



**DIVISION OF CREDIT UNIONS
DEPARTMENT OF FINANCIAL INSTITUTIONS
STATE OF WASHINGTON**

IN THE MATTER OF:

RENTON COMMUNITY CREDIT UNION
RENTON, WASHINGTON

CU – 2009-09-30 CO
CONSENT ORDER

The Assistant Director (Assistant Director) of the Division of Credit Unions (Division) of the Washington State Department of Financial Institutions (DFI), and Renton Community Credit Union of Renton, Washington (Credit Union), finding that the issues raised in this captioned matter may be economically and efficiently settled, agree to the provisions of this Consent Order. The Credit Union neither admits nor denies the [REDACTED] described herein. This Consent Order is issued pursuant to Chapter 31.12 of the Revised Code of Washington (“RCW”), and RCW 34.05.060 of the Administrative Procedure Act, based on the following:

I. Background

- A. The Credit Union is a Washington-State chartered credit union organized May 25, 1946 and operating under Chapter 31.12 RCW, the Washington State Credit Union Act. The Credit Union is subject to examination, supervision, and enforcement actions by the Director of DFI and the Director’s delegate, the Assistant Director, pursuant to Chapter 31.12 RCW.
- B. The Division last examined the Credit Union as of [REDACTED]. The resulting Report of Examination is referred to below as the Exam Report. The Division alleges in the Exam Report that the Credit Union has [REDACTED]. In addition, the Division representatives have discussed [REDACTED] with the CEO and directors and certain employees of the Credit Union.
- C. The Credit Union's shares and deposits are insured by the National Credit Union Share Insurance Fund (NCUSIF) administered by the National Credit Union Administration (NCUA), under Title II of the Federal Credit Union Act, 12 U.S.C. 1781 et seq. The Credit Union is subject to examination and supervision by the NCUA, and is subject to NCUA rules and regulations at 12 C.F.R. Part 741.

D. The directors and senior managers of a credit union have fiduciary duties to the credit union. RCW 31.12.267; see also Division Opinion Number 98-4. A material violation of law (including a violation of fiduciary duty) or an unsafe or unsound practice constitutes grounds for the issuance of a notice of charges and intent to issue a cease and desist order against a credit union. RCW 31.12.585; 31.12.005(15), (24).

E. [REDACTED].

F. [REDACTED].

II. Order

A. The Credit Union agrees to cease and desist from the [REDACTED], as more fully set forth in the Exam Report.

1. [REDACTED];
2. [REDACTED]; and
3. [REDACTED].

B. The Credit Union agrees to take affirmative actions as follows:

1. The Credit Union's Board will retain qualified board of directors, supervisory committee and management.
 - (a) The quality of the board of directors, supervisory committee and management will be assessed on its ability to:
 - (i) Comply with the requirements of this Order;
 - (ii) Operate the Credit Union in a safe and sound manner;
 - (iii) Comply with applicable laws and regulations; and
 - (iv) [REDACTED].
2. Within thirty (30) calendar days from the effective date of this Consent Order, the Credit Union's Board shall formulate and implement a written profit plan for 2010, including a month-to-month pro forma balance sheet, a monthly budget that is consistent with the corresponding pro forma balance sheet, and a description of the operating assumptions used for major projected income and expenses. This plan will be forwarded to the Division for review and comment. The Board will perform a monthly budget review process to monitor income and expenses of the Credit Union to compare actual figures with budgetary projections.

3. By December 31, 2009, and monthly thereafter, the Board shall fully fund the allowance for loan and lease losses (ALLL) account and revise procedures to comply with the Credit Union's ALLL policy. The policy shall include requirements for complying with the standards and guidelines stated in the NCUA Interpretive Ruling and Policy Statement 02-03. The policy shall include but not be limited to the following:
 - (a) FAS 5 historical loss pooling;
 - (b) FAS 114 individual impaired loan losses; and
 - (c) Environmental factor to anticipate seasonal, regional, and economic trends in assessing the appropriate ALLL level.

4. By April 30, 2010, the Board will actively seek a merger partner and move forward to complete a merger by September 30, 2010, if one or more of the following events occur:
 - (a) June 30, 2010^{MD} year-to-date net income is negative;
 - (b) The net worth/assets ratio falls below 7%;
 - (c) The Credit Union does not meet the terms of the Consent Order.

5. The Credit Union will develop corrective actions for all other issues and findings raised in the Exam Report for which corrective actions have not been identified in this Consent Order.

6. Within twenty (20) calendar days after the end of each calendar month, the Credit Union shall submit to the Division:
 - (i) A copy of the Credit Union's financial statements provided to the Board of Directors or a copy of the Credit Union's 5300 Call Report for that quarter period. Submittal of separate financial statements is not necessary for those months when a 5300 Call Report is submitted; and
 - (ii) A report summarizing the Credit Union's progress during the prior month toward satisfying the requirements set forth in this Consent Order.

In addition, the Credit Union shall submit such other reports to the Division as may be requested by the Division.

Any plans, budgets, reports, or other materials, required by the provisions of this Consent Order (documents) or required by the Division to be furnished to the Division, will be sent to the following Division staff member at the fax number, mailing address or e-mail address given below unless the Division provides other instructions to the Credit Union. The Division reserves the right to require the Credit Union to provide documents to a different person or to a different fax number, e-mail address or address as provided in a written notice from the Division to the Credit Union. If it is not practical to fax the materials because they

are too voluminous, the Credit Union may mail the materials to the Division staff member at the address noted:

Glenn Ross, Examiner
Division of Credit Unions
Post Office Box 41200
Olympia, Washington 98504-1200
Fax number: 360-704-6901
dcu@dfi.wa.gov

Such materials will be considered as “furnished” to the Division when received by the Division staff member noted above.

III. WAIVER

To expedite the resolution of this matter in an economical and efficient manner, the parties agree to enter into this Consent Order. Accordingly, and in consideration of the detailed Examination Report, the parties waive receipt of a Notice of Charges in this matter. The parties also waive any and all administrative and judicial review of the issuance and provisions of this Consent Order and of the issues raised in this matter and the resolution reached in this Consent Order.

IV. OTHER MATTERS

- A. Pursuant to chapter 31.12 RCW, the parties agree that the Division has jurisdiction over the subject matter of the activities of the Credit Union discussed herein.
- B. The parties agree to be bound by the terms and conditions of this Consent Order and enter into this Consent Order voluntarily. The parties represent and warrant to each other that they have the full power and right to execute this Consent Order.
- C. The parties understand that failure to abide by the terms and conditions of this Consent Order may result in further legal action by the Assistant Director, including but not limited to, enforcement of this Consent Order under RCW 34.05.578 or any other applicable statutes or rules. In the event of such legal action, the parties may be responsible to reimburse the Director for the costs incurred in pursuing such action, including but not limited to, attorney fees.
- D. The parties have read this Consent Order in its entirety and fully understand and agree to all of the same.
- E. Notwithstanding any other language of this Consent Order, the Division shall retain and reserve the full power and authority to take further legal actions under Chapter 31.12 RCW based on material violations of law, unsafe or unsound practices, or unsafe or unsound conditions by or at the Credit Union, or with the consent of the Credit Union, including but not limited to, the issuance of a temporary cease and desist order pursuant to RCW

31.12.595, the issuance of a notice of charges pursuant to RCW 31.12.585, issuance of a notice of intent to remove a person from office or conduct of the affairs of the credit union pursuant to RCW 31.12.575, or the appointment of a conservator, liquidating agent, and/or receiver pursuant to RCW 31.12.637 . Circumstances which may dictate further legal action by the Division include, without limitation, the presence of emergency circumstances such as an imminent or actual run on the Credit Union or other evidence of illiquidity which disable normal operation of the Credit Union.

- F. Appendix A attached hereto is considered incorporated in this Consent Order by this reference.
- G. This Consent Order constitutes a “written agreement with the director” as contemplated by RCW 31.12.005(13).
- H. References in this Consent Order to sections or parts of statutes or rules include successors to such sections or parts.

This Consent Order is entered into and takes effect this 19 day of November, 2009. This date is referred to in this Consent Order as the effective date of this Consent Order.

**DIVISION OF CREDIT UNIONS
DEPARTMENT OF FINANCIAL INSTITUTIONS
STATE OF WASHINGTON**

_____/s/_____
Linda Jekel
Assistant Director

Renton Community Credit Union:

_____/s/_____
Kermit Stricklin, Board Chair

_____/s/_____
Holly Smith, President/CEO

_____/s/_____
Daniel Beard, Director

_____/s/_____
Thanh Hoang, Director

_____/s/_____
Robert Gaines, Director

_____/s/_____
Thomas Fernald, Jr., Director

_____/s/_____
Kierstin Carver, Director

_____/s/_____
Patricia McQuade, Director

Appendix A to Consent Order - Definitions

As used in this CO, the following terms have the meanings set forth below.

1. "**Financial statements**" includes all of the following:

- a. Statement of Financial Condition for the month end
- b. Statement of Income and Expense for the month/quarter and year-to-date
- c. Dollar amount of delinquent loans for the month-end
- d. Dollar amount of charge-offs and recoveries for the year-to-date
- e. Analysis of adequacy of ALLL funding for the month end

2. "**Net Worth**" means retained earnings as defined under Generally Accepted Accounting Principles. Retained earnings normally include undivided earnings and regular reserves. It does not include the ALLL or the Accumulated Unrealized Gains (Losses) on Available for Sale Securities.

3. **Terms as defined in NCUA Letter 161.** The definitions of the terms set forth below are similar to the definition of these same terms set forth in NCUA Letter 161. It should also be noted that for the most part the definitions of these terms use line items from the 5300s call reports. In the event the NCUA revises the definition of any of these terms in Letter 161, or revises the related line items in the 5300s, the Division may substitute a reasonably similar definition of the terms upon written notice to the Credit Union.

a. **Delinquent Loans/Total Loans** means

Total of Loans Delinquent More Than 2 Months **divided by** Total Loans

b. **Net Charge-offs/Average Loans** means

[Total of Loans Charged Off (prior 12-month period) - Total Recoveries (same period)]
divided by Average Loans

c. **Operating Expenses/Average Assets {Annualized}** means

[Total Operating Expenses - Provision for Loan Losses - Provision for Investment Losses]
divided by ((Current Period Assets + Priority Year-end Assets)/2)

d. **Return on Average Assets** means

(([Net Income (Loss) After All Operating Expenses and All Cost of Funds] divided by # months in Year to Date) times 12) **divided by** [(Current Period Assets + Prior Year-end Assets) divided by 2]