

2. Jurisdiction.

(a) HOMESTEAD is a "savings association" within the meaning of Section 3 of the FDIA and Section 2 of the Home Owners' Loan Act of 1933, as amended by FIRREA. Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, as amended by FIRREA, codified at 12 U.S.C. § 1813(c).

(b) Pursuant to Section 3 of the FDIA, as amended by FIRREA, the Director of OTS is the "appropriate Federal Banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, HOMESTEAD 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, as amended by FIRREA, codified at 12 U.S.C. § 1818(b).

3. Consent. HOMESTEAD consents to the issuance by the OTS of the Order. It further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.

4. Finality. The Order is issued under Section 8(b) of the FDIA, as amended by FIRREA, codified at 12 U.S.C. § 1818(b). Upon its issuance by the RDD, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, as amended by FIRREA, codified at 12 U.S.C. § 1818(i).

5. Waivers. HOMESTEAD waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA, codified at 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)

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In the Matter of
HOMESTEAD SAVINGS ASSOCIATION
Middletown, Pennsylvania

RE: Resolution No. PIT 91-1

Dated: March 25, 1991

ORDER TO CEASE AND DESIST

WHEREAS, HOMESTEAD SAVINGS ASSOCIATION, Middletown, Pennsylvania ("HOMESTEAD") through its directors has executed a Stipulation and Consent to Issuance of Order to Cease and Desist, which is incorporated herein by reference ("Stipulation"), and is accepted and approved by the Office of Thrift Supervision ("OTS"), acting through its Regional Deputy Director of the OTS/Pittsburgh District Office ("RDD"); and

WHEREAS, HOMESTEAD 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 as amended by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA"), codified at 12 U.S.C. § 1818(b).

NOW THEREFORE, IT IS ORDERED that HOMESTEAD and its directors, officers, employees, agents, service corporations, subsidiaries and joint ventures shall cease and desist from any violation of, or the aiding and abetting of any violation of:

- (i) Section 545.74(d) (service corporation investment limitation) of the Rules and Regulations of the Office of Thrift Supervision ("OTS Regulations") (12 C.F.R. § 545.74(d));
- (ii) Section 563.93 (loans to one borrower) of the OTS Regulations (12 C.F.R. § 563.93);
- (iii) Section 563.160 (classification of certain assets) of the OTS Regulations (12 C.F.R. § 563.160);
- (iv) Section 563.170(c) (establishment and maintenance of records) of the OTS Regulations (12 C.F.R. § 563.170(c));
- (v) Section 563.172(a) (re-evaluation of assets) of the OTS Regulations (12 C.F.R. § 563.172(a));
- (vi) Section 564.4 (appraisal standards) of the OTS Regulations (12 C.F.R. § 564.4);
- (vii) Section 564.8 (appraisal policies and practices) of the OTS Regulations (12 C.F.R. § 564.8); and
- (viii) Section 567.2 (minimum regulatory capital requirement) of the OTS Regulations (12 C.F.R. § 567.2).

For purposes of this ORDER, HOMESTEAD's service corporations, subsidiaries, joint ventures and partnerships shall be referred to as subsidiaries.

IT IS FURTHER ORDERED THAT:

1. HOMESTEAD's Board of Directors shall actively fulfill its fiduciary responsibilities to ensure that HOMESTEAD is safely and soundly managed. To this end, the Board shall provide appropriate guidance to management; effectively oversee the institution's affairs; determine the effectiveness

of management; establish adequate policies and procedures upon which management is to operate the institution; and develop and implement appropriate corrective action in an expeditious manner to address the institution's weak and ineffective management, poor asset quality and non-compliance with regulatory capital requirements. Furthermore, the official minutes of all Board and committee meetings shall clearly and accurately reflect the level of supervision exercised over HOMESTEAD by the Board and shall attest to the Board's active involvement.

2. Within ninety (90) days of the effective date of this ORDER, HOMESTEAD's Board shall develop, adopt and file with the 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 HOMESTEAD prepared exclusively for the Board of Directors by an independent 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:

- o an evaluation of current lines of authority, reporting responsibilities and delegation of duties for all senior officers;
- o adequacy of written job descriptions for each senior officer and any required revisions;
- o qualification of each member of HOMESTEAD's senior officers to perform assigned duties;

- o adequacy of HOMESTEAD's management to correct deficiencies outlined in the July 9, 1990 Report of Examination ("ROE");
- o an evaluation of the performance of each senior officer of HOMESTEAD with a conclusion reached as to the adequacy of the officer's performance;
- o an evaluation of the Board's performance in conducting the affairs of the institution and oversight of management;
- o an evaluation of the institution's organizational structure;
- o adequacy of loan department staff in the areas of loan review, loan administration/documentation, credit analysis; and
- o adequacy of oversight and quality control by HOMESTEAD involving HOMESTEAD's subsidiaries.

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 the management consultant's 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 ORDER.

The Management Plan shall further include:

- (a) Implementation strategy to address each recommendation in the management consultant's report, including time frames;
- (b) Major goals and strategies for strengthening and enhancing management, especially in the areas of loan file and credit administration, internal loan review, asset quality, strategic planning, policy development and operations;

- (c) Identification of current lines of authority, reporting responsibilities and delegation of duties for all officers;
- (d) Written job descriptions for each senior officer;
- (e) Identification of corrective actions to address management and board deficiencies outlined in the July 9, 1990 ROE;
- (f) A written plan of management succession; and
- (g) Major goals, strategies and time frames for enhancing board oversight of management activities.

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 the RDD, in writing, of specified reasons for deviating from the Management Plan.

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

3. Within sixty (60) days from the effective date of this ORDER, HOMESTEAD shall submit to the RDD the following policies and/or procedures as revised to eliminate the deficiencies in such policies and procedures as enumerated on pages 6 through 11 of the ROE:

- (a) Business Plan (page 6);
- (b) Loans to One Borrower (page 6);

- (c) Appraisal Policy and Review Process (page 8);
- (d) Loan Documentation and Credit Administration (page 9);
- (e) Non-accrual Policy (page 10); and
- (f) Collection (page 11).

4. From the effective date of this ORDER, HOMESTEAD or any of its subsidiaries shall not, except for legally binding commitments outstanding as of the effective date of this ORDER, make or commit to make, purchase or commit to purchase, refinance or commit to refinance, disburse or commit to disburse, all or any part of any of the following types of loans:

- (a) land acquisition and development;
- (b) commercial real estate;
- (c) commercial business loans;
- (d) land loans;
- (e) construction loans, including but not limited to, those granted on a speculative basis to, builders/contractors, custom built homes for individuals, multi-family dwellings, acquisition and development, and commercial real estate; and
- (f) letters of credit.

The following types of loans are not prohibited by this provision:

- (i) loans secured by one-to-four family dwellings not to exceed \$350,000 to any one borrower provided, the appropriate underwriting is performed and documentation obtained;

- (ii) loans secured by savings accounts;
- (iii) consumer loans granted under 12 C.F.R. § 561.12, provided, the appropriate underwriting is performed and documentation obtained;
- (iv) non-speculative custom built homes for individuals not to exceed \$350,000 to any one borrower provided the appropriate underwriting is performed and documentation obtained. (For purposes of this Order, non-speculative custom built homes are defined as loans made to finance the construction of one-to-four family dwellings subject to an agreement to purchase or owned by the intended occupant and subject to a legally binding permanent mortgage financing commitment);
- (v) refinance, extension, or modification of non-criticized loans outstanding or legally committed to as of the effective date of this ORDER, provided no additional funds are advanced and the Board performs the following:
 - o the loan complies with prudent loan underwriting standards;
 - o the loan is at market terms and rates;
 - o the Board determines that the institution's or subsidiaries' refinance, extension or modification involving a non-criticized loan is not detrimental to the best interest of HOMESTEAD or its subsidiaries; and
 - o prior to refinance, extension or modification, a majority of the full Board approves the refinance, extension or modification and certifies in writing, the specific reasons why failure to so act would be substantially detrimental to the best interests of HOMESTEAD or its subsidiaries. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s).

Furthermore, except as provided in clauses (i) through (iv) above, HOMESTEAD or any of its subsidiaries shall not make or commit to make, refinance or commit to refinance, disburse or commit to disburse any direct real estate investments or investments in joint ventures.

The foregoing restrictions shall continue until the RDD has determined that HOMESTEAD and its subsidiaries are in substantial compliance with this ORDER and safe and sound underwriting policies and procedures have been developed and adopted by the Board with regard to the loans restricted by this Provision.

5. With respect to assets criticized in the ROE, any subsequent Report of Examination, or internally by HOMESTEAD, which exceed one hundred thousand dollars (\$100,000), HOMESTEAD or any of its subsidiaries shall not, directly or indirectly extend additional credit (which for the purposes of this ORDER shall include refinance, extensions, modifications or capitalization of accrued interest.
6. The immediately preceding paragraph shall not apply if:
 - (a) HOMESTEAD or any of its subsidiaries uses its best efforts to first have the loan repaid and the loan file is documented to this effect;
 - (b) the loan complies with prudent loan underwriting standards;
 - (c) the loan is at market terms and rates;
 - (d) the Board determines that the institution or subsidiaries' extension of credit involving a Criticized Asset is not detrimental to the best interests of HOMESTEAD or its subsidiaries;

(e) a comparison with the written program adopted pursuant to Provision No. 9 of this ORDER indicates that the Board's formal plan to collect or strengthen said criticized asset is not comprised; and

(f) prior to extending any additional credit, a majority of the full Board approves the credit extension and certifies, in writing, the specific reasons why failure to so act would be substantially detrimental to the best interest of HOMESTEAD or its subsidiaries. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s).

7. HOMESTEAD shall immediately establish specific valuation allowances in the amount of \$9,729,756 or charge off such amount for the assets classified as loss on pages A-12.1 through A-12.99 of the ROE. Principle reductions received subsequent to the ROE and not considered in the ROE may be offset against the specific allowances required herein. Further, the Board shall immediately establish additional general valuation allowances ("GVA") in the amount of \$7,292,917 as calculated by the examiners on page 15 of the ROE. Confirmation of the aforesaid shall be provided to the RDD within ten (10) days of the effective date of this ORDER.

Additionally, the board shall review the GVA on a quarterly basis and ensure that it is maintained at an adequate level in accordance with the guidelines to be set forth in the Institution's Internal Asset Review Policy (see Provision No. 11 of this ORDER). Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the GVA. Any deficiency in the GVA shall be remedied in the quarter it is discovered, prior to the filing of the Institution's Thrift Financial Report, by additional provision of earnings.

8. HOMESTEAD shall within sixty (60) days of the effective date of this ORDER, submit to the RDD a strategic plan to address the institution's poor asset quality. Said plan shall, at the minimum, address the Board of Director's strategy to minimize future losses, control further deterioration in the institution's asset quality and return the institution's asset quality to a safe and sound level.

Furthermore, an institution officer shall be appointed by the Board of Directors to review on a quarterly basis the institution's compliance with this strategic plan and report any deviations therefrom directly to the Board of Directors.

9. In conjunction with provision No. 11 of the ORDER, HOMESTEAD shall within thirty (30) days of the effective date of the Management Plan either engage an outside consulting firm or appoint an experienced full-time employee(s) to exclusively engage in the workout of existing classified loans and real estate owned. Prior to appointment, the qualifications of these individuals or firms shall be submitted to the RDD.

Additionally, individual strategic asset plans shall be developed and submitted to the RDD within the same time frames as noted in the above paragraph for each asset criticized in the ROE as "Special Mentioned", "Substandard", or "Doubtful" and whose aggregate loans or other extensions of credit exceed one hundred fifty thousand dollars (\$150,000). The individual plans shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the institution's lien on such collateral, where applicable;
- (c) an analysis, to the extent available, of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations;
- (d) the proposed action to eliminate the basis of criticism and the anticipated time frame for its accomplishment; and
- (e) quarterly status report reflecting collection efforts, repayment, sales activity and/or rental status.

10. Within thirty (30) days of the effective date of this ORDER, HOMESTEAD shall establish a problem asset committee of at least three outside Directors. The specific function of the committee shall be:

- (a) To monitor all assets classified and/or special mentioned within the ROE and internally in order to determine the assets status;
- (b) To develop programs which help minimize the institution's loss exposure for problem loans and real estate owned;
- (c) To determine management's adherence to individual strategic asset plans as well as the status and effectiveness of such plans; and
- (d) To provide quarterly status reports on all assets classified and/or special mentioned within the ROE and internally. Such reports shall be provided to the RDD on a quarterly basis beginning with the quarter ending March 31, 1991. The reports are due within thirty (30) days of the close of each quarter. The report required by this paragraph can be the same as that required within Provision No. 9 (e) of this ORDER provided, the committee affirms the report's findings.

The committee established pursuant to this provision shall meet at least monthly and minutes of its meetings shall be duly recorded. The committee shall report its findings each month at the Board of Directors meeting. The first meeting of the committee shall be held no later than thirty (30) days following the effective date of this ORDER.

11. HOMESTEAD shall within sixty (60) days of the effective date of this ORDER, submit to the RDD, an internal asset review policy which has been expanded in order to provide criteria to identify potential problem credits, to assure the adequacy of valuation allowances, to adequately monitor all problem loans and related lines on an ongoing basis, and to provide senior management and the Board with an objective assessment of the overall quality of the institution's assets. Subject program shall, at a minimum, comply with the following:
 - (a) Establish criteria to promote the early identification of credit weaknesses to minimize losses;
 - (b) Internal loan review requirements and procedures outlined within Section 210 of the OTS Thrift Activities Regulatory Handbook titled "Lending Risk Assessment";
 - (c) Establish guidelines for maintaining adequate general valuation allowances in conformance with the criteria set forth in Section 261 of the OTS Thrift Activities Regulatory Handbook;
 - (d) Provide for monitoring procedures to ascertain compliance with policies, procedures, laws and regulations;
 - (e) 12 C.F.R. § 563.160;

- (f) Address the internal loan monitoring deficiencies cited by the examiners on page 7 of the ROE;
- (g) Provide for adequate and competent personnel; and
- (h) Provide senior management and the Board of Directors with an objective assessment of the overall quality of the institution's assets.

Additionally, an institution officer or a committee of outside directors shall be appointed to review compliance with this program on a quarterly basis. Any deviations shall be reported to the full Board of Directors.

12. In conjunction with the Internal Loan Review Program, HOMESTEAD shall, within sixty (60) days of the effective date of this ORDER, submit to the RDD, loan administration policies and procedures which provide for a prudent and on-going credit administration and evaluation of the institution's loan portfolio. Said program shall ensure that the institution's loan records include loan documentation required by 12 C.F.R. § 563.170(c), examiner's recommendations on pages 9 and A-12 through A-12.99 of the ROE and, where applicable, shall contain signed and duly attested current financial statements; current operating statements; current certified rent rolls, pre-leases or lease commitments; documentation of market absorption rates, capitalization rates and discount factors utilized in appraisals; and documented analysis of such documents. Furthermore, an institution officer or a committee of outside directors shall be appointed to review compliance with this policy on a quarterly basis. Any deviations shall be reported to the full Board of Directors.

13. HOMESTEAD shall comply in all respects with the limitations on loans to one borrower, and the maintenance of adequate records for multiple borrowers as set forth in 12 C.F.R. § 563.93 and shall develop and implement such procedures as are necessary to ensure compliance therewith. Furthermore, HOMESTEAD shall immediately commence to dispose of any and all loans in its portfolio that exceed the loans to one borrower limitation.

Within forty-five (45) days of the date of this ORDER, the Board shall adopt a plan to dispose of these loans. A copy of the plan shall be filed with the RDD.

14. Effective immediately and in accordance with Section 5(t)(6)(B)(i) of the Home Owners' Loan Act of 1933 and 12 C.F.R. § 567.10(b)(1), HOMESTEAD is prohibited from increasing its assets.
15. HOMESTEAD shall immediately comply with the appraisal requirements of 12 C.F.R. § 563.170(c)(1)(iv), § 563.172, § 564.4 and § 564.8. Additionally, HOMESTEAD's appraisal policies and procedures shall be amended to alleviate the appraisal exceptions noted on pages 8 and A-12.2 through A-12.99 of the Report.

Additionally, the appraisal exceptions noted on aforesaid Report pages shall be corrected in order to achieve compliance with the previously mentioned appraisal regulations.

16. HOMESTEAD shall within sixty (60) days of the effective date of this ORDER, submit to the RDD, a board approved plan of divesture for its investment in subsidiaries which addresses the board's strategy of achieving compliance with 12 C.F.R. § 545.74 as quickly as prudently possible, but in any event not later than March 31, 1992.

17. HOMESTEAD shall within sixty (60) days of the effective date of this ORDER, file with the RDD, a Loan Diversification Policy. Said policy shall, at a minimum, comply with the policy guidelines outlined within Section 211 of the OTS Thrift Activities Regulatory Handbook, titled "Loan Portfolio Diversification." Additionally, the policy shall address the institution's strategy to reduce the current and excessive loan concentrations discussed on pages 13 and A-15.1 of the ROE, inclusive of time frames for achieving a reduction of current concentrations to a safe and sound level.

18. Within thirty (30) days of the effective date of this ORDER, HOMESTEAD shall submit to the RDD, a detailed corrective action plan to address the various exceptions discussed within the ROE involving internal control and procedures (page 11) and recording keeping system (page 12).

19. HOMESTEAD and its subsidiaries shall continue to comply with the following requirements of the September 7, 1990 Supervisory Directive:
 - (a) Disbursement of any funds on existing construction loans shall only occur when supported with full documentation of the appropriateness of

- the draw by a qualified individual appointed by the Board. Such documentation will include evidence of physical inspection of the status of the construction of the time of the draw, or if paying bills, periodic inspection of the progress of construction.
- (b) The deduction from loan proceeds of interest due from joint ventures for the purpose of meeting obligations in regard to accrued interest shall immediately cease.
 - (c) In instances where real estate is acquired through the use of the proceeds of the note, liens on related real estate shall be filed in support of notes or bonds offered.
 - (d) Title insurance or proof of lien position shall be required and obtained on all real estate upon which the institution has liens filed.
 - (e) Property and Liability insurance shall be required and obtained. Such insurance is to be applicable to the particular purpose of the loan and its collateral.
 - (f) Property inspections shall be undertaken immediately by the institution in order to determine the current status of all construction and development project loans.
 - (g) A detailed cost sheet indicating bids and contractors for each specific project in each joint venture or partnership shall be developed.
 - (h) Liens on development property (i.e., acquisition and/or development of joint venture and partnership property) shall be filed.
 - (i) Title reports shall be required and obtained on all properties involving subsidiaries. Such title reports shall clearly indicate the current lien position of the institution and its subsidiaries on related collateral property.
 - (j) Payment of dividends by HOMESTEAD shall immediately cease.

20. On a quarterly basis, coinciding with the institution's own fiscal year and within forty-five (45) days of the close of each quarter, the Board of Directors shall file with the RDD, a written report documenting its review of the institution's operating results for the quarter just ended and year-to-date. Such report shall include a comparison of actual results against the projections in the institution's budget. A written explanation of any deviation in the budget projections will be included in the report along with a specific description of the measures that have been implemented or proposed to correct, abate, or improve any such deviations.

21. Within sixty (60) days of the effective date of this ORDER, HOMESTEAD shall develop a liquidity policy which shall address the institution's strategy of utilizing a national listing service to obtain savings deposits and the affects of such a strategy on the institution's earnings, asset/liability structure and liquidity.

22. The adequacy of and compliance with the various policies and procedures required to be submitted to the RDD by this ORDER, as well as overall compliance with this ORDER shall be determined by the RDD in conjunction with the next examination as well as future examinations of HOMESTEAD.

The Board shall take whatever steps are necessary to ensure full compliance by HOMESTEAD with the requirements of this ORDER.

Any request for modification of this ORDER must be submitted in writing to the RDD or his designee and the RDD may, in writing, at his sole discretion, modify or suspend the requirements of this ORDER.

