

ALABAMA CREDIT UNION ADMINISTRATION  
MONTGOMERY, ALABAMA

\_\_\_\_\_  
In the Matter of )  
)

SECURE FIRST CREDIT UNION )  
BIRMINGHAM, ALABAMA )

(Insured State Credit Union) )  
)  
\_\_\_\_\_ )

ORDER TO  
CEASE AND DESIST

2015: 001

The Alabama Credit Union Administration (“Administration”) has supervisory authority over Secure First Credit Union, Birmingham, Alabama (“Credit Union”). The Administrator (the “Administrator”), with the approval of a majority of the Credit Union Board of the Administration (“Credit Union Board”), may issue an order to cease and desist (“Order”) pursuant to Code of Alabama Annotated Section 5-17-8 (1980).

The Administrator finds that the Credit Union has engaged in unsafe or unsound practices and violations of law, rule or regulation and has failed to satisfy the requirements set forth in that certain Letter of Understanding and Agreement among the Credit Union, Administration and the National Credit Union Administration (“NCUA”) dated August 5, 2013 (“LUA”) and has not addressed numerous outstanding Documents of Resolution in Examination Reports, thus leading to the issuance of this Order.

Having determined that the requirements for issuance of an Order under the Code of Alabama Annotated Section 5-17-8 (1980) have been satisfied, the Administrator hereby orders that:

## **BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE**

As of the effective date of this Order, the Board and Supervisory Committee of the Credit Union (the “Board” and “Supervisory Committee,” respectively) are not in compliance with the LUA. Furthermore, the Board and Supervisory Committee must improve oversight of the affairs of the Credit Union, with the Board assuming full responsibility for the approval of sound policies and objectives for the supervision of all of the Credit Union's activities, consistent with the role and expertise commonly expected for directors of credit unions of comparable size. This improved oversight shall include full compliance with the following specific concerns detailed in the LUA and each Document of Resolution (“DOR” or “DORs,” in plural) set forth in the 2015 State Regulatory Examination Report with the effective date of December 31, 2014 (“2014 Exam Report”), including DORs which are repeated from prior exam reports, including the ACUA/NCUA Examination Report with an effective date of March 31, 2013 (“2013 Exam Report”).

## **OUTSTANDING ISSUES UNDER THE LUA**

The Credit Union continues to violate the terms, conditions and timeframes imposed by the LUA for the following matters:

### **1. Unsafe and Unsound Lending Practices:**

The Credit Union has failed to:

- a. Fully underwrite workout loans;
- b. Charge off non-performing loans in a timely manner; and,
- c. Establish proper lending policies and procedures.

The 2014 Exam Report found these to be ongoing violations and found exceptions on new workout loans, failure to write off non-performing loans totaling \$12,948; and, inadequate policies.

**2. Deficient Allowance for Loan and Lease Loss (ALLL) Account:**

The 2014 Exam Report found the ALLL methodology reflects a loss ratio of 0.00% for the category of “Other Loans” and no designated pool for TDRs in the ALLL calculation. The allowance for loan and lease losses is not being calculated in accordance with generally accepted accounting principles.

**3. Inadequate Compliance Program:**

The Credit Union must:

- a. Implement a dual control system for submitting suspicious activity reports.
- b. Appoint a Compliance Officer.
- c. Cause the Supervisory Committee to receive BSA/AML training.

**4. Failure to Comply with Section 701 of NCUA Rules and Regulations:**

Effective immediately and continuing hereafter, the Board and president must provide written notice and obtain ACUA and NCUA approval for changes in officials and senior executive management. This includes:

- a. Adding or replacing a member of the Board or Supervisory Committee;  
and/or
- b. Making any change in the employment responsibilities of any individual  
in a senior management position

These procedures shall remain in effect until the Credit Union has satisfied the requirements of the LUA. The board of directors must use the “Change in Officials or Senior Management” forms 4063 and 4063a when submitting written notice. When the prior CEO left in December 2014, neither ACUA nor NCUA were notified in writing prior to appointing an interim Manager.

As of the date of this Order, ACUA and NCUA have not received proper requests for approval of the interim manager. Proper approval must be sought immediately.

### **DOR IMPLEMENTATION FOR 2014 EXAM**

1. The Credit Union must correct non-compliance in the BSA/AML area, including suspicious activity that was not reported, Cash Transaction Reporting (CTR) errors; OFAC errors; and internal control weaknesses in monitoring cash transaction reports for possible structuring.
2. The Credit Union must reduce the number of employees from 17 to 14.
3. The Credit Union must reduce the salary expenses to 25% of gross income.
4. The Credit Union must revise its Lending Policy to include verbiage to address the percentage of loans by type (real estate, unsecured, automobile) and verbiage specifying the maximum loan amount granted to a single member as a percentage of Net Worth.
5. The Credit Union must improve profitability to ensure Net Worth growth, improve gross income, continue reducing operating expenses, and develop more realistic and achievable marketing strategies for loan growth.
6. The Credit Union must work with its current vendor to ensure the proper field is turned on in the loan system to produce loan extension reports and to ensure the reports are separate from the file maintenance reports.
7. The Credit Union must adhere to the following guidelines when granting loans to officials, employees, and their family members:
  - a. Discontinue granting insider loans that exceed the allowable debt to income ratio offered to regular members.

- b. Discontinue granting insider loans that exceed the allowable LTV ratio offered to regular members.
  - c. Discontinue offering impermissible loan discounts to officials as defined by the Credit Union's loan policy.
  - d. Obtain Board approval on any insider loans in excess of \$20,000 as required by policy.
8. The Credit Union must adopt a Board-approved policy that directs:
- a. Loan requests of any amount of an elected official should be underwritten under the same standards as any other member's loan request.
  - b. The underwritten loan request of an elected official will be approved or denied by the recorded majority of the Board.
  - c. The elected official whose loan request is being considered must be excused from the discussion and from the vote on the request.
  - d. Any dispute involving any transaction (fee, overdraft, etc.) with the account of an elected official or their immediate family member should be handled by the Board.
9. The Credit Union must perform the following:
- a. The Board must approve on-going training for members of the Supervisory Committee.
  - b. The Supervisory Committee members must attend training sessions annually.
  - c. The Supervisory Committee must outsource quarterly interim audits until the Supervisory Committee members are trained.

- d. The Credit Union must develop with the Board's approval a Dormant Account Policy and No-Mail Policy.
  - e. The Credit Union must update with the Board's approval the SAFE Act, E-Commerce, Security, Liquidity, and ALM Policies.
  - f. The Credit Union needs to devise an action plan to resolve all the findings in the Credit Union's audit and examination reports.
10. The Credit Union needs to select personnel with the knowledge and expertise to analyze the FIMAC Asset Liability Management Model ("FIMAC Model") to include:
- a. Providing FIMAC Model training to select personnel.
  - b. Monitoring the FIMAC Model at least quarterly.
  - c. Document ALCO Minutes quarterly and then reporting the result to the Board.
11. The Credit Union must provide proper training related to internal controls to the members of the Supervisory Committee at least annually. The Supervisory Committee should document the date, the type of training and committee members that received the training.

### **VIOLATIONS OF LAW, REGULATION, AND CONTRAVENTION OF POLICY**

Within 30 days from the effective date of this Order, the Credit Union will eliminate and/or correct all violations of laws, regulations, non-compliant LUA concerns and/or contraventions of statements of policy in the LUA, and all Reports of Examination, including DORs, and shall adopt and implement appropriate procedures to ensure future compliance with all such applicable federal and state laws, regulations, and/or statements of policy.

## PROGRESS REPORTS

Within 30 days from the end of the first quarter following the effective date of this Order, and within 30 days from the end of each quarter thereafter, the Credit Union shall furnish written progress reports to the Administration detailing the form and manner of any actions taken to secure compliance with this Order and the results thereof. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Administration has released the Credit Union in writing from making further reports. All progress reports and other written responses to this Order shall be reviewed by the Board and made a part of the appropriate Board meeting minutes.

The provisions of this Order shall not bar, estop, or otherwise prevent the Administration or any other federal or state agency or department from taking any other action against the Credit Union.

This Order shall be effective on the date of issuance. The provisions of this Order shall be binding upon the Credit Union, the Supervisory Committee, its directors and employees, and any successors and assigns thereof.

The Administrator of the Administration, with the approval of a majority of the Credit Union Board of the Administration, ex parte without notice, may appoint the Administrator as conservator and immediately take possession and control of the business and assets of the Credit Union in any case in which any one of the following occurs:

1. The Administration determines that the action is necessary to conserve the assets of the Credit Union or the interests of the members of the Credit Union.

2. The Credit Union, by resolution of its board of directors, consents to the action by the Administration.

3. There is a willful violation of this Order after it is final.

4. There is concealment of books, papers, records, or assets of the Credit Union or refusal to submit books, papers, records, or affairs of the Credit Union for inspection to any examiner or to any lawful agent of the Administration.

The Credit Union shall have ten days from the receipt of this Order to make a written notice of appeal to the Credit Union Board pursuant to Code of Alabama Annotated Section 5-17-8 (1980).

The provisions of this Order shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside in writing.

Dated this 17 day of March, 2015.

  
Sarah H. Moore  
Administrator  
Alabama Credit Union Administration