

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of
CATANO FEDERAL SAVINGS BANK
Catano, Puerto Rico

Re: Resolution No. ATL-93-22
Dated: June 14, 1993

STIPULATION AND CONSENT TO THE ISSUANCE
OF AN ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("the OTS"), by and through its Regional Director for the Southeast Region ("Regional Director") and Catano Federal Savings Bank, Catano, Puerto Rico, OTS Number 7854, for itself and its wholly owned service corporations and subsidiaries ("Catano Federal" or "Institution"), stipulate and agree as follows:

Consideration

1. The OTS, based upon information derived from the exercise of its supervisory and regulatory powers, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against Catano Federal pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. Sc 1818(b)¹.

2. Catano Federal desires to cooperate with the OTS and to avoid the time and expense of such administrative proceeding and, without admitting or denying that such grounds exist, hereby stipulates and agrees to the following terms in consideration of the forbearance by the OTS from initiating such administrative cease and desist proceeding against the Institution with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

3. The OTS is willing to forbear from the initiation of cease and desist proceedings against Catano Federal to require the actions referred to in the Order for so long as the Institution is in compliance with the provisions of the Order.

1. All references to the U.S.C. are as amended.

Jurisdiction and Facts

4. Catano Federal is a "savings association" within the meaning of Section 3(b)(1) of the FDIA, 12 U.S.C. Sc 1813(b)(1), and Section 2(4) of the Home Owners' Loan Act of 1933 ("HOLA"), 12 U.S.C. Sc 1462(4). It is an "insured depository institution" as that term is defined in Section 3(c)(2) of the FDIA, 12 U.S.C. Sc 1813(c)(2).

5. Pursuant to Section 8(b)(1) of the FDIA, 12 U.S.C. Sc 1818(b)(1), the appropriate Federal banking agency may issue a cease and desist order against any insured depository institution that engages in unsafe and unsound practices in conducting its business and/or violates any law, rule or regulation.

6. Pursuant to Section 3(q)(4) of the FDIA, 12 U.S.C. Sc 1813(q)(4), the Director of the OTS is the "appropriate Federal banking agency" to maintain an administrative proceeding against such a savings association or its institution-affiliated parties. Therefore, Catano Federal is subject to the authority and jurisdiction of the OTS to initiate and maintain an administrative proceeding against it pursuant to Section 8(b) of the FDIA, 12 U.S.C. Sc 1818(b).

7. The OTS' findings in support of the Order include:

- (a) violations of the Supervisory Agreement between Catano Federal and the OTS, dated May 19, 1991;
- (b) regulatory violations; and
- (c) failure to comply with prior supervisory directives and other unsafe and unsound practices.

Consent

8. Catano Federal consents to the issuance by the OTS of the Order. The Institution further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.

Finality

9. The Order is issued under Section 8(b) of the FDIA, 12 U.S.C. Sc 1818(b). Upon its issuance by the Regional Director, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, 12 U.S.C. Sc 1818(i).

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Re: Resolution No.:ATL-93-22
Dated: June 14, 1993

ORDER TO CEASE AND DESIST

WHEREAS, Catano Federal Savings Bank, Catano, Puerto Rico, OTS Number 7854, for itself and its wholly owned service corporations and subsidiaries ("Catano Federal" or "Institution"), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist ("Stipulation"), which is incorporated herein by reference and is accepted and approved by the Office of Thrift Supervision ("OTS"), acting through its Regional Director for the Southeast Region ("Regional Director"); and

WHEREAS, Catano Federal, in the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. Sc 1818(b)¹;

NOW THEREFORE, IT IS ORDERED that Catano Federal and its directors, officers, employees, agents, service corporations and subsidiaries shall cease and desist from any unsafe or unsound practices in conducting the business of the Institution and further, shall cease and desist from any violation of, or the aiding and abetting of any violation of, and from any noncompliance with, or the aiding and abetting of any noncompliance with:

1. 12 C.F.R. Sc 563.170(c), regarding generally establishment and maintenance of records; and
2. 12 C.F.R. Sc 564.8(c)(3), regarding generally appraisal policies and practices of savings associations and subsidiaries;

1. All references to the U.S.C. are as amended.

IT IS FURTHER ORDERED THAT:

3. The Written Agreement, dated May 16, 1991, between Catano Federal and the OTS is terminated as of the effective date of this Order.

MANAGEMENT

4. The Board of Directors ("Board") shall, within 45 days of the effective date of this Order, establish a Compliance Committee. The Compliance Committee shall consist of at least three outside directors and shall determine compliance with this Order and with any other supervisory directive issued by the OTS. The Compliance Committee shall report its findings in writing to the entire Board at least quarterly, and its reports shall be made a part of the minutes of the meetings of the Board.
5. The Board shall ensure that the minutes of each Board meeting comply with the requirements of 12 C.F.R. Sc 563.170(c) and are promptly and accurately compiled.

In addition, the Board shall ensure that:

- a. The Board minutes are prepared by the Institution's corporate secretary.
 - b. The minutes of each meeting are approved by the Board at the next regular Board meeting following each such meeting.
 - c. The Board minutes for each meeting are inserted into the minute book after they are approved by the Board at the next monthly Board meeting.
 - d. The minutes are maintained in a minute book with sequentially prenumbered pages.
6. The Institution shall not enter into or renew any employment contract without the prior written approval of the Regional Director. Further, the Board shall ensure that all employment contracts comply in all respects with 12 C.F.R. ScSc 563.39, 563.161, and 545.12 and with OTS Regulatory Bulletin 27a.
 7. Within 45 days of the effective date of this Order, the Board shall develop, adopt, implement, and thereafter adhere to a formal internal audit plan. This plan shall include, at a minimum:
 - a. An assessment of those areas of operation that present the most risk to the Institution.

- b. A prioritization of those areas that are considered most important for audit review.
- c. A specific time schedule for the internal audit review of each area of operation.
- d. A determination of which employees will be allocated to conduct the internal audits and/or which outside firm will be used to implement the internal audit plan.
- e. An identification of those procedures to be used in the audit review of each area.

After the internal audit plan has been prepared, the Institution shall have its independent auditors review the plan and prepare a written analysis of its effectiveness for the Board, including any recommendations for strengthening the plan. The Board shall review the independent auditors report and, based upon the recommendations in the report, make any necessary revisions to the internal audit plan.

- 8. Within 45 days of the effective date of this Order, management and the Board shall review the comments and deficiencies contained in the OTS examination report of October 19, 1992 ("1992 Exam Report"), regarding internal controls and policies and procedures, and shall implement corrective action for those deficiencies, including, but not limited to:
 - a. Reconciliation of the general ledger to the subsidiary ledgers.
 - b. Reconciliation of cash accounts and bank statements.
 - c. Protection of important documents.
 - d. Electronic data processing with respect to the following:
 - i. Lack of segregation of duties.
 - ii. System security and exception reporting.
 - iii. Contingency planning.
 - iv. End user computing.
 - v. Electronic data processing audit.

9. The Institution shall have its independent auditors review the efforts made by management to correct the items noted in Paragraph 8 above and present a written report to the Board indicating whether the internal control deficiencies have been corrected and whether the new written internal control policies and procedures are adequate. This written report also shall include any recommendations from the independent auditors to improve the internal control policies and procedures. The Board shall review the independent auditor's report and require management to make any necessary changes to the Institution's internal policies and procedures.
10. Within 45 days of the effective date of this Order, the Board shall develop, adopt and implement a policy governing demand deposit overdrafts to customers, employees, and affiliated persons of the Institution. This policy shall specifically comply with the requirements of Regulation O, 12 C.F.R. Part 215.
11. Within 45 days of the effective date of this Order, the Board shall review and amend the Institution's existing interest rate risk policies and procedures to comply with the requirements of 12 C.F.R. Sc 563.176 and the guidance of 12 C.F.R. Sc 571.3, and with OTS Thrift Bulletins 13, 13-1, and 13-2. In addition, the Board shall review the Institution's compliance with Board approved limits on interest rate risk exposure on a quarterly basis.
12. The Institution shall follow the guidance of OTS Thrift Bulletin ("TB") 52. Within 45 days of the effective date of this Order, the Board shall review and amend, as necessary, the Institution's policies and procedures to comply with the guidance of TB 52 and to require, at a minimum, that the Board review its investment policies at least annually.

Asset Quality

13. The Institution shall immediately increase its general valuation allowances to a minimum of \$195,000. The Institution shall thereafter maintain prudent general valuation allowances, considering the amount of criticized and classified assets, and the risk inherent in its loan and investment portfolio, pursuant to and in compliance with 12 C.F.R. Sc 563.160 and its own general valuation allowance policy. The Board shall review and assess the adequacy of the Institution's general valuation reserves on a quarterly basis and adjust them as necessary to address the risks inherent in the Institution's asset portfolio. The Institution shall not allow its general valuation allowances to fall below

\$195,000 without the prior written approval of the Regional Director.

14. Within 45 days of the effective date of this Order, the Board shall prepare a written loan collection plan that incorporates policies and procedures for the collection of loans. The plan shall specify the actions to be taken at specific points in the delinquent status of loans. The Board shall be responsible for management's compliance with the plan.
15. Within 45 days of the effective date of this Order, the Board shall develop, adopt and implement a new internal asset classification review plan. The new plan shall comply with 12 C.F.R. Sc 563.160 and the policy statements of 12 C.F.R. 571.26 and require internal asset review, quarterly self-classification of assets, and written classification of assets reports to the Board at least quarterly. The Board shall review the classifications, amend the classifications as needed, and enter a report on the classifications into the Board minutes.
16. The Institution shall not advance additional funds on delinquent loans without the prior written approval of the Regional Director.
17. The Institution shall comply with all of the requirements of 12 C.F.R. Part 564 regarding real estate appraisals.

CAPITAL

18. The Institution shall make no capital distributions without the prior written approval of the Regional Director.

OPERATIONS

19. Within 45 days of the effective date of this Order, management and the Board shall develop, adopt, and thereafter adhere to a plan to control non-interest operating expenses.
20. Within 45 days of the effective date of this Order, the Board shall develop, adopt and implement a policy requiring that all due but uncollected interest on loans that are over 90 days delinquent be placed on nonaccrual.

SUCCESSOR STATUTES, REGULATIONS, GUIDANCE, AMENDMENTS

21. Reference in this Order to provisions of statutes, regulations, and OTS Memoranda, bulletins and publications shall include references to all amendments to such provisions as have been made as of the date of this Order and references to successor provisions as they become applicable.

NOTICES

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

(i) The OTS by the Institution, 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 Regional Director, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree Street, Atlanta, Georgia 30309 or telecopied to (404) 888-5634 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

(ii) The Institution 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 to the Institution at 163 Barbosa Avenue, Catano Puerto Rico 00963 or telecopied to (809) 788-4095 and confirmed by first class mail, postage prepaid, overnight service or physically delivered, in each case to the above address.

b. Notices 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 Order, 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.

DURATION, TERMINATION OR SUSPENSION OF ORDER

23. a. The provisions of this Order shall become effective on the date it is issued, as shown in the caption above, and shall remain in effect until terminated, modified or suspended in writing by the OTS, acting through the Regional Director.

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

EFFECT OF HEADINGS

24. The section headings used in this Order are for convenience of reference only and are not to affect the construction of or be taken into consideration in the interpretation of this Order.

SEPARABILITY CLAUSE

25. In the event any provision of this 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 sole discretion determines otherwise.

NO VIOLATIONS OF LAW, RULE, REGULATION OR
POLICY STATEMENT AUTHORIZED; OTS NOT RESTRICTED

26. Nothing in this Order shall be construed as: (i) allowing the Institution 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 that it believes is appropriate in fulfilling the responsibilities placed upon it by law.

SUCCESSORS IN INTEREST/BENEFIT

27. The terms and provisions of this Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Order, 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 hereunder, any benefit or any legal or equitable right, remedy or claim under this Order.

DIRECTOR RESPONSIBILITY

28. Although the Board is by this Order required to submit certain proposed actions and programs for the review or approval of the Regional Director, the Board has the ultimate responsibility for proper and sound management of Catano Federal.

