

**#2000-103**

AGREEMENT BY AND BETWEEN  
Sleepy Hollow National Bank  
Sleepy Hollow, New York  
and  
The Office of the Comptroller of the Currency

Sleepy Hollow National Bank, Sleepy Hollow, New York (**Bank**) and the Comptroller of the Currency of the United States of America (**Comptroller**) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his/her National Bank Examiner, has examined the Bank, and his/her findings are contained in the Report of Examination, dated January 3, 2000 (**ROE**).

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (Board), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

Article I

JURISDICTION

- This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).
- This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

- This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.
- This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).
- All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to:  
  
Kristin A. Kiefer, Assistant Deputy Comptroller, New York Metro Field Office, 830 Morris Turnpike, 2<sup>nd</sup> Floor, Short Hills, New Jersey 07078 on a quarterly basis, unless stated otherwise.

## Article II

### APPOINTMENT OF NEW DIRECTORS

(1) The Board shall within ninety (90) days add, at a minimum, 2 new independent directors. The term "independent director" means a person who is not an officer or employee of the Bank, and who is not a director, officer or employee of the Hughes family's related interests, and who is not a relative.

(2) Prior to appointing any new director, the Bank must provide the Assistant Deputy Comptroller with written notice as required by 12 C.F.R. § 5.51 (notice forms and instructions are in the “Changes in Directors and Senior Executive Officers” booklet of the Comptroller's Corporate Manual).

(3) The Assistant Deputy Comptroller shall have the power of veto over the appointment of the proposed new director. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed director.

(4) If the Board is unable to identify any qualified director candidates within ninety (90) days, the Board shall document its efforts to locate such candidates, and notify the Assistant Deputy Comptroller in writing. Thereafter, the Board shall provide **monthly** reports to the Assistant Deputy Comptroller summarizing its continuing efforts to locate such candidates.

### Article III

#### BOARD TO ENSURE COMPETENT MANAGEMENT

(1) Within ninety (90) days, the Board shall ensure that the Bank has competent management in place on a full-time basis in its Senior Loan Officer and Compliance Officer positions to carry out the Board's policies, ensure compliance with this Formal Agreement, applicable laws rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) If a position mentioned in Paragraph (1) of this Article is vacant now or in the future, including if the Board realigns an existing officer's responsibilities and a position mentioned in Paragraph (1) of this Article becomes vacant, the Board shall within thirty (30) days of such vacancy appoint a capable person to the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Formal Agreement and the safe and sound operation of functions within the scope of that position's responsibility.

(3) Prior to the appointment of any individual to an executive officer position, the Board shall submit to the Assistant Deputy Comptroller the following information:

- (a) the information sought in the “Changes in Directors and Senior Executive Officers” booklet of the Comptroller’s Corporate Manual, together with a legible fingerprint card for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed officer; and
- (c) a written description of the proposed officer's duties and responsibilities.

(4) The Assistant Deputy Comptroller shall have the power of veto over the employment of the proposed executive officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

(5) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. 1818(b) and do not require the Comptroller to complete his/her review and act on any such information or authority within ninety (90) days.

#### Article IV

##### STRATEGIC PLAN/BUDGET

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan and a detailed budget for the Bank covering at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives. The budget shall include a projection of major balance sheet and

income statement components, and shall provide for injections of equity capital, as necessary. Procedures shall also be established to monitor the Bank's actual results against projections and provide for appropriate adjustments to the budget, with a minimum time frame for accomplishment. The strategic plan shall set forth specific time frames for accomplishment and, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;
- (d) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(c) of this Article;
- (e) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;
- (f) a management employment and succession program to promote the retention and continuity of capable management;
- (g) product line development and market segments that the Bank intends to promote or develop;

- (h) an action plan to improve bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability and specific time frames;
- (i) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (j) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (k) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and
- (l) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) Upon adoption, a copy of the plan shall be forwarded to the Assistant Deputy Comptroller for review.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

## Article V

## CAPITAL PLAN

- (1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three year capital program. The program shall include:
- (a) specific plans for the maintenance of adequate capital that may in no event be less than the requirements under Federal Deposit Insurance Corporation Improvement Act (FDICIA) guidelines for a well-capitalized institution;
  - (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
  - (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
  - (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
  - (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and
  - (f) a dividend policy that permits the declaration of a dividend only when the Bank is in compliance with its approved capital program.
- (2) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for review. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

## Article VI

### LOAN REVIEW FUNCTION

(1) Within ninety (90) days, the Board shall appoint or employ a capable person or outside consulting firm to serve as loan review and who shall be responsible for identifying risk in the bank's assets and making recommendations to reduce that risk.

(2) Within ninety (90) days, the Board shall submit the name and qualifications of the prospective loan review officer or consultants to the Assistant Deputy Comptroller who shall have the power of veto over that person's employment or appointment. Failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

## Article VII

### CREDIT RISK

(1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to reduce the high level of credit risk in the Bank. The program shall include, but not be limited to:



- (a) procedures to strengthen credit underwriting, particularly in the secured commercial, commercial real estate and secured business and personal loan portfolios;
- (b) procedures to monitor progress of commercial and personal construction and rehabilitation loans;
- (c) procedures to strengthen management of loan operations and to maintain an adequate, qualified staff in all loan areas, and
- (d) an action plan to control loan growth.

(2) The Board shall submit a copy of the program to the Assistant Deputy Comptroller for review.

(3) At least quarterly, the Board shall prepare a written assessment of the bank's credit risk, which shall evaluate the Bank's progress under the aforementioned program. The Board shall submit a copy of this assessment to the Assistant Deputy Comptroller.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

## Article VIII

### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (Allowance) and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper

Allowance found in the Allowance for Loan and Lease Losses booklet, A-ALLL, of the Comptroller's Handbook, and shall focus particular attention on the following factors:

- (a) results of the Bank's internal risk identification;
- (b) results of the Bank's external loan review;
- (c) an estimate of inherent loss exposure on each significant credit;
- (d) the level of unsecured loans in all categories;
- (e) the large size of the individual loans relative to the ALLL and capital;
- (f) loans with structural weaknesses as identified in the ROE;
- (g) loan loss experience;
- (h) trends of classified, delinquent and nonaccrual loans;
- (i) concentrations of credit in the Bank;
- (j) projected loan growth; and
- (k) present and prospective economic conditions, particularly the local real estate market.

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) A copy of the Board's program shall be submitted to the Assistant Deputy Comptroller for review and approval.

Article IX

LOAN PORTFOLIO MANAGEMENT

(1) The Board shall, within ninety (90) days, develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management.

The program shall include, but not be limited to:

- (a) procedures to ensure satisfactory and perfected collateral documentation;
- (b) procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information;
- (c) procedures to ensure conformance with loan approval requirements;
- (d) a system to track and analyze exceptions;
- (e) procedures to ensure conformance with Call Report instructions;
- (f) procedures to ensure the accuracy of internal management information systems; and
- (h) procedures to track and analyze concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan portfolios.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller.

(3) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to systems which provide for effective monitoring of:

- (a) early problem loan identification to assure the timely identification and rating of loans based on lending officer submissions;
- (b) statistical records that will serve as a basis for identifying sources of problem loans by industry, size, collateral, division, group, indirect dealer, and individual lending officer;
- (c) previously charged-off assets and their recovery potential;
- (d) compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function;
- (e) adequacy of credit and collateral documentation; and
- (f) concentrations of credit.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program and systems developed pursuant to this Article.

## Article X

### CONSUMER COMPLIANCE PROGRAM

(1) Within ninety (90) days, the Bank shall adopt, implement, and thereafter ensure adherence to a written consumer compliance program designed to ensure that the Bank is

operating in compliance with all applicable consumer protection laws, rules and regulations.

This program shall include, but not be limited to:

- (a) a written description of the duties and responsibilities of the compliance officer;
- (b) adequate internal controls to ensure compliance with consumer protection laws, rules, and regulations;
- (c) the preparation of a policies and procedures manual covering all consumer protection laws, rules and regulations for use by appropriate Bank personnel in the performance of their duties and responsibilities;
- (d) semiannual updates of the written policies and procedures manual to ensure it remains current;
- (e) an audit program to test for compliance with consumer protection laws, rules and regulations;
- (f) procedures to ensure that exceptions noted in the audit reports are corrected and responded to by the appropriate Bank personnel;
- (g) the education and training of all appropriate Bank personnel in the requirements of all federal and state consumer protection laws, rules and regulations; and
- (h) monthly reporting of the results of the consumer compliance audit to the Board or a committee thereof.

(2) Upon adoption, a copy of the program shall be forwarded to the Assistant Deputy Comptroller for review.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

## Article XI

### INTERNAL/EXTERNAL AUDIT

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to independent, internal and external audit programs sufficient to:

- (a) detect irregularities in the Bank's operations;
- (b) determine the Bank's level of compliance with all applicable laws, rules and regulations and Generally Acceptable Accounting Principles (GAAP);
- (c) evaluate the Bank's adherence to established policies and procedures, with particular emphasis directed to the Bank's adherence to its loan policies concerning underwriting standards and problem loan identification and classification;
- (d) ensure timely audit coverage in all areas; and
- (e) establish an annual audit plan using a risk based approach sufficient to achieve these objectives.

(2) As part of this audit program, the Board shall establish an Audit Committee comprised of outside directors only.

(3) The Audit Committee shall evaluate the audit reports of any parties providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(4) The Board shall ensure that the audit program is independent. The persons responsible for implementing the audit programs described above shall report directly to the Audit Committee, that shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Audit Committee and not through any intervening party.

(5) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.

(6) Upon adoption, a copy of the internal audit program shall be promptly submitted to the Assistant Deputy Comptroller.

(7) The Board shall ensure that the audit function is supported by an adequately staffed department and outside firm, with respect to both the experience level and number of the individuals employed.

(8) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

## Article XII

### VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the Report of Examination.

(2) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the Report of Examination and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Upon adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller.

(4) The Board shall ensure that the Bank has policies, processes, personnel, and control systems to ensure implementation of and adherence to the procedures developed pursuant to this Article.

## Article XIII

### CLOSING

- Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.



- It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him/her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.
- Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.
- The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his/her hand on behalf of the Comptroller.

Signed \_\_\_\_\_  
Kristin A. Kiefer  
Assitant Deputy Comptroller  
Office of the Comptroller of the Currency

4/6/2000  
\_\_\_\_\_  
Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

Signed \_\_\_\_\_  
Vincent Daly

4/6/2000  
\_\_\_\_\_  
Date

Signed \_\_\_\_\_  
John J. Hughes

4/6/2000  
\_\_\_\_\_  
Date

Signed \_\_\_\_\_  
John J. Hughes, Jr.

4/6/2000  
\_\_\_\_\_  
Date

Signed \_\_\_\_\_  
Mary Hughes

4/6/2000  
\_\_\_\_\_  
Date

Signed \_\_\_\_\_  
James T. Margotta

4/6/2000  
\_\_\_\_\_  
Date