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OTS No. 1473

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this thirty-first day of March, 1992 (the "Effective Date"), by and between Adirondack Bank, FSB (the "Association"), a federally chartered stock association, having its main office located at 60 Main Street, Saranac Lake, New York 12983 and the Office of Thrift Supervision ("OTS"), an office within the Department of the Treasury, a department in the Executive Branch of the United States Government, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C.

WHEREAS, the OTS is the primary federal regulator of the Association; and

WHEREAS, the OTS, represented by the Regional Director for the Northeast Region ("Regional Director") is of the opinion that the Association has engaged in acts and practices in operating the business of the Association that: (i) have resulted in violations of certain of the laws or regulations to which the Association is subject and/or (ii) are considered to be unsafe and unsound; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of administrative proceedings against the Association; and

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Association will: (1) comply with all applicable laws and regulations; (2) engage in safe and sound practices; and (3) maintain itself in a safe and sound condition; and

WHEREAS, the Board of Directors of the Association (the "Board") wishes to cooperate with the OTS and to demonstrate that they have the intent and ability to: (1) comply with all applicable laws and regulations; (2) engage in safe and sound practices; and (3) maintain the Association in a safe and sound condition.

NOW THEREFORE, in consideration of the above premises, the mutual undertakings set forth herein, and other good and sufficient consideration, the parties hereto agree as follows:

I. COMPLIANCE WITH LAWS AND REGULATIONS

1.1. The Association shall comply with the following Federal laws and regulations:

- (a) Section 22(h) of the Federal Reserve Act, 12 U.S.C. §375b, made applicable to savings associations by subsection 11b of the HOLA, 12 U.S.C. §1468(B)(1) (regarding prohibitions respecting loans and extensions of credit to executive officers and directors);
- (b) Section 563.43(b)(2) of the OTS Regulations, 12 C.F.R. §563.43(b)(2) (regarding restrictions covering loans and other transactions with Affiliated Persons);
- (c) Sections 563.160 and 571.26 of the OTS Regulations, 12 C.F.R. §§563.160 and 571.26 (regarding classification of assets);
- (d) Section 563.170(c) of the OTS Regulations, 12 C.F.R. §563.170(c) (regarding establishment and maintenance of records); and
- (e) Section 564.8(c)(3) of the OTS Regulations, 12 C.F.R. §564.8(c)(3) (regarding appraisal policies and practices of savings associations and subsidiaries).

1.2. The requirements set forth in Section 1.1 that the Association conduct its business in conformity with the requirements of the Federal laws and regulations set forth therein shall not be construed as an authorization for the Association to engage in any activity permitted by said laws and regulations. Furthermore, to the extent that it is lawful for the Association or its affiliates to engage in such activities, they shall be subject to any stricter restrictions, limitations and requirements set forth in this Agreement.

II. OPERATING RESTRICTIONS

2.1. Policies and Procedures

- (a) Within thirty (30) days of the Effective Date, if and to the extent it has not already done so, the Board shall revise or establish, approve and implement policies and procedures for the following areas/activities, which policies and procedures shall address the relevant comments from the Report of Examination: (i) bonuses; (ii) management succession; (iii) internal audit; (iv) asset classification and

internal loan review policy; (v) loan monitoring and file maintenance; (vi) budget; and (vii) savings and liquidity.

- (b) Within forty-five (45) days of the Effective Date, the Board shall revise or establish, approve and implement a business plan, which shall address the relevant comments from the Report of Examination.
- (c) The Board shall indicate that it has reviewed and approved all of the policies and procedures listed in this Section 2.1 and such review and approval shall be recorded in the Board minutes. Thereafter, such policies and procedures shall be reviewed by the Board on an annual basis, at a minimum, and such review shall be recorded in the Board minutes.

2.2. Internal Controls

- (a) Within thirty (30) days of the Effective Date, the Association shall establish an internal control system, which shall: (i) address the relevant comments from the Report of Examination; (ii) ensure that assets are properly safeguarded and financial and other information is timely and reliable; and (iii) irregularities are immediately discovered and promptly corrected.
- (b) The internal control system shall, at a minimum, include the following:
 - (i) an organizational plan that segregates functional responsibilities appropriately;
 - (ii) sound policies and procedures to be followed in the performance of the duties and functions of each department;
 - (iii) a system of authorization and recording procedures that assures reliable control of assets, liabilities, income, and expenses; and
 - (iv) personnel who are competent to carry out assigned responsibilities.

2.3. Restrictions on Commercial Loans

- (a) As of November 25, 1991, the Association shall not, except as expressly permitted by this Agreement, originate, invest in, participate or purchase (all such activities, collectively referred to as "Make") any Commercial Loan(s).

- (b) The Association shall be permitted to advance funds necessary to honor existing legally binding commitments in existence as of September 10, 1991 to fund Commercial Loans ("Commitments") or loans-in-process ("Loans in Process").
- (c) The Association shall be permitted to Make Commercial Loans, provided that:
- (i) for any of such Commercial Loans in the aggregate loan to one borrower ("LTOB") amount of less than or equal to \$100,000, no later than the 15th day following the end of each calendar month, the Association shall provide the Regional Director with a list of such Commercial Loans which closed in the immediately preceding calendar month. Such list shall include for each such Commercial Loan: (A) the name of the borrower; (B) the address of the borrower; (C) the principal of the borrowing entity and any guarantors of the loan; (D) the loan amount; (E) the purpose of the loan; (F) the term of the loan; (G) the interest rate of the loan; (H) description of the collateral, including the location and value; (I) the loan to value ratio; and (J) the total amount of loans to the borrower.
 - (ii) for any of such Commercial Loans in the aggregate LTOB amount of more than \$100,000 but less than \$200,000, the Association shall provide the Regional Director with the information described in Section 2.3(c)(i) and the basis for the Association's credit decision immediately upon the closing of such loan.
 - (iii) for any of such Commercial Loans in the aggregate LTOB amount of equal to or more than \$200,000, no such Commercial Loan shall be made without the prior written notice of non-objection of the Regional Director. The request for such non-objection shall: (A) comply with the provisions of Section 4.12 of this Agreement; (B) in addition to the information specified in Section 2.3(c)(i), shall include a more detailed description of the background and financial condition of the borrowers and any guarantors, the collateral, the sources and uses of funds, sources of repayment of the loan, legal title to the collateral, the security for the loan, and results of appraisals; and (C) set forth the basis for the Association's credit decision.

- (d) The Association shall ensure that the commercial and construction lending policies which were developed in response to the Report of Examination are fully implemented and the Board shall, on an annual basis, at a minimum, review and revise as necessary such policies and procedures. Such review shall be recorded in the Board minutes.

2.4. Appraisals

- (a) The Association shall immediately obtain appraisals or updates to existing appraisals for the properties listed on Page 25 of the Report of Examination. Within thirty (30) days of the Effective Date and every month thereafter, the Association shall provide OTS with a report of the results of such appraisals or updates, as the case may be, including: (i) the date of each such appraisal or update; (ii) the market value as determined by such appraisal or update; and (iii) whether additional specific and/or general valuation allowances are required.
- (b) Within thirty (30) days of the Effective Date, the Association shall implement an effective policy regarding its appraisal program consistent with 12 C.F.R. §§563.170, 563.172(a) and 564.1 et seq. The Association shall consider, as a reference in establishing its appraisal policy, the "Appraisal Policy and Procedures Guide," dated November 1990 and written by Gregg A. Hoefer, MAI, Department of the Treasury, Office of Thrift Supervision, Seattle, Washington.
- (c) The Association shall submit to the OTS, within thirty (30) days of the Effective Date, a plan providing that either Mr. Timothy A. Haselton cease performing appraisals and letters of opinion for the Association or resign as Chairman of the Appraisal Committee and remove himself from the committee.
- (d) Within thirty (30) days of the Effective Date, the Association shall: (i) conduct the annual review of the performance of approved appraisers in accordance with 12 C.F.R. §564.8(c)(3); (ii) present the findings of such review to the Board; and (iii) submit to the OTS written evidence documenting that such review was performed by the Association and presented to the Board.

2.5. Transactions with Affiliates

- (a) Within thirty (30) days of the Effective Date, if and to the extent it has not already done so, the Board shall establish, approve and implement a written Code of Ethics Policy (the "Ethics Policy") to address the relevant comments from the Report of Examination, and provide for disclosure requirements regarding interactions and relationships that may involve potential conflicts of interest. Such Ethics Policy shall:
- (i) provide that each Director, Officer or other Affiliated Person of the Association shall avoid placing himself in a position which creates, which leads to or could lead to, a conflict of interest having such adverse effects;
 - (ii) require compliance with the provisions of (A) 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, and (B) subsection 22(h) of the Federal Reserve Act, 12 U.S.C. §375b, and subsection 22(g) of the Federal Reserve Act, 12 U.S.C. §375a as applied to savings associations by Section 11 of the HOLA, as such sections are amended by Section 306 of the Federal Deposit Insurance Corporation Improvement Act, 137 Cong. Rec., H11794-11796, November 26, 1991, Pub. L. No. 102-242, and any regulations promulgated thereunder;
 - (iii) provide for an annual statement from all Officers of the level of Vice President and higher and all Directors certifying their compliance with the Conflicts Policy; and
 - (iv) provide that any Director who may have any interest whatsoever in any transaction or matter which comes before the Board for discussion and analysis, immediately disclose such interest to the Board and refrain from any discussion of or vote on such matter.

(b) If the Association has not already done so prior to the Effective Date, the Association shall (i) immediately initiate efforts to reduce the \$500,000 loan to Director William M. Macartney to comply with the limits of Section 563.43 of the OTS Regulations, 12 C.F.R §563.43; and (ii) submit to the OTS within thirty (30) days of the Effective Date, written evidence of the actions it has taken or proposes to take with respect to bringing such loan into regulatory compliance.

(c) If the Association has not already done so prior to the Effective Date, within thirty (30) days of the Effective Date, the Board shall take such action as is necessary to ensure that full restitution is made to the Association on all preferentially made loans to Officers and Directors as noted in the Report of Examination. The Board shall

- * certify, by Board Resolution, signed by each individual Board member, that such restitution has been made. Such certification shall be forwarded to OTS no later than five (5) days following the adoption of the Board Resolution.

III. BOARD OF DIRECTORS

3.1. Compliance with Agreement.

(a) The Board and the Officers of the Association shall take immediate action to cause the Association to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Agreement.

(b) The Board, on a monthly basis, shall adopt a Board Resolution (the "Compliance Resolution") formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar month, the Association has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist, and (ii) identify all notices of non-objection issued by the Regional Director that were outstanding as of the date of its adoption.

(c) The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each Director voting in favor of its adoption; and (ii) the

* in agreement with OTS (Ruth Esposito) certification shall be forthcoming following April 1992 Board Meeting.

Information Guidelines, published by OTS in December, 1989 and shall obtain and consider the kinds of information set forth therein which is applicable to the performance of his or her duties as a Director of the Association.

3.4. Minutes of Meetings

Within thirty (30) days of the Effective Date, the Board shall establish procedures to ensure that, with respect to meetings of the Board and of committees of the Board, minutes of all Board and committee meetings are accurate, contain sufficient detail, and are reviewed and adopted in a timely fashion. At a minimum, such procedures shall provide that:

- (a) each member of the Board receives draft copies of minutes of Board and committee meetings for review prior to each meeting and reads them individually prior to their being adopted;
- (b) attendance at all meetings is accurately recorded; and
- (c) all deliberations of the Board, including discussions held, policies and procedures approved, committee actions ratified and information reported to the Board by management is recorded;

IV. MISCELLANEOUS

4.1. Definitions:

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires: (a) the terms used in this Agreement have the meanings assigned to them in this Section 4.1 and include the plural as well as the singular; (b) all accounting terms not otherwise defined have the meanings assigned to them in accordance with generally accepted accounting principles in the United States, except that if such terms are defined in the Rules and Regulations of the OTS, such regulatory definitions shall be controlling; (c) all terms not otherwise defined herein that are defined in the HOLA, the FDIA, FIRREA, the Rules and Regulations of the OTS or its publicly available Bulletins and Advisory Memoranda shall have the meanings assigned to them in such

statutes, Rules and Regulations, Bulletins, and Advisory Memoranda; and (d) all technical words or terms not subject to a definition in this Agreement shall have the meanings that accord with the best custom and usage in the thrift and banking industries.

"Advisory Memoranda" refers to inter alia, R Memoranda and T Memoranda issued by the staff (or agents) of the OTS (or its predecessors in interest).

"Affiliated Person(s)" shall have the meaning set forth in Section 561.5 of the OTS Regulations, 12 C.F.R. §561.5.

"Board Resolution" means a resolution duly adopted by the Board at a duly called and held meeting of the Board at which a quorum was present.

"Bulletins" refers to, inter alia, Regulatory Bulletins, Thrift Bulletins, and PA Bulletins, issued by the staff (or agents) of the OTS (or its predecessors in interest).

"Business Day" means any weekday excluding Federal holidays.

"Commercial Loan" means any secured or unsecured loan, the proceeds of which are used for commercial, business, corporate or agricultural purposes.

"Director" shall have the meaning set forth in Section 561.18 of the OTS Regulations, 12 C.F.R. §561.18.

"FDIA" means the Federal Deposit Insurance Act, as amended.

"FIRREA" means the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183.

"HOLA" means the Home Owners' Loan Act, as amended, 12 U.S.C. §§ 1461 et seq.

"Officer" shall have the meaning set forth in Section 561.35 of the OTS Regulations, 12 C.F.R. § 561.35.

"OTS" refers to the Office of Thrift Supervision, United States Department of the Treasury, or its successor.

"Regional Director" or his successor is the "senior supervisory official" within the meaning of Section 723(d) of the FIRREA, and refers to the Regional Director of the Northeast region of OTS. All references to the Regional Director shall include the Regional Director and/or his designee(s).

"Report of Examination" means the Report of Examination of the Association conducted by the OTS, beginning July 22, 1991 and ending October 15, 1991.

"Savings Association" shall have the meaning set forth in Section 2(4) of the HOLA, 12 U.S.C. § 1462(4).

"State" means the state of New York.

4.2. Successor Statutes, Regulations, Guidance, Amendments.

Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

4.3. Notices.

- (a) Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with:

(i) the OTS by the Association, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 10 Exchange Place, 18th floor, Jersey City, New Jersey 07302, or telecopied to (201) 413-7543 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

(ii) the Association by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight

delivery service or physically delivered, in each case addressed to the Association at 60 Main Street, Saranac Lake, New York 12983 or telecopied to 518-891-0109 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

- (b) Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Agreement, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was received two Business Days after the date of the postmark on the envelope in which the notice was enclosed.

4.4. Duration, Termination or Suspension of Agreement.

- (a) This Agreement shall remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).
- (b) The Regional Director or his designee, in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

4.5. Effect of Headings.

The Section headings herein are for convenience only and shall not affect the construction hereof.

4.6. Separability Clause.

In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Director, in his sole discretion, decides otherwise.

4.7. No Violations of Law, Rule, Regulation or Policy Statement Authorized.

Nothing in this Agreement shall be construed as allowing the Association to violate any law, rule, regulation, or policy statement to which it is subject.

4.8. Successors in Interest/Benefit.

The terms and provisions of this Agreement shall be binding upon and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto, the Resolution Trust Corporation, and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

4.9. Signature of Directors.

Each Director signing the Agreement attests, by such act, that she or he, as the case may be, voted in favor of the resolution, in the form attached to this Agreement, authorizing the execution of this Agreement by the Association.

4.10. Enforceability of Agreement.

The Association represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Association. The Association acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. §1818.

4.11. Conflicts with Other Agreements.

In the event of any conflict between this Agreement and any other prior written agreements and understandings (including, but not limited to, letters dated September 10, 1991 and November 25, 1991), the terms and conditions of this Agreement shall be controlling.

4.12. OTS Notice of Non-Objection

The OTS, in the exercise of its discretion, may from time to time, provide the Association with a written notice of non-objection to permit activities otherwise prohibited hereby. The Association may request of the OTS the issuance of such written notice(s) of non-objection. Such requests must be submitted in writing to the Regional Director. The OTS will not

process such requests unless they are accompanied by such documentation and information as the OTS may deem appropriate. The minutes of the Board shall reflect that the Board, upon due inquiry, has determined the proposed activity to be in the best interests of the Association and has authorized the activity contingent upon OTS non-objection.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director and the Association, in accordance with a duly adopted resolution of its Board (copy attached hereto), hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

ADIRONDACK BANK, FSB

By:

By:

Name:
Title:

Name: Phillip W. Newcomb
Chief Executive Officer

DIRECTORS OF THE ASSOCIATION

LSJ
Director

ERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTOR.

I, the undersigned, being the duly appointed and qualified Secretary of Adirondack Bank, A Federal Savings Bank (the "Bank") hereby certify as follows:

1. A duly called meeting of the Board of Directors of the Bank was held on March 31, 1992;
2. At said meeting a quorum was present and voting throughout;
3. The following is a true copy of resolutions duly adopted by the Bank's Board of Directors, which resolutions have not been rescinded or modified and are now in full force and effect:

WHEREAS, the Board of Directors of the Bank wishes to cooperate with the OTS and to demonstrate that said Board and the Bank have the intent and ability to: (1) comply with all applicable laws and regulations; (2) engage in safe and sound practices; and (3) maintain the Bank in a safe and sound condition; and

WHEREAS the Directors of the Bank have read and considered the proposed Supervisory Agreement ("Agreement") which shall be attached to the minutes of this meeting; and

WHEREAS after due consideration, the Directors of the Bank have determined to cause the Bank to enter into the proposed Agreement which is in the best interest of the Bank;

NOW THEREFORE, BE IT RESOLVED, that the Bank be and it hereby is authorized to enter into the Agreement in the form attached to the minutes of the meeting,

FURTHER RESOLVED, that the execution and delivery of, and performance of all of the provisions of, the Agreement, be and they hereby, are authorized and approved,

FURTHER RESOLVED, that the Directors and Officers of the Bank be, and they hereby are, authorized and directed to execute and deliver the Agreement and to take all steps necessary or appropriate to implement the terms of the Agreement and to cause the Bank to comply in all respects with the terms of the Agreement.

4. All members of the Board of Directors were present and voted at the meeting except Timothy A. Haselton and William N. Macartney, III and all members of the Board of Directors except *Timothy A. Haselton and *William N. Macartney, III voted in favor of the resolutions;

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of the Bank on this 31st day of March, 1992.

18/7/92
NAME: DONALD R. MOREAU, SR.

TITLE: SECRETARY

(SEAL)

*Timothy A. Haselton and William N. Macartney, III were in agreement with the resolutions.