

**MINUTES**  
**LAFCU BOARD OF DIRECTORS**  
**REGULAR SESSION MEETING**

Los Angeles, California  
April 17, 2008

The regular meeting of the Board of Directors of the Los Angeles Federal Credit Union was held at 5:30 p.m., April 17, 2008 at the LA Mall Facility, with the following officials in attendance: Roslyn Carter-Phillips, Clifford Cannon, Stan Horwitz, Jack C. Mathews, Gary Mattingly, Neil G. Ricci, Chuck Rubin, Jerry Waggoner and Chairperson Denise McGee. Also in attendance were Supervisory Committee members, Sheldon Miller, Raul Valdivia, Abe Rasheed and Rosie Richardson; Credit Committee members, Joe Quan and Mei Yee; Steven A. McDiffett, President/CEO and Richard Lie, Senior VP/CFO.

**AGENDA ITEM #1, CALL TO ORDER**

Chairperson Denise McGee welcomed everyone to the April Board of Directors meeting for 2008.

**AGENDA ITEM #2, REPORT OF THE CHAIRPERSON**

The Chair made the following announcements/acknowledgements:

- ▶ Absent from tonight's meeting are Terrance Manocchio, due to illness and John Dea, who is at a credit union conference.
- ▶ A 'thank you' letter from Make A Wish Foundation for LAFCU's donation was passed around for review.
- ▶ The Board June Workshop is scheduled for June 7<sup>th</sup> at The Island Resort in Newport Beach.
- ▶ The dinner menu was selected by Director Jack Mathews.

**AGENDA ITEM #3, APPROVAL OF CONSENT CALENDAR**

After discussion, it was moved by Director Clifford Cannon, seconded by Director Jerry Waggoner and carried to approve the following Consent items:

- (a) Minutes of the Board of Directors' meeting of March 20, 2008.
- (b) March 2008 Statement of Financial Condition.
- (c) Payment of Dividends in accordance with scheduled Rates, Terms and conditions, and Loan Rate Terms and Conditions.

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- (d) Investment Activity Reports
  - 1) Investment Portfolio (quarterly)
- (e) Loan Charge-offs, Adjustments to prior month's Charge-offs, Account Write-offs and Allowance for Loan Loss.
- (f) New Membership Applications.
- g) Conference and Seminar Listing (quarterly)

Copies of the above calendar consent items are attached to the official records of the Board of Directors meeting minutes.

### **AGENDA ITEM #4, RECEIVE & FILE ITEMS**

There being no discussion, the following items were received and filed:

- (a) Credit Committee
  - 1) The Loan Activity Report, which showed a total of 945 applications (regular applications for Visa pre-approvals) were taken during the month of March 2008, and of this number, a total of 117 were denied. As of March 2008, the credit union extended 26,923 lines of credit (Unsecured, VRL, Overdraft Protection, Real Estate Equityline and Visaline) for an aggregate total of \$230,955,999. The total of unused lines of credit is \$166,242,128.
  - 2) A written report of a Credit Committee meeting held on April 2, 2008 for the purpose of reviewing loans approved by credit union loan officers. A total of fifteen (15) loans were reviewed and all were found to be in satisfactory order.

### **AGENDA ITEM #5, ASSISTANT TREASURER/CEO**

- (a) Mr. McDiffett presented the following written informational report with additional comments:

#### **REGULATORY/LEGISLATIVE**

- 2007 Credit Union Regulatory Improvements Act, HR 1573 --- Introduced into the House by Reps, Paul Kanjorksi (D-PA), and Ed Royce (R-CA). The measure contains several provisions dealing with outdated rules and regulations on credit union operations. The bill has over 145 bipartisan co-

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sponsors. Its passage is a priority for the credit union industry trade associations in 2008. A Senate version of CURIA was introduced into the Senate Banking Committee by Senator Mary Landieu (D-LA), and Joe Lieberman (I-Conn).

- Credit Union Regulatory Relief Act, HR 5519 --- The same sponsors as HR 1537 released this new CU Bill into the House on March 3, 2008. It contains most of the provisions of HR 1537, but not all. It omits the raising of the overall cap on Member Business Loans (12.25%), language on a risk based system of prompt corrective action and revisions to conversion rules.
- Treasury's Financial Regulatory Blueprint --- Released on March 31<sup>st</sup>, the Treasury proposal calls for consolidating all financial industry regulators and insurance funds, including NCUA. House Financial Services Chairman, Barney Frank (D-MA), indicated that "we would never let that happen."
- Senate Housing Bill, S2136 --- The Bill would permit bankruptcy judges to revise the amount and interest rate of a loan nearing foreclosure and permit repayment of the remainder over a 30 year period. Progress has slowed due to an amendment to use bankruptcy to avoid foreclosures.

### CPA Audit & NCUA Exam

- Responses to the CPA Audit comments are included in this month's Supervisory Committee Report.
- The NCUA Exam should be finalized and a report issued by the end of April.

### Strategic Plan Projects

The updated Strategic Plan Project goals and accomplishments are attached. All of the 1<sup>st</sup> quarter goals were completed on time except the implementation of the Automobile Loan Draft Program, resulting in an 88% accomplishment rate. The remaining 2008 Strategic Plan Project goals are also listed for your information.

### Internal Service Survey

Since the beginning of 2008, each department and branch meets monthly and completes a survey that rates the level of teamwork and cooperation they receive from other department and branches. The results have been quite interesting. The overall average score has been slightly above average of 2.8 on a scale of 1-5, with 1=excellent, 3=average and 5=poor.

### Additional Comments

- ▶ On the Treasury's Financial Regulatory Blueprint, Mr. McDiffett commented that this blueprint will probably not result in any change in the near future.

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- ▶ Progress on the Senate Housing Bill (S-2136) has slowed. However, the Foreclosure Prevention Act has a better chance of being passed.
- ▶ The El Monte Branch Open House is scheduled for Wednesday, April 23<sup>rd</sup> and the ceremony with dignitaries will be conducted between 11:45 a.m. and 12:15 p.m. Everyone was invited.
- ▶ It is reported that 69.7% of the See's Candy certificates were returned, for a cost of \$244,300. This amount does not include the mailing expenses.
- ▶ Relative to the Strategic Plan Projects, Mr. McDiffett stated that all projects for the 1<sup>st</sup> quarter were completed except for the Automobile Loan Draft Program, which will be ready to begin soon. He then briefly reviewed the projects for the rest of the year.
- ▶ Regarding the Gardena Branch, a lease has been signed for the expansion of this branch. We should have an expanded branch by the first quarter of next year.
- ▶ For the first two Saturdays that the credit union has been opened, Mr. McDiffett reported that business was very good.

There being no further comments, Chairperson McGee thanked Mr. McDiffett for his report.

### **AGENDA ITEM #6, ASSISTANT TREASURER/COO**

- (a) In the absence of Mr. John T. Dea, Executive VP/COO, Mr. McDiffett presented a written report on the following items, with additional comments:

#### Loans

Our loan production and growth remain strong. We had a gain of \$2.4 million in March. For the first quarter, we had a gain of \$8.9 million compared to a loss of \$.9 million through March in 2007. Our Loan Department is working very hard to fund loans and, at the same time, being cautious in lending to new members.

#### Online Money Market

This new product is now available. It offers a higher Money Market rate when members do their Money Market transactions online and have an active LAFCU checking account and E-statements. We will promote the program in the next newsletter.

#### Foreign Currency

We are starting the training on this new service to order foreign currency in our branches or online. We hope to have it available in the next month.

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### Delinquency and Charge-Off

Considering the economic conditions and peer comparisons, delinquency remains at a respectable .88% in March. Charge-offs remained at a very high level as we continue writing off many loans that are not paying and/or filed bankruptcy. We are continuing to monitor this very closely. We hope to see some reduction in the charge-offs in the next few months.

### Assistant Treasurer

One of the Assistant Treasurers in the Member Services Department has moved away and we need another Asst. Treasurer. Please approve Oscar Ulloa as an Assistant Treasurer. Oscar has been with us for about six years. It was then moved by Director Neil Ricci, seconded by Director Jerry Waggoner and carried to approve this request.

### Quarterly Risk Analysis

Our Quarterly Risk Analysis is attached to my report. It shows that our risk loans are performing similarly to our non-risk loans, and no changes are being considered at this time.

### Additional Comments

- ▶ Another excellent month for loan growth with a gain of \$2.3 mil.
- ▶ Delinquency remains at .88%, which is lower than our peers. However, we will continue to monitor and hope to see a decline in the next few months.
- ▶ With regard to the quarterly Risk Analysis, our risk rates are set appropriately.

There being no further issues to discuss, the Chair thanked Mr. McDiffett for this report.

## AGENDA ITEM #7, ASSISTANT TREASURER/CFO

Prior to reviewing the following reports, Mr. Richard Lie, Sr. VP/CFO called attention to the Statement of Income of the Financial Statement where we showed a gain of \$317,444, which includes the first installment from the Visa IPO (Initial Public Offering).

- (a) **Financial Summary Report:** For the period ending March 31, 2008, **Loans** increased by \$2,305,838. The biggest gains were in automobile and real estate accounts. **Shares Balance** was \$579,328,783, an increase of \$17,792,993, mostly in CD accounts. **Operating Expenses** decreased by \$14,145, and the decreases were in the compensation and benefit area, marketing, and outside professional help. **Provision for Loan Losses** increased by \$60,000 and this was due to more charge-offs. **Net Worth to Assets** decreased to 11.22% and

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this is due to the increase in assets. **Loan to Share Ratio** decreased by 1.71% and the **Gap Ratio** was a negative 14.79%. **Delinquency** increased by \$2,013 and **Assets** increased by \$16,244,939 for a total of \$656,316,004.

- (b) **Budget Variance Report** -- On **Total Loans**, we exceeded our projection by an amount of \$1,364,218 and, on **Net Charge-offs**, we also exceeded our projection by an amount of \$183,469.

On **Total Deposits**, we exceeded our projection of \$535,761,662 by an amount of \$43,567,120. For **Total Capital**, we were below our goal of \$73,069,338 by an amount of \$176,702 and this was due to higher charge-offs and a shrinking interest margin.

We were below our goal on **Total Interest Income**, by an amount of \$417,552 and on **Total Interest Expense**, we exceeded our goal by an amount of \$41,296. Due to FASB adjustments, we exceeded our goal on **Loan Loss Expense** by an amount of \$442,500, and were below our goal on **Operating Expenses** by an amount of \$559,580.

- (c) Mr. Lie next presented the **NEV Report**, indicating that we are within compliance guidelines with net worth of 11.22%. On this report, shock tests of 100 bp to 300 bp are taken on LAFCU's loans, investments and deposits, and it shows how our market value is affected, positively and negatively.
- (d) On the Reg 703 Report, Mr. Lie stated that this report has the same criteria as the NEV Report, except that this is on investments only. Currently, our net worth ratio is at 11.22%

The Chair asked that the records reflect Director Gary Mattingly entered the meeting at 5:54 p.m.

## **AGENDA ITEM #8, BOARD EDUCATION & EVENT COMMITTEE**

Director Stan Horwitz, Chairperson of this Committee, made the following announcements:

- (a) March of Dimes event is scheduled for Saturday, April 26, 2008 at Griffith Park. LAFCU will be manning checkpoint #1.
- (b) The next regular meeting of the Board is scheduled for May 15, 2008. 5:45 p.m., at the Glendale Facility.
- (c) The Board June Workshop is scheduled for June 7, 2008 in Newport Beach, CA.

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The Chair asked that the records reflect Director Roslyn Carter-Phillips entered the meeting at 6:01 p.m.

### **AGENDA ITEM #9, LEGISLATIVE/BYLAWS COMMITTEE**

There was no Legislative/Bylaws Committee report for this period.

### **AGENDA ITEM #10, STRATEGIC SCORECARD REVIEW**

- (a) Mr. McDiffett next reviewed the Strategic Scorecard and the Information sheet (attached to the official Board minutes records). Each of the following categories lists line items related to the category and the Parameters of Authority, as well as a legend. Mr. McDiffett reviewed the highlighted areas, as follows:

#### **Member Satisfaction**

% of Very Satisfied Member	LAFUCU exceeded with 91% indicating that LAFUCU is "best" or "better." This is based on the monthly mini surveys.
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#### **Financial Performance**

Asset Growth	Below the meets with a 3% growth rate.
Delinquent Lns/Total Lns	Below the meets with a 0.88% ratio.
Consumer Loan Growth	Exceeded goal with average monthly growth of \$1,123,807.
Total Loan Growth	Above the exceeds with a rate of 13%.

#### **Organizational Effectiveness and Efficiency**

Strategic Plan Action Steps	This score dropped from 100% to 88% and this was due to not completing the automobile loan draft project.
Operating Exp. to Income	Exceeded in this category with a 45% ratio.

There being no further discussion, the Chair thanked staff for their report.

### **AGENDA ITEM #11, UNFINISHED BUSINESS**

There was no Unfinished Business for this period.

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**AGENDA ITEM #12. NEW BUSINESS**

There was no New Business for this period.

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Chairperson McGee took this opportunity to thanked the officials who attended the annual employees' picnic and there being no further business, the meeting was then recessed for continuation in executive session.

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Denise McGee, Chairperson

ATTEST:

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Stan Horwitz, Secretary