

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	
UNITED NORTHERN FEDERAL SAVINGS BANK)	RE: Resolution No. PIT 92-2
Watertown, New York)	
_____)	Dated: January 23, 1992

STIPULATION AND CONSENT TO
ISSUANCE OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its Enforcement Review Committee ("ERC"), and UNITED NORTHERN FEDERAL SAVINGS BANK, Watertown, New York ("UNITED") stipulate and agree as follows:

1. Consideration. The OTS, based upon information reported to it, is of the opinion that the grounds exist to initiate an administrative cease and desist proceeding against UNITED pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA") (to be codified at 12 U.S.C. § 1818(b)). UNITED desires to cooperate with the OTS and to avoid the time and expense of such administrative litigation 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 litigation against UNITED with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) UNITED is a "savings association" within the meaning of Section 3 of the FDIA and Section 2 of the Home Owners' Loan Act of 1933, as amended by FIRREA. Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1813(c)).

(b) Pursuant to Section 3 of the FDIA, as amended by FIRREA, the Director of OTS is the "appropriate Federal Banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, UNITED is subject to the authority of the OTS to initiate and maintain a cease and desist proceeding against it pursuant to Section 8(b) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(b)).

3. Consent. UNITED consents to the issuance by the OTS of the Order. It further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.

4. Finality. The Order is issued under Section 8(b) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(b)). Upon its issuance by the ERC, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(i)).

5. Waivers. UNITED waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(b)), and further waives any right to

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UNITED NORTHERN FEDERAL SAVINGS BANK)

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RE: Resolution No. PIT 92-2

Dated: January 23, 1992

ORDER TO CEASE AND DESIST

WHEREAS, UNITED NORTHERN FEDERAL SAVINGS BANK, Watertown, New York ("UNITED") through its directors has executed a Stipulation and Consent to Issuance of Order to Cease and Desist, which is incorporated herein by reference ("Stipulation"), and is accepted and approved by the Office of Thrift Supervision ("OTS"), acting through its Enforcement Review Committee; and

WHEREAS, UNITED 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, as amended by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA") (to be codified at 12 U.S.C. § 1818(b)).

NOW THEREFORE, IT IS ORDERED that UNITED and its directors, officers, employees, agents and service corporations shall cease and desist from any violation of, or the aiding and abetting of any violation of:

- (i) Section 563.170(c)(1)(i) (loan applications) of the Rules and Regulations of the Office of Thrift Supervision ("OTS Regulations") (12 C.F.R. § 563.170[c][1][i]);
- (ii) Section 563.170(c)(1)(iv) (appraisals) of the OTS Regulations (12 C.F.R. § 563.170[c][1][iv]);
- (iii) Section 563.170(c)(1)(v) (financial statements, credit reports) of the OTS Regulations (12 C.F.R. § 563.170[c][1][v]).
- (iv) Section 563.170(c)(1)(vi) (approval documentation) of the OTS Regulation (12 C.F.R. § 563.170[c][1][vi]);
- (v) Section 563.170(c)(1)(viii) (disbursement documentation) of the OTS Regulations (12 C.F.R. § 563.170[c][1][viii]);
- (vi) Section 563.93 (lending limitations) of the OTS Regulations (12 C.F.R. § 563.93);
- (vii) Section 564.4 (appraisal standards) of the OTS Regulations (12 C.F.R. § 564.4);
- (viii) Section 564.8(c) (approved appraisers) of the OTS Regulations (12 C.F.R. § 564.8);
- (ix) Section 564.8(c)(3) (appraiser review) of the OTS Regulations (12 C.F.R. § 564.8[c][3]);
- (x) Section 563.39(a) (contract approval) of the OTS Regulations (12 C.F.R. § 563.39[a]);
- (xi) Section 561.13 (consumer credit classified as loss) of the OTS Regulations (12 C.F.R. § 561.13).

IT IS FURTHER ORDERED THAT:

1. United's Board of Directors shall actively fulfill its fiduciary responsibilities that United is safely and soundly managed. To this end, the Board shall effectively oversee the institution's affairs by attending directors' meetings; establish adequate policies and procedures upon which management is to operate the institution; and develop an organizational structure which provides for management development and delegation of authority. Furthermore, the official minutes of all Board and committee meetings shall clearly and accurately reflect the level of supervision exercised over management by the Board, shall attest to the Board's active involvement, and shall include a record of deliberations.

2. Within ninety (90) days of the effective date of this agreement, United's Board shall develop, adopt, and file with the Regional Deputy Director of the Office of Thrift Supervision/Pittsburgh District ("RDD"), a plan for assessing the institution's management ("Management Plan"). The Management Plan shall include an accurate assessment and performance evaluation of the senior management of United and will include the following:
 - an evaluation of organizational structure and current lines of authority, reporting responsibilities, and delegation of duties for all senior officers, including the need for a full-time executive officer in Watertown;

- the development of a written job description for each senior officer;
- adequacy of management depth for the scope of operations;
- qualification of each member of United's senior officer staff to perform assigned duties;
- adequacy of United's management to correct deficiencies outlined in the August 12, 1991 Report of Examination ("ROE");
- an evaluation of the performance of each senior officer of United with a conclusion reached as to the adequacy of the officer's performance;
- adequacy of the lending staff in the areas of loan review, loan administration and monitoring, and credit analysis;
- Implementation strategy to address each deficiency noted, including timeframes;
- Major goals and strategies for strengthening and enhancing management, especially in the areas of internal loan review, loan administration and monitoring, and credit analysis;
- Identification of corrective actions to address the management and board deficiencies outlined in the August 12, 1991 ROE; and

- Major goals, strategies, and timeframes for enhancing board oversight of management activities.

It shall remain the responsibility of the Board to fully implement the Management Plan within specified timeframes.

For purposes of the ORDER, the terms "senior management" and "senior officer" are defined as an officer of the institution not more junior than vice president.

- 3) United shall, within sixty (60) days of the effective date of this ORDER submit to the RDD a strategic plan to reduce criticized assets to a level commensurate with its peers. The plan shall, at a minimum, address the Board of Director's strategy to minimize future losses, control further deterioration in the institution's asset quality, and reduce criticized assets to a safe and sound level.

Furthermore, a senior officer shall be appointed by the Board to review on a quarterly basis the institution's compliance with this strategic plan and report any deviations therefrom directly to the Board of Directors.

- 4) United shall immediately establish appropriate general valuation allowances ("GVAs") for the consolidated institution in the amount of \$633,000 and specifically reserve or charge off the balance of assets classified loss of \$101,000.

- 5) United shall, within thirty (30) days of the effective date of this ORDER, submit to the RDD a revised internal asset classification Asset Review policy, inclusive of general valuation allowances, addressing the deficiencies enumerated on page 18 of the ROE.

- 6) United agrees to immediately cease to make or commit to make, purchase or commit to purchase, refinance or commit to refinance, the following types of lending, until otherwise directed in writing by the RDD:
 - a) Loans for the acquisition and/or development of land;

 - b) Loans for the acquisition, development, and construction of one-to-four family residential subdivisions;

 - c) Unsecured acquisition, development, and construction lines of credit;

 - d) Construction loans other than on properties expected to be secured by owner occupied one-to-four family residential dwellings not to exceed \$400,000 to any one borrower, provided appropriate underwriting is performed and documentation is obtained;

 - e) Loans secured by residential real estate containing five or more dwelling units; and

 - f) Loans to stockholders.

The prohibitions noted above will not apply to legally binding commitments in effect upon the date(s) of the institution's receipt of notice from OTS. No additional disbursements shall be made on any legally binding commitments unless the disbursements are specifically approved by the Board. Said prohibitions will also not apply to loans made to new borrowers to finance the workout of pre-existing loans or the sale of real estate owned, provided that the RDD takes no objection regarding the proposed financing.

The aforementioned lending prohibitions shall remain in effect until, to the extent not already completed:

(a) Board approved underwriting policies and procedures are developed detailing specific criteria for the origination and administration of loans for the acquisition and/or development of land, ADC loans, construction loans other than owner occupied one-to-four family residential mortgage loans, and loans secured by residential real estate containing five or more dwelling units. At a minimum, these policies and procedures shall address the guidance set forth in Section 213 of the OTS Thrift Activities Handbook and provide for:

- disbursement procedures to require that all advances are used solely for the completion of improvements, or interest reserves, on the subject property; and are based on inspection reports documenting that the work for which each disbursement is sought has been completed by the borrower;

- the rotation of inspectors; and

 - a detailed analysis evaluating whether the borrower has adequately managed its financial affairs in the past, has successful experience with similar real estate properties, and has the financial strength and capacity to service and repay the loan.
- (b) Board approved underwriting policies for loans to stockholders are developed indicating the specific types of loan products that will be offered and that these loans will be granted on the same terms and conditions as are available to the general public. The policy shall provide for the documentation requirements specified in 12 C.F.R. Sections 563.170(c)(1) and (2), along with an analysis of the borrower's ability to repay.
- (c) The board has appointed a qualified officer to review the appraisals on each of the prohibited types of loans, for compliance with the institution's revised appraisal policies and regulatory requirements. Evidence of this appraisal review must be included in United's loan files.
- (d) The board has implemented the recommendations of the Management Plan developed pursuant to Provision No. 2.

- (e) The missing borrower financial statements, credit reports, and other documentation identified on pages 15 and 16 of the ROE are obtained.
 - (f) Provision for the semiannual review of management's compliance with the above policies and procedures is incorporated into the internal audit program. The auditor's findings must be recorded in the board minutes.
 - (g) Specific OTS approval is obtained to resume the prohibited types of lending.
- 7) United shall comply in all respects with the limitations on loans-to-one borrower as set forth in 12 C.F.R. Section § 563.93 and shall develop and implement such procedures as are necessary to ensure compliance with the regulations. Within thirty (30) days of the effective date of this ORDER, United shall develop an accurate and comprehensive borrower liability ledger. Such ledger shall accurately record total borrower liability in all loan/credit areas of the Institution and shall include both direct liability (whether as maker, co-maker, partner, or any other type of direct liability) and contingent liabilities (as endorser, guarantor and any other type of contingent liability). Such ledger shall be maintained in a current, accurate and comprehensive status for all borrowers with other than 1 to 4 family owner-occupied residential loans and consumer installment credit. The Institution shall also adopt a review

process to ascertain that paying overdrafts does not lead to violations of the limitations on loans to one borrower. Board certification of compliance with the loans-to-one borrower limitations shall be required for all new and additional loans with aggregate balances in excess of \$500,000.

- 8) United shall immediately correct the mortgage banking policy, recordkeeping, and reporting deficiencies noted on pages 21 and 22 of the ROE.
- 9) Within sixty (60) days of the effective date of this ORDER, the Board of United shall provide the RDD with a written program addressing the corrective actions implemented to address the regulatory violations listed on page A - 2.1 of the ROE.
- 10) United shall within sixty (60) days of the effective date of this ORDER submit to the RDD a copy of a Board approved program to improve the institution's capital position and ensure compliance with the fully phased in capital requirements by June 30, 1993. The program shall also address the phase out of goodwill and indicate growth targets and limits established by the Board for the time period covered by the program. Growth of the institution shall be limited to single-family (non-tract) lending.

- 11) Within sixty (60) days of the effective date of this ORDER United shall submit to the RDD a detailed business plan setting forth the institution's strategies to increase United's net interest margin, reduce and control operating expenses, and improve the institution's overall profitability. The business plan shall include budget assumptions and proforma financial statements, and shall be developed in conjunction with the board's program to improve the institution's capital position required in Provision No. 10, the interest rate risk management plan required in Provision No. 13 and the strategic plan developed to reduce criticized assets required in Provision No. 3.

- 12) On a quarterly basis within forty-five (45) days of the close of each quarter after the effective date of this ORDER the board shall file with the RDD a written analysis of the institution's operating results for the quarter just ended and year to date. Such analysis shall include a comparison of actual operating results against the projections in the institution's budget. A written explanation of any material deviation in the projections shall be provided, along with a description of the measures implemented to correct, abate, or improve such deviation.

- 13) Within sixty (60) days the Board shall develop a plan to reduce and control the institution's level of interest rate risk in order to maintain adequate levels of earnings and capital for the institution. Furthermore, on a quarterly basis, the Board shall file with the RDD, a written report documenting its review of the institution's level of interest rate risk

for the quarter just ended. Such a report shall include the information enumerated in the institution's Board approved interest rate risk management policy, along with a detailed explanation of the reasons for any deviation from the aforementioned plan.

- 14) The adequacy of and compliance with the various policies and procedures required to be submitted to the RDD by this ORDER, as well as overall compliance with this ORDER shall be determined by the RDD in conjunction with the next examination as well as future examinations of United.

All technical words or terms used in this ORDER, for which meanings are not specified or otherwise provided by the provisions of this ORDER, shall insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, Home Owners' Loan Act of 1933 ("HOLA"), and Federal Deposit Act ("FDIA"), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"). Any such technical words or terms used in this ORDER and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Thrift Activities Handbook shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

The terms and provisions of the ORDER shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

Upon a written request by United which demonstrates just cause, the timeframes for the submission of policies and procedures and other required documents, as prescribed within this ORDER, may be extended by the approval of the RDD or his designee.

Nothing contained herein shall prevent the OTS from taking, or its successors in interest from recommending or taking, such further supervisory action as is deemed appropriate under given circumstances, with regard to the foregoing or otherwise.

This ORDER shall remain in effect until terminated as an ORDER by the OTS acting through its RDD. Additionally, the RDD may, in his discretion, waive, suspend or terminate any or all of such provisions of the ORDER during the term of the ORDER.

OFFICE OF THRIFT SUPERVISION

By: _____ /S/ _____

Regional Deputy Director