

ALABAMA CREDIT UNION ADMINISTRATION

In Re:

**ALABAMA ONE CREDIT UNION,
TUSCALOOSA, ALABAMA**

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**ORDER OF CONSERVATORSHIP
File Number: 2015: C01**

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(1) Alabama One Credit Union, (the “Credit Union”) Tuscaloosa, Alabama is a credit union organized and operating under the laws of the State of Alabama.

(2) The Alabama Credit Union Administration (the “Administration”) has supervisory authority over the Credit Union pursuant to the provisions of Chapter 17 of Title 5 of the Code of Alabama.

(3) Pursuant to Alabama Code § 5-17-8(e), the Administrator of the Alabama Credit Union Administration (the “Administrator”) is authorized, under certain conditions and with the approval of a majority of the Credit Union Board of the Administration (the “Credit Union Board”), ex parte and without notice, to appoint the Administration as conservator and immediately take possession and control of the business and assets of any state-chartered credit union in any case in which any one of the following occurs:

(a) The Administration determines that the action is necessary to conserve the assets of any state-chartered credit union or the interests of the members of the credit union.

(b) A credit union, by resolution of its board of directors, consents to the action by the Administration.

(c) There is a willful violation of a cease-and-desist order which has become final.

(d) 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.

(4) At a duly called meeting of the Credit Union Board held on August 27, 2015 (the “August 27, 2015 Meeting”), the Credit Union Board considered certain facts and circumstances, including without limitation those facts and circumstances as set forth in that certain Confidential Addendum A to Order of Conservatorship 2015:C001 - Statement of Grounds for Conservatorship (collectively with all Confidential Exhibits thereto, the “Confidential Addendum”), which Confidential Addendum is incorporated herein by reference, and materials presented by the Credit Union to the Board at the August 27, 2015 Meeting .

(5) The Credit Union Board, at the August 27, 2015 Meeting, has determined that the facts and circumstances forming the bases for the exercise of statutory conservatorship authority, as set forth in the Confidential Addendum, constitute sufficient grounds for the Administrator to appoint the Administration as conservator and immediately take possession and control of the business and assets of the Credit Union pursuant to the provisions of Ala. Code § 5-17-8(e).

(6) Specifically, at the August 27, 2015 Meeting, the Credit Union Board determined

(a) that there exist facts and circumstances, as set forth in the Confidential Addendum by Counts I through V, such that action is presently necessary to conserve the assets of the Credit Union and the interests of the members of the Credit Union, and that such determination is sufficient to authorize the conservatorship of the Credit Union pursuant to Ala. Code § 5-17-8(e)(1), these Counts involving:

(i) persistent patterns and practices by officers and employees of the Credit Union of exploiting their positions with the Credit Union and jeopardizing the assets and interests of the membership by allowing transactions with insiders

to be conducted on preferential terms and/or in violation of Credit Union policy or applicable law or regulation through: (A) extensions of credit to insiders on preferential terms and conditions, (B) the use of falsified auto loan documentation for insider loans, (C) the receipt by an officer or employee of the Credit Union of a thing of value and personal advantage in connection with procuring or endeavoring to procure a loan, (D) taking advantage of an insider's position as a director and/or committee member of the Credit Union to conduct advertising for outside business interests to the membership free of charge, and (E) preferential treatment given to the brother of an executive officer of the Credit Union in connection with a member business loan, concealment of the delinquent status of the loan, failure to recognize the loan as deficient and to take timely action against the borrower to protect Credit Union assets, and

(ii) persistent patterns and practices of deficient underwriting and deficient credit practices, failures to exercise prudent risk management, and failures to comply with regulatory directives and applicable laws and regulations, which have contributed to losses to the Credit Union in excess of \$7.8 million in 2014 and \$3.18 million for the six months ended June 30, 2015, through (A) systemic failure to underwrite to the standards required by the Credit Union's arrangements with Fannie Mae, resulting in the required repurchase of loans causing the Credit Union to incur losses in excess of \$400,000 and increasing further repurchase risk, (B) grossly inadequate loan underwriting and credit administration practices on numerous material credits, resulting in substantial losses to the Credit Union and the risk of substantial additional losses, (C) granting of loans in violation of regulatory prohibitions, (D) the use of deficient

appraisals and appraisal practices that lack requisite independence and violate the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and other applicable law and regulation, and the failure to implement sufficient procedures for the resolution of nonperforming assets, and

(b) that there have been at least nine (9) independent occurrences and/or patterns and practices of occurrences, as set forth in the Confidential Addendum by Counts VI through XIV, which constitute the concealment of books, papers, records, or assets of the credit union or the 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, any one of which would be sufficient to authorize the conservatorship of the Credit Union pursuant to Ala. Code § 5-17-8(e)(4), these involving:

(i) misrepresentations made to the Administration by counsel to the Credit Union,

(ii) statements made to the Administration by John Dee Carruth as chief executive officer of the Credit Union that materially misrepresented the collateral value and condition of credits within a material lending relationship,

(iii) misrepresentations made to the Credit Union by John Dee Carruth as chief executive officer of the Credit Union relative to the execution of a material contract,

(iv) concealment of the extension of a new loan and disbursement of additional proceeds in violation of regulatory prohibitions and false statements made to the Administration regarding compliance with such regulatory prohibitions,

(v) concealment of the issuance of a letter of credit obligation by an officer of the Credit Union without proper approval of the Credit Union and the subsequent concealment of that action; misrepresentations and false statements made by this officer to the examiners regarding this instrument,

(vi) improper administration of a member business loan of \$2.2 million to a business owned by a family member of an executive officer of the Credit Union;

(vii) the failure to correctly report data regarding certain non-performing assets of the Credit Union on public call reports filed with the NCUA, thereby concealing true credit quality and risk from the NCUA, the Administration and the public (including members of the Credit Union),

(viii) the understatement of the Allowance for Loan and Lease Losses in public call reports filed with the NCUA, thereby concealing true credit risk and net loss from the NCUA, the Administration and the public (including members of the Credit Union), and

(ix) the refusal to submit certain books, papers, records or affairs of the Credit Union for inspection to an Administration examiner; and

(7) The Credit Union Board, at the August 27, 2015 Meeting has approved, authorized and directed the Administrator, ex parte and without notice, to appoint the Administration as conservator and immediately take possession and control of the business and

assets of the Credit Union, and authorized and directed the Administration and Administrator to exercise all relevant statutory authority in connection therewith.


Approval and Authorization of Conservatorship

THEREFORE, IT IS HEREBY ORDERED That the Administration is appointed as conservator of the Credit Union ("Conservator") and is authorized and directed to immediately take possession and control of the business and assets of the Credit Union and to exercise all relevant statutory authority in connection therewith.

ORDERED FURTHER, that the Administrator or Assistant Administrator be authorized and directed to act for and on behalf of the Administration in its capacity as Conservator, and to exercise on behalf of the Conservator all relevant statutory authority in connection therewith, and that any action by the Administrator or any agent of the Administration appointed by the Administrator or Assistant Administrator to effect the intent of this Order is hereby ratified and approved, and that the officers and agents of the Administration are authorized to take such further actions, and to execute and deliver for and in the name of the Administration, such other documents as are necessary or appropriate in order to effect the intent of this Order, and the taking of any such actions and the execution and delivery of any such documents are hereby ratified and approved.

So Ordered this 27th day of August, 2015.

ALABAMA CREDIT UNION ADMINISTRATION



Sarah H. Moore
Administrator