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OTS DOCKET # 03317

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 24th day of July, 1995 (the "Effective Date"), by and between Albion Federal Savings and Loan Association (the "Association"), a federally chartered stock association, having its main office located at 48 North Main Street, Albion, New York and the Office of Thrift Supervision ("OTS"), an office within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C., acting through its Northeast Regional Director or his/her designee ("Regional Director").

WHEREAS, the OTS is the primary federal regulator of the Association; and

WHEREAS, based on the Memorandum of Special Field Visit tendered to the Association under cover of May 19, 1995 ("Memorandum") and on the Report of Examination dated November 21, 1994 ("ROE"), the OTS is of the opinion that the Association has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Association is subject and/or (ii) are considered to be unsafe and unsound; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of administrative proceedings against the Association; and

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Association will: (i) comply with all applicable laws and regulations and (ii) engage in safe and sound practices; and

WHEREAS, the Association, acting through its Board of Directors (the "Board"), and without admitting or denying any violations of laws or regulations and/or unsafe and unsound practices, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and regulations and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises, the mutual undertakings set forth herein, the parties hereto agree as follows:

I. COMPLIANCE WITH LAWS AND REGULATIONS

~~1.1~~ The Association shall take all necessary and appropriate actions to achieve compliance with the following laws, regulations, and safe and sound business practices:

(a) Section 11 of the Home Owners' Loan Act ("HOLA"), 12 U.S.C. § 1468, incorporating Sections 22(g), 22(h), 23A, and 23B of the Federal Reserve Act, 12 U.S.C. §§ 375a, 375b, 371c and 371c-1 and Sections 563.41, 42 and 43 of the OTS Regulations, 12 C.F.R. §§ 563.41, 563.42 and 563.43 (transactions with affiliates, extensions of credit to executive officers, directors, and principal shareholders);

(b) the Bank Secrecy Act, 31 U.S.C. §§ 5313, 5314, 5315 and 5316, Section 563.177 of the OTS Regulations, 12 C.F.R. § 563.177 and Section 103.29 of the regulations of the Department of the Treasury, 31 C.F.R. § 103.29 (regarding procedures for monitoring Bank Secrecy Act compliance);

(c) Section 563.161(b) of the OTS Regulations, 12 C.F.R. § 563.161(b) (regarding management policies);

(d) Section 563.180(d) of the OTS Regulations, 12 C.F.R. § 563.180(d) (regarding prompt notification to law enforcement authorities of known or suspected criminal acts); and

(e) Section 571.7(b) of the OTS Regulations, 12 C.F.R. § 571.7(b) (regarding conflicts of interest).

II. OPERATING REQUIREMENTS

2.1 Meeting With Counsel

The Board shall arrange for a meeting with counsel within 30 days of the Effective Date. The Board shall seek counsel's advise and assistance with regard to: (i) the meaning, nature, extent, and application of its fiduciary responsibilities, (ii) complying with this Agreement, and (iii) formulating additional corrective measures, consistent with the Board's fiduciary responsibilities, that address the deficiencies cited in the Memorandum. Such corrective measures shall be reported to the OTS within 15 days of the meeting with counsel.

2.2 Unusual Transactions

Within 60 days of the Effective Date, the Board, after consultation with counsel, shall promulgate and distribute to all of the Association's employees, a written policy: (1) setting forth with specificity the employees' responsibilities with respect to the identification of unusual and/or suspicious transactions, conduct, or activity and (2) establishing procedures for the transmittal of such information, as appropriate, to the Board, to management, to OTS, and to criminal and other law enforcement agencies.

In conjunction with the promulgation of the policy, the Board, after consultation with the Association's external auditor and data processing service, shall (i) identify all internal control management reports generated by the servicer related to savings accounts and checking accounts and (ii) designate staff to review the reports for unusual, suspicious, or criminal transactions, conduct, or activity.

The policy shall encompass the requirements imposed by the Association by the Bank Secrecy Act, 31 U.S.C. § 5311 et seq. and the regulations promulgated thereunder, Section 563.177 of the OTS Regulations, 12 C.F.R. § 563.177 and Subpart B of the regulations of the Department of the Treasury, 31 C.F.R. § 103.21 et seq.

Finally, the policy shall require that the Association shall submit criminal referrals within 14 Business Days of the discovery of any known or suspected criminal act in accordance with Section 563.180(d) of the OTS Regulations, 12 C.F.R. § 563.180(d).

2.3 Internal Controls and Audit Policy and Procedures

Within 60 days of the Effective Date, the Board, in consultation with the Association's external auditor, shall adopt and implement a formal written internal audit policy, as described in the Memorandum, that will enable the Board to effectively monitor the implementation of its policies, procedures, and internal controls.

The Association's internal auditor shall be responsible for the internal audit function, be independent of management, and report directly to the Board on internal audit matters. The internal auditor will assist the Board in monitoring the actions and decisions of committees and management operating under delegated authority.

The internal auditor shall determine: (i) whether the Association is in compliance with laws and regulations; (ii) whether the internal controls system is working; (iii) the soundness and adequacy of accounting, operating and administrative controls; (iv) the effectiveness of internal policies and procedures; and (v) the extent to which the Association's assets are protected against loss. At a minimum, on a quarterly basis, the internal auditor tender a written report to the Board of his/her findings.

The Board shall review timely the reports generated by the internal auditor and such review and the action of the Board as a result thereof shall be documented in the Board minutes.

2.4 Code of Ethics/Conflicts of Interest Policy

Within 60 days of the Effective Date, the Association shall adopt a written code of ethics ("Code") that contains, at a minimum, the following elements:

A. Corporate Creed - The Code shall set forth a broad statement of corporate policy on ethics.

B. Conflicts of Interest - The Code shall:

(1) define what is meant by a conflict of interest,

(2) mandate disclosure of actual or potential conflicts of interest, and

(3) address: (i) the acceptance of gifts, entertainment, favors and loans, (ii) employment of relatives, (iii) participating in any manner in any transaction or loan in which the individual, his/her spouse, child or any related interest has a financial interest, and (iv) providing goods or services to the Association.

C. Personal Finances - The Code shall:

(1) state that improper handling of personal finances could undermine the credibility of the affiliated person, the employee, or the institution and that a precarious financial position could be thought to influence actions or judgments made for the institution.

(2) set forth specific policies and procedures for reporting loans and other financial transactions of employees and affiliated persons.

D. Confidentiality - The Code shall:

(1) define confidential information and

(2) show how information must be guarded, and why abuses in this area can be harmful to the institution, the employees, and the customers.

E. Outside Employment/Activities - The Code shall state that affiliated person and employees must manage his/her outside activities without compromising the individual or the institution and adopt explicit restrictions and guidelines.

F. Protection of Institution Property - The Code shall adopt guidelines for the protection of the institution's property, including information, products and services.

G. Laws and Regulations - The Code shall address applicable criminal statutes and financial institution regulations relating to conflicts of interest.

H. Code Administration - The Code shall provide methods for ensuring compliance, and policies and procedures for enforcing the code should be clearly described. The Code shall require an annual statement from all management of the Association of the level of Vice President and above and all members of the Board certifying their respective compliance with the Code and identify a non-management member of the Board who shall be responsible for maintaining all records, including the annual statements, regarding the matters governed by the policy.

2.5 Changes in Directors or Executive Officers; Terms of Employment

A. As required by Section 32 of the FDIA, 12 U.S.C. § 1831i, and Section 574.9 of the OTS Regulations, 12 C.F.R. § 574.9, the Association shall provide at least 30 days prior written notice of any changes to its directorate or executive officer staff to the OTS before the employment becomes effective.

B. Pursuant OTS Regulatory Bulletin 27a, the Association shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any director, senior executive officer, of the Association or any subsidiary thereof, unless it first (i) provides a minimum of thirty days advance notice of the proposed transaction and (ii) receives a written notice of non-objection from the Regional Director.

2.6 Restrictions on Transactions With Affiliated Persons

Without first (i) providing a minimum of thirty days advance notice of the proposed payment and (ii) receiving a written notice of non-objection from the Regional Director with regard thereto, the Association shall not engage in any transaction with any Affiliated Person except for transactions where the consideration paid or received is less than \$5,000.00 per transaction.

III. BOARD OF DIRECTORS

3.1 Compliance with Agreement

A. The Board and Officers of the Association shall take immediate action to cause the Association to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Agreement.

B. The Board, on a quarterly basis, shall adopt a Board Resolution (the "Compliance Resolution") formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar quarter, the Association has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance in all material respects was found not to exist, and (ii) identify all notices of exemption issued by the Regional Director that were outstanding as of the date of its adoption.

C. The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each Director voting in favor of its adoption; and (ii) the identity of each Director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such Director's reasoning for opposing or abstaining.

D. No later than the 25th Business Day of the month following the end of a calendar quarter, beginning with the end of the first calendar quarter following the Effective Date, the Association shall provide to the Regional Director a certified true copy of the Compliance Resolution adopted during the first month immediately subsequent to such calendar quarter. The Board, by virtue of the Association's submission of a certified true copy of each such Compliance Resolution to the Regional Director, shall be deemed to have certified that to the best of its knowledge the statements with respect to compliance with the terms of this Agreement set forth in each Compliance Resolution are accurate in all material respects, except as provided below. In the event that one or more Directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of the Association.

IV. MISCELLANEOUS

4.1 Definitions

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires: (a) the terms used in this Agreement have the meanings assigned to them in this Section 4.1 and include the plural as well as the singular; (b) all accounting terms not otherwise defined have the meanings assigned to them in accordance with generally accepted accounting principles in the United States, except that if such terms are defined in the Rules and Regulations of the OTS, such regulatory definitions shall be controlling; (c) all terms not otherwise defined herein that are defined in the HOLA, the FDIA, the Rules and Regulations of the OTS or its publicly available bulletins and Advisory Memoranda shall have the meanings assigned to them in such statutes, Rules and Regulations, Bulletins, and Advisory Memoranda; and (d) all technical words or terms not subject to a definition in this Agreement shall have the meanings that accord with the best custom and usage in the thrift and banking industries.

"Board Resolution" means a resolution duly adopted by the Board at a duly called and held meeting of the Board (or a Committee thereof) at which a quorum was present.

"Business Day" means any weekday excluding Federal holidays.

"Director" shall mean any current or former member of the Association's Board of Directors.

"FDIA" means the Federal Deposit Insurance Act, as amended.

"FIRREA" means the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183.

"HOLA" means the Home Owners' Loan Act, as amended, 12 U.S.C. §§ 1461 et seq.

"Officer" shall have the meaning set forth in Section 561.35 of the OTS Regulations, 12 C.F.R. § 561.35.

"OTS" refers to the Office of Thrift Supervision, United States Department of the Treasury, or its successor.

"Regional Director" or his successor is the "senior supervisory official" within the meaning of Section 723(d) of the FIRREA, and refers to the Regional Director of the Northeast Region of OTS. All references to the Regional Director shall include the Regional Director and/or his designee(s).

"Savings Association" shall have the meaning set forth in Section 2(4) of the HOLA, 12 U.S.C. § 1462(4).

4.2 Successor Statutes, Regulations, Guidance, Amendments

Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

4.3 Notices

A. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with:

(1) the OTS by the Association, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Assistant Director, Office of Thrift Supervision, Department of the Treasury, 651 Holiday Drive, Pittsburgh, Pennsylvania 15220 or telecopied to (412) 920-6630 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

(2) the Association by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered, in each case addressed to the Association at 48 North Main Street, Albion, New York 14411 or telecopied to (716) 589-4732 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

B. Notice hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Agreement, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was received two Business Days after the date of the postmark on the envelope in which the notice was enclosed.

4.4 Duration, Termination or Suspension of Agreement

A. This Agreement shall remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

B. The Regional Director in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

4.5 Effect of Headings

The Section headings herein are for convenience only and shall not affect the construction hereof.

4.6 Separability Clause

In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his sole discretion determines otherwise.

4.7 No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted

Nothing in this Agreement shall be construed as: (i) allowing the Association to violate any law, rule, regulation, or policy statement to which it is subject or (ii) restricting, in any way, the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

4.8 Successors in Interest/Benefit

The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto, the Resolution Trust Corporation, and the Federal Deposit Insurance Corporation and their successors in interest hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

4.9 Time Limits

Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

4.10 Signature of Directors

Each Director signing the Agreement attests, by such act, that she or he, as the case may be, voted in favor of the resolution, in the form attached to this Agreement, authorizing the execution of this Agreement by the Association.

4.11 Integration Clause

This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter.

4.12 Enforceability of Agreement

The Association and OTS represent and warrant that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Association. The Association acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. § 1818.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director and the Association, in accordance with a duly adopted resolution of its Board (copy attached hereto), hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

THE ASSOCIATION

By:

By:

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Name: Robert C. Albanese
Title: Deputy Regional Director

Name:
Title:

DIRECTORS OF THE ASSOCIATION

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