## BEFORE THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION OF THE STATE OF CALIFORNIA

In the Matter of:

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

1st VALLEY CREDIT UNION

ORDER (Fin. Code, § 580)

Pursuant to Financial Code section 580, the Commissioner of Financial Protection and Innovation ("Commissioner") ORDERS:

1. Ist Valley Credit Union ("Respondent") shall retain management and maintain a Board of Directors ("Board") acceptable to the Commissioner. Such management shall include, at a minimum, a chief executive officer, a chief financial officer/accounting manager, and a lending officer 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. The chief executive officer shall have proven ability to manage a credit union of comparable size and experience in developing sound credit administration and credit underwriting practices and procedures, improving earnings, and other matters needing particular attention. The chief financial officer/accounting manager shall have appropriate accounting and credit union operations skills. The lending officer shall have significant experience in lending, collection, and loan supervision. Each member of management shall be provided appropriate written authority from the Board to implement the provisions of this Order.

2. Within ninety (90) days of the date of this Order, Respondent shall develop and implement a Strategic Plan, documenting specific actions items, assumptions, and timeframes necessary to return the credit union to profitability. Thereafter, Respondent shall review the plan, on a quarterly basis, and document any circumstances when goals are not met. The plan shall include, but is not limited to, the following items:

1	a.	Short-term (0-2 years) and long-term (2-5 years) financial and operational					
2		goals;					
3	b.	Quarterly performance benchmarks, including return on average assets,					
4		operating expenses, delinquency, charge offs, liquidity and interest rate risk,					
5		net worth, and other key operating ratios to assess the progress and					
6		effectiveness of management's actions;					
7	с.	Timeframes and person(s) responsible for ensuring goals are met or					
8		explanation of why they were not met; and					
9	d.	Provisions for exit strategies or contingency plans for any new programs or					
10		business strategies, such as:					
11		i. Trigger point for identifying merger partners, and					
12		ii. Trigger point for implementing merger.					
13	3. Withi	n sixty (60) days of the date of this Order, Respondent shall establish and					
14	provide to the Board a monthly credit risk monitoring report including, but not limited to, the						
15	following items:						
16	a.	Current loan balances for all loans and Board approved risk tolerance limits					
17		based on net worth by products and risk tiers using updated credit scores;					
18 19	b.	All loans granted with exception to policy;					
20	с.	Summary of actions proposed by management to address elevated risk trends,					
20 21		such as increased delinquencies and charge-offs.					
21 22	4. Within sixty (60) days of the date of this Order, Respondent shall conduct an analys						
22	to determine the feas	bibility of continuing subprime lending. The analysis should include reasonable					
23 24	parameters to address the probability of increased delinquencies and charge-offs and the effect on						
24	Respondent's operations.						
	5. Withi	n sixty (60) days of the date of this Order, Respondent's Board shall review,					
26 27	revise, and approve p	policies that reflect Respondent's complete loan policy. The policy shall include,					
27	but is not limited to, the following items:						
28							

1		a. Credit risk-based lending guidelines such as credit score, debt to income,						
2		income verification and consistently apply these to all loans;						
3		b. Concentration limits based on net worth by products and risk tiers for each						
4		segment of the loan portfolio;						
5		c. Designate person(s) authorized to grant exception to policy;						
6		d. A uniform process for determining a vehicle's value. If multiple sources are						
7		available for use by staff, the policy must include a uniform process for a staff						
8		member to select a vehicle valuation from one of the sources and						
9		documentation requirements, therein;						
10		e.	Requirement that the Board approve changes to the loan program prior to					
11			implementation; and					
12		f. Requirement that the loan policy be reviewed at least annually and revised as						
13			needed.					
14	6.	a.	Respondent shall immediately document and maintain a fully funded					
15		Allowance for Credit Loss ("ACL") account, the adequacy of which shall be						
16		evaluated by Respondent's Board at least monthly, with necessary reserves calculated						
17		in ac	cordance with Generally Accepted Accounting Principles ("GAAP").					
18		b.	Within sixty (60) days of the date of this Order, Respondent shall develop					
19		written policies and procedures to maintain an appropriate, systematic, and						
20		consistent process for determining the ACL account in accordance with						
21		GAAP. The policies and procedures shall address, at a minimum, the						
22		following:						
23			i. Responsible parties;					
24			ii. Processes – methodology for determining the ACL account, secondary					
25			review requirement, approval requirement, and funding requirement;					
26			iii. Timeframes for determining the ACL account, data validation, and					
27			policy review;					
28								
			2					
	3 ORDER (Fin. Code, § 580)							

1			iv.	Documentation requirements to support measurement and funding;				
2				and				
3			v.	Accounting standards and regulatory compliance.				
4	7.	Withir	n thirty	(30) days of the date of this Order, Respondent shall conduct an analysis				
5	of its liquidity position and take immediate action to ensure it maintains sufficient liquidity to meet							
6	its financial obligations.							
7	8.	8. Within thirty (30) days of the date of this Order, Respondent shall develop a written						
8	liquidity policy that addresses the following core elements:							
9		a.	Purpo	se and goals of liquidity management;				
10		b.	Limit	s for liquidity measures and reporting requirements;				
11		c.	Prima	ry and secondary sources of liquidity;				
12		d.	Tools	for liquidity risk management; and				
13		e.	Perio	dic review and revisions as needed.				
14	9.	Withir	n sixty	(60) days of the date of this Order, Respondent shall develop a liquidity				
15	management plan to address the weaknesses noted in the Report of Examination, dated December							
16	31, 2022. The plan shall include, at a minimum:							
17		a.	Evalu	ating the reporting mechanisms in place to monitor and control risk;				
18		b.	Actio	ns taken when risk exposure approaches or exceeds Respondent's risk				
19			limits	; and				
20		c.	The p	rescribed corrective action to be taken when necessary.				
21	10.	Withir	n ninety	(90) days of the date of this Order, Respondent shall revise the Asset-				
22	Liability Management ("ALM") policy to reflect Board-approved practices and establish acceptable							
23	risk limits.							
24	11.	Withir	n ninety	(90) days of the date of this Order, Respondent shall develop a de-				
25	risking plan to address elevated interest rate risk exposure. Respondent shall update vendor							
26	assumptions and run analysis based on Respondent's current direction and strategy. Respondent							
27	shall run different scenarios based on the de-risking plan to better illustrate the changes in interest							
28	rate risk exposure.							
	1							

ORDER (Fin. Code, § 580)

b. 3 4 5 2023, and June 2023 call reports. 13. Respondent shall comply with all remaining items in the Report of Examination by or 6 7 before their respective deadlines. 14. 8 Respondent's Board shall adopt a resolution directing its personnel to take the 9 necessary corrective action to comply with the provisions of this Order. 15. 10 end of each month thereafter, Respondent shall furnish a written progress report to the 11 12 to comply with this Order and the results of those actions. Respondent shall furnish the written 13 progress reports until instructed otherwise in writing by the Commissioner and the NCUA. 14 This Order is effective immediately. Violation of any provision of this Order may be deemed 15 16 17 18 19 format compatible with the Department's electronic system to the following email address: 20 cuexam.responses@dfpi.ca.gov. 21 22 Dated: 9/29/2023 23 24 /s/PURVI PATEL 25 Deputy Commissioner, Office of Credit Unions Department of Financial Protection and Innovation 26 27 28 ORDER (Fin. Code, § 580)

1

2

- 12. Effective immediately, Respondent shall submit timely and accurate 5300 Call a. Reports on a quarterly and ongoing basis.
  - Within ninety (90) days of the date of this Order, Respondent shall review, identify, and correct errors on the September 2022, December 2022, March

Within thirty (30) days of the date of this Order and within twenty (20) days after the Commissioner and the National Credit Union Administration ("NCUA") detailing the actions taken

to be conducting business in an unsafe manner and may subject Respondent to further enforcement action. The Commissioner reserves the right to amend, revoke or rescind this Order in whole or in part. All reports and other documents required by this Order to be submitted to the Commissioner shall be encrypted and sent by secure email or as an attachment to a secure email in an electronic