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UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	
)	Order No. NE 08-13
FIRST FEDERAL SAVINGS OF)	
MIDDLETOWN,)	
)	Effective Date: October 3, 2008
Middletown, New York)	
OTS No. 02201)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, FIRST FEDERAL SAVINGS OF MIDDLETOWN, Middletown, New York, OTS Docket No. 02201 (Association), by and through its Board of Directors (Board) has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

WHEREAS, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) pursuant to 12 USC § 1818(b); and

WHEREAS, pursuant to delegated authority, the OTS Regional Director for the Northeast Region (Regional Director) is authorized to issue consent Orders to Cease and Desist where a savings association has consented to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

Compliance With Laws and Regulations.

1. The Association and its directors, officers, employees, and agents shall cease and desist from any action (taken alone or with one or more others) that is intended to or is likely to have the effect of causing, bringing about, participating in, counseling, or aiding or abetting any violation of:

- a. 31 USC § 5318(h), 31 CFR § 103.120(b), and 12 CFR § 563.177 (requiring effective Anti-Money Laundering (AML) and Bank Secrecy Act (BSA) Compliance Programs);
- b. 12 CFR § 563.180(d) and 31 CFR § 103.18 (requiring the filing of Suspicious Activity Reports (SARs)); and
- c. 31 CFR §§ 103.22 and 103.27 (requiring the filing of Currency Transaction Reports (CTRs)).

Enhanced Bank Secrecy Act/Anti-Money Laundering/Customer Information Program.

2. By no later than November 1, 2008, the Association shall revise, adopt, implement, and maintain an enhanced BSA/AML/CIP Program that is designed to ensure compliance with the Currency and Foreign Transactions Reporting Act, as amended by the USA Patriot Act and other laws, 31 USC §§ 5311 et seq., and the related regulations issued and/or administered by the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN), 31 CFR §§ 103.11 et seq., and the related BSA regulations issued by OTS, 12 CFR 563.177 (collectively the BSA Laws and Regulations), the FinCEN regulations governing SARs set forth at 31 CFR 103.18, the OTS SAR regulations set forth at 12 CFR 563.180 (collectively the SAR Regulations), the Office of Foreign Assets Control (OFAC) regulations set forth at 31 CFR Part 500 (the OFAC Regulations), the Customer Identification Program (CIP) requirements set forth at 12 CFR § 563.177(b)(2) and 31 C.F.R. § 103.121 (CIP Regulations), and the terms of this Order. The Enhanced BSA/AML/CIP Program must be approved by the Association's Board on or before November 1, 2008, be reflected in and attached as an exhibit to the minutes of the meeting at which the Board's approval is given, and include or provide for the following:

a. An Assessment of the Association's BSA/AML/OFAC Risk Exposure that: (i) complies with the BSA and OFAC Laws and Regulations; (ii) comports with the guidance set out in the FFIEC BSA/AML Exam Manual; (iii) takes into account the Association's products, services, customers, transactions, and geographic locations served; and (iv) is reviewed and updated on an ongoing basis, as necessary, but no less frequently than annually;

b. An Upgrade and Improvement of Internal Controls by establishing Customer Due Diligence procedures and processes that identify customers and customer groups with heightened BSA/AML risk, including, but not limited to, non-U.S. resident accounts, commercial and business accounts, customers with significant wire transfer activity, and customers generating multiple CTR filings within any 12-month period (High Risk Customers). The Association shall maintain current customer profiles on High Risk Customers and perform enhanced due diligence and monitoring of High Risk Customer accounts and transactions;

c. Independent Testing By Outside Party Acceptable to OTS that determines compliance with the Association's Enhanced BSA/AML/CIP Program and compliance with the BSA Laws and Regulations, the SAR Regulations, the OFAC Regulations, and the CIP Regulations (Independent Testing). OTS's decision concerning the acceptability of the proposed outside independent party will be transmitted in writing after the Association submits a written request for non-objection in accordance with Paragraphs 14 and 15 of this Order and has provided all information requested by OTS. The Independent Testing shall be: (i) completed by no later than September 1, 2009, and at least annually thereafter; (ii) performed in accordance with pertinent guidance contained in the FFIEC BSA/AML Exam Manual; and (iii) accompanied by full documentary support;

d. A BSA Training Program that provides BSA/AML training on an annual basis for all Association personnel whose duties require knowledge of the BSA, requires the Association to maintain written documentation of all such training, both formal and informal, and otherwise comports with the guidance set out in the FFIEC BSA/AML Exam Manual. The BSA Compliance Officer shall undergo training in all aspects of BSA/AML compliance, including, but not limited to, suspicious activity monitoring, analysis, review, and reporting;

e. A BSA Compliance Officer with sufficient authority, expertise, competency, time, staff, and resources to perform his or her assigned BSA responsibilities on a day-to-day basis;

f. Policies and Procedures Concerning the Closure of Accounts Suspected of Use in Illegal Activity, which: (i) specify the circumstances under which the Association will close an account suspected of being used in illegal activity; (ii) specify the factors the Association will take into account in reaching a determination as to whether such an account will be closed, including, but not limited to, its assessment of the risks associated with the account and the Association's ability to manage those risks; (iii) identify the persons or group responsible for determining whether such an account will or will not be closed; and (iv) require appropriate documentation of deliberations, decisions reached, and the reasons underlying those decisions; and

g. All other provisions required to be included in the Enhanced BSA/AML/CIP Program noted in the narrative sections of the OTS Report of Examination dated March 17, 2008 (Report of Examination).

Periodic Updates to Enhanced BSA/AML/CIP Program.

3. The Enhanced BSA/AML/CIP Program shall be monitored and updated on an ongoing basis as necessary, but no less frequently than annually, to adjust to changes in: (i) the BSA Laws and Regulations; and (ii) the Association's operations that may impact its compliance with the BSA Laws and Regulations.

Independent Testing.

4. The Independent Testing required by 12 CFR § 563.177(c)(2) and addressed in Paragraph 2(c) above shall be conducted annually, commencing no later than September 1, 2009, for the 12 month period ending August 31, 2009 (Annual Testing). Such Annual Testing shall cover all substantive requirements and compliance processes, and shall follow up on corrective actions directed as a result of findings and/or recommendations contained in prior Annual Testing reports. No later than 45 days following the end of August each year, the outside independent party shall be required to prepare and present to the Board and/or the Audit Committee a written report detailing its findings and its recommended corrective actions to address any deficiencies. The written reports shall be considered by the Board and/or the Audit Committee, which shall direct any and all appropriate corrective actions. Such written reports shall be attached to the minutes of the Board and/or Audit Committee meeting(s) at which the findings and recommendations are presented, and all corrective actions directed by the Board shall be recorded in its minutes.

BSA Training Report.

5. By no later than December 31, 2008, and at least annually thereafter, the BSA Compliance Officer must submit to the Board a written report that: (i) sets forth the scope, nature, and frequency of the Association's BSA training efforts during the previous year; (ii) evaluates the effectiveness of the training program; and (iii) recommends updates or revisions to the training program, so that Association personnel have access to the most current information (BSA Training Report). The BSA Training Report shall be attached to the minutes of the Board meeting at which it is considered and reviewed.

Suspicious Activity Reporting.

6. Enhancements to Suspicious Activity Detection & Reporting. By no later than November 1, 2008, the Association must implement an enhanced system designed to ensure that all transactions are reviewed, and that all suspicious transactions and activity are identified and accurately reported pursuant to 31 CFR § 103.18 and 12 CFR § 563.180(d). The Association must also provide for the monitoring, assessment, and review of the effectiveness of the Association's investigative procedures related to suspicious transactions and activity, as well as the propriety of its decisions concerning whether or not to file a SAR. The enhanced system shall have the capability to review cash transactions on a cumulative basis over an extended "look back" period to detect patterns of activity for specific customers. The Association shall maintain supporting documentation for all SARS filed and for all decisions not to file a SAR.

Currency Transaction Reporting.

7. Enhancements to Currency Transaction Reporting. By no later than November 1, 2008, the Association must implement an enhanced system designed to ensure the proper and timely filing of CTRs as required by 31 CFR §§ 103.22(c)(2) and 103.27, and the creation and maintenance of proper supporting documentation.

OFAC Compliance Program.

8. Enhancements to OFAC Compliance Program. By no later than November 1, 2008, the Board shall ensure that the Association's OFAC Compliance Program comports with the guidance for such programs set out in the FFIEC BSA/AML Exam Manual, including the guidance relating to the use of appropriate procedures, systems, and internal controls for reviewing, screening, and reporting in connection with non-customer cash transactions conducted by, at, or through the Association.

Compliance Management Program.

9. Enhancement of Compliance Management Program. By no later than November 1, 2008, the Board shall approve and cause the Association to implement an enhanced written Compliance Management Program that expressly incorporates the six **SMAART** components (**S**ystems, **M**onitoring, **A**ssessment, **A**ccountability, **R**esponse, and **T**raining) described in the Compliance Oversight Examination Program (Section 1100) of the OTS Examination Handbook and Appendix A thereto. The Board's approval must be documented in the minutes of the Board meeting during which the approval is given. The enhanced Compliance Management Program, as approved and

carried out pursuant to this Order, shall include specific guidelines for management regarding how the SMART components shall be implemented.

Effective Date, Incorporation of Stipulation.

10. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

Duration.

11. This Order shall remain in effect until terminated, modified or suspended, by written notice of such action by OTS, acting by and through its authorized representatives.

Time Calculations.

12. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

13. The Regional Director, or an OTS authorized representative, may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

Submissions and Notices.

14. All submissions, including progress reports, to OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

15. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Order shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

(i) To OTS:

Regional Director, Northeast Region
Attn: Martin J. Lavelle, Assistant Director
Office of Thrift Supervision
Harborside Financial Center Plaza Five
Suite 1600
Hudson and Pearl Streets
Jersey City, New Jersey 07311
Fax: (201) 413-7543

(ii) To the Association:

First Federal Savings of Middletown
Attn: Mr. Kenneth J. Abt
Chairman and Chief Executive Officer
22 James Street
Middletown, New York 10940-5710
Fax: (845) 343-1618

No Violations Authorized.

16. Nothing in this Order or the Stipulation shall be construed as allowing the Association, its

Board, officers or employees to violate any law, rule, or regulation.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____ /s/_____
Michael E. Finn
Regional Director, Northeast Region

Date: See Effective Date on page 1

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of)	
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FIRST FEDERAL SAVINGS OF)	Order No. NE 08-13
MIDDLETOWN,)	
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Middletown, New York)	Effective Date: October 3, 2008
OTS No. 02201)	
)	

STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Northeast Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed **First Federal Savings of Middletown**, Middletown, New York, OTS Docket No. 02201 (Association) that OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 USC § 1818(b);

WHEREAS, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

WHEREAS, the Association desires to cooperate with OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to Issuance of Order to Cease and Desist (Stipulation) and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraph 1 below

concerning Jurisdiction, hereby stipulates and agrees to the following terms:

1. Jurisdiction.

a. The Association is a “savings association” within the meaning of 12 USC § 1813(b) and 12 USC § 1462(4). Accordingly, the Association is “an insured depository institution” as that term is defined in 12 USC § 1813(c); and

b. Pursuant to 12 USC § 1813(q), the Director of OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 USC § 1818(b).

2. OTS Findings of Fact.

Based on its March 17, 2008 examination of the Association, OTS finds that the Association has deficiencies in the manner in which its management has implemented and overseen the Association’s Anti-Money Laundering (AML) and Bank Secrecy Act (BSA) Compliance Programs, and has failed to comply with requirements of various laws and regulations, including:

a. 31 USC § 5318(h), 31 CFR § 103.120(b), and 12 CFR § 563.177 (requiring an effective AML program);

b. 12 CFR § 563.180(d) and 31 CFR § 103.18 (requiring the filing of Suspicious Activity Reports (SARs)); and

c. 31 CFR §§ 103.22 and 103.27 (requiring the filing of Currency Transaction Reports (CTRs)).

3. Consent.

The Association consents to the issuance by OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

4. Finality.

The Order is issued by OTS under 12 USC § 1818(b), and upon the Effective Date it shall be a final order, effective and fully enforceable by OTS under the provisions of 12 USC § 1818(i).

5. Waivers.

The Association waives the following:

- a. The right to be served with a written notice of OTS's charges against it as provided by 12 USC § 1818(b) and 12 CFR Part 509;
- b. The right to an administrative hearing of OTS's charges as provided by 12 USC § 1818(b) and 12 CFR Part 509;
- c. The right to seek judicial review of the Order, including, without limitation, any such right provided by 12 USC § 1818(h), or otherwise to challenge the validity of the Order; and
- d. Any and all claims against OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes or otherwise.

6. OTS Authority Not Affected.

Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar or otherwise prevent OTS from taking any other action affecting the Association if at any time OTS deems it appropriate to do so to fulfill the responsibilities placed upon OTS by law.

7. Other Governmental and Non-Governmental Actions Not Affected.

The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 6 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than OTS.

8. Miscellaneous.

a. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order;

b. If any provision of this Stipulation and/or the Order 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 thereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise;

c. All references to OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns;

d. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order;

e. The terms of this Stipulation and of the Order represent the final agreement of the

parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters; and

f. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by OTS, acting through its Regional Director or other authorized representative.

9. Signature of Directors/Board Resolution.

a. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation.

b. This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Stipulation shall be delivered to OTS, along with executed original(s) of this Stipulation.

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