JEFFERSON COUNTY

FEDERAL CREDIT UNION

A COMMUNITY CREDIT UNION

Board Packet

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JEFFERSON COUNTY FEDERAL CREDIT UNION
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*** Indicates Documentation Attached**

JEFFERSON COUNTY FEDERAL CREDIT UNION

MINUTES - BOARD OF DIRECTORS MEETING

DATE: February 24, 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)	Present
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 LD and duly seconded by MH to approve the minutes of 01-27-10 for the Board and Supervisory Committee. 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. The key ratios and other pertinent data for the most major areas impacted (before CUSIP & NCUA assessment and after) are compared below. Our YTD bottom line even with the NCUSIF expense is $10,800 above budgeted income. There was a decrease in deposits from the previous month of $625,000 leaving a decrease of $625,000 year to date. Loan volume for the month showed an increase of $403,000 and net loans showed an increase of $2,000 leaving an increase of $2,000 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. It was noted that the CUSIP will be gone this month and will reduce our assets by $25,000,000. After the February financials the expense and income relative to this will stop as well.

FINANCIAL DETAIL COMPARISON

Major Areas of Impact	REASON	BEFORE	AFTER	Difference
Assets	**CU-SIP**	**94,668,325**	**119,668,325**	**25,000,000**
Average Assets	**CU-SIP**	**94,905,915**	**119,905,915**	**25,000,000**
Investment Balance	**CU-SIP**	**50,191,189**	**75,191,189**	**25,000,000**
NET WORTH	**CU-SIP**	**13.75%**	**10.87%**	**-2.88%**
Long Term Assets	**CU-SIP**	**22.88%**	**18.10%**	**-4.78%**
Total Loans / Assets	**CU-SIP**	**41.48%**	**32.81%**	**-8.67%**
Fixed Assets	**CU-SIP**	**1.62%**	**1.28%**	**-0.34%**
INC- NET- YTD	**NCUA**	**69,914**	**43,155**	**26,759**
Return on Average Assets	**NCUA**	**0.88%**	**0.55%**	**0.33%**

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. An update was given regarding NCUA assessment and how additional future hits might be handled particularly as it pertains to KCFCU and the reserve account amount.
2. A report was given Bramco Federal Credit Union merger. The target date is 03-19-10. Beginning Monday, 03-22-10 those members will be serviced exclusively by us.
3. A report detailing the ID Recovery claims was presented ad discussed. All claims are completed to the member" satisfaction.
4. It was agreed that new shirts would not be purchased for this year's annual meeting.
5. It was agreed that email meeting notification would replace regular mail notices for now. They will be sent on the Monday morning preceding the meeting on Wednesday.

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

SENIOR VICE PRESIDENT'S REPORT
GE reported that we had 48 TV and 278 radio commercials on three stations. Our WBKI information is also running and GE will do his personal appearance this Friday. Our business development person has been working on outside marketing and is doing some on site enrollments. A motion was made by MD and duly seconded by LH 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 on various topics that will be detailed in the minutes.

UNFINISHED BUSINESS - None

NEW BUSINESS

A motion was made by SS and duly seconded by LD 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.

A motion was made by WW and duly seconded by MH to adjourn at 9:25 AM. Vote Taken - Motion Carried.

Chairman

Secretary

JEFFERSON COUNTY FEDERAL CREDIT UNION
MINUTES - BOARD OF DIRECTORS SPECIAL MEETING

DATE: March 10, 2010
TIME: 8:30 A.M
LOCATION: Holiday Inn – Hurstbourne Lane

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
Carl Hicks – President and CEO	(CH)	Present

Chairman Eskridge called the meeting to order at 8:30 A. M. The following items were discussed and CH's report and the attachments becomes a part of these minutes.

1. **Financials –** Financials were discussed in depth particularly relating to the additional write off of $51,000 of paid in capital at KCFCU that will be written off this month. It was noted that money market rates may have to be trimmed a little more.

2. **Deposit & Loan Rates** – Still very competitive in all areas.

3. **457 Plan** – The Board unanimously agreed to pull the funds from CUNA that CH was earning on and pursue the implementation of a 457b to replace it. When Gary's date comes up the same will be done. Dan Balogh will be contacted for the pertinent paper work..

4. **Bramco Merger** – An update was given on the progress. All is set to be completed 03-19-10 and the following weekend. We will be serving those members Monday, 03-22-10.

5. **NCUA Examination Report & Response** – The report was discussed and it was unanimously agreed that three of the topics (DOR, interest payments and the LLC loan classification) should be challenged in writing directly to the Regional Director. Based on input given by the Board CH will prepare the letter and send it as soon as time permits.

6. **April Newsletter** – Was discussed and reviewed

All the above items were discussed and reviewed by the Board. There being no further business WE declared the meeting adjourned at 9:45 A.M.

_______________________ _______________________
Chairman Secretary

JEFFERSON COUNTY FEDERAL CREDIT UNION

MINUTES - SUPERVISORY COMMITTEE MEETING

DATE: February 24, 2010
TIME: 8:00 A.M.
LOCATION: Board of Directors Conference Room - Main Office

Members Present

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

A letter was received from NCUA relative to a complaint but it was not our member and CH redirected it to the proper credit union.

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 some closed accounts selected for verification.

The 2009 yearend audit was reviewed and found to be in order. One member's loan had been over charged and the corrections were calculated and the loan balance adjusted. The member was notified in the form of an apology. A full report will be given to the Board.

CH advised that we will be receiving a complaint from a member via NCUA that staff has dealt with on several occasions. The problem is with the ID Recovery fee. We will review the facts when the official notice is received.

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: **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 – Deborah Matz, Chairman

Supervisory Letter

Current Risks in Business Lending and Sound Risk Management Practices

The September 2009 Financial Performance Report data reflects an increasing portion of loans allocated to business lending. Business loans have grown from 3.56 percent of total loans in 2005 to a current level of 5.70 percent. The graph (The data used in the graph is based on information in the September 30, 2009, Financial Performance Report. Total business loans include member business loans, as well as purchased business loans and participations to nonmembers, less unfunded commitments. Total delinquent ratio for all loans is calculated using total delinquent loans greater than 2 months divided by total loans. Business loan delinquency is calculated using business loans delinquent greater than 2 months divided by total business loans less unfunded commitments.) below shows the trends in business loan growth and delinquency.

As business lending continues to grow, the exposure to economic fluctuations that impact such loans is going to have an increasing effect on loan performance and the risk in the portfolio. The percentage of delinquent business loans spiked since 2006 to 3.34 percent, almost double the percentage of total delinquent loans.

While business lending only comprises 3.76 percent of total assets, it is clear more credit unions are becoming involved in this type of lending and many credit unions already involved in business lending are growing their portfolios. There are also credit unions that either have reached the regulatory aggregate business lending limit or are above the limit due to satisfying at least one of the three exceptions in 12 C.F.R. §723.17. (12 C.F.R. §723.17 allows exceptions to the aggregate limit under the following circumstances: (a) credit unions with low-income designation or participate in the Community Development Financial Institutions program; (b) credit unions chartered for the purpose of making member business loans; (c) credit unions having history of primarily making member business loans.)

Business lending has unique characteristics and more complex variables than consumer lending. Risk management practices should be properly evaluated and commensurate with the level and complexity of loans granted. The adequacy of the credit union's net worth position should be considered in concert with risk exposures from business lending to help ensure safe and sound growth of such lending. For the purpose of this guidance, business lending includes all business-purpose loans regardless of whether or not it qualifies as a member business loan (MBL) under 12 C.F.R. Part 723.

RISKS IN BUSINESS LENDING

1. Business Lending Concentration Risks

Different types of business lending present different levels of risk. As shown in the table below, 80.70 percent of all outstanding business loans are reported as real estate loans. However, it is important to recognize that all types of loans have increased over time, with the exception of construction and development (C&D) business loans, which experienced minor decline since the previous year. Credit unions actively involved in any business lending should perform ongoing risk assessments to identify concentrations. (A concentration is not defined by regulation but is more governed by the product volume in relation to such items as net worth, assets, and total loans, with the benchmark for identifying a concentration being its potential safety and soundness implications for the credit union.)

Type of Business Loan	12/05	12/06	12/07	12/08	9/09
Real Estate	$ 12,553,533,861	$ 16,396,302,680	$ 19,675,581,163	$ 24,486,599,671	$ 26,484,393,773
C&D	1,218,086,468	1,747,043,337	2,022,439,025	1,965,410,914	1,682,390,920
Agricultural	789,803,904	868,711,321	984,271,889	1,108,170,527	1,206,346,122
SBA Loans	234,632,345	482,936,466	426,969,199	519,635,376	542,746,241
Unsecured	71,108,063	71,539,036	110,876,638	133,685,286	144,070,946

The credit risk assessment should identify potential concentrations by stratifying the portfolio into segments that have common risk characteristics or sensitivities to economic, financial, or business developments. Concentrations can be by loan type, industry, collateral, geographic area, individual or associational group of borrowers, business lines, etc. Stratification should be supportable and not divided into multiple segments simply to avoid the appearance of concentration risk.

A manageable level of concentration risk will vary by credit union depending on portfolio risk characteristics, quality of risk management processes, net worth position, staff size, and staff experience level. Credit unions should identify and monitor credit concentrations, establish internal concentration limits, and report all concentrations to management and the board of directors on a periodic basis. Depending on the results of the risk assessment, the credit union may need to enhance its risk management systems. In addition, credit unions should establish supportive data warehousing **(Data warehousing is a collection of data designed to support management decision making. Data warehouses are computer based information systems that are home for "secondhand" data that originated from either another application or from an external system or source. Warehouses optimize database query and reporting tools because of their ability to analyze data, often from disparate databases and in interesting ways. They are a way for managers and decision makers to extract information quickly and easily in order to answer questions about their business. Unlike operational databases that are set up to handle transactions and that are kept up to date as of the last transaction, data warehouses are analytical, subject-oriented and are structured to aggregate transactions as a snapshot in time.)** to track changes in loan quality over time.

2. Business Loan Participation Risks

Loan participation credit and concentration risks are increasing rapidly. Since 2005, purchased business loans and participation in nonmembers loans have more than doubled from $2.8 billion to almost $6.7 billion as shown in the graph. The risk has also increased resulting in loan participation delinquency more than tripling from 2006 to 2009. (Participation delinquency information was not available prior to 2006.)

Although a properly managed loan participation program can benefit both selling and buying credit unions, it is important that all parties involved are fully aware of the various potential risks and the degree of risks. The degree of risk varies depending on the following:

- credit union is the seller or buyer;
- sale is with recourse or non-recourse;
- size and complexity of the individual loans;
- aggregate exposure to net worth;
- portfolio size including unfunded commitments;
- level of experience and expertise on both sides of the transaction; and,
- external economic factors.

Credit unions should be aware of various regulatory requirements for both loan participation and business loans, and not exceed regulatory limits without first obtaining an approval for a waiver, if available, prior to approving the loan. The loan waivers are non-transferable and each credit union that would exceed its regulatory limits must obtain its own waiver prior to participating in that particular business loan. For example, if the selling credit union has an approved loan waiver, a buying credit union must obtain the same type of waiver.

Purchase of nonmember loans or nonmember loan participations may expose the credit union to business lending risk if these loans constitute a MBL if made to a member. As a result, these loans count towards the aggregate limit on net member business loan. Once the aggregate of member and nonmember business loan balances are at the regulatory limit, a credit union must obtain regional director approval before any additional business loans, including nonmember loans, are made or purchased**. (12 C.F.R. §723.16(b) provides information on obtaining waiver to allow credit unions that are at its aggregate limit to purchase nonmember business loans.)**

Credit unions that are actively involved in loan participations and/or purchasing nonmember business loans should maintain risk management systems that appropriately address the level of risk associated with these loans. Credit unions should perform due diligence over the ongoing servicing at least annually and develop trigger points for action with originator when the loan does not perform in accordance with the loan documents (i.e. delinquency, missing financial statements, noncompliance to loan covenants). **(Letter to Credit Union 08-CU-26, "Evaluating Loan Participation Programs" provides detailed information regarding risk assessment, due diligence, and risk measurement, monitoring and controls to evaluate buying and selling credit unions.)**

RISK MANAGEMENT PROCESS

A credit union's oversight of a business loan portfolio should be commensurate with the size and complexity of the portfolio, as well as the risk associated with the level and type of concentrations. Examiners should evaluate and ensure management establishes a risk management framework that identifies, monitors, and controls the various risks associated with business lending. An effective risk management process involves the following key elements:

- **<u>Board and Management Oversight</u>**
  The board of directors has ultimate responsibility for the level of risk assumed by the credit union. The board must establish policy guidelines and approve the overall lending strategy that addresses the level and nature of exposure acceptable to the credit union. This includes evaluating resources to ensure staffing levels are appropriate for the level and complexity of the portfolio and establishing suitable MBL pricing model that integrates into the credit union's overall asset liability management program. The operational management needs to implement procedures and controls to effectively adhere to and monitor compliance with established lending policies and strategies. Both the board and management need to periodically review information that identifies and quantifies the nature and level of risk and adjust strategies and policies to respond to changes in market conditions. Credit unions should obtain updated appraisals or collateral valuation when the loan or project is impaired or when market conditions are deemed to have deteriorated.

- **<u>Portfolio Management</u>**
  Credit unions should manage not only risk of individual loans but also risk in the entire portfolio. Concentrations of loans that are similarly affected by cyclical changes in the market can expose a credit union to an unacceptable level of risk if not properly managed. Management should regularly evaluate the degree of correlation between related business sectors and establish internal lending guidelines and concentration limits to control the overall risk exposure. Management should develop appropriate strategies for managing concentration levels by identifying specific adverse market conditions and creating feasible contingency plans to reduce or mitigate concentrations such as loan participations and whole loan sales.

- **<u>Credit Risk Review Function</u>**
  A strong credit risk review function is critical for self-assessment of emerging risks. An effective, accurate, and timely risk-rating system provides a foundation for the credit unions to assess credit quality and, ultimately, to identify problem loans. Risk ratings should be risk sensitive, objective, suitable for the types of loans underwritten, and reviewed regularly for appropriateness. **(The Office of Comptroller of the Currency Handbook "Rating Credit Risk" provides a comprehensive, but generic, discussion of the objectives and general characteristics of effective risk rating systems.)** Credit unions should assign risk ratings at loan origination and update periodically over the life of the loan. *<u>With loan participations, credit unions should assess the risk rating system used by the originator and not rely on the assigned risk rating without basis.</u>* Credit unions should consider rating the participation loan using the internal risk rating system to ensure that the loan complies with the risk threshold established by the board.

- **<u>Management Information Systems (MIS)</u>**
  A strong MIS should provide management with sufficient information to identify, measure, monitor, and manage concentration risk. This includes meaningful information on portfolio characteristics relevant to the credit union's lending strategy, underwriting standards, and risk tolerances. Credit unions are encouraged to stratify the portfolio by characteristics that would provide useful information to properly assess the risks. Examples of

characteristics include loan type, collateral, geographic area, individual or associational group of borrowers, business lines, etc. Management reporting should be timely and in a format clearly indicating changes in the portfolio risk profile, including risk-rating migrations. Reporting and monitoring of business loans should be commensurate with the size, complexity, and risk exposure of the portfolio.

- **Market Analysis**
  A market analysis should provide the credit union's management and board of directors with information to assess whether the business lending strategy and policies continue to be appropriate in light of changes in market conditions. Market analysis is particularly important as a credit union considers decisions about entering new markets, pursuing new lending activities, or expanding into existing markets**.** **(As part of the market analysis, credit union should assess the risk associated with potential environmental liability if contamination is discovered on real property financed by the credit union. Letter to Credit Union 08-CU-13, "Environmental Liability: Risk Management Guidance" provides information regarding environmental risk considerations and ways to mitigate this risk.)** Market information also may be useful for developing sensitivity analysis or stress tests to assess portfolio risk. Sources of market information may include published research data, real estate appraisers and agents, information maintained by the property taxing authority, local contractors, builders, investors, and community development groups. Credit unions should perform periodic market analyses for the various loan types and geographic markets represented in its portfolio and demonstrate that it has an understanding of the economic and business factors influencing its lending markets. The sophistication of the analysis will vary by market share and exposure, as well as the availability of market data.

- **Credit Underwriting Standards**
  Credit analysis should reflect both the borrower's overall creditworthiness and project-specific considerations as appropriate. Credit unions should not rely solely on the collateral value and must perform proper identification of repayment source and accurate assessment of cash flow to ensure the borrower can adequately service the debt. The lending policies should reflect the level of risk that is acceptable to its board of directors and should provide clear and measurable underwriting standards that enable the lending staff (whether internal staff or an external third party) to evaluate all relevant credit factors. In establishing policies, a credit union should consider both internal and external factors, such as market position, historical experience, present and prospective trade area, probable future loan and funding trends, staff capabilities, and technology resources. The lending policies should permit exceptions to underwriting standards only on a limited basis and clearly identify who can approve the exceptions. Credit union management should be monitoring and reporting exceptions to both internal lending standards and regulatory limits **(12 C.F.R. Part 723 specifies the loan to value thresholds, which vary depending on the type of loan. 12 C.F.R. §723.10 outlines eight regulatory constraints where a credit union can obtain a waiver, including waiver of LTV limits, from NCUA regional office. An institution should monitor all loans with approved waivers and have those readily identified for examiner review.)** to the board of directors on a regular basis. If the credit union exceeds regulatory limits without having an appropriate waiver, examiners must take necessary corrective actions to ensure this violation is resolved in a timely matter.

- **Portfolio Stress Testing and Sensitivity Analysis**
  Credit unions should perform portfolio level stress tests or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and net worth. Further, credit unions should consider the sensitivity of portfolio segments with common risk characteristics to potential market conditions. Examples of common risk characteristics include loan type, collateral, geographic area, individual or associational group of borrowers, business lines, etc. The sophistication of stress testing practices and sensitivity analysis should be consistent with the size, complexity, and risk characteristics of the business loan portfolio.

MANAGING RISKS IN BUSINESS LENDING

Credit unions are facing a challenging environment with overall market conditions weakening due to the slowdown in the housing market, deterioration of liquidity in the credit market, tightening of lending terms, and overbuilding in certain residential and commercial markets. The following are actions that credit unions can take to help manage changes in the market condition:

- **Increase or maintain strong net worth level** – Net worth provides protection against unexpected losses, particularly in stressed markets. Credit unions with significant exposure to business loans may require higher net worth position due to uncertainty in market conditions causing an elevated risk of unexpected losses. Since individual loans are larger in size, the exposure per loan can be much higher.

- **Ensure Allowance for Loan and Leases Losses (ALLL) are adequately funded** – Credit unions are expected to determine the adequacy of the ALLL in accordance with GAAP, their stated policies and procedures, management's best judgment, current and updated appraisals, and relevant supervisory guidance. In addition, risk ratings, data on adverse market condition, and changes in the borrower's credit standing are items to consider when developing tools for reserving purposes and environmental loss factor. Credit unions with significant business loans should consult interagency guidance provided in NCUA Accounting Bulletin No. 06-01, issued December 2006 (The NCUA Accounting Bulletin 06-01 distributes an interagency advisory that reiterates key concepts and requirements included in GAAP and existing ALLL supervisory guidance.) and ensure ALLL accounts are adequately funded in a timely manner.

- **Manage business loan portfolios closely** – Credit unions should maintain prudent lending policies, use MIS and data warehousing to provide useful information on the business portfolio, and implement strong credit review and risk rating systems to identify deteriorating credit trends. As part of effective portfolio management, credit unions should maintain ongoing close relationships with borrowers.

- **Maintain updated financial and analytical information** – Credit unions should maintain recent borrower financial statements, cash flow statements, rent rolls, guarantor personal statements, tax return data, and other income performance information for all business loans including loan participations. As real estate market conditions change, management should consider the continued relevance of appraisals performed during high growth periods, and update appraisal reports as necessary. Further, credit unions should conduct periodic property inspections to ensure the collateral condition does not adversely impact the value.

- **Strengthen the loan workout infrastructure** – Credit unions should have adequate resources and sufficient staff with appropriate skill sets to manage an increase in problem loans and workouts. Credit unions should develop a ready network of legal, appraisal, real estate brokerage, and property management professionals to handle additional prospective workouts. In addition, sufficient control systems should be in place to maintain appropriate Troubled Debt Restructuring accounting requirements and to ensure that workout portfolios do not severely compromise the net worth position. (The Federal Financial Institutions Examination Council "Policy Statement on Prudent Commercial Real Estate Loan Workout" details risk management practices for loan workout arrangements, and regulatory reporting and accounting considerations.)

SUPERVISORY OVERSIGHT

Examiners should review the national risk reports and financial performance reports to identify credit unions potentially exposed to significant business lending risks as part of the ongoing supervisory monitoring processes. These reports may depict trends that portray increasing risk such as rapid business loan growth, high business delinquency and/or charge-offs, and low and declining net worth position. The effectiveness of a credit union's risk management practices will be a key component of the supervisory evaluation of the risk in the business lending program. Examiners should engage in dialogue with board and management to assess business loan portfolio exposure levels and risk management practices. Credit unions experiencing recent, significant growth in business lending or have notable exposure to a specific type of business loans should receive closer supervision than those demonstrating a successful track record of managing the risks with no significant market changes.

SUMMARY

Business lending continues to be a fast growing product line for many credit unions and provides valuable service to the members by offering alternative option to acquire funding needed to start, grow and maintain businesses. However, the current economic environment poses challenges for credit unions that are actively involved in business lending. Credit union management needs to have adequate risk management processes in place for the size and complexity of the business loans granted. Examiners are instrumental in critically reviewing processes and best practices, including those in this supervisory letter, and in helping guide management to properly manage related risks in an effort to ensure continued safe and sound operations. Ultimately, it is the credit union's responsibility to demonstrate there are adequate policies, procedures, experience, and systems to ensure the MBL risks remain commensurate with net worth levels and risk tolerance threshold.

List of Resources

The concepts and principles set forth in this Supervisory Letter were derived and adapted from guidance previously issued by the National Credit Union Administration and other federal regulatory agencies, including the following:

Federal Deposit Insurance Corporation. Managing Commercial Real Estate Concentrations in a Challenging Environment. FIL-22-2008. Issued March 17, 2008.
http://www.fdic.gov/news/news/financial/2008/fil08022.html

Federal Financial Institutions Examination Council. Policy Statement on Prudent Commercial Real Estate Loan Workout, issued October 30, 2009. http://www.ncua.gov/news/press_releases/2009/FFIEC_PR_CRE_Workouts_10-30am.pdf

Interagency Final Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, published in Vol. 71, No. 238 of the Federal Register, on Tuesday, December 12, 2006.
http://edocket.access.gpo.gov/2006/pdf/06-9630.pdf

National Credit Union Administration. Accounting Bulletin No. 06-01, issued December 2006. http://www.ncua.gov/GenInfo/GuidesManuals/accounting_bulletins/2006/06-01-Bulletin.pdf

National Credit Union Administration. Letter to Credit Unions No. 08-CU-13, May 2008. Environmental Liability: Risk Management Guidance. http://www.ncua.gov/letters/2008/CU/08-CU-13.pdf

National Credit Union Administration. Letter to Credit Unions No. 08-CU-26, November 2008. Evaluating Loan Participation Programs. http://www.ncua.gov/letters/2008/CU/08-CU-26.pdf

National Credit Union Administration. Rules and Regulations, Parts 701.22, 723. http://www.ncua.gov/Resources/RegulationsOpinionsLaws/rules_and_regs/NCUA%20R%20&%20R%20Book%201%20May%208%202008.pdf

Office of Comptroller of the Currency. Controller's Handbook on Credit Risk Rating. Issued April 2001. http://www.occ.treas.gov/handbook/RCR.pdf

Sincerely – Deborah Matz, Chairman

REGULATORY ALERTS

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

DATE: **February 2010** **NO:** **10-RA-05**
TO: **Federally Insured Credit Unions**
SUBJ: **Interagency Guidance on Obtaining and Retaining Beneficial Ownership Information**
ENCL: **Guidance on Obtaining and Retaining Beneficial Ownership Information**

Dear Board of Directors:
This Regulatory Alert is to inform you of the issuance of the interagency guidance entitled, *Guidance on Obtaining and Retaining Beneficial Ownership Information.* This attached guidance is intended to assist credit unions in developing and implementing an effective Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance program regarding obtaining beneficial ownership information for certain accounts and member relationships.

A "beneficial owner" is defined as the individual(s) who have a level of control over, or entitlement to, the funds or assets in the account that, as a practical matter, enables the individual(s) directly or indirectly, to control, manage, or direct the account. Money launderers, criminals, tax evaders and terrorists may create front companies designed to conceal the nature and purpose of illicit transactions, as well as the identity of the persons involved in them. These front companies may establish accounts at credit unions with the credit union being unaware of the illicit ownership or control. Consequently, heightened risks may arise as identifying the beneficial owner(s) of some business entities, trusts and foundations may be challenging.

The adoption and implementation of internal controls including comprehensive customer due diligence (CDD) policies, procedures and processes for all members, is a strong cornerstone of a strong BSA/AML compliance program. A credit union's CDD process should be commensurate with its BSA/AML risk and should be developed to identify members that pose heightened money laundering or terrorist financing risks.

CDD procedures should be designed to identify and verify the identity of the beneficial owner(s) of an account, as appropriate, based on the evaluation of risk pertaining to the account. CDD procedures may include the following:

- Determining whether the member is acting as an agent for or on behalf of another.
- Obtaining information about the structure of legal entities not publicly traded in the U.S. (such as an unincorporated association, a private investment company (PIC), or trust or foundation) to determine whether the account's ownership structure poses heightened risk.
- Obtaining information about a trust structure to establish a reasonable understanding to determine the provider of fund and persons or entities that have control over the funds or have the power to remove the trustees.

Accounts identified as posing a heightened BSA/AML risk should be subjected to enhanced due diligence (EDD) procedures designed to ensure compliance with the requirements of the BSA. This may include steps, in accordance with the level of risk presented, to identify and verify beneficial owners, to reasonably understand the sources and uses of funds in the account, and to reasonably understand the relationship between the customer and the beneficial owner.

CDD and EDD information should be used for monitoring purposes and to determine whether there are discrepancies between information obtained regarding the account's intended purpose and expected account activity and the actual sources of funds and uses of the account.

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

Sincerely – Deborah Matz, Chairman

ENCLOSURE

Financial Crimes Enforcement Network
Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency
Office of Thrift Supervision
Securities and Exchange Commission

Joint Release

FIN-2010-G001
Issued: **March 5, 2010**
Subject: **Guidance on Obtaining and Retaining Beneficial Ownership Information**

The Financial Crimes Enforcement Network (FinCEN), along with the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Securities and Exchange Commission, are issuing this guidance, in consultation with staff of the Commodity Futures Trading Commission, to clarify and consolidate existing regulatory expectations for obtaining beneficial ownership information for certain accounts and customer relationships. Information on beneficial ownership in account relationships provides another tool for financial institutions to better understand and address money laundering and terrorist financing risks, protect themselves from criminal activity, and assist law enforcement with investigations and prosecutions.

Background

The cornerstone of a strong Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance program is the adoption and implementation of internal controls, which include comprehensive customer due diligence (CDD) policies, procedures, and processes for all customers, particularly those that present a high risk for money laundering or terrorist financing. **(This guidance does not alter or supersede previously issued regulations, rulings, or guidance related to Customer Identification Program (CIP) requirements.)** The requirement that a financial institution know its customers, and the risks presented by its customers, is basic and fundamental to the development and implementation of an effective BSA/AML compliance program. Specifically, conducting appropriate CDD assists an institution in identifying, detecting, and evaluating unusual or suspicious activity.

In general, a financial institution's CDD processes should be commensurate with its BSA/AML risk, with particular focus on high risk customers. CDD processes should be developed to identify customers who pose heightened money laundering or terrorist financing risks, and should be enhanced in accordance with the institution's assessment of those risks.

Heightened risks can arise with respect to beneficial owners of accounts because nominal account holders can enable individuals and business entities to conceal the identity of the true owner of assets or property derived from or associated with criminal activity. Moreover, criminals, money launderers, tax evaders, and terrorists may exploit the privacy and confidentiality surrounding some business entities, including shell companies and other vehicles designed to conceal the nature and purpose of illicit transactions and the identities of the persons associated with them. Consequently, identifying the beneficial owner(s) of some legal entities may be challenging, as the characteristics of these entities often effectively shield the legal identity of the owner. However, such identification may be important in detecting suspicious activity and in providing useful information to law enforcement.

A financial institution may consider implementing these policies and procedures on an enterprise-wide basis. This may include sharing or obtaining beneficial ownership information across business lines, separate legal entities within an enterprise, and affiliated support units. To encourage cost effectiveness, enhance efficiency, and increase availability of potentially relevant information, AML staff may find it useful to cross-check for beneficial ownership information in data systems maintained within the financial institution for other purposes, such as credit underwriting, marketing, or fraud detection.

Customer Due Diligence

As part of an institution's BSA/AML compliance program, a financial institution should establish and maintain CDD procedures that are reasonably designed to identify and verify the identity of beneficial owners (**The definition of a "beneficial owner" under FinCEN's regulations specific to due diligence programs for private banking accounts and for correspondent accounts for foreign financial institutions is the individual(s) who have a level of control over, or entitlement to, the funds or assets in the account that, as a practical matter, enables the individual(s), directly or indirectly, to control, manage, or direct the account. The ability to fund the account or the entitlement to the funds of the account alone, however, without any corresponding authority to control, manage, or direct the account (such as in the case of a minor child beneficiary), does not cause the individual to be a beneficial owner. This definition may be useful for purposes of this guidance. *See, e.g.*, 31 CFR 103.175(b)).** of an account, as appropriate, based on the institution's evaluation of risk pertaining to an account. **(The final rules implementing Section 326 of the USA PATRIOT Act similarly provide that, based on a financial institution's risk assessment of a new account opened by a customer that is not an individual, a financial institution may need to take additional steps to verify the identity of the customer by seeking information about individuals with ownership or control over the account, including signatories. *See, e.g.*, 31 CFR 103.121(b)(2)(ii)(C). In addition, a financial institution may need to look through the account in connection with customer due diligence procedures required under other provisions of its BSA compliance program.)**

For example, CDD procedures may include the following:

- Determining whether the customer is acting as an agent for or on behalf of another, and if so, obtaining information regarding the capacity in which and on whose behalf the customer is acting.
- Where the customer is a legal entity that is not publicly traded in the United States, such as an unincorporated association, a private investment company (PIC), trust or foundation, obtaining information about the structure or ownership of the entity so as to allow the institution to determine whether the account poses heightened risk.
- Where the customer is a trustee, obtaining information about the trust structure to allow the institution to establish a reasonable understanding of the trust structure and to determine the provider of funds and any persons or entities that have control over the funds or have the power to remove the trustees.

With respect to accounts that have been identified by an institution's CDD procedures as posing a heightened risk, these accounts should be subjected to enhanced due diligence (EDD) that is reasonably designed to enable compliance with the requirements of the BSA. This may include steps, in accordance with the level of risk presented, to identify and verify beneficial owners, to reasonably understand the sources and uses of funds in the account, and to reasonably understand the relationship between the customer and the beneficial owner.

Certain trusts, corporate entities, shell entities, **(http://www.fincen.gov/statutes_regs/guidance/pdf/AdvisoryOnShells_FINAL.pdf)** and PICs are examples of customers that may pose heightened risk. In addition, FinCEN rules establish particular due diligence requirements concerning beneficial owners in the areas of private banking and foreign correspondent accounts.

In addition, CDD and EDD information should be used for monitoring purposes and to determine whether there are discrepancies between information obtained regarding the account's intended purpose and expected account activity and the actual sources of funds and uses of the account.

Private Banking **(A "private banking account" is defined in 31 CFR 103.175(o), as an account (or any combination of accounts) maintained at a covered financial institution that: (1) requires a minimum aggregate deposit of funds or other assets of not less than $1,000,000; (2) is established on behalf of or for the benefit of one or more non-U.S. persons who are direct or beneficial owners of the account; and (3) is assigned to, or is administered or managed by, in whole or in part, an officer, employee, or agent of a covered financial institution acting as a liaison between the covered financial institution and the direct or beneficial owner of the account. Private banking accounts that do not fit within this definition should be subject to the general CDD procedures, including, as appropriate, EDD procedures discussed above.)**

Under FinCEN's regulations, a "covered financial institution" **(31 CFR 103.175(f)(1).)** must establish and maintain a due diligence program that includes policies, procedures, and controls reasonably designed to detect and report known or suspected money laundering or suspicious activity conducted through or involving private banking accounts. This requirement applies to private banking accounts established, maintained, administered, or managed in the United States.**(*See, generally,* 31 CFR 103.178.)** The regulation currently covers private banking accounts at depository institutions, securities broker-dealers, futures commission merchants and introducing brokers in commodities, and mutual funds.

Among other actions, as part of their due diligence program, institutions that offer private banking services must take reasonable steps to ascertain the source(s) of the customer's wealth and the anticipated activity of the account, as well as potentially take into account the geographic location, the customer's corporate structure, and public information. **(*See*, 31 CFR 103.178 (b)(3) and (b)(4). *See also*, Federal Financial Institutions Examination Council (FFIEC) Exam Manual, Private Banking -**

Overview. Although the FFIEC Exam Manual is issued by the federal banking regulators regarding AML requirements applicable to banks, it contains guidance that may be of interest to securities and futures firms.) Moreover, reasonable steps must be taken to identify nominal and beneficial owners of private banking accounts. **(31 CFR 103.178(b)(1).)** Obtaining beneficial ownership information concerning the types of accounts listed above may require the application of EDD procedures.

Special rules apply for senior foreign political figures*. (***A senior foreign political figure is a current or former senior official in the executive, legislative, administrative, military, or judicial branches of a foreign government (whether elected or not), senior official of a major foreign political party or a senior executive of a foreign government-owned commercial enterprise, a corporation or other entity formed by or for the benefit of such individuals, or any immediate family member or widely and publically known close associate to such individuals. 31 CFR 103.175(r).)** A review of private banking account relationships is required in part to determine whether the nominal or beneficial owners are senior foreign political figures. Covered financial institutions should establish policies, procedures, and controls that include reasonable steps to ascertain the status of a nominal or beneficial owner as a senior foreign political figure. This may include obtaining information on employment status and sources of income, as well as consulting news sources and checking references where appropriate. **(*See, e.g.,* FFIEC Exam Manual, Private Banking Due Diligence Program (Non-U.S. Persons).)** Accounts for senior foreign political figures require, in all instances, EDD that is reasonably designed to detect and report transactions that may involve the proceeds of foreign corruption**. (31 CFR 103.178 (b)(2) and (c).)**

With regard to private banking accounts, a covered financial institution's failure to take reasonable steps to identify the nominal and beneficial owners of an account generally would be viewed as a violation of the requirements of 31 CFR 103.178.

<u>Foreign Correspondent Accounts</u>

FinCEN's regulations also require covered financial institutions **(31 CFR 103.175(f)(1). The definition of covered financial institution discussed above applies to both the private banking and correspondent account regulations.)** to establish a due diligence program that includes appropriate, specific, risk-based, and, where necessary, enhanced policies, procedures and controls that are reasonably designed to detect and report, on an ongoing basis, any known or suspected money laundering activity conducted through or involving any correspondent account **(31 CFR 103.175(d). Generally, a "correspondent account" is defined as an account established for a foreign financial institution to receive deposits from, or to make payments or other disbursements on behalf of, the foreign financial institution, or to handle other financial transactions related to such foreign financial institution. 31 CFR 103.175(d)(1).)** established, maintained, administered, or managed in the United States for a *foreign financial institution*. **(31 CFR 103.176(a).)** Under these regulations, enhanced due diligence is required for correspondent accounts (**For purposes of the enhanced due diligence requirements for certain foreign banks and the foreign shell bank prohibitions discussed herein, a "correspondent account" is defined as an account established for a foreign bank to receive deposits from, or to make payments or other disbursements on behalf of, the foreign bank, or to handle other financial transactions related to such foreign bank. 31 CFR 103.175(d)(1)(ii).)** established, maintained, administered, or managed in the United States, for *foreign banks* that operate under: (1) an offshore banking license; (2) a banking license issued by a country that has been designated as non-cooperative with international anti-money laundering principles or procedures; or (3) a banking license issued by a country designated by the Secretary of the Treasury (under delegation to the Director of FinCEN, and in consultation with the Federal banking agencies, the Securities and Exchange Commission, and the Commodity Futures Trading Commission) as warranting special measures due to money laundering concerns. **(*See* 31 CFR 103.176(b) and(c) for the full text of this provision. Special Due Diligence Programs for Certain Foreign Accounts, 72 FR 44768-44775 (August 9, 2007).)** Enhanced due diligence is designed to be risk-based, with flexibility in its implementation to allow covered financial institutions to obtain and retain this information based on risk.

With respect to correspondent accounts for such foreign banks, a covered financial institution's risk-based EDD should obtain information, as appropriate, from the foreign bank about the identity of any person with authority to direct transactions through any correspondent account that is a payable-through account, as well as the source and beneficial owner of funds or other assets in a payable-through account. A payable-through account is a correspondent account maintained by a covered financial institution for a foreign bank by means of which the foreign bank permits its customers to engage, either directly or through a subaccount, in banking activities usual in connection with the business of banking in the United States.**(*See,* 31 CFR 103.176(b)(1)(iii)(B).)** Covered financial institutions may elect to use a questionnaire or conduct a review of the transaction history for the respondent bank in collecting the information required**. ("An Assessment of the Final Rule Implementing Enhanced Due Diligence Provisions for Accounts for Certain Foreign Banks, p. 4. (March 2009). http://www.fincen.gov/news_room/rp/files/Special_Due_Diligence_Program.pdf)**

Additionally, covered financial institutions **(For purposes of the shell bank prohibitions, a covered institution generally includes: U.S. banks, savings associations, credit unions, private bankers, and trust companies; branches and agencies of foreign banks; Edge Act corporations; and securities broker-dealers. 31 CFR 103.175(f)(2).)** are prohibited from opening and maintaining correspondent accounts **(For purposes of the foreign shell bank prohibitions, a "correspondent account" is defined as an account established for a foreign bank to receive deposits from, or to make payments or other disbursements on behalf of, the foreign bank, or to handle other financial transactions related to such foreign bank. 31 CFR 103.175(d)(1)(ii))** for foreign shell banks**.(*See*, 31 CFR 103.177.)** Covered financial institutions that offer foreign correspondent accounts must take reasonable steps to ensure the account is not being used to indirectly provide banking services to foreign shell banks. **(31 CFR 103.177(a)(1)(ii).)** The covered financial institution must identify the owners (For purposes of 31 CFR 103.177, "owner" is defined at 31 CFR 103.175(l). Similarly, under the enhanced due diligence provisions of the correspondent account rule, the covered financial institution may need to identify the owners of foreign banks whose shares are not publicly-traded. *See*, 31 CFR 103.176(b)(3). (An "owner" is defined for this purpose to include any person who directly or indirectly owns, controls, or has the power to vote 10 percent or more of any class of securities. *See*, 31 CFR 103.176(b)(3)(ii).) of foreign banks whose shares are not publicly traded and record the name and address of a person in the United States that is authorized to be an agent to accept service of legal process. **(*See* 31 CFR 103.177(a)(2).)**

With regard to foreign correspondent accounts, a covered financial institution's failure to maintain records identifying the owners of non-publicly traded foreign banks could be viewed as a violation of the requirements of 31 CFR 103.177.

For questions about this guidance, please contact FinCEN's Regulatory Helpline at (800) 949-2732 or your appropriate regulatory agency.

Sincerely – Deborah Matz, Chairman

REGULATORY ALERTS

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

DATE: **February 2010** **NO:** **10-RA-06**
TO: **Federally Insured Credit Unions**
SUBJ: **Exception for Customer Identification Program (CIP) requirements to protect victims of domestic abuse**

Dear Board of Directors:

The Financial Crimes Enforcement Network (FinCEN) recently issued guidance on customer identification program (CIP) requirements as they relate to members who are issued a post office box address as part of their participation in an address confidentiality program (ACP).

This guidance addresses an apparent conflict between state laws establishing an ACP designed to protect victims of domestic abuse and the CIP requirements. ACP participants are provided a post office box address where mail is received on their behalf. The mail is then sent on to the participant's actual address, which is maintained by the authorized state entity. Participants in ACPs have experienced difficulty in establishing new accounts with financial institutions who will not accept a post office box address as they believe it would violate the CIP regulations.

The CIP regulation requires that a credit union obtain a residential or business street address at account opening. **(See 31 C.F.R. §103.121(b)(2)(i)(3)(i))** If the individual member does not have a residential or business street address, the rules permit the member to provide a "residential or business street address of next of kin or of *another contact individual*." **(See 31 C.F.R. §103.121(b)(2)(i)(3)(ii))** A credit union would not be in compliance with the CIP rules if it accepts the ACP post office box address to fulfill CIP requirements.

In an effort to support participants in an ACP, FinCEN authorized an exception to the CIP requirement that a credit union obtain a member's residential or business street address for participants of an ACP. A participant in a state-created ACP shall be treated as not having a residential or business street address and **the state entity serving as a designated agent of the participant will act as *another contact individual* for the purpose of complying with FinCEN's rules. Therefore, a credit union should collect the street address of the ACP sponsoring agency for purposes of meeting its CIP address requirement.**

A complete copy of FIN-2009-G003 may be obtained at http://www.fincen.gov/statutes_regs/guidance/pdf/fin-2009-r003.pdf.
If you have any questions regarding this guidance, please contact your district examiner, regional office, or state supervisory authority.

Sincerely – Deborah Matz, Chairman

KentuckyCorporate
Federal Credit Union

RECEIVED
MAR 1 6 2010
BY:

To:	**Jefferson County Federal Credit Union**
From:	**Jim Thompson, President/CEO**
Date:	**March 12, 2010**
Re:	**Membership Capital Depletion**

In the March 2, 2010 update letter, Kentucky Corporate FCU shared with our members the U.S. Central unaudited fourth quarter financials, revealing their estimated OTTI losses have increased by another $497.9 million. As a result, U.S. Central depleted the final remaining amount of Kentucky Corporate's capital with them totaling $2.05 million on March 2, 2010. Based on this depletion of our capital with U.S. Central, Kentucky Corporate will be forced to write-down approximately 13.82% of your remaining Membership Capital Shares (MCS). The amount of the depletion to your Membership Capital Shares is $50,626.28. Kentucky Corporate will debit your account by the end of day, March 30, 2010.

Beginning with the fourth quarter 2008, the OTTI losses for U.S. Central have totaled $3.06 billion - all based on estimates. U.S. Central has reported that the actual losses to date are $197 million as of January 2010.

U.S. Central will continue to report OTTI on a quarterly basis, which is directly related to the mortgage market. Kentucky Corporate has no further exposure to losses from U.S. Central. All of Kentucky Corporate's remaining deposits held at U.S. Central are guaranteed through the NCUA's Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) until June 30, 2012.

As stated previously, it has been Kentucky Corporate's intent and responsibility to return any member capital accounts that have been written off back to their par value. However, there are provisions in the proposed regulation which may forbid this. We hope that credit unions' voices will be heard through their comment letters to change this section of the regulation.

Thank you for your continued support of Kentucky Corporate. We continue to work hard to earn your trust and safeguard your deposits with us. We look forward to getting beyond these issues so that we can get back to focusing on serving our members.

We will continue to inform you as developments arise. Please let me know how I may be of assistance in the interim. Please e-mail me at jthompson@kycorp.org or call me at (502) 459-6110 or 1-800-333-5285, ext. 200.

Phone: 502.459.6110 • 1.800.333.5285 • 3615 Newburg Road • Louisville, Kentucky 40218

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

ASSETS	
LOANS	39,140,596.93
ASSETS IN LIQUIDATION OF LOANS - RE	0.00
ASSETS IN LIQUIDATION OF LOANS - AU	0.00
REAL ESTATE LOANS - TECUMSEH	62,928.12
TOTAL LOANS TO MEMBERS	39,203,525.05
ALLOW. FOR LOAN LOSSES	(303,562.28)
ALLOW. FOR OVERDRAFT LOSSES	(1,698.93)
NET LOANS	**38,898,263.84**
FIFTH THIRD	203,663.30
VAULT CASH	521,963.49
CHANGE FUND - ATM MACHINE	53,980.00
PETTY CASH	50.00
CASH TOTAL	**779,656.79**
KENTUCKY CORPORATE FCU	16,565,299.17
FEDERAL HOME LOAN BANK OF CINCINNATI	144,522.98
DEPOSITS - OTHER FINANCIAL INSTITUTIONS	35,294,000.00
SHARE ONE CUSO INVESTMENT	100,000.00
LOAN TO CUCKY	0.00
CLF CU SIP INVESTMENT	0.00
TOTAL INVESTMENTS	**52,103,822.15**
ACCRUED INTEREST - LOANS	160,378.36
OTHER ACCRUED INCOME	0.00
TOTAL ACCRUED INCOME	**160,378.36**
PREPAID & DEFERRED EXPENSES	46,756.38
TOTAL PREPAID & DEFERRED	**46,756.38**
LAND - MAIN & OUTER LOOP OFFICE	448,100.00
BUILDING - MAIN & OUTER LOOP OFFICE	1,547,029.32
IMPROVEMENTS - MAIN OFFICE	1,527.68
IMPROVEMENTS - BRANCH 1	1,056.27
IMPROVEMENTS - BRANCH 2	0.00
IMPROVEMENTS - BRANCH 3	0.00
IMPROVEMENTS - BRANCH 4	0.00
ACCUM. DEPR. - MAIN & OUTER LOOP OFFICE	(549,245.25)
FURNITURE & EQUIPMENT	51,313.18
COMPUTER EQUIPMENT	28,629.18
TOTAL FIXED ASSETS	**1,528,410.38**
ACCOUNTS RECEIVABLE	(3,000.00)
DEFERRED COMPENSATION	2,205,476.02
CAPITAL DEPOSIT - CUCKY	65,664.00
DEPOSIT - NCUSIF	796,081.51
TOTAL OTHER ASSETS	**3,064,221.53**
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TOTAL ASSETS	**96,581,509.43**

LIABILITIES	
ACCOUNTS PAYABLE	4,454.84
MONEY ORDERS	8,478.30
TRAVELERS CHECKS	0.00
AMUSEMENT PARK TICKETS	0.00
KYCUPAC - FROM MEMBERS	25.00
DEATH CLAIMS	245,397.47
EMPLOYEE 401(K) PLAN	0.00
INSURANCE COMPANIES	7,969.65
FLOOD DETERMINATION	24.00
RECORDING FEES - CLERK	340.00
ATTORNEY FEES	10,675.00
APPRAISALS	(1,225.00)
TOTAL ACCOUNTS PAYABLE	**276,139.26**
DIVIDENDS PAYABLE	**113,158.66**
CLF CU SIP NOTE PAYABLE	**0.00**
FEDERAL TAXES	6.63
KENTUCKY STATE TAXES	0.00
FEDERAL & STATE UNEMPLOY.	0.00
OCCUPATIONAL TAXES	0.00
TAXES HELD ON DIVIDENDS	559.02
ACCRUED PROPERTY TAXES	4,000.00
PENALTIES ON PREMATURE IRA DISTR.	0.00
TOTAL TAXES PAYABLE	**4,565.65**
ACCRUED EXPENSES	507,669.19
TOTAL ACCRUED EXPENSES	**507,669.19**
ACCRUED NCUSIF STABILIZATION EXPENSE	**0.00**
UNAPPLIED EXCEPTIONS	**56,393.31**
TOTAL LIABILITIES	**957,926.07**
CAPITAL	
REGULAR SHARE ACCOUNTS	18,859,495.88
CLUB ACCOUNTS	695,485.22
SHARE DRAFT ACCOUNTS	5,842,101.35
CASH INVESTMENT ACCOUNTS	29,426,302.38
CORPORATE CASH INVESTMENT	2,217,319.00
REWARDS CHECKING	1,973,484.93
IRA - ACCUMULATION ACCOUNTS	1,706,571.26
CERTIFICATES - REGULAR	17,931,892.54
CERTIFICATES - IRA	3,953,404.25
CERTIFICATES - TOTAL	21,885,296.79
TOTAL SHARES	**82,606,056.81**
REGULAR RESERVE	1,901,148.19
RESERVE FOR CONTING.	0.00
UNDIVIDED EARNINGS	11,068,235.07
NET INCOME	48,143.29
TOTAL CAPITAL	**95,623,583.36**
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TOTAL CAPITAL & LIABILITIES	**96,581,509.43**

Jefferson County Federal Credit Union
BUDGET REVIEW
February 28, 2010

	ACTUAL CURRENT	BUDGETED CURRENT	ACTUAL Y-T-D	BUDGETED Y-T-D	DIFFERENCE Y-T-D	PERCENT TOT INCOME
I N C O M E						
INTEREST ON LOANS	211,409.18	232,031.00	448,133.42	463,099.00	(14,965.58)	62.31%
INVESTMENTS	41,430.13	55,166.00	88,091.26	109,831.00	(21,739.74)	12.21%
INTEREST ON CLF CU SIP	7,203.52	0.00	27,502.01	0.00	27,502.01	2.12%
INSURANCE REIMB.	7,328.80	7,500.00	15,780.17	15,000.00	780.17	2.16%
MO & CHK FEE	445.50	425.00	786.75	850.00	(63.25)	0.13%
OVERDRAFT FEE	46,977.40	60,000.00	113,435.73	120,000.00	(6,564.27)	13.85%
WIRE TRANS. & CMO	154.00	250.00	392.00	500.00	(108.00)	0.05%
LOAN LATE FEE	5,989.46	4,800.00	11,283.92	9,600.00	1,683.92	1.77%
ATM SURCHARGE FEES	487.50	375.00	867.00	750.00	117.00	0.14%
SHARE DRAFT & ATM	1,632.27	1,900.00	3,143.35	3,800.00	(656.65)	0.48%
MISCELLANEOUS INC.	927.93	1,350.00	1,928.11	2,700.00	(771.89)	0.27%
LOCK BOX FEE	220.00	200.00	300.00	400.00	(100.00)	0.06%
ATM TRANSACTION FEE	366.00	575.00	714.00	1,150.00	(436.00)	0.11%
LOAN APPLICATION FEE	100.00	250.00	350.00	500.00	(150.00)	0.03%
MEMBERSHIP FEE	490.00	475.00	845.00	950.00	(105.00)	0.14%
C-CARD INCOME	396.26	250.00	1,574.59	500.00	1,074.59	0.12%
D-CARD INTERCHANGE	13,713.33	14,500.00	27,000.68	29,000.00	(1,999.32)	4.04%
TOTAL INCOME	**339,271.28**	**380,047.00**	**742,127.99**	**758,630.00**	**(16,502.01)**	**100.00%**
E X P E N S E S						
SALARIES - REGULAR	77,003.62	80,461.00	153,712.30	160,921.00	(7,208.70)	22.70%
SALARIES - OVERTIME	17.09	346.00	82.70	693.00	(610.30)	0.01%
CONTRACT EMPLOY.	0.00	300.00	0.00	600.00	(600.00)	0.00%
401K COSTS	3,434.61	3,475.00	6,600.55	6,950.00	(349.45)	1.01%
SOCIAL SECURITY TAX	5,753.78	6,182.00	11,488.70	12,364.00	(875.30)	1.70%
UNEMPLOYMENT TAX	1,389.09	480.00	2,989.56	960.00	2,029.56	0.41%
STAFF INSURANCE	13,631.90	13,700.00	27,258.49	27,400.00	(141.51)	4.02%
LOCAL TRAVEL	525.00	600.00	1,033.25	1,200.00	(166.75)	0.15%
VEHICLE MAINTENANCE	511.96	400.00	521.96	800.00	(278.04)	0.15%
OUT OF TOWN TRAVEL	0.00	725.00	0.00	1,450.00	(1,450.00)	0.00%
BOARD MEETING EXP.	608.22	1,065.00	1,822.34	2,130.00	(307.66)	0.18%
ASSOC. DUES & SUBSCR.	2,313.25	2,226.00	4,483.13	4,452.00	31.13	0.68%
OFFICE OCCUP. EXP.	18,391.88	16,708.00	32,040.06	34,133.00	(2,092.94)	5.42%
BLDG. - LAND IMPROV.	215.21	416.00	430.42	832.00	(401.58)	0.06%
TELEPHONE EXPENSE	1,691.63	1,804.00	3,462.72	3,608.00	(145.28)	0.50%
POSTAGE	3,824.41	5,275.00	10,423.51	10,550.00	(126.49)	1.13%
MAINT. OF EQUIP.	1,088.81	1,109.00	2,454.09	2,230.00	224.09	0.32%
STATIONARY & SUPP.	2,172.74	2,100.00	2,841.06	4,200.00	(1,358.94)	0.64%
INSURANCE	2,823.83	2,924.00	5,647.73	5,848.00	(200.27)	0.83%
DEPRECIATION - FURN.	3,170.03	3,227.00	6,323.13	6,454.00	(130.87)	0.93%
BANK SERVICE CHARGE	19,263.84	25,282.00	43,339.71	50,564.00	(7,224.29)	5.68%
COMPUTER EXPENSE	16,887.33	17,432.00	33,691.26	34,864.00	(1,172.74)	4.98%
EDUCATIONAL & PROM	6,595.00	6,397.00	12,445.00	12,794.00	(349.00)	1.94%
LOAN SERVICING EXP.	3,907.14	8,170.00	11,156.44	16,340.00	(5,183.56)	1.15%
PROF. & OUTSIDE EXP.	7,551.02	9,570.00	17,055.71	19,190.00	(2,134.29)	2.23%
FEDERAL SUPERVISION	1,740.00	1,740.00	3,480.00	3,480.00	0.00	0.51%
NCUSIF INS. PREM.	26,759.00	26,759.00	53,518.00	53,518.00	0.00	7.89%
CASH OVER & SHORT	209.45	100.00	149.52	200.00	(50.48)	0.06%
COST-BORROWED FUND	5,319.46	0.00	20,309.82	0.00	20,309.82	0.00%
ANNUAL MEETING EXP.	700.00	700.00	1,400.00	1,400.00	0.00	0.21%
MISCELLANEOUS EXP.	643.52	3,875.00	1,082.96	7,750.00	(6,667.04)	0.19%
TOTAL OPER. EXP.	**228,142.82**	**243,548.00**	**471,244.12**	**487,875.00**	**(16,630.88)**	**67.24%**
ALLOWANCE - LOAN LOSS	20,000.00	20,000.00	40,000.00	40,000.00	0.00	5.89%
ALLOWANCE - OVERDRAFT LOSS	75.00	75.00	150.00	150.00	0.00	0.02%
DIVIDENDS	86,065.10	82,127.00	182,590.58	163,932.00	18,658.58	25.37%
(GAIN)LOSS ON INVESTMENTS	0.00	0.00	0.00	0.00	0.00	0.00%
(GAIN)LOSS ON INVESTMENTS- KY CORP						
OTHER NON OPERATING EXPENSE (INCOME)						
TOTAL EXPENSES	**334,282.92**	**345,750.00**	**693,984.70**	**691,957.00**	**2,027.70**	**98.53%**
NET INCOME	**4,988.36**	**34,297.00**	**48,143.29**	**66,673.00**	**(18,529.71)**	**1.47%**

PRESIDENT'S REPORT March 24, 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 $1,864,000 leaving an increase of $1,238,000 year to date. Loan volume for the month showed a decrease of $355,000 and net loans showed a decrease of $61,000 leaving a decrease of $59,000 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 is $19,000 below budget due to a host of items. Loan, investment and fee income are less than budgeted. Some expenses like snow removal are ahead of budget.

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

As of 01-15-10	6	21,318.50
As of 02-15-10	5	11,339.50
As of 03-15-10	6	17,918.34
TOTAL	**17**	**50,576.34**

LENDING ACTIVITY

RE LOANS - February 2010

DATE	NAME	ACCOUNT #	APPRAISAL	NEW MONEY	LOAN AMOUNT	EQUITY	TERM IN MONTHS	CREDIT LIMIT	APPROVED BY
2/5/10	Stone	824260	300,000	220,395	220,395	240,000	180	0	CEO
2/16/10	Schmidt	900180	210,000	120,341	120,341	168,000	180	0	CEO
TOTAL/AVG		**0**	**510,000**	**340,736**	**340,736**	**408,000**	**180**	**0**	

A '0' in the equity column indicates > 80% LTV

COMMENTS: NONE

INVESTMENT ACTIVITY

CD Purchases - February 2010

DATE	AMOUNT	TERM	RATE	INSTITUTION	CITY	ST	CODE
02/01/10	99,000	12	0.60%	TELESIS COMMUNITY CREDIT UNION	CHATSWORTH	CA	3
02/02/10	99,000	12	1.00%	KENTUCKY NEIGHBORHOOD BANK	ELIZABETHTOWN	KY	2
	99,000	12	0.50%	BITTERROOT VALLEY	LOLO	MT	2
	99,000	18	0.90%	FIRST STATE BANK OF BLAKELY	BLAKELY	GA	2
02/03/10	100,000	12	0.50%	BITTERROOT VALLEY	LOLO	MT	2
	99,000	9	0.50%	FIRST CITIZENS BANK & TRUST	RALEIGH	NC	1
02/04/10	99,000	12	0.60%	ESL CREDIT UNION	ROCHESTER	NY	2
	99,000	12	0.60%	BANK OF ASHEVILLE	ASHEVILLE	NC	2
02/05/10	99,000	9	0.45%	CITIZENS BANK OF MUKWONAGO	MUKWONAGO	WI	2
	149,000	12	0.50%	FIRST CITIZENS BANK & TRUST	RALEIGH	NC	1
02/09/10	99,000	12	0.60%	COMMUNITY BANK	PASADENA	CA	2
02/12/10	100,000	18	0.83%	COMMUNITY WEST BANK	GOLETA	CA	2
02/16/10	100,000	12	0.50%	FIRST NATIONAL BANK OF COLD SPRING	COLD SPRING	MN	2
02/17/10	100,000	12	0.60%	CHARTER BANK	WEST POINT	GA	2

	248,000	12	0.50%	BANK OF THE OZARKS	LITTLE ROCK	AR	2
02/18/10	149,000	12	0.90%	KEYBANK NATIONAL ASSOC.	CLEVELAND	OH	2
02/19/10	248,000	12	0.65%	HERITAGE BANK	WILMAR	MN	3
02/22/10	99,000	12	1.00%	PEOPLE'S BANKOF BILOXI	BILOXI	MS	2
	148,000	12	0.60%	KEYPOINT FEDERAL CREDIT UNION	BATON ROUGE	AL	2
02/23/10	100,000	12	0.50%	COVENANT BANK	CLARKSDALE	MS	2
02/24/10	99,000	12	0.50%	FIRST NATIONAL BANK OF COLD SPRING	COLD SPRING	MN	2
	100,000	12	1.10%	GRAND SAVINGS BANK	GROVE	OK	2
02/25/10	248,000	12	0.50%	FIRST AMERICAN BANK	FORT DODGE	IS	2
	248,000	12	0.55%	NATIONAL BANK OF MALVERN	MALVERN	PA	2
TOTAL	**3,127,000**	**12**	**0.65%**	**24**			

INVESTMENT ACTIVITY – FAILED BANKS

	AMOUNT	BANK	DATE	DISPOSISTION
1.	None			

REAL ESTATE PROBLEM LOANS

Acct. #	Name	Address	Zip	Balance	Appraisal	Year	Pamt.	Due
1. 852730	**Townsend, K.**	**1218 W. Woodlawn.**	**40215**	**$24,142**	**$84,500**	**05-06**	**$244**	**$3,660**

01-14-09 **(See prior reports).** 01-27-10 - Meeting went as well as expected. Trustee will pay on the post petition past due amount $488.10 for Dec & Jan. Arrearage still will be paid in plan & Member will start paying again for the Feb payment & has until 15th & and if the member does not make payment then the Attorney will file another motion & we will get stay relief. Then will be able to start foreclosure again. 03-19-09 – She made a payment 01-05-10 and 03-11-10. She was to pay 03-16-10 and did so 03-19-10. She will be do again 04-05-10. We should begin getting payments on the arrearage in May from the court.

QUARTERLY PROCESSING ITEMS

1. LOANS FOR TRANSFER TO ASSETS IN PROCESS OF LIQUIDATION – **NONE**

2. LOAN CHARGE OFF POLICY EXCEPTIONS – **5 for $46,410.56**

3. LOAN CHARGE OFF – **17 for $50,576.34**

4. QUARTERLY REVIEW OF THE "ALLOWANCE FOR LOAN LOSSES ACCOUNT" -
   We are currently over funded in the amount of $33,417.00 including the budget funding from March's income by our three year policy average. This includes $10,000 that was deferred from April due to staff having three pay periods that month. Using NCUA's one year rolling calculation we are only overfunded $14,333.00. I recommend we reduce the budgeted amount for March from $30,000.00 to $20,000.00 leaving us within the NCUA calculation amount range. After our recent examination I still have no real feel for what new methodology they may require in the near future based on their many discussions on risk rating our collateral; especially real estate loans. This action will leave the account at a level that should allow us to comply with reasonable changes without determent to our bottom line.

5. QUARTERLY REVIEW OF THE "ALLOWANCE FOR OVERDRAFT LOAN LOSSES ACCOUNT" –
   Our average monthly loss for 2009 was $43.00. We are required to maintain a one year level that would equate to $516.00. We are currently over funded in the amount of $1,182. I recommend we transfer $1,182.00 from this account and forego the scheduled March transfer of $75.00 to income to bring the account to an acceptable level.

6. DIVIDEND INFORMATION & RECOMMENDATIONS

Rewards, CIA & CCIA were reduced to the first quarter rate 01-01-10

Share Category	Rate Paid 4th Quarter - 09	APY Paid 4th Quarter - 09	Proposed Rate 1st Quarter - 10	Proposed APY 1st Quarter - 10	Balance Ranges
Regular Shares	0.75%	0.75%	0.35%	0.35%	$25 - >
Club Accounts	0.50%	0.50%	0.15%	0.15%	$5 - >
IRA Accounts	1.10%	1.10%	0.60%	0.60%	$5 - >
Escrow Accts.	0.50%	0.50%	0.15%	0.15%	$5 - >
SCA Builder	0.50%	0.50%	0.25%	0.25%	$5 - >
Rewards +	3.98%	4.00%	1.98%	2.00%	$0 - 25,000 - Ach
Rewards +	0.25%	0.25%	0.25%	0.25%	$25,001 & > - Ach
Rewards +	0.25%	0.25%	0.25%	0.25%	$0 - > - UN-Ach
CIA and CCIA	0.75%	0.75%	0.55%	0.55%	$1 - 2,499
CIA and CCIA	0.90%	0.90%	0.70%	0.70%	$2,500 - 9,999
CIA and CCIA	1.04%	1.05%	0.85%	0.85%	$10,000 - 24,999
CIA and CCIA	1.19%	1.20%	0.99%	1.00%	$25,000 - 49,999
CIA and CCIA	1.39%	1.40%	1.14%	1.15%	$50,000 - 99,999
CIA and CCIA	1.54%	1.55%	1.34%	1.35%	$100,000 & >

CHECK REGISTER & ACH DEDUCTIONS
Attached for your review.

COMMENT CARDS
None

RECONCILIATIONS
All accounts are current and correct.

SAFE LANDING AND OVERDRAFT LOAN CHARGE OFF FOR – February 2010
NONE

SUSPICIOUS ACTIVITY REPORTS (SARS) – February 2010
1 for $72,649

MERGER - BRAMCO
The merger is being completed this weekend and we will begin serving those members Monday 03-22-10.

457 PLAN CHANGES
Paper work for a 457(b) plan for 2010-11 is being reviewed.

APRIL NEWSLETTER
Attached for your review.

NCUA RESPONSE LETTER
Attached for your review.

FOR YOUR INFORMATION

- ✓ **CU net worth strong, shares grow, says new NCUA data -** ALEXANDRIA, Va. (3/2/10)—The National Credit Union Administration (NCUA) yesterday released end-of-year call report data for credit unions, figures that show a strong 10% net worth for credit unions at the end of 2009, but also show the economy has taken a toll on loan demand and delinquencies. Membership growth, however, was another strong positive in the reports. Membership in the nation's

7,554 federally insured credit unions increased to nearly 90 million, and shares grew at a robust rate of 10.5%, as more Americans sought out credit unions as a safe place for financial services. "Credit union membership growth is impressive and encouraging. The ‘flight to safety' that landed new deposits at credit unions during the economic downturn continues, as evidenced by credit union share growth in several categories," noted NCUA Chairman Debbie Matz, in a release. "However,' she added, "these positive developments are tempered by recognition of ongoing market stresses. This reality reinforces NCUA's decision to increase examination staff and augment regulatory oversight to monitor and assist credit unions faced with persistent, adverse economic conditions." High unemployment rates and a struggling economy were cited by the agency for the increase in delinquent loans as a percentage of total loans, which grew to 1.82%. The NCUA said credit unions continued to build provisions for loan losses as the ratio of net charge-offs to average loans grew to 1.21%, from 0.85%, during the year. Overall loan volume grew a paltry 1.1% and most of the growth, the NCUA noted, was in used automobile, credit card and first mortgage loans. Yet, net income returned to a positive $1.7 billion after a 2-year decline. This figure includes both National Credit Union Share Insurance Fund stabilization income and expense in 2009. "Data also suggests that, by improving cost management, credit unions reduced operating expenses and the return on average assets grew 24 basis points compared to year-end 2008," the NCUA release noted. Details of major balance sheet items and member growth in federally insured credit unions from January through December 2009 include:

- Assets increased 9.08% to $884.8 billion from $811.1 billion;
- Loans grew 1.1 % to $572.4 billion from $566.0 billion;
- Shares increased 10.5% to $752.7 billion from $681.1 billion;
- Investments increased 27.3% to $210.9 billion from $165.7 billion;
- Net worth grew 1.9% to $87.7 billion from $86.1 billion; and
- Membership increased 1.5% to 89.9 million from 88.6 million members.

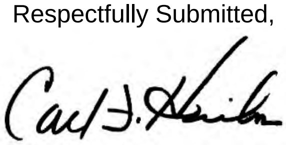
The NCUA also reported:

- Because share growth significantly outpaced loan growth during 2009, the loan-to-share ratio declined to 76.05% from 83.1% posted at year-end 2008. This resulted in significant investment growth.
- Within share accounts, regular shares, share drafts, and IRA/KEOGH accounts each posted double-digit increases, and money market shares grew a substantial 23.5%. Funds in federally insured credit union share certificates declined 0.2%. Lending saw used automobile loans gain 4.1%. First mortgage real estate loans and lines of credit grew 4.4% in 2009. Credit cards posted 6.6% increase, 2% lower than the 8.6% unsecured credit card debt posted in 2008. New automobile loans declined 7.7% and other types of real estate loans declined 4.3%.
- To protect against potential losses, federally insured credit unions increased provisions for loan and lease losses by 34.1% during 2009 following a 120 %increase in 2008. Over $9.4 billion is now set aside to cover loan and lease losses. Delinquent loans grew 33.7 percent to a reported $10.4 billion.

✓ **Bankruptcies up 13% in February -** MADISON, Wis. (3/3/10)--U.S. bankruptcies in February were up 13% from a year ago--the second-highest on a daily basis since October 2005 when the bankruptcy law changed. For the month, bankruptcy filings rose 14% from January, according to data culled from court records by Automated Access to Court Electronic Records (AACER) (*Bloomberg* via *Business Week* March 2). Consumer bankruptcies surged 14% from a year earlier to more than 111,000--with per-capita filings being led by Nevada, Georgia and Tennessee, according to the American Bankruptcy Institute. Commercial bankruptcy filings were unchanged from January and rose 3% from February 2009, ACCER said. Last year, total U.S. bankruptcy filings rose to 1.44 million--a 32% jump from 2008, ACCER said. Also, commercial bankruptcies climbed 38% last year. In 2005, bankruptcy filings totaled a record 2.1 million as 630,000 Americans looked for legal protection from creditors in the two weeks before federal bankruptcy law revisions made it harder for individuals to wipe out debts, analysts said.

BUSINESS DEVELOPMENT & MARKETING
GE will report.

Respectfully Submitted,



Carl F. Hicks
President and CEO

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											1,438,004
Deposits		81,367,271	80,741,585	82,606,057											1,238,786
Investment Balance		50,092,146	50,191,189	52,103,822											2,011,676
Cash Balance		1,135,441	550,341	779,657											(355,784)
Loan Balance		39,263,225	39,265,235	39,203,525											(59,700)
Loans Made		16,371,385	1,123,203	737,692											1,860,895
Members		13,487	13,473	13,497											162,162
Accounts		22,515	22,436	22,429											(86)
DEL - 2-5 Months		20,251	56,996	93,119											72,868
DEL - 6-11 Months		22,927	22,394	15,307											(7,620)
DEL - 12 Months & >		24,413	24,238	31,673											7,260
Delinquent Amount		67,591	103,628	140,099											72,508
Delinquent Percent	< 1.30%	0.17%	0.26%	0.36%											0.19%
Info-Teller		171,642	13,015	13,036											26,051
Website Inquiries		430,156	33,349	35,466											68,815
Bill Payer		1,263	1,272	1,284											21
E-Statements		1,598	1,619	1,641											43
Home Branch Access		2,623	2,695	2,682											2,682
Overdrawn Accounts		24,699	24,437	14,994											(9,705)
Share Bal. $5,000 & <		9,165,807	9,055,847	9,874,237											
INC - Loans YTD		2,789,863	236,724	448,133											
INC - Investments YTD		1,015,590	46,661	88,091											
INC - Other YTD		1,322,312	119,472	205,904											
INC - Total YTD		5,127,765	402,857	742,128											
EXP - ALLL YTD		275,211	20,000	40,000											
EXP - ALLL - OD YTD		(1,068)	75	150											
EXP - Dividend YTD		1,501,407	96,525	182,591											
EXP - Operating YTD		3,291,174	243,102	471,244											
EXP -(G)/L on Invest. YTD		(4,367)	0	0											
Other Non Operating (Inc)		(45,813)	0	0											-
EXP - Total YTD - $		5,016,544	359,702	693,985											
INC- NET- YTD		111,221	43,155	48,143											
Operating Exp. YTD - %	< 5.00%	2.82%	3.07%	2.96%											
Net Interest Margin / AA	> 3.00%	1.97%	2.36%	2.22%											
Return on Average Assets	0.70%	0.10%	0.55%	0.30%											
Net Worth - $		12,969,383	13,012,538	13,017,527											
Total Resv. / Curr. Assets	> 9.00%	10.79%	13.75%	13.48%											
Average Assets - $		93,925,569	94,905,915	95,624,917											
Net Charge Off - $		226,262	0	0											0
Net Charge Off / AA - %	< .45%	0.20%	0.00%	0.00%											0.00%
Long Term Assets - $		22,097,505	21,661,861	21,856,752											
Net Long Term Asset /A - %	< 35.00%	18.39%	22.88%	22.63%											
Total Loans / Assets - %	< 90.00%	32.68%	41.48%	40.59%											
Share Growth - %	7.00%	9.63%	-0.77%	1.52%											
Loan Growth - %	4.00%	4.62%	0.01%	-0.15%											
CD Deposits - $		22,474,877	22,157,168	21,885,297											
Share Deposits - $		58,892,394	58,584,417	60,720,760											
Loan To Total Share - %		66.67%	67.02%	64.56%											
Loan To Total Deposit - %		48.25%	48.63%	47.46%											
Fixed Assets - $		1,546,175	1,537,523	1,528,410											
Fixed Assets - %	< 5.00%	1.29%	1.62%	1.58%											

February **STATISTICAL REPORT** **2010**

CATEGORY	Year End 2009	Prior Month	Current Month	Difference	Year-To-Date
Deposits	81,367,271	80,741,585	82,606,057	1,864,472	1,238,786
Regular CDs	18,487,598	18,214,048	17,931,893	(282,155)	(555,705)
IRA Cds	3,987,279	3,943,120	3,953,404	10,284	(33,875)
Total CDs	22,474,877	22,157,168	21,885,297	(271,871)	(589,580)
Loan Balance	39,263,225	39,265,235	39,203,525	(61,710)	(59,700)
Loans Made	16,371,386	1,123,203	767,692	(355,511)	1,890,895
Members	13,487	13,473	13,497	24	10
Accounts	22,515	22,436	22,429	(7)	(86)
Delinquent Percent	0.17%	0.26%	0.36%	0.10%	0.19%
E-Statements	1,598	1,619	1,641	22	43
Bill Payer	1,263	1,272	1,284	12	21
Info-Teller Inquiries	171,642	13,015	13,036	21	26,051
Website Inquiries	430,156	33,349	35,466	2,117	68,815
HB -Members Used	2,623	2,695	2,682	(13)	59
Overdrawn Accounts	24,699	24,437	14,994	(9,443)	(9,705)
CIA - #	874	872	867	(5)	(7)
CIA - $	29,428,060	28,981,763	29,426,302	444,539	(1,758)
CCIA - #	39	39	39	0	0
CCIA - $	1,971,535	2,246,806	2,217,319	(29,487)	245,784
Rewards - #	170	171	165	(6)	(5)
Rewards - $	2,092,074	2,009,689	1,973,485	(36,204)	(118,589)
Rewards - Surcharge Ref.	1,921	148	163	15	311
Rewards - Cost	55,681	2,707	2,408	(299)	2,707
Regular Checking - #	4,536	4,482	4,483	1	(53)
Regular Checking - $	5,197,317	4,954,270	5,842,101	887,831	644,784
TOTAL CHECKING - #	5,619	5,564	5,554	(10)	(65)
TOTAL CHECKING - $	38,688,986	38,192,528	39,459,207	1,266,679	770,221
Trans - MO	55,723	4,783	4,155	(628)	8,938
Trans - HV	39,596	2,918	2,792	(126)	5,710
Trans - DT	28,954	1,984	2,192	208	4,176
Trans - UR	26,447	1,775	1,846	71	3,621
Trans - IN	40,434	3,049	3,045	(4)	6,094
Trans - INFO	11,939	869	1,473	604	2,342
Trans - HB	86,002	6,987	7,169	182	14,156
Trans - SB	46,958	3,480	2,724	(756)	6,204
Trans - Total YTD	336,053	25,845	25,396	(449)	51,241

DELINQUENCY	Number	Balance
2 - 5 Months	21	93,119
6 -11 Months	3	15,307
12 Months & Over	3	31,673
Total	**27**	**140,099**

ALM - REAL ESTATE LOAN BREAKDOWN February 2010

	Year	Count	Balance	Monthly Installments	Amount to Reprice In 3 Years
CU Channels		2	63,100.00		63,100.00
Variable Rate		21	462,480.88		462,480.88
Maturities of 3 Years & Less	2010-2013	46	567,851.93		567,851.93
Maturities of 4 Years	2014	29	674,397.55		674,397.55
Maturities of 5 Years	2015	20	574,094.18		574,094.18
Maturities of 6 Years	2016	22	948,276.38		948,276.38
Maturities of 7 Years	2017	21	685,705.69		685,705.69
Maturities of 8 Years	2018	44	1,928,660.34	25,792.27	464,260.86
Maturities of 9 Years	2019	26	1,012,031.33	12,400.65	223,211.70
Maturities of 10 Years	2020	29	1,568,489.52	18,057.39	325,033.02
Maturities of 11Years	2021	43	1,927,565.72	20,204.55	363,681.90
Maturities of 12Years	2022	50	3,099,678.54	30,444.36	547,998.48
Maturities of 13Years	2023	65	5,125,800.27	46,984.15	845,714.70
Maturities of 14Years	2024	73	5,551,949.67	48,127.43	866,293.74
Maturities of 15Years	2025	12	1,158,417.40	9,461.25	170,302.50
Maturities of 16-19 Years	2026				0.00
Maturities of > Than 20 Years					0.00
		503	**25,348,499.40**		**7,782,403.51**

Net Long Term Loans	**17,566,095.89**
Fixed Assets	**1,528,410.38**
NCUSIF Deposit	**796,081.51**
LLC	**500.00**
Deferred Compensation	**1,800,000.00**
CUSO Investments	**165,664.00**
Total Long Term Assets	**21,856,751.78**

LOAN OFFICERS REPORT 2010
JEFFERSON COUNTY FEDERAL CREDIT UNION

February , 2010

Loans Approved	***113***	***$745,255.32***
Credit Limits Approved **** includes updates & increases***	***7***	***$17,500.00***
Loans Disbursed	***118***	***$760,771.81***
Indirect Lending	***4***	***$31,075.00***
Equity Checks	***2***	***$1,850.00***
Tecumseh Mortgages	***0***	***$0.00***
Universal Approved Loans **(100% Real Estate Loans)**	***1***	***$30,349.00***
Requests Denied	***49***	***$644,105.08***

J. Kevin Lush	***March 12 2010***
Preparer	***Date***

RECOMMENDED LOAN CHARGE OFF
FIRST QUARTER 2010

ACCOUNT NUMBER	MEMBER NAME	CURRENT BALANCE	LOAN SUFFIX	LOAN TYPE	MDR	AUDR	DATE PAID	DATE DUE	MEMBER GROUP	LOAN OFFICER	Comments	REASON
743050	Ronnie Cherry	$95.56	3	Auto	29%	31%	12/08/08	08/05/08	Kelly Technical Co	GSE	Def Balance	CH-13 Bankruptcy
747180	Damon Buckner	$4,925.34	5	Open End	21%	26%	12/03/09	11/05/09	Payne Electric	GSE	Sending to ABL	Unemployed - UnableTo Pay
797180	Misty Buckner	$4,821.84	5	Open End	40%	46%	11/20/09	11/05/09	Place Or Residence	GSE	Sending to ABL	Employed - Refuse To Pay
856720	Tammy Hatfield	$4,974.51	5	Open End	21%	31%	09/04/09	10/05/09	Mercer Transportation	TW	Unsecured - Not Reaf - ABL	Filing CH-7 Bankruptcy
861230	Joy Hartung	$3,079.38	3	Note	41%	41%	08/11/09	09/05/09	Outsource Manage	TW	Sending to ABL	Employed - Refuse To Pay
883660	Erdenetsetseg Thaxton	$3,421.87	3	Note	N/A	N/A	09/02/09	10/05/09	Place Or Residence	GSE	Unsecured - Not Reaf - ABL	CH-7 Bankruptcy
TOTALS	**For January**	**$21,318.50**		**6**								
657530	Jennifer Napper	$2,099.56	5	Open End	39%	41%	12/15/09	12/05/09	Miscellaneous	KL	Mailed To ABL	Unemployed - UnableTo Pay
686640	Larry Burke	$528.21	5	Open End	27%	31%	11/30/09	12/05/09	Miscellaneous	TW	Mailed To ABL	Unemployed - UnableTo Pay
862940	Christopher Branham	$1,304.55	2	Note	21%	22%	10/21/09	11/05/09	Place Or Residence	KL	Mailed to ABL	Employed -Refuse To Pay
890070	Latisha Sheffield	$2,423.67	1	Note	18%	22%	11/17/09	12/05/09	Place Or Residence	KL	Mailed to ABL	Disability / Employed - RTP
700201204	Lula Croghan	$4,983.51	5	Open End	42%	41%	01/26/10	12/05/09	Census Bureau	GSE	Unsecured - Not Reaf - ABL	Filing CH-7 Bankruptcy
TOTAL	**For February**	**$11,339.50**		**5**								
663400	Christopher Bryant	$2,232.10	5	Open End	38%	38%	12/04/09	01/05/10	Metro Government	TW	Mailed to ABL	RTP - Skip to Scottsville Ky
847410	Osia Craig Jr.	$3,023.90	1	Note	33%	28%	11/30/09	12/05/09	Place Or Residence	TW	Unsecured - Paying In Plan	CH-13 Bankruptcy
854220	Renee Doss	$1,672.57	2	Note	36%	40%	01/29/10	02/05/10	Metro Government	KL	Unsecured - Not Reaf	CH-7 Bankruptcy
863660	David Dennis	$2,407.00	4	Auto	37%	52%	11/17/09	12/05/09	Place Or Residence	KL	Def Bal - Mailed To ABL	On Disab - Unable To Pay
880510	Malissa Crouch	$5,666.31	1	Auto	18%	24%	11/03/09	11/05/09	Place Or Residence	TW	Def Bal - Not Reafirming	CH-7 Bankruptcy
3113334	Dennis Howard	$2,916.46	5	Open End	29%	34%	12/31/09	01/05/10	Dayton Walther	KL	Unsecured - Not Reaf - ABL	Filing CH-7 Bankruptcy
TOTAL	**For March**	**$17,918.34**		**6**								

TOTAL ACCOUNTS 17

TOTAL FOR QUARTER $50,576.34

CHARGE OFF BREAKDOWN	
Real Estate	$0.00
Auto	$8,168.87
Other	$0.00
Unsecured	$42,407.47
TOTAL	**$50,576.34**

PRIOR MO. MNR TOTALS*	
Real Estate	$25,322,934.48
Auto	$10,737,084.17
Other	$353,089.47
Unsecured	$2,790,416.93
TOTAL	**$39,203,525.05**

*Includes Tecumseh

Doubtful Loans March 2010

Account Number	Name	Type R-A-O-U	Doubtful Balance	Doubtful Amount	Doubtful Balance RE	Doubtful Balance Auto	Doubtful Balance Other	Doubtful Balance U/S	Doubt Amount RE	Doubt Amount Auto	Doubt Amount Other	Doubt Amount U/S
Potentials												
712830 L-1	Rebekah Bain	U	$2,719.05	$1,719.05				$2,719.05				$1,719.05
712830 L-4	Rebekah Bain	A	$7,112.35	$3,112.35		$7,112.35				$3,112.35		
827240 L-2	Kathryn Maxwell	U	$2,707.05	$1,707.85				$2,707.05				$1,707.85
827240 L-3	Kathryn Maxwell	A	$14,438.61	$3,438.61		$14,438.61				$3,438.61		
890150 L-1	Nadezhda Ushyarov	U	$3,184.80	$3,159.80				$3,184.80				$3,159.80
3113396 L-5	Billy Lawson	U	$4,842.56	$4,811.04				$4,842.56				$4,811.04
700948620 L-1	Ronny Fields	A	$3,350.23	$2,350.23		$3,350.23				$2,350.23		
700948620 L-5	Ronny Fields	U	$4,789.23	$4,089.23				$4,789.23				$4,089.23
	Total		$43,143.88	$24,388.16	$0.00	$24,901.19	$0.00	$18,242.69	$0.00	$8,901.19	$0.00	$15,486.97
	Accounts		8	8	0	3	0	5	0	3	0	5
2-5 Months												
644720 L-5	Deborah Stengel	U	$2,958.29	$1,000.00				$2,958.29				$1,000.00
733250 L-1	Olena Jones	A	$13,972.75	$4,972.75		$13,972.75				$4,972.75		
734780 L-2	Marcus Conley	A	$9,196.06	$3,196.06		$9,196.06				$3,196.06		
754030 L-4	Maurice Watson Jr	A	$19,089.01	$5,089.01		$19,089.01				$5,089.01		
827240 L-4	Kathryn Maxwell	A	$12,130.73	$3,130.73		$12,130.73				$3,130.73		
833450 L-1	Rodney Griffin	A	$5,080.96	$2,080.96		$5,080.96				$2,080.96		
888260 L-1	Robert Thomas	A	$7,078.34	$2,078.34		$7,078.34				$2,078.34		
700948620 L-2	Ronny Fields	A	$12,680.89	$3,680.89		$12,680.89				$3,680.89		
	Total		$82,187.03	$25,228.74	$0.00	$79,228.74	$0.00	$2,958.29	$0.00	$24,228.74	$0.00	$1,000.00
	Accounts		8	8	0	7	0	1	0	7	0	1
6-11 Months												
	Accounts		0	0	0	0	0	0	0	0	0	0
12+ Months												
842940 L-1	Erica Thomas	A	$7,432.47	$1,100.00		$7,432.47				$1,100.00		
	Total		$7,432.47	$1,100.00	$0.00	$7,432.47	$0.00	$0.00	$0.00	$1,100.00	$0.00	$0.00
	Accounts	0	1	1	0	1	0	0	0	1	0	0
	Grand Totals		**$132,763.38**	**$50,716.90**	**$0.00**	**$111,562.40**	**$0.00**	**$21,200.98**	**$0.00**	**$34,229.93**	**$0.00**	**$16,486.97**
	Accounts		**17**	**17**	**0**	**11**	**0**	**6**	**0**	**11**	**0**	**6**
					Total Doubtful Bal		**$132,763.38**		**Total Doubtful Amt**		**$50,716.90**	

FIRST QUARTER 2010

ASSETS IN PROCESS OF PROCESS OF LIQUIDATION

Account No	Sfx	Name	Balance

TOTAL	AMOUNT
0	$0.00

CHARGE OFF POLICY EXCEPTIONS

Account No	Sfx	Name	Balance
CH-13 Bankruptcy Paying Direct			
852730	1	Kimberly Townsend	$24,142.05
CH-13 Bankruptcy Paying In Plan			
842940	1	Erica Thomas	$7,435.47
CH-13 Bankruptcy Paying In Plan			
827510	2	Robin Vaughn	$6,160.03
CH-13 Bankruptcy Paying In Plan			
827510	6	Robin Vaughn	$7,911.30
CH-13 Bankruptcy Paying In Plan			
887760	1	Danny Walters	$761.71

TOTAL	AMOUNT
5	$46,410.56

ALLOWANCE FOR LOAN & LEASE LOSSES RESERVING STRUCTURE

Allowance for Loan and Lease Losses will be calculated using the formula below. The data will be reported in the format below and submitted to the President prior to the 15th of the month of the calendar quarter. The minimum accetable level for this category will be the amount on "Line I". Adjusments of less than $3,000.00 will not be made to item "L". This uses a 3 year historical average.

MARCH 2010

A.	**25,322,934**		"Real Estate" Loan Balance from prior month Balance Sheet
	0	-	"Real Estate" Current Balance to be charged off this period
	0	-	"Real Estate" Current Balances Classified this period
	25,322,934	=	**"Real Estate" - NET Balance for Historical Loss Calculation**
	10,737,085		"Auto" Loan Balance from prior month Balance Sheet
	8,169	-	"Auto" Current Balance to be charged off this period
	111,562	-	"Auto" Current Balances Classified this period
	10,617,354	=	**"Auto" - NET Balance for Historical Loss Calculation**
	353,089		"Other Chattel" Loan Balance from prior month Balance Sheet
	0	-	"Other Chattel" Current Balance to be charged off this period
	0	-	"Other Chattel" Current Balances Classified this period
	353,089	=	**"Other Chattel" - NET Balance for Historical Loss Calculation**
	2,790,417		"Unsecured" Loan Balance from prior month Balance Sheet
	42,407	-	"Unsecured" Current Balance to be charged off this period
	21,201	-	"Unsecured" Current Balances Classified this period
	2,726,809	=	**"Unsecured" - NET Balance for Historical Loss Calculation**
B.	39,020,186	=	**NET TOTAL LOANS - After Adjustments**
C.	**0.03%**		Prior 3 Year's Average loss factor in the "Real Estate" portfolio
	0.69%		Prior 3 Year's Average loss factor in the "Auto" portfolio
	1.08%		Prior 3 Year's Average loss factor in the "Other Chattel" portfolio
	4.17%		Prior 3 Year's Average loss factor in the "Unsecured" portfolio
D.	7,947	+	"Real Estate" Loan Historical Loss Value Required in ALLL Account
	73,466	+	"Auto" Loan Historical Loss Value Required in ALLL Account
	3,805	+	"Other Chattel" Loan Historical Loss Value Required in ALLL Account
	113,635	+	"Unsecured" Loan Historical Loss Value Required in ALLL Account
E.	**50,717**	+	Doubtful Loan Amounts from the attached report
F.	**0**	+	Balance of Loans listed in Special Reserves detailed on the attached report
G.	**249,569**	=	**TOTAL LOSS EXPOSURE (Excluding Recommended Charge Off)**
H.	**50,576**	-	**Amount to be Charged Off This Quarter**
I.	**300,145**	=	**TOTAL REQUIRED Balance for the ALLL Account - (Before This Chargeoff)**
J.	**30,000**	-	**Amount to be transferred from this month's income**
K.	**303,562**	+	Allowance balance from prior month's balance sheet
L.	**33,417**	=	**Amount overfunded or (underfunded)**

SAR

February

2010

Suspicious Activity Report

DATE FILED	DATE(S) OF ACTIVITY			REASON FILED	DOLLAR AMOUNT
02/10/10	01/04/10	THRU	01/29/10	Unusal large currency deposits	$72,649.00

Total Activities =		**1**
Total Dollar Amount =	**$**	**72,649.00**

By:
Date:

March 10, 2010

Mr. Alonzo A. Swann III,
Regional Director
National Credit Union Administration - Region III
7000 Central Parkway, Suite 1600
Atlanta, GA 30328

RE: 2010 Examination Report Complaint

Dear Mr. Swann:

I am writing on behalf of our members, officials and staff. Some of the findings (particularly the DOR) of our recent examination were unfair and we are asking you to intervene on our behalf. In 2008 there was a finding that we needed to do some additional due diligence on a member that we made seven rental property loans to in 2007. For the record all seven loans are current today and have never missed a monthly payment. The examiner in charge told us we must do some additional "due diligence" which required making our members jump through certain hoops on future loans of this type so we did not make any more. Our MBL loans are secured by single family residential property plain and simple. We did continue making 80% LTV on residential property (one per member) and agreed if we did one for another member with three or more properties we would do the "due diligence". The examiners agreed. We have made none of these either. Four of the listed loan exceptions are these type of loans and we feel are not exceptions.

Our four loan officers have a combined 100 plus years of lending experience. Our Board of Directors' years of experience at least double that of staff. We have been making these rental property loans since 1982 and to date have had no losses. Our delinquency and losses have always been less than peer. In fact our primary residence real estate loan losses have been less than $30,000 since 1982. I know there are institutions with poorly made and collected rental property and business loans with large losses but it's not us and we feel it is unfair to ignore our experience and track record and pigeon hole us because of other institutions' problems.

What happened to the non cookie cutter approach to examinations we heard about out of Washington last year? Does "regflex" still exist? If not can we not ask for at least some basic common sense principals? In my mind an examiner should be an advocate for a credit union that is doing the right thing. Ours has taken the "Gestapo" approach in certain areas. The entire portfolio in question is 28 loans for $2.1 million (average of $76,000 per loan). The entire situation is ridiculous. I heard directly from you last spring a tale of woe about the overvalued everglade property loans. I understand there are losses there. However, this is not Florida and our part of the country had no large reduction in property values. A current appraisal will control the amount aspect of the loan anyway.

Large natural person credit unions and the trades are pushing congress for more MBL flexibility for credit unions. I also detect a sense of endorsement from NCUA on this topic as well. Credit unions that have the ability and desire to do this type of lending will be a great source for their members. We do not offer those types of loans and wish to stick with what we do best and have been successful with. This regulatory interpretation mandate would be better served in a credit union that truly does want to and is doing MBL. The examiner is too focused on penalizing us with "one size fits all mentality" in lieu of listening and exercising some common sense. We believe that commercial property in our area will be more volatile in loss of value over the next 24 months than residential property has been or will be. For that reason alone, we do not want to make a true commercial loan (MBL). Both market and commercial real estate value volatility will negatively impact the debtor's ability to financially survive and pay the debt. We have enough strain on our bottom line without adding this potential.

The examiner suggested we engage a business lending CUSO to collect the monitoring tools he wants us to have. We do not want to sell our loans to a CUSO and/or pay servicing fees on them. Our members want their loans from the credit union to be on their credit union statement. We also feel it would be a waste of funds to pay for the monitoring mechanism as we firmly believe it is not something we need. He further told us we should investigate rental property values and do analysis on obligations a member has with other institutions. Most people would call this invasive and none of our business. I certainly agree. If left unchecked this examiner may shut down real estate lending by credit unions in the area. Common sense needs to prevail.

Our members have been and continue to be penalized excessively in loss of net worth, lower dividend and higher loan rates because other regulators allowed investment bankers on Wall Street to make their own rules and run wild. Some players in the corporate network purchased these inflated investments. We obviously did not. It seems there should be some attempt to shore up the policies at these institutions where the horse is long out of the barn in lieu of killing a successful program at JCFCU. Again, all of this has run downhill, as that "stuff" always does and our members continue paying the freight for this entire mortgage backed security investment debacle. Now we are told to further strain our bottom line by running off solid business in this area or spending needless funds for no good reason to monitor what doesn't need monitoring. Again, all of these loans are secured by single family residential property plain and simple. "It ain't rocket science or brain surgery". It's residential real estate lending.

I gave the examiner and supervisory examiner the following analogy. Member "A" buys a piece of rental property and we finance it for him. We qualify Member "A" based on his W-2/current check stub verified income from a source having nothing to do with the rental income he may or may not receive on this property. According to them this loan requires all of the special cash flow and other monitoring. Member "A" now sells the property to the tenant and the tenant qualifies for membership in our credit union and qualifies for the 80% LTV loan on the property. We make the tenant the loan. They both agreed that in the latter scenario the property does not require all of the additional monitoring. Again, where is the common sense? It's the same real estate.

We want to continue having the ability to cost effectively make these loans without aggravating our members and would propose the following. All qualified member non owner occupied loans will be limited to:

1. All standards and qualifications required on a primary residence loan other than occupancy. (This includes a current appraisal with the income generating value as well as the fair market value, title exam and term limited to 15 years.)
2. Limited to a maximum of 80% LTV.
3. Secured by a residential single family dwellings.
4. Limited to an aggregate of up to $100,000 per member.

5. The aggregate of this portion of our loan portfolio will be limited to 12% of our assets.
6. No further monitoring of the property or member will be required other than the requirements that go with any normal loan.

The next area we disagree on involves a loan made last year. The loan in question is in the name of an LLC at the members' request for their own tax and other reasons. The LLC has two owners and both have signed the note with corporate and personal responsibility. One of them resides in the property. Our examiner says this is a business loan stating that "to me it is a business loan" but offers no other corroboration. We disagree. This would eliminate $264,000 of our "business loan" growth from last year that he is so concerned about.

The last area regards interest payments we allow members to make up to twice a year. This too has been going on without a problem since 1982. The examiner has now decided that if we do this on a real estate secured loan it is a "loan mod" under new Troubled Debt Restructuring ("TDR") regulations. This procedure is actually akin to a summer or Christmas payment skip arrangement that many credit unions do and is not covered under the TDR program. Why? Because nothing changes! The particular payment is deferred to the end of the contract and the member pays the balloon or refinances at that time the note expires. A new mortgage is obviously filed as well if we refinance. The examiner now wants us to report this activity to the board on a monthly basis which again is time consuming and serves no benefit. On a loan portfolio of 3,000 staff approved 276 of these in calendar year 2009. The majority of them were probably two per the same member loan which actually involved only 140 member loans. Again, this too has a successful and proven track record. The reporting is over kill.

In the exit meeting the examiner called these extensions. This is not what we call extensions. Extensions alter some term of the loan and an extension agreement is completed, signed by the member documenting they wanted and agree with the change and approved by me verifying that the credit union's best interest are covered. Interest payments simply defer the full payment to the end of the contract, period. We were told that the maximum number of interest payments allowed annually was not documented in our policy but it is and we notified him of this.

Our CPA tells us the following is his understanding relative to TDR. <u>All three of the following items must be present to trigger TDR</u>. First, an existing credit agreement must be renewed, extended or modified. Otherwise the terms of the original note have not contractually changed. **Therefore, informal agreements do not trigger TDR**. Second, the borrower must be experiencing financial difficulty which will render full collection of the note unlikely. Third, the credit union grants an unusual concession. This is a concession not normally granted and not warranted by market conditions. For example, lowering the interest rate primarily to reflect a decrease in market interest rates is not TDR. The actual extension agreements we have approved do not trigger TDR as they only meet one of the criteria above.

If TDR is triggered the following is applicable. Under GAAP you would carve out a portion of the ALLL where the allowance portion for TDR is specifically identified. You would calculate the portion of the note not expected to be collected and reserve for it. Thus each TDR note would be specifically identified and a reserve amount set up for it. <u>One big caveat with GAAP, if TDR is not material to the financial statement it would not be separately tracked for efficiency reasons. Thus, if we are talking about $50,000 of TDR with a loss amount of $10,000 and you have a $200,000 allowance account, a reasonable conclusion for management would be it is not material.</u>

We have been focused on serving our members and doing the right thing for 41 years. Our statistics bear this out. There have been no exotic loans, investments or other activities to jeopardize our member's funds and the safety and soundness of our credit union. To the contrary we may be a little too conservative but it has worked for us. We do not operate in Florida and these are not overvalued everglade home loans. It seems that all of the right things we've done are being completely ignored and YES, we do take it personally.

We appreciate your considering this and hope you find a way to approve our requests. We respectfully request approval of our rental property loan proposal, removing the four loan exceptions noted in the first paragraph, a finding in our favor on the LLC loan, a finding in our favor on the interest payment reporting and eliminating the DOR as we totally complied with the last "finding" issued in 2008 both in practice and in spirit.

I apologize for the absence of brevity but these are critical issues to our members and operation. Although we believe for the most part the examiner feels he is trying to do the right thing in these instances he is misguided. We need some assistance from someone who will step back and look at the 'big picture" and hopefully realize the importance of our members' needs, our bottom line, our proven track record and the absence of logic and accuracy that was applied to the enumerated situations. It is much easier to read about idealistic concepts on paper than it is to successfully employ and function with them in the real world on a daily basis.

Sincerely,

Carl F. Hicks, Jr.
President and CEO

CFH/sr

Cc: Mr. Dale Turner, Supervisory Examiner
Mr. Keith Steier, Principal Examiner

FEBRUARY 2010 OPERATING ACCOUNT GL #733000 PAYOUTS

Check	Amount	Date	Payable To:	Reason
9628	40.00	2/1/2010	COOK & REEVES CARS INC	INDIRECT LENDING
9629	31.00	2/1/2010	JEFFERSON COUNTY CLERK	REPO EXPENSE
9630	487.20	2/1/2010	ALLIED SOLUTIONS LLC	GAP INSURANCE
9631	2,066.21	2/1/2010	PHOENIX UNDERWRITING MANAGERS LLC	INSURANCE
9632	5,630.57	2/1/2010	MINNESOTA MUTUAL	INSURANCE
9633	124.16	2/1/2010	PROFESSIONAL INSURANCE CO	INSURANCE
9634	160.00	2/2/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
9635	50.00	2/2/2010	BULLITT COUNTY CLERK	MORTGAGE RECORDING
9636	135.00	2/2/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
9637	32.00	2/2/2010	JEFFERSON COUNTY CLERK	MORTGAGE RECORDING
9638	15.00	2/3/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
9639	70.22	2/3/2010	FIRST SERVICE GROUP	INSURANCE
9640	135.00	2/3/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
9641	32.00	2/3/2010	JEFFERSON COUNTY CLERK	MORTGAGE RECORDING
9642	26.00	2/3/2010	JEFFERSON COUNTY CLERK	MORTGAGE RECORDING
9643	14.00	2/3/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
9644	663.25	2/5/2010	DIRECT RESPONS SERVICES, INC	INSURANCE
9645	72.89	2/5/2010	WASHINGTON NATIONAL LIFE INS CO	INSURANCE
9646	75.00	2/8/2010	AUTO-BACK RECOVERY	REPO EXPENSE
9647	10.00	2/8/2010	LABA	EDUCATION
9648	250.00	2/9/2010	AUTO-BACK RECOVERY	REPO EXPENSE
9649	352.00	2/9/2010	CAPITAL FUNDING INC	LOAN SERVICING
9650	26.00	2/11/2010	MAPOTHER & MAPOTHER	PROFESSIONAL/OUTSIDE
9651	22.00	2/11/2010	BULLITT COUNTY CLERK	LIEN RELEASE
9652	15.00	2/11/2010	CLARK COUNTY LICENSE BRANCE	LIEN RECORDING
9653	145.79	2/12/2010	INDUSTRIAL DISPOSAL	OFFICE OCCUPANCY
9654	15.00	2/12/2010	OKOLONA PEST CONTROL	OFFICE OCCUPANCY
9655	1,550.00	2/12/2010	GENERAL SERVICES CO., INC	SNOW REMOVAL
9656	396.81	2/12/2010	ADT SECURITY SERVICES	PROFESSIONAL/OUTSIDE
9657	275.00	2/12/2010	TOMMY MOSS	BLDG/LAND MAINTENANCE
9658	38.28	2/12/2010	DUPLICATOR SALES & SERVICE	EQUIPMENT MAINTENANCE
9659	340.00	2/12/2010	WBKI-TV	TV - ADVERTISEMENT
9660	525.00	2/12/2010	DAVID WATERMAN	PROFESSIONAL/OUTSIDE
9661	866.83	2/12/2010	TRANS UNION LLC	PROFESSIONAL/OUTSIDE
9662	6,245.00	2/12/2010	ADMAN MARKETING	TV/RADIO - ADVERTISEMENT
9663	714.03	2/12/2010	GARDA CL CENTRAL	PROFESSIONAL/OUTSIDE
9664	785.38	2/12/2010	ZIP EXPRESS COURIER SERVICE	PROFESSIONAL/OUTSIDE
9665	110.00	2/12/2010	PRINTING SERVICES II	PROFESSIONAL/OUTSIDE
9666	100.00	2/12/2010	ISC KENTUCKY	COMPUTER HARDWARE
9667	4,177.07	2/12/2010	FORTRESS NETWORK SECURITY LLC	PROFESSIONAL/OUTSIDE
9668	6,872.57	2/12/2010	JOSHUA GREGORY	DECEASED ACCOUNT
9669	4.00	2/12/2010	Fifth Third Bank	MISCELLANEOUS EXPENSE
9670	1,050.00	2/16/2010	WEBER & ROSE	COLLECTION EXPENSE
9671	70.00	2/16/2010	ROUTEONE, LLC	LOAN SERVICING
9672	60.00	2/16/2010	PCI SERVICES, INC	COLLECTION EXPENSE
9673	50.00	2/16/2010	THOMPSON BROS. PLUMBING LLC	MAINTENANCE BUILDING & LAND
9674	691.90	2/16/2010	BLUEGRASS NET	COMPUTER HARDWARE
9675	8,232.06	2/16/2010	SHARE ONE, INC.	INTERNET/ COMPUTER MAINTENAI
9676	837.20	2/16/2010	DIGITALMAILER, INC.	PROFESSIONAL/OUTSIDE
9677	57.46	2/16/2010	LOUISVILLE/JEFFERSON CO METRO GOV	TELEPHONE
9678	3,188.20	2/17/2010	NXG STRATEGIES, LLC	PROFESSIONAL/OUTSIDE
9679	388.75	2/17/2010	PROFESSIONAL INSURANCE COMPANY	INSURANCE
9680	399.81	2/17/2010	THE ESTATE OFJOHN E RYAN JR	DECEASED ACCOUNT
9681	26.00	2/18/2010	JEFFERSON COUNTY CLERK	MORTGAGE RELEASE

Check #		Date	Payable To:	Reason
9682	44.00	2/18/2010	SATURN OF LOUISVILLE	LOAN SERVICING
9683	135.00	2/19/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
9684	32.00	2/19/2010	JEFFERSON COUNTY CLERK	MORTGAGE RECORDING
9685	40.00	2/22/2010	OXMOOR HYUNDAI	LOAN SERVICING
9686	190.00	2/22/2010	TCAR RECOVERY & REMARKETING SER.	COLLECTION EXPENSE
9687	430.21	2/22/2010	GENERAL SERVICES ADMINISTRATION	MAINTENANCE BUILDING & LAND
9688	44.00	2/23/2010	POSTMASTER	POSTAGE
9689	14,887.39	2/23/2010	LOUISVILLE METRO HUMAN RESOURCES	EMPLOYEE INSURANCE
9690	577.72	2/24/2010	CARL HICKS	EXPENSE REIMBURSEMENT FEB 2
9691	396.25	2/25/2010	DIRECT RESPONSE ADMIN. SER.INC	INSURANCE
9692	1,195.29	2/25/2010	AMERICAN HERITAGE	INSURANCE
9693	250.00	2/26/2010	AUTO-BACK RECOVERY	REPO EXPENSE
9694	0.44	2/26/2010	LINDSAY STINSON	POSTAGE
9695	186.50	2/26/2010	RACHEL LEE	TRAVEL-LOCAL
9696	103.50	2/26/2010	DON FRITTS	TRAVEL-LOCAL
9697	1,772.70	2/26/2010	COURTESY CLEANING SERVICE	PROFESSIONAL/OUTSIDE
9698	466.39	2/26/2010	ARROW ELECTRIC COMPANY	MAIN FURN. & EQUIPMENT
9699	295.00	2/26/2010	GEOGHEGAN ROOFING CORP.	MAINTENANCE BUILDING & LAND
9700	3,708.00	2/26/2010	WAYNE'S LAWN SER., INC.	MAINTENANCE BUILDING & LAND
9701	50.00	2/26/2010	NEOPOST INC	MAIN. FURN. & EQUIPMENT
9702	333.00	2/26/2010	FINANCIAL SERVICE ASSOCIATION	BOARD MEETING
9703	1,247.02	2/26/2010	STAPLES	STATIONARY/SUPPLIES
9704	1,059.09	2/26/2010	INSIGHT COMMUNICATIONS	COMPUTER HARDWARE & MAIN.
9705	796.00	2/26/2010	FORTRESS NETWORK SECURITY, LLC	COMPUTER HARDWARE & MAIN.
9706	541.66	2/26/2010	CNBS LLC	PROFESSIONAL/OUTSIDE
9707	600.00	2/26/2010	DAVID WATERMAN LLC	APPRAISALS
9708	799.00	2/26/2010	MYCAREER NETWORK	PROFESSIONAL/OUTSIDE
9709	3,950.00	2/26/2010	KENNETH KLING, CPA PSC	PROFESSIONAL/OUTSIDE
9710	2,436.96	2/26/2010	FISERV	PROFESSIONAL/OUTSIDE
9711	585.70	2/26/2010	CHEXSYSTEMS INC.	PROFESSIONAL/OUTSIDE
9712	2,210.00	2/26/2010	PENTEGRA DC PLAN	PROFESSIONAL/OUTSIDE
9713	552.45	2/26/2010	LINCOLN NAT. LIFE INS. CO	EMPLOYEE INSURANCE
9714	190.00	2/26/2010	PARC	TRAVEL-LOCAL
9715	28.75	2/26/2010	CATHY PENNELL	TRAVEL-LOCAL
9716	9.75	2/26/2010	JAYNE EBERSOLE	TRAVEL-LOCAL
9717	50.00	2/26/2010	LARRY DODSON	BOARD MEETING
9718	6.50	2/26/2010	STACEY RIVERA	TRAVEL-LOCAL
9719	156,983.36	2/26/2010	THE ESTATE OF JAMES M MAIER SR	DECEASED MEMBER
9720	42.00	2/26/2010	LOUISVILLE METRO GOVERNMENT	MEMBER ACCOUNT CLOSED
9721	135.00	2/26/2010	GRACE TITLE GROUP	PROFESSIONAL/OUTSIDE
9722	32.00	2/26/2010	JEFFERSON COUNTY CLERK	MORTGAGE RECORDING
Total	246,139.27		95	

ACH OPERATING ACCOUNT PAYOUTS	Debited By:	Reason
1,257.42	AT&T	Phones - MO & HV
2,629.79	Credit Card	MasterCard
546.80	Louisville Water Company - MO	Office Occupancy
2,000.00	Postage	Postage
141.32	AT&T	Internet - Indiana
2,264.50	LG&E	Gas & Electric
Total 8,839.83		

Month	February 2010																																		
Stations / Spots	WAVE-TV 3 (A -) WHAS-TV 11 (B -) WLKY-TV 32 (C -)																																		
Date	Jan 31	Feb 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	Mar 1	2	3	4	5	6
Day	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
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Total Spots = 97

Month	February 2010																																		
Stations / Spots	WAMZ - FM (A -)																																		
Date	Jan 31	Feb 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	Mar 1	2	3	4	5	6
Day	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
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