

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In The Matter Of:

NUTMEG FEDERAL SAVINGS AND
LOAN ASSOCIATION
Danbury, Connecticut

OTS NO. 07594

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) Re: Resolution No. BOS 91-13
) Date: September 5, 1991
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STIPULATION AND CONSENT TO ISSUANCE
OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its Regional Deputy Director for the Boston District Office ("Regional Deputy Director"), and Nutmeg Federal Savings and Loan Association, ("Nutmeg" or the "Institution"), 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 Nutmeg pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. 1818(b). Nutmeg, desiring to cooperate with the OTS and to avoid the time and expense of such administrative proceedings or litigation, and without admitting or denying any of the alleged charges of unsafe or unsound banking practices and violations of law and regulations, hereby stipulates and agrees to the following terms in consideration of the forbearance by the OTS from initiating such administrative cease and desist proceedings or litigation

against Nutmeg with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction

Nutmeg 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). 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). Pursuant to Section 3(q)(4) of the FDIA, 12 U.S.C. 1813(q)(4), the Director of OTS is the "appropriate Federal banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, Nutmeg 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).

3. Consent

Nutmeg consents to the issuance by the OTS of the Order. It further agrees to comply with the terms of the Order upon issuance.

4. Finality

The Order is issued under Section 8(b) of the FDIA, 12 U.S.C. 1818(b). Upon its issuance by the OTS, it shall be a final order, effective and fully enforceable by the OTS under Section 8(i) of the FDIA, 12 U.S.C. 1818(i).

5. Waivers

Nutmeg waives its right to the notice of charges and the administrative hearing provided by Section 8(b)(1) of the FDIA, 12 U.S.C. 1818(b)(1), 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), or otherwise to challenge the validity of the Order.

WHEREFORE, in consideration of the foregoing, the OTS and Nutmeg 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

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By:

[Signature]
Ralph W. Bradley
Regional Deputy Director
Boston District Office

Concur:

FEDERAL DEPOSIT INSURANCE
CORPORATION

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By:

[Signature]
Paul H. Wiechman
Regional Director

NUTMEG FEDERAL SAVINGS AND
LOAN ASSOCIATION
By a majority of its
Board of Directors:

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UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In The Matter of:

NUTMEG FEDERAL SAVINGS AND
LOAN ASSOCIATION
Danbury, Connecticut
OTS No. 07594

Re: Resolution No. BOS 91-13
Date: September 5, 1991

ORDER TO CEASE AND DESIST

WHEREAS, Nutmeg Federal Savings and Loan Association, ("Nutmeg" or the "Institution"), through its directors, has executed a Stipulation and Consent to Issuance of Order to Cease and Desist ("Stipulation"), which is incorporated herein by reference and is accepted and approved by the Office of Thrift Supervision ("OTS") acting through its Regional Deputy Director for the Boston District Office ("Regional Deputy Director"); and

WHEREAS, without admitting or denying any of the alleged charges of unsafe or unsound banking practices and violations of law and regulations, the Institution, 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"), 12 U.S.C. 1818(b);

NOW THEREFORE, IT IS ORDERED that:

I. CEASE AND DESIST PROVISIONS

The Institution and its directors, officers, employees, agents, successors, assigns and other persons participating in the conduct and affairs of the Institution, and its service corporations, shall cease and desist from:

A. Engaging in any of the following unsafe and unsound banking practices and from aiding and abetting in the same:

- (1) operating in an unsafe and unsound financial condition as evidenced by poor financial operating ratios, substantial operating losses, dissipation of capital, and significant deterioration of asset quality;
- (2) failing to maintain adequate internal controls;
- (3) failing to develop and implement an effective loan review and asset classification system;
- (4) failing to develop and implement an effective Lending Policy;
- (5) failing to develop and implement an effective appraisal policy; and

B. Violating the following statutes and regulations, and from aiding and abetting in the same:

- (1) 12 C.F.R. 563.160, regarding internal classification of assets and reserves;
- (2) 12 C.F.R. 563.161, regarding management and financial policies;
- (3) 12 C.F.R. 563.170, regarding establishment and maintenance of records (including, in particular, 12 C.F.R. 563.170(c)(1)(vi) and (vii), and 563.170(c)(2)(v), regarding loan settlement sheets and approval of loans);
- (4) 12 C.F.R. Part 564.8, regarding appraisal policies and procedures; and
- (5) 12 C.F.R. 563.43(b)(5), regarding disclosure requirements on commercial loans made to directors.

II. AFFIRMATIVE CORRECTIVE ACTION

IT IS FURTHER ORDERED THAT the Institution, its directors, officers, employees, agents, successors, assigns, and other persons participating in the conduct of the affairs of the Institution, take affirmative corrective action as follows:

A. Management

1. Within sixty (60) days from the effective date of this Order, the Institution's Board of Directors ("Board") shall develop and submit to the Regional Deputy Director a written analysis and assessment of the Institution's management and staffing needs ("Management Plan") which shall include, at a minimum:

- (a) identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Institution;
- (b) evaluation of each Institution officer and senior staff member to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to applicable regulatory provisions and the Institution's established policies and practices, and maintenance of the Institution in a safe and sound condition;
- (c) an analysis of management's strengths and weaknesses, including an assessment of current compensation and organizational structure;
- (d) an assessment of senior management staff's ability to effectively manage and resolve current problems confronting the Institution;

- (e) a plan of action to recruit and hire any additional or replacement personnel with the ability, experience and other qualifications, which the Board determines are necessary to fill Institution officer and senior staff member positions; and
- (f) a requirement that the Board (or a committee thereof, a majority of whom are outside directors) provide supervision over the lending, investment and operating policies of the Institution sufficient to ensure that the Institution complies with the terms of this Order.

2. The Board shall approve the Management Plan, and such approval shall be recorded in the Board minutes. Any modification shall become effective when approved by the Board, and such approval shall be recorded in the Board minutes. The Board shall notify the Regional Deputy Director of all material modifications to the Plan. The Institution, its directors, officers and employees shall implement and follow the written Management Plan, and/or any subsequent modification thereto.

B. Loan Policies and Procedures

3. Within ninety (90) days of the effective date of this Order, the Board shall adopt and submit to the Regional Deputy Director for review, a revised written loan policy (the "Loan Policy"). The Loan Policy shall address each loan product offered by the Institution and shall include, at a minimum:

- (a) the lending authority of loan officers;
- (b) the lending authority of a loan or executive committee, if any;
- (c) the responsibility of the Board in reviewing, ratifying,

- and approving loans and extensions of credit;
- (d) the guidelines for terms of repayment for unsecured loans and secured loans;
 - (e) the maintenance and review of complete and current credit files on each borrower and income producing property;
 - (f) the determination and documentation of sources and terms of loan repayments;
 - (g) the procedures to be established to ensure that loan files contain all required documentation in accordance with 12 C.F.R. 563.170(c);
 - (h) a requirement that updated personal financial information be obtained at least annually from all borrowers and guarantors with commercial real estate loans in excess of \$250,000 in the aggregate and that operating statements on properties securing such commercial real estate loans be obtained at least annually from borrowers and guarantors and such properties. All such requests, responses and subsequent analysis shall be maintained as loan file documentation; and
 - (i) a provision that loans which do not conform to internal underwriting guidelines will be specifically reported as such to the Board.

4. The Board shall approve the Loan Policy, and such approval shall be recorded in the minutes of the Board. Subsequent material modifications to the Loan Policy shall require notification to the Regional Deputy Director. No such modification shall become effective until approved by the Board, and such approval shall be recorded in the minutes of the Board. The Institution, its

directors, officers and employees shall follow the Loan Policy and/or any subsequent modification(s) thereto.

C. Appraisal Policies and Procedures

5. Within sixty (60) days from the effective date of this Order, Nutmeg shall revise its appraisal policy to include, at a minimum:

- (a) a requirement that a market value appraisal be obtained prior to granting or purchasing any real estate loan, as required by 12 C.F.R. 563.170(c)(1)(iv);
- (b) a requirement that all appraisal reports comply with the requirements of 12 C.F.R. Part 564;
- (c) the guidelines for obtaining appraisals on all types of properties on which the Institution extends credit;
- (d) specific procedures for management to follow in reviewing appraisals for content and compliance with regulatory and internal requirements;
- (e) the responsibility of the Board to review, ratify and approve appraisers on at least an annual basis; and
- (f) the process for Board review and approval of appraisers, which shall provide detailed documentation supporting conclusions reached. The process shall become part of the Board minutes.

6. A market value appraisal shall be obtained for any property that the Institution acquires through or as a result of foreclosure, deed in lieu of foreclosure, or "in substance" foreclosure ("real estate owned" or "REO"), as required by 12 C.F.R. 563.172(a).

D. Asset Classification and Review

7. Within sixty (60) days from the effective date of this Order, the Board of Directors shall revise and submit to the Regional Deputy Director for review, an internal classification of assets policy ("Classification Policy") consistent with, and no less stringent than, the provisions of 12 C.F.R. 563.160. The Classification Policy shall include:

- (a) provisions for ongoing monitoring of the loan portfolio and maintenance of loan file documentation to provide for an assessment of adequacy and adherence to internal loan policies and procedures, identification of potential problem loans, and an assessment of the overall quality of the loan portfolio;
- (b) identification of the individuals responsible for the internal loan review, the frequency of reviews, the method of loan selection, the scope and depth of the review, and follow-up reporting procedures;
- (c) a provision to ensure that all classified assets are reported as required on Thrift Financial Reports ("TFRs") submitted to the OTS.

8. (a) Within thirty (30) days of the effective date of this Order, the Institution shall charge off or establish specific reserves for all assets classified "Loss" in the OTS Report of Examination as of February 25, 1991 ("ROE"). In addition, the Institution shall establish a general loss reserve of at least \$1,200,000.

(b) The Institution shall review its assets for potential classification and its general valuation reserve for adequacy on at

least a quarterly basis. Adjustments to the reserve shall be made within fifteen (15) days following each such quarterly review. Such reviews and supporting analysis for the adequacy of the general loss reserve shall be documented within the Board minutes.

9. Within sixty (60) days of the effective date of this Order, the Board shall adopt and submit to the Regional Deputy Director for review a plan to reduce loans and real estate assets classified "Substandard," "Doubtful," or "Special Mention" in the ROE. As used in this Order, the word "reduce" means (1) to collect, (2) to charge off, or (3) to improve the quality of assets criticized sufficiently to warrant the removal of the adverse classification or criticism. The plan shall include at a minimum, a schedule of the Institution's goals to reduce the amount of such criticized assets expressed as a percentage of total capital as of the end of each calendar quarter, with a view toward the progressive substantial reduction of all such criticized assets.

10. The Institution shall, on a quarterly basis, submit to the Regional Deputy Director a status report on each borrower and parcel of real estate classified or subject to Special Mention in the ROE with an aggregate balance of \$250,000 or more. The status report shall include the balance of each separate asset as of the date of the ROE, the balance as of the reporting date, past due status, the status of efforts to improve or eliminate the classifications, and such other information regarding such assets as the Regional Deputy Director may request. The first such status report shall be submitted on July 31, 1991, with the status as of June 30, 1991. Thereafter, each report shall be due within thirty (30) days following the end of each succeeding three month period.

11. Within sixty (60) days from the effective date of this Order, the Board shall develop and submit to the Regional Deputy Director, a written Trouble Debt Restructuring ("TDR") Policy to include at a minimum:

- (a) terms under which the Board will accept or negotiate a trouble debt restructuring which may include a lower or no interest rate, a reduction in principal, a lengthier term to maturity, a transfer of assets from the borrower, the substitution or addition of a new borrower, or some combination of these terms;
- (b) identification of individuals authorized to approve and/or execute trouble debt restructurings and the procedures to be incorporated to monitor the activities to prevent unneeded compromises from occurring;
- (c) a provision that troubled debt restructurings be accounted for in accordance with general accepted accounting principles (GAAP), and specifically SFAS Nos. 5 and 15;
- (d) procedures to be followed to ensure that all troubled debt restructurings, repossessions in substance and related specific reserves are reported accurately on TFRs submitted to the OTS; and
- (e) a provision that troubled debt restructurings and repossessions in substance are approved by the Board, are reviewed on a monthly basis, and are recorded in the Board minutes.

12. The Board shall approve the TDR Policy, and such approval shall be recorded in the minutes of the Board. No subsequent modification shall become effective until approved by the Board, and

such approval shall be recorded in the minutes of the Board. The Institution, its directors, officers and employees shall follow the TDR Policy and/or any subsequent modification(s) thereto.

13. All loans and extensions of credit in excess of \$10,000 and past due thirty (30) days or more shall be reported in writing to the Board on a monthly basis. 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 the 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 TFRs filed with the OTS. 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 minutes.

14. Within sixty (60) days of the effective date of this Order, the Institution shall develop and maintain a comprehensive borrower credit ledger. At a minimum, the ledger shall provide an accurate record of total borrower credit in all loan types, including direct liability (whether as maker, co-maker, partner, or any other type of direct liability) and indirect liability (as endorser, guarantor and any other type of indirect or contingent liability). Such ledger shall be maintained in a current status for all borrowers with multiple loans having an aggregate balance of \$250,000 or more.

E. Loans to Affiliated Persons

15. Procedures shall be implemented to ensure that loans to

affiliated persons shall meet the requirements of 12 C.F.R. 563.43(b).

F. Regulatory Violations

16. Within sixty (60) days of the effective date of this Order, all violations of law and regulations listed in the OTS ROE on Page A-26.1, shall be corrected and procedures adopted by the Board of Directors to prevent recurrence shall be documented in the Board minutes.

G. Progress Reports

17. Within thirty (30) days of the effective date of this Order, and, thereafter, within thirty (30) days of the end of each calendar quarter, the Institution shall furnish written progress reports to the Regional Deputy Director detailing the actions which have been taken to secure compliance with this Order and the results thereof. Said reports may be discontinued only when the corrections required under this Order have been accomplished, and the Regional Deputy Director has, in writing, released the Board from making further reports. In addition, the Institution shall furnish such reports on request of the Regional Deputy Director. All status reports and other written submissions pursuant to this Order shall be reviewed by the Board of Directors of the Institution and made a part of the Board minutes.

H. Effective Date and Effect of Order

18. This Order shall become effective upon execution by the Regional Deputy Director, and shall remain effective and enforceable until such time as any provisions thereof shall have been modified, terminated, suspended, and/or set aside by the Regional Deputy Director.

THE OFFICE OF THRIFT SUPERVISION

/S/

Ralph W. Gridley
Regional Deputy Director
Boston District Office