criteria for Mergers and P&As
NCUA evaluates and analyzes the following three general criteria when making its decision to approve, defer, or deny a merger or P&A application:

1) Whether the continuing credit union can safely and soundly absorb the financial and operational impact that will result from the acquired credit union;
2) Whether the acquired credit union's field of membership is compatible with the continuing credit union's field of membership as required by NCUA's Chartering and Field of Membership Manual (exceptions exist for P&As and emergency mergers); and
3) Whether the required membership notice sent by the acquired credit union properly informs the membership about the action. **(Membership notification for an acquired state-chartered credit union is reviewed by the respective SSA)**

When NCUA determines whether the acquired credit union's field of membership is compatible with the continuing federally-chartered credit union, there are two circumstances which may apply that will either remove or reduce this requirement.

1. If a merger or a P&A is classified by NCUA as an "emergency," any continuing federal credit union can acquire the failing credit union. **(An emergency merger or emergency P&A also permits a continuing federal credit union to permanently retain the acquired credit union's field of membership regardless of future changes to its own charter (i.e. converting to a single common bond charter, a multiple common bond charter, or a community charter).** For NCUA to approve an emergency action, the acquired credit union must be either insolvent or in danger of insolvency, and NCUA must also determine:
   - An emergency requiring expeditious action exists;
   - Other alternatives are not reasonably available; and
   - The public interest would best be served by approving the action.

   Part 701, Appendix B, Chapter 3, Section III.B.1, of NCUA's Rules and Regulations (Chartering and Field of Membership Manual) defines "in danger of insolvency" as the credit union falling into one of more of the following categories:
   - Net worth is declining at a rate that will render it insolvent within 24 months;
   - Net worth is declining at a rate that will take it under two percent net worth within 12 months; or
   - Net worth, as self-reported on the call report, is significantly undercapitalized, and NCUA determines there is no reasonable prospect of the credit union becoming adequately capitalized in the succeeding 36 months.

2. Where the acquired credit union is a single or multiple common bond charter and the continuing federal credit union is a multiple common bond charter, the merger may be classified by NCUA as "supervisory" when NCUA determines supervisory concerns **(Some examples constituting supervisory concerns would include abandonment of management and/or officials and an inability to find replacements, loss of sponsor support, serious and persistent record keeping problems, sustained material decline in financial condition, or other serious or persistent circumstances, etc. These examples are not meant to be all inclusive)** exist. In a supervisory merger, any group in the acquired credit union's field of membership having 3,000 or more primary potential members would automatically transfer to the continuing federal credit union's field of membership without the group having to document the formation of a separate credit union is not practical.

For the membership notice process, NCUA has the authority to waive the requirement for a membership vote if the merging federal credit union is insolvent or in danger of insolvency; and NCUA determines the merger would reduce the risk, or avoid a loss, to the NCUSIF. The membership notification waiver for a merging federal credit union is not automatically granted by NCUA – a waiver must be requested by the failing federal credit union. Membership notification is not required for a failing federal credit union placed into liquidation and followed by a P&A.

Identification Process When NCUA Is Involved (e.g. Assisted Mergers and P&As)

In the identification process for assisted mergers and P&As, NCUA generally develops a potential partner list of those credit unions having the ability to manage the combined credit unions both financially and operationally. NCUA identifies the specific criteria a continuing credit union partner must have and develops its candidate list based on this information, including, but not limited to:

- A list of credit unions based on asset size, CAMEL code, net worth level desired, and/or other appropriate selected criteria;
- Demonstrated ability of the potential continuing credit union's management team to handle the size and complexity of the failing credit union including any unique products or services that may be present in the failing credit union's balance sheet;
- The field of memberships of other credit unions with groups in the geographic area(s) serviced by the failing credit union; and/or
- A list of credit unions that have expressed interest in being considered a continuing credit union partner.

Depending on the failing credit union's condition and other factors unique to each case, a wider geographic search may be warranted. Regional and national searches may be necessary when one or more of the following conditions are present:

- The failing credit union's assets are large and/or problems are complex;
- The failing credit union requires specific expertise or has special circumstances or characteristics, such as designations, diversified groups in the field of membership, and/or location restrictions. Such examples may include agricultural or member business lending, low income and/or CDFI **(CDFI stands for Community Development Financial Institution, a designation obtained from the Treasury Department by entities serving underserved populations and communities. The designation is removed if the continuing credit union is not also CDFI designated.)** designations, language barriers existing in the membership, foreign nationals served, non-public access to branches, etc.;
- NCUA does not receive a sufficient number of interested candidates and/or bids from the initial local search; and/or
- NCUA finds the requested assistance from interested acquirers is unreasonable and/or unjustified.

NCUA generally tries to contact as many credit unions as practical to ensure a competitive bidding process which will result in the least cost to the NCUSIF. There is no set number of credit union candidates NCUA must contact. However, there are practical limits to the number of credit unions that can conduct onsite due diligence without disrupting the operations of the failing credit union. Generally, larger credit unions or larger anticipated assistance results in NCUA contacting more potential candidates and/or using a larger geographic area in its search. In addition to the size, complexity and level of potential assistance, the limit on the number of candidates is also influenced by:

- The ability of the failing credit union to host potential credit unions to complete due diligence as part of the bidding process without disrupting daily operations;
- The rate of deterioration of the failing credit union (the faster the erosion, the quicker final resolution must occur to minimize the potential loss to the NCUSIF); and
- The process must be conducted in a manner which does not create membership panic and cause a run on shares at the failing credit union.

Once NCUA develops the potential partner list, a bidder's meeting is held when practical or warranted by the circumstances. Before providing an interested party with a bidders' information packet, NCUA will obtain a signed confidentiality agreement. **(A document signed by a bidder acknowledging receipt of the bidders' information packet and as a condition of receiving such information agrees to treat confidentially the information and any other information furnished to them by NCUA or the failing credit union.)** NCUA staff answers questions related to the credit union's operation and provides an overview of the conditions at the failing credit union. However, the burden of completing a due diligence review and determining the amount of assistance, if any, is the responsibility of the bidder.

All interested parties meeting NCUA's identification criteria will be given an opportunity to complete a due diligence review and NCUA will establish the timeframe for the submission of bids. The amount of time provided will depend on the nature and extent of the problems, the size and complexity of the failing credit union, and the number of potential bidders. Each of NCUA's regional offices presently maintains a manual listing of credit unions that have expressed an interest in expanding their respective fields of membership through mergers and/or P&As which is used to help identify initial potential interested parties.

National Registration Process
NCUA has evaluated and determined the establishment of an automated national registry will improve the efficiency of identifying potential credit union partners and provide greater opportunity for more interested credit unions to be involved. NCUA is developing an automated national registry where a credit union can identify the parameters in which it would like to be considered as a merger or P&A partner. These parameters could potentially include asset size range, geographic limitations, field of membership types, and minimum net worth limits, to name a few. The registry would be available for use by NCUA and SSAs to identify potential interested credit union partners. NCUA and SSAs will be able to incorporate specific criteria being evaluated in their identification process. For assisted mergers or P&As, the number of credit union candidates meeting NCUA's specific identification criteria will determine whether NCUA needs to expand its search beyond the local geographic area, such as regionally or nationally. Until the automated national registry is available, interested credit unions should notify their respective NCUA regional office.

Selection Process When NCUA Is Involved (e.g. Assisted Mergers and P&As)
Upon NCUA receiving all written bids by the specified deadline(s), NCUA evaluates and analyzes each bid to determine the amount and type of assistance being requested by each bidding credit union. Each bidding credit union must provide justification for its assistance request and complete information to support its valuation of loans, other assets, liabilities, shares, contracts, and/or off balance sheet items.

NCUA generally awards the bid to the selected bidder with the "no cost" or "least cost" proposal. NCUA gives consideration to additional factors before finalizing its decision and notifying the selected bidder in writing. These factors include, but are not limited to:

- The effect on the bidding credit union's safety and soundness;
- Whether the continuing credit union partner is a "good fit" for the failing credit union's membership or special circumstances (i.e. does the continuing credit union have the expertise to manage the failing credit union's issues);
- The ability of management to successfully integrate the failing credit union's operation into their own;
- The ability of the bidding credit union to provide the same or enhanced services to the failing credit union's membership; and/or
- Any additional offerings by the bidding credit union such as maintaining an existing location(s), provisions for continuing certain services or products, provisions for continuing employment for employees, etc.

Questions concerning NCUA's identification and selection process for merger and P&A partners can be directed to the appropriate NCUA regional office.

APPENDIX

Voluntary Merger

- A voluntary merger **(Voluntary mergers may meet NCUA's supervisory classification.)** is initiated by a credit union's board of directors. The selection of the continuing credit union partner is made by the acquired credit union's board of directors, subject to NCUA approval.
- All of the credit union's assets, shares, liabilities, contracts, field of membership, intangibles, off balance sheet items, etc. transfer to a continuing credit union.
- Continuing credit union service to the credit union's membership is maintained (e.g. the field of membership is either transferred to the continuing credit union or the continuing credit union already services the transferring field of membership).

Unassisted Supervisory Merger

- An unassisted supervisory merger **(Unassisted supervisory mergers may meet either NCUA's emergency or supervisory classification.**) is processed without assistance from the NCUSIF.
- An unassisted supervisory merger is initiated by a credit union's board of directors or NCUA pursuant to Part 702, Prompt Corrective Action of NCUA Rules and Regulations. The selection of the continuing credit union partner resides primarily with the acquired credit union's board of directors, subject to NCUA approval.

- All of the credit union's assets, shares, liabilities, contracts, field of membership, intangibles, off balance sheet items, etc. transfer to a continuing credit union.
- Continuing credit union service to the credit union's membership is maintained (e.g. the field of membership is either transferred to the continuing credit union or the continuing credit union already services the transferring field of membership).

<u>Assisted Merger</u>

- An assisted merger **(Assisted mergers may meet either NCUA's emergency or supervisory classification.)** generally involves assistance from the NCUSIF and/or NCUA waiving the membership vote.
- An assisted merger is initiated by a credit union's board of directors, NCUA, or the respective SSA. If financial assistance is required by the NCUSIF to consummate the merger, NCUA selects the acquired credit union's continuing credit union partner. If financial assistance is not requested and only a waiver of the membership vote is requested, the selection of the continuing credit union partner will reside solely with the acquired credit union's board of directors.
- All of the credit union's assets, shares, liabilities, contracts, field of membership, intangibles, off balance sheet items, etc. transfer to a continuing credit union.
- Continuing credit union service to the credit union's membership is maintained (e.g. the field of membership is either transferred to the continuing credit union or the continuing credit union already services the transferring field of membership).

<u>Voluntary Liquidation</u>

- Action initiated by a credit union's board of directors to dissolve the credit union.
- None of the credit union's assets, shares, liabilities, contracts, field of membership, etc. are transferred to a continuing credit union.
- The credit union's charter is cancelled when its liquidating agent has dissolved and/or resolved all of the credit union's affairs and matters.
- Continued credit union service to the credit union's membership is lost (e.g. the field of membership is not transferred).

<u>Involuntary Liquidation</u>

- Action initiated by NCUA or the respective SSA when the credit union is insolvent or pursuant to NCUA Rules and Regulations, Section 702.204, Prompt Corrective Action.
- All of the credit union's assets, shares, liabilities, contracts, etc. are transferred to NCUA for final disposition.
- The credit union's charter is cancelled upon NCUA dissolving and/or resolving all the credit union's affairs and matters.
- Continued credit union service to the credit union's membership is lost (e.g. the field of membership is not transferred).

<u>Purchase and Assumption</u>

- Before a failing credit union can be purchased and assumed, it must first be placed into involuntary liquidation by NCUA or the respective SSA. No credit union board exists in liquidation. Therefore, further action must be initiated by NCUA or the respective SSA.
- A P&A **(P&As, by definition, generally meet NCUA's emergency classification; however, NCUA's supervisory classification does not apply to P&As.**) can be processed "at no cost" to the NCUSIF, and is generally requested by a continuing credit union when a merger is not desirable, as a continuing credit union might not desire to have all assets, shares, liabilities, contracts, field of membership, off balance sheet items (e.g. lawsuits, bond claims) transferred.
- Continuing service to the credit union's membership is maintained if the continuing credit union requests it (e.g. the field of membership is either transferred to the continuing credit union or the continuing credit

union already services the transferring field of membership). Otherwise, only members of record are transferred.

Sincerely – Deborah Matz, Chairman

R E G U L A T O R Y   A L E R T

NATIONAL CREDIT UNION ADMINISTRATION
1775 DUKE STREET, ALEXANDRIA, VA 22314

DATE:	**June 2010 NO:**	**10-RA-08**
TO:	**Federally Insured Credit Unions**	
SUBJ:	**Unlawful Internet Gambling Enforcement Act of 2006**	
ENCL:	**UIGEA Final Interagency Guidance Overview with Attachments**	

Dear Board of Directors,
This Regulatory Alert is being issued to share interagency guidance developed for reviewing compliance with the joint rule promulgated by the Department of Treasury (Treasury) and the Federal Reserve Board pursuant to the Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA or Act). **(*Federal Register*, 73 FR 69382, November 18, 2008)** Compliance requirements of the joint rule are effective June 1, 2010. This guidance provides an overview of UIGEA and the joint rule, a summary chart of the obligations of participants, and examination procedures.
1 *Federal Register*, 73 FR 69382, November 18, 2008
UIGEA prohibits gambling businesses from knowingly accepting payments in connection with the participation of another person in a bet or wager that involves the use of the Internet and that is unlawful under any federal or state law.
The joint rule requires certain participants in five designated payment systems to establish policies and procedures that are reasonably designed to identify and block or otherwise prevent or prohibit restricted transactions.
Credit unions with any of these designated payment systems are required to establish and perform due diligence steps outlined in UIGEA on their commercial accounts:

- Automated clearing house (ACH) systems;
- Card systems;
- Check collection systems;
- Money transmitting businesses; and,
- Wire transfer systems.

In addition, the rule provides examples of acceptable policies and procedures. The examples are not the only means of complying with the rule, but they provide a safe harbor for participants in the designated payment systems. The rule focuses on due diligence to be conducted by financial institutions and third-party processors in establishing and maintaining commercial accounts.

If you have any questions regarding this guidance, please contact your district examiner, regional office, or state supervisory authority.

Sincerely – Deborah Matz, Chairman

R E G U L A T O R Y   A L E R T

NATIONAL CREDIT UNION ADMINISTRATION
1775 DUKE STREET, ALEXANDRIA, VA 22314

DATE:	**July 2010**	**NO: 10-RA-09**
TO:	**Federally Insured Credit Unions**	

SUBJ: **Guidance on Filing Suspicious Activity Reports Regarding Home Equity Conversion Mortgage Fraud Schemes**

Dear Board of Directors,
This Regulatory Alert provides you with resources to detect fraud schemes that are stripping consumers of their home equity. In the current economic environment, the ability of long-term homeowners to access existing home equity quickly through reverse mortgages may make them vulnerable to predators committing financial fraud. Law enforcement has identified new schemes where family members, loan officers, and others effectively steal money from senior citizens in home equity fraud schemes.

The Financial Crimes Enforcement Network (FinCEN) recently issued an advisory to highlight reverse-mortgage fraud schemes potentially related to the Federal Housing Administration (FHA) Home Equity Conversion Mortgage (HECM) program. This advisory is intended to empower financial institutions to better assist law enforcement when filing Suspicious Activity Reports (SARs).

Please make sure to review the examples of common fraud schemes and potential "red flags" for fraudulent activity related to home equity.

Credit union activities may intersect with these reverse-mortgage fraud schemes in the following ways:

- HECMs are available only through FHA-approved lenders. HECM originators, sponsors, and servicers collect or have access to HECM loan files, which include copies of deeds, appraisals, bank statements, or proof of down payments;
- Persons or entities perpetrating HECM fraud schemes may seek the services of credit unions for the purpose of receiving, depositing or moving funds relating to the scams; and Credit unions may become aware of such scams through their interactions with members who have become victims.

In order to assist law enforcement in efforts to target this fraudulent activity, FinCEN requests that credit unions:

- Include the specific term "HECM" in the narrative portions of all relevant SARs filed; and
- In the Suspect/Subject Information Section of the SAR, include all information available for each party suspected of engaging in this fraudulent activity. This information should include the individual or company name, address, phone number, and any other identifying information.

In many cases, a senior homeowner is a victim of the scam and therefore should not be listed as a suspect. However, a homeowner can be listed as a suspect if there is reason to believe the homeowner knowingly participated in the fraudulent activity.

Where the homeowner is simply a victim of the scam, including all available information in the narrative portion of the SAR about the homeowner and his or her property will assist law enforcement in investigating these potential crimes.

You can use the following link to view a complete copy of FIN-2010-A005:
http://fincen.gov/statutes_regs/guidance/pdf/fin-2010-a005.pdf.

If you have any questions regarding this Regulatory Alert or FIN-2010-A005, please contact your district examiner, regional office, or state supervisory authority.

Sincerely – Deborah Matz, Chairman

R E G U L A T O R Y   A L E R T

NATIONAL CREDIT UNION ADMINISTRATION
1775 DUKE STREET, ALEXANDRIA, VA 22314

DATE: **July 2010** **NO: 10-RA-10**

TO: **Federally Insured Credit Unions**
SUBJECT: **Potential Risks of Property Assessed Clean Energy Loans**

Dear Board of Directors:
The purpose of this Regulatory Alert is to advise you of potential risks associated with certain energy retrofit lending programs, commonly known as Property Assessed Clean Energy (PACE) loans, which are available in many states.

Background
In an effort to advance public policy objectives relative to the environment, many states offer PACE loan programs to encourage owners to make building improvements that will increase energy efficiency. Under many programs, PACE loans receive status as a priority lien over previously existing mortgages.

The Federal Housing Finance Agency (FHFA) issued a statement on July 6, 2010 cautioning lenders of the potential for certain PACE loan programs to adversely affect a lender's security interest in collateral securing residential and commercial mortgages. FHFA's statement, in its entirety, is available on the Internet at the following link:

http://www.fhfa.gov/webfiles/15884/PACESTMT7610.pdf

Potential Safety and Soundness Concerns
FHFA found that in the absence of a sound control structure, certain PACE loan programs could usurp a lender's senior lien position on a mortgage, undermine the underwriting decisions made by the lender at the time of mortgage origination, and bypass consumer protections required prior to the extension of credit.

In addition to potentially affecting loans held in your credit union's portfolio, certain PACE loan programs could also adversely affect earnings and liquidity based upon factors such as:

- When a PACE loan could overtake the original mortgagor's superior lien position, the mortgage could become more difficult to sell to government-sponsored enterprises or private investors; and

- The superior lien position afforded to many PACE loans could diminish the value of certain mortgage-backed securities.

Potential Adjustments
It is imperative that you understand the implications of the PACE loan programs available in your credit union's service area. If the PACE loans available in your credit union's service area present potential safety and soundness concerns, management should make appropriate adjustments to the credit union's underwriting criteria and collateral monitoring practices. Some examples of potential adjustments include:

- Reducing real estate loan-to-value limits to account for the extent a PACE loan could undermine an original superior position;
- Considering the impact PACE loan payments could have on a borrower's ability to repay during the underwriting process;
- Adjusting home equity line of credit limits; and
- Requiring additional collateral when appropriate.

If you have questions concerning the potential safety and soundness concerns relative to PACE loan programs, please do not hesitate to contact your NCUA regional office or state supervisory authority.

Sincerely – Deborah Matz, Chairman

JEFFERSON COUNTY FEDERAL CREDIT UNION
Statement of Financial Condition -- June 2010

ASSETS

LOANS	39,033,708.71
ASSETS IN LIQUIDATION OF LOANS - RE	0.00
ASSETS IN LIQUIDATION OF LOANS - AU	0.00
REAL ESTATE LOANS - TECUMSEH	62,393.89
TOTAL LOANS TO MEMBERS	39,096,102.60
ALLOW. FOR LOAN LOSSES	(398,814.29)
ALLOW. FOR OVERDRAFT LOSSES	(516.93)
NET LOANS	**38,696,771.38**
FIFTH THIRD	309,196.67
VAULT CASH	715,532.19
CHANGE FUND - ATM MACHINE	68,120.00
PETTY CASH	50.00
CASH TOTAL	**1,092,898.86**
KENTUCKY CORPORATE FCU	22,149,097.70
FEDERAL HOME LOAN BANK OF CINCINNATI	147,434.31
DEPOSITS - OTHER FINANCIAL INSTITUTIONS	33,068,000.00
SHARE ONE CUSO INVESTMENT	100,000.00
LOAN TO CUCKY	0.00
457 DEFERRED COMPENSATION ASSET	16,663.00
TOTAL INVESTMENTS	**55,481,195.01**
ACCRUED INTEREST - LOANS	164,810.31
OTHER ACCRUED INCOME	0.00
TOTAL ACCRUED INCOME	**164,810.31**
PREPAID & DEFERRED EXPENSES	80,470.93
TOTAL PREPAID & DEFERRED	**80,470.93**
LAND - MAIN & OUTER LOOP OFFICE	448,100.00
BUILDING - MAIN & OUTER LOOP OFFICE	1,547,029.32
IMPROVEMENTS - MAIN OFFICE	915.40
IMPROVEMENTS - BRANCH 1	807.71
IMPROVEMENTS - BRANCH 2	0.00
IMPROVEMENTS - BRANCH 3	0.00
IMPROVEMENTS - BRANCH 4	0.00
ACCUM. DEPR. - MAIN & OUTER LOOP OFFICE	(567,324.25)
FURNITURE & EQUIPMENT	40,931.82
COMPUTER EQUIPMENT	23,013.79
TOTAL FIXED ASSETS	**1,493,473.79**
ACCOUNTS RECEIVABLE	0.00
DEFERRED COMPENSATION	944,990.98
CAPITAL DEPOSIT - CUCKY	70,124.00
DEPOSIT - NCUSIF	800,792.92
TOTAL OTHER ASSETS	**1,815,907.90**
TOTAL ASSETS	**98,825,528.18**

LIABILITIES

ACCOUNTS PAYABLE	3,233.09
MONEY ORDERS	5,015.12
TRAVELERS CHECKS	0.00
AMUSEMENT PARK TICKETS	3,637.75
KYCUPAC - FROM MEMBERS	0.00
DEATH CLAIMS	212,404.24
EMPLOYEE 401(K) PLAN	0.08
INSURANCE COMPANIES	7,755.51
FLOOD DETERMINATION	60.00
RECORDING FEES - CLERK	274.00
ATTORNEY FEES	11,350.00
APPRAISALS	(1,625.00)
TOTAL ACCOUNTS PAYABLE	**242,104.79**
DIVIDENDS PAYABLE	**6,612.54**
457 DEFERRED COMPENSATION LIABILITY	**16,663.00**
FEDERAL TAXES	0.00
KENTUCKY STATE TAXES	0.00
FEDERAL & STATE UNEMPLOY.	0.00
OCCUPATIONAL TAXES	9.92
TAXES HELD ON DIVIDENDS	1,722.15
ACCRUED PROPERTY TAXES	12,000.00
PENALTIES ON PREMATURE IRA DISTR.	0.00
TOTAL TAXES PAYABLE	**13,732.07**
ACCRUED EXPENSES	243,590.50
TOTAL ACCRUED EXPENSES	**243,590.50**
ACCRUED NCUSIF STABILIZATION EXPENSE	**108,955.38**
UNAPPLIED EXCEPTIONS	**20,730.38**
TOTAL LIABILITIES	**652,388.66**

CAPITAL

REGULAR SHARE ACCOUNTS	19,733,000.83
CLUB ACCOUNTS	970,046.39
SHARE DRAFT ACCOUNTS	5,194,689.46
CASH INVESTMENT ACCOUNTS	29,864,466.06
CORPORATE CASH INVESTMENT	2,778,290.51
REWARDS CHECKING	1,772,589.11
IRA - ACCUMULATION ACCOUNTS	1,502,540.42
CERTIFICATES - REGULAR	18,764,738.21
CERTIFICATES - IRA	4,508,896.37
CERTIFICATES - TOTAL	23,273,634.58
TOTAL SHARES	**85,089,257.36**
REGULAR RESERVE	1,901,148.19
RESERVE FOR CONTING.	0.00
UNDIVIDED EARNINGS	11,068,235.07
NET INCOME	114,498.90
TOTAL CAPITAL	**98,173,139.52**
TOTAL CAPITAL & LIABILITIES	**98,825,528.18**

Jefferson County Federal Credit Union
BUDGET REVIEW
June 30, 2010

	ACTUAL CURRENT	BUDGETED CURRENT	ACTUAL Y-T-D	BUDGETED Y-T-D	DIFFERENCE Y-T-D	PERCENT INCOME
I N C O M E						
INTEREST ON LOANS	227,121.50	235,922.00	1,390,696.15	1,400,930.00	(10,233.85)	61.59%
INVESTMENTS	37,275.79	57,217.00	231,522.52	335,601.00	(104,078.48)	10.11%
INTEREST ON CLF CU SIP	0.00	0.00	27,502.01	0.00	27,502.01	0.00%
INSURANCE REIMB.	12,248.87	7,500.00	53,361.60	45,000.00	8,361.60	3.32%
MO & CHK FEE	431.00	425.00	2,561.50	2,550.00	11.50	0.12%
OVERDRAFT FEE	63,162.16	60,000.00	349,174.08	360,000.00	(10,825.92)	17.13%
WIRE TRANS. & CMO	320.00	250.00	1,592.50	1,500.00	92.50	0.09%
LOAN LATE FEE	4,507.55	4,800.00	29,646.49	28,800.00	846.49	1.22%
ATM SURCHARGE FEES	621.00	375.00	3,274.50	2,250.00	1,024.50	0.17%
SHARE DRAFT & ATM	1,536.78	1,900.00	10,085.79	11,400.00	(1,314.21)	0.42%
MISCELLANEOUS INC.	2,226.48	1,350.00	8,613.52	8,100.00	513.52	0.60%
LOCK BOX FEE	350.00	200.00	1,120.00	1,200.00	(80.00)	0.09%
ATM TRANSACTION FEE	779.00	575.00	3,468.00	3,450.00	18.00	0.21%
LOAN APPLICATION FEE	175.00	250.00	1,150.00	1,500.00	(350.00)	0.05%
MEMBERSHIP FEE	580.00	475.00	3,475.00	2,850.00	625.00	0.16%
C-CARD INCOME	1,062.43	250.00	4,541.88	1,500.00	3,041.88	0.29%
D-CARD INTERCHANGE	16,366.08	14,750.00	93,647.82	87,500.00	6,147.82	4.44%
TOTAL INCOME	**368,763.64**	**386,239.00**	**2,215,433.36**	**2,294,131.00**	**(78,697.64)**	**100.00%**
E X P E N S E S						
SALARIES - REGULAR	79,364.46	80,461.00	509,242.85	521,293.00	(12,050.15)	21.52%
SALARIES - OVERTIME	161.96	632.00	650.19	2,966.00	(2,315.81)	0.04%
CONTRACT EMPLOY.	0.00	300.00	0.00	1,800.00	(1,800.00)	0.00%
401K COSTS	3,598.46	3,487.00	22,323.43	22,543.00	(219.57)	0.98%
SOCIAL SECURITY TAX	6,324.63	6,203.00	39,458.36	40,106.00	(647.64)	1.72%
UNEMPLOYMENT TAX	13.34	480.00	4,820.46	2,880.00	1,940.46	0.00%
STAFF INSURANCE	13,631.92	13,700.00	79,855.15	82,200.00	(2,344.85)	3.70%
LOCAL TRAVEL	514.00	600.00	3,619.38	3,600.00	19.38	0.14%
VEHICLE MAINTENANCE	405.33	400.00	1,860.74	2,400.00	(539.26)	0.11%
OUT OF TOWN TRAVEL	835.00	725.00	835.00	4,350.00	(3,515.00)	0.23%
BOARD MEETING EXP.	440.37	1,065.00	3,336.54	6,390.00	(3,053.46)	0.12%
ASSOC. DUES & SUBSCR.	1,796.97	2,226.00	11,528.08	13,356.00	(1,827.92)	0.49%
OFFICE OCCUP. EXP.	12,379.22	14,929.00	82,911.46	94,622.00	(11,710.54)	3.36%
BLDG.-LAND IMPROV.	215.21	416.00	1,291.26	2,496.00	(1,204.74)	0.06%
TELEPHONE EXPENSE	1,694.77	1,804.00	10,272.94	10,824.00	(551.06)	0.46%
POSTAGE	5,990.88	5,375.00	31,984.03	31,950.00	34.03	1.62%
MAINT. OF EQUIP.	774.05	1,109.00	7,680.08	6,666.00	1,014.08	0.21%
STATIONARY & SUPP.	2,549.80	2,100.00	9,451.82	12,600.00	(3,148.18)	0.69%
INSURANCE	2,841.71	2,924.00	16,866.00	17,544.00	(678.00)	0.77%
DEPRECIATION - FURN.	2,547.70	2,605.00	16,718.63	17,062.00	(343.37)	0.69%
BANK SERVICE CHARGE	23,748.39	25,597.00	133,680.98	152,422.00	(18,741.02)	6.44%
COMPUTER EXPENSE	16,562.24	17,434.00	100,039.86	104,714.00	(4,674.14)	4.49%
EDUCATIONAL & PROM.	7,423.00	6,397.00	34,666.00	38,382.00	(3,716.00)	2.01%
LOAN SERVICING EXP.	7,747.04	8,295.00	34,033.52	49,370.00	(15,336.48)	2.10%
PROF. & OUTSIDE EXP.	10,771.40	9,635.00	56,262.61	57,675.00	(1,412.39)	2.92%
FEDERAL SUPERVISION	1,881.59	1,740.00	11,006.36	10,440.00	566.36	0.51%
NCUSIF INS. PREM.	(82,196.38)	26,759.00	51,598.62	160,554.00	(108,955.38)	-22.29%
NCUSIF STABILIZATION EXPENSE	108,955.38	0.00	108,955.38	0.00	108,955.38	29.55%
CASH OVER & SHORT	21.20	100.00	225.82	600.00	(374.18)	0.01%
COST-BORROWED FUND	0.00	0.00	20,309.82	0.00	20,309.82	0.00%
ANNUAL MEETING EXP.	700.00	700.00	4,584.54	4,200.00	384.54	0.19%
MISCELLANEOUS EXP.	2,240.27	3,875.00	6,642.75	23,250.00	(16,607.25)	0.61%
TOTAL OPER. EXP.	**233,933.91**	**242,073.00**	**1,416,712.66**	**1,499,255.00**	**(82,542.34)**	**63.44%**
ALLOWANCE - LOAN LOSS	(182.00)	20,000.00	89,818.00	120,000.00	(30,182.00)	-0.05%
ALLOWANCE - OVERDRAFT LOSS	(150.00)	75.00	(1,032.00)	450.00	(1,482.00)	-0.04%
DIVIDENDS	88,203.50	83,440.00	548,481.61	495,709.00	52,772.61	23.92%
(GAIN)LOSS ON INVESTMENTS	0.00	0.00	(4,460.00)	0.00	(4,460.00)	0.00%
(GAIN)LOSS ON INVESTMENTS- KY CORI	0.00	0.00	51,414.19	0.00	51,414.19	0.00%
OTHER NON OPERATING EXPENSE (INC)	0.00	0.00	0.00	0.00	0.00	0.00%
TOTAL EXPENSES	**321,805.41**	**345,588.00**	**2,100,934.46**	**2,115,414.00**	**(14,479.54)**	**87.27%**
NET INCOME	**46,958.23**	**40,651.00**	**114,498.90**	**178,717.00**	**(64,218.10)**	**12.73%**

PRESIDENT'S REPORT July 28, 2010

STATISTICAL REPORTS

Key Ratios, Operating Statistics, Delinquency, Loan Losses, Loan Officer Report, Suspicious Activity, and Long Term Assets, Monthly Comparison are attached for your review monthly. Delinquency Analysis, ALLL Analysis, and Doubtful Loans are available quarterly. GAP, Cash Flow, Rate Shocks, other ALM reports are available semi annually.

FINANCIAL SUMMARY FOR THE MONTH

There was an increase in deposits from the previous month of $392,000 leaving an increase of $3,721,000 year to date. Loan volume for the month showed an increase of $285,000 and net loans showed a decrease of $441,000 leaving a decrease of $167,000 year to date. We will continue to closely monitor the competition and the overall operation for additional adjustments to dividend and income to benefit the members. Our bottom line was $46,958 or $9,000 above budget. Our ROA was .24%. We would be at .34% without the NCUA/KCFCU mandated write off in March. Also bear in mind we are accruing $26,759 out of our bottom line monthly ($160,554 YTD) for the NCUSIF stabilization amount paid this month and the additional premium payable in September.

LOAN LOSSES FOR YOUR REVIEW – (SEE ATTACHED REPORT FOR DETAIL)

As of 07-15-10	5	16,564.45
As of 08-15-10		
As of 09-15-10		
TOTAL	**5**	**16,564.45**

LENDING ACTIVITY

NONE

INVESTMENT ACTIVITY

CD Purchases - June 2010

DATE	AMOUNT	TERM	RATE	INSTITUTION	CITY	ST	CODE
06/01/10	100,000	7	0.47%	KCFCU			
	100,000	8	0.49%	KCFCU			
	100,000	9	0.54%	KCFCU			
	100,000	10	0.55%	KCFCU			
	100,000	11	0.56%	KCFCU			
	100,000	12	0.57%	KCFCU			
06/03/10	248,000	6	0.42%	FINANCIAL ONE CREDIT UNION	COLUMBIA HEIGHT	MN	3
	100,000	6	0.42%	JEFFERSON FINANCIAL	METAIRIE	LA	3
06/16/10	99,000	6	0.42%	THE BANK OF KREMLIN	KREMLIN	OK	1
	99,000	12	0.65%	THE BANK OF KREMLIN	KREMLIN	OK	1
	100,000	11	0.49%	KCFCU			
	100,000	12	0.51%	KCFCU			
06/17/10	50,000	12	0.65%	THE BANK OF KREMLIN	KREMLIN	OK	1
06/22/10	100,000	8	0.44%	KCFCU			
	100,000	9	0.46%	KCFCU			
	100,000	10	0.48%	KCFCU			
	100,000	11	0.49%	KCFCU			
	100,000	12	0.51%	KCFCU			
06/23/10	100,000	10	0.50%	VISION ONE CREDIT UNION	SACRAMENTO	CA	2
06/28/10	100,000	10	0.47%	KCFCU			
	100,000	11	0.48%	KCFCU			

	100,000	12	0.49%	KCFCU			
06/30/10	99,000	18	0.72%	JOHNSON BANK	RACINE	WI	2
	99,000	24	1.10%	JOHNSON BANK	RACINE	WI	2
	149,000	24	0.95%	GE CAPITAL FINANCIAL	SALT LAKE CITY	UT	2
TOTAL	**2,643,000**	**11**	**0.55%**	**25**			

INVESTMENT ACTIVITY – FAILED BANKS

	AMOUNT	BANK	DATE	DISPOSISTION
1.	None			

LOAN INTEREST PAYMENT ACTIVITY

Date	Account	Mail Name	Sfx	Description	Amount	Balance	Description
06/07/2010	712870	Tiffany Ann Devine	6	1st Mortgage	$459.49	$100,509.11	Int. Pay For June
06/02/2010	871180	Taletha R. Wright	1	2001 Chevrol	$89.88	$10,559.65	Int. Pay For June
06/30/2010	887290	Danesia L. Hodges	1	2006 Mercede	$201.71	$16,289.51	Int. Pay For June
06/04/2010	888400	Debbie J. Brady	1	Unsecured CE	$52.45	$3,525.25	Int. Pay For June
06/04/2010	830540	Melissa Sue Allen	5	Unsecured OE	$49.29	$4,998.87	Int. Pay For June
					$852.82	$135,882.39	5 Total

REAL ESTATE PROBLEM LOANS

Acct. #	Name	Address	Zip	Balance	Appraisal	Year	Pamt.	P-Due
1. 852730	**Townsend, K.**	**1218 W. Woodlawn**	**40215**	**$24,142**	**$84,500**	**05-06**	**$244**	**$0**

(See prior reports). Member paid 04-15 which was the fourth consecutive monthly payment. The account was re-aged and she has paid monthly since. She last paid us 06-22-10 & has not paid July yet.

2. 857110	**Kiper, E.**	**11121 Success Ln.**	**40229**	**$21,190**	**$150,000**	**09-06**	**$224**	**$0**

First mortgage is PNC. We were served 03-10-10. We found out 06-11-10 that they have a sale date set for 08-31-10. He owes them $78,094.61 with interest of $4,625 from 9-1-2008 and legal – about $91,000. Our loan is current and being paid AA. Member told us in March he had this problem worked out. Member still states he will pay up and stop foreclosure 06-14-10. I did a ride by last Tuesday and the property appears to be in good shape other than the grass needs cutting. 07-08-10 member paid first mortgage holder and stopped foreclosure. We verified with our counsel.

3. 644250	**Cook, D.**	**5814 Dell Rose Dr.**	**40258**	**$12,139**	**$108,000**	**07-08**	**$304**	**$0**

First mortgage is Citibank. We were served 05-26-10. He owes them $67,845 with interest of $2,100 from 1-1-2010 and legal – about $73,000. Member was told to pay us a minimum of 2 payments on each loan monthly and get 1st mortgage straight to avoid foreclosure. He owes us $4,500 on an unsecured loan too. I did a ride by last Thursday and the property appears to be in decent shape other than the grass needs cutting. He has been told to pay a minimum of two installments per month on both of our loans to stop us from joining the foreclosure. 07-16-10 our loans paid current and wee verified he has made arrangements with Citi.

4. 776620	**Wildt, S.**	**8207 Damascus Cr.**	**40228**	**$43,103**	**$64,000**	**09-01**	**$330**	**$330**
				7,780	**72,000**	**10-04**	**$156**	**$156**

First mortgage is ours via CU Cannels. Second is on our books here. She and husband bought a new home last fall and put this one on the market. It has not sold. She was very ambivalent to Don 07-02-10 about the debt and not being able to afford the payment. Her reply to Don was "Sorry about your luck." She has convinced the folks at CU Channels she is worth working with. Evidently she has forgotten that both debts belong to us. I did a ride by 07-06-10 and the property appears to be in good shape but is not the best house on the street. We told CU Channels to remind her that both debts were ours and the arrearages need to me cleared up immediately or we would initiate foreclosure on both. 07-08 she paid one interest payment on our local loan. She is to pay one CU Channel payment 07-22 and is trying to arrange a short sale with a willing buyer.

CHECK REGISTER & ACH DEDUCTIONS

The report is attached for your review.

SUSPICIOUS ACTIVITY REPORTS (SARS) – June 2010

1 For $674.00

COMMENT CARDS

None

RECONCILIATIONS

All accounts are current and correct.

President - Page 2 of 4

SAFE LANDING AND OVERDRAFT LOAN CHARGE OFF FOR – June 2010

None

THE ONE CU & WOCCU CONFERENCES

This joint conference was very informative. The speakers for the most part were knowledgeable, entertaining and thought provoking. I came away with some good ideas. The net working opportunities were great as well.

NCUA EXAMINATION

My email to Keith, his response and the NCUA letter he cited. He cited 10-CU-01 but the correct letter was 10-CU-02.

SYSTEM WIDE TRANSACTIONS – Semi Annual Review and Staff Recommendations

Please review the report attached on a separate form. Please keep this information confidential until a decision has been finalized and the staff involved can be notified in the proper manner. We are looking for suggestions or observations from your perspectives that may tell us why the numbers are down and what we could do to change that. I am not concerned about Info Teller as we expect that to go down. Shared branch going down actually saves us money and poses no particular concern to me. Management staff has analyzed all aspects of the branch operations and met twice to discuss this dilemma. The next paragraph summarizes the findings. Absent any better ideas from you all we offer the suggestions listed below that.

The spread sheet shows the branch activity for first 6 months of this year vs. the same time in 2009. I have some real concern about DT as always but feel like a change is needed quickly at UR. The middle section details UR transactions for June. Basically they are down 30% in total and 55% of the deposits have an average balance of < $257 and 28% of the withdrawals have an average balance of < $270. So basically, 73% of our human resources complete transactions that could be done by an ATM. Actually 47% of the total transactions have an average balance of $50 which would not actually support the cost of an ATM. There are other ATMs in the area now that we only have to pay the per transaction cost for. Our average cash order is down $10K as well which has resulted in the limit being adjusted down. This office was not near capacity for two employees with the 2009 transaction level and obviously has deteriorated drastically.

UR – Pull MSR out and send to HV. Make this location a one person office that is open from (Mon – Thu 9 to 4:30 and Fri 9 to 5:30). The Friday night hour can be touted as a service increase for that branch in return for the staff reduction and lunch hour inconvenience. After reviewing video and transaction reports there is minimal action between 8:30 and 9:00 AM. It will be necessary to close from 1:00 to 1:30 daily for lunch and use a temporary out sign (Be Back in Ten Minutes) when staff person needs a personal break. For you long timers you will recall that when we initially opened this office in the late 80’s it was for two (½ days per week) and was increased as Jefferson County government and other agencies put people in the buildings. Metro government has moved many out of the buildings. Our best and current information is that there is no legitimate information source to advise us if any replacements from other areas will come or when. Since this is not a free standing location security is not a concern with the individual being alone. There are other people in the building during the hours listed above as well as security less than 100’ away. If the situation continues to worsen we may want to consider closing the branch or pursue our much discussed concept of combing it with DT and open one new one to replace two underutilized locations.

HV – Even though numbers are down management believes numbers would pick up if we had more help there. If we are going to waste HR $ let’s try to build business at a busier, more centrally located, and better equipped branch before we permanently eliminate staff. When one person stops to give another person currency both are unavailable to take care of members. We have increased back drawer limits but that did not help very much especially during busy times that rapidly deplete currency supplies. Also one person is off of the counter to balance the ATM daily as well as verifying cash deliveries weekly. We also have the drive thru lanes and other ATM problems to deal with at that location like paper and dispenser jams. Obviously lunch hours takes a person off of the line too. This addition should ensure that one teller line is open any time we are.

DT – The writing seems to be on the wall for consideration of a change similar to what we are looking to do at UR. We will review monthly and keep you updated. The dollar volume there is skewed by large deposits from the Mapother firm.

FOR YOUR INFORMATION

✓ **The probability that the U.S. will be in recession six months from now increased--for the first time since February--by four percentage points to 27% in June (Moody's *Economy.com* July 19).** The economy has distinctly weakened--with the most prominent signs in the housing, manufacturing and retail sectors. Job market improvements have leveled off, and conditions in the financial market are less suited for growth, Moody's said. Also, second-quarter growth was less than expected with real gross domestic product tracking closer to 2% at an annualized rate than the 3% Moody's had forecast. With the economy still vulnerable during the next few months, and growth anticipated to be below the economy's potential, this could move the unemployment rate back toward 10%, Moody's said.

✓ **FICO figures show that millions of Americans' credit scores are dropping to unprecedented lows (*USA Today* July 12). FICO said 25.5% of consumers--nearly 43.4 million people--have a credit score of 599 or lower,** designating them as poor risks for lenders. With the tighter lending standards banks currently use, it's unlikely consumers below that level will be able to obtain auto loans, credit cards or mortgages, the newspaper said. FICO's findings indicate an increase of roughly 2.4 million people in the lowest credit score categories during the past two years, the paper added. Consumer credit reports as of April provided the basis for the FICO analysis.

✓ **Six failed banks were taken over Friday by regulators** and have entered into purchase-and-assumption agreements with other banks, according to the Federal Deposit Insurance Corp. (FDIC). The failures bring the 2010 total for banks to 96, compared with 140 failures for all of 2009.

✓ **Most MasterCard issuers OK Heartland branch settlement** - PURCHASE, N.Y. (7/20/10)--More than 99% of MasterCard's issuers eligible for compensation from a data breach settlement with Heartland Payment Systems Inc. have approved the settlement agreement, said the card company Thursday. The $41.1 million settlement announced in May was related to a breach, disclosed in January 2009 but occurring the previous year, that exposed 130 million credit and debit cards. It was the largest breach in history and affected thousands of credit union members as well as consumers. (*News Now* May 21). The companies needed 80% of eligible MasterCard issuers to agree to accept an alternative recovery offer as part of the approval of the settlement. In January, Heartland agreed to pay up to $60 million to issuers of Visa-branded credit and debit cards (*News Now* Jan. 11). Earlier it entered settlements of $3.6 million with American Express and $2.4 million in a consumer cardholder class action suit (*News Now* Dec. 21 and Dec. 29). The MasterCard and Visa settlements require card issuers to waive rights to any other recovery for claims of losses related to the breach and its sponsoring bank acquirers through litigation and other remedies. When the settlement terms were announced in both the Visa and MasterCard cases, attorneys for a small group of credit unions and banks had indicated the settlement amounted to pennies on the dollar.

✓ **Matz: NCUSIF operating level should not drop below 1.2%** - ALEXANDRIA, Va. (7/23/10)—National Credit Union Administration (NCUA) Chairman Debbie Matz on Thursday said that she does not support reducing the normal operating level of the National Credit Union Share Insurance Fund (NCUSIF) below 1.2%. The Credit Union National Association (CUNA) also does not support setting the normal operating level below 1.2% but has recommended that the NCUA set the operating level below 1.3%. Setting the operating level below 1.2% would tip the equity level too far towards 1%, CUNA has said. Reducing the amount held in the fund to below 1% of insured shares would trigger replenishment. The NCUA expects to levy an assessment to rebuild the equity level of the NCUSIF, the amount in the fund over the 1% of insured shares, later this year. CUNA 's Chief Economist Bill Hampel has estimated that this assessment could be somewhere between five and 10 basis points (BP), bringing the total amount assessed by the NCUA, including the 0.134% of insured shares assessed this month for the corporate credit union stabilization program, **this year to between 18 and 23 BP of insured shares**. Mats on Thursday said that credit union losses will be a "key factor" in determining the assessments required for the NCUSIF. "If credit union losses are lower, credit union assessments will be lower," Matz added.

BUSINESS DEVELOPMENT & MARKETING

GE will report.

Respectfully Submitted,

Carl F. Hicks
President and CEO

June **STATISTICAL REPORT** **2010**

CATEGORY	Year End 2009	Prior Month	Current Month	Difference	Year-To-Date
Deposits	81,367,271	84,696,873	85,089,257	392,384	3,721,986
Regular CDs	18,487,598	18,498,390	18,764,738	266,348	277,140
IRA Cds	3,987,279	3,936,434	4,508,896	572,462	521,617
Total CDs	22,474,877	22,434,824	23,273,634	838,810	798,757
Loan Balance	39,263,225	39,538,089	39,096,103	(441,986)	(167,122)
Loans Made	16,371,386	692,680	977,996	285,316	6,361,153
Members	13,487	13,754	13,712	(42)	225
Accounts	22,515	22,720	22,643	(77)	128
Delinquent Percent	0.17%	0.29%	0.26%	-0.03%	0.09%
E-Statements	1,598	1,720	1,733	13	135
Bill Payer	1,263	1,318	1,331	13	68
Info-Teller Inquiries	171,642	13,221	13,499	278	79,995
Website Inquiries	430,156	32,395	33,599	1,204	204,992
HB -Members Used	2,623	2,720	2,764	44	141
Overdrawn Accounts	24,699	34,000	37,002	3,002	12,303
CIA - #	874	861	868	7	(6)
CIA - $	29,428,060	29,658,419	29,864,866	206,447	436,806
CCIA - #	39	48	47	(1)	8
CCIA - $	1,971,535	2,796,901	2,778,291	(18,610)	806,756
Rewards - #	170	161	157	(4)	(13)
Rewards - $	2,092,074	1,860,037	1,772,589	(87,448)	(319,485)
Rewards - Surcharge Ref.	1,921	181	142	(39)	999
Rewards - Cost	55,681	2,483	2,250	(233)	14,730
Regular Checking - #	4,536	4,439	4,414	(25)	(122)
Regular Checking - $	5,197,317	5,461,198	5,194,689	(266,509)	(2,628)
TOTAL CHECKING - #	5,619	5,509	5,486	(23)	(133)
TOTAL CHECKING - $	38,688,986	39,776,555	39,610,435	(166,120)	921,449
Trans - MO	55,723	3,556	4,246	690	26,423
Trans - HV	39,596	2,276	2,411	135	17,376
Trans - DT	28,954	1,114	1,272	158	11,226
Trans - UR	26,447	1,012	995	(17)	9,616
Trans - IN	40,434	1,822	1,744	(78)	17,324
Trans - INFO	11,939	863	894	31	5,189
Trans - HB	86,002	7,258	8,150	892	45,749
Trans - SB	46,958	3,596	3,837	241	22,678
Trans - Total YTD	336,053	21,497	23,549	2,052	155,581

DELINQUENCY	**Number**	**Balance**
2 - 5 Months	11	81,004
6 -11 Months	4	18,738
12 Months & Over	0	0
Total	**15**	**99,742**

Monthly Statistics - Year To Date Statistics - Key Ratios - 2010

Category	%	Y/E 2009	JAN	FEB	MAR	APR	MAY	JUNE	JUL	AUG	SEP	OCT	NOV	DEC	YTD
Assets		95,143,505	94,668,325	96,581,509	97,431,491	97,742,830	98,509,327	98,825,528							3,682,023
Deposits		81,367,271	80,741,585	82,606,057	83,573,449	84,041,065	84,696,873	85,089,257							3,721,986
Investment Balance		50,092,146	50,191,189	52,103,822	51,942,893	54,035,494	55,019,668	55,481,195							5,389,049
Cash Balance		1,135,441	550,341	779,657	930,984	714,353	800,794	1,092,899							(42,542)
Loan Balance		39,263,225	39,265,235	39,203,525	40,144,587	39,808,551	39,538,089	39,096,103							(167,122)
Loans Made		16,371,385	1,123,203	767,692	2,012,325	787,257	692,680	977,996							6,361,153
Members		13,487	13,473	13,497	13,729	13,762	13,754	13,712							225
Accounts		22,515	22,436	22,429	22,727	22,761	22,720	22,643							128
DEL - 2-5 Months		20,251	56,996	93,119	59,638	66,439	92,038	81,004							60,753
DEL - 6-11 Months		22,927	22,394	15,307	14,833	14,408	14,083	18,738							(4,189)
DEL - 12 Months & >		24,413	24,238	31,673	32,010	31,943	7,752	0							(24,413)
Delinquent Amount		67,591	103,628	140,099	106,481	112,790	113,873	99,742							32,151
Delinquent Percent	**< 1.30%**	0.17%	0.26%	0.36%	0.27%	0.28%	0.29%	0.26%							0.08%
Info-Teller		171,642	13,015	13,036	13,574	13,650	13,221	13,499							79,995
Website Inquiries		430,156	33,349	35,466	36,255	33,928	32,395	33,599							204,992
Bill Payer		1,263	1,272	1,284	1,300	1,306	1,318	1,331							68
E-Statements		1,598	1,619	1,641	1,670	1,696	1,720	1,733							135
Home Branch Access		2,623	2,695	2,682	2,806	2,739	2,720	2,764							2,764
Overdrawn Accounts		24,699	24,437	14,994	29,863	26,143	34,000	37,002							12,303
Share Bal. $5,000 & <		9,165,807	9,055,847	9,874,237	9,477,915	9,823,630	9,682,619	9,252,122							
INC - Loans YTD		2,789,863	236,724	448,133	695,515	925,934	1,163,575	1,390,696							
INC - Investments YTD		1,015,590	46,661	88,091	125,972	159,905	194,246	231,523							
INC - Other YTD		1,322,312	119,472	205,904	298,429	393,186	488,848	593,214							
INC - Total YTD		5,127,765	402,857	742,128	1,119,916	1,479,025	1,846,669	2,215,433							
EXP - ALLL YTD		275,211	20,000	40,000	60,000	60,000	90,000	89,818							
EXP - ALLL - OD YTD		(1,068)	75	150	(1,032)	(957)	(882)	(1,032)							
EXP - Dividend YTD		1,501,407	96,525	182,591	276,021	367,372	460,278	548,481							
EXP - Operating YTD		3,291,174	243,102	471,244	699,721	963,031	1,182,779	1,416,713							
EXP -(G)/L on Invest. YTD		(4,367)	0	0	0	(4,460)	(4,460)	(4,460)							
Other Non Operating (Inc)		(45,813)	0	0	51,414	51,414	51,414	51,414							-
EXP - Total YTD - $		5,016,544	359,702	693,985	1,086,124	1,436,400	1,779,129	2,100,934							
INC- NET- YTD		111,221	43,155	48,143	33,792	42,625	67,540	114,499							
Operating Exp. YTD - %	**< 5.00%**	2.82%	3.07%	2.96%	2.91%	2.99%	2.93%	2.91%							
Net Interest Margin / AA	**> 3.00%**	1.97%	2.36%	2.22%	2.27%	2.23%	2.22%	2.21%							
Return on Average Assets	**0.70%**	0.10%	0.55%	0.30%	0.14%	0.13%	0.17%	0.24%							
Net Worth - $		12,969,383	13,012,538	13,017,527	13,003,175	13,012,008	13,036,924	13,083,882							
Total Resv. / Curr. Assets	**> 9.00%**	10.79%	13.75%	13.48%	13.35%	13.31%	13.23%	13.24%							
Average Assets - $		93,925,569	94,905,915	95,624,917	96,227,108	96,606,039	96,986,696	97,293,168							
Net Charge Off - $		226,262	0	0	42,064	0	0	36,768							78,832
Net Charge Off / AA - %	**< .45%**	0.20%	0.00%	0.00%	0.04%	0.00%	0.00%	0.04%							0.08%
Long Term Assets - $		22,097,505	21,661,861	21,856,752	22,376,763	21,257,817	21,147,088	20,966,911							
Net Long Term Asset /A - %	**< 35.00%**	18.39%	22.88%	22.63%	22.97%	21.75%	21.47%	21.22%							
Total Loans / Assets - %	**< 90.00%**	32.68%	41.48%	40.59%	41.20%	40.73%	40.14%	39.56%							
Share Growth - %	**7.00%**	9.63%	-0.77%	1.52%	2.71%	3.29%	4.09%	4.57%							
Loan Growth - %	**4.00%**	4.62%	0.01%	-0.15%	2.24%	1.39%	0.70%	-0.43%							
CD Deposits - $		22,474,877	22,157,168	21,885,297	22,235,246	22,439,020	22,434,824	23,273,634							
Share Deposits - $		58,892,394	58,584,417	60,720,760	61,338,203	61,602,045	62,262,049	61,815,623							
Loan To Total Share - %		66.67%	67.02%	64.56%	65.45%	64.62%	63.50%	63.25%							
Loan To Total Deposit - %		48.25%	48.63%	47.46%	48.04%	47.37%	46.68%	45.95%							
Fixed Assets - $		1,546,175	1,537,523	1,528,410	1,520,064	1,511,665	1,502,541	1,493,474							
Fixed Assets - %	**< 5.00%**	1.29%	1.62%	1.58%	1.56%	1.55%	1.53%	1.51%							
CU-SIP ADJUSTMENTS		**Assets, Avg. Assets, Investments**	**Assets, Investments**		**NCUA - KCFCU W/O $51,414.19**										

ALM - REAL ESTATE LOAN BREAKDOWN June 2010

	Year	Count	Balance	Monthly Installments	Amount to Reprice In 3 Years
CU Channels		2	62,393.89		62,393.89
Variable Rate		22	454,538.94		454,538.94
Maturities of 3 Years & Less	2010-2013	42	486,566.99		486,566.99
Maturities of 4 Years	2014	27	625,747.84		625,747.84
Maturities of 5 Years	2015	21	572,795.21		572,795.21
Maturities of 6 Years	2016	22	938,252.45		938,252.45
Maturities of 7 Years	2017	20	656,292.53		656,292.53
Maturities of 8 Years	2018	44	1,814,429.73	25,377.94	456,802.92
Maturities of 9 Years	2019	25	977,866.28	11,950.65	215,111.70
Maturities of 10 Years	2020	29	1,499,740.55	17,719.33	318,947.94
Maturities of 11Years	2021	42	1,910,319.47	20,398.55	367,173.90
Maturities of 12Years	2022	49	2,928,946.27	29,368.36	528,630.48
Maturities of 13Years	2023	63	4,842,310.40	45,436.84	817,863.12
Maturities of 14Years	2024	69	5,066,070.79	44,989.84	809,817.12
Maturities of 15Years	2025	35	2,541,727.81	21,196.87	381,543.66
Maturities of 16-19 Years	2026				0.00
Maturities of > Than 20 Years					0.00
		512	**25,377,999.15**		**7,692,478.69**

Net Long Term Loans	**17,685,520.46**
Fixed Assets	**1,493,473.79**
NCUSIF Deposit	**800,792.92**
LLC	**500.00**
Deferred Compensation	**816,500.00**
CUSO Investments	**170,124.00**
Total Long Term Assets	**20,966,911.17**

LOAN OFFICERS REPORT 2010
JEFFERSON COUNTY FEDERAL CREDIT UNION

June , 2010

Loans Approved	***179***	***$926.255.63***
Credit Limits Approved **** includes updates & increases***	***7***	***$27,500.00***
Loans Disbursed	***186***	***$971,158.94***
Indirect Lending	***12***	***$179,768.39***
Equity Checks	***3***	***$23,726.00***
Tecumseh Mortgages	***0***	***$0.00***
Universal Approved Loans **(100% Real Estate Loans)**	***3***	***$85,819.97***
Requests Denied	***59***	***$691,463.58***

J. Kevin Lush ***July 2, 2010***

Preparer ***Date***

RECOMMENDED LOAN CHARGE OFF
THIRD QUARTER 2010

ACCOUNT NUMBER	MEMBER NAME	CURRENT BALANCE	LOAN SFX	LOAN TYPE	MDR	AUDR	DATE PAID	DATE DUE	MEMBER GROUP	LOAN OFFICER	Comments	REASON
714920	David Reynolds	$4,989.60	5	U	34%	34%	04/30/10	06/05/10	Miscellaneous	GSE	Unsecured - Paying In Plan	CH-13 Bankruptcy
756540	Leslie Oakes	$3,032.38	1	U	38%	46%	02/12/10	04/05/10	Louisville Metro	JKL	Mailing to ABL	Refuses To Pay
833030	Freddie West	$2,843.04	2	U	33%	34%	04/16/10	04/05/10	Unspecified	JKL	Mailing to ABL	Unemployed - RTP
844350	Heather Reynolds	$3,461.81	2	U	12%	12%	05/06/10	06/0/10	Place Of Residence	JKL	Unsecured - Paying In Plan	CH-13 Bankruptcy
700188852	Bridget Anson	$2,237.62	2	U	32%	35%	05/07/10	06/05/10	Census Bureau	JKL	Unsecured - Paying In Plan	CH-13 Bankruptcy
TOTALS	**For July**	**$16,564.45**		**5**								
TOTAL	**For August**	**$0.00**		**0**								
TOTAL	**For September**	**$0.00**		**0**								

TOTAL ACCOUNTS 5

TOTAL FOR QUARTER $16,564.45

CHARGE OFF BREAKDOWN	
Real Estate	$0.00
Auto	$0.00
Other	$0.00
Unsecured	$0.00
TOTAL	**$0.00**

PRIOR MO. MNR TOTALS*	
Real Estate	$0.00
Auto	$0.00
Other	$0.00
Unsecured	$0.00
TOTAL	**$0.00**

*Includes Tecumseh

SAR

June

2010

Suspicious Activity Report

DATE FILED	DATE(S) OF ACTIVITY			REASON FILED	DOLLAR AMOUNT
06/08/10	04/30/10	THRU	05/19/10	False Statement	$ 674.00

Total Activities =		**1**
Total Dollar Amount =	**$**	**674.00**

By:
Date:

Check	Amount	Date	Payable To:	Reason
10059	38.00	6/1/2010	JEFFERSON COUNTY CLERK	MORTGAGE RECORDING
10060	135.00	6/1/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
10061	300.00	6/2/2010	CRUSADE FOR CHILDREN	DONATIONS
10062	0.00	6/2/2010	STOP PAYMENT	
10063	5,420.81	6/2/2010	MINNESOTA MUTUAL	INSURANCE
10064	2,130.61	6/2/2010	DGU INSURANCE ASSOCIATES	GAP INSURANCE
10065	104.86	6/2/2010	PROFESSIONAL INSURANCE COMPANY	INSURANCE
10066	798.94	6/2/2010	TRANSAMERICA LIFE INSURANCE CO	INSURANCE
10067	135.00	6/2/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
10068	15.00	6/3/2010	CLARK COUNTY LICENSE BRANCH	LIEN RECORDING
10069	13.00	6/3/2010	SHELBY COUNTY CLERK	MORTGAGE RELEASE
10070	12.00	6/3/2010	FLOYD COUNTY RECORDER	MORTGAGE RELEASE
10071	12.00	6/3/2010	CLARK COUNTY RECORDER	MORTGAGE RELEASE
10072	84.00	6/3/2010	JEFFERSON COUNTY CLERK	MORTGAGE RELEASE
10073	70.22	6/3/2010	FIRST SERVICE GROUP	INSURANCE
10074	29,703.52	6/3/2010	THE ESTATE OF SHISHAK MOSHIA	DECEASED ACCOUNT
10075	22.00	6/3/2010	GRAYSON COUNTY CLERK	LIEN RECORDING
10076	685.25	6/4/2010	DIRECT RESPONSE SERVICES, INC	PROFESSIONAL/OUTSIDE
10077	63.09	6/4/2010	PATRICIA SHELDON	DECEASED ACCOUNT
10078	135.00	6/4/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
10079	32.00	6/4/2010	JEFFERSON COUNTY CLERK	MORTGAGE RECORDING
10080	1,138.59	6/4/2010	AMERICAN HERITAGE	INSURANCE
10081	0.00	6/7/2010	VOID	
10082	174.00	6/7/2010	CAPITAL FUNDING INC	LOAN SERVICING
10083	277.00	6/7/2010	SAM SWOPE HONDA WORLD	LOAN SERVICING
10084	65.00	6/7/2010	CLAPP VOLKSWAGEN OLDS	LOAN SERVICING
10085	72.89	6/8/2010	WASHINGTON NATIONAL LIFE INS CO	INSURANCE
10086	75.00	6/8/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
10087	1,323.00	6/8/2010	KYCUL SERVICES, INC	THEME PARK TICKETS
10088	7.00	6/8/2010	JEFFERSON COUNTY CLERK	MORTGAGE RELEASE
10089	855.12	6/10/2010	ALLIED SOLUTIONS, LLC/GAP ACCT	GAP INSURANCE
10090	1,670.00	6/10/2010	THE 1 CREDIT UNION CONFERENCE	OUT OF TOWN TRAVEL
10091	179.00	6/10/2010	CAPITAL FUNDING INC	LOAN SERVICING
10092	250.00	6/10/2010	AUTO-BACK RECOVERY	REPO EXPENSE
10093	1,775.25	5/17/2010	ALLIED SOLUTIONS, LLC/AUTO CPI	INSURANCE
10094	188.00	5/17/2010	COOK & REEVES CARS INC	LOAN SERVICING
10095	75.00	6/15/2010	LABA	MEMBERSHIP DUES
10096	75.00	6/15/2010	CITY OF LYNDON	BUSINESS LICENSE
10097	194.42	6/15/2010	ADT SECURITY SERVICES	OFFICE OCCUPANCY
10098	15.00	6/15/2010	OKOLONA PEST CONTROL	OFFICE OCCUPANCY
10099	149.53	6/15/2010	INDUSTRIAL DISPOSAL	OFFICE OCCUPANCY
10100	1,866.00	6/15/2010	COURTESY CLEANING	OFFICE OCCUPANCY
10101	114.48	6/15/2010	LLOYD'S FLORIST	FLOWERS - EMPLOYEE
10102	250.00	6/15/2010	MARVIN SCHMIDT	APPRAISALS
10103	400.00	6/15/2010	DAVID WATERMAN LLC	APPRAISALS
10104	72.00	6/15/2010	PCI WOLTERS KLUWER FIN SERVICES	PROFESSIONAL/OUTSIDE
10105	85.00	6/15/2010	CREDIT UNION CONNECTION, LLC	PROFESSIONAL/OUTSIDE
10106	10.50	6/15/2010	ROUTEONE, LLC	PROFESSIONAL/OUTSIDE
10107	844.35	6/15/2010	CHEXSYSTEMS, INC	PROFESSIONAL/OUTSIDE
10108	541.66	6/15/2010	CNBS LLC	PROFESSIONAL/OUTSIDE
10109	411.82	6/15/2010	DIGITALMAILER, INC.	PROFESSIONAL/OUTSIDE
10110	1,627.51	6/15/2010	TRANS UNION LLC	PROFESSIONAL/OUTSIDE
10111	712.05	6/15/2010	GARDA CL CENTRAL	PROFESSIONAL/OUTSIDE
10112	1,118.50	6/15/2010	PRINTING SERVICES II	PROFESSIONAL/OUTSIDE
10113	1,050.00	6/15/2010	KENNETH KLING, CPA PSC	PROFESSIONAL/OUTSIDE
10114	1,052.85	6/15/2010	INSIGHT COMMUNICATIONS	CABLE SERVICE
10115	4,023.00	6/15/2010	ADMAN MARKETING	ADVERTISING
10116	19.80	6/15/2010	BEST STAMP & SEAL CO	STATIONARY & SUPPLIES
10117	173.00	6/15/2010	SCOT MAILING & SHIPPING SYSTEMS	POSTAGE MACHINE
10118	32.60	6/15/2010	DUPLICATOR SALES &SERVICE	PROFESSIONAL/OUTSIDE
10119	207.31	6/15/2010	ACCO INC	MAINTENANCE BLDG/LAND
10120	0.00	6/15/2010	VOID	VOID
10121	57.53	6/15/2010	LOUISVILLE METRO GOVERNMENT	LOCAL TRAVEL MAY 2010
10122	576.00	6/15/2010	NADA	TELEPHONE
10123	8,247.68	6/15/2010	SHARE ONE	PROFESSIONAL/OUTSIDE
10124	4,118.58	6/15/2010	FORTRESS NETWORK SECURITY	PROFESSIONAL/OUTSIDE
10125	2,860.00	6/15/2010	LEXISNEXIS	PROFESSIONAL/OUTSIDE
10126	135.00	6/15/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
10127	32.00	6/15/2010	JEFFERSON COUNTY CLERK	MORTGAGE RECORDING
10128	691.90	6/15/2010	BLUEGRASSNET	PROFESSIONAL/OUTSIDE

Check #		Date	Payable To:	Reason
10129	65.00	6/15/2010	SIGN-A-RAMA	SIGN REPAIR INDIANA
10130	163.00	6/15/2010	ENTERPRISE CAR SALES	LOAN SERVICING
10131	3,049.12	6/16/2010	NXG STRATEGIES, LLC	PROFESSIONAL/OUTSIDE
10132	160.25	6/17/2010	KROGER CATERING SERVICE	BOARD MEETING
10133	26.00	6/17/2010	BULLITT COUNTY CLERK	MORTGAGE RELEASE
10134	26.00	6/17/2010	JEFFERSON COUNTY CLERK	MORTGAGE RELEASE
10135	24,080.38	6/17/2010	THE ESTATE OF PAUL STEIDEN	DECEASED MEMBER
10136	363.00	6/18/2010	CROSS MOTORS	LOAN SERVICING
10137	90.00	6/18/2010	TODD ISENBERG	LOAN SERVICING
10138	30.93	6/18/2010	SANDRA CLAYTON	DECEASED MEMBER
10139	1,182.96	6/21/2010	AMY HIGDON	DECEASED MEMBER
10140	490.00	6/21/2010	CAPITAL FUNDING, INC	INSURANCE
10141	377.75	6/22/2010	DIRECT RESPONSE ADMIN SERVICE, INC	INSURANCE
10142	46.00	6/22/2010	KYCUPAC	MEMBER CONTRIBUTIONS
10143	430.21	6/22/2010	GENERAL SERVICES ADMINISTRATION	INDIANA RENT
10144	14,580.29	6/22/2010	LOUISVILLE METRO HUMAN RESOURCES	EMPLOYEE HEALTH INSURANCE
10145	120.00	6/23/2010	GORDON MOTOR SPORTS	LOAN SERVICING
10146	135.00	6/23/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
10147	32.00	6/23/2010	JEFFERSON COUNTY CLERK	MORTGAGE RECORDING
10148	400.47	6/23/2010	CARL HICKS	EXPENSE REIMBURSEMENT JUNE 2
10149	135.00	6/23/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
10150	35.00	6/23/2010	JEFFERSON COUNTY CLERK	MORTGAGE RECORDING
10151	22.00	6/25/2010	SHELBY COUNTY CLERK	LIEN RECORDING
10152	22.00	6/25/2010	SPENCER COUNTY CLERK	LIEN RECORDING
10153	75.00	6/28/2010	AUTO-BACK RECOVERY	REPO EXPENSE
10154	221.57	6/28/2010	MARTHA SUTT	DECEASED MEMBER
10155	48.58	6/29/2010	ELIZABETH H RAINBOLT	DECEASED MEMBER
10156	138.00	6/29/2010	CREWS CARS	LOAN SERVICING
10157	125.00	6/29/2010	GEORGE SECREST	REPO EXPENSE
10158	185.00	6/30/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
10159	24.00	6/30/2010	FLOYD COUNTY RECORDER	MORTGAGE RECORDING
10160	50.00	6/30/2010	SHRED-IT	PROFESSIONAL/OUTSIDE
10161	552.45	6/30/2010	LINCOLN NATIONAL LIFE INSURANCE CO	INSURANCE
10162	190.00	6/30/2010	PARC	DOWNTOWN PARKING
10163	200.00	6/30/2010	TELEDATA COMMUNICATIONS, INC	PROFESSIONAL/OUTSIDE
10164	600.00	6/30/2010	MARVIN SCHMIDT	APPRAISALS
10165	1,175.00	6/30/2010	DAVID WATERMAN LLC	APPRAISALS
10166	1,055.42	6/30/2010	WAYNE'S LAWN SERVICE, INC	MAINTENANCE BLDG/LAND
10167	129.00	6/30/2010	ALLIED SOLUTIONS, LLC	INSURANCE
10168	1,153.95	6/30/2010	STAPLES CREDIT PLAN	STATIONARY & SUPPLIES
10169	446.20	6/30/2010	CONMAR SYSTEMS INC	PROFESSIONAL/OUTSIDE
10170	476.60	6/30/2010	PRINTING SERVICES II	PROFESSIONAL/OUTSIDE
10171	2,690.33	6/30/2010	FISERV	PROFESSIONAL/OUTSIDE
10172	625.00	6/30/2010	WEBER & ROSE	PROFESSIONAL/OUTSIDE
10173	800.00	6/30/2010	ASCENSUS	PROFESSIONAL/OUTSIDE
10174	788.85	6/30/2010	ZIP EXPRESS COURIER SERVICE	PROFESSIONAL/OUTSIDE
10175	13.00	6/30/2010	MAPOTHER & MAPOTHER	LIEN RELEASE
10176	1,155.00	6/30/2010	PUBLISHERS PRESS	PROFESSIONAL/OUTSIDE
10177	45.75	6/30/2010	DON FRITTS	LOCAL TRAVEL JUNE 2010
10178	246.00	6/30/2010	RACHEL LEE	LOCAL TRAVEL JUNE 2010
10179	32.25	6/30/2010	CATHY PENNELL	LOCAL TRAVEL JUNE 2010
10180	244.00	6/30/2010	ADVANTAGE AUTO SALES & LEASING	LOAN SERVICING
10181	31.00	6/30/2010	JEFFERSON COUNTY CLERK	REPO EXPENSE
10182	325.00	6/30/2010	PETER MARGERUM	APPRAISALS
10183	100.00	6/30/2010	LARRY DODSON	BOARD MEETING
10184	241.00	6/30/2010	CREWS CARS LLC	INDIRECT LENDING
Total	140,045.53		126	

ACH OPERATING ACCOUNT PAYOUTS	Debited By:	Reason
923.48	AT&T	Phones - MO & HV
3,242.56	Credit Card	MasterCard
546.11	Louisville Water Company - MO	Office Occupancy
4,000.00	Postage	Postage
141.44	AT&T	Internet - Indiana
1,512.12	LG&E	Gas & Electric
Total 10,365.71		

From: Carl Hicks [mailto:carl@jcfcu.org]
Sent: Monday, June 28, 2010 2:28 PM
To: STEIER, KEITH E
Subject: March Findings

Keith,
We continue to be in disagreement with your findings on our real estate secured loans that you call MBLs and extremely disappointed with the lack of those up the chain to recognize sound lending practices and our statistically documented success over many years. Nonetheless we have modified the MBL section of our lending policy to comply with NCUA's section 723 going forward. We will continue to consider loans (per member) of $50,000 and less (using non primary residence real property) on our normal real estate lending policy as the referenced section allows an exception for those. Other real estate lending policy areas noted in your findings have been modified or defined to comply with your comments.

The loans made prior to and listed on the 2008 findings by Jeff Marshall to two different members continue to pay AA. We have asked for tax returns from both of the members. One complied, we did the prescribed testing and they passed. The other will not provide the returns so those are out of our hands. We will ask for the forms again in 2011 but frankly expect no cooperation. We continue to monitor these residential property loans as we do all other real estate secured loans in our portfolio regardless of the classification.

The loans made under the agreement with Jeff Marshall between 2008 and 2010 (no more than two loans per member) continue to be monitored as we do all other real estate secured loans regardless of the classification. As noted by you we have no documentation to require those members to give us tax returns either.

The new procedures were officially adopted 06-23-10 in conjunction with the revised policy. Any MBLs made from that date forward will follow the policy for compliance with section 723. We will have the proper addendum documents signed to require tax returns submitted to us annually during the life of the loan prior to disbursing any funds under this policy.

Members approved for a loan interest payment on any type of loan will be reported to the Board of Directors on a monthly basis going forward. If we truly modify the terms of a loan as defined in letter 09-CU-19 we will document that appropriately. The interest payments we approve are done as a courtesy at Christmas or vacation time etc. None of these have ever involved lowering a monthly payment or been approved for a member "struggling financially to maintain ownership of their home" or to minimize the CU's default or foreclosure costs. The only payments we ever temporarily reduce are done to comply with Chapter XIII plans as dictated by the court and trustee.

I believe this information answers the concerns of your findings etc.
Thanks,
Carl Hicks

Sent: 07-12-2010 at 9:02 AM
Carl,
Sorry, I did not get back to you until now. My family and I were on vacation. Sedona was absolutely amazing. Nice place for some R&R. I know now why that is a dream place for retirement.

I appreciate your response. Just one item I need to bring to your attention. The Supplementary Facts of the exam report specifically references NCUA Letter to Credit Unions 10-CU-01. The cover page of that NCUA Letter states "management should … apply the same safety and soundness principles to all business purpose loans, regardless of whether or not the loan qualifies as a member business loan as defined by the regulation."

If you have any questions, let me know.
Thanks,
Keith

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: **January 2010** **LETTER No.: 10-CU-02**

TO: **Federally Insured Credit Unions**

SUBJ: **Current Risks in Business Lending and Sound Risk Management Practices**

ENCL: **Supervisory Letter – Current Risks in Business Lending and Sound Risk Management Practices**

Dear Board of Directors:

Credit unions are becoming increasingly involved in business lending and, in doing so, are providing another avenue for members to obtain the funding needed to start, grow, and maintain businesses. As business loan portfolios grow, the credit union's risk management practices should evolve commensurate with the size and complexity of the portfolio and individual loans.

Given the current challenging economic environment, management should have a comprehensive understanding of the factors surrounding their portfolios and apply the same safety and soundness principles to all business purpose loans, regardless of whether or not the loan qualifies as a member business loan as defined by the regulation.

The enclosed guidance regarding current risks in business lending and sound risk management practices were provided to NCUA field staff in January 2010.

If you have any questions related to this Letter, you should contact your regional office, district examiner, or state supervisory authority.

Sincerely,

Debbie Matz
Chairman

Enclosure

MID YEAR REVIEW OF TRANSACTION ACTIVITY

Location	2009	2010	Difference	+ or -
Trans - MO	25,449	26,423	974	3.83%
Trans - HV	19,398	17,376	-2,022	-10.42%
Trans - DT	14,390	11,226	-3,164	-21.99%
Trans - UR	13,437	9,616	-3,821	-28.44%
Trans - IN	19,234	17,324	-1,910	-9.93%
Trans - INFO	6,126	5,189	-937	-15.30%
Trans - HB	43,114	45,749	2,635	6.11%
Trans - SB	23,603	22,678	-925	-3.92%
Trans - Total YTD	164,751	155,581	-9,170	-80.05%
Net Members	13487	13712	225	1.67%

Transaction Analysis June 2010

URBAN	#	$	Average	% of #	% of $
WD < $100	524	26,454	50.48	34.56%	3.39%
WD > $100 and <500	308	79,082	256.76	20.32%	10.13%
WD > $500 and <1,000	74	53,060	717.03	4.88%	6.79%
WD > $1,000	33	210,992	6,393.70	2.18%	27.01%
Total WD	939	369,588			
DEP < $100	188	9,421	50.11	12.40%	1.21%
DEP > $100 and <500	233	62,965	270.24	15.37%	8.06%
DEP> $500 and <1,000	84	62,658	745.93	5.54%	8.02%
DEP > $1,000	72	276,412	3,839.06	4.75%	35.39%
Total DEP	577	411,456			
Total DEP & WD	**1,516**	**781,044**		100.00%	100.00%
OTHER					
New Members	6	1,827			
New Loans	8	15,500	**Includes Addons to Existing Loans**		
New Cds	5	149,851			

DOWNTOWN	#	$	Average	% of #	% of #
WD < $100	645	30,741	47.66	23.98%	0.51%
WD > $100 and <500	349	88,774	254.37	12.97%	1.46%
WD > $500 and <1,000	108	78,157	723.68	4.01%	1.29%
WD > $1,000	33	85,728	2,597.82	1.23%	1.41%
Total WD	1,135	283,400			
DEP < $100	255	12,448	48.82	9.48%	0.20%
DEP > $100 and <500	287	78,287	272.78	10.67%	1.29%
DEP> $500 and <1,000	106	78,501	740.58	3.94%	1.29%
DEP > $1,000	907	5,624,920	6,201.68	33.72%	92.55%
Total DEP	1,555	5,794,156			
Total DEP & WD	**2,690**	**6,077,556**		100.00%	100.00%
OTHER					
New Members	5	2,209			
New Loans	4	12,400	**Includes Addons to Existing Loans**		
New Cds	2	1,085			

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