

**UNITED STATES OF AMERICA
NATIONAL CREDIT UNION ADMINISTRATION
Alexandria, Virginia**

In the Matter of

BRUCE A. TOWNSEND,
former Vice President for Investments of
Capital Corporate Federal Credit Union,

NCUA Docket No. 97-12-2

Respondent.

FINAL ORDER TO CEASE AND DESIST

WHEREAS respondent Bruce A. Townsend, former Vice President for Investments of Capital Corporate Federal Credit Union of Lanham, Maryland ("CapCorp") from June 1993 until December 1994, was an "institution-affiliated party" of that credit union, as defined by 12 U.S.C. §1786(r); and

WHEREAS Townsend served as a member of the CapCorp Management Investment Committee from February through November 1994, and from June 1993 through February 1994, he had delegated authority of the Investment Committee of the CapCorp board of directors to initiate investment decisions. In those capacities and as Vice President for Investments, had day-to-day responsibility for CapCorp's investments, helped determine its investment strategy, and executed transactions for its portfolio; and

WHEREAS CapCorp's investment portfolio had incurred market value depreciation of approximately \$100 million in its investment portfolio, on a marked-to-market basis, by November 1994, due to rising interest rates; and

WHEREAS NCUA concluded in January 1995, and still maintains, that such market value depreciation resulted from improper investment practices and activities by CapCorp, that such market value depreciation posed a threat to the safety and soundness of CapCorp, and that CapCorp would not be able to meet the liquidity needs of its members; and

WHEREAS on January 31, 1995, the NCUA Board, by reason of the aforesaid conclusions, among others, placed CapCorp into conservatorship and appointed itself conservator; and

WHEREAS, following \$292 million in net withdrawals of regular shares and share certificates by CapCorp members (or 40% of total shares), and \$249 million in borrowings (or 43%) required to meet share withdrawals and liquidate maturing debt, the NCUA Board, acting in its capacity as conservator of CapCorp, liquidated nearly all of the CapCorp investment portfolio. On April 12, 1995, the NCUA Board, acting in its capacity as conservator of CapCorp, placed CapCorp into liquidation and appointed itself liquidating agent; and

WHEREAS the NCUA Board, as a result of its comprehensive investigation of claims on behalf of CapCorp, contends that:

(a) Townsend knew of, but did not object to, President and CEO J. Clayton Brooke's decision to disregard CapCorp's "matched book" policy requiring that "all corporate investments be purchased in a matched-book basis" (i.e., assets and liabilities are matched by repriceable amount and maturity) when in 1994 Brooke purchased certain securities for CapCorp's portfolio in violation of that policy; and

(b) Townsend knew of, but did not object to, the 1994 decision of the CapCorp board of directors ("BOD") to abandon the Corporate Credit Union Network's ("CCUN") 1991 Standards & Guidelines, which established industry standards and reporting requirements for interest rate risk management, when CCUN promulgated new Standards & Guidelines in 1994; and

(c) Townsend, in March 1994, stopped reviewing CapCorp's monthly reports prepared to test compliance with the 1991 Standards & Guidelines; and

(d) Townsend knew of, but did not object to, the decision of the CapCorp BOD to informally adopt the 1994 version of the Standards & Guidelines even though he and the BOD knew that CapCorp lacked adequate modeling capability to ensure that it was complying with the 1994 Standards & Guidelines; and

(e) Townsend was primarily responsible for acquiring adequate modeling capability for CapCorp, yet failed to develop adequate modeling to ensure CapCorp's compliance with the 1994 Standards & Guidelines, which the CapCorp BOD had informally adopted; and

WHEREAS the NCUA Board, by reason of these contentions, maintains that Townsend bears substantial responsibility for the improper investment practices and activities that resulted in the market value depreciation of \$100 million in CapCorp's investment portfolio; and

WHEREAS the NCUA Board finds that proper grounds exist under 12 U.S.C. §1786(e) to issue said final order directing Townsend to cease and desist; and

WHEREAS Townsend disputes NCUA's aforesaid conclusions and contentions and contends that he is not responsible for the market value depreciation in CapCorp's investment portfolio; and

WHEREAS on November 28, 1997, Townsend entered into an agreement with NCUA to resolve its claim of liability, and therein consented to a final order of the NCUA Board, pursuant to 12 U.S.C. §1786(e), directing him to cease and desist;

NOW, THEREFORE, IT IS HEREBY ORDERED that:

1. Bruce A. Townsend forthwith cease and desist from serving as an officer, director or employee of any federally-insured corporate credit union; and
2. Bruce A. Townsend forthwith cease and desist from consulting or advising any federally-insured corporate credit union on any matters involving or relating to investment securities, investment policy or investment strategy; and
3. Bruce A. Townsend forthwith cease and desist from selling any investment securities, directly or indirectly, to any federally insured corporate credit union.
4. The "Officers' Settlement Agreement and Mutual Release" dated November 28, 1997, which incorporates Townsend's consent to this Order, is made a part hereof and is incorporated herein by reference;

5. This Final Order to Cease and Desist shall be effective and enforceable as of the date of set forth below.

IT IS SO ORDERED this ____ day of December 1997.

**NATIONAL CREDIT UNION
ADMINISTRATION BOARD**

By: _____
BECKY BAKER
Secretary of the Board

CERTIFICATE OF SERVICE

I hereby certify that on this ____ day of December 1997, I caused one copy of the foregoing "Final Order to Cease and Desist" addressed to Bruce A. Townsend, with attachment, to be served by hand upon:

Robert M. Krasne, Esq.
Williams & Connolly
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Steven W. Wideman
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