

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In the Matter of)

CENTRAL PENNSYLVANIA SAVINGS)
ASSOCIATION)

Shamokin, Pennsylvania)

RE: Resolution No. PIT 91-16

Dated: December 20, 1991

STIPULATION AND CONSENT TO THE
ENTRY OF A CEASE AND DESIST ORDER

The Office of Thrift Supervision ("OTS"), by and through its Regional Deputy Director of the OTS/Pittsburgh District ("RDD") and CENTRAL PENNSYLVANIA SAVINGS ASSOCIATION, Shamokin, Pennsylvania ("CENTRAL") stipulate and agree as follows:

1. Consideration. The OTS, based upon information reported to it, is of the opinion that the grounds exist to initiate an administrative cease and desist proceeding against CENTRAL pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 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). CENTRAL desires to cooperate with the OTS and to avoid the time and expense of such administrative 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 litigation against CENTRAL with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) CENTRAL 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, CENTRAL 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. CENTRAL 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. CENTRAL 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)

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RE: Resolution No. PIT 91-16

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ORDER TO CEASE AND DESIST

WHEREAS, CENTRAL PENNSYLVANIA SAVINGS ASSOCIATION, Shamokin, Pennsylvania ("CENTRAL" or "Institution") through its board of directors ("Board") has executed a Stipulation and Consent to the Entry of a Cease and Desist Order, 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, CENTRAL 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 CENTRAL 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 561.13 (Consumer Credit Classified as Loss) of the Rules and Regulations of the Office of Thrift Supervision ("OTS Regulations") (12 C.F.R. § 561.13);
- (ii) Section 563.93(f) (Lending Limitations - Calculating Compliance and Recordkeeping) of the OTS Regulations (12 C.F.R. § 563.93(f));
- (iii) Section 563.160 (Classification of Certain Assets) of the OTS Regulations (12 C.F.R. § 563.160);
- (iv) Section 563.161(a) (Management and Financial Policies) of the OTS Regulations (12 C.F.R. § 563.161(a));
- (v) Section 563.170 (Establishment and Maintenance of Records) of the OTS Regulations (12 C.F.R. § 563.170);
- (vi) Section 563.176 (Interest-Rate-Risk Management Procedures) of the OTS Regulations (12 C.F.R. § 563.176);
- (vii) Section 563.180(a) (Periodic Reports) of the OTS Regulations (12 C.F.R. § 563.180(a));
- (viii) Section 563.233(b) and (d) (Accounting Principles and Procedures) of the OTS Regulations (12 C.F.R. § 563.233(b) and (d)); and
- (ix) Section 571.18 (Accounting for Troubled Debt Restructuring) of the OTS Regulations (12 C.F.R. § 571.18).

IT IS FURTHER ORDERED THAT:

1. CENTRAL's Board of Directors shall take all necessary and appropriate steps in the exercise of its fiduciary responsibilities to ensure that CENTRAL is safely and soundly managed and complies with all applicable laws and regulations. To this end, the Board shall, among other things, provide appropriate guidance to management; effectively oversee the Institution's affairs; establish adequate policies and procedures upon which management is to operate the Institution; and regularly attend the board meetings.

Furthermore, the minutes of all Board and committee meetings, effective the date this ORDER is executed, shall in all material respects clearly and accurately reflect the level of supervision exercised over management by the Board, shall reflect the Board's active involvement, and shall include a record of deliberations concerning the establishment of salaries and fees for officers and directors and support for conclusions reached in accordance with 12 C.F.R. § 563.161(b) and Section 140.2 of the OTS Thrift Activities Manual.

2. Within ninety (90) days of the effective date of this ORDER, CENTRAL'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 CENTRAL 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 this ORDER. 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 throughout the organization, including 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;
- (f) Identification of a written plan of management succession which shall address unforeseen situations as well as long-term plans for management succession; and

- (g) Identification of corrective actions to address deficiencies in management cited in the August 5, 1991 Report of Examination ("ROE") including any needed changes in staff.

It shall remain the responsibility of the Board to take all necessary steps to fully implement the Management Plan within the specified time frames. In the event the Management Plan, or any portion thereof, is unable to be implemented, the Board shall immediately advise the RDD, in writing, of specific reasons for deviating from the Management Plan.

3. Within sixty (60) days of the effective date of this ORDER, CENTRAL shall establish procedures to insure the timely filing and accuracy of the Thrift Financial Reports submitted to the OTS.
4. The Board shall develop and adopt, within sixty (60) days of the effective date of this ORDER, a comprehensive internal audit program in accordance with Section 120 of the OTS Thrift Activities Manual which is well supported by audit programs, audit reports and related documents and which functionally reports directly to a committee of the outside directors. The Board shall establish qualifications for the position of internal auditor to ensure the necessary expertise and the avoidance of a conflict of interest.
5. Within sixty (60) days of the effective date of this ORDER, unless CENTRAL submitted the required policies pursuant to the Supervisory Directive issued on September 10, 1991, CENTRAL shall revise the following policies and procedures to eliminate the concerns noted in the ROE:

- (a) Asset Classification, Internal Loan Review and Valuation Allowance Policy (Pages 11 and 12);
- (b) Collection Policy and Procedures (Pages 15 and 16);
- (c) Investment Policy (Pages 16 and 17); and
- (d) Interest Rate Risk Policy (Pages 17 and 18).

6. CENTRAL, unless it has already done so, shall immediately establish valuation allowances up to the amount of \$3,514,227 or charge off such amount for the assets classified Loss on pages 23 and A-12.1 of the ROE effective for the period June 30, 1991. Further, unless it has already done so, the Board shall immediately establish additional general valuation allowances ("GVA")'s on real estate owned and other asset classifications up to the amount of \$3,927,625 using the methodology set forth on pages 21 through 23 of the ROE effective for the period June 30, 1991. Confirmation of the aforesaid shall be provided to the RDD within ten (10) days of the effective date of this ORDER in the form of certified excerpts from the official board minutes.

Additionally, the Board shall review the GVA on a quarterly basis and ensure that it is maintained at an adequate level in accordance with the guidelines to be set forth in the Institution's Asset Classification, Internal Loan Review and Valuation Allowance Policy (see Provision No. 5 (a) of this Agreement). Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the GVA. Any deficiency in the GVA so determined shall be remedied in the quarter it is discovered prior to the filing of the Institution's Thrift Financial Report by additional provision of earnings.

7. Within ninety (90) days of the effective date of this ORDER, CENTRAL shall develop a written program to effectively reduce the level of criticized assets as detailed in the ROE and for all additional assets which are criticized by CENTRAL's internal loan review system. The strategies shall be well documented detailing specific actions to be taken to reduce the level of criticized assets.

8. Pursuant to paragraph seven (7), the Board, or a delegated committee thereof, shall conduct a review, on at least a monthly basis, to determine:
 - (a) The status of each criticized asset or criticized portion thereof;
 - (b) management's adherence to the workout programs adopted;
 - (c) the status and effectiveness of the written programs; and
 - (d) the need to revise the programs or take alternative action.

A copy of each review shall be forwarded to the OTS at its Office located in Pittsburgh, Pennsylvania.

9. Except for CENTRAL's originated single-family loans, the Board shall provide to the OTS within thirty (30) days of the effective date of this ORDER the source of each criticized asset (classified or special mentioned) identified in the August 5, 1991 ROE, (i.e. broker (by name), walk-in (by office), and other (explain)).

10. Within sixty (60) days from the effective date of this ORDER, CENTRAL shall develop and implement policies and procedures to address the following issues:

- (a) All commercial and construction loans which are in excess of ninety (90) days delinquent, and the collection in full of all principle and interest thereon is in doubt, shall be placed on non-accrual status. At the time a loan is placed on nonaccrual, all payments received shall directly reduce the principle balance of the loan and not be taken into income. Additionally, costs such as legal and appraisal fees shall be expensed as incurred and not capitalized;
 - (b) Once a loan is foreclosed upon or deemed to be in-substance foreclosure, all costs shall be expensed except those costs which substantially improve the value of the property; and
 - (c) Accounting records will be maintained on individual loans which readily identify and monitor any use of interest reserves.
11. Within thirty (30) days of the effective date of this ORDER, CENTRAL shall certify to the RDD that it has met all of the capital requirements of 12 C.F.R. § 567.2 at September 30, 1991 and at the end of each ensuing month through the date of the certification. If the date of such certification occurs prior to the 25th day of a month, CENTRAL shall have until the last day of that month to submit the prior month's certification to the RDD. Absent such compliance, CENTRAL is directed to file a board-approved capital plan with the RDD in accordance with the requirements of OTS Thrift Bulletin Memoranda - 36a, in addition to applicable law and regulation. CENTRAL shall promptly advise the RDD of any subsequent failure to meet or maintain the capital requirements at the prescribed regulatory levels.

In submitting the above referenced certification to the RDD, the Board of Directors of CENTRAL shall be entitled to rely upon a certification as to the levels of the regulatory capital of CENTRAL and the percentage ratio of each level of regulatory capital to assets given to the Board in writing and signed by both the Chief Financial Officer, and the Chairman of the Asset Classification Committee of CENTRAL.

12. The Board shall establish, within sixty (60) days of the effective date of this ORDER, a quality control system for the maintenance of loan files to ensure the inclusion of all necessary documents, including the proof of current taxes, insurance, and appropriate financial statements.
13. Until further notice, CENTRAL shall immediately be subject to the "asset growth" provisions of OTS Regulatory Bulletin RB 3a-1, dated January 9, 1990, and maintain a written record indicating the institution's compliance therewith. Compliance with this provision shall be monitored quarterly commencing with the quarter beginning October 1, 1991.
14. CENTRAL is deemed a "troubled institution" for purposes of OTS Bulletin TB-45 and therefore, shall immediately be subject to the "notice of change in directors and senior officers," and other provisions of OTS Bulletin TB-45, dated April 25, 1990.
15. The Board shall submit within thirty (30) days of the effective date of this ORDER, the following information relating to Pinnacle Mortgage Investment Corporation:

- a. Current certificate of ownership.
 - b. Statement of controlling entity(ies).
 - c. State and federal corporate tax returns for the last three (3) years.
 - d. Copy of current corporate charter and bylaws.
 - e. Copies of certified audited comparative financial statements for the last three (3) years.
 - f. Copies of any reports issued by a state regulatory or licensing authority for the last three (3) years.
 - g. Listing of current officers and directors.
 - h. Roll-forward of CENTRAL's investment from inception, i.e., income(loss), distribution(s), additional investment(s).
16. On a quarterly basis coinciding with the Institution's own fiscal year and within forty-five (45) days of the close of each quarter, the Board shall file with the RDD a written report documenting its review of the Institution's operating results for the quarter just ended and year-to-date. Such report shall include a comparison of actual results against the projections in the Institution's budget. A written explanation of any deviation in the budget projections will be included in the report along with a specific description of the measures that have been implemented or proposed to correct, abate, prevent, or improve any such deviations.
17. CENTRAL's independent directors shall act as a committee to promptly arrange and thereafter assume oversight responsibility for a full and independent reactive investigation of the following:

- a. The five (5) individual \$1 million commitments issued by former loan officer Clarence Evans in January 1990.
- b. The Fricker loans (pages A-12.2 through A-12.8 of the ROE).
- c. The loans involving Shawnee Development, Inc. (pages A-12.8 and A-12.9 and A-12.18 through A-12.20).
- d. The loans involving John and Jean Benson (pages A-12.9 through A-12.11).
- e. The loan to 560 Ocean Club, L.P. (page A-12.17).
- f. The loans/real estate owned involving James A. and Sandy M. Zurick (pages A-12.21 through A-12.23).
- g. The Plum Tree Development asset(s) (pages A-12.27 through A-12.29).
- h. The charged-off consumer loans to Donald J. Schmidt, Thomas J. McCafferty and Geoffrey Kelly.

Said investigation shall be conducted by an independent and experienced law firm or qualified consultant acceptable in advance to the RDD. A copy of the engagement letter (proposed) shall accompany the independent directors' initial submission relative to the investigator's acceptability. The results of the investigation(s) along with the comments and/or conclusions of the independent directors, shall be forwarded to the RDD within sixty (60) days of the effective date of this ORDER. Director Zurick shall abstain from participation in the investigation referenced in item 17-f above. OTS agrees that CENTRAL's present outside legal counsel shall be considered independent for purposes of the investigations referenced in items 17-a and 17-f above. CENTRAL agrees to conduct any such additional investigations as may be requested or directed by the RDD.

18. CENTRAL 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 12 CFR Part 359, to any director, officer, employee, without: (i) providing 30 days advance notice to the RDD; and (ii) receiving a written notice of non-objection to such payment by the RDD.

19. From the effective date of this ORDER, CENTRAL or any of its subsidiaries shall not, without prior written non-objection of the RDD, except for legally binding commitments outstanding as of the effective date of this ORDER, make or commit to make, purchase or commit to purchase, refinance or commit to refinance, disburse or commit to disburse loans to borrowers with classified and/or criticized assets noted in the August 5, 1991 ROE or thereafter internally classified in accordance with CENTRAL's internal review.

20. With proper consideration as to the appropriateness of timing with respect to the provision for losses, CENTRAL's Board of Directors, prior to declaring and paying any future dividends, shall obtain from its designated legal counsel, and submit to the RDD at least thirty (30) days prior to the proposed date of such payment, a written opinion affirming that proposed dividend to be paid by CENTRAL conforms fully with the limitations of CENTRAL's Capital Maintenance/Dividend Agreement dated June 23, 1988.

21. Unless submission is specifically requested, policies and procedures adopted in response to this ORDER should be maintained at CENTRAL for review during subsequent examinations.

22. Within ten (10) days of the effective date of this ORDER, the Board shall appoint a committee of five directors to study and review the appropriateness and reasonableness of CENTRAL's Board (and committee) fees utilizing the guidelines set forth in Section 140 of the Office of Thrift Supervision's "Regulatory Handbook - Thrift Activities." The Board committee shall provide a written recommendation to the Board and a copy to the RDD within thirty (30) days of the effective date of the ORDER. The said recommendation shall, at a minimum, take into consideration CENTRAL's asset size and the Board's role in evaluating, directing, and monitoring the activities, operations, and overall business objectives of the Institution in determining an appropriate Board (and committee) fee amount and also provide for full compliance with the requirements of 12 C.F.R. § 563.161. The Board shall adopt and implement a new Board (and committee) fee structure within forty-five (45) days of the effective date of the ORDER.

The Board shall take whatever steps are necessary to ensure compliance by CENTRAL 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, modify or suspend the requirements of this ORDER. This ORDER shall remain in effect until terminated, modified or suspended by the OTS acting through the RDD or his designee.

