

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In The Matter Of:

COLONIAL BANK
Cranston, Rhode Island

OTS No. 08404

Re: Resolution No. Bos. 91-1
Date: January 30, 1991

STIPULATION AND CONSENT TO ISSUANCE
OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its District Director for the Boston District Office ("District Director"), and Colonial Bank, Cranston, Rhode Island ("Colonial" or the "Institution"), stipulate and agree as follows:

1. Consideration. The OTS, based upon information reported to it, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against Colonial pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. 1818(b). Colonial desires to cooperate with the OTS and to avoid the time and expense of such administrative proceedings or 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 proceedings or litigation against Colonial

with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction. Colonial is a "savings association" within the meaning of Section 3(b) of the FDIA, 12 U.S.C. 1813(b) and Section 2(4) of the Home Owners' Loan Act, 12 U.S.C. 1462(4). Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c)(2) of the FDIA, 12 U.S.C. 1813(c)(2). Pursuant to Section 3(q)(4) of the FDIA, 12 U.S.C. 1813(q)(4), the Director of OTS is the "appropriate Federal banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, Colonial 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. Colonial 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, 12 U.S.C. 1818(b). Upon its issuance by the OTS, it shall be a final order, effective and fully enforceable by the OTS under Section 8(i) of the FDIA, U.S.C. 1818(i).

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

otherwise to challenge the validity of the Order.

WHEREFORE, in consideration of the foregoing, the OTS and Colonial by a majority of its board of directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

OFFICE OF THIRIFT SUPERVISION

By:

/S/

~~Ralph W. Gridley~~
District Director
Boston District Office

COLONIAL BANK

By a majority of its
Board of Directors:

/S/

Theodore F.
di Stefano

/S/

Mary Santo
Lima

/S/

Spencer J. Mart:

/S/

Robert J. Lamendola

/S/

Richard J. Hayes

/S/

Donald A. Lopes

/S/

Diane M. Farrar

/S/

Alan Weiss

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Re: Resolution No. Bos. 91-1
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ORDER TO CEASE AND DESIST

WHEREAS, Colonial Bank, Cranston, Rhode Island ("Colonial" or the "Institution") through its Board of 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 acting through its District Director for the Boston District Office ("District Director"); and

WHEREAS, the Institution, 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, 12 U.S.C. 1818(b) ("FDIA");

NOW THEREFORE, IT IS ORDERED THAT:

I. Lending to Borrowers with Classified Loans

Colonial shall not knowingly extend credit, directly to or indirectly, or for the benefit of any borrower who has a loan or other extension of credit with the Institution that has been

charged off or classified, in whole or in part, "Loss," "Doubtful," or "Substandard" in the OTS Report of Examination dated October 1, 1990 ("ROE") and is uncollected unless a majority of the Institution's Board of Directors first (1) determines that such advance is in the best interest of the Institution, and (2) gives approval for such advance individually or by approving a schedule or project budget with which the advance is consistent. A written record of the Board of Directors' determination and approval of any advance under the terms of this Paragraph I shall be maintained in the credit file of the affected borrower(s) as well as the minutes of the Board of Directors. The requirements of this Paragraph I do not prohibit the Institution from renewing any credit already extended to a borrower.

II. Capitalization of Delinquent Interest

No interest payments on loans or extensions of credit shall be made from proceeds of new loans or extensions of credit unless the income to the Institution is offset by a corresponding credit to a deferred income account or valuation reserve. The net effect of such transaction shall be defer income recognition until received in cash. Any request to loan funds or extend credit to make interest payments on other loans or extensions of credit shall be based on full written disclosure to, and require the prior written affirmative approval by the Board of Directors. Each request shall include: (1) the number and principal amounts of all credit outstanding to the borrower(s) and affiliates of the borrower(s); (2) the last date upon which payment was made and next date payment is due on each loan to such borrower; (3) the reason that the

borrower was unable to make the required interest payment from conventional sources; and (4) a full explanation of how the Institution's position has been improved by additional collateral. This disclosure and a record of the votes of each Director shall become part of the Board of Directors' minutes.

III. Report of Past Due Loans

All loans and extensions of credit of a principal balance of \$10,000 or greater that become past due shall be reported in writing to the Board of Directors. For purposes of this Order, "past due" shall mean:

1. For demand loans, 15 days after any interest payment is due but not received;
2. For single payment time loans, the next day following the contractual maturity; and
3. For installment loans, 31 days after any interest payment is due but not received.

Full payment of principal and interest must be received from the borrower in order to reduce or eliminate past due status. Partial payments will not change past due status. For purposes of this Order, each past due loan shall be reported by type of loan, loan number(s), principal balance, the date payment was due, the reason for the delinquency, if known, and the status of collection efforts. All such reports shall be made as of the last business day of each month and shall be reconciled with the Thrift Financial Reports ("TFR") filed with the OTS. Payment received between the first day of a given month and next Board meeting shall not effect past due status for purposes of reports to the Board for that

month. Each such report to the Board shall become part of the Board of Directors' minutes.

IV. Lending Policy

A. Within sixty (60) days from the effective date of this Order, Colonial shall revise its written loan policy to include, at a minimum: (1) the individual lending authority of each loan officer; (2) the lending authority of a loan or executive committee, if any; (3) the responsibility of the Board of Directors in reviewing, ratifying and approving loans, extensions or modifications; (4) the maintenance and review of complete and current credit files on each borrower and property; (5) provision addressing the capitalization of unpaid interest, taxes, insurance and extension and legal fees on loans, extensions and modifications; (6) procedures for designating non-accrual loans; (7) procedures for identifying, supervising, and collecting problem loans; and (8) a periodic review of the overdue, problems and/or adversely classified or special mentions loans by the Board of Directors, independent of Senior Management, to monitor management's administration of such distressed credits, and to provide guidance. The Board of Directors shall approve the revised written loan policy, and such approval shall be recorded in the minutes of the Board of Directors. Subsequent material modifications to the revised written loan policy shall require notification to the District Director.

B. For every loan renewal, extension of credit, or modification of terms to an existing borrower, written documentation shall be provided indicating: (1) the approving

official(s) of the Institution; (2) date of the transaction; (3) the new maturity date, new principal balance, interest rate, terms of the transaction, and reason for the renewal, extension of credit or modification. Each such renewal, extension or modification shall be affirmatively approved in writing by an appropriate committee designated by the Board, except that all loans, extensions, modifications or renewals to any borrower who, individually or with his/her affiliated interest, has aggregate outstanding credit of \$100,000 or more shall require the affirmative written approval of the Board of Directors. Each request to the Board for any new or modified credit agreement shall include full written disclosure including: (1) the number of loans currently outstanding to the applicable borrowers, including, but not limited to, loans, lines of credit, overdrafts, cash items, and any other extension of credit of any kind whatsoever; (2) the principal amount of each loan outstanding to such borrower; (3) the last date payment was received on each loan; (4) the next date payment is due on each loan; and (5) the reason and purpose for the current request. Each loan extension or modification that alters original terms of the loan shall be accurately reported as "Troubled Debt Restructuring" in accordance with Generally Accepted Accounting Principals and reported in the appropriate section of the TFR submitted to the OTS.

C. Colonial shall make no loans in excess of the amounts permitted by 12 U.S.C. 84 and 12 C.F.R. 563.93 regarding loans to one borrower. Further, Colonial shall review its loan portfolio to identify any loans currently in excess of said limitations, and,

within sixty (60) days of the effective date of this Order, develop a written policy to bring any loans or extensions of credit in excess of said limitations to within the applicable limitations.

V. Appraisals

A. Colonial shall make no loans without obtaining an appraisal report complying with the requirements of 12 C.F.R. Part 564. A market value appraisal shall be obtained for any property that the Institution acquires through or as a result of foreclosure, deed in lieu of foreclosure, or "in substance" foreclosure ("real estate owned" or "REO"), as required by 12 C.F.R. 563.172(a).

B. Within sixty (60) days from the effective date of this Order, Colonial shall revise its appraisal policy to include, at a minimum: (1) a requirement that a market value appraisal be obtained pursuant to 12 C.F.R. 563.170(c)(1)(iv) prior to granting or purchasing any loan or extension of credit; (2) a requirement that all appraisal reports comply with the requirements of 12 C.F.R. Part 564; (3) the guidelines for obtaining appraisals on all types of properties on which the Institution extends credit; (4) specific procedures for management to follow in reviewing appraisals for content and compliance with regulatory and internal requirements; (5) the responsibility of the Board of Directors to review, ratify and approve appraisers on at least an annual basis; and (6) the Board review and approval process for appraisers, which shall provide detailed documentation supporting conclusions reached and shall become part of the Board of Directors' minutes.

VI. Asset Classification and Loss Reserves

Within thirty (30) days of the effective date of this Order, Colonial shall charge off or establish specific reserves for all assets classified "Loss" in the ROE, and shall establish a General Loss Reserve of \$3.4 million. The institution shall review its assets for potential classification and its General Loss Reserve for adequacy on at least a quarterly basis. Such reviews shall be documented within Board minutes.

VII. Conflict of Interest Policy

Within thirty (30) days of the effective date of this Order, Colonial shall adopt a written Conflict of Interest Policy (the "Conflicts Policy") to address disclosure requirements regarding interactions and relationships that may involve potential conflicts of interest. The policy shall require compliance with the provisions of 12 C.F.R. 563.41 and 563.43, as interpreted and clarified by the OTS policy statement regarding conflicts of interest, 12 C.F.R. 571.7, as well as Sections 23A, 23B, and 22(h) of the Federal Reserve Act, 12 U.S.C. 371, 371c-1, and 375b, and shall be developed or caused to be developed by a committee of outside directors as approved by the District Director. The Conflicts Policy shall provide for an annual statement from all management of the level of Vice President and higher and all Board members certifying their compliance with the Policy. The Conflicts Policy shall be subject to the approval of the District Director.

VIII. Bonus and Compensation Policy

A. Within thirty (30) days of the effective date of this Order, Colonial shall adopt a written Bonus and Compensation Policy

to address the determination of bonus and compensation payments to Institution personnel. The Bonus and Compensation Policy shall include, but not be limited to, a requirement of affirmative written approval by the Board of Directors of all salaries and bonuses to Institution personnel. The Policy shall specify any and all persons who receive compensation from the Institution and provide for the maintenance of appropriate records to verify such compensation. In addition, the Bonus and Compensation Policy shall specify all Institution personnel who may receive an annual bonus, and provide that all bonuses be based on established quantifiable goals and objectives set forth in the Institution's Board approved business plan. The Policy shall provide for affirmative written approval by the Board of such bonuses and include provisions for the method and timing in which the bonus will be paid. An annual review of the Policy shall be performed. The Bonus and Compensation Policy shall be subject to the approval of the District Director.

B. Within fifteen (15) days from the effective date of this Order, Colonial shall require that all outstanding amounts paid from or through Account No. 1531 (the "Accrued Salaries Payable Account") since January 1, 1990 be reimbursed.

IX. Meetings of the Board of Directors

The Institution's Directors shall meet at least monthly. Management shall prepare in advance, and the Board of Directors shall follow, a detailed agenda at each meeting, which shall include consideration of actions of any committees. Nothing in the foregoing sentence shall preclude the Board from considering

matters other than those contained in the agenda. Detailed Minutes of all Board meetings shall be maintained and recorded on a timely basis.

X. Correction of Technical Exceptions and Deficiencies

A. Within Sixty (60) days from the effective date of this Order, the Institution shall take steps designed to correct the technical exceptions noted on Page A-26.1, 26.2, and 26.3 of the ROE.

B. Within ninety (90) days from the effective date of this Order, the Institution shall take steps designed to correct the cited deficiencies in the loans classified and listed for Special Mention in the ROE.

XI. Reimbursement of Funds

Within thirty (30) days from the effective date of this Order, the Institution shall obtain reimbursement of all remuneration paid to any person under any employment, pension, or liability plan or policy (whether formal or informal) unless such payments were, at the time they were made, supported by W-2 Forms, Federal or State income tax withholding, or other similar documentation demonstrating that the recipient was or is a bona fide employee or liability annuitant of the Institution.

XII. Institution Vehicles

All Institution owned vehicles shall be used for Institution business only. Within fifteen (15) days of the effective date of this Order, the Institution shall provide written documentation to the District Director demonstrating that it has received remuneration equal to the fair market value of any

Institution-owned automobile not utilized in accordance with this paragraph and has removed such vehicle(s) from its books.

XIII. Capital Plan

By January 31, 1991, Colonial shall submit a Capital Plan to the District Director pursuant to 12 U.S.C. 1464(s)(4)(A) and (t)(6)(A)(ii) and 12 C.F.R. 567.10.

XIV. Periodic Progress Reports

Within thirty (30) days from the effective date of this Order, and, thereafter, within thirty (30) days from the end of each calendar quarter, the Institution shall furnish written status reports to the District Director detailing any action which has been taken to secure compliance with this Order and results thereof. In addition, the Institution shall furnish such reports on request of the District Director. All status reports and other written responses to this Order shall be reviewed by the Board of Directors of the Institution and made a part of the minutes of the Board of Directors.

OFFICE OF ~~THRIFT~~ SUPERVISION

/S/

~~Ralph W. Grindley~~
~~District Director~~