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UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION
AND THE
STATE OF CONNECTICUT
BEFORE THE
BANKING COMMISSIONER

In the matter of:
SECURITY SAVINGS
AND LOAN ASSOCIATION
Waterbury, Connecticut

Re: Resolution No. BOS 90-8
Date: July 13, 1990

STIPULATION AND CONSENT TO ISSUANCE
OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its District Director for the Boston District Office ("District Director"), the Banking Commissioner for the State of Connecticut (the "Commissioner") and Security Savings and Loan Association, Waterbury, Connecticut ("Security" or the "Institution") stipulate and agree as follows:

1. Consideration.

The OTS and the Commissioner, based upon information reported to them, are of the opinion that grounds exist to initiate an administrative cease and desist proceeding against Security pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. 1818(b), as amended by Section 902(a) of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA") and Section 36-25 of the Connecticut General Statutes ("CGS"). Security desires to cooperate with the OTS and the Commissioner and to avoid the time and expense of such administrative proceedings or 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 and the Commissioner from initiating such administrative cease and desist proceedings or litigation against the Institution with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) Security is a "savings association" within the meaning of Section 3(b) of the FDIA, 12 U.S.C. 1813(b) and Section 2(4) of the Home Owners' Loan Act, 12 U.S.C. 1462(4), as amended by Sections 204(b) and 301, respectively, of the FIRREA. Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c)(2) of the FDIA, 12 U.S.C. 1813(c)(2), as amended by Section 204(b) of the FIRREA. Pursuant to Section 3(q)(4) of the FDIA, 12 U.S.C. 1813(q)(4), as amended by Section 204(f) of the FIRREA, the Director of OTS is the "appropriate Federal banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, Security 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, 12 U.S.C. 1818(b), as amended by Section 902(a) of the FIRREA.

(b) The Commissioner is charged with the administration of Chapter 645 of the CGS, "Savings and Loan Associations." The Association is a savings and loan association organized

under Section 36-173 of Chapter 645 of the CGS. Section 36-25(2) of the CGS authorizes the Commissioner to commence administrative proceedings against an institution subject to his jurisdiction to determine whether an order to cease and desist should issue against it. Therefore, the Association is subject to the authority of the Commissioner to initiate and maintain a cease and desist proceeding against it pursuant to Section 36-25(2) of the CGS.

3. Consent.

Security consents to the issuance by the OTS and the Commissioner 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, 12 U.S.C. 1818(b), as amended by Section 902(a) of the FIRREA and under Section 36-25 of the CGS. Upon its issuance by the OTS and the Commissioner, it shall be a final order, effective and fully enforceable by the OTS under Section 8(i) of the FDIA, U.S.C. 1818(i), as amended by Section 907 of the FIRREA, and by the Commissioner under Section 36-25 of the CGS.

5. Waivers.

Security waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, 12 U.S.C. 1818(b), as amended by Section 902(a) of the FIRREA, and Section 36-25 of the CGS, and further waives any

right to seek judicial review of the Order, including any such right provided in Section 8(h) of the FDIA, 12 U.S.C. 1818(h), as amended by Section 520(a) of the FIRREA, or Chapter 54 of the CGS, or otherwise to challenge the validity of the Order.

WHEREFORE, in consideration of the foregoing, the OTS, the Commissioner, and Security, by a majority of its board of directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

OFFICE OF THRIFT SUPERVISION

SECURITY SAVINGS
AND LOAN ASSOCIATION
By a majority of its
board of directors:

By:

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~~Ralph W. Grifflay~~
~~District Director~~
~~Boston District Office~~

STATE OF CONNECTICUT
BANKING COMMISSIONER

By:

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Howard B. Brown

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THE UNITED STATES OF AMERICA
BEFORE THE
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In the matter of:

SECURITY SAVINGS
AND LOAN ASSOCIATION
Waterbury, Connecticut

Re: Resolution No. BOS 90-8

Date: July 13, 1990

ORDER TO CEASE AND DESIST

WHEREAS, Security Savings and Loan Association, Waterbury, Connecticut, ("Security" or the "Institution") through its Board of 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 District Director for the Boston District Office ("District Director") and the Banking Commissioner of the State of Connecticut ("Commissioner"); and

WHEREAS, Security, 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, 12 U.S.C. 1818(b) ("FDIA"), as amended by Section 902(a) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA") and Section 36-25 of the Connecticut General

Statutes ("CGS");

NOW, THEREFORE, IT IS ORDERED THAT:

1. Within 45 days of the effective date of this Order, the Board of Directors shall have conducted an independent review of the soundness and collectability of each individual credit, or group or set of related credits in excess of \$1.5 million. The review shall be conducted by an independent party with expertise in credit evaluation, selected by a committee of directors who are not employees or officers of Security and approved by the District Director and the Commissioner. The findings and recommendations of the independent party shall be presented in writing to the Board of Directors, with a copy to the District Director and the Commissioner.

2. Within 60 days of the effective date of this Order, Security shall adopt a written Conflict of Interest Policy (the "Policy") to address disclosure requirements regarding interactions and relationships that may involve potential conflicts of interest. The Policy shall require compliance with the provisions of 12 C.F.R. 563.41 and 563.43, as interpreted and clarified by the OTS policy statement regarding conflicts of interest, 12 C.F.R. 571.7, as well as Sections 22(h), 23A and 23B of The Federal Reserve Act, 12 U.S.C. 375b, 371c, and 371c-1 and shall be developed by a committee of outside directors as approved by the District Director and the Commissioner. The Policy shall include, but not be limited to, provisions requiring full disclosure to,

and affirmative written approval by, the Board of Directors of loans and other transactions with parties of common interest. Additionally, the Policy shall include provisions which require board members to abstain from voting on loans and transactions that involve parties of common interest with them. As utilized in this Order, the term "parties of common interest" shall mean any person or entity with whom any Board member or management official of Security is involved as a principal, partner, or investor in any partnership, joint venture, trust or non-publicly traded corporation. The Policy shall provide for an annual statement from all management, Board members, and key employees in sensitive positions certifying their compliance with the Policy. The Policy shall be subject to the approval of the District Director and the Commissioner.

3. No interest payments on loans or extensions of credit shall be made from proceeds of new loans or extensions of credit unless the income to the Institution is offset by a corresponding credit to a deferral credit account or valuation reserve. The net effect of such transaction shall be to proportionally recognize such deferred income as the principal of the loan is paid down in cash. Any request to loan funds or extend credit to make interest payments on other loans or extensions of credit shall be based on full written disclosure to, and require the prior affirmative approval by, the Board of Directors. Each request shall include: a) the number and principal amounts of all credit

outstanding to the borrower(s) and affiliates of the borrower(s); b) the last date upon which payment was made and next date payment is due on each loan to such borrower; c) the reason that the borrower was unable to make the required interest payment from conventional sources; and d) a full explanation of how the Institution's position has been improved by additional collateral. This disclosure and a record of the votes of each Director shall become part of the Board of Directors' minutes.

4. All loans and extensions of credit of a principal balance of \$10,000 or greater that become past due shall be reported in writing to the Board of Directors. For purposes of this Order, "past due" shall mean:

- a) For demand loans, 15 days after any interest payment are is due but not received;
- b) For single payment time loans, the next day following the contractual maturity;
- c) For installment loans, 31 days after any interest payment is due but not received.

Full payments of principal and interest must be received from the borrower in order to reduce or eliminate past due status. Partial payments will not change past due status. For purposes of this Order, each past due loan shall be reported by type of loan, loan number(s), principal balance, the date the last payment was received, the date payment was due, and the reason for the delinquency. All such reports shall be made as of the last business day of each month and shall be

reconciled with the Thrift Financial Reports ("TFR") filed with the Office of Thrift Supervision. Payment received between the first day of a given month and the next Board meeting shall not affect past due status for purposes of reports to the Board for that month. Each such report to the Board shall become part of the Board of Directors' minutes.

5. Each overdraft of a liability account of \$1,000 or more, and any cumulative overdrafts by any account holder or his/her affiliated interest(s) totaling \$1,000 or more in the aggregate shall be represented by a formal lending agreement setting the rate of interest for overdrafts and repayment terms. Management shall furnish a written report to the Board of Directors on a monthly basis listing all such overdrafts, including date(s), amount(s), and payment status of all such overdrafts and any additional information that the Board may request. This report, together with any corrective action recommended by the Board, shall become part of the Board of Directors' minutes. No overdrafts, regardless of amount, may be used to pay interest on outstanding loans.

6. Each item greater than \$500, alone or in the aggregate to any one customer and/or affiliates of that customer, placed in any suspense account (whether an interest suspense account or a cash item account), and any suspense item over five business days old, regardless of amount, shall be reported in writing to the Board. The report shall include: a) the date the item was first received by the

Institution; b) the date the item was booked to the suspense account if different than the date received; c) the date the item cleared the suspense account; d) the reason the item was held in the suspense account; and e) any agreements between the Institution and the borrower regarding the establishment of the suspense account. Each such report, along with any action taken by the Board, shall become part of the Board of Directors' minutes.

7. Each loan granted by the Institution shall be evidenced by not more than one note. The proceeds of each loan shall be advanced to the borrowers and shall require the correct endorsement. In cases that contractually require that the loan proceeds be disbursed to a third party, the proceeds shall be issued jointly to the third party and the borrower and shall be honored only upon appropriate endorsements. In no case shall a loan proceeds check be made out as payable to the Institution.

8. For every renewal or extension of credit to an existing borrower, written documentation shall be provided indicating: a) the approving official(s) of the Institution; b) date of the transaction; c) the new maturity date, new principal balance, interest rate, terms of the transaction, and reason for the renewal or extension of credit. Each such extension or renewal shall be affirmatively approved in writing by a loan committee designated by the Board, except that all loans, extensions, modifications or renewals to any borrower who, individually or with his/her affiliated

interests, has aggregate outstanding credit of \$100,000 or more shall require the affirmative written approval of the Board of Directors. Each request to the Board for any new or modified credit agreement shall include full written disclosure including: a) the number of loans currently outstanding to the applicable borrowers, including, but not limited to, loans, lines of credit, overdrafts, cash items, and any other extension of credit of any kind whatsoever; b) the principal amount of each loan outstanding to such borrower; c) the last date payment was received on each loan; d) the next date payment is due on each loan; and e) the reason and purpose for the current request. This disclosure shall become part of the Board of Directors' minutes.

9. Security shall not undertake or assume any contingent liability without a prior notification to, and affirmative written approval by, the Board of Directors. Such contingent liabilities include, but not are not limited to, any guarantee of the performance of, or repurchase of, any loan or extension of credit to, or for the benefit of, any customer, officer, or employee of Security. Except for existing written commitments, in no event shall Security purchase or repurchase any asset that is past due or classified or subject to classification pursuant to 12 C.F.R. 563.160.

10. Minutes of all Directors' meetings and committee meetings shall be reviewed, adopted and filed in the appropriate place at the Institution no later than the date

of the next Board or committee meeting or within 30 days of the meeting to which the minutes pertain, whichever is earlier. Evidence of such adoption and discussion of the minutes shall become part of the Board of Directors' or committee minutes, as applicable. Each director or committee member shall execute a certification that the full Board or committee minutes presented are an accurate and complete account of the issues discussed at each meeting. Copies of all Board and committee minutes shall be furnished to the District Director and the Commissioner within 10 days of filing.

11. Security shall take all necessary steps to ensure the accuracy of its books and records, as required by 12 C.F.R. 563.170(c), for the purpose of, inter alia, providing the OTS with access to a complete and accurate record of its lending activities.

Accurate financial information shall be incorporated in all reports to the Board of Directors and in the Institution's TFRs to the OTS and the Commissioner.

12. Security shall make no loans in excess of the amounts permitted by 12 U.S.C. 84 and 12 C.F.R. 563.93 regarding loans to one borrower. Further, Security shall review its loan portfolio to identify any loans currently in excess of said limitations, and, within 30 days of the effective date of this Order, develop a written policy to bring any loans or extensions of credit in excess of said limitations to within the applicable limitations.

13. Security shall promptly file its Annual Report of Audit with the District Director, as required by 12 C.F.R. 563.170(a)(2). In no event shall Security file such annual report more than 90 days after the end of fiscal year to which such report pertains, as set forth in OTS Bulletin PA-7a.

14. Security shall file its annual, quarterly and other applicable reports within the the periods required by 12 C.F.R. 563(d) which incorporates Section 13(a)(2) of the Securities Exchange Act of 1934, 15 U.S.C. 78(a)(2) (the "Exchange Act") and applicable Rules of the Securities and Exchange Commission, including, but not limited to, Rule 13a-1, 17 C.F.R. 240.13a-1 (annual reports), Rule 13a-11, 17 C.F.R. 240.13a-11 (current reports), and Rule 13a-13, 17 C.F.R. 240.13a-13 (quarterly reports).

15. Within thirty days of the effective date of this Order, the Board of Directors shall make an independent review and evaluation of each member of the Institution's senior management. The review shall include the directors' assessment of the present condition of the Institution and remedial action to be taken in response to issues addressed in this Order and in the Reports of Examination dated September 24, 1985, June 15, 1987, and May 15, 1989. The independent review shall be signed by each director and shall include any dissenting comments of individual directors. Copies of the review shall be forwarded to the District Director and the Commissioner.

This Order shall become effective upon execution by the District Director and the Commissioner.

The provisions of this Order shall remain effective and enforceable except to the extent that and until such time as any provisions of the Order shall have been modified, terminated, suspended, or set aside by the District Director and the Commissioner.

~~THE OFFICE OF THRIFT SUPERVISION~~

Dated: 1/5/

By: 1/5/

~~Ralph W. Gridley
District Director
Boston District Office~~

~~BANKING COMMISSIONER
STATE OF CONNECTICUT~~

Dated: _____

By: _____

Howard B. Brown
Commissioner of Banking