

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

In the Matter of

J. CLAYTON BROOKE,
former President and
Chief Executive Officer of
Capital Corporate Federal
Credit Union,

NCUA Docket No. 97-12-1

Respondent

FINAL ORDER TO CEASE AND DESIST

WHEREAS respondent J. Clayton Brooke, former President/Chief Executive Officer of Capital Corporate Federal Credit Union of Lanham, Maryland ("CapCorp") from 1985 until December 1994, was an "institution-affiliated party" of that credit union, as defined by 12 U.S.C. §1786(r); and

WHEREAS Brooke served as chairman of CapCorp's Management Investment Committee from February 1994 until December 1994; and

WHEREAS as President/CEO and chairman of the Management Investment Committee, Brooke established day-to-day investment strategy for CapCorp and set parameters governing investment decisions; 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) Brooke acted in reckless disregard of 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 or maturity) when in 1994 Brooke purchased certain securities for CapCorp's portfolio in violation of that policy; and

(b) In violation of CapCorp's "matched book" policy, Brooke, in 1994, deliberately purchased certain securities for CapCorp's portfolio in advance of receiving matching share deposits which he expected; and

(c) In 1994, Brooke persuaded 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

(d) Brooke persuaded the CapCorp BOD to informally adopt the 1994 version of the Standards & Guidelines even though he knew and advised the BOD that CapCorp lacked adequate modeling capability to ensure that it was complying with the 1994 Standards & Guidelines; and

(e) Brooke exposed CapCorp to risk of loss if interest rates increased and, due to member liquidity demand or for other reasons, CapCorp was forced to divest itself of securities; and

(f) Brooke pursued an investment strategy that ignored prudent industry standards for corporate credit unions; and

WHEREAS the NCUA Board, by reason of these contentions, maintains that Brooke bears primary 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 Brooke to cease and desist; and

WHEREAS Brooke 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, Brooke 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:

J. Clayton Brooke forthwith cease and desist from serving as an officer, director or employee of any federally-insured corporate credit union; and

J. Clayton Brooke 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

J. Clayton Brooke 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 Brooke's consent to this Order, is made a part hereof and 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 J. Clayton Brooke, with attachment, to be served by hand upon:

Robert M. Krasne, Esq.
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Steven W. Wideman
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