

# Template: Non-published LUA

**LETTER OF UNDERSTANDING AND AGREEMENT  
ISSUED BY AND BETWEEN  
THE NATIONAL CREDIT UNION ADMINISTRATION  
AND  
[NAME] FEDERAL CREDIT UNION**

This Letter of Understanding and Agreement (LUA) is made and entered into on [insert date] by and between [XYZ FCU] (hereinafter XYZFCU) a credit union organized under the laws of the United States of America and doing business at [insert address] and the National Credit Union Administration (NCUA).

[XYZFCU] is an insured credit union within the meaning of §101(7) of the Federal Credit Union Act, 12 U.S.C. §1752(7). As such [XYZFCU] is subject to the jurisdiction of the NCUA and NCUA's authority to initiate administrative enforcement actions against it pursuant to §206 of the Federal Credit Union Act, 12 U.S.C. §1786.

This LUA sets forth significant [describe the problems, e.g., adverse conditions, unsafe and unsound practices, regulatory violations] identified by NCUA as a result of its examination of [XYZFCU] with an effective date of [insert date], and the agreements and timeframes by the credit union's officials to resolve them. If left unresolved, these deficiencies may jeopardize the financial condition and/or operations of [XYZFCU]. By signing this LUA, the board of directors of [XYZFCU] hereby acknowledges that serious areas of concern exist and agrees to take the necessary actions set forth below to restore [XYZFCU] to a safe and sound condition.

In consideration of [XYZFCU] entering into this LUA, NCUA hereby agrees to refrain from recommending any formal administrative action in connection with the specific conditions addressed in this LUA, provided that [XYZFCU] and its officials make a sustained, effective, and good faith effort, as determined by NCUA in its sole discretion, to comply with all terms, actions and corresponding timeframes prescribed in this LUA.

In the event NCUA determines, in its sole discretion, that [XYZFCU] or its officials have failed to make a sustained, effective, and good faith effort to comply with the terms, actions and corresponding timeframes prescribed in this LUA, it is understood and agreed that NCUA may undertake appropriate administrative action as provided by the Federal Credit Union Act, 12 U.S.C. §1786, et. seq., including but not limited to, issuing an order to cease and desist, assessing civil money penalties or placing [XYZFCU] into conservatorship.

During the [date] examination conducted by the National Credit Union Administration (NCUA), Examiner [examiner name] identified adverse conditions and trends in the [XYZFCU]. If left uncorrected, these conditions and trends will continue to undermine the credit union's financial and operational stability. Specifically, the report identifies and addresses the following adverse trends and conditions:

1. **Recordkeeping:** The report identifies a continuing out-of-balance condition with your cash accounts. The [name of bank] Bank account has been out-of-balance since at least

[date]. In addition, the general ledger account for “cash on hand” has not been reconciled since the [date] computer conversion.

2. **Negative Earnings:** The credit union posted a net loss of \$[AMOUNT] at year-end XXXX. The adjusted net loss is \$[AMOUNT] after NCUA adjusting entries listed in the examination report. The credit union has posted a net loss in four of the last five years. The primary causes for the net losses are high operating expenses, declining loan income, and provision for loan loss expense. Operating expenses, specifically salaries and benefits, are excessive in relation to total assets. The high amount of operating expenses is a primary reason for the lack of adequate net income. After examination adjustments, operating expense represented [NUMBER] percent of gross income.
3. **Business Planning:** The credit union does not have a viable business plan to evaluate the external and internal factors influencing business decision making. This evaluation includes financial planning, regulatory issues, your membership, competitive opportunities, and improved services. Your lack of business planning and strategic goal setting have contributed to your recordkeeping problems, high operating expenses, and declining financial position.

### **AGREEMENTS AND TIME FRAMES**

1. The board of directors will correct all improper account number designations used in transfers of cash between teller cash, cash on hand, and the [name of bank] Bank checking account. This should be corrected no later than [date].
2. The board of directors will engage a qualified accountant to review, reconcile, and recommend any correcting entries to the affected cash accounts. This process will be completed by [date].
3. By [date], the board of directors will correct all recordkeeping deficiencies, as agreed in the Document of Resolution section of the [date] examination report. The board of directors agrees to oversee and maintain the credit union’s records in a current position and in accordance with the [\*Accounting Manual for Federal Credit Unions\*](#). Financial statements will be completed by the 20th of each month.
4. The board of directors will ensure the manager receives training to operate the Integra-Sys computer system. This training may come from the vendor or from another credit union with experience and expertise in using the Integra-Sys Cubics Plus system. Training will begin by [date].
5. The board of directors will develop and approve a business plan and budget for the remainder of [year]. This plan and budget will include goals and strategies to increase income and reduce operating expenses. The board of directors must approve the business plan and budget by [year]. Operating results will be monitored on a monthly basis. A similar plan and budget with goals and strategies for [year] will be prepared and approved

no later than [year]. The board of directors will review net income and operating expenses in relation to the budget on a monthly basis.

6. The board of directors will reduce operating expenses as a percentage of gross income per the following schedule:
  - Not more than 93 percent of gross income by [date]
  - Not more than 92 percent of gross income by [date]
  - Not more than 91 percent of gross income by [date]
7. The results of the credit union's operations will generate net operating income equivalent to at least an annualized 0.40 percent return on average assets for the second, third and fourth quarters of calendar year XXXX. Net operating income will be determined after funding of the Allowance for Loan Loss account, operating expenses, and dividend expenses. The following minimum quarterly earnings will be achieved on an annualized basis.

**A. Year XXXX**

June 30, XXXX  
September 30, XXXX  
December 31, XXXX

**B. Minimum Quarterly Return on  
Average Assets (annualized)**

0.40 percent  
0.40 percent  
0.40 percent

**C. Year XXXX**

March 31, XXXX  
June 30, XXXX  
September 30, XXXX  
December 31, XXXX

0.50 percent  
0.50 percent  
0.60 percent  
0.60 percent

For the purpose of this agreement, net operating income is defined as the income remaining after accounting for all operating expenses, including provisions for Full and Fair Disclosure, as outlined in Part 702.402 of the NCUA rules and regulations, dividends on all shares, and is exclusive of non-operating gains.

8. The Treasurer will provide the following to Examiner [examiner name] by the 15th of each month:
  - a. Board minutes
  - b. Monthly financial statements
  - c. Summary of delinquent loans by category of delinquency, including the 1 to 59 days delinquent list and the list of repossessed assets
  - d. ALLL Methodology Worksheet
  - e. Share and Loan Trial Balance Summary

- f. Status report reflecting your compliance with the [date] Document of Resolution
- g. New or revised policies
- h. Any other financial data requested by the NCUA Regional Director

**Publication.** This LUA will not be published.

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

The following individuals, as authorized by the board of directors of the credit union, indicate they understand and agree with the contents of this Agreement by affixing their signatures below. The officials understand by signing this Agreement, they must make a sustained and conscientious effort to resolve the conditions and trends cited.

**AGREED TO AND ACCEPTED by the undersigned on behalf of XYZFCU and the NCUA**

**For the XYZ Federal Credit Union**

\_\_\_\_\_  
Chairperson

\_\_\_\_\_  
Date

\_\_\_\_\_  
Vice-Chairperson

\_\_\_\_\_  
Date

\_\_\_\_\_  
Treasurer

\_\_\_\_\_  
Date

\_\_\_\_\_  
Secretary

\_\_\_\_\_  
Date

\_\_\_\_\_  
Board member

\_\_\_\_\_  
Date

\_\_\_\_\_  
Board member

\_\_\_\_\_  
Date

**For the National Credit Union Administration:**

\_\_\_\_\_

\_\_\_\_\_

Regional Director

Date

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Supervisory Examiner/DSA

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Date

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Examiner/PCO

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Date

[region]/XXX:xxx  
FCU xxxxx-A10

cc: SE  
EX  
SSA (when applicable)

bcc: File FCU xxxxx-A10  
Reading File  
Administrative Action File  
SA