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**SUPERVISORY AGREEMENT
ADDENDUM**

This Supervisory Agreement Addendum ("Addendum") is made to the Supervisory Agreement ("Agreement") which was executed on the 26th day of November 1991, by and between the Board of Directors of Citizens Savings Bank, FSB (OTS No. 7424) ("Citizens" or the "Bank") and the Office of Thrift Supervision ("OTS"). This Addendum is made and is effective this 28th day of October 1992, by and between the same parties. This Addendum has been duly authorized, executed and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of Citizens. It is understood and agreed that this Addendum is a "written agreement" entered into with the OTS, as that term is used in 12 U.S.C. § 1818(b).

WHEREAS, the OTS is of the opinion that based on the results of the Report of Examination ("ROE") dated June 22, 1992, it has grounds for the initiation of formal supervisory proceedings against the Bank;

WHEREAS, the OTS is willing to forbear at this time from the initiation of such proceedings against the Bank, so long as the Bank is in substantial compliance with the provisions of this Addendum and the Agreement;

WHEREAS, although the Bank neither admits nor denies the matters contained in the ROE, in the interest of regulatory compliance and cooperation, the Bank is willing to enter into this Addendum to avoid the initiation of such proceedings; and

WHEREAS, the terms and conditions of the Agreement are hereby incorporated by reference into this Addendum:

NOW, THEREFORE, in consideration of the above-stated forbearance by the OTS, it is agreed between the parties hereto as follows:

1. Citizens' Board of Directors shall actively fulfill its fiduciary responsibilities to ensure that Citizens is safely and soundly managed. To this end, the Board shall obtain and retain competent management; provide appropriate guidance to management; determine the effectiveness of management; effectively oversee the Bank's affairs; establish adequate policies and procedures upon which management is to operate the Bank; develop an organizational structure which provides for management development and delegation of authority; and regularly attend Board meetings.

(a). The board shall, within ninety (90) days of the effective date of this Addendum, develop and adopt an organizational plan that shall clearly define and delineate job accountabilities, functional responsibilities, communication channels, reporting lines of authority and approval levels. The organizational plan shall also determine needed additions to the staff.

Further, the Board shall take all appropriate actions to ensure that the organizational plan is well understood and adhered to at every level of the bank.

3.

(b) Within in sixty (60) days of the adoption of the organizational plan, the performance of each member of the senior management shall be evaluated with a conclusion reached as to the adequacy of performance. Newly hired senior officers shall be similarly evaluated after 180 days of employment. For purposes of this Addendum, the term "senior management" is defined as an officer not more junior than a senior vice president.

(c) Appoint a senior management official who will be responsible for overseeing the lending function at the Bank. The appointment of this individual is subject to the provisions of Section 914 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") and the Board must notify the OTS of the proposed employment or promotion of any individual as a senior executive officer at least thirty (30) days before such employment becomes effective.

2. Citizens shall, within sixty (60) days of the effective date of this Addendum, develop and adopt an interim business plan for 1993. Furthermore, the board must develop and adopt a comprehensive three to five year strategic business plan, revised to address the causes for exception noted on pages 4 through 6 of the ROE. The three to five year strategic plan shall include, or make reference to, a Capital Preservation Plan that has been revised to eliminate the deficiencies noted on page 16 of the ROE.
- Following the implementation of the revised plan(s), the Board shall, on a quarterly basis and within forty-five (45) days of the close of each

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quarter, file with the RDD a written report documenting its review of the Bank's operating results for the quarter ended and year-to-date. Such report shall include a comparison of actual results against the projections in the budget and the business plan. A written explanation of any material deviation in the projections will be included along with a specific description of the measures that have been implemented or proposed to correct, abate, or improve any such deficiencies.

3. Within ninety (90) days of the effective date of this Addendum, Citizens shall develop or revise the following policies and procedures. Said policies are to address and/or eliminate the deficiencies enumerated on pages 6 through 7 and 19 of the ROE:

- (a) Lending policy (pages 6 and 7)
- (b) Liquidity and cash flow policy (page 19)

4. Unless legally obligated in writing to do so, as of the effective date of this Addendum, Citizens shall not make or commit to make, purchase or commit to purchase, refinance or commit to refinance, or modify any construction real estate loan, as defined in the Agreement, with the exception of the following types of loans:

- (a) Construction loans secured by commercial real estate located within the Bank's primary lending area of Tompkins, Courtland and Broome counties. No loan will exceed \$500,000, and all loans between

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\$350,000 and \$500,000 must be approved in advance by the Executive Committee of the Board. These loans will be limited to a maximum loan to value for the land and building of 75 percent of the appraised value.

(b) Loans to facilitate the sale of real estate owned, not to exceed \$250,000 to any one borrower, provided the loans are written at prevailing market rates and terms and are consistent with the underwriting guidelines specified in the Bank's loan policy.

5. Citizens shall, in accordance with the appraisal requirements of 12 C.F.R. Section 563.172(c) obtain new appraisal reports for the real estate owned property known as Headquarters Island Plantation and also for the two direct investments known as Westwood and Tin Brook. Said appraisal reports shall reflect market value as defined at 12 C.F.R. Section 564.2 and meet the minimum appraisal requirements set forth at 12 C.F.R. Section 564.4. Once the appraisal reports have been obtained for each particular asset, and it has been determined that the reports contain sufficient information to support the final estimates of value, Citizens shall adjust the book value of those assets which are overvalued, if any, on its books in accordance with 12 C.F.R. Section 563.172(c) and (d).

6. Citizens shall immediately comply with the appraisal requirements set forth at 12 C.F.R. 563.172(a) which require an acquisition appraisal for each parcel of real estate owned at the earlier of insubstance foreclosure or at

the time of acquisition and at such times thereafter, as dictated by prudent management.

7. Citizens shall provide formal training to the personnel responsible for the implementation of the appraisal policy and in particular for those persons who review appraisal reports.

8. Citizens shall, within ninety (90) days of the effective date of this Addendum, either engage an outside consulting firm and/or appoint an experienced full-time employee(s) to exclusively engage in the workout of classified assets. The engagement of an outside consulting firm must be approved by the OTS pursuant to Thrift Bulletin #50 titled "Regulatory Review of Certain Third Party Contracts: OTS Guidelines." The appointment of any senior management official is subject to the provisions of Section 914 of FIRREA, which are enumerated at Provision No. 1. Therefore, prior to the appointment, the proposed contract or notification under Section 914 shall be submitted to the RDD.

Additionally, individual strategic asset plans shall be maintained for each asset criticized in the ROE as "Special Mention", "Substandard" and/or "Doubtful" and which aggregate \$500,000 or more. Furthermore, in conjunction with the Bank's plan to liquidate direct investments, Citizens shall, within ninety (90) days, prepare narrative strategies with attendant financial projections for each direct investment and related assets.

7.

The Board, or a designated committee thereof, shall conduct a review, at least quarterly to determine:

- (a) The status of each criticized asset or criticized portion thereof;
- (b) The status of each direct investment;
- (c) Management's adherence to the individual strategic plan;
- (d) The status and effectiveness of the written plan; and
- (e) The need to revise the plan or take alternative action.

A copy of each review shall be maintained at the Bank and will be reviewed during the next scheduled examination.

This Provision replaces the requirements set forth in the Agreement at Provision 3.1(d).

- 9. Citizens, to the extent it has not already do so, shall immediately charge off or specifically reserve all assets classified Loss on page A - 12 of the ROE. Furthermore, the level of general valuation allowances shall be increased to \$4.6 million and maintained at adequate levels going forward.
- 10. Citizens shall comply in all respects with the limitations on loans to one borrower ("LTOB") and shall develop and implement such procedures as are necessary to ensure compliance therewith. Furthermore, before renewing loans that exceed the current LTOB limitations, Citizens shall make every effort to bring nonconforming loans into compliance with the post-FIRREA limitations.

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11. Citizens' Internal Audit function shall establish a review procedure to ensure timely filing of the criminal referrals (Form 366) as required by 12 C.F.R. Section 563.180(d).

12. The adequacy of and compliance with the various policies and procedures required to be submitted to the RDD by this Addendum, as well as overall compliance with this Addendum shall be determined by the RDD in conjunction with the next examination as well as future examinations of Citizens.

This Addendum hereby incorporates the terms and provisions contained in the November 26, 1991 Supervisory Agreement between Citizens and the OTS, and the terms and provision of said Addendum shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

IN WITNESS WHEREOF, the OTS acting through the Regional Deputy Director for the Pittsburgh Office, and the Bank by its duly elected directors, have executed this Addendum on the date first above written.

OFFICE OF THRIFT SUPERVISION

By: LS/
Regional Deputy Director

Citizens Savings Bank, FSB

By the Board of Directors:

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| <u>15/</u> G. Thomas Bowers | <u>15/</u> K. A. Horowitz |
| <u>15/</u> R. D. Cutting | <u>15/</u> E. J. Marti |
| <u>15/</u> V. Del Rosso | <u>15/</u> E. A. Marfin |
| <u>15/</u> W. G. Herbert | <u>15/</u> L. M. Matyas |
| <u>15/</u> M. Horowitz | <u>15/</u> J. R. Mc Grath |
| | <u>15/</u> J. E. Morlèy, Jr. |

CERTIFIED COPY OF RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly qualified Secretary of Citizens Savings Bank, FSB (OTS No. 7424) (hereinafter referred to as "Citizens") hereby certify that the following is a true copy of a resolution duly adopted by its Board of Directors at a meeting duly called and held on October 27, 1992, that at said meeting a quorum was present and voting throughout, and that said resolution has not been rescinded or modified and is now in full force and effect:

RESOLUTION

WHEREAS, the directors of Citizens have read and considered the proposed Supervisory Agreement Addendum ("Addendum") attached to the minutes of the meeting of the Board of Directors held on October 27, 1992, and after due consideration, and in the interest of regulatory compliance and cooperation, have determined to enter into said proposed Addendum:

NOW, THEREFORE, BE IT RESOLVED, that the proposed Addendum, a copy of which is attached hereto, be and is hereby approved by the Board of Directors of Citizens.

The officers and employees of Citizens are directed and authorized to take all necessary steps to implement immediately the terms of the Addendum.

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of
Citizens this 27th day of October, 1992.

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Secretary