

In the Matter of)
Lehigh Savings Bank, SLA)
) Re: Northeast Regional Direct
) Resolution No. NE92-76
)
Union, New Jersey)
) Dated: July 29, 1992
)

The Office of Thrift Supervision ("OTS"), by and through its Regional Director for the Northeast Regional Office, OTS, and Lehigh Savings Bank, SLA, Union, New Jersey (the "Association") stipulate and agree as follows:

2. Jurisdiction.

(b) Pursuant to Section 3 of the FDIA, the Director of OTS is the "appropriate federal banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, the Association 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, 12 U.S.C. § 1818(b).

3. Consent. The Association 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. Upon its issuance by the Regional Director for the Northeast Regional Office of the OTS, 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. § 1818(i).

5. Waivers. The Association waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, and further waives any right to seek judicial review of the Order, including any such right provided by Section 8(h) of the FDIA, 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order.

7. Signature of Directors. Each Director signing this Stipulation attests that s/he voted positively in favor of the resolution authorizing the execution of the Stipulation.

WHEREFORE, in consideration of the foregoing, the OTS, by and through its Regional Director for the Northeast Regional Office of the OTS, and the Association, by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

OFFICE OF THRIFT SUPERVISION

By: /S/
Angelo A. Vigna
Regional Director
Northeast Regional Office

Lehigh Savings Bank, SLA
By its CEO and Directors:

/S/

CEO:

/S/

Director:

/S/

Director:

/S/

Director:

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Director:

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Director:

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Director:

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Director:

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)
)
LEHIGH SAVINGS BANK, SLA)
Union, New Jersey)
)
and its Directors, Officers,)
Employees, and Affiliates)
)

Re: Northeast Regional Director
Resolution No. NY-92-76
Dated: July 29, 1992

CEASE-AND-DESIST ORDER

WHEREAS, Lehigh Savings Bank, SLA (the "Association"), Union, New Jersey, through its board of directors (the " Board") and each individual member of its Board (each "Director") have executed a Stipulation and Consent to Issuance of Order to Cease and Desist (the "Stipulation"), which is incorporated herein by reference and is accepted and approved by the Office of Thrift Supervision ("OTS"), an office within the United States Department of the Treasury, acting through its Regional Office as of the date described in Section 21 hereof (the "Effective Date"); and

WHEREAS, the Association, by execution of 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. § 1818(b).

NOW THEREFORE, IT IS ORDERED that the Association and its Directors, Officers, employees, and agents shall cease and desist from any violation of, or the aiding and abetting of any violation of:

COMPLIANCE WITH LAWS AND REGULATIONS

1. Compliance with Laws and Regulations

The Association shall comply with the following Federal laws and regulations:

- (a) Section 563.160 of the OTS Regulations, 12 C.F.R. § 563.160 (regarding classification of assets);
- (b) Section 563.176 of the OTS Regulations, 12 C.F.R. § 563.176 (regarding interest rate risk management policy requirements);
- (c) Section 564 of the OTS Regulations, 12 C.F.R. § 564 (regarding appraisals); and
- (d) Section 563.172 of the OTS Regulations, 12 C.F.R. § 564 (regarding appraisals for real estate owned or in connection with in-substance foreclosure).

OPERATING REQUIREMENTS AND RESTRICTIONS

2. Internal Loan Review

- (a) Within 30 days of the Effective Date of this Order, the Association shall adopt and implement a comprehensive Internal Loan Review Policy (the "ILR Policy"), that ensures: (i) the appropriate classification of assets, (ii) the proper reporting of the level of asset classifications, (iii) that the Association will provide adequate valuation allowances, and (iv) that loans secured by real estate are evaluated as to whether each such loan should be deemed and accounted for as an in-substance foreclosure.
- (b) Within 30 days of the Effective Date of this Order, the Association will (1) name a management official responsible for carrying out the ILR Policy that: (i) is independent of the lending function and (ii) reports directly to the Board or (2) select a qualified independent auditor or consultant responsible for carrying out the ILR Policy that reports directly to the Board. Such management official, auditor or consultant shall implement the ILR policy in order to facilitate the timely identification of negative trends or developments regarding the Association's loans and investments in order to classify assets properly and to initiate corrective action.
- (c) Within 30 days of the Effective Date of this Order and within 30 days after the end of each calendar quarter, the Board shall provide OTS with a corporate resolution certifying that the Board has reviewed and determined that the level of general valuation allowances ("GVAs") and specific valuation allowances ("SVAs") reported on Schedule VA of the quarterly Thrift Financial Report

("TFR") appropriately reflect the level of current and anticipated credit exposure in the Association's portfolio. The Board shall consider and attach to the corporate resolution:

- (i) a listing of all assets classified in the most recent OTS Report of Examination and/or identified internally as a "classified asset" as reported on Schedule TA of the TFR, including for each asset: (A) the loan or other identification number, (B) the borrower or title of the asset, (C) the Association's recorded investment (i.e. principle balance, plus accrued interest, plus or minus related discounts or premiums), (D) the amount classified as special mention, substandard, doubtful or loss, (E) SVAs established against the asset and (F) the carrying amount of the asset (recorded investment minus loss allowances); and
- (ii) an analysis of the adequacy of the Association's GVAs prepared by the Association's management.

3. General Valuation Allowance Level

Within 5 days of the Effective Date of this Order, if it has not already done so, the Association shall increase its GVAs to at least \$364,000.

4. Interest Rate Risk

(a) Within 30 days of the Effective Date of this Order, the Association shall adopt and implement an interest rate risk policy consistent with 12 C.F.R. 563.176 and Thrift Bulletins 13, 13-1, 13-2, 52 and 52-1.

(b) The policy also shall include the following items:

- (i) a requirement that a strategy and plan that serves to reduce the Association's exposure to interest rate risk be developed, approved by the Board, implemented and submitted to the Regional Director for review;
- (ii) explicit limits on the Association's exposure to interest rate risk;
- (iii) a limit on the maximum potential reduction in the Association's net interest margin, net earnings and market value of portfolio equity as a result of possible changes in market interest rates;
- (iv) authorized and unauthorized investments for the management of interest rate risk; and
- (v) specific procedures to ensure compliance with such policy including the establishment of an interest rate risk management plan.

(c) The interest rate risk management plan referred to in subsection (b)(vi) of this Section 3 shall require that the Board review the Association's exposure to interest rate risk on at least a monthly basis and to submit to the OTS the minutes in connection with each such Board meeting at which the Association's interest rate risk is reviewed.

(d) (i) Within 5 days of the Effective Date of this Order, the Board shall submit a detailed list and description of each of the mortgage-derivative securities owned by the Association, including but not limited to all high-risk mortgage securities as defined in Section III of Thrift Bulletin 52. At a minimum, the information should include for each security the date of purchase, purchase price, confirmation receipts, market value quotations as of the date of this Order from at least two market sources and a narrative review and analysis of the security and how each security serves to reduce the Association's interest rate risk.

(ii) In the event that the OTS determines that the mortgage-derivative securities owned by the Association do not reduce the interest rate risk of the Association or otherwise present issues of safety and soundness for the Association, upon the receipt of written notice from the OTS, the Association will commence the orderly divestiture of all or any portion of its mortgage-derivative securities portfolio in accordance with the instructions set forth by the OTS in such notice.

(e) The Association must account for all its high risk mortgage-derivative securities held for sale at the lesser of cost or market. See Thrift Bulletin 52, § III.

5. Appraisals

Within 30 days of the Effective Date of this Order, the Association shall adopt and implement an appraisal policy consistent with Part 564 of the OTS Regulations, 12 C.F.R. § 564. In addition, in accordance with Section 563.172 of the OTS Regulations, the Association must obtain new appraisals at the time an asset becomes either real estate owned or is deemed to be in in-substance foreclosure.

6. Asset Growth

The Association shall not without the prior written notification of approval by the Regional Director, increase its Total Assets during any quarter in excess of the amount equal to net interest credited on deposit liabilities during the quarter and otherwise shall abide by any applicable OTS policy restrictions on growth, including Regulatory Bulletin 3a-1. For purposes of Regulatory 3a-1, the OTS hereby identifies the Association as "in need of more than normal supervision." For purposes of this Section 5,

Total Assets shall be measured at the end of each calendar quarter by comparing Total Assets at the end of the most recent calendar quarter against the Total Assets as of the end of the calendar quarter immediately preceding the most recent calendar quarter. The Regional Director reserves the right to determine that the Association is growing in an unsafe and unsound manner between measurement dates and to take appropriate action to restrict such growth.

7. Employment Contracts

The Association shall comply with the restrictions set forth in Regulatory Bulletin 27. In accordance with Regulatory Bulletin 27, the Association shall submit to the Regional Director for his prior approval, all employment contracts for senior executive officers and directors.

8. Changing Officers and Directors

The Association shall comply with the requirements and procedures set forth in Section 32 of the FDIA and OTS Thrift Bulletin 45. In accordance with Section 32 of the FDIA and Thrift Bulletin 45, the Association shall notify the OTS prior to adding directors or hiring senior executive officers.

9. No Declaration of Dividends

Unless the OTS provides its prior written approval, the Board shall not authorize and the Association shall not make any "capital distribution" as that term is defined in subsection 563.134(a)(1).

BOARD RESPONSIBILITIES

10. Fiduciary Duty to the Association

(a) Notwithstanding that certain provisions of this Order require the Board to submit various matters to the Regional Director for the purpose of receiving approval, notice of acceptability or non-objection, such regulatory oversight does not derogate or supplant the fiduciary duties owed by the Directors. The Board, at all times, shall have the ultimate responsibility for overseeing the safe and sound operation of the Association.

(b) In connection with its oversight of the Association, the Board shall, at a minimum, obtain and consider all applicable information suggested in the Director Information Guidelines, published by the OTS in December 1989.

11. Board Review of Compliance With This Order

(a) The Board shall take prompt action to cause the Association to fully comply with this Order.

(b) Each month, the Board shall adopt a formal resolution (the "Compliance Resolution") 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 month, the Association has complied with each provision of this Order currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist; and (ii) identify all notices of exemption or other exceptions issued by the Regional Director that were outstanding as of the date of the Compliance Resolution. No later than three Business Days after each monthly meeting of the Board, the Association shall provide to the Regional Director a certified true copy of the Compliance Resolution. 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 to the accuracy of the statements set forth in each Compliance Resolution. 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 meeting.

(c) The minutes of the monthly meeting of the Board (including meetings of any committees thereof) 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; (ii) the identity of each director voting in opposition to its adoption; and (iii) the identity of each director abstaining from voting thereon.

MISCELLANEOUS PROVISIONS

12. Incorporation of Stipulation

The Stipulation is made a part hereof and is incorporated herein by this reference.

13. Definitions

For all purposes of this Order, except as otherwise expressly provided or unless the context otherwise requires: (i) the terms used in this Order have the meanings assigned to them in this Section 9 and include the plural as well as the singular; (ii) 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; (iii) all terms not otherwise defined herein that are defined in the HOLA, the FDIA, FIRREA, 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 (iv) all technical words or terms not subject to a definition in this Order shall have the meanings that accord with the best custom and usage in the thrift and banking

industries.

"Advisory Memoranda" refers to inter alia, R Memoranda and T Memoranda issued by the staff (or agents) of the OTS (or its predecessors in interest).

"Affiliate" shall have the meaning set forth in subsection 563.41(b)(1) of the OTS Regulations, 12 C.F.R. § 563.41(b)(1).

"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.

"Bulletins" refers to, inter alia, Regulatory Bulletins, Thrift Bulletins, and PA Bulletins, issued by the staff (or agents) of the OTS (or its predecessors in interest).

"Business Day" means any weekday excluding Federal holidays.

"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).

"Security or Securities" shall have the meaning set forth in Section 561.44 of the OTS Regulations, 12 C.F.R. § 561.44.

"Subsidiary" or "subsidiaries" shall have the meaning set forth in Section 567.1(dd) of OTS Regulations, and subsidiaries of such entities.

"Total Assets" shall have the meaning set forth in Section 567.1(ff) of OTS Regulations, 12 C.F.R. § 567.1(ff).

14. Successor Statutes, Regulations, Guidance, Amendments

References in this Order 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.

15. Notices

(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 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 Regional Director, Office of Thrift Supervision, Department of the Treasury, 10 Exchange Place, Jersey City NJ 07302 or telecopied to 201-413-7543 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

(ii) 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 952 Stuyvesant Avenue, Union NJ 07083 or telecopied to _____ and confirmed by first class mail, postage prepaid, overnight delivery 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 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.

16. Effect of Headings

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

17. Separability Clause

In case any provision in 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.

18. 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.

19. Successors in Interest/Benefit

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.

20. Effect on Existing Supervisory Directives

Nothing contained in this Order should be construed to supersede any agreements or understandings between the OTS and the Association, including without limitation the supervisory directives dated April 4, 1991, June 6, 1991 and October 4, 1991 from the OTS to the Association. To the extent that any conflict exists between any provision of this Order and any such agreement or understanding, then the more restrictive provision of any such agreement or understanding or this Order, as the case may be, shall prevail.

21. Effective Date of Order.

The Order is effective and enforceable immediately upon the date of its issuance by the OTS ("Effective Date"), which date is set forth below.

IT IS SO ORDERED on this 29th day of July, 1992.

THE OFFICE OF THRIFT SUPERVISION
By:

/s/
Angelo A. Vigna
Regional Director, Northeast Region