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## NCUA Media Release

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# Arrowhead Second Quarter Financial Results Posted; Misstatements Corrected

*Credit Union Net Worth Declined to 3 Percent, Net Income Negative \$1.4 Million*

**July 22, 2010. Alexandria, Va.** -- The National Credit Union Administration, in its role as conservator, today released Arrowhead Central Credit Union's (Arrowhead Central) second quarter Call Report, the detailed financial statement issued by every federally insured credit union. That report corrected earlier errors by the previous management and showed a continued decline in the credit union's financial condition as a result of losses in its loan portfolio.

Arrowhead Central's net worth ratio declined to 3.00 percent on June, 30 2010, from the reported level of 3.36 percent on March 31, 2010. Under standards set forth in the Federal Credit Union Act, Arrowhead Central is "significantly undercapitalized" for a fourth consecutive quarter.

Also, accurate loan loss expense calculations result in negative net income as of June 30, 2010, of \$1,453,890. Assets have decreased approximately \$67 million since March 31, 2010, and loans have decreased approximately \$40 million in the same time period.

The financial results are available on NCUA's website, Financial Performance Report section, available online by inserting the credit union's name at <http://cuonline.ncua.gov/CreditUnionOnline/CU/FindCreditUnions.aspx>. Then, click on Financial Report and follow the instructions.

Arrowhead Central was placed into conservatorship by the National Credit Union Administration on June 25, 2010, in an effort to protect Arrowhead members given the credit union's declining financial condition. The credit union has continued serving its members as NCUA has worked to stabilize the institution's operations.

Arrowhead Central had previously posted inaccurate information that distorted the true financial condition of the institution. In particular, the loan loss reserve account was not adequately funded in the first quarter 2010 financial report. The corrected statement indicates Arrowhead Central's loan loss reserve increased from \$49,520,278 on March 31, 2010, to \$53,583,827 as of June 30, 2010. The related loss reserve expense has risen from \$6,065,159 on March 31, 2010 to \$18,920,542 year-to-date.

The \$12 million increase in expense is the result of funding the loan loss reserve account in accordance with methodology approved by the credit union's external CPA review in October 2009. In March, prior management did not comply with approved methodology, thus understating the amount of expenses recognized and misstating income. The corrected funding has eliminated all earnings incorrectly previously shown by the former management team, revealing a loss by Arrowhead Central of \$1.4 million year-to-date.

As part of NCUA's review of Arrowhead Central's records, NCUA determined that Arrowhead Central's former management team did not charge off loan losses in a timely or consistent manner, and that historical ratios did not consistently reflect actual losses the credit union was experiencing. In addition, the former management team chose to revise loan loss reserve methodology less than six months after it was reviewed by an external auditor, thus reducing the amount of funding that was needed for known and potential losses. Had Arrowhead Central's management acted in accordance with approved and validated methodology, losses would have increased and earnings would not have shown a positive trend as of March 31, 2010.

Since mid-2009, Arrowhead Central was required by NCUA to submit an acceptable net worth restoration plan. In four attempts, former management was unable to submit a plan based on reasonable assumptions and showed positive earnings that would restore net worth, despite specific guidance from both federal and state regulators about deficiencies in their submitted plans.

Despite receiving instructions, information and guidance from both the California Department of Financial Institutions and NCUA, Arrowhead Central's former management team did not properly identify and monitor loan modifications to ensure they complied with generally accepted accounting principles (GAAP) and provided relief or assistance to the members.

*NCUA is the independent federal agency that regulates, charters and supervises federal credit unions. With the backing of the full faith and credit of the U.S. government, NCUA operates and manages the National Credit Union Share Insurance Fund, insuring the deposits of over 90 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.*