

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)
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)

FAJARDO FEDERAL SAVINGS BANK)
FAJARDO, PUERTO RICO)
)

Resolution No.: ATL-93-21
Date: June 9, 1993

STIPULATION AND CONSENT TO THE ISSUANCE OF AN
ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("the OTS"), by and through its Regional Director for the Southeast Region, and Fajardo Federal Savings Bank, Fajardo, Puerto, OTS No. 7283, for itself and its wholly owned service corporations and subsidiaries ("Fajardo Federal" or "Institution"), stipulate and agree as follows:

CONSIDERATION

1. The OTS, based upon information derived from the exercise of its supervisory and regulatory powers, is of the opinion that grounds exist to initiate administrative cease and desist proceedings against Fajardo Federal pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b)¹.
2. Fajardo Federal desires to cooperate with the OTS and to avoid the time and expense of such administrative cease and desist proceedings and, without admitting or denying that such grounds exist, hereby stipulates and agrees to the following terms in consideration of the forbearance by the OTS from initiating such administrative proceeding against the Institution with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").
3. The OTS is willing to forbear from the initiation of cease and desist proceedings against Fajardo Federal to require the actions referred to in the Order for so long as the Institution is in compliance with the provisions of the Order.

1. All references to the U.S.C. are as amended.

JURISDICTION AND FACTS

4. Fajardo Federal is a "savings association" within the meaning of Section 3(b)(1) of the FDIA, 12 U.S.C. § 1813(b)(1). The Institution is an "insured depository institution" as that term is defined in Section 3(c)(2) of the FDIA, 12 U.S.C. § 1813(c)(2).
5. Pursuant to Section 8(b)(1) of the FDIA, 12 U.S.C. § 1818(b)(1), the appropriate Federal banking agency may issue a cease and desist order against any insured depository institution which engages in unsafe and unsound practices in conducting its business and/or violates a rule or regulation.
6. Pursuant to Section 3(q)(4) of the FDIA, 12 U.S.C. § 1813(q)(4), the Director of the OTS is the "appropriate Federal banking agency" in the case of any savings association. Therefore, Fajardo Federal is subject to the authority of the OTS to initiate and maintain a cease and desist proceeding against it pursuant to Section 8(b) of the FDIA.
7. The facts in support of the Order include unsafe and unsound practices in conducting the business of the Institution, and violations of laws, rules, and regulations, specifically:
 - (a) 12 C.F.R. Part 215 and 12 C.F.R. § 563.43, generally regarding loans to executive officers, directors and principal shareholders;
 - (b) 12 C.F.R. § 571.7, generally regarding conflicts of interest; and
 - (c) Violations of the Written Agreement Entered into with the Office of Thrift Supervision, dated April 9, 1991.

CONSENT

8. Fajardo Federal consents to the issuance by the OTS of the accompanying Order. The Institution further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.

FINALITY

9. The Order is issued under Section 8(b) of the FDIA, 12 U.S.C. § 1818(b). Upon its issuance by the Regional Director for the Southeast Region of the OTS, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, 12 U.S.C. § 1818(i).

WAIVERS

10. Fajardo Federal waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, 12 U.S.C. § 1818(b), and further waives any right to seek judicial review of the Order, including any such right provided by Section 8(h) of the FDIA, 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order.
11. Fajardo Federal acknowledges and agrees that the consent to the issuance of the Order is for the purpose of resolving this OTS enforcement matter only, and does not resolve, affect or preclude any other civil or criminal proceeding that may be or has been brought by the OTS or another governmental entity.

SIGNATURE OF DIRECTORS

12. Each Director signing this Stipulation attests that s/he voted in favor of a resolution authorizing the execution of this Stipulation.

WHEREFORE, in consideration of the foregoing, the OTS, by and through the Regional Director, and Fajardo Federal, by a majority of its directors, execute this Stipulation.

UNITED STATES OF AMERICA
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In the Matter of)
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FAJARDO FEDERAL SAVINGS BANK)
FAJARDO, PUERTO RICO)

Re: Resolution No. ATL-93-21
Date: June 9, 1993

ORDER TO CEASE AND DESIST

WHEREAS, Fajardo Federal Savings Bank, Fajardo, Puerto Rico, OTS No. 7283, for itself and its wholly owned service corporations and subsidiaries ("Fajardo Federal" or "Institution"), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist ("Stipulation"), which is incorporated herein by reference and is accepted and approved by the Office of Thrift Supervision ("OTS"), acting through its Regional Director for the Southeast Region ("Regional Director"); and

WHEREAS, Fajardo Federal, in the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to Section 8(b) of the Federal Deposit Insurance Act, 12 U.S.C. § 1818(b)¹.

NOW THEREFORE, IT IS ORDERED that Fajardo Federal and its directors, officers, employees, agents, service corporations and subsidiaries shall cease and desist from any unsafe or unsound practices in conducting the business of the Institution and further, shall cease and desist from any violation of, or the aiding and abetting of any violation of, and from any noncompliance with, or the aiding and abetting of any noncompliance with:

1. 12 C.F.R. Part 215 (Regulation O) (generally regarding loans to executive officers, directors and principal shareholders);
2. 12 C.F.R. § 563.43 (generally regarding loans to executive officers, directors and principal shareholders);
3. 12 C.F.R. § 571.7 (generally regarding conflicts of interest).

IT IS FURTHER ORDERED that:

4. The Written Agreement Entered Into With the Office

1. All references to the U.S.C. are as amended.

of Thrift Supervision, dated April 9, 1991, is terminated as of the effective date of this Order.

MANAGEMENT

5. (a) Within 60 calendar days of the effective date of this Order, the Board of Directors ("Board") shall conduct a thorough review of the current management structure and Board supervision of the Institution and forward the results of such review to the Regional Director. The review shall include, at a minimum, the following:
 - (i) the identification of present and future management and staffing requirements of each area of Fajardo Federal, including the lending, collections and accounting areas;
 - (ii) specific goals and objectives by which management's effectiveness will be measured and monitored by the Board; and
 - (iii) an assessment of whether Board members are receiving adequate information on the operation of the Institution to enable them to fulfill their fiduciary responsibilities or other responsibilities under the law and regulations.
- (b) Within 30 calendar days of the completion of the review and study required by Paragraph 5(a) of this Order, the Board shall develop and implement a comprehensive written plan that will incorporate the items noted in the review.
6. Prior to granting any increase in compensation to executive officers, the Board shall justify and document that such compensation is reasonable and commensurate with the duties and responsibilities performed. Such documentation shall include, at a minimum, justification based upon the Institution's financial condition, operating results, ability to meet specific goals and objectives established by the Board, and the level and trend of criticized assets as a ratio of total capital. The term "executive officer" shall include any officer with the title or responsibility of senior vice president or above.
7. Fajardo Federal shall not pay dividends on its common stock or make any other capital distribution without the prior approval of the Regional Director.
8. Until such time as classified assets are reduced to below 100 percent of total capital, as verified by the OTS, Fajardo Federal shall not pay any bonus to any executive officer.

9. Fajardo Federal shall at all times maintain detailed and accurate minutes fully describing the discussions and business transacted during all regular and special meetings of the Board, as well as any and all committee meetings.

ASSET QUALITY

10. Within 60 calendar days of the effective date of this Order, the Institution shall develop, adopt and thereafter adhere to a plan to reduce the level of loans 30 days or more delinquent, adversely classified and Special Mention assets ("criticized assets"). The plan shall include specific quarterly targets and time frames for the reduction of the level of criticized assets. The plan shall also include separate action plans, which detail the efforts to be taken to minimize the risk of loss on any criticized asset with a book value in excess of \$75,000. The Board shall review management's progress in meeting the targets of the plan at least quarterly and the Board may revise the plan to reflect current economic conditions. Within 30 calendar days of the end of each calendar quarter, the Board shall submit a report to the Regional Director on management's progress in meeting the goals and time frames set out in the plan.
11. For all new loan originations, loans to facilitate the sale of real estate owned, and renewals of existing loans, the Institution shall comply with the documentation requirements of 12 C.F.R. § 563.170, Sections 140 and 210 of the Thrift Activities Handbook and the Underwriting Policies established by the Board.

POLICIES AND PROCEDURES

12. Within 60 calendar days of the effective date of this Order, the Board shall adopt, implement and thereafter adhere to comprehensive policies and procedures relating to loans to executive officers, directors and insiders. Such policies shall, at a minimum, conform to the requirements of Regulation O, 12 C.F.R. Part 215, and of 12 C.F.R. § 563.43, and provide that all extensions of credit to executive officers, directors and insiders are made at substantially the same rates, loan types and other terms as those available to the general public.
13. Within 60 calendar days of the effective date of this Order, Fajardo Federal shall adopt, implement and thereafter adhere to comprehensive policies and procedures relating to conflicts of interest. Such policies shall, at a minimum, conform to the requirements of 12 C.F.R. § 571.7 and require that

officers and directors abstain from participating in, underwriting or voting on matters that could have the appearance of a conflict of interest.

14. (a) Within 60 calendar days of the effective date of this Order, Fajardo Federal shall adopt, implement and thereafter adhere to written policies and procedures governing officer and employee expense accounts. Such procedures shall require, at a minimum, complete information regarding the date, location and purpose of the expense, including the names of those whose expenses are paid, and supporting documentation, including paid receipts and signed expense vouchers. The information required should be adequate to support that the expense has a direct relationship to the performance of the employee's duties on behalf of the Institution.
- (b) All expense reports filed on behalf of the president of Fajardo Federal shall be reviewed and approved by the Compliance Committee of the Board prior to payment or reimbursement.
15. The Institution shall maintain an adequate level of general allowances on an ongoing basis pursuant to its general valuation allowance policies. At a minimum, the adequacy of the general valuation allowances shall be reviewed by the Board no less than quarterly and written documentation of this review must be maintained. However, without the prior written approval of the Regional Director the level of general valuation allowances shall not fall below \$350,000.
16. Within 60 calendar days of the effective date of this Order, Fajardo Federal shall adopt, implement and thereafter adhere to written policies and procedures designed to improve and strengthen collection efforts on all loans 30 days or more contractually delinquent. Such policies and procedures shall be designed to reduce the overall level of delinquent loans and improve the recovery on charged-off assets.
17. Within 60 calendar days of the effective date of this Order, Fajardo Federal shall revise, adopt, implement, and thereafter adhere to the following changes in the Institution's Asset Classification Policy:
 - (i) Incorporate in-substance foreclosures in accordance with 12 C.F.R. § 571.18(h)(1).
 - (ii) Each parcel of real estate owned must be appraised at the earlier of in-substance

foreclosure or acquisition and recorded at the lower of the recorded investment or fair value. Thereafter, the asset should be carried at the lower of the new cost basis or subsequent fair value.

- (iii) Incorporate procedures for the review and analysis of the collectibility of those consumer loans that are in excess of 120 days delinquent. Those loans determined to be uncollectible shall be classified as Loss and charged off.
- (iv) Loans on payment plans shall be reviewed on a monthly basis for adherence with the plan. Those loans in substantial non-compliance with the plan shall be classified as Loss and charged off.

COMPLIANCE COMMITTEE

- 18. (a) Within 30 calendar days of the effective date of this Order, the Board shall appoint a Compliance Committee comprised of at least three outside directors who shall be responsible for monitoring Fajardo Federal's compliance with this Order on at least a monthly basis.
- (b) Within 30 calendar days of the end of each calendar quarter, the Compliance Committee shall prepare and present to the Board a written report of its findings, detailing the form, content, and manner of the actions Fajardo Federal has taken to comply with this Order and the Compliance Committee's recommendations for the Institution's continued and/or improved compliance. Fajardo Federal shall include the Compliance Committee's reports in the minutes of the Board meetings and shall submit such reports to the Regional Director on a quarterly basis.

SUCCESSOR STATUTES, REGULATIONS, GUIDANCE, AMENDMENTS

- 19. Reference in this Order to provisions of statutes, regulations, OTS Bulletins, Memoranda and publications shall be deemed to include references to all amendments to such provisions as have been made as of the effective date of this Order and references to successor provisions as they become applicable.

NOTICES

20. (a) Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by this Order to be made upon, given or furnished to, delivered to, or filed with:
- (i) The OTS by the Institution, 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, 1475 Peachtree Street, Atlanta, Georgia 30309 or telecopied to (404) 888-5634 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.
- (ii) The Institution 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 to the Institution at Celis Aguilera Street #161, Fajardo, Puerto Rico or telecopied to (809) 863-3094 and confirmed by first class mail, postage prepaid, overnight 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 Order, 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.

DURATION, TERMINATION OR SUSPENSION OF ORDER

21. (a) The provisions of this Order shall become effective on the date it is issued as shown in the caption above, and shall remain in effect until terminated, modified or suspended in writing by the OTS, acting through the Regional Director.

- (b) The Regional Director in his sole discretion, may, by written notice, suspend any or all provisions of this Order.

EFFECT OF HEADINGS

22. The section headings used in this Order are for convenience of reference only and are not to affect the construction of or be taken into consideration in the interpretation of this Order.

SEPARABILITY CLAUSE

23. In the event any provision of this 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 hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his sole discretion determines otherwise.

NO VIOLATIONS OF LAW, RULE, REGULATION OR POLICY STATEMENT AUTHORIZED; OTS NOT RESTRICTED

24. Nothing in this Order shall be construed as: (i) allowing the Institution to violate any law, rule, regulation, or policy statement to which it is subject or (ii) restricting, in any way, the OTS from taking any action that it believes is appropriate in fulfilling the responsibilities placed upon it by law.

SUCCESSORS IN INTEREST/BENEFIT

25. The terms and provisions of this Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Order, 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 Order.

Director Responsibility

26. Although the Board is by this Order required to submit certain proposed actions and programs for the review or approval of the OTS Regional Director or his designee, the Board has the ultimate responsibility for safe and sound management of Fajardo Federal.

TIME LIMITS

27. Any time limitations imposed by this Order shall begin to run from the effective date of this Order, unless otherwise provided for in this Order. Such time limitations may be extended by the Regional Director in his sole discretion upon written application by the Board.

DEFINITIONS

28. All technical words or terms used in this Order for which meanings are not specified or otherwise provided by the provisions of this Order, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations. Any such technical words or terms used in this Order and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry.

OFFICE OF THRIFT SUPERVISION

By:

/S/

John E. Ryan
Regional Director

DIRECTORS' WAIVER OF NOTICE

I hereby waive notice of the meeting of the Board of Directors of Fajardo Federal Savings Bank, Fajardo, Puerto Rico, OTS No. 7283, held on the 6th day of June, 1993, in San Juan, Puerto Rico, at which the Board of Directors considered and adopted the attached resolution concerning a Cease and Desist Order issued by the Office of Thrift Supervision.

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