
**LETTER OF UNDERSTANDING AND AGREEMENT
BY AND BETWEEN
THE COMMONWEALTH OF MASSACHUSETTS DIVISION OF BANKS,
NATIONAL CREDIT UNION ADMINISTRATION,
AND
LYNN MUNICIPAL EMPLOYEES CREDIT UNION**

This Letter of Understanding and Agreement (LUA) is made and entered into on October 12, 2012, by and between Lynn Municipal Employees Credit Union (Credit Union), a credit union organized under the laws of the Commonwealth of Massachusetts and doing business at 3 City Hall Square, Room 104, Lynn, MA 01901, the Commonwealth of Massachusetts Division of Banks (Division), and the National Credit Union Administration (NCUA).

This LUA sets forth significant adverse conditions and unsafe and unsound practices, identified by the Division and NCUA as a result of its examination of the Credit Union with an effective date of March 31, 2012 (3/31/12 Joint Exam Report), 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 the Credit Union. By signing this LUA, the Board of Directors of the Credit Union hereby acknowledges that serious areas of concern exist and agrees to take the necessary actions set forth below to restore the Credit Union to a safe and sound condition.

In consideration of the Credit Union entering into this LUA, the undersigned Division and Regional Director hereby agree to refrain from recommending any formal administrative action in connection with the specific conditions addressed in this LUA, provided that the Credit Union and its officials make a sustained, effective, and good faith effort, as determined by the Division and NCUA to comply with all terms, actions and corresponding timeframes prescribed in this LUA.

In the event that the Division and NCUA determine that the Credit Union 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 the Division or NCUA may undertake appropriate administrative action, including but not limited to, issuing an order to cease and desist, assessing civil money penalties, or placing Lynn Municipal Employees Credit Union into conservatorship, as provided by Massachusetts General Laws, Chapter 167, Section 22, or the Federal Credit Union Act, 12 U.S.C. §1786, et. seq.

During the March 31, 2012, examination conducted by the Division and NCUA, the Examiners identified adverse conditions and trends in the Credit Union. 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:

I. UNSAFE AND UNSOUND PRACTICES

The following significant unsafe and unsound practices were discovered as reflected in the 3/31/12 Joint Exam Report:

1. Failing to comply with requirements of previous Reports of Examination and previous enforcement actions;
2. Operating without adequate supervision and direction by the Credit Union's Board of Directors over the senior operating management of the Credit Union to prevent unsafe and unsound banking practices;
3. Failing to maintain accurate books and records, despite persistent warning signs that problems existed;
4. Operating without adequate oversight by the Audit Committee;
5. Failing to establish internal controls commensurate with the Credit Union's size and complexity;
6. Failing to obtain adequate training for members of the Board and operating management;
7. Engaging in unsafe and unsound underwriting standards and practices;
8. Operating in violation of applicable laws and regulations, including, but not limited to, NCUA Rules and Regulations Part 748, Appendix A, *Guidelines for Safeguarding Member Information*; and
9. Failing to conduct appropriate reviews of the Allowance for Loan and Lease Losses account, as required by NCUA Rules and Regulations Section 702.402 and NCUA's Interpretive Ruling Policy Statement 02-03 on the Allowance for Loan and Lease Losses Methodologies and Documentation for Federally-Insured Credit Unions.

AGREEMENTS AND TIMEFRAMES

1. Troubled Condition. The Credit Union is now deemed in "troubled condition" as defined by Section 701.14 of the NCUA Rules and Regulations.

Therefore, the Credit Union must comply with Section 701.14 of the NCUA Rules and Regulations by submitting appropriate documentation to the Division and the NCUA containing applications of any proposed changes in the Board of Directors, committee members, or senior executive staff, 30 days prior to the effective date of any changes, and obtain approval from both agencies.

2. Action Plan and Financial Reports. Because of continued non-compliance with previous examination reports and enforcement actions, the Credit Union is required to do the following:
 - a) Develop a written Action Plan to address the provisions described in this LUA as well as the remaining examination items identified in the 3/31/12 Joint Exam Report, within thirty (30) days of receipt of this LUA.

b) The Action Plan shall identify:

- i. the item,
- ii. the required corrective action,
- iii. who is responsible for implementing the corrective action,
- iv. the date by which each item will be corrected, and
- v. shall be submitted to the Commissioner of Banks and the NCUA Regional Director for review.

Within thirty (30) days from the receipt of any comments from the Division and, after the adoption of any recommended changes, the Board shall approve the Action Plan and record its approval in the minutes of the Board meeting.

The Board shall review management's adherence to the Action Plan, at a minimum, on a monthly basis and prepare a written progress report. Submit copies of the Action Plan progress reports monthly to the Commissioner of Banks and NCUA.

c) Furnish such other reports as requested by NCUA and the Division, within fifteen (15) days of the prior month-end including:

- i. The monthly balance sheet and income statement,
- ii. Delinquency Summary report, and
- iii. Board of Directors minutes including special meetings, executive session meeting minutes, and Audit and Credit Committee meeting minutes,

All progress reports and other written responses to this LUA shall be reviewed by the Board and made a part of the minutes of the Board meeting.

3. Accurate Books and Records.

a) Engage a certified public accountant (CPA) or licensed public accountant to audit the Credit Union's books and records within thirty (30) days from the effective date of this LUA.

Because of critical deficiencies in the bookkeeping function, the Credit Union must comply with 209 CMR 43.04 (1)(d). The goal of the audit must be to determine whether adjustments to the books are needed in current and prior periods and to provide sound financial statements as a starting point going forward.

b) Provide the Division and NCUA with a copy of the proposed engagement letter or contract with the CPA or public accountant for review and comment before it is executed.

The contract or engagement letter, at a minimum, must include:

- (i) A description of the work to be performed under the contract or engagement letter;
 - (ii) The responsibilities of the CPA or public accountant;
 - (iii) An identification of the professional standards covering the work to be performed;
 - (iv) The qualifications of the individual(s) who are to perform the work;
 - (v) The time-frame for completion of the work;
 - (vi) Any restrictions on the use of the reported findings; and
 - (vii) A provision for unrestricted examiner access to work papers of the third party.
- c) Provide a copy of the CPA or public accountant's final audit report to the Division and the NCUA upon completion of the engagement.
 - d) In addition, if the review reveals that adjustments are needed in prior periods, the Credit Union is responsible for restating applicable NCUA Call Reports within thirty (30) days of the receipt of the audit report.
 - e) Hire or engage a qualified individual who can reconcile and maintain the Credit Union's books and records accurately and fairly on an ongoing basis within thirty (30) days from the effective date of this LUA.
 - f) Address the remaining bookkeeping issues identified in the 3/31/12 Joint Exam Report, and, in particular, establish policies and procedures that ensure proper accounting of fixed and prepaid asset accounts within ninety (90) days from the effective date of this LUA.

4. Board and Management Oversight.

Going forward from the effective date of this LUA, the Board:

- a) Must fulfill its fiduciary responsibility to the membership of the Credit Union. The Division and NCUA will measure the Board's effectiveness in this regard as demonstrated by the Board's willingness and ability to correct deficiencies cited in this LUA and the accompanying examination report, within the timeframes specified.
- b) In collaboration with operating management, shall establish a written plan acceptable to both the Division and NCUA for requiring and obtaining adequate training in all areas of Credit Union operations on a routine basis within thirty (30) days from the effective date of this LUA. Staff and Officials must pay particular attention to obtaining training in accounting and financial analysis fundamentals.

5. Audit Committee Oversight.

- a) Within thirty (30) days from the effective date of this LUA, the Audit Committee shall develop a matrix to monitor all findings from recent audits, reviews, and examinations.

The matrix must include, at a minimum:

- i. information describing the finding,
- ii. how it will be remedied,
- iii. who is responsible for implementing the corrective action, and
- iv. progress toward completing the corrective action.

While this tracking matrix may initially be part of the Action Plan described above, tracking future audit and examination findings in this manner should be part of routine operations going forward.

- b) Going forward from the effective date of this LUA, the Audit Committee shall ensure it meets with any auditors or consultants, as the results of such engagements pertain directly to the Committee's oversight responsibilities. Further, such meetings should be held, at least in part, without members of operating management present.

6. Internal Controls.

- a) Implement updated procedures to ensure all high-risk areas are routinely reviewed by the Audit Committee within sixty (60) days from the effective date of this LUA.

Given the Credit Union's size, establishing ideal segregation of duties may not be practical. As such, the Audit Committee's oversight role must be expanded and enhanced. In particular, the Committee must ensure the Credit Union's operating bank accounts are reviewed in detail regularly.

7. Loan Underwriting.

- a) Review and revise the credit union's Loan Policy within ninety (90) days from the effective date of this LUA, incorporating, at a minimum, the following improvements to the underwriting process:

(i) Ensure credit reports reviewed during the underwriting process contain credit scores;

(ii) Ensure loan documentation includes discussion of why members with adverse credit are granted loans;

(iii) Ensure debt-to-income ratios are calculated correctly and include all debts from the member's credit report and loan application; and

(iv) Ensure loan notes are completed accurately and ensure proper procedures are in place in the event that loan notes are changed.

8. Compliance with Laws and Regulations.

- a) Correct the violations of laws and regulations cited within the 3/31/12 Joint Exam Report.
- b) Implement policies and procedures to prevent future violations in the identified areas within the time frames agreed to in the Document of Resolution.

Ensure compliance with NCUA Rules and Regulations Part 748, Appendix A, as it pertains to the information security program.

9. Allowance for Loan and Lease Losses (ALLL).

- a) Review the ALLL methodology and ensure that the methodology complies with NCUA Interpretive Ruling and Policy Statement 02-3 within thirty (30) days from the effective date of this LUA.
- b) Environmental and economic factors need to be considered in the methodology, and the analysis of such factors must be documented.
- c) Ensure the adequacy of the ALLL is reviewed as often as required under NCUA Rules and Regulations Part 702.402(d)(5) going forward.
- d) Submit to the NCUA and the Division documents sufficient to support the determination of the adequacy of the ALLL while this LUA is in effect. These submissions may be made at such times as the Credit Union files the month-end progress reports otherwise required by this LUA.

This Letter of Understanding and Agreement (LUA) will remain in effect until the conditions cited above have been resolved and the agreements reached have been met.

Upon publication, Lynn Municipal Employees Credit Union agrees that the LUA shall be considered a written agreement pursuant to 12 U.S.C. §1786(s)(1)(A), for which a violation may be enforced by NCUA and the Division.

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 Lynn Municipal Employees Credit Union, the Commonwealth of Massachusetts Division of Banks, and the National Credit Union Administration.

For the Lynn Municipal Employees Credit Union:

Ralph Cronin
Chairperson

Date

Kathleen Collins
Vice Chairman

Date

William Clancy
Treasurer

Date

Helen Sidman
Secretary

Date

Rosemary Demirs
Board Member

Date

Peter Efstratios
Board Member

Date

Norma Hayes
Board Member

Date

Mary Mondello
Board Member

Date

John Pace
Board Member

Date

Ann Reddy
Board Member

Date

James Wilson
Board Member

Date

For the Commonwealth of Massachusetts Division of Banks:

David J. Cotney,
Commissioner of Banks

Date

For the National Credit Union Administration:

Mark A. Treichel, Regional Director

Date

John Bilodeau, Supervisory Examiner

Date

Maureen O'Sullivan, District Examiner

Date