

2. Jurisdiction.

(a) CARTHAGE 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, 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, CARTHAGE 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, codified at 12 U.S.C. § 1818(b).

3. Consent. CARTHAGE 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, codified at 12 U.S.C. § 1818(b). Upon its issuance by the RDD, 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, codified at 12 U.S.C. § 1818(i).

5. Waivers. CARTHAGE waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA, codified at 12 U.S.C. § 1818(b), and further waives any right to seek judicial review of the Order, including any such right provided by Section 8(h)

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In the Matter of)
)

CARTHAGE FEDERAL SAVINGS AND)
LOAN ASSOCIATION)

Carthage, New York)
)
)

RE: Resolution No. PIT 91-12

Dated: August 5, 1991

ORDER TO CEASE AND DESIST

WHEREAS, CARTHAGE FEDERAL SAVINGS AND LOAN ASSOCIATION, Carthage, New York ("CARTHAGE") 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 Deputy Director for the Pittsburgh Office ("RDD"); and

WHEREAS, CARTHAGE 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"), codified at 12 U.S.C. § 1818(b).

NOW THEREFORE, IT IS ORDERED that CARTHAGE 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 545.113 (accounting records) of the Rules and Regulations of the Office of Thrift Supervision ("OTS Regulations") (12 C.F.R. § 545.113);
- (ii) Section 563.161 (management and financial policies) of the OTS Regulations (12 C.F.R. § 563.161);
- (iii) Section 563.170 (establishment and maintenance of records) of the OTS Regulations (12 C.F.R. § 563.170);
- (iv) Section 563.180(a) (periodic reports) of the OTS Regulations (12 C.F.R. § 563.180(a));
- (v) Section 563.160 (classification of certain assets) of the OTS Regulations (12 C.F.R. § 563.160);
- (vi) Section 564.8 (appraisal policies and practices) of the OTS Regulations (12 C.F.R. § 564.8);
- (vii) Section 566.2 (liquidity requirements) of the OTS Regulations (12 C.F.R. § 566.2); and
- (viii) Section 563.176 (interest rate risk management procedures) of the OTS Regulations (12 C.F.R. § 563.176).

IT IS FURTHER ORDERED THAT:

1. Within ninety (90) days of the effective date of this Order, CARTHAGE's Board shall develop, adopt, and file with the RDD a plan for strengthening the institution's management ("Management Plan"). The Management Plan shall include, at a minimum, the following:
 - (a) An assessment and performance evaluation of the management of CARTHAGE and its subsidiaries provided by an independent management consultant acceptable in advance to the RDD. The management consultant shall be required to reach specific conclusions and make specific recommendations regarding management. The management consultant's review and recommendations shall be detailed in a written report which shall be submitted to the Board within sixty (60) days of the management consultant's employment. A copy of this report shall be submitted to the RDD and he shall retain the right to determine the adequacy of the Management Plan and its compliance with the terms of this Order;
 - (b) Implementation strategy to address each recommendation in the management consultant's report, including time frames;

- (c) Major goals and strategies for strengthening and enhancing management, especially in the areas of accounting, asset quality and classification, loan work-outs, strategic and policy planning, capital position and operations;
- (d) Identification of current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities;
- (e) Written job descriptions for each senior officer; and
- (f) Identification of corrective actions to address deficiencies in management outlined in the April 15, 1991 Report of Examination ("ROE") including any needed changes in staff.

It shall remain the responsibility of the Board to fully implement the Management Plan within specified timeframes. In the event the Management Plan, or any portion thereof, is not implemented, the Board shall immediately advise the RDD, in writing, of specified reasons for deviating from the Management Plan.

2. Within sixty (60) days from the effective date of this ORDER and to the extent it has not already done so, CARTHAGE shall develop and implement the following policies and procedures as revised to eliminate the deficiencies in such policies and procedures as enumerated on pages 7 through 8 of the Report of Examination ("ROE"):

- a) Interest Rate Risk Management (page 7);
 - b) Liquidity Policy (page 7);
 - c) Investment Policy (page 7); and
 - d) Business Plan (page 8).
3. Within sixty (60) days from the effective date of this ORDER and to the extent it has not already done so, CARTHAGE shall develop and implement the following policies and procedures or revise existing policies in accordance with the criticism contained on pages 8 and 12 of the ROE.
- a) Loans delinquent in excess of 90 days will be placed on non-accrual or the interest will be specifically reserved. (page 8)
 - b) Accounting records will be maintained on individual loans which will readily identify interest reserves on non-accrual loans. (page 8)
 - c) Non-accrual procedures will be consistently applied. (page 8)
 - d) Specific reserve accounts will be maintained separately on the general ledger for each type of asset. The specific reserve account should be reconciled monthly to the subsidiary accounting records. (page 8)
 - e) Loans to one borrower reports will be prepared that include all borrowings that should be aggregated or combined for purposes of 12 C.F.R. 563.93. (page 8)

- f) A tickler or related type system will be developed to ensure that the necessary requests for financial data on borrowers, proof of appropriate insurance coverage and proper UCC filings are performed and documented. (page 12)
 - g) Loan files will be organized and maintained in a logical and uniform manner to assist management, auditors and regulators in the review of the individual credits. (page 12)
4. Within thirty (30) days of the effective date of this ORDER, the Board and management shall develop policies and procedures which will ensure adequate voucher completion, approval and appropriate separation of duties in the posting and reconciling of the general ledger as detailed on page 9 of the ROE.
 5. The Board and management shall take all necessary steps to ensure the timely filing of required tax returns as discussed on page nine (9) of the ROE.
 6. The Board and management shall develop and implement, within sixty (60) days, a comprehensive internal audit function which is well supported by audit programs, work papers, audit reports and related documents which shall be presented directly to the Board.
 7. The Board and management shall develop within thirty (30) days a comprehensive strategy to effectively reduce the level of classified and non-performing assets as detailed in the ROE. The strategies shall be well

documented detailing specific actions to be taken to reduce the level of classified assets. Management shall report to the Board on not less than a quarterly basis the effectiveness of the current and/or proposed strategies.

8. Within sixty (60) days of the effective date of this ORDER, CARTHAGE shall certify to the RDD that it has met all of the capital requirements of Part 567 of the OTS Regulations at June 30, 1991. Absent such compliance, CARTHAGE is directed to file a current or currently amended and board-approved capital plan with the RDD by a date no later than August 30, 1991. Such a plan shall conform fully with the requirements of OTS TB Memoranda #36a, #36-1, and #36-2d, in addition to applicable law and regulation.

9. CARTHAGE shall not make or purchase or commit to purchase any loan(s) or loan participation(s) which do not conform to internal loan underwriting guidelines, safe and sound banking practices or which management lacks the demonstrated expertise and knowledge to adequately underwrite and monitor. These loan types which exhibit inherently more risk than traditional residential mortgage lending shall not be made or purchased or committed to be purchased without thorough well documented analysis, a related board policy approved by the OTS RDD, and the necessary in-house expertise to adequately underwrite and administer the asset(s):
 - a) Commercial Real Estate Lending;
 - b) Commercial Business Lending;

- c) Floor Plan and Indirect Lending;
 - d) Credit Card Lending;
 - e) Asset Based Lending;
 - f) Commercial or Stand-by Letters of Credit;
 - g) Loans on Residential Speculative Construction; and
 - h) Any other loan or investment products which exhibits more than the normal amount of credit risk and/or management lacks the knowledge or expertise to adequately underwrite or administer.
10. Unless submission is specifically requested, any policies and procedures adopted in response to this ORDER should be maintained at the institution for review during the next examination.
11. CARTHAGE shall not make any "golden parachute payment," as that term is defined in Section 18(k) of the FDIA (to be codified at 12 U.S.C. 1818(k)) or regulations adopted by the FDIC under that authority, to any director, officer, employee, without: (i) providing 30 days advance notice to the Regional Director; and (ii) receiving a written notice of non-objection to such payment by the Regional Director.

The Board shall take whatever steps are necessary to ensure compliance by CARTHAGE with the requirements of this ORDER.

Any request for modification of this ORDER must be submitted in writing to the RDD or his designee and the RDD may, in writing, at his sole discretion,

