

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

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| _____ |) | |
| In the Matter of |) | Order No.: NE-09-22 |
| |) | |
| HOME LOAN INVESTMENT |) | |
| BANK, F.S.B. |) | Effective Date: August 18, 2009 |
| |) | |
| Warwick, Rhode Island |) | |
| OTS Docket No. 12504 |) | |
| _____ |) | |

ORDER TO CEASE AND DESIST

WHEREAS, HOME LOAN INVESTMENT BANK, F.S.B., Warwick, Rhode Island, OTS Docket No. 12504 (Association), by and through its Board of Directors (Board) has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

WHEREAS, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 USC § 1818(b); and

WHEREAS, pursuant to delegated authority, the OTS Regional Director for the Northeast Region (Regional Director), is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

Compliance with Laws, Regulations and Safe and Sound Practices.

1. The Association and its directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating

in, counseling or the aiding and abetting of the unsafe or unsound practices that have resulted in the Association operating with levels of Classified Assets¹ and Criticized Assets² that are excessive in relation to the Association's capital, and from violating the following laws and regulation:

(a) 12 C.F.R. §§ 560.100 & 560.101 (requiring adoption of and compliance with prudent written real estate lending standards);

(b) 12 C.F.R. § 563.180(d) (requiring submission of Suspicious Activity Reports); and

(c) 12 C.F.R. Part 572 (setting forth rules related to flood insurance).

Capital Plan.

2. By October 31, 2009, the Board shall approve and submit to the Regional Director a written Capital Plan covering the time period beginning with the quarter ending December 31, 2009 until the quarter ending December 31, 2011. The Capital Plan shall:

(a) establish quarterly projected Regulatory Capital Ratios³ (Projected Regulatory Capital Ratios) during the term of the plan that are sufficient to:

(i) support the Association's existing and prospective risk profile, considering the risks and weaknesses identified in the November 24, 2008 Report of Examination (ROE) and

¹ "Classified Assets" are current assets, or subsequent to the Effective Date assets that have been, classified as "substandard," "doubtful," or "loss," either by the Association (pursuant to 12 C.F.R. § 560.160(a)(1)) or by OTS (pursuant to 12 C.F.R. § 560.160(a)(2)). Classified Assets are reported at lines VA965, VA970 and VA975 of the Thrift Financial Report (TFR), Schedule VA.

² "Criticized Assets" are current assets, or subsequent to the Effective Date assets that have been, classified as Classified Assets, plus those classified as "Special Mention Assets," either by the Association (pursuant to 12 C.F.R. § 560.160(a)(1)) or by OTS (pursuant to 12 C.F.R. § 560.160(a)(2)). Special Mention Assets are reported at lines VA960 of the TFR, Schedule VA.

³ "Regulatory Capital Ratios" are the Tier 1 (Core) Capital Ratio and Total Risk-Based Capital Ratio computed quarterly on Schedule CCR of the TFR, in accordance with the TFR instructions.

(ii) comply with the requirement in paragraph 3 of the Order to reduce the Association's Classified-Assets-to-Capital Ratio⁴ and Criticized-Assets-to-Capital Ratio⁵ (collectively, Problem Asset Ratios),

(b) project additions and reductions to capital through retained earnings or deficit operations,

(c) project capital infusions by the Association's stockholders, and

(d) provide for a Capital Contingency Plan that:

(i) shall be implemented if:

(A) the Association materially fails to meet its Projected Regulatory Capital Ratios for two consecutive quarters and the Regional Director notifies the Association in writing that the Capital Contingency Plan must be implemented or

(B) the Association's Tier 1 (Core) Capital Ratio is less than five percent (5%) or its Total Risk Based Capital Ratio is less than ten percent (10%),

(ii) describes the actions necessary within specific time frames to achieve a merger with or acquisition by another banking institution or banking institution holding company, or such other transaction that OTS may approve. For purposes of this paragraph, a material failure to meet the Projected Regulatory Capital Ratios shall mean that one or both of the Association's actual Regulatory Capital Ratios is less than seventy-five percent (75%) of the corresponding Projected Regulatory Capital Ratio for that quarter.

⁴ "Classified-Assets-to-Capital Ratio" means the percentage that is determined when the total dollar amount of the Association's Classified Assets (the numerator) is divided by a denominator amount equal to the sum of: (a) Tier 1 (Core) Capital (TFR Line CCR30); and (b) the total allowance for loan and lease losses (ALLL) (TFR Lines SC283 and SC357).

⁵ "Criticized-Assets-to-Capital Ratio" means the percentage that is determined when the total dollar amount of the Association's Criticized Assets (the numerator) is divided by a denominator amount equal to the sum of: (a) Tier 1 (Core) Capital (TFR Line CCR30); and (b) the total ALLL (TFR Lines SC283 and SC357).

3. Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall revise the Capital Plan to incorporate the comments and adopt the Capital Plan and the Association shall thereafter implement and adhere to the Capital Plan. Within five (5) days of adoption by the Board, the Association shall send a copy of the adopted Capital Plan to the Regional Director.

Reduction of Problem Assets.

4. By October 31, 2009, the Board shall approve and submit to the Regional Director a written plan to reduce the Association's Classified-Assets-to-Capital Ratio and Criticized-Assets-to-Capital Ratio (collectively, Problem Asset Ratios) covering the same time period as the Capital Plan required by paragraph 2 (Problem Asset Reduction Plan). The Problem Asset Reduction Plan shall:

(a) establish a schedule of quarterly targeted reductions in the Problem Asset Ratios (Projected Problem Asset Ratios),

(b) describe the means by which reductions of Criticized Assets will be achieved, including collection of principal balance owed, enhancement of collateral, guarantees or other factors contributing to the quality of the asset, or a write-down of the Criticized Assets,

(c) be supervised by a Board Committee or a Senior Executive Officer⁶ of the Association who is independent of the lending function and whose responsibilities shall be: (i) to develop and implement Asset Action Plans (as required by paragraph 6 below) with respect to each Criticized Asset and (ii) to report to the Board on implementation of the Asset Action Plans on a monthly basis, and

(d) provide for a Contingency Plan, that shall:

⁶ The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

(i) be implemented whenever:

(A) the Association's actual Classified-Assets-to-Capital Ratio materially exceeds the Projected Classified-Assets-to-Capital Ratio for two consecutive quarters and

(B) the Regional Director notifies the Association in writing that the Contingency Plan must be implemented,

(ii) describe the actions necessary within specific time frames to achieve a merger with or acquisition by another banking institution or banking institution holding company, or such other transaction that OTS may approve. For purposes of this paragraph, a material failure to meet the targeted Classified-Assets-to-Capital Ratio shall mean that the Association's actual Classified-Assets-to-Capital Ratio is greater than one hundred-twenty (120%) of the corresponding Projected Classified-Assets-to-Capital Ratio for that quarter.

5. Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall amend the Problem Asset Reduction Plan to incorporate the comments and adopt the Problem Asset Reduction Plan (Approved Problem Asset Reduction Plan). The Association shall thereafter implement and adhere to the Approved Problem Asset Reduction Plan. Within five (5) days of adoption by the Board, the Association shall send a copy of the adopted Problem Asset Reduction Plan to the Regional Director.

6. By October 31, 2009, and pursuant to the Approved Problem Asset Reduction Plan, the Association shall prepare and thereafter implement written Asset Action Plans for each Criticized

Asset exceeding two hundred thousand dollars (\$200,000), excluding Home Mortgage Loans⁷, that, at a minimum, shall include:

- (a) a comprehensive analysis of all loan documents and the identification of any missing documentation;
- (b) a realistic analysis of: (i) the available cash flow to service the debt, (ii) the value of any collateral, and (iii) the ability of the Association to enforce any guarantees;
- (c) an evaluation of potential impairment under Financial Accounting Standard 114 inclusive of collateral dependency and loss analysis;
- (d) an assessment of potential legal issues or impediments to the collection of the debt;
- and
- (e) a schedule of all actions necessary to resolve the weaknesses and deficiencies leading to its classified asset status.

7. Within forty-five (45) days after the close of each calendar quarter beginning with the quarter ending September 30, 2009, Management shall submit to the Board (with a copy to the Regional Director) a written quarterly status report that: (i) identifies the amount of the Association's Criticized Assets and calculates its actual Problem Asset Ratios using quarter-end TFR data; (ii) compares the actual Problem Asset Ratios with the Projected Problem Asset Ratios; (iii) discusses the actions taken by the Association during the quarter to improve such ratio and reduce the level of Criticized Assets; and (iv) describes the significant actions the Association plans to take to further improve such ratios.

⁷ The term "Home Mortgage Loan" means a mortgage loan secured by a borrower's primary residence and that is not a "Business purpose loan" defined at 24 C.F.R. § 3500.5(b).

Restrictions on Mortgage Lending.

8. Effective immediately, the Association shall not make any Home Mortgage Loan, unless such loan:

(a) is prudently underwritten in accordance with 12 C.F.R. §§ 560.100 and 560.101;

(b) has a documented loan-to-value ratio (LTV) (or combined loan-to-value ratio (CLTV)) no greater than eighty percent (80%) at origination, unless any loan amount in excess of eighty percent (80%) is insured by private mortgage insurance provided by an issuer approved by the Federal Home Loan Mortgage Corporation (FHLMC) or the Federal National Mortgage Association (FNMA);

(c) is one of the following types:

(i) a loan underwritten in accordance with criteria established for residential loans eligible for purchase by FHLMC or FNMA (Conforming Loan), or a loan that would be a Conforming Loan but for the loan's principal amount, with evidence in the loan file indicating that the loan does, in fact, conform to FHLMC or FNMA standards (except principal amount limitations where applicable);

(ii) a loan guaranteed by the Department of Veterans Affairs against default (VA Mortgage);

(iii) a loan insured by the Federal Housing Administration against default (FHA Mortgage); or

(iv) a loan guaranteed pursuant to the United States Department of Agriculture's Rural Development Housing and Community Facilities Program; and

(d) does not contain any of the following features or characteristics:

(i) any form of reduced documentation characteristics, including, but not limited

to stated-income, stated-asset, no ratio, no income, no-asset, "low-doc" or "no-doc" types of credits; or

(ii) any piggyback, second-lien or home equity loan or line of credit originated close in time to, or in contemplation of, the origination of a more senior mortgage for the same property.

9. The lending restrictions set forth in paragraph 8 (above) shall not restrict the origination of the following types of loans, *provided that* such loans are originated in conformance with all applicable laws and regulatory requirements, the requirements of this Order, and in a safe and sound manner:

(a) Home Mortgage Loans that the Association is obligated to make pursuant to legally binding written loan commitments issued no later than July 28, 2009; and

(b) Other types of loans permitted in writing by the Regional Director.

Commercial Lending Corrective Actions.

10. By August 31, 2009, the Board shall submit to the Regional Director a satisfactory written description of all corrective actions taken by the Association to address deficiencies identified in the ROE related to commercial loan underwriting and documentation. Such required corrective actions must include revised and improved procedures that have been adopted by the Board and implemented by the Association for: (i) loans that represent an exception to loan policy and (ii) obtaining accurate and complete loan underwriting documentation, including financial analysis, approval requests and other credit documents for all commercial loans.

Identification and Reporting of Allowance for Loan and Lease Losses.

11. By August 31, 2009, the Board shall approve, and the Association shall thereafter implement and adhere to, a revised policy detailing changes to the Association's processes for identifying and reporting ALLL (Revised ALLL Policy). The Revised ALLL Policy shall, at a minimum: (i) conform to the requirements of generally accepted accounting principles and pertinent regulatory requirements and guidance⁸, (ii) be appropriate for the size of the Association and the complexity of its loan and lease portfolios; and (iii) address weaknesses in the methodology and processes identified in the ROE.

Reporting Suspicious Activity.

12. By September 15, 2009, the Board shall adopt and the Association shall thereafter implement and adhere to revised written procedures designed to address and correct violations cited in the ROE concerning its failure to properly and timely identify and file suspicious activities reports as required by 12 C.F.R. § 563.180(d) (Revised SAR Policy). The Revised SAR Policy, at a minimum, shall provide that:

(a) all officers, employees, and agents of the Association, including those who are or were involved in the mortgage origination process or in the repurchase of loans previously sold, shall report suspicious transactions to the Association's Bank Secrecy Act (BSA) Officer in writing;

(b) following receipt of written notification of a suspicious transaction, or upon other discovery of any other suspicious transaction by the Association, the Association shall:

⁸ See (i) 12 C.F.R. § 560.160, (ii) Interagency Policy Statement on the Allowance for Loan and Lease Losses and Questions and Answers on Accounting for Loan and Lease Losses issued on December 13, 2006 pursuant to OTS CEO Memorandum 250 (2006 Policy Statement) and (iii) Interagency Policy Statement on the Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions, dated July 2, 2001 (66 Fed. Reg. 35629, published on July 6, 2001).

- (i) where appropriate, file a properly completed SAR on a timely basis,
- (ii) where there is a decision not to file a SAR, prepare and maintain written records describing: (A) the reason(s) why a determination was made not to file a SAR, (B) who conducted the review, and (C) what information was reviewed;
- (iii) retain all documentation and records related to the decision of whether or not to file a SAR, for a minimum of five (5) years.

13. By August 31, 2009, the Board shall ensure that the Association provides proper training for all directors, officers, employees and agents of the Association whose duties require knowledge of the BSA regarding the detection and reporting of suspicious activities (“SAR Training Program”). The Association shall comply with the SAR Training Program and maintain records to demonstrate such compliance. The SAR Training Program shall:

- (a) address the requirements of 12 C.F.R. § 563.180 and 31 C.F.R. § 103.18, and the procedures of the Association regarding reporting of suspicious activities; and
- (b) set forth frequency of training and attendance requirements.

14. Effective immediately, the Association shall file all SARs electronically.

Flood Insurance.

15. By August 31, 2009, the Board shall review and approve, and the Association shall thereafter implement and adhere to, written policies and procedures to ensure that it complies with the National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973, as amended, 42 U.S.C. §§ 4001-4129, as implemented by Part 572 of the OTS’s Rules and Regulations, 12 C.F.R. Part 572 (collectively, Flood Laws and Regulations) (Flood Policy and Procedures) At a minimum, the Flood Policy and Procedures shall include:

(a) a detailed training plan to ensure that Association personnel receive appropriate training on the requirements of the Flood Laws and Regulations and the Association's Flood Policy and Procedures (Flood Training Plan);

(b) specific policies, procedures and systems to ensure the preparation and mailing or delivery of a written notice of special flood hazard determination to the borrower and to the servicer in all cases whether or not flood insurance is available under the National Flood Insurance Act of 1968, as amended, for the collateral securing the loan, as required in 12 C.F.R. § 572.9;

(c) systems and processes to ensure that flood hazard insurance coverage is obtained when required, pursuant to 12 C.F.R. § 572.3;

(d) systems and processes to ensure that required flood hazard insurance coverage remains in force throughout the life of a loan;

(e) a process or procedure to ensure the amount of flood hazard insurance coverage, where such insurance is required, is at least equal to the lesser of the outstanding principal balance of the loan or the maximum amount of coverage available for the particular property, as required by 12 C.F.R. § 572.3(a); and

(f) policies and procedures to ensure compliance with 12 C.F.R. § 572.7 by sending proper notices to borrowers whose flood hazard coverage has become inadequate, and by force placing such insurance when borrowers who have received such notices fail to take appropriate corrective action.

16. By August 31, 2009, the Board shall designate an employee or engage a qualified independent firm or consultant to conduct a review of all outstanding commercial loans secured by buildings or mobile homes to identify those loans secured by properties located in special

flood hazard areas that do not comply with the requirements of Flood Laws and Regulations. By October 15, 2009, the designated employee or consultant shall prepare and provide to the Board for review a written report that, at a minimum: (i) identifies all loans that do not comply with the Flood Laws and Regulations; (ii) discusses the specific provision(s) of the Flood Laws and Regulations violated; (iii) sets forth recommended corrective actions; and (iv) includes such other information as the Board may require (Flood Loan Report).

17. By October 15, 2009, the Board shall ensure that the Association shall implement appropriate corrective actions, including all corrective actions noted in the ROE to ensure that all loans listed on the Flood Loan Report comply with the Flood Laws and Regulations. The Board's review of the Flood Loan Report, and the corrective actions adopted by the Board shall be fully documented in the Board meeting minutes. A copy of the Flood Loan Report and the Board minutes containing the discussion of the Flood Loan Report shall be provided to Regional Director within ten (10) calendar days after the date of the Board meeting at which the Flood Loan Report was presented.

Restrictions on Asset Growth and Deposits.

18. Effective immediately, the Association's asset growth in any quarter shall not exceed net interest credited on deposit liabilities during the quarter without the prior written non-objection of the Regional Director.

19. Effective immediately, the Association shall not accept or renew any brokered deposits as defined in 12 C.F.R. § 337.6(a)(2) without the prior written non-objection of the Regional Director.

20. A request for non-objection under paragraphs 18 and 19 must be submitted to the Regional Director at least forty five (45) days prior to: (i) the anticipated date of acceptance of deposits

restricted herein or (ii) the end of the calendar quarter in which the Association seeks to grow in excess of interest credited on deposit liabilities.

Funding Diversification Plan.

21. (a) By no later than September 30, 2009, the Board shall approve and submit to the Regional Director a written funding diversification plan covering the time period beginning October 1, 2009 through December 31, 2011 (Funding Diversification Plan). The Funding Diversification Plan shall:

(i) comport with the guidance set forth in: (A) OTS Thrift Bulletin 77; (B) Sections 530 and 560 of OTS's Examination Handbook; and (C) the Interagency Advisory on the Use of the Federal Reserve's Primary Credit Program in Effective Liquidity Management;

(ii) consider the proposed guidance set forth in the Proposed Interagency Guidance – Funding and Liquidity Risk Management⁹; and

(iii) at a minimum: (A) contain an evaluation of the stability, availability, and flexibility of the Association's funding sources in both normal and adverse market conditions; (B) include scheduled action steps for diversifying the Association's funding sources by type and maturity; and (C) provide for a comprehensive liquidity contingency plan.

(b) Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall amend the Funding Diversification Plan to incorporate the comments and adopt the Funding Diversification Plan (Approved Funding Diversification Plan). The Association shall thereafter implement and adhere to the Approved Funding Diversification Plan. Within five (5)

⁹ 74 F.R. 32035 (July 6, 2009)

days of adoption by the Board, the Association shall send a copy of the Approved Funding Diversification Plan to the Regional Director.

(c) The Board shall monitor and oversee implementation and compliance with the Approved Funding Diversification Plan. Within forty-five (45) days after the close of each calendar quarter beginning with the quarter ending September 30, 2009, Management shall submit to the Board a written quarterly status report assessing the Association's performance in the implementation of the Approved Funding Diversification Plan (Funding Diversification Plan Compliance Report). The Board minutes of the meeting at which the Funding Diversification Plan Compliance Reports are presented and considered shall: (i) attach a copy of the Funding Diversification Plan Compliance Report and (ii) reflect the Board's consideration and review of the Funding Diversification Plan Compliance Report, together with any actions authorized by the Board resulting from such review.

Compensation and Severance Payment Limitations.

22. Effective immediately, the Association shall not make any golden parachute payment¹⁰, unless with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

23. Effective immediately, the Association shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any director or Senior Executive Officer of the Association unless it first (i) provides the Regional Director with a minimum of thirty (30) days advance written notice of the proposed transaction; and (ii) receives a written notice of non-objection from the Regional Director. The notice to the Regional Director

¹⁰ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such Senior Executive Officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Directorate and Management Changes.

24. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H.

Restrictions on Transactions With Affiliates.

25. The Association shall not engage in any transaction with an affiliate make any payment on any tax sharing agreement or make any tax payment that would exceed the amount that the Association would be obligated to make if it were a separate taxpayer and not part of a consolidated group tax return, unless, with respect to each such transaction, the Association:

(a) has provided the Regional Director with at least thirty (30) days prior written notice of such transaction, which notice shall include:

(i) a full description of the proposed transaction (including, at a minimum, the information required by the record-keeping requirements of 12 C.F.R. § 563.41(c) (3));

(ii) copies of all pertinent transaction documents;

(iii) a legal opinion, provided by counsel experienced in the application of the laws and regulations governing transactions with affiliates set forth at 12 U.S.C. § 1468 and 12 C.F.R. § 563.41 (TWA Rules), which includes the rationale and precedent supporting the

conclusion that the proposed transaction comports with the TWA Rules; and

(iv) a letter signed by the Chairman of the Board indicating that the Board has reviewed the proposed transaction and finds that it: (A) comports with the TWA Rules and (B) is in the Association's best interests or, in the case of tax payments, that it is legally compelled; and

(b) the Regional Director has provided written notice of non-objection.

The restrictions set forth in this paragraph 25 shall not affect transactions or arrangements in effect on the Effective Date that comport with the TWA rules.

Applicability of Order Requirements to Subsidiaries.

26. The Association (including its Board and officers) shall ensure that each of its subsidiaries complies fully with the applicable requirements of this Order.

Board Oversight of Compliance with Order.

27. By August 31, 2009, the Board shall establish and appoint an oversight committee of the Board (the "Oversight Committee") comprised of three or more Outside Directors¹¹, whose function shall be to monitor and provide timely reports and guidance to the Board and Management regarding the Association's compliance with the provisions of this Order.

28. On a monthly basis, beginning with the month ending September 30, 2009, the Association's management shall provide to the Oversight Committee such information and reports to allow the Oversight Committee and the Board to monitor the Association's compliance with the requirements of this Order that is: (i) requested by the Oversight Committee or Board or (ii) otherwise necessary to facilitate such monitoring.

¹¹ As used in this Order, the term "Outside Director" means a director who is not currently an officer or employee of the Association.

29. On a quarterly basis, beginning with the quarter ending September 30, 2009, and within thirty (30) days after the end of each calendar quarter, the Oversight Committee shall submit a written quarterly progress report to the Board that:

(a) details the actions taken by the Association to comply with each provision of this Order, and a description of the results of such actions; and

(b) identifies any violations of this Order, and further describes all remedial actions that have been effected and/or that are contemplated with respect to such violations.

30. Within forty-five (45) days after the end of each calendar quarter, beginning with the quarter ending September 30, 2009, the Board shall submit to the Regional Director: (i) a copy of the Oversight Committee's quarterly progress report required by the prior paragraph and any additional Board comments; and (ii) a written certification that each director has reviewed the report.

31. Nothing contained herein shall diminish the responsibility of the entire Board to oversee the Association's compliance with the provisions of this Order.

Effective Date, Incorporation of Stipulation.

32. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

Duration.

33. This Order shall remain in effect until terminated, modified or suspended, by written notice of such action by OTS, acting by and through its authorized representatives.

Time Calculations.

34. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

35. The Regional Director, may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

Submissions and Notices.

36. All submissions, including progress reports, to OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

37. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Order shall be in writing and sent by first class U.S mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

(a) To the OTS:

| | |
|--|--|
| <u>Original to:</u> Michael E. Finn Regional Director Office of Thrift Supervision Harborside Financial Center Plaza Five Suite 1600 Jersey City, NJ 07311 | <u>Copy to:</u> John F. Burke Assistant Director Office of Thrift Supervision 35 Braintree Hill Office Park, Suite 201 Braintree, MA 02184 |
|--|--|

(b) To the Association

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|--|--|
| Board of Directors c/o Brian J. Murphy, President and CEO Home Loan Investment Bank, F.S.B. 1 Home Loan Plaza, Suite 3 Warwick, RI 02886 | |
|--|--|

No Violations Authorized.

38. Nothing in this Order or the Stipulation shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____/s/_____
Michael E. Finn
Regional Director, Northeast Region

Date: See Effective Date on page 1

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

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| HOME LOAN INVESTMENT |) | Effective Date: August 18, 2009 |
| BANK, F.S.B. |) | |
| |) | |
| Warwick, Rhode Island |) | |
| OTS Docket No. 12504 |) | |
| _____ |) | |

STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Northeast Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed HOME LOAN INVESTMENT BANK, F.S.B., Warwick, Rhode Island, OTS Docket No. 12504 (Association) that OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

WHEREAS, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

WHEREAS, the Association desires to cooperate with OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or

denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs 1 and 2 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

Jurisdiction.

1. The Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Association is “an insured depository institution” as that term is defined in 12 USC § 1813(c).
2. Pursuant to 12 U.S.C. § 1813(q), the Director of OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

OTS Findings of Fact.

3. Based on its November 24, 2008 examination of the Association, OTS finds that the Association has engaged in unsafe or unsound banking practices that have resulted in the Association operating with levels of Classified Assets¹ and Criticized Assets² that are excessive in relation to capital and violated various laws and regulations, including:

- (a) 12 C.F.R. §§ 560.100 and 560.101 (requiring adoption of and compliance with prudent written real estate lending standards);

¹ “Classified Assets” are current assets, or subsequent to the Effective Date assets that have been, classified as “substandard,” “doubtful,” or “loss,” either by the Association (pursuant to 12 C.F.R. § 560.160(a)(1)) or by OTS (pursuant to 12 C.F.R. § 560.160(a)(2)). Classified Assets are reported at lines VA965, VA970 and VA975 of the Thrift Financial Report (TFR), Schedule VA.

² “Criticized Assets” are current assets, or subsequent to the Effective Date assets that have been, classified as Classified Assets, plus those classified as “Special Mention Assets,” either by the Association (pursuant to 12 C.F.R. § 560.160(a)(1)) or by OTS (pursuant to 12 C.F.R. § 560.160(a)(2)). Special Mention Assets are reported at lines VA960 of the TFR, Schedule VA.

- (b) 12 C.F.R. § 563.180(d) (requiring submission of Suspicious Activity Reports);
- and
- (c) 12 C.F.R. Part 572 (setting forth rules related to flood insurance).

Consent.

4. The Association consents to the issuance by OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

Finality.

5. The Order is issued by OTS under 12 U.S.C. § 1818(b) and upon the Effective Date it shall be a final order, effective and fully enforceable by OTS under the provisions of 12 U.S.C. § 1818(i).

Waivers.

6. The Association waives the following:
- (a) The right to be served with a written notice of OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
 - (b) The right to an administrative hearing of OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
 - (c) The right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and
 - (d) Any and all claims against OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS

enforcement matter and/or the Order, whether arising under common law, federal statutes or otherwise.

OTS Authority Not Affected.

7. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar or otherwise prevent OTS from taking any other action affecting the Association if at any time OTS deems it appropriate to do so to fulfill the responsibilities placed upon OTS by law.

Other Governmental Actions Not Affected.

8. The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 7 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than OTS.

Miscellaneous.

9. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

10. If any provision of this Stipulation and/or the Order 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 or her sole discretion determines otherwise.

11. All references to OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

12. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

13. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

14. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by OTS, acting through its Regional Director or other authorized representative.

Signature of Directors/Board Resolution.

15. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation. This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Stipulation shall be delivered to OTS, along with the executed original(s) of this Stipulation.

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WHEREFORE, the Association, by its directors, executes this Stipulation.

Accepted by:

HOME LOAN INVESTMENT BANK, F.S.B.
Warwick, Rhode Island

OFFICE OF THRIFT SUPERVISION

By: _____ /s/
John M. Murphy, Sr.
Chairman

By: _____ /s/
Michael E. Finn
Regional Director, Northeast Region

Date: See Effective Date on page 1

_____/s/
Lawrence E. Brown, Jr., Director

_____/s/
Stephen J. Carlotti, Director

_____/s/
Alfred J. Corso, Director

_____/s/
John R. Galvin, Director

_____/s/
Michael E. Kelly, Director

_____/s/
Brian J. Murphy, Director

_____/s/
Kevin B. Murphy, Director

_____/s/
Joseph Scanlon, Director