

OTS DOCKET # 7874

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SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 18th day of June, 1992, by and between Savings Bank of the Finger-Lakes, FSB (OTS No. 07874), hereinafter referred to as "SBFL", "Bank", or "Institution" and the Office of Thrift Supervision ("OTS"). This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of SBFL. It is understood and agreed that this Agreement is a "written agreement" entered into with the OTS, as that term is used in 12 U.S.C. Section 1818(b).

WHEREAS, the OTS is of the opinion that SBFL has not complied with certain of the laws and regulations to which the institution is subject and that SBFL has engaged in unsafe and unsound practices, thereby providing grounds for the initiation of cease and desist proceedings against SBFL by the OTS; and

WHEREAS, the OTS is willing to forbear at this time from the initiation of cease and desist proceedings against SBFL for violations of law and unsafe or unsound practices described in SBFL's March 30, 1992, Report of Examination ("ROE"), so long as the institution is in compliance with the provisions of the Agreement; and

WHEREAS, in the interest of regulatory compliance and cooperation, SBFL is willing to enter into this Agreement to avoid the initiation of such cease and desist proceedings:

NOW, THEREFORE, in consideration of the above-stated forbearance by the OTS from the initiation of cease and desist proceedings against SBFL, it is agreed between the parties hereto as follows:

1. SBFL's Board of Trustees shall actively fulfill its fiduciary responsibilities to ensure that SBFL 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 institution's affairs; establish adequate policies and procedures upon which management is to operate the institution; and ensure that the institution is operated in accordance with laws and regulations. The Board shall also require that adequate and reliable information is provided upon which the Board can make decisions. Furthermore, the official minutes of all Board and committee meetings shall clearly and accurately reflect the level of supervision exercised over the institution by the Board and shall attest to the Board's active involvement.
2. Within ninety (90) days of the effective date of this Agreement, SBFL's Board shall develop, adopt, and file with the Regional Deputy Director of the Office of Thrift Supervision/Pittsburgh District ("RDD"), a plan for strengthening the institution's management ("Management Plan"). The Management Plan shall include an accurate assessment and performance evaluation of the senior management of SBFL prepared exclusively for the

Board of Trustees by an experienced management consultant approved in advance by the RDD. Once selected, the Board shall inform the RDD of its selection.

The management consultant shall be required to reach specific conclusions and make specific recommendations regarding management in the following areas:

- an evaluation of current lines of authority, reporting responsibilities, and delegation of duties for all senior officers;
- the development of written job descriptions for each senior officer, as well as loan origination and administration personnel;
- adequacy of management depth for the scope of operations;
- the qualifications of each of SBFL's senior and lending officers to perform assigned duties;
- an evaluation of the institution's organizational structure;
- adequacy of SBFL's management to correct deficiencies outlined in the March 30, 1992 ROE;
- an evaluation of the performance of each senior and lending officer of SBFL with a conclusion reached as to the adequacy of the officer's performance;
- an evaluation of the Board's performance in conducting the affairs of the institution and oversight of management;

- adequacy of the lending staff in the areas of commercial mortgage, commercial business, and consumer lending, loan review, loan administration and monitoring, commercial real estate appraisal review, and credit and financial analysis.

The management consultant's review and recommendations shall be detailed in a written report which shall be submitted to the Board within sixty (60) days of employment. A copy of this report shall be submitted to the RDD, and he shall retain the right to determine the adequacy of the report and its compliance with the terms of this Agreement.

The Management Plan shall further include:

- (a) Implementation strategy to address each recommendation in the management consultant's report, including timeframes;
- (b) Major goals and strategies for strengthening and enhancing management, especially in the areas of commercial mortgage lending, commercial business lending, consumer time note and line of credit lending, internal loan review, commercial real estate appraisal review, loan administration and monitoring, and credit and financial analysis.
- (c) Identification of current lines of authority, reporting responsibilities, and delegation of duties for all officers;
- (d) Written job descriptions for each senior officer and for loan origination and administration personnel which detail specific job responsibilities and oversight procedures;

- (e) Identification of corrective actions to address the management and Board deficiencies outlined in the March 30, 1992 ROE, including a determination of the adequacy of revised policies and procedures.
- (f) Major goals, strategies, and timeframes for enhancing Board oversight of management activities, particularly in the areas of lending, loan administration and monitoring.

It shall remain the responsibility of the Board to fully implement the Management Plan within specified timeframes. In the event the Management Plan, or any portion, thereof, is not implemented, the Board shall immediately advise the RDD, in writing, of specified reasons for deviating from the Management Plan.

For purposes of the Agreement, the terms "senior management", "senior officer", and "lending officer" are defined as an officer of the institution not more junior than vice president.

3. SBFL agrees to immediately cease to make or commit to make, purchase or commit to purchase, refinance or commit to refinance, commercial mortgage, commercial business, consumer time notes and consumer lines of credit, until otherwise directed in writing by the RDD.

The prohibitions noted above will not apply to legally binding commitments in effect upon the date of the institution's receipt of notice from the OTS. No additional disbursements shall be made on any legally binding

commitments unless the disbursements are specifically approved by the Board. Said prohibitions will also not apply to loans made to new borrowers to finance the workout of pre-existing loans or the sale of real estate owned, provided that the RDD takes no objection within ten (10) days of his receipt of notification from SBFL regarding the proposed financing.

The aforementioned lending prohibitions shall remain in effect until:

- (a) The Board has implemented the recommendations of the Management Plan developed pursuant to Provision No. 2.
- (b) The following Board-approved policies and procedures are developed or amended:
 - 1. The bank's lending policy is amended to provide underwriting guidelines detailing specific criteria for the origination of commercial real estate loans by property type. This policy must provide for a documented analysis evaluating whether the borrower has adequately managed its financial affairs in the past and has the financial strength and capacity to service and repay the loan. The policy should also address obtaining operating statements for the properties, personal financial statements and signed tax returns for the principals, leases, rent rolls, periodic inspections, as well as acceptable debt service coverage ratios. In addition, the policy must also incorporate the commercial real estate appraisal review into the loan approval process.

2. The development and implementation of procedures for the ongoing monitoring of commercial mortgage and commercial business loans.
3. The appraisal policy is amended to incorporate all of the minimum standards set forth in Section 564.4 of the Regulations and standards for hiring appraisers.
4. The commercial business lending policy is revised to provide for interim financial statements, the number of permissible renewals, and a documented analysis of the borrower's continued ability to repay. The policy must address the documentation of the value of non-real estate collateral, both prior to funding and on an ongoing basis.
5. The consumer lending policy is expanded to address secured versus unsecured time notes, lending limits, loan-to-value ratios, and the number of permissible renewals.
6. The residential lending policy is revised to address one-to-four family income-producing residential properties.
7. Internal loan review procedures are developed and implemented to ensure compliance with the revised policies and procedures before loan origination. The scope of the internal audit is expanded to include quarterly reviews of compliance. The findings of the internal loan review and the internal audit functions must be reported to the Board on a periodic basis and recorded in the Board minutes.

(c) Management has obtained or has documented its attempts to obtain the missing borrower financial statements, credit reports, and other documentation identified in the ROE MACRO Asset Quality comment.

(d) Specific OTS approval is obtained to resume the prohibited types of lending.

4. Within sixty (60) days of the effective date of this Agreement, SBFL shall provide the RDD with a copy of its Board-approved policies for correcting the audit recordkeeping deficiencies reported in the ROE MACRO Management comment and to properly differentiate between commercial, consumer, and residential loans.

Reference in this Agreement to provisions of statutes, regulations, and the OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the effective date of this Agreement pursuant to Section 401(h) of FIRREA, pub. L. No. 101-73, Section 401(h), 101 Stat. 183 (1989), and references to successor provisions as they become applicable.

All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided in the provisions of this Agreement, shall insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, HOLA, and the Federal Deposit Insurance Act

("FDIA"), as amended by FIRREA. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, the Home Owners' Loan Act ("HOLA"), FDIA, or OTS Thrift Activities Handbook shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

The terms and provisions of the Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

Upon a written request by SBFL which demonstrates just cause, the timeframes for the submission of policies and procedures and other required documents, as prescribed within this Agreement may be extended by the approval of the RDD or his/her designee.

Nothing contained herein shall prevent the OTS from taking, or its successors in interest from recommending or taking, such further supervisory action as is deemed appropriate under given circumstances, with regard to the foregoing or otherwise.

This Agreement shall remain in effect until terminated as an Agreement by the OTS acting through its RDD. Additionally, the RDD may in his/her discretion suspend or modify any or all of such provisions of the Agreement during the term of the Agreement.

IN WITNESS WHEREOF, the OTS acting through the Regional Deputy Director for the Pittsburg Office, and SBFL, by its duly elected Trustees, have executed this Agreement on the date first above written.

This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of Savings Bank of the Finger Lakes, FSB.

CERTIFIED COPY OF RESOLUTION OF BOARD OF TRUSTEES

I, the undersigned, being the duly qualified Secretary of SAVINGS BANK OF THE FINGER LAKES, FSB (OTS NO. 07874) (hereinafter referred to as SBFL) hereby certify that the following is a true copy of a resolution duly adopted by its Board of Trustees at a meeting duly called and held on June 15, 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 Trustees of SBFL have read and considered the proposed Supervisory Agreement ("Agreement") attached to the minutes of the meeting of the Board of Trustees held on June 15, 1992, and after due consideration, and in the interest of regulatory compliance and cooperation, have determined to enter into the proposed Agreement:

NOW THEREFORE, BE IT RESOLVED, that the proposed Agreement, a copy of which is attached hereto, be and is hereby approved by the Board of Trustees of SBFL.

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

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of SBFL this 15 day of June, 1992.

15/
Secretary