Date

Hand Delivered (if applicable)

Board of Directors

[NAME] Federal Credit Union

Address

City, State Zip

Dear Board Members:

**Preliminary Warning Letter**

This Preliminary Warning Letter (PWL) provides formal notification to the board of directors prior to the National Credit Union Administration (NCUA) taking administrative enforcement action against the credit union as authorized by Section 206 of the Federal Credit Union Act. This PWL is necessary because of the failure of [credit union name] Credit Union’s board of directors to implement action to correct unsafe and unsound conditions noted in the [date] examination report and [date] call report.

I am extremely concerned your credit union has not fully funded the Allowance for Loan and Lease Losses Account (ALLL) for at least the past four quarters. As a result of your failure to properly fund the ALLL, your credit union’s financial statements are inaccurate and misleading. Section 202 of the Federal Credit Union Act requires you and your fellow board members to ensure your credit union’s financial statements are accurate. It also authorizes NCUA to assess monetary penalties for each day in which misleading financial statements are not corrected.

As noted in the [date] Letter of Understanding and Agreement, you and your fellow board members need to evaluate the adequacy of the ALLL account and charge off non-performing loans in accordance with your credit union’s loan charge-off policy. The [date] examination report called for you to fund the ALLL account by $58,016 ($10,471 for the loan to XXXX and $47,545 for the loan to XXXX). You did not adjust the ALLL account on the [date], call report, to provide full and fair disclosure of your credit union’s financial condition. Both the XXXX and XXXX loans were more than 12 months delinquent and have not demonstrated a payment history that would justify any other accounting treatment aside from fully reserving for losses in the ALLL account or charge off.

It is your fiduciary responsibility to evaluate and adequately fund your credit union’s ALLL account. Therefore, I expect you to file an accurate [date], call report by [date]. With the ALLL properly funded, your credit union’s net worth ratio will likely fall below seven percent and your credit union will be subject to prompt corrective action under Part 702 of NCUA’s rules and regulations. At that point, you will be required to submit a net worth restoration plan to my office by [date].

I expect management to implement corrective action to address the above concerns no later than the dates detailed in the [date] examination report. Failure to address the problems discussed in this letter will cast doubt on your willingness and ability to carry out your fiduciary responsibilities. If the board does not demonstrate sufficient progress towards correcting the credit union’s serious problems, I will have no choice but to take administrative action against the credit union, which could include assessing civil money penalties against each of the officials.

Please provide examiner [examiner’s name] with written monthly updates on the specific corrective actions you have taken to achieve full compliance with all these requirements. Please contact examiner [examiner’s name] at [phone number] with any questions.

Sincerely,

[NAME]

Regional Director

[Office]/[WRITER’S INITIALS]

SSIC XXXX

Charter #

cc: Board Chairperson, [NAME] Federal Credit Union

CEO, [NAME] Federal Credit Union

SE

EX

SSA (when applicable)

[separate page]

bcc: File FCU xxxxx-Group/District

Reading File

Administrative Action Database File