

**UNITED STATES OF AMERICA
NATIONAL CREDIT UNION ADMINISTRATION
Alexandria, Virginia**

In the Matter of	§	
	§	
Alan S. Kaufman,	§	NCUA No. 18-0074-R1
	§	
Former Institution Affiliated Party of	§	12 U.S.C. §§ 1786(g), 1786(e)(3), 1786(k)
Melrose Credit Union (Charter #62005)	§	
Queens, New York.	§	
	§	

**NOTICE OF CHARGES, NOTICE OF ASSESSMENT OF CIVIL MONEY
PENALTY, AND NOTICE OF HEARING**

The National Credit Union Administration (“NCUA”) Board, for the reasons more fully set forth below, has determined that Alan S. Kaufman (“Respondent” or “Kaufman”), is an institution-affiliated party (“IAP”), who has violated the law, breached his fiduciary duties, and engaged in unsafe and unsound practices, in his roles as Chief Executive Officer, Treasurer, and Member of the Board at Melrose Credit Union, Charter # 62005, (“Melrose”), and by reason of such actions, practices, and violations Kaufman caused a financial loss and other damage to Melrose, gain and other benefit to Kaufman, and prejudiced the interests of Melrose’s members. Kaufman’s actions, practices, and violations involved personal dishonesty and demonstrate an unfitness to serve as an IAP of any federally insured credit union. As a result, NCUA seeks an Order that Kaufman be (1) prohibited from participating in the conduct of the affairs of any federally insured financial institution, pursuant to 12 U.S.C. § 1786(g); (2) ordered to pay restitution, reimbursement, and to disgorge the value the monies and things through which he and his family were unjustly enriched, pursuant to 12 U.S.C. § 1786(e)(3); and (3) assessed a civil money penalty, pursuant to 12 U.S.C. § 1786(k).

Overview

When Kaufman was the Chief Executive Officer, Treasurer, and a Member of the Melrose Board of Directors (“Melrose Board”), Kaufman violated statutory and regulatory restrictions on his actions, breached his fiduciary duties to Melrose of care, loyalty, good faith, and to avoid waste, and violated Melrose’s policies and procedures. Kaufman put his personal and financial interests, and those of his relatives and friends, ahead of those of Melrose and its members. Kaufman created, and took advantage of, a business environment that gave him exclusive access to some, and superior control over much, of the important information and decision-making at Melrose. Kaufman used deceptive means to conceal his actions from Melrose’s Board, as well as the New York Department of Financial Service (“DFS”) and NCUA regulators. Kaufman’s management and involvement in the affairs of Melrose exposed Melrose, a non-profit entity, to extreme financial risk, and caused severe financial loss to Melrose.

STATEMENT OF FACTS

Jurisdiction

1. At all times pertinent to these proceedings, Melrose was a state chartered, federally insured credit union (Charter # 62005), located in Queens, New York, that was, and is, subject to the Federal Credit Union Act, NCUA’s regulations, and applicable New York state laws and regulations.
2. From and after July 12, 1974, Melrose has been continuously insured by the NCUA.
3. In 1984, Kaufman first became an employee of Melrose. In 1998, Kaufman became the CEO, Treasurer and a Member of the Melrose Board; which positions Kaufman held until 2016.

4. On or about July 5, 2016, Kaufman was removed for cause as CEO of Melrose by the Melrose Board.

5. On or about October 25, 2016, following the revocation of his bond, Kaufman was removed as Treasurer and Member of the Melrose Board.

6. At all times pertinent to these proceedings, Kaufman was an IAP, as defined in 12 U.S.C. § 1786(r).

Background

7. In 1922, Melrose was established in the “Melrose” area of Bronx County, New York, in order to provide financial resources to individuals and small business owners. Currently, Melrose provides a variety of financial services to the greater New York metropolitan area and beyond.

8. Kaufman’s grandfather, [REDACTED], was instrumental in the founding of Melrose and functioned as its CEO and a Member of the Melrose Board until his death. Thereafter, Kaufman’s father, [REDACTED] Kaufman, became Melrose’s CEO, Treasurer, and a Member of the Melrose Board. During [REDACTED] Kaufman’s tenure, Melrose moved from Bronx, New York to Queens, New York.

9. Although Melrose provides a variety of financial services and products to its members, Melrose’s main financial focus historically has been on taxi medallion loans primarily in New York, Chicago, Philadelphia, and Miami.

10. The CAMEL rating system is a methodology under the Uniform Financial Industry Rating System for evaluating and categorizing the relative health of a financial institution and its management. The CAMEL system is based upon an evaluation of five elements of a credit union’s operations: Capital Adequacy, Asset Quality, Management,

Earnings, and Liquidity/Asset-Liability Management. There are a total of five CAMEL ratings; with “CAMEL 1” being the highest rating, and “CAMEL 5” being the lowest rating.

11. In or about 2015, in part because of Kaufman’s conduct, Melrose’s composite CAMEL rating deteriorated to a CAMEL 4.

12. A composite CAMEL 4 rating indicates: the credit union generally exhibits unsafe and unsound practices or conditions; the existence of serious financial or management deficiencies that have resulted in unsatisfactory performance; problems ranging from severe to critically deficient; weaknesses and problems are not being satisfactorily addressed or resolved by the Melrose Board and management; and that the credit union is not capable of withstanding business fluctuations.

13. By February 10, 2017, Melrose’s financial condition had become so precarious that DFS conserved Melrose and appointed the NCUA Board as the conservator of Melrose.

Kaufman Violated of His Fiduciary Duties to Melrose

14. As CEO, Treasurer, and a Board Member of Melrose, Kaufman owed fiduciary duties to Melrose and its shareholders including the duties of care, loyalty, good faith, and to avoid waste. In addition, Kaufman was obliged to comply with the applicable policies and procedures of Melrose.

Relevant Melrose Policies

15. At all relevant times, Melrose maintained a “**Fraud Policy**” that provided in pertinent part:

Melrose Credit Union considers any form of fraud or dishonesty on the part of its employees as totally unacceptable. Act which are considered to be either fraudulent or dishonest include, but are not limited to:

1. Manipulation of loan accounts, documents,... or share draft accounts

- * * * *
- 4. Forgeries
 - * * * *
- 6. Intentional violation of Credit Union rules, internal controls, regulations, or procedures
 - * * * *[, and]
- 8. Granting or requesting preferential treatment for **ANYONE**.

(Emphasis original.)

16. At all relevant times, Melrose maintained a “**Prohibited Conduct**” Policy that provided in pertinent part:

* * * * Melrose Credit Union expects Employees to follow rules of conduct... It is not possible to list all forms of behavior that are considered unacceptable in the workplace, but the following are examples of infractions of rules of conduct that may result in disciplinary action, including suspension, demotion, or termination of employment:

- 1. Falsification of ... records.
 - * * * *
- 9. Engaging in illegal conduct, which is detrimental to the reputation of Melrose Credit Union, whether or not related to job performance
 - * * * *[, and]
- 23. Committing a fraudulent act, dishonest act, breach of trust, or violating any duty of loyalty to Melrose Credit Union in any circumstances.

17. At all relevant times, Melrose’s “**Business Conduct**” Policy that provided:

Employees must decline or return any gift or gratuity valued in excess of \$100 from any member, vendor, supplier, or other person doing business with Melrose Credit Union. In so doing, please explain that Melrose Credit Union prohibits employees from accepting gifts or gratuities to ensure that business decisions, transactions, and services are provided on an objective and professional basis.

(Emphasis provided.)

18. Beginning at least by September 2013, Melrose maintained a “**Policy Regarding Bank Bribery Law,**” that provided:

Any Credit Union official is prohibited from:

1. Soliciting for themselves or for a third party (other than the Credit Union itself) anything of value from anyone in return for any business, service, or confidential information of the Credit Union; and from
2. Accepting anything of value from anyone in connection with the business of the Credit Union, either before or after the transaction is discussed or consummated.

(Emphasis provided.)

COUNT ONE:

Kaufman Improperly Solicited and Accepted
Free Luxury Trips From Vendors of Melrose

19. Paragraphs 1 through 18, above, are re-alleged and are incorporated herein by reference.

20. At all relevant times, CBS Radio, Madison Square Garden (“MSG”), and the New York Jets were substantial vendors to Melrose.

21. Kaufman repeatedly solicited and accepted on behalf of himself and his wife, [REDACTED] from vendors to Melrose the following free luxury trips, among others, that were based upon the business placed by Melrose with the vendors: CBS Radio’s free “World Trip to Paris” (2010); MSG’s free trip to Stockholm; Sweden to watch the New York Rangers play hockey (2011); CBS Radio’s free Trip to Hawaii (2012), MSG’s free trip to “The Voodoo Event” (concert series) in New Orleans (2012); CBS Radio’s free trip to the Super Bowl in New Orleans (2013), the New York Jets’ free trip to San Diego to watch the Jets play the Chargers (2014); the New York Jets’ free trip to Chicago to attend the VIP “2015 NFL Draft

Experience,” and the New York Jets’ free trip to Dallas to watch their game against the Cowboys (2015).

22. As an example, the CBS Radio NY’s free trip to the 2013 Super Bowl actively solicited by Kaufman was expressly based by CBS Radio NY upon an “investment requirement” and “quarterly incremental spending” by Melrose with CBS Radio NY. When, as the date for the Super Bowl approached, CBS Radio NY informed Kaufman that Melrose had not met CBS Radio NY’s incremental spending requirement for the free trip Kaufman was demanding, Kaufman wrote on January 22, 2013 to his CBS Radio NY contact (██████████): “You better tread carefully here, ██████ I spent \$620K last year and committed over 240K just last week. My patience is growing thin and time is running out.” Upon receipt of Kaufman’s email, CBS Radio acceded to Kaufman’s demands and provided Kaufman and his wife the free luxury trip, from January 30, 2013 through February 4, 2013, to the 2013 Super Bowl in New Orleans.

23. Each of the trips identified in paragraph 22, above, had a “value” well in excess of \$100, and each of the trips was provided by the vendors to Kaufman because of purchases made by Melrose with the vendor.

24. Kaufman never informed the Melrose Board that he was soliciting and accepting, and had solicited and accepted, free trips from vendors to Melrose that were tied to the volume of business placed by Melrose with the vendors.

25. By his conduct, Kaufman engaged in a unsafe or unsound practice, violated his fiduciary duties to Melrose of loyalty and good faith. By reason of these violations, practices, and breaches, Kaufman caused a financial loss or other damage to Melrose and a financial gain and other benefit to Kaufman. These practices and breaches involved personal dishonesty by

Kaufman and demonstrated Kaufman's unfitness to serve as a director, officer, and to otherwise participate in the conduct of the affairs of an insured credit union.

COUNT TWO:

Kaufman Improperly Solicited and Accepted For More Than Two Years
The Exclusive Rent-Free Use of a Residence From a Vendor of Melrose

26. Paragraphs 1 through 25, above, are re-alleged and are incorporated herein by reference.

27. At all relevant times, [REDACTED] (" [REDACTED] ") and [REDACTED] (" [REDACTED] ") were the majority owners of [REDACTED] (" [REDACTED] "), which leased, in or around 2010, a derelict property in Astoria, New York, on which it hoped to build a 1,200 seat entertainment venue.

28. On or about October 14, 2011, Kaufman executed on behalf of Melrose a five-year, \$2 million, "Naming Rights Agreement" with [REDACTED], making them vendors of Melrose.

29. At all relevant times, [REDACTED] and [REDACTED] owned [REDACTED] (" [REDACTED] "), which until approximately 2014 were (together) one of Melrose's largest borrowers; making [REDACTED] members of Melrose and borrowers of Melrose.

[REDACTED] Drive

30. In or around 2010, Kaufman began experiencing financial difficulties.

31. After Kaufman informed [REDACTED] of Kaufman's personal financial difficulties, Kaufman and [REDACTED] consummated an agreement under which [REDACTED] agreed to purchase, at [REDACTED] sole expense, a residential dwelling for Kaufman's exclusive, indefinite, rent-free, use and possession.

32. On December 1, 2010, at Kaufman's direction, [REDACTED] purchased for \$630,000 the dwelling located and selected by Kaufman: [REDACTED] Drive, [REDACTED] New York.

33. Beginning on or about December 1, 2010, and continuing through on or about February 1, 2013, Kaufman resided rent-free at [REDACTED] Drive.

34. On or about December 1, 2010, the fair rental value for [REDACTED] Drive was approximately \$3,650 per month.

35. On or about February 1, 2013, the fair rental value of [REDACTED] Drive was approximately \$4,600 per month.

36. Kaufman never informed the Melrose Board that he was residing, and had resided, rent-free in a residence owned by Melrose's vendor, member, and borrower [REDACTED].

37. By his conduct, Kaufman engaged in an unsafe or unsound practice and violated his fiduciary duties of loyalty and good faith to Melrose. By reason of these practices and breaches, Kaufman caused a financial gain and other benefit to Kaufman. These practices and breaches involved personal dishonesty by Kaufman and demonstrated Kaufman's unfitness to serve as a director, officer, and to otherwise participate in the conduct of the affairs of an insured credit union.

Kaufman Signed [REDACTED] Name to Checks Drawn on [REDACTED] Account

38. Between December 1, 2010 and February 1, 2013, Kaufman signed [REDACTED] name to 58 checks drawn on a share account at Melrose belonging solely to [REDACTED] and on which Kaufman was not a signatory, co-owner, or beneficiary. Kaufman did not have written authorization to sign [REDACTED] name, withdraw funds from, or otherwise to exercise any dominion or control over the account.

39. Kaufman never informed the Melrose Board that he was signing, and had for years signed, [REDACTED] name to checks in one of [REDACTED] share secured accounts at Melrose, or that Kaufman was exercising, and had for years exercised, dominion and control over an account at Melrose owned solely by [REDACTED].

40. By his conduct, Kaufman engaged in unsafe or unsound practices and violated his fiduciary duties to Melrose of loyalty and good faith. By reason of these practices and breaches, Kaufman caused financial gain and other benefit to Kaufman. These practices and breaches involved personal dishonesty by Kaufman and demonstrated Kaufman's unfitness to serve as a director, officer, and to otherwise participate in the conduct of the affairs of an insured credit union.

Kaufman Personally Approved Loans With Special Terms to [REDACTED]

41. Between 2009 and 2012, Kaufman repeatedly by-passed Melrose's normal loan application and approval process and personally approved loans to [REDACTED] on terms that were extremely favorable to [REDACTED] and that were not available generally to other borrowers at Melrose.

42. On or about October 15, 2009, Kaufman personally approved \$36,750,000 in loans to [REDACTED] and his related companies on terms that were favorable to [REDACTED] and not available generally to other borrowers at Melrose.

43. On or about July 27, 2010, Kaufman personally approved \$62,250,000 in loans to [REDACTED] and his related companies on terms that were favorable to [REDACTED] and not available generally to other borrowers at Melrose.

44. On or about July 1, 2011, while living rent-free in the residence owned by [REDACTED] Kaufman personally approved \$60,520,000 in loans to [REDACTED] and his related

companies on terms that were favorable to [REDACTED] and not available generally to other borrowers at Melrose.

45. On or about November 1, 2012, while living rent-free in the residence owned by [REDACTED] Kaufman personally approved \$26,400,000 in loans to [REDACTED] and his related companies on terms that were favorable to [REDACTED] and not available generally to other borrowers at Melrose.

46. Kaufman never informed the Melrose Board that he was by-passing, and had for year by-passed, Melrose's normal application and approval process; that he was approving, and had for years approved, very substantial loans to [REDACTED] and his related companies on terms that were favorable to [REDACTED] and not available generally to other borrowers at Melrose; or that Kaufman was doing so, and between 2010 and 2013 had done so, while Kaufman was living rent-free in a dwelling owned by [REDACTED].

47. By his conduct, Kaufman engaged in unsafe or unsound practices and violated his fiduciary duties to Melrose of loyalty and good faith. By reason of these practices and breaches, Kaufman caused a financial loss or other damage to Melrose and a financial gain and other benefit to Kaufman. These practices and breaches involved personal dishonesty by Kaufman and demonstrated Kaufman's unfitness to serve as a director, officer, and to otherwise participate in the conduct of the affairs of an insured credit union.

COUNT THREE:

Kaufman Misled the Melrose Board of Directors Into Approving a \$2 Million Naming Rights Agreement That Had Essentially No Value to Melrose But Greatly Benefited Kaufman's Personal Benefactor

48. Paragraphs 1 through 47, above, are re-alleged and are incorporated herein by reference.

49. In 2011, while Kaufman was living rent-free in a residence owned by [REDACTED], Kaufman recommended that the Melrose Board approve the proposal of [REDACTED] a company owned in large part by [REDACTED] and [REDACTED] for a Naming Rights Agreement with Melrose.

50. Kaufman strongly advocated in favor of the Naming Rights Agreement with [REDACTED] before the Melrose Board, while making material misrepresentations to the Melrose Board and omitting material facts from the Melrose Board.

51. Kaufman misled the Melrose Board to believe the Naming Rights Agreement with [REDACTED] had a value to Melrose of at least \$2,000,000, when it had only negligible value to Melrose.

52. Kaufman misled the Melrose Board to believe that Melrose's Director of Marketing ([REDACTED]) and the Head of Lending ([REDACTED]) supported the \$2,000,000 Naming Rights Agreement, when in fact Kaufman had never consulted with either [REDACTED] or [REDACTED] nor any qualified professional; and when in fact both [REDACTED] and [REDACTED] were opposed to the \$2,000,000 Naming Rights Agreement, and both [REDACTED] and [REDACTED] believed the Agreement had essentially no value to Melrose and its business.

53. Based upon Kaufman's advocacy, misrepresentations and omissions, the Melrose Board authorized Melrose to enter into the proposed Naming Rights Agreement with [REDACTED] but the Melrose Board installed specific limitations and conditions upon its approval.

54. On or about October 14, 2011, Kaufman executed on behalf of Melrose a Naming Rights Agreement with [REDACTED] that differed materially from the earlier proposal by [REDACTED] and Kaufman's representations to the Melrose Board; and the Agreement executed by Kaufman was in violation of the specific limitations and conditions required by the Melrose Board.

55. Kaufman never disclosed to the Melrose Board that he was residing rent-free in the home purchased by one of [REDACTED] principal owners ([REDACTED]) for Kaufman's exclusive use at the time Kaufman presented [REDACTED] Naming Rights Agreement proposal to the Board and urged the Board to approve the Agreement.

56. This conduct by Kaufman constituted an unsafe or unsound practice and violated his fiduciary duties to Melrose of care, loyalty, good faith, and to avoid waste. By reason of these violations, practices, and breaches, Kaufman caused a financial loss and other damage to Melrose and a financial gain and other benefit to Kaufman. These practices and breaches involved personal dishonesty by Kaufman and demonstrated Kaufman's unfitness to serve as a director, officer, and to otherwise participate in the conduct of the affairs of an insured credit union.

COUNT FOUR:

Kaufman Improperly Solicited and Accepted a \$240,000 Personal Loan and the Co-Signing of a \$200,000 Share-Secured Loan From a Vendor to, Member of, and Borrower from Melrose

57. Paragraphs 1 through 56, above, are re-alleged and are incorporated herein by reference.

58. On February 1, 2013, through a scheme designed by Kaufman, Kaufman made it appear to others that Kaufman had engaged in an arm's length negotiation and purchase of the [REDACTED] Drive dwelling from [REDACTED] for \$630,000; which is what the relevant deed records showed.

59. In fact, however, Kaufman dictated the \$630,000 purchase price for [REDACTED] Drive on February 1, 2013, which was precisely the same price paid by [REDACTED] for the dwelling approximately twenty-six months earlier.

60. In fact, however, prior to February 1, 2013, Kaufman solicited and accepted from [REDACTED] \$240,000, which monies Kaufman immediately paid back to [REDACTED] as part of the \$630,000 purchase price for [REDACTED] Drive paid by Kaufman to [REDACTED]

61. In fact, however, prior to February 1, 2013, Kaufman solicited [REDACTED] to co-sign with Kaufman on a \$200,000 loan for Kaufman at Melrose, as well as [REDACTED] pledge of \$200,000 of [REDACTED] shares held at Melrose to secure the \$200,000 loan for Kaufman, which \$200,000 in loan proceeds Kaufman immediately paid to [REDACTED] as part of the \$630,000 purchase price for [REDACTED] Drive from [REDACTED].

62. Kaufman's receipt and return of the \$240,000 from and to [REDACTED] at the February 1, 2013 closing for [REDACTED] Drive was never memorialized in any mortgage, written loan document, promissory note, or any other written agreement.

63. Kaufman has never repaid [REDACTED] any portion of the \$240,000 he received from [REDACTED] prior to the February 1, 2013 closing on [REDACTED] Drive, nor any interest thereon; nor has [REDACTED] ever requested or demanded the repayment of any portion thereof, nor any interest thereon.

64. On or about February 1, 2013, Kaufman would not have qualified for the \$200,000 loan from Melrose, without [REDACTED] (or another qualified person) having co-signed on the loan with Kaufman, and having pledged \$200,000 to secure the loan.

65. Kaufman never disclosed to the Melrose Board that he was residing, and had resided, rent-free in the home purchased by [REDACTED] for Kaufman's exclusive use; or that

Kaufman purchased [REDACTED] Drive from [REDACTED] for the same price [REDACTED] paid for the dwelling approximately twenty-six months earlier; or that Kaufman solicited and received from the undocumented sum of \$240,000 that Kaufman immediately returned to [REDACTED] to enable Kaufman to purchase [REDACTED] Drive from [REDACTED]; or that Kaufman solicited and obtained [REDACTED] co-signature on a \$200,000 loan from Melrose to Kaufman to enable Kaufman to purchase [REDACTED] Drive from [REDACTED]; or that Kaufman solicited and obtained from [REDACTED] a pledge by [REDACTED] of \$200,000 of [REDACTED] shares at Melrose to enable Kaufman to purchase [REDACTED] Drive from [REDACTED]; or that Kaufman would not have qualified for the \$200,000 loan from Melrose had [REDACTED] (or some other qualified person) not so-signed on the loan with Kaufman.

66. This conduct by Kaufman constituted an unsafe or unsound practice and violated his fiduciary duties to Melrose of loyalty and good faith. By reason of these practices and breaches, Kaufman caused a financial gain and other benefit to Kaufman. These practices and breaches involved personal dishonesty by Kaufman and demonstrated Kaufman's unfitness to serve as a director, officer, and to otherwise participate in the conduct of the affairs of an insured credit union.

COUNT FIVE:

**Kaufman Improperly Converted Melrose's Resources For His Personal Gain
(Briarwood Transfer Services, LLC)**

67. Paragraphs 1 through 66, above, are re-alleged and are incorporated herein by reference.

68. In or about 2002, Kaufman and former Melrose [REDACTED] (" [REDACTED] ") formed Briarwood Transfer Services, LLC ("Briarwood"), which served as a third-party broker between prospective sellers and interested buyers of taxi medallions.

69. At all relevant times, Briarwood was owned 50% by Kaufman and 50% by [REDACTED] and Kaufman personally kept the books for Briarwood.

70. Briarwood, which never had any employees of its own, was physically located within Melrose's building on Queens Boulevard.

71. In accordance with the scheme concocted by Kaufman and [REDACTED] all of Briarwood's business was conducted by [REDACTED] Melrose Medallion Loan Officer [REDACTED] (" [REDACTED]"), and [REDACTED] secretary [REDACTED] all of whom were full-time employees of Melrose, and all of whom were being compensated by Melrose for the time they spent working on the business of Briarwood.

72. During some years, approximately 40% of [REDACTED] workday, and approximately 20% of [REDACTED] workday, at Melrose were consumed conducting the business of Briarwood.

73. Kaufman personally received approximately \$201,000 in distributed profits generated from and by Briarwood.

74. Neither Kaufman nor [REDACTED] ever informed the Melrose Board of the existence of Briarwood; that Briarwood was operating out of Melrose's office space; that Kaufman and [REDACTED] were converting the time, benefits, and resources of various Melrose employees to Briarwood's use; that Kaufman and [REDACTED] were expending Melrose's money for the benefit of Briarwood; or that Kaufman and [REDACTED] were personally profiting by converting Melrose's assets and resources to operate Briarwood for the benefit of Kaufman and [REDACTED]

75. This conduct by Kaufman constituted an unsafe or unsound practice and violated his fiduciary duties to Melrose of loyalty, good faith, and to avoid waste. By reason of these practices and breaches, Kaufman caused a financial loss or other damage to Melrose and a

financial gain and other benefit to Kaufman. These practices and breaches involved personal dishonesty by Kaufman and demonstrated Kaufman's unfitness to serve as a director, officer, and to otherwise participate in the conduct of the affairs of an insured credit union.

COUNT SIX:

Kaufman Improperly Maintained a Contract With His Father For More Than 19 Years and Improperly Used Melrose's Funds to Pay for His Father's and Stepmother's Airfare, Hotels, and Meals

76. Paragraphs 1 through 75, above, are re-alleged and are incorporated herein by reference.

77. In or about May of 1998, Kaufman's father ([REDACTED] Kaufman) retired from Melrose.

78. At or about the time of [REDACTED] Kaufman's retirement, Melrose entered into a Consulting Agreement with [REDACTED] Kaufman.

79. The Consulting Agreement obligated [REDACTED] Kaufman, among other things, to provide advice to Melrose, attend Board Meetings, and represent Melrose at conferences and seminars; for which Melrose was obliged to pay [REDACTED] Kaufman \$5,600 a month.

80. Unless terminated by one of the parties, on 30 days written notice, the Consulting Agreement automatically renewed annually for successive one year terms.

81. Pursuant to the terms of the Consulting Agreement, all expenses incurred in the performance of [REDACTED] Kaufman's duties under the Consulting Agreement were required to "be borne solely by [REDACTED] Kaufman."

82. The Consulting Agreement was exclusive of [REDACTED] Kaufman's retirement benefits from Melrose and established [REDACTED] Kaufman thereafter solely as a vendor and independent contractor of Melrose.

83. Kaufman was the sole person at Melrose who was responsible for monitoring, overseeing, enforcing, and renewing the Consulting Agreement with his father.

84. By the time Kaufman was terminated for cause in 2016, only one of the Members of the Melrose Board had been on the Board when the Consulting Agreement was approved in 1998; nor were any of the post-1998 Board Members aware of the initial or continued existence of the Consulting Agreement with Kaufman's father.

85. From and after May 1998 through the October 2016, Kaufman never reminded or apprised the earlier Members of the Melrose Board, or informed the post-1998 Board Members, of either the existence or the continued existence, of the Consulting Agreement with Kaufman's father; nor did Kaufman ever bring any of the Consulting Agreement's terms and conditions before the Board for its reconsideration.

86. Beginning in May 1998 and continuing for approximately 19-1/2 years thereafter, Melrose paid to [REDACTED] Kaufman \$5,600 per month, eventually being automatically effected through an Automatic Clearing House ("ACH") mechanism, and totaling approximately \$1,310,400.

87. Throughout the existence of the Consulting Agreement, and contrary to the express terms of the Consulting Agreement, Kaufman caused Melrose to pay for his father's and stepmother's ([REDACTED]) airfare, hotels, meals, and other expenses for the annual week-long Board Meeting trips to Aruba; the costs and expenses for conferences and seminars; and for his father's and stepmother's personal travel for family vacations in Puerto Rico, and to places such as Nashville, Tennessee, where Kaufman's [REDACTED] was in college.

88. This conduct by Kaufman constituted an unsafe or unsound practice and violated his fiduciary duties to Melrose of loyalty, good faith, and to avoid waste. By reason of these

practices and breaches, Kaufman caused a financial loss or other damage to Melrose and a financial gain and other benefit to Kaufman. These practices and breaches involved personal dishonesty by Kaufman and demonstrated Kaufman's unfitness to serve as a director, officer, and to otherwise participate in the conduct of the affairs of an insured credit union.

COUNT SEVEN:

Kaufman Improperly Converted Melrose's Funds to Pay for
Non-Business Limousine Trips That Were Taken By
Himself and By Members of His Extended Family

89. Paragraphs 1 through 88, above, are re-alleged and are incorporated herein by reference.

90. At all relevant times, Melrose maintained a corporate account with Intaboro Limousine service that was to be used solely by Melrose employees in the discharge of their official duties on behalf of Melrose.

91. Contrary to this limitation, Kaufman regularly charged to Melrose's corporate Intaboro account his personal (non-business) trips with Intaboro, and Kaufman thereafter personally caused and directed Melrose to pay for such personal trips.

92. Additionally, Kaufman repeatedly authorized his spouse, children, father, and step-mother, who were not Melrose employees, to charge to Melrose's corporate Intaboro account their personal trips, and Kaufman personally caused and directed Melrose to pay for such trips.

93. Kaufman never informed the Melrose Board that he had charged, and was charging, his personal trips to the Melrose corporate Intaboro account; or that he had authorized his extended family to charge their personal trips to the Melrose corporate Intaboro account; or that he had directed, and was directing, Melrose to pay for all of such personal trips.

94. This conduct by Kaufman constituted an unsafe or unsound practice and violated his fiduciary duties to Melrose of loyalty, good faith, and to avoid waste. By reason of these practices and breaches, Kaufman caused a financial loss or other damage to Melrose and a financial gain and other benefit to Kaufman. These practices and breaches involved personal dishonesty by Kaufman and demonstrated Kaufman's unfitness to serve as a director, officer, and to otherwise participate in the conduct of the affairs of an insured credit union.

NOTICE OF INTENTION TO PROHIBIT

A. Paragraphs 1 through 94, above, are re-alleged and incorporated herein by reference.

B. By and through Kaufman's foregoing acts, omissions, and practices, Kaufman has violated the Federal Credit Union Act, NCUA regulations, breached his fiduciary duties to Melrose, and violated the policies of Melrose.

C. By and through Kaufman's foregoing acts, omissions, and practices, Kaufman caused a financial loss or other damage to Melrose and a financial gain and other benefit to Kaufman.

D. Kaufman's foregoing acts, omissions, and practices involved personal dishonesty by Kaufman and demonstrated Kaufman's unfitness to serve as a director, officer, and to otherwise participate in the conduct of the affairs of an insured credit union.

THEREFORE, Kaufman should be prohibited, pursuant to 12 U.S.C. § 1786(g), from serving as a director, officer, and to otherwise participating in the conduct of the affairs of an insured credit union

**NOTICE OF INTENTION TO SEEK RESTITUTION, REIMBURSEMENT,
AND FOR DISGOURGEMENT OF UNJUST ENRICHMENT**

A. Paragraphs 1 through 94, above, are re-alleged and incorporated herein by reference.

B. By and through Kaufman's foregoing acts, omissions, practices, and violations, Kaufman has caused financial and other damage to Melrose.

C. By and through Kaufman's foregoing acts, omissions, and practices, and violations, Kaufman has caused financial gain or other benefits to Kaufman.

D. Kaufman's foregoing acts, omissions, practices, and violations caused financial damages to Melrose and financial gain to Kaufman of at least \$3,500,000.

THEREFORE, Kaufman should be ordered, pursuant to 12 U.S.C. § 1786(e)(3), to provide restitution, reimbursement, indemnification, and guarantee against loss to Melrose in the amount of at least \$3,500,000.

NOTICE OF ASSESSMENT OF CIVIL MONEY PENALTIES

A. Paragraphs 1 through 94, above, are re-alleged and incorporated herein by reference.

B. By and through Kaufman's foregoing acts, omissions, and practices, Kaufman has violated the Federal Credit Union Act and NCUA regulations.

C. By and through Kaufman's foregoing acts, omissions, and practices, and violations, Kaufman recklessly engaged in unsafe and unsound practices in conducting the affairs of Melrose and breached his fiduciary duties to Melrose.

D. Kaufman's violations, practices, and breaches were part of a pattern of misconduct by Kaufman, which caused and are likely to cause more than minimal loss to Melrose, and resulted in pecuniary gain and other benefit to Kaufman.

THEREFORE, Kaufman should be ordered, pursuant to 12 U.S.C. § 1786(k)(B), to pay a civil money penalty of at least \$1,000,000.

PRAYER FOR RELIEF

WHEREFORE, NCUA seeks: (1) an Order permanently prohibiting Respondent Kaufman from participating in any manner in the conduct of the affairs of an insured credit union, pursuant to 12 U.S.C. § 1786(g), and, by operation of 12 U.S.C. § 1786(g)(7)(D), the affairs of a federally insured depository institution, bank, or savings association; (2) an Order compelling Respondent Kaufman to provide restitution, reimbursement, indemnification, and guarantee against loss to Melrose in the amount of at least \$3,500,000, pursuant to 12 U.S.C. § 1786(e)(3)(A); and (3) an Order compelling Respondent Kaufman to pay a civil money penalty of at least \$1,000,000, pursuant to 12 U.S.C. § 1786(k)(2)(B).

NOTICE OF HEARING

Respondent Kaufman is hereby notified that an evidentiary hearing will be held on **Monday, September 28, 2018**, beginning at 9:00 am, before an Administrative Law Judge (“ALJ”) of the Office of Financial Institution Adjudication to determine whether the factual allegations and charges set forth above are true and, if so, whether just grounds exist to enter: (1) an Order permanently prohibiting Respondent Kaufman from participating in any manner in the conduct of the affairs of an insured credit union, pursuant to 12 U.S.C. § 1786(g), and, by operation of 12 U.S.C. § 1786(g)(7)(D), the affairs of a federally-insured depository institution, bank, or savings association; (2) an Order compelling Respondent Kaufman to provide restitution, reimbursement, indemnification, and guarantee against loss to Melrose in the amount of at least \$3,500,000, pursuant to 12 U.S.C. § 1786(e)(3)(A); and (3) an Order compelling

Respondent Kaufman to pay a civil money penalty of at least \$1,000,000, pursuant to 12 U.S.C. § 1786(k)(2)(B).

Procedural and Dispositive Notices

A. This Notice of Charges may be amended or supplemented at any stage of the proceedings related thereto. 12 C.F.R. § 747.20(a).

B. Either party may move at any time for summary disposition in its favor of all or any part of the claims and damages in this proceeding. 12 C.F.R. § 747.29(b)(1).

C. An evidentiary hearing in this proceeding shall be held no earlier than sixty (60) days following service by Respondent of his Answer to this Notice of Charges and Notice of Hearing (or to any Amended Notice of Charges), except that if a party moves for summary disposition, the hearing shall be held no earlier than sixty (60) days following the ALJ's ruling on that motion. 12 C.F.R. § 747.20(a).

REQUIREMENT TO FILE AN ANSWER

A. You are required to file an Answer to this Notice of Charges within twenty (20) days of service of this Notice of Charges. 12 C.F.R. § 747.19(a).

B. Your Answer must state individually that, as to each of the allegations of fact set forth in the Notice of Charges, you either admit, deny, or lack sufficient information to admit or deny each such allegation of fact. General denials are not permitted. Any denial of fact must fairly meet the substance of the specific allegation of fact denied. Any allegation of fact in this Notice of Charges that is not denied in the Answer shall be deemed admitted for the purposes of these proceedings. 12 C.F.R. § 747.19(b).

C. Your Answer to this Notice of Charges must be timely filed in writing in duplicate with both:

Office of Financial Institution Adjudication
3501 N. Fairfax Drive
Suite VS-D-8118
Arlington, VA 22226
ofia@fdic.gov

- and -

Secretary of the Board
National Credit Union Administration
1775 Duke Street, 7th Floor
Alexandria, VA 22314

D. If you fail to file and Answer within the time prescribed, you will be deemed to have waived your right to appear and to contest the charges and allegations set forth above in this Notice of Charges. Any final Order of the NCUA Board based upon your failure to file an Answer to this Notice of Charges will be deemed to be an Order issued upon consent. 12 C.F.R. § 747.19(c)(1).

Notice of Selected Other Temporal Provisions


E. In addition to other applicable statutory and regulatory provisions, please be aware of the following:

- 12 U.S.C. § 1786(k)(2)(E) & (H) (civil money penalties--“person against whom any penalty is assessed under this paragraph shall be afforded an agency hearing **if such ... person submits a request for such hearing within 20 days after the issuance of the notice of assessment.**”) (Emphasis provided).
- 12 U.S.C. § 1786 (g)(4) (prohibition--“hearing shall be fixed for a date not earlier than thirty days nor later than sixty days after the date of service of such notice,

unless an earlier or later date is set by the Board at the request of ... [such] person,
and for good cause shown.”); and

- 12 U.S.C. § 1786(e)(1) (restitution--“hearing shall be fixed for a date not earlier than thirty days nor later than sixty days after service of such notice unless an earlier date or a later date is set by the Board at the request of any party so served.”)

**NATIONAL CREDIT UNION
ADMINISTRATION BOARD**


By: Gerard Poliquin
Secretary of the Board

Dated: August 2, 2018

(Certificate of Service will be filed separately)

**UNITED STATES OF AMERICA
NATIONAL CREDIT UNION ADMINISTRATION
Alexandria, Virginia**

In the Matter of	§	
	§	
Alan S. Kaufman,	§	Docket No. 18-0074-R1
	§	
Former Institution Affiliated Party of	§	12 U.S.C. §§ 1786(g), 1785(e)(3), 1786(k)
Melrose Credit Union (#62055)	§	
Queens, New York.	§	
	§	

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on August 3, 2018, I caused the forgoing "Notice of Charges, Notice of Assessment of Civil Money Penalties, and Notice of Hearing" was served upon Alan S. Kaufman as follows:

By Federal Express and Email:

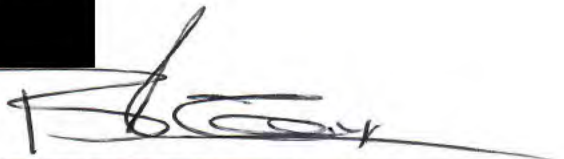
Mr. Alan S. Kaufman
c/o Andres Munoz, Esquire
Baker & Hostetler



and

By Certified Mail:

Mr. Alan S. Kaufman

A handwritten signature in black ink, appearing to read "Bruce R. Hegyi".

Bruce R. Hegyi (DC Bar #422741)
Trial Attorney
National Credit Union Administration
Office of General Counsel
1775 Duke Street, 6th Floor
Alexandria, VA 22314
(703) 518-6557 (office)
(703) 536-4774 (cell)
bhegyi@ncua.gov