

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)
SEVERN SAVINGS BANK, FSB)
Annapolis, Maryland)
_____)

Re: Resolution No. ATL-91-7

DATED: March 18, 1991

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 Southeast Region and Severn Savings Bank, FSB, Annapolis, Maryland, OTS Docket Number 08190, ("Severn" or "Institution"), by a majority of its directors, 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 Severn 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"), 12 U.S.C. Sc 1818(b).

Severn desires to cooperate with the OTS and to avoid the time and expense of such administrative proceeding 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 proceeding against Severn with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) Severn is a "savings association" within the meaning of Section 3(b) of the FDIA, as amended by FIRREA, 12 U.S.C. Sc 1813(b), and Section 2(4) of the Home Owners' Loan Act ("HOLA"), as amended by FIRREA, 12 U.S.C. Sc 1462(4). Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, as amended by FIRREA, 12 U.S.C. Sc 1813(c).

(b) Pursuant to Section 3(q)(4) of the FDIA, as amended by FIRREA, 12 U.S.C. Sc 1813(q)(4), the Director of OTS is the "appropriate Federal Banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, Severn 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, 12 U.S.C. Sc 1818(b).

3. Consent. Severn 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, 12 U.S.C. Sc 1818(b). Upon its issuance by the Regional Director for the Southeast Regional Office, OTS, 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, 12 U.S.C. Sc 1818(i).

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

WHEREFORE, in consideration of the foregoing, the OTS, by and through its Regional Director for the Southeast Region, OTS, and Severn, by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

OFFICE OF THRIFT SUPERVISION

SEVERN SAVINGS BANK, FSB
by a majority of its directors

By:

 /s/
John E. Ryan
Regional Director
Southeast Regional Office

 /s/

 /s/

 /s/

 /s/

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 /s/

 /s/

 /s/

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In the Matter of)

SEVERN SAVINGS BANK, FSB)

Annapolis, Maryland)
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Re: Resolution No. ATL-91-7

DATED: March 18, 1991

ORDER TO CEASE AND DESIST

WHEREAS, Severn Savings Bank, FSB, Annapolis, Maryland, Docket Number 08190, ("Severn" or "Institution"), through its 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 ("OTS"), acting through its Regional Director for the Southeast Regional Office ("Regional Director"); and

WHEREAS, Severn, 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"), as amended by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA"), 12 U.S.C. § 1818(b).

NOW THEREFORE, IT IS ORDERED that Severn 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:

1. 12 C.F.R. § 571.9;
2. 12 C.F.R. § 571.7;
3. 12 C.F.R. § 563.33;
4. 12 C.F.R. § 563.93;
5. 12 C.F.R. § 563.43;
6. 12 C.F.R. § 563.170;
7. 12 C.F.R. § 566.2.

IT IS FURTHER ORDERED THAT:

1. The Board of Directors shall ensure that the Institution conducts its business such that the corporate separateness of the Institution and each of its subsidiaries, affiliates, and affiliated persons is preserved and protected. The Board of Directors shall specifically ensure that:
 - (i) The respective business transactions, accounts, and records of the Institution shall not be intermingled with those of its subsidiaries, its affiliated persons, or its affiliates;
 - (ii) No employee of the Institution shall be compensated by the Institution for services performed by such employee on behalf of or for the benefit of any affiliate or affiliated person of the Institution.
2. The Board of Directors shall adhere to the guidelines contained in Office of Thrift Supervision Memorandum R62 which discusses in detail the fiduciary responsibilities of officers and directors to their institution.
3. The Institution, its directors, officers, employees, affiliated persons, and affiliates shall comply in all respects with the provisions of Section 11 of the Home Owners' Loan Act ("HOLA"), 12 U.S.C. Section 1468, and 12 C.F.R. Sections 563.40, 563.41, 563.43, and any successor regulations, and shall follow OTS policy as outlined in 12 C.F.R. Section 571.7, and any successor policies, and any and all other applicable laws, regulations, and policies, as well as successor laws, regulations and policies pertaining to the avoidance of conflicts of interest in conducting the business of the Institution and governing transactions with affiliates.
4. Within 45 days after the effective date of this Order, the Institution shall develop, adopt, and adhere to a plan which describes specific policies and procedures to ensure the avoidance of conflicts of interest and the usurpation of corporate opportunity, and establishes procedures for dealing with management officials and directors who violate such policies. Such plan shall be compatible with all applicable laws, regulations, and policies, as now or hereafter in effect.

5. Within 45 days after the effective date of this Order, the Institution shall establish, adopt and adhere to loan underwriting policies and procedures, sufficient to meet the requirements of 12 C.F.R. Section 563.170, that, at a minimum, require that the Institution perform and document a review of all financial information gathered in the loan application process.

This documentation shall include, but not be limited to, the following items for all loans except share loans:

- a. An analysis of each credit reports;
 - b. For any prospective borrower that is self employed or is a corporation, an analysis of the borrower's two most recent income tax returns;
 - c. An analysis of current financial statements, including balance sheets and operating statements. This analysis shall include the review of the borrower's current assets and current liabilities, the borrower's net working capital, the amount of debt in relation to net worth, and the availability of funds for equity in any proposed security property;
 - d. An analysis of the borrower's ability to service short and long term debt, including any prospective loan.
6. Within 45 days after the effective date of this Order, the Institution shall develop, adopt and adhere to appraisal policies and procedures sufficient to meet the requirements of 12 C.F.R. Part 564 and to ensure the safety and soundness of the Institution.
 7. Within 30 days after the effective date of this Order, the Institution shall develop, adopt and adhere to a plan to reduce the Institution's level of assets classified and assets designated Special Mention (criticized), as detailed in the August 27, 1990, Report of Examination. The plan shall include, at a minimum, specific targets and time-frames for the reduction of the level of criticized assets. At least quarterly, the Board of Directors shall review the Institution's progress in meeting the targets of the plan.

8. The Institution shall not provide any compensation or other direct or indirect benefits including, but not limited to, bonuses to employees, officers and directors beyond those determined to be reasonable and prudent in accordance with the provisions of 12 C.F.R. Section 563.161(b). The board of directors shall, within 45 days after the effective date of this Order, review the Institution's compensation policies and revise them as necessary to require consideration of the Institution's overall financial condition and performance in determining the rate of compensation paid to senior executive officers. Any bonuses paid to senior executive officers shall be based on the Institution's attaining specific board approved goals which address, without limitation, the sources and stability of the Institution's earnings, including its (i) net interest income, (ii) interest rate risk exposure, and (iii) the adequacy of its general valuation allowances.
9. Within 30 days after the effective date of this Order, the Institution shall develop, adopt and adhere to procedures to ensure compliance with 12 C.F.R. Section 563.93 concerning loans to one borrower. The Institution shall make every effort to sell the loans listed on page 27 of the Report of Examination dated August 27, 1990, at no loss to the Institution, in order to bring the aggregate loans outstanding to each borrower into compliance with 12 C.F.R. Section 563.93. Within 30 days after the effective date of this Order, the Institution shall submit a report to the Regional Director detailing the actions taken, or to be taken, to come into full compliance with the regulation.
10. Within 30 days after the effective date of this Order, the board of directors shall appoint a Compliance Committee of at least three (3) directors, the majority of which shall not be executive officers of the Institution. The Compliance Committee shall be responsible for monitoring and coordinating the Institution's adherence to the provisions of this Order. Within 30 days after the appointment of the Compliance Committee and quarterly thereafter, the Compliance Committee shall submit a written progress report to the board setting forth in detail: (a) actions taken to comply with each provision of this Order; and (b) the results of those actions. The Board shall forward to the Regional Director a copy of the Compliance Committee's report, with any additional comments by the Board.

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. Any such technical words or terms used in this Order and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry. For purposes of this Order, references to regulations, bulletins, memoranda and publications shall include any successor provisions mandated by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

THE OFFICE OF THRIFT SUPERVISION

By: _____ / s / _____
John E. Ryan
Regional Director
Southeast Regional Office