

MINUTES
LAFCU BOARD OF DIRECTORS
REGULAR SESSION MEETING

Los Angeles, California
June 17, 2010

The regular meeting of the Board of Directors of the Los Angeles Federal Credit Union was held at 5:30 p.m., June 17, 2010 at the LA Mall Facility. The following officials were in attendance: Clifford Cannon, Roslyn Carter-Phillips, Stan Horwitz, Jack Mathews, Denise McGee and Chairperson Chuck Rubin. Also in attendance were Supervisory Committee members Sheldon Miller, Abe Rasheed, Joe Quan and Rosie Richardson; Credit Committee members Mei Yee, Joe Quan and Raul Valdivia; John T Dea, President/CEO and Anthony Cuevas, Sr. VP/COO.

It was noted that Mr. Richard Lie, Sr. VP/CFO, was not present due to credit union business.

AGENDA ITEM #1, CALL TO ORDER

The regular meeting of the Board of Directors for June 2010 was called to order by Chairperson Chuck Rubin, who welcomed everyone to the meeting.

AGENDA ITEM #2, REPORT OF THE CHAIRPERSON

The Chair made the following announcements/acknowledgements:

- ▶ Due to personal business, Directors Neil Ricci, Gary Mattingly and Jerry Waggoner were not present and Supervisory Committee member, Sheldon Miller, was also not present.
- ▶ Dinner menu was prepared by Director Denise McGee.
- ▶ The Chair requested that all expense statements from the recent June Workshop be submitted to staff by the next Board meeting.

AGENDA ITEM #3, APPROVAL OF CONSENT CALENDAR

After discussion, it was moved by Director Denise McGee, seconded by Director Stan Horwitz and carried to approve the following Consent items, and to amend Agenda Item #3(a-1), Board meeting minutes of June 5, 2010. An amendment is requested to be added in the Executive Session minutes to state that the Chair has appointed an Ad Hoc Committee to be chaired by Director Clifford Cannon, along with

REGULAR BOARD MEETING OF 6/17/10 (Cont.)

Directors Roslyn Carter-Phillips, Neil Ricci and Gary Mattingly as committee members. This committee will research the possible rotation of Executive Committee officers for future Boards. This amendment was forwarded to staff to revise the official minutes of the June 5, 2010 Board meeting.

- (a) Prior month's meeting minutes
 - 1. Minutes of the Regular Meeting of Board of Directors of June 5, 2010.
 - 2. Minutes of the June Workshop Meeting of June 5, 2010.
- (b) Statement of Financial Condition for the period ending 5/31/10.
- (c) Payment of Dividends in accordance with scheduled Rates, Terms and Conditions and Ratification of Loan Rates, Terms and Conditions.
- (d) Investment Activity Report
 - 1. Investment Portfolio
- (e) Loan Charge-offs, Adjustments to prior month's Charge-offs, Account Write-offs and Allowance for Loan Loss.
- (f) New Membership Applications

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, it was moved by Director Denise McGee, seconded by Director Clifford Cannon and carried to approve the following Receive and File items:

- (a) Credit Committee
 - 1) The Loan Activity Report, which showed a total of 922 applications (regular applications for Visa pre-approvals) were taken during the month of May 2010, and of this number a total of 224 were denied. As of May 2010, the credit union extended 25,214 lines of credit (Unsecured, VRL, Overdraft Protection, Real Estate Equityline and Visaline) for an aggregate total of \$243,628,496. The total of unused lines of credit is \$173,363,232.
 - 2) A written report of the May 2010 Credit Committee meeting, held for the purpose of reviewing loans approved by credit union loan officers, was

REGULAR BOARD MEETING OF 6/17/10 (Cont.)

also presented and the following statistics are for the month of March 2010:

▶ Consumer Loans	15
▶ Real Estate Loans	27
▶ Loan Reconsideration	8
▶ Employee Loans	4
▶ Rejected Loans	16

AGENDA ITEM #5, ASSISTANT TREASURER/CEO

- (a) Mr. John Dea presented the following written update with additional comments:

Regulatory/Legislation/Economic

I am writing this report on June 7th and I hope everyone enjoyed the workshop. I will be leaving in the morning for Washington DC to meet with members of Congress to talk about the Debit Interchange Amendment that will be harmful to LAFUCU and our members. This will be a quick 3-day trip and I hope we are able to get some members of Congress to consider removing this Amendment from the joint Bill with the House of Representatives.

The stock market continues to drift lower in the 1st few days because of lingering disappointment over last week's payroll figures. However, some positives still remain as consumer confidence increased in May and home and car sales showed some improvement.

Regarding the City of Los Angeles, we are hearing more and more from members that they are required to take off additional furlough days. We are also starting to talk to the City regarding our renewed lease at the Mall Branch. There is some talk in the City that they are again planning a big renovation at the Mall and they may want us to go to a month-to-month lease. I will let you know any further developments on this, as I hear them.

Financial Update

We had another positive month in May with income that has doubled our April number. The \$223,000 income now puts us at \$715,000 for the year or an annualized figure of over \$1.7 million. I am writing my report early this month because of my trip to Washington DC, and I will give you more details at the Board meeting.

REGULAR BOARD MEETING OF 6/17/10 (Cont.)

CPA/NCUA/Internal Audit

Our Internal Audit temporary outsourced contract with Mainsail Consulting is working well and will continue until we fill the position. We continue to interview and hope to make an offer very soon.

Strategic Plan Project Completion

Attached is the progress report for the second quarter Strategic Plan projects. Staff continues to do a great job and we hope to complete all projects.

Additional Comments by Mr. Dea

- ▶ There was good progress made on the trip to Washington regarding the Debit Interchange Amendment. There were about 60 members representing the California delegation and they met with Congressmen from Southern California. Mr. Dea passed around a letter that was distributed to the participants containing 130 signatures opposing this amendment.
- ▶ On financial update, LAFUCU made \$223,000 in net income for the month of May and \$715,000 for the year. It looks like we are headed in the right direction.
- ▶ We have hired a VP of Internal Audit, Khamsay Vongchantha, and he will begin employment on June 21st. He comes with many years of credit union experience and will be a good asset to LAFUCU.

There being no further discussion, the Chair thanked Mr. Dea for his report.

AGENDA ITEM #6, ASSISTANT TREASURER/COO

- (a) Mr. Anthony Cuevas presented his written report and additional comments:

Delinquency

True Delinquency increased slightly in May from 1.70% to 1.74% or by \$150,000. This is primarily caused by \$400,000 increase in Real Estate loan delinquency. However, there were decreases in Visa, Secured and Unsecured consumer loan delinquency for a combined total of \$250,000.

Charge Off

The proposed loan charge-off for the month of June is \$630,000, which is about the same as May.

REGULAR BOARD MEETING OF 6/17/10 (Cont.)

ALLL

The ALLL continues to stabilize and we continue to benefit from the larger loss ratios rolling off from a year ago in the Secured Consumer Loan category. Final adjustments to the ALLL Reserve Calculation methodology have been made and submitted to TWHC CPA Audit firm for review. We are still on target to finalize this process by the end of June.

Loans

Loans decreased by \$870,000 in May with the biggest decrease in the auto loan portfolio, which was down \$1.4 mil. The unsecured loan portfolio also decreased by \$241,000 while the RE loan and Visa portfolios increased by \$573,000 and \$277,000 respectively.

Reg E – Courtesy Pay Opt-In

Staff continues to solicit and process member opt-in requests for courtesy pay on ATM and debit card transactions. To date, we have received over 3,100 requests to opt-in. Members have also been made aware that they need to opt-in to this service via eBranch. A direct mailing is scheduled to go out around July 1st to eligible members that have not indicated their preference with respect to this service.

Overdraft Protection Request Form

This form has been modified and the option to select overdraft protection from a Visa credit card has been removed. In addition, we are sending a letter out to about 600 members informing them that we are discontinuing the service, but we are offering these members the opportunity to select another form of Overdraft Protection and encouraging them to apply for a line of credit as well. The reason this service has been discontinued is the service did not work as we intended in terms of automation and consistent application, which was discovered through our work on the Courtesy Pay opt-in program.

Additional Comments by Mr. Cuevas

Mr. Cuevas summarized his written report:

- ▶ Delinquency increased slightly in May from 1.70% to 1.74%.
- ▶ The charge-off for the month of June is about the same as May.
- ▶ The ALLL continues to stabilize and we are waiting for a response from our CPA firm regarding the final adjustments to the ALLL Reserve Calculation methodology
- ▶ Loans decreased by \$870,000 with the biggest decrease in auto loans.
- ▶ Received about 60% positive response on Reg E (Courtesy Pay Opt-in) and staff continues to solicit members.
- ▶ The Overdraft Protection Request form has been updated.

REGULAR BOARD MEETING OF 6/17/10 (Cont.)

There being no further discussion, the Chair thanked Mr. Cuevas for his report and made note that the reports of the CEO and COO be filed with the official records.

AGENDA ITEM #7, ASSISTANT TREASURER/CFO

In the absence of Mr. Lie, Mr. Dea reviewed his written report, as follows:

During May, ***Loans to Members*** showed a decrease of \$.87 million and a decrease of \$8.7 million for the year. Year-to-date, ***Loans*** have decreased at an annualized rate of 5.14%.

Member Shares showed a decrease of \$2.9 million with decreases in Checking and CDs, while Money Market and Regular Shares showed some increases. Year-to-date, ***Deposits*** have decreased at an annualized rate of 2.41%.

Total Operating Expenses for the month of May were \$1,729,959, compared to \$1,679,902 for April 2010, an increase of \$50,057.

(a) Significant Increases in Expenses/Income:

- Travel & Conference expenses increased due to expenses for the June Workshop.
- Provision for Loan Losses increased by \$50,000 due to more loan modifications and TDR loans.
- Marketing expenses increased by \$28,000 due to Business Development (advertisement on the radio) and the summer loan promotions.
- Compensation & Benefit increased by \$65,000 due to the 457F investment loss.

(b) Significant Decreases in Expenses:

- Postage expenses decreased by \$9,000 due to more e-statements and combined daily notices to members.
- Loan Services expenses decreased by \$20,000 due to lower Visa fraud charge-offs in May.

Net Income for the month was \$223,421; ***Total Net Worth*** has reached to \$72 million, an increase of \$223,421. The ***Net Worth to Assets*** ratio increased to 10.58% from 10.52%, and ***Delinquency*** for the month was \$6,899,879, an increase of \$149,942 from April. The increase consisted of real estate loans, while Visa, Unsecured and Auto loans decreased.

REGULAR BOARD MEETING OF 6/17/10 (Cont.)

On the *Gap Report*, the credit union shows a negative gap of 13.10%, a decrease from 13.85% in April, due the decreasing of loan balances and shorter duration in our investments.

Overall, *Assets* decreased by \$2 million due to the decrease in deposits. Year-to-date *Total Assets* have decreased at an annualized rate of 8.32%.

There being no further discussion, it was moved by Director Stan Horwitz, seconded by Director Clifford Cannon and carried to approve and file the report of the CFO.

At this time, the Chair noted that the records reflect Supervisory Committee member, Sheldon Miller, entered the meeting at 5:35 p.m.

AGENDA ITEM #8, BOARD EDUCATION & EVENTS COMMITTEE

Director Denise McGee, Chairperson of this Committee, made the following announcements:

- ▶ The next regular meeting of the Board will be on July 15, 2010 at the LA Mall facility.

AGENDA ITEM #9, LEGISLATIVE/BYLAWS COMMITTEE

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

AGENDA ITEM #10, STRATEGIC SCORECARD REVIEW

- (a) Mr. Dea next reviewed the highlighted areas of the Strategic Scorecard (attached to Board minutes), as follows:

Member Satisfaction

Mystery Shop Results: This was exceeded with a score of 98%.

% of Very Satisfied Member:
(Mini Survey) This was exceeded with a score of 93%.

Financial Performance

Asset Growth: In the "Below Minimum" category with a negative rate of 3%.

Delinquency Ratio: In the "Meets" category with a ratio of 1.74%.

REGULAR BOARD MEETING OF 6/17/10 (Cont.)

Op. Expenses/Ave. Assets: We have exceeded this category with a score of 2.93%.

Consumer Loan Growth: In the "Below Minimum" with a negative monthly amount of \$1,427,119.

Employee Satisfaction

Turnover Rate: We have exceeded in this area with a ratio of 6%.

There being no other discussion, the Chair thanked Mr. Dea for this report.

AGENDA ITEM #11, UNFINISHED BUSINESS

At this time, the Chair asked Mr. Sheldon Miller to come forward. Since Mr. Miller was not present at the Volunteers Appreciation dinner, the Chair presented him with a gift for his 10 years of outstanding volunteer service to LAFUCU and its members.

AGENDA ITEM #12, NEW BUSINESS

There was no New Business for this period.

There being no further business to discuss, the meeting was then recessed for continuation in Executive Session.

Chuck Rubin, Chairperson

ATTEST:

Stan Horwitz, Secretary