



NOW THEREFORE, IT IS ORDERED THAT:

1. The Stipulation and Consent to the Final Order to Cease and Desist is incorporated and made part hereof by this reference; and

2. The Credit Union shall take all actions as specified in paragraphs one (1) through twenty-three (23), pages two (2) through eight (8) of the executed Stipulation and Consent to the Final Order to Cease and Desist.

3. This Final Order shall be and is effective on the date it is issued.

NATIONAL CREDIT UNION ADMINISTRATION BOARD

Dated: July 14, 2003

Hattie Ulan  
Hattie Ulan  
Acting Secretary of the Board

UNITED STATES OF AMERICA  
NATIONAL CREDIT UNION ADMINISTRATION  
NATIONAL CREDIT UNION ADMINISTRATION BOARD

In the Matter of the	)	
Cease-and-Desist Order of	)	
	)	Dkt No. 03-0501-l
	)	
Katahdin Federal Credit Union	)	
	)	
Respondent.	)	
	)	
	)	

**STIPULATION AND CONSENT TO FINAL ORDER  
TO CEASE AND DESIST**

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The National Credit Union Administration Board ("NCUA Board"), by and through its undersigned counsel, and Katahdin Federal Credit Union ("Credit Union") hereby stipulate and agree as follows:

A. Consideration. The National Credit Union Administration is of the opinion that grounds exist to initiate an administrative enforcement proceeding action against the Credit Union pursuant to Section 206(f)(1) of the Federal Credit Union (FCU) Act, 12 U.S.C. §1786(f)(1). The Credit Union, without admitting or denying that said grounds exist (except those set forth as to Jurisdiction in paragraph 2), desires to avoid the time, cost and expense of administrative litigation. Accordingly, the Credit Union consents to the issuance by the NCUA Board of a Final Order to Cease and Desist.

B. Jurisdiction.

- (a) The Credit Union is an "institution-affiliated party" within the meaning of Section 206(r) of the Federal Credit Union Act, 12 U.S.C. §1786(r).
- (b) Pursuant to the authority vested in the Board of the National Credit Union Administration under Section 206(g) of the Federal Credit Union Act, 12 U.S.C. §1786(g), and Part 747 of the National Credit Union Administration Rules and Regulations, it is an appropriate Federal agency to maintain enforcement proceedings against such institution-affiliated party. Therefore, the Credit Union is subject to the authority of the National Credit Union Administration to initiate and maintain an enforcement proceeding seeking an order to cease and desist.

C. Consent. The Credit Union consents to the issuance by the NCUA Board of the accompanying Final Order to Cease and Desist attached hereto as Exhibit A. The Credit Union agrees that the attached Final Order to Cease and Desist is lawful, complies with all requirements of the Federal Credit Union Act and consents to the following terms and conditions:

The Credit Union (including all directors, committee members, officers, and employees) shall:

1. Within sixty (60) days of the issuance of this order, the board of directors of the credit union shall ensure that qualified management is retained subject to the following:
  - a. Each senior management executive shall have qualifications and experience commensurate with his or her duties and responsibilities at the credit union, inclusive of knowledge of the Federal Credit Union Act, NCUA Rules and Regulations, and NCUA Bylaws and board policy.

Each senior management executive, or equivalents, shall be provided appropriate written authority from the credit union's board of directors to implement the provisions of this Order.

- b. The qualifications of senior management executives shall be assessed on the 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 Federal and State laws and regulations.
      - iv. Restore all aspects of the credit union to a safe and sound condition, including management effectiveness, asset quality, earnings, capital adequacy, sensitivity to market risk and liquidity.
    - c. Within thirty (30) days of the issuance of this order, the board of directors shall ensure the Chief Executive Officer receives a written appraisal based on the credit union's current performance standards for the calendar year ending December 31, 2002, and provide copies of the appraisal to the Regional Director. The board shall also adopt a policy that requires a written appraisal for the Chief Executive Officer no less than twice per year.
    - d. The credit union shall comply with Part 701.14 of NCUA Rules and Regulations by notifying the Regional Director in writing when it

proposes any changes to the credit union board of directors, committee members, or senior management official.

2. The board of directors shall immediately participate in the affairs of the credit union, assuming full responsibility for the approval of sound policies and objectives, compliance with the credit union's bylaws, and supervision of the credit union's activities and operations, consistent with the role and expertise commonly expected for directors of credit unions of comparable size and complexity, and within 30 days of the issuance of this Order, the board of directors shall obtain the services of an outside consultant who shall assist the credit union in devising an education program for the credit union directors, and within sixty (60) days of the issuance of this Order, the board of directors shall, with the assistance of the consultant, develop and adopt a two year education program for current and new officials that shall include, at a minimum:
  - a. Specific training in the areas of lending, operations, and compliance with applicable Federal and State laws, rules and regulations.
  - b. Specific training in the duties and responsibilities of the board of directors in connection with the safe and sound operations of the credit union.
  - c. Specific and periodic technical training for board members on topic matters relevant to effectively governing a full service credit union that will include at a minimum.
    - i. Strategic Planning.
    - ii. Policy Development and Oversight.
    - iii. Budget Development and Oversight.
    - iv. Asset Liability Management Program Development.
    - v. Supervision and Evaluation of Management.
    - vi. Fraud Prevention and Internal Controls.
3. The board of directors shall immediately take all necessary steps to ensure that the credit union corrects each violation of law, rule, or regulation cited in any Report of Examination issued since March 31, 2002, any other official NCUA written correspondence, any subsequent Report of Examination or correspondence, or in any external or internal audit report.
4. Within sixty (60) days of the issuance of this Order, the credit union shall obtain and maintain or formally document its attempts to obtain proper legal collateral documentation on all loans with noted collateral exceptions listed in the September 30, 2002, NCUA Report of Examination, and the January 31, 2003, Member Business Loan (MBL) Review prepared by M&M Consulting.

5. Within sixty (60) days of the issuance of this Order, the credit union shall ensure or formally document its attempts to obtain current and satisfactory credit information and supporting financial information on all loans identified as lacking such information, including those listed in the September 30, 2002, NCUA Report of Examination, and the January 31, 2003, MBL Review prepared by M&M Consulting.
6. Upon the issuance of this Order, the board shall disband all lending committees that are authorized by the board to approve loans outside the board approved lending policies. The board, however, may designate other senior lending employees to review and approve real estate or consumer loans which are outside the board approved lending policies
7. The credit union will cease granting MBLs inclusive of new loans, line of credit renewals (subject to legal limitations in the credit union's notes), new and increased lines for MBL credit cards, extension of terms, workout programs, and any other type of MBL lending that may arise.
8. Upon issuance of this Order, the board shall immediately require all loans and extensions of such loans to officials, committee members, management and employees be approved in advance by a majority of the credit union's board of directors. This action does not include advances against currently available credit card lines.
9. The credit union will provide notice to the NCUA Case Officer of any correspondence and pending agreements relating to your on-going resolution process of outstanding loans to Lambert Bedard, Great Northern Paper (GNP), Inexcon Quebec, Inexcon Maine, Inex Air, and related subsidiaries or associates within 24 hours of receipt or preparation. The notice will include at a minimum:
  - a. The nature of the correspondence or agreement.
  - b. In the case of agreements, explanation how the action is in the best interest of the credit union and membership.
10. Within 30 days of issuance of this Order, the board of directors will formally document attempts to obtain and/or provide the Regional Director with documentation confirming the proceeds to loans made to account numbers 8408527 (Lambert Bedard), and 581964282 (Great Northern Paper) were, in fact, used for the stated intended purpose of renovations to mill #11 at Great Northern Paper.
11. Within sixty (60) days of the issuance of this Order, the board of directors shall complete a documented review of all member business lines of credit to determine if the loan agreements were issued in accordance with prevailing credit union policy at that time, or with prevailing credit union

policy at the time of renewal, and the loans have performed in accordance with the terms of the respective loan agreements. The board will immediately close and seek collection for any credit line(s) which have reached greater than 30 days delinquent or the member has failed to provide financial documentation as required by the loan agreement.

12. Within thirty (30) days of the issuance of this Order, the board of directors shall notify the credit union bonding company that the NCUA believes that the credit union gave preferential treatment to the member business lines of credit to Winn General Store (Loan Number 10547300-90) and Michael Bragdon Bus (10357442-90). The credit union will provide the NCUA Case Officer with copies of all written correspondence received or prepared for these loans within 24 hours of receipt or preparation.
13. Within ten (10) days of the issuance of this Order, the credit union will provide the NCUA Case Officer with copies of all written correspondence received or prepared to date, regarding the KRAB partnership loan, the Katahdin General Store and pending litigation involving each. All future correspondence regarding these parties will be forwarded to the NCUA Case Officer within 24 hours of receipt or preparation.
14. Within thirty (30) days of the issuance of this Order, the board will locate and provide to the Regional Director the following documents relative to the KRAB partnership loan:
  - a. The October 16, 1998, signed KRAB Partnership Agreement.
  - b. A copy of the signed executed sales contract for the Katahdin General Store by the KRAB partnership.
  - c. The November 10, 1997, appraisal used for the purchase of the Katahdin General Store.
15. Within thirty (30) days of the issuance of this Order, the board of directors shall obtain and submit to the Regional Director the engagement proposals and qualification statements from a qualified external party for completion of a Risk Management and Fraud Audit of the credit union operations by September 30, 2003.
16. Upon issuance of this Order, the credit union shall not make any further extension of credit, renewals, or modifications, to any borrower whose loans:
  - a. Are charged off, in whole or in part, or,
  - b. Are adversely noted for deficiency in any Report of Examination issued during the past year, in any other official NCUA written correspondence, any subsequent Report of Examination or correspondence, or in any external or internal audit report.

c. Unless the credit union's failure to make a further extension of credit or renewal to a particular borrower would be detrimental to the best interest of the credit union, and that are granted in accordance with other provisions of this order.

17. If the credit union makes any further extension of credit or renewal pursuant to paragraph 16, such further extensions of credit or renewal shall be approved in advance by a majority of the credit union's board of directors, who shall certify, in writing:

- a. Why the failure of the credit union to extend such credit would be detrimental to the best interests of the credit union and its membership.
- b. That the credit union's position would be improved thereby.
- c. How the credit union's position would be improved.
- d. How the actions correct noted deficiencies.
- e. The current balance.
- f. The amount of credit requested.
- g. A description of the legal collateral and its value securing the credit.
- h. A full description of the documentation to support the creditworthiness and repayment ability of the borrower, including the date of the borrower's most recent financial information and the borrower's past year and year-to-date current income and cash flow data.

The signed certification shall be made a part of the minutes of the credit union's board and a copy of the board's signed certification shall be retained in the borrower's credit file.

18. Upon issuance of this order, the board of directors will establish internal controls to ensure underwriters issue loans in accordance to board approved policy and in compliance with the Federal Credit Union Act, NCUA Rules and Regulations and NCUA Bylaws.

19. Within one hundred twenty (120) days of the issuance of this Order, the board of directors shall ensure that the credit union has policies, processes, personnel, and control systems to ensure implementation of and adherence to the procedures developed pursuant to this Order.

20. Upon the issuance of this Order, the credit union will not, without the prior approval or consent of the NCUA Regional Director, enter into new or extend any existing contracts resulting in an expenditure of more than \$80,000 to purchase or perform services, or for the sale, purchase or assignment of property, real or personal, leasehold or otherwise, except for contracts for loans or shares with members or permissible nonmembers provided such loan and share contracts are within the financial ability of credit union.

21. Within ninety (90) days of the issuance of this Order, the board shall develop and submit to the NCUA Case Officer for review, a comprehensive written liquidity and asset liability management policy. The policy shall provide for a coordinated liquidity, asset liability management and investment strategy that, at a minimum, addresses:

- a. Guidelines for maintaining an adequate spread.
- b. Procedures that enable the board and management to monitor the credit union's liquidity position and maintain liquidity at an adequate level.
- c. The liquidity, maturity, and pledge requirements of the investment portfolio.
- d. Development of a liquidity contingency plan.
- e. Limits on the concentration of funding sources.
- f. The establishment of adequate management reports on which to base sound funds management and interest rate risk decisions.
- g. Prudent limits on the nature and amount of interest rate risk that can be taken.

22. Within ninety (90) days of the issuance of this Order, the board shall submit a written net income plan to the NCUA Case Officer consisting of goals and strategies for improving the earnings of the credit union. The written plan shall include, at a minimum, identification of the major areas in, and means by, which the board of directors will seek to improve the credit union's operating performance to include:

- a. Realistic and comprehensive budgets.
- b. A budget review process to monitor the income and expenses of the credit union to compare actual figures with budget projections not less than quarterly.  
A description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components. The written net income plan and any subsequent modification thereto shall be submitted to the NCUA Case Officer for review and comment. No more than thirty (30) days after the receipt of any comment from the NCUA Case Officer, the board of directors shall approve the written net income plan, which approval shall be recorded in the minutes of the board of directors. Thereafter, the credit union, its directors, officers and employees shall follow the written plan and/or any subsequent modification.

23. Within thirty (30) days of the issuance of this Order, the credit union board shall submit monthly progress reports, within twenty (20) days after month-end, to the NCUA Case Officer. These reports shall set forth in detail:

- a. Actions taken to comply with each article of this Order.

- b. Results of those actions.
- c. A description of the action needed to achieve full compliance with each article of this Order.
- d. Financial statements, board minutes and delinquency schedules.

D. Waivers. The Credit Union waives its right to the administrative hearing provided for in Section 206(e)(1) of the Federal Credit Union Act, 12 U.S.C. §1786(e)(1). The Credit Union waives its right to seek judicial review of the Final Order to Cease and Desist or otherwise challenge the validity or legality of the Order.

E. Finality. The Final Order to Cease and Desist is issued pursuant to Section 206(f)(1) of Federal Credit Union Act, 12 U.S.C. §1786(f)(1). Upon its issuance by the NCUA Board, it shall be a final Order, effective and fully enforceable by the NCUA.

F. Extension of Dates. The Regional Director, and all successor Regional Directors, may in their discretion extend the time frames referred to in the Final Cease and Desist Order.

WHEREFORE, in consideration of the foregoing the undersigned, on behalf of the NCUA, and the Credit Union execute this Stipulation and Consent to Issuance of a Final Order to Cease and Desist.

By: \_\_\_\_\_  
National Credit Union Administration

\_\_\_\_\_  
Date

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*Terrence M. Daigle*  
Terrence M. Daigle, Chairman

\_\_\_\_\_  
6/18/03  
Date

Charles Hodder

6/18/03  
Date

Richard Goodridge  
Richard Goodridge, Treasurer

6/18/03  
Date

Carroll Freeman  
Carroll Freeman, Secretary

6/18/03  
Date

Theresa Coffin  
Theresa Coffin, Director

6/18/03  
Date

Herbert Clark  
Herbert Clark, Director

6/18/03  
Date

Alan Pangburn  
Alan Pangburn, Director

6/19/03  
Date

Richard Saucier  
Richard Saucier, Director

6/20/03  
Date

Gary Dumas  
Gary Dumas, Director

06/18/2003  
Date

Helen Beaulieu  
Helen Beaulieu, Supervisory Committee

6/19/03  
Date

Resigned - Alma Tenen M. Dayh  
6/19/03

Janet Bryant, Supervisory Committee

Date