

subject to the authority of the OTS to initiate and maintain a cease and desist proceeding against it.

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

4. Finality. The Order is issued under 12 U.S.C.A. §1818(b) (West 1989). Upon its issuance by the Cincinnati District Office, OTS, it shall be a final Order, effective and fully enforceable by the OTS under the provisions of 12 U.S.C.A. §1818(1) (West 1989).

5. Waivers. Charter Oak waives its right to a notice of charges and the administrative hearing provided by 12 U.S.C.A. §1818(b) (West 1989), and further waives its right to seek judicial review of the Order, including any such right provided by 12 U.S.C.A. §1818(h) (West 1989), or otherwise to challenge the validity of the Order.

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

OFFICE OF THRIFT SUPERVISION

/S/

Thomas A. Hamilton, Jr.
Deputy Regional Director
Cincinnati District of the
Office of Thrift Supervision

CHARTER OAK FEDERAL SAVINGS BANK
CINCINNATI, OHIO
by a majority of its directors

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UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

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In the Matter of)
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Charter Oak Federal Savings Bank)
Cincinnati, Ohio)
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_____)

Resolution No.: CIN 91-5
Dated: February 1, 1991

ORDER TO CEASE AND DESIST

WHEREAS, Charter Oak Federal Savings Bank, Cincinnati, Ohio ("Charter Oak") through its directors, has executed a Stipulation and Consent to Issuance of Order to Cease and Desist ("Stipulation") that is accepted and approved by the Office of Thrift Supervision ("OTS") acting through its Deputy Regional Director for the Cincinnati District and is incorporated herein by reference; and

WHEREAS, Charter Oak, in the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to the Federal Deposit Insurance Act ("FDIA"), §8(b), 12 U.S.C.A. §1818(b) (West 1989).

NOW THEREFORE, IT IS ORDERED that Charter Oak and its directors, officers, employees, agents, and service corporations shall comply with the following provisions of this Order to Cease and Desist:

1. Charter/EPB Corporation ("EPB"), a wholly-owned service corporation of Charter Oak, shall not resume any new lending activities for which it or Charter Oak do not have legally binding written commitments. This restriction also applies to the conducting of EPB activities at Charter Oak or at any other subsidiary thereof.
2. Charter Oak and its subsidiaries shall not resume any lending or

extensions of credit to Dayton Partners Limited Partnership, its principals (i.e., L. Keith Brunner, David Bart, Arthur Millonig, William Seal, David Shafer, and Richard Tipton), or related persons as defined in 12 C.F.R. part 32 (1990). Charter Oak shall cease violations of the loans-to-one-borrower limitations and shall submit, within 10 days of the execution of this Order, a written plan, acceptable to the Deputy Regional Director or designee, for resolving existing violations of such regulation.

3. Charter Oak and its subsidiaries shall not declare or pay any dividends or make any capital distributions without the prior written approval of the Deputy Regional Director or designee.
4. Within 60 days from the date of this Order, the board of directors shall evaluate, enhance, and improve, where appropriate, specific written loan policies and procedures ("underwriting standards"), setting standards for all lending and investment in commercial loans, commercial real estate loans, land acquisition, development and construction loans, letters of credit, lines of credit, residential real estate, consumer loans, and any other type of loans to be offered by the institution. The standards shall contain specific guidelines for loans to affiliated persons and other related entities, taking into consideration the limitations and prohibitions set forth in the Federal Reserve Act, §22(h), 12 U.S.C.A. §375(b) (West 1989), and all other applicable laws, and regulations. Moreover, weaknesses noted as a result of the most recent OTS and FDIC reports of examination regarding EPB's lending policy, including but not limited to the following, shall be addressed and corrected in the enhanced underwriting standards:

- a. Lack of guidelines for unsecured lending;
- b. Lack of guidelines for establishing interest rates and repayment terms and/or source of repayment for secured and unsecured loans;
- c. Failure to adhere to policies assuring loans-to-one-borrower limitations are complied with;
- d. Failure to establish procedures to verify compliance with existing standards;
- e. Failure to appropriately define the responsibilities of the board of directors in overseeing the credit approval process;
- f. Failure to document loan-to-value ratios for secured loans;
- g. Lack of documentation requirements for each type of loan;
- h. Lack of guidelines for obtaining and reviewing real estate appraisals, as well as for determining when reappraisals are needed;
- i. Lack of guidelines for maintenance and review of complete and current credit files for each borrower;
- j. Failure to document appropriate and adequate collection procedures, including, but not limited to, actions to be taken against borrowers who fail to make timely payments;
- k. Failure to establish limitations on the maximum dollar amount of each loan type in relation to total assets (i.e., limitations on the portfolio's mix);
- l. Lack of description of Charter Oak's normal lending area and circumstances under which credit may be extended outside such area; and
- m. Lack of procedures to ensure that loan disbursements are utilized

for their intended use.

Such underwriting standards shall be submitted within 60 days from the date of this Order in a form satisfactory to the Deputy Regional Director or designee and shall be reviewed and approved by the board of directors on at least an annual basis.

5. Prior to Charter Oak and its subsidiaries granting or committing to make any loan or set of loans, the institution shall have in its possession documentary evidence that each and every requirement of its loan underwriting standards applicable to a particular loan has been complied with in all material respects. As appropriate for the type of loan proposed to be made, such documentary evidence shall include but not be limited to:
 - a. A written application signed by the borrowers and guarantors stating the purpose of the loan;
 - b. Financial statements of borrowers and guarantors certified by such borrowers or guarantors as true and correct. (Financial statements of prospective borrowers and guarantors for loans in excess of \$250,000 shall be prepared in accordance with guidelines published by the American Institute of Certified Public Accountants);
 - c. Current credit reports for all borrowers and/or guarantors together with a written report signed by the responsible employee evaluating any outstanding negative items contained in any such report;
 - d. A document, signed by the officer or employee responsible, evidencing that material items in the borrower/guarantor financial statements have been verified and analyzed to insure that the

borrower/guarantor has sufficient assets and cash flow to retire the loan under the terms of the note and/or guarantee;

- e. An appraisal report performed for Charter Oak or its agent prior to the approval of a loan and/or disbursement of funds which satisfies the requirements of 12 C.F.R. §563.171 (1990) for loans secured or partially secured by real estate;
- f. In the case of a loan secured by property or an instrument other than real estate, an appropriate statement of value of the security property or assessment of collectibility of said instrument prepared by a qualified person, a verification of the lien status of the security property current through the date of loan closing, and where appropriate, documents evidencing verification of the existence of the proposed security property or instrument and that it is owned and/or title is in the name of the proposed borrower or will be as of the date of loan closing;
- g. Documentary evidence that the borrower has invested cash or another form of equity, as appropriate, in the security property as may be required by the underwriting standards;
- h. Written cost estimates and breakdowns, where appropriate for the type of loan required by the underwriting standards, prepared by a qualified engineer, architect or other person qualified to prepare such an estimate;
- i. Written market or feasibility studies, where appropriate to the proposed loan required by the loan underwriting standards, prepared by a qualified professional, and which demonstrate that the project securing the loan can be sold in a period of time and at a sufficient price to provide for repayment of the loan

according to its terms and conditions; and

- j. Approval of the disbursement of funds by the majority of the board of directors and minutes of the board of directors reflecting that the board has reviewed the loan file for the presence of documentary evidence required by 4 through 6, herein and the underwriting standards applicable to the decision to grant the loan or enter into the transaction.
6. Notwithstanding the documentation requirements set forth herein, Charter Oak and its subsidiaries acknowledge that they are to comply with the loan documentation requirements specified in 12 C.F.R. §563.170(c) (1990), as presently constituted or hereafter amended by the OTS, for each loan which is considered or granted by Charter Oak and its subsidiaries during the term of this Order. Moreover, Charter Oak and its subsidiaries, without the prior approval of the Deputy Regional Director or designee, shall not fund, commit to fund, purchase, or commit to purchase, directly or indirectly, any commercial loan exceeding \$100,000 in the aggregate to one borrower or consumer loan exceeding \$50,000 in the aggregate to one borrower. In addition, at any time Charter Oak is not in compliance with any applicable capital standard, it shall not make any loans or investments except as provided by Regulatory Bulletin 3a-1.
7. Beginning on the date Charter Oak executes this Order and continuing until such time as Charter Oak has revised, and the Deputy Regional Director or designee has approved, written loan underwriting standards, Charter Oak will comply with paragraphs 4 through 6, above as if such items were a part of the underwriting standards.
8. Charter Oak shall immediately establish in its financial reports

specific and general valuation allowances equal to or greater than those set forth in the May 29, 1990 OTS Report of Examination. Within 60 days from the date of this Order, the board of directors shall submit to the Deputy Regional Director or designee an analysis of all classified assets with balances \$500,000, or greater, which includes a plan as to how each asset will be monitored and collected by Charter Oak. In addition, the board of directors shall submit quarterly reports to the Deputy Regional Director or designee advising of the status of the above monitoring and collection efforts for classified assets with balances equal to or exceeding \$500,000.

9. Within 60 days of the date of this Order, Charter Oak shall submit a detailed business plan acceptable to the Deputy Regional Director or designee. The plan must contain comprehensive narrative discussions of each significant activity and strategy to be used by Charter Oak and must, at minimum, provide for the following:
 - a. Correction of deficiencies in those assets classified or criticized and reduction of classified assets to an acceptable level;
 - b. Policy regarding an acceptable level of credit concentration;
 - c. Establishment and maintenance of general valuation allowances which are commensurate with the volume, quality, and risk of the institution's assets, to be reviewed for adequacy by the board of directors on at least a quarterly basis;
 - d. Reduction of loans outstanding to Dayton Partners Limited Partnership and related persons as defined in 12 C.F.R. part 32, (1990), which is applicable to savings associations, pursuant to the Loans-To-One-Borrower Limitations, 55 Fed. Reg. 28, 144

(1990), to within Charter Oak's legal lending limit;

- e. Correction of the violations of law and/or regulation discussed at the September 11, 1990 FDIC examination exit conference with the board of directors and implementation of procedures to assure future compliance; and
- f. Detailed strategies designed to improve earnings, net interest margin, net operating margin, and liquidity, within acceptable risk parameters.

Detailed quarterly schedules showing actual and planned asset and liability mixes, yield and cost data, and capital positions must be supplied. Projected operating results by quarter for a three-year period for Charter Oak and its subsidiaries must also be submitted.

On a quarterly basis, Charter Oak's board shall compare actual operating results to projected amounts and provide detailed written variance analyses to the Deputy Regional Director within 45 days of the close of each quarter.

Charter Oak shall not implement changes to the operating plans and strategies outlined in the required plan without the prior written approval of the Deputy Regional Director or designee.

- 10. The board of directors shall meet on a regular (not less frequently than one time in each calendar month) basis to review the prior month's operations, consider loan applications as required, consider the need for policy changes, evaluate management's compliance with existing board policies and procedures, and take other actions normal for an effective, active, and independent board of directors. Such actions must also include a review of the quality and credit risk associated with the various types of loans originated, with particular

emphasis towards the extensions of credit resulting from the operations of EPB. Minutes of board and committee meetings shall fully document all significant deliberations, actions and decisions. The board of directors will submit a draft of such minutes to the Deputy Regional Director or designee within one week from the date of each such meeting.

11. Within 60 days of the date of this Order, the board of directors shall develop a written policy which addresses the minimum activities and duties which the board believes constitutes adequate fulfillment of a director's fiduciary responsibilities. Such policy shall be in a form acceptable to the Deputy Regional Director or designee. Directors who do not meet the requirements of this policy shall be required to resign.
12. Charter Oak shall divest of the two unauthorized real estate investments (i.e., 51.28 and 43.7 acre parcels, respectively) by June 30, 1991, unless such date is extended in writing by the Deputy Regional Director based on a failure of Charter Oak's best efforts to accomplish the required divestiture.

The OTS shall not take additional supervisory action against the institution on matters specifically covered by this Order. However, this Order does not preclude the OTS from pursuing enforcement actions, such as removal and prohibition or civil money penalties, against any individuals. 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 ("CFR"), Home Owners Loan Act of 1933 ("HOLA"), or FDIA, and any such technical words or terms used in this Order, and undefined by the

statutes, rules and regulations contained in CFR, HOLA, FDIA or OTS Memoranda, shall have meanings that accord with the best custom and usage in the savings and loan industry.

OFFICE OF THRIFT SUPERVISION

/S/

Thomas A. Hamilton, Jr.
Deputy Regional Director
Cincinnati District Office
Office of Thrift Supervision