

BEFORE THE DEPARTMENT OF BUSINESS OVERSIGHT  
OF THE STATE OF CALIFORNIA

In the Matter of )  
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 CABRILLO CREDIT UNION )  
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ORDER  
(Fin. Code, § 580)

Pursuant to Financial Code section 580, the Commissioner of Business Oversight (“Commissioner”) orders that on or before September 30, 2020:

1. (a) Cabrillo Credit Union (“Respondent”) shall have and retain management, and maintain a board of directors, that are each acceptable to the Commissioner. Respondent’s management shall be qualified to restore Respondent to a sound condition, operate Respondent in a safe and sound manner, comply with the provisions of this Order, and comply with applicable laws and regulations.

(b) Respondent’s management shall include, at a minimum, a chief executive officer, a chief financial officer, and a chief lending officer.

i. The chief executive officer shall have proven ability to manage a credit union of a size and complexity comparable to Respondent, and have appropriate experience in developing sound credit administration and credit underwriting practices and procedures, improving earnings, and addressing Respondent’s other weaknesses and deficiencies.

ii. The chief financial officer shall have appropriate accounting and credit union financial and operations skills.

iii. The chief lending officer shall have significant experience in lending, loan supervision and collection.

(c) Each member of management shall be provided with appropriate written authority by Respondent’s Board of Directors (“Board”) to implement the provisions of this Order related to such officer.

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- (d) The Commissioner reserves the right to determine whether the present members of Respondent’s management and the members of the Board are acceptable.
  - (e) Respondent shall not add, elect or appoint any member to the Board or its supervisory committee, including incumbents, or employ any senior management officers (vice president and above), without receiving the prior written approval of the Commissioner and the Regional Director of the National Credit Union Administration (“NCUA”).
2. (a) Respondent shall develop an audit follow-up process that includes the supervisory committee, assistant vice president of compliance and risk management, and executive management.
- (b) Respondent shall provide the Board a summary report of the status of all outstanding audit items at each Board meeting. The Board shall be responsible for actions necessary to correct any outstanding audit items.
  - (c) Respondent’s Board shall cease operating in a manner inconsistent with Respondent’s bylaws. Respondent shall ensure that Board meeting minutes, including executive meeting minutes, are documented in a manner that details the nature and content of Board discussions for all actions authorized or approved by Board vote.
  - (d) Respondent shall revise its organizational structure to provide independence to the credit union’s internal audit function. Respondent shall ensure the minutes of the supervisory committee detail the audit reports reviewed during supervisory committee meetings.
  - (e) Respondent shall revise and follow a Board-approved Corporate Credit Card Policy that addresses the following:
    - i. Individual positions authorized to use corporate credit cards;
    - ii. Authorized limits for each position approved for the use of the corporate credit card;
    - iii. The positions responsible for submitting, reviewing, and approving the charges incurred on the corporate credit cards;
    - iv. Require an internal audit review of corporate credit cards to be performed no less than quarterly;

- 1 v. Require a supervisory committee review of corporate credit cards to be performed
- 2 no less than annually; and
- 3 vi. Require a detailed receipt for all transactions. In addition, if an employee and/or
- 4 volunteer exceeds the established policy limit of \$75 in total meals per day, a
- 5 detailed justification should be included in the expense report.
- 6 3. Respondent shall cease conducting and granting loan and share promotions and programs
- 7 that are not available or accessible to all members equally, and shall ensure that, from the date of this
- 8 order, all future loan or share promotions and programs are conducted in a manner that ensures that
- 9 all members are provided with the same rights, privileges, preferences, restrictions, and conditions.
- 10 4. (a) Respondent shall cease granting rate discounts or promotions in a manner that does not
- 11 comply with Financial Code section 15050.
- 12 (b) Respondent shall develop and implement a quality control process to review all
- 13 executives and officials' loans for policy and regulatory compliance.
- 14 5. (a) Respondent shall cease selling credit union assets for an amount less than market value
- 15 to its officers, directors, or employees. Respondent shall development and implement a
- 16 comprehensive Board-approved policy for sale of the credit union assets in relation to book and
- 17 market value of the corresponding assets.
- 18 (b) Respondent shall submit and obtain approval from the Department of a written plan to
- 19 cure the violations associated with the sales of assets to officers at a price below market
- 20 value, as identified in the Report of Examination dated May 21, 2020 ("Report of
- 21 Examination").
- 22 (c) Respondent shall cooperate with any further examination by the Department regarding
- 23 the sale of the assets to officers below market value, as identified in Report of
- 24 Examination.
- 25 6. Respondent shall revise its lending policies and procedures to be consistent with the Multi-
- 26 Featured Lending Plan. Respondent shall then provide training to all personnel involved in lending,
- 27 including all loan officers and loan processors, on the appropriate lending practices under a Multi-
- 28 Featured Lending Plan Program.

1       7. (a) Respondent shall provide Equal Credit Opportunity Act training to all parties involved  
2 with the lending program, including executive management and the Board.

3               (b) Respondent shall limit credit-related decisions, including interest rate discounts, to  
4 properly trained and supervised lending personnel and the Board. Respondent shall  
5 maintain documentation for rate discounts per board-approved guidelines.

6       8. (a) Respondent shall develop reasonable exception limits within established maximums  
7 and minimums for all loan criteria.

8               (b) Respondent shall report the following to the Board on a monthly basis:

- 9               i. Loan information including type, balance, date, and account number
- 10              ii. Reason the loan was outside of policy
- 11              iii. Aggregate loan exception variance levels (i.e. delinquencies or charge-offs) that  
12 trigger more comprehensive program and/or policy revisions in the event portfolio  
13 performance deteriorates.

14       9. (a) Respondent shall assess an estimated credit loss on individually evaluated impaired  
15 loans, in compliance with ASC 310-10.

16               (b) Respondent shall take the following actions:

- 17              i. Establish an empirically derived methodology to calculate the historical loss ratio  
18 for all homogeneous loan pools.
- 19              ii. Establish a homogenous pool for the Cabrillo Challenge and Wheel Challenge  
20 loans, and apply a supported qualitative factor until these loans have a historical loss  
21 history.
- 22              iii. Establish and maintain documented support for the loan participation reserves, and  
23 consult with lead lenders for loss histories.
- 24              iv. Document the basis for any Qualitative and Environmental factors applied.
- 25              v. Revise the Allowance for Loan and Lease Loss Policy accordingly.

26       10. Respondent shall comply with all remaining items in the Report of Examination by or  
27 before their respective deadlines.

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1           11. Respondent’s Board shall adopt a resolution directing its personnel to take the necessary  
2 corrective action to comply with the provisions of this Order.

3           12. Within one month of the date of this order, and each month thereafter, Respondent shall  
4 provide written progress reports to the Commissioner and the NCUA detailing the form of any  
5 actions taken to secure compliance with this Order, the results of those actions, and any supporting  
6 documentation. Respondent shall furnish the written progress reports until instructed otherwise in  
7 writing by the Commissioner and the NCUA.

8           This Order is effective immediately. Violation of any provision of this Order may be deemed to  
9 be conducting business in an unsafe manner and may subject Respondent to further enforcement  
10 action. The Commissioner reserves the right to amend, revoke or rescind this Order in whole or in  
11 part. All reports and other documents required by this Order to be submitted to the Commissioner  
12 shall be encrypted and sent by secure email or as an attachment to a secure email in an electronic  
13 format compatible with the Department’s electronic system to the following email address:  
14 cuexam.responses@dbo.ca.gov.

15 Dated: July 1, 2020

\_\_\_\_\_/s/\_\_\_\_\_  
EDGAR GILL  
SENIOR DEPUTY COMMISSIONER  
DEPARTMENT OF BUSINESS OVERSIGHT

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