

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In the Matter of	)	
FIRST HOME SAVINGS ASSOCIATION	)	RE: Enforcement Review Committee
Pittsburgh, Pennsylvania	)	Resolution No. ERC 90-14
	)	Dated: January 17, 1990
	)	
	)	

STIPULATION AND CONSENT TO
ISSUANCE OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its Enforcement Review Committee ("ERC"), and FIRST HOME SAVINGS ASSOCIATION, Pittsburgh, Pennsylvania ("FIRST HOME") 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 FIRST HOME 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") (to be codified at 12 U.S.C. § 1818(b)). FIRST HOME 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 FIRST HOME with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) FIRST HOME 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 (to be 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, FIRST HOME 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 (to be codified at 12 U.S.C. § 1818(b)).

3. Consent. FIRST HOME 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 (to be codified at 12 U.S.C. § 1818(b)). Upon its issuance by the ERC, 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 (to be codified at 12 U.S.C. § 1818(i)).

5. Waivers. FIRST HOME waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA (to be 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) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(h)), or otherwise to challenge the validity of the Order.

WHEREFORE, in consideration of the foregoing, the OTS, by and through its ERC, and FIRST HOME by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

OFFICE OF THRIFT SUPERVISION

By: 18/

Richard B. Pow
District Director, Pittsburgh
Office of Thrift Supervision

WITH THE CONCURRENCE OF,
the Department of Banking,
Savings Association Bureau, of the
Commonwealth of Pennsylvania

15/
Warren J. Callaway
Assistant Director

FIRST HOME SAVINGS ASSOCIATION
by its directors

15/

15/

15/

15/

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ACCEPTED AND APPROVED BY
Office of Thrift Supervision

15/
Rosemary Stewart
Director of Enforcement (and)
Secretary, Enforcement Review Committee

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In the Matter of)

FIRST HOME SAVINGS ASSOCIATION)

Pittsburgh, Pennsylvania)

RE: Enforcement Review Committee
Resolution No. ERC 90-14

Dated: January 17, 1990

ORDER TO CEASE AND DESIST

WHEREAS, FIRST HOME SAVINGS ASSOCIATION, Pittsburgh, Pennsylvania ("FIRST HOME") 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 Enforcement Review Committee; and

WHEREAS, FIRST HOME 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") (to be codified at 12 U.S.C. § 1818(b)).

NOW THEREFORE, IT IS ORDERED that FIRST HOME 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) The loans-to-one borrower limitations of the Home Owners' Loan Act of 1933, as amended by Title III, Section 301 of FIRREA.

IT IS FURTHER ORDERED THAT:

1. Within thirty (30) days of the effective date of this ORDER, the Board shall employ an independent outside management consultant. The qualifications of each consultant considered for employment shall be submitted to the District Director, who shall have the power of veto over any proposed consultant. However, failure to exercise such veto power shall not constitute approval or endorsement of the consultant.
2. The consultant shall review and make a written report on the management of the Association, including, but not limited to:
 - (a) adequacy of staffing for current levels of operations;
 - (b) qualification of each member of the Association's official staff to perform assigned duties; and
 - (c) adequacy of the Association's policies and procedures to assure sound operations.
3. As part of the report, the consultant shall take into account the overall condition of the Association, the present level of operation and projected level of operations. The consultant shall address the question of why the Association's condition has failed to improve and, where possible, offer guidance designed to assist the Bank in improving its condition. Specifically, the consultant shall be required to reach specific conclusions and make specific recommendations in the following areas:

- (a) evaluation of current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities;
 - (b) adequacy of written job descriptions for each officer and any needed revisions;
 - (c) adequacy of the Association's staff to correct those deficiencies outlined in the May 8, 1989 Report of Examination (Report), including needed additions to the staff;
 - (d) evaluation of the performance of each officer of the Association, with a conclusion reached as to the adequacy of performance; and
 - (e) an evaluation of the Board's performance in conducting the affairs of the Association.
4. The consultant report shall be submitted to the Board within forty-five (45) days of the consultant's employment. A copy of the report shall be submitted to the District Director and he shall retain the right to determine the adequacy of the report and its compliance with the terms of this Order.
5. Within fifteen (15) days of receipt of the consultant's report, the Board shall submit a plan of implementation ("Plan") to the District Director. The Plan shall specify actions to address each recommendation in the consultant's report, including timeframes. It shall remain the responsibility of the Board to fully implement the Plan within specified timeframes. In the event the Plan, or any portion thereof, is not implemented, the Board shall immediately advise the District Director, in writing, of specific reasons for deviating from the plan.

6. Within thirty (30) days of implementation of the Plan, the Board shall appoint a permanent Chief Executive Officer for First Home. The qualifications (including resumes) of each individual under consideration shall be submitted to the District Director, who shall have the power of veto over any proposed appointee for Chief Executive Officer. However, failure to exercise such veto power shall not constitute approval or endorsement of the Chief Executive Officer.
7. Within sixty (60) days of implementation of the Plan, FIRST HOME's board of directors shall submit to the District Director for review and approval, a plan for restructuring the board of directors ("Restructuring Plan"). The objective of the Restructuring Plan will be to enhance the board of directors and to obtain two (2) individuals with knowledge of and experience in the savings and loan industry or with public companies. Thereafter, the Board shall submit to the District Director, on a monthly basis, a written report outlining the steps it has taken to obtain qualified individuals to serve on the Board as set forth in the Restructuring Plan. In addition, the Board shall provide the District Director with the resumes of all individuals under consideration to be appointed to FIRST HOME for review. No individual shall be appointed to FIRST HOME's board of directors without the prior written approval of the District Director. The District Director shall act promptly in reviewing such appointments.
8. FIRST HOME shall not, 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, all or any part of any loan, except where the District Director is

provided with written notice of the proposed transaction and does not issue a written objection to the proposed transaction within five (5) days of receipt of the said written notice, and with the exception of the following types of loans:

- (i) Loans secured by one-to-four family dwellings not to exceed \$350,000 to any one borrower provided, the appropriate underwriting is performed and documentation obtained.
- (ii) For loans granted where proposed construction or repairs of one-to-four family dwellings is the purpose, FIRST HOME agrees that there shall be no loan disbursement without the receipt of a duly signed and dated inspection report prepared by a qualified inspector detailing that the necessary work has been completed.
- (iii) Loans secured by savings accounts.
- (iv) Consumer loans granted under Section 561.38 of the Insurance Regulations not to exceed \$25,000 to any one borrower provided loans are fully secured or \$5,000 to any one borrower if unsecured.

Within ten (10) days of the effective date of this ORDER, FIRST HOME shall submit to the Supervisory Agent a listing of all legally binding commitments or obligations outstanding as of that time, which require the institution to provide financing not permitted by this paragraph. This restriction on FIRST HOME's lending shall continue until the Supervisory Agent determines that FIRST HOME is in full compliance with Section 563.17-1(c) of the Insurance Regulations.

9. Within thirty (30) days of implementation of the Plan, FIRST HOME's board of directors shall submit to the Supervisory Agent, a revised Asset Classification Policy that addresses the weaknesses cited in the May 8, 1989 Report of Examination ("Report").
10. FIRST HOME shall take immediate and continuing action to protect its interest with regard to those assets criticized in the Report.
11. Within forty-five (45) days of implementation of the Plan, the Board shall ensure adoption and implementation of a written program designed to eliminate the basis of criticism of assets criticized in the Report as "doubtful," "substandard" or "assets specially mentioned." This program shall include, at a minimum:
 - (a) an identification of the expected sources of repayment;
 - (b) the appraised value of supporting collateral and the position of the Association's lien on such collateral where applicable;
 - (c) an analysis, to the extent available, of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
 - (d) the proposed action to eliminate the basis of criticism and the anticipated time frame for its accomplishment.

A similar program shall be adopted for all additional assets which are criticized by FIRST HOME's internal loan review system. Once adopted, a copy of the program for all criticized assets equal to or exceeding one

hundred thousand dollars (\$100,000) shall be forwarded to the OTS at its Office located in Pittsburgh, Pennsylvania.

12. Pursuant to paragraph ten (10), 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 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 in a format similar to Attachment No. 1, attached hereto.

13. The Association shall take all appropriate steps to the extent feasible and not detrimental to FIRST HOME to reduce the "Substandard" and "Doubtful" asset classifications scheduled in the Report to no more than twenty-five percent (25%) of "core capital" (the components of the "core" or "leveraged" capital requirement are set forth at 12 C.F.R. § 567.5) by September 30, 1990. As used in this Order, the term "reduce" means (1) to collect, (2) to charge off, or (3) to improve the quality of adversely classified loans or other extensions of credit sufficiently to warrant removing any adverse classification, as determined by the OTS. The requirements of this paragraph shall not be construed as a standard for future operations of FIRST HOME. In addition to accomplishing the foregoing reductions, the

shall continue efforts to further reduce all classified loans or other extensions of credit scheduled in the Report and/or FIRST HOME's most recent internal loan report.

14. Within thirty (30) days of implementation of the Plan, FIRST HOME shall develop, adopt and file with the Supervisory Agent an internal loan review program. This program shall, at the minimum, comply with the following:

- (a) Internal loan review requirements and procedures outlined within Section 210 of the Office of Thrift Supervision Thrift Activities Regulatory Handbook titled "Lending Risk Assessment" (Attachment No. 2);
- (b) Insurance Regulation 561.16(c); and
- (c) Address the internal asset monitoring deficiencies cited by the Report.

Additionally, an institution officer acceptable to the Supervisory Agent shall be appointed to review compliance with this program on a quarterly basis. Any deviations shall be reported to the full Board of Directors.

15. FIRST HOME shall not, directly or indirectly extend credit (which, for the purposes of this Order shall include renewals, extensions, or capitalization of accrued interest) to any borrower whose loans or other extensions of credit are criticized in the Report or any subsequent Report of Examination ("Criticized Borrower") and whose aggregate loans or other extensions of credit exceed one hundred thousand dollars (\$100,000).

16. The immediately preceding paragraph shall not apply if:

- (a) the Board (or a delegated committee thereof) determines the Bank's extensions of credit to a Criticized Borrower is not detrimental to the best interests of FIRST HOME;
 - (b) a comparison with the written program adopted pursuant to paragraph fourteen (14) of this Order shows that the Board's formal plan to collect or strengthen said criticized asset is not compromised; and
 - (c) prior to extending any additional credit, a majority of the full board (or a delegated committee thereof) approves the credit extension and certifies, in writing, the specific reasons why failure to so act would be substantially detrimental to the best interests of FIRST HOME. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s).
17. The Board shall cause FIRST HOME to immediately establish specific reserves for the losses identified on page fifteen (15) of the Report. Further, within sixty (60) days of implementation of the Plan, the Board shall review the adequacy of the Association's General Valuation Allowances ("Allowance") and establish a program for the maintenance of an adequate Allowance in accordance with the amount prescribed by the examiner on page 20 of the Report. This review and program shall be designed in light of the comments on maintaining a proper Allowance, as discussed in Regulatory Bulletin RB 6 dated December 12, 1988 entitled, "Adequacy of Valuation Allowances", and issued by the OTS' Office of Regulatory Activities. The program shall focus particular attention on the following matters:

- (a) results of the Association's internal loan review;
- (b) loan loss experience;
- (c) an estimate of potential loss exposure on each significant credit;
- (d) concentrations of credit in the Association;
- (e) present and prospective economic conditions;
- (f) loans criticized by the examiner or identified by the Association's internal loan review system;
- (g) trends of delinquent and/or nonaccrual loans;
- (h) charge-off, collection and recovery policies and procedures and their effectiveness;
- (i) trends in portfolio volume, maturity and composition;
- (j) level, security and trend of classified assets; and
- (k) GAAP (generally accepted accounting practices).

18. Following implementation of the program, the Board shall ensure that the Allowance is maintained at a prudent level in accordance with guidelines set forth in FIRST HOME's program. The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Association's Thrift Financial Report, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

19. Within thirty (30) days of implementation of the Plan, the Board shall adopt and file with the Supervisory Agent for his review and approval, a policy

for management of the institution's interest rate risk to comply with Section 563.17-6(c) of the Insurance Regulations and Thrift Bulletin 13, dated January 26, 1989, entitled "Responsibilities of the Board of Directors and Management with Regard to Interest Rate Risk." The policy shall define an acceptable level of interest rate risk and provide time frames for achieving the desired level of risk.

20. Within forty-five (45) days of implementation of the Plan, the Board shall file with the Supervisory Agent a comprehensive plan for reducing the institution's operating expenses. The plan shall identify a ratio of operating expenses to total assets acceptable to the Board and management. Furthermore, the plan shall discuss particular actions that the Board and management will pursue to reduce operating expenses, and outline reasonable timeframes for achieving this goal. The plan shall be subject to review and approval of the Supervisory Agent.
21. FIRST HOME shall develop written policies and procedures governing employee expense reimbursements to ensure that employee expense allowances and claims for reimbursements are fully documented and are proper incidents to the institution's business activities. Such written policies and procedures shall be submitted to the Supervisory Agent within thirty (30) days of implementation of the Plan.
22. FIRST HOME's Board of Directors shall be limited to directors' fees only. Furthermore, board of director fees shall be reduced to the amount in effect prior to the January 17, 1989 annual members meeting.

23. Within sixty (60) days of implementation of the Plan, FIRST HOME shall submit to the Supervisory Agent, a Board approved comprehensive business plan of at least three (3) years duration, setting forth specific goals, objectives, and strategies as to the Association's future course of operations, to assure its competitive capability and to address the critical area of asset/liability management. Said business plan shall also include a timetable for the implementation of said goals, objectives, and strategies; identification of the individual(s) responsible for implementation; identification of the Association's strengths and weaknesses; pro forma financial statements comprised of statements of condition and operations; budgets under various interest rate scenarios; contingency plans if projected interest rate scenarios do not occur; evaluation of the adequacy and capacity of management and employees to achieve the Association's goals and objectives; standards to measure and/or control management's performance under the plan; and a provision for update and extension of the plan at least annually by the Board.
24. Further, FIRST HOME's Board shall monitor adherence to the Association's business plan on a continuing basis. The minutes of the Association's Board meeting shall disclose the extent of the Board's involvement in this monitoring process.
25. Additionally, on a quarterly basis coinciding with FIRST HOME's own fiscal year and within forty-five (45) days of the close of each quarter, the Board of Directors shall file with the Supervisory Agent, 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 business plan. A written explanation of any deviation in the projections in the business plan will be included in the report along with a specific description of the measures that have been implemented or proposed to correct, abate, or improve any such deficiencies.

26. FIRST HOME shall immediately restrict liability growth to interest credited on liabilities in accordance with Regulatory Bulletin RB 3a, dated September 7, 1988, "Policy Statement on Growth for Insured Institutions" (Attachment No. 3) and Thrift Bulletin 36 dated November 6, 1989, "Guidelines for FIRREA Capital Plans, Exemptions and Exceptions" (Attachment No. 4). Further, on a monthly basis and within fifteen (15) days of the close of the reporting month, FIRST HOME shall file with the Supervisory Agent, a written report indicating the institution's compliance with RB 3a and Thrift Bulletin 36.
27. FIRST HOME shall immediately discontinue investing in mutual funds, and shall limit its investment activity to securities eligible for liquidity purposes only. Furthermore, the board of directors shall, within thirty (30) days of implementation of the Plan, develop, adopt and file with the Supervisory Agent a comprehensive funds management policy. This policy shall, at the minimum, comply with the cash flow and liquidity management requirements and procedures outlined within Section 430 of the Office of Thrift Supervision Thrift Activities Regulatory Handbook titled "Cash Flow and Liquidity Management" (Attachment No. 5).

28. Within forty-five (45) days of implementation of the Plan, FIRST HOME shall formulate and adopt a general compliance policy/program indicating its intent that management and staff comply with the consumer protection laws and regulations. The compliance program should be designed to adequately review and monitor existing procedures and practices in all aspects of the institution's compliance operations and provide for correction of any identifiable problems. A compliance officer(s) should be identified with the responsibility for implementing the compliance program. Specific attention should be given to correcting the regulatory violations identified in the May 8, 1989 Compliance Report of Examination, inclusive of the CRA deficiencies cited.
29. FIRST HOME shall strictly comply with its internal branch audit policy and procedures and shall designate a qualified internal auditor acceptable to the Supervisory Agent to ensure such compliance. Any deviations from policy shall be documented and reported directly to the Board.
30. Within thirty (30) days of implementation of the Plan, FIRST HOME's board of directors shall submit to the Supervisory Agent, a revised Investment Policy that addresses the weaknesses cited in the Report.
31. Within thirty (30) days of implementation of the Plan, FIRST HOME shall revise its collection policy for consumer loans to address the concerns cited by the examiners within the Report. An officer shall be appointed to regularly review compliance with the collection policy including the documented collection efforts.

32. FIRST HOME shall use its best efforts to accurately prepare thrift financial reports to the OTS as required pursuant to Section 563.18(a) of the Insurance Regulations, and in conformity with outstanding instructions.
33. The Board shall use its best efforts to take whatever steps are necessary to ensure full compliance by FIRST HOME with the requirements of this ORDER.
34. 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 Code of Federal Regulations, and 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.

OFFICE OF THRIFT SUPERVISION

By: 15/
 Rosemary Stewart
 Director of Enforcement (and)
 Secretary, Enforcement
 Review Committee

OFFICE OF THRIFT SUPERVISION

By: 15/
 Richard B. Pow
 District Director, Pittsburgh
 Office of Thrift Supervision

WITH THE CONCURRENCE OF, the
 Department of Banking, Savings
 Association Bureau, of the
 Commonwealth of Pennsylvania

By: 15/
 Warren J. Callaway
 Assistant Director