

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

_____)
In The Matter Of:)
COLONIAL FEDERAL SAVINGS BANK) Re: Resolution No. NE92-106
Quincy, Massachusetts) Date: December 31, 1992
OTS No. 01673)
_____)

STIPULATION AND CONSENT TO ISSUANCE
OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its Regional Director for the Northeast Regional Office ("Regional Director"), and the Colonial Federal Savings Bank, Quincy, Massachusetts ("Quincy" 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 for it 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, desiring to cooperate with the OTS and to avoid the time and expense of such administrative proceedings or litigation, 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, 12 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)(1) of the

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Re: Resolution No. NE92-106
Date: December 31, 1992

ORDER TO CEASE AND DESIST

WHEREAS, Colonial Federal Savings Bank, Quincy, Massachusetts ("Colonial" or the "Institution"), through its Board of Directors ("Board"), 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 Regional Director for the Northeast Region ("Regional 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 ("FDIA"), 12 U.S.C. Sc 1818(b);

NOW THEREFORE, IT IS ORDERED that:

A. Troubled Debt Workout Plans:

1. Within sixty (60) days of the execution of this Order, Colonial shall develop and forward to OTS formal workout plans for the following assets/lines of credit:

- a) Arthur and Constance Melia
- b) David and Kathleen Olsson
- c) Louis G. Bertucci
- d) James J. Kulle
- e) Leo E. Martin and Robert F. Crosby
- f) Charles and Mildred Thomson
- g) Robert A. Palmer

The content of these plans shall contain, at a minimum, an evaluation of the current status of the credit/asset, collateral value, cash flow generation, where the cash flow is being utilized, occupancy of the properties, physical condition, and the institution's plan to work out the asset/credit.

2. The institution shall develop similar workout plans for any assets/credit lines in excess of \$500,000 which become internally classified, or are classified by OTS, in the future.

B. Current Appraisals - Melia and Olsson Loans:

3. Colonial shall within thirty (30) days of the execution of this Order, confirm to the OTS Regional Deputy Director for the Boston Area Office ("Regional Deputy Director") that current appraisals have been ordered on the Melia and Olsson loans. Within ninety (90) days of the execution of this Order, Colonial shall provide a report to

the Regional Deputy Director summarizing the results of those appraisals and any additional general or specific reserves set up as a consequence of those appraisals.

C. Loans Held For Sale or Investments:

4. Within thirty (30) days of execution of this Order, the Institution's Management shall develop, and provide to the Regional Deputy Director, an accounting policy covering loans held for sale in the secondary market, or held for investment in the Institution's portfolio. The policy shall in particular, cover the treatment of seasoned loans sold from portfolio, and the propriety of continued cost, as opposed to Lower Of Cost or Market accounting for the portfolio, if sales of seasoned loans occur. The policy shall be in compliance with General Accepted Accounting Principles ("GAAP") and reviewed by Colonial's independent accounting firm before submission to the Regional Deputy Director for review.

D. Appraisal Policy:

5. Colonial shall comply with the provisions of 12 C.F.R. 564.8(c)(3) by performing an annual review of appraisers working for the institution. Such annual reviews will evaluate the performance of appraisers based on compliance with: (a) the Institution's appraisal policies and procedures; and (b) the reasonableness of the values

reported. The review shall be conducted no later than January 30, 1993, for the twelve months ended December 31, 1992, and the results forwarded to the Regional Deputy Director no later than February 28, 1993.

E. Loan Underwriting and Operations:

6. (a) All loan modifications shall be reduced to writing, signed by the responsible officer, and approved by the Board. Where deemed appropriate to legally protect the Institution's interest, such modifications shall be memorialized in a legal document executed by the Institution and the borrower.

(b) All Troubled Debt Restructurings ("TDRs") and loans to facilitate the sale of real estate ("LTF") shall be supported by a thorough analysis of the ability of the resultant obligor to service the debt.

(c) A revised Institution policy reflecting items (a) and (b) above, shall be submitted to the Regional Deputy Director for review no later than February 1, 1993. The policy shall include a detailed decision framework to be used in making the decision as to whether or not a loan modification, TDR or LTF should be entered into. The framework shall analyze the expected benefits to the Institution and the likelihood of borrower performance.

F. Internal Asset Review Function:

7. (a) Management of the Institution shall use its best efforts to obtain current financial information from all borrowers (of both investor and owner-occupied properties of 4 or more units) whose obligations are collateralized by income generating properties. Further, Management shall document its efforts to obtain such information and retain such documentation, as well as its analysis of the information received, in the Institution's files for review by the OTS examiners.

(b) The Institution's Quarterly Loan Review/Asset Classification shall be expanded to include financial condition of all commercial borrowers, and other borrowers with outstanding indebtedness of \$200,000.

G. Investment Policy:

8. The Institution's investment policy shall be expanded to provide for authority to invest in Collateralized Mortgage Obligations ("CMO's") and the conditions under which investments in CMOs may be made. The policy shall include but not be limited to:

- a) allowable types of CMOs to be purchased;
- b) guidelines for the Board to follow in approving investments in CMOs including guidelines as to when prior, as opposed to subsequent Board approval is required;
- c) dollar volume limits by type of security, and issuer; and

d) integration of CMO purchases into the Institution's Asset Liability Management goals.

H. Classified Asset Reports:

9. The Institution shall continue to file on a quarterly basis, reports to the Regional Deputy Director concerning each borrower and/or parcel of Real Estate Owned, Classified or Subject to Special Mention in the August 10, 1992 Report of Examination, and aggregating \$200,000 or more. The reports shall continue to be due within thirty (30) days following the end of the preceding calendar quarter, utilizing the format used in the past to file such reports. The Institution shall add to the quarterly report any asset or credit relationship in an amount of \$200,000 or more which becomes internally classified or subject to Special Mention.

I. Loan Loss Reserves:

10. The Institution shall immediately charge off or specifically reserve against all losses identified at the August 10, 1992 OTS Report of Examination. In addition, the Institution's General Valuation Allowance will be immediately increased to \$1 million.

J. Business Plan:

11. Not later than February 28, 1993, the Institution shall complete, and provide to the Regional Deputy Director, a Business Plan covering the three year period ending December 31, 1995. The Plan shall include

general strategies to be followed and assumptions relied upon in developing the Plan, including interest rates utilized and a brief discussion of the reasonableness of the assumptions.

K. Continued Compliance With Supervisory Agreement:

12. The Institution remains subject to the Supervisory Agreement effective February 27, 1992 and the addendum thereto.

L. Effective Date of Order:

13. This Order shall become effective upon execution by the Regional Director and shall remain effective and enforceable until such time as any provisions thereof shall have been modified, terminated, expanded, and/or set aside by the Regional Director.

The Office of Thrift Supervision

/s/

Angelo A. Viggo
Regional Director
Northeast Office