

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In the Matter of)

SUBURBAN FEDERAL SAVINGS BANK)

Collingdale, Pennsylvania)
_____)

RE: Resolution No. PIT 91-3

Dated: April 12, 1991

STIPULATION AND CONSENT TO
ISSUANCE OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its Regional Deputy Director for the Pittsburgh Office, OTS, and SUBURBAN FEDERAL SAVINGS BANK, Collingdale, Pennsylvania ("SUBURBAN") stipulate and agree as follows:

1. Consideration. The OTS, based upon information reported to it, is of the opinion that the grounds exist to initiate an administrative cease and desist proceeding against SUBURBAN pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA") (to be codified at 12 U.S.C. § 1818(b)). SUBURBAN is of the opinion that it is presently complying with the material terms covered in the accompanying Order to Cease and Desist (the "Order") and that SUBURBAN's officers and directors have properly exercised their business judgment in the performance of their duties. SUBURBAN desires to cooperate with the OTS and avoid the time and expense of administrative litigation 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 cease-and-desist litigation against SUBURBAN with respect to the matters covered in the accompanying Order with the express understanding that neither party will issue a press release or other publication with respect to said Order focusing on SUBURBAN except for OTS, SEC, and other filings required by law and also required to be publicly available or appearing in OTS reports issued in the ordinary course of business.

2. Jurisdiction.

(a) SUBURBAN 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 (to be 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, SUBURBAN 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 (to be codified at 12 U.S.C. § 1818(b)).

3. Consent. SUBURBAN consents to the issuance by the OTS of the Order. It further agrees to continue the compliance programs initiated by its board of directors and fully 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 (to be codified at 12 U.S.C. § 1818(b)). Upon its issuance by the Regional Deputy Director for the Pittsburgh Office, OTS, 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 (to be codified at 12 U.S.C. § 1818(i)).

5. Waivers. SUBURBAN waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA (to be 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) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(h)), or otherwise to challenge the validity of the Order.

WHEREFORE, in consideration of the foregoing, the OTS, by and through its Regional Deputy Director for the Pittsburgh Office, OTS, and SUBURBAN by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

UNITED STATES OF AMERICA
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In the Matter of)

SUBURBAN FEDERAL SAVINGS BANK)

Collingdale, Pennsylvania)
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RE: Resolution No. PIT 91-3

Dated: April 12, 1991

ORDER TO CEASE AND DESIST

WHEREAS, SUBURBAN FEDERAL SAVINGS BANK, Collingdale, Pennsylvania ("SUBURBAN") ("SAVINGS BANK") through its board of directors ("Board") 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 for the Pittsburgh Office ("Regional Deputy Director"); and

WHEREAS, SUBURBAN 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") (to be codified at 12 U.S.C. § 1818(b)).

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

NOW THEREFORE, IT IS ORDERED that SUBURBAN and its directors, officers, employees, agents, and service corporations shall take any and all necessary actions to ensure compliance in all material respects with and to prevent violation of:

- (i) Section 563.93 (loans to one borrower) of the Rules and Regulations of the Office of Thrift Supervision ("OTS Regulations")(12 C.F.R. § 563.93);
- (ii) Section 563.160 (classification of certain assets) of the OTS Regulations (12 C.F.R. § 563.160);
- (iii) Section 563.161 (management and financial policies) of the OTS Regulations (12 C.F.R. § 563.161);
- (iv) Section 563.170 (establishment and maintenance of records) of the OTS Regulations (12 C.F.R. § 563.170);
- (v) Section 563.180(a) (periodic reports) of the OTS Regulations (12 C.F.R. § 563.180(a));
- (vi) Section 564.8 (appraisal policies and practices) of the OTS Regulations (12 C.F.R. § 564.8);
- (vii) Section 566.2 (liquidity requirements) of the OTS Regulations (12 C.F.R. § 566.2); and

(viii) Section 571.4 (hazard insurance) of the OTS Regulations (12 C.F.R. § 571.4);

IT IS FURTHER ORDERED THAT:

1. The Board shall take all necessary and appropriate steps in the exercise of its fiduciary responsibilities, as set forth in OTS Memorandum #R 62, to ensure that the SAVINGS BANK is safely and soundly managed.

2. Within ninety (90) days of the effective date of this ORDER, the Board shall develop, adopt, and file with the Regional Deputy Director a plan for strengthening the SAVINGS BANK'S management and directorate ("Management Plan"). The Management Plan shall include, at a minimum, the following:
 - (a) An accurate assessment and performance evaluation of the management and directorate of SUBURBAN and its subsidiary by an independent management consultant who shall be approved in advance by the Regional Deputy Director. The management consultant shall be required to reach specific conclusions and make specific recommendations regarding management and the directorate. 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 Regional Deputy Director and he shall retain the right to determine the adequacy of the report and its compliance with the terms of this ORDER;

- (b) Implementation strategy to address each recommendation in the management consultant's report, including proposed time frames;
- (c) Major goals and strategies for strengthening and enhancing management, especially in the areas of construction and commercial real estate lending and policy development;
- (d) Identification of current lines of authority, reporting responsibilities, and delegation of duties for all officers, including identification of any overlapping duties or responsibilities;
- (e) Written job descriptions for each senior officer of SUBURBAN including the Chairman of the Board and a conclusion as to the reasonableness of each of the above's compensation in consideration of his duties, responsibilities, and time devoted to the SAVINGS BANK (refer to OTS Memorandum #R 42);
- (g) Copy of the SAVINGS BANK'S final organizational chart; and
- (h) Identification of the proposed corrective actions to address the supervisory concerns with respect to SUBURBAN's management outlined in the ROE.

It shall remain the responsibility of the Board to fully implement, to the extent possible, the Management Plan within specified time-frames. In the

event the Management Plan, or any portion thereof, is not implemented, the Board shall immediately advise the Regional Deputy Director, in writing, of specific reasons for deviating from the Management Plan.

3. As of the effective date of this ORDER, SUBURBAN shall not, except for legally binding commitments outstanding as of the effective date of the ORDER, originate or commit to originate, purchase or commit to purchase, refinance or commit to refinance, disburse or commit to disburse all or any part of any of the following:

- (a) land acquisition and development loans;
- (b) land loans;
- (c) speculative construction loans (which shall not be deemed to include loans to finance the construction of single-family residential properties pursuant to contracts of sale to qualified buyers); and
- (d) investor notes.

Notwithstanding the foregoing, the SAVINGS BANK will be permitted to:

- (a) originate loans to facilitate the sale of real estate owned or the resolution of assets classified adversely or criticized in the ROE.
- (b) restructure, refinance, extend or modify loans outstanding or legally committed to as of the effective date of this ORDER in connection with any maturing land acquisition and development loans, land loan,

speculative construction loans or investor loans if (i) the SAVINGS BANK uses its best efforts to have the loans repaid in the event of a refinancing of term extension at maturity and the loan files are documented to reflect such actions taken, (ii) the loan complies with prudent underwriting standards, and (iii) such loans are at market rates and terms and no new funds are advances except as otherwise provided under the provisions of this Agreement.

Any such loans extended pursuant to the provisions hereof must comply with the provisions of 12 C.F.R. Section 563.93. Furthermore, any loan, renewal, modification or extension made under the exceptions provisions contained in this paragraph shall be approved by the Board or a committee of outside directors thereof and supported by written documentation maintained in the loan file which indicates the action is in the best interests of SUBURBAN.

The foregoing restrictions shall continue until the Regional Deputy Director has determined that SUBURBAN is in substantial compliance with this ORDER and that safe and sound underwriting policies and procedures have been developed and adopted by the Board with regard to the loans restricted by this Provision.

4. SUBURBAN shall take all necessary steps to ensure its compliance, including the adoption of appropriate procedures, in all material 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. Moreover, except

for those loans which are grandfathered under the pre-FIRREA loans to one borrower limitations, SUBURBAN shall immediately develop a plan to dispose of in an orderly and prudent manner any and all loans in its portfolio that exceed the post-FIRREA loans to one borrower limitations, provided, however, that such disposition shall not incur any unnecessary loss. Within sixty (60) days of the effective date of this ORDER, SUBURBAN shall implement such plan to dispose of the loans. This plan shall indicate whether any type of an affiliation exists or existed between the SAVINGS BANK'S management/directorate and the borrowers of these loans.

5. Within sixty (60) days of the effective date of this ORDER, the Board shall adopt a revised Land Acquisition and Development Policy as well as a revised Primary Loan Policy and Underwriting Guidelines to incorporate the examiner's recommendations listed on page six (6) of the May 16, 1990 Report of Examination ("ROE"). Additionally, within sixty (60) days of the effective date of this ORDER, the Board shall adopt revisions to its inspection process to incorporate the examiner's recommendations identified on page six (6) of the ROE.
6. The Board shall, within ninety (90) days of the effective date of this ORDER, develop, adopt, and implement a Loan Administration Policy which provides for prudent and on-going credit administration and evaluation of the SAVINGS BANK'S construction and commercial real estate loan portfolios.

Said policy shall, at a minimum, address the items of concern noted by the examiner within the ROE. The implementation of said policy shall ensure that SUBURBAN'S loan records include, but not be limited to, the documentation required by 12 C.F.R. § 563.170(c), signed and duly attested current financial statements (within 15 months) and rent rolls and documented analysis of such documents, including documentation indicating the Board's review of the loans to the extent such Board review is required under the SAVINGS BANK's underwriting policies.

Management's compliance with said policy shall be reviewed by the Board's designee on a semiannual basis. Any material deviations shall be reported to the full Board. Said policy shall be reviewed at least annually by the Board, and updated if necessary. The Board shall also ensure that SUBURBAN retains the service of full-time qualified staff in order to engage in such lending.

7. The Board shall, within ninety (90) days of the effective date of this ORDER, revise and file with the Regional Deputy Director its Internal Loan Review Policy to conform in all material respects with the internal loan review requirements and procedures outlined within Section 210 of the OTS Regulatory Handbook: Thrift Activities. Said policy shall set forth more stringent criteria to identify potential problem credits and to provide management and the Board with an objective assessment of the overall quality of the loan portfolio. Said policy shall be reviewed at least annually by the Board, and updated if necessary.

8. Within sixty (60) days from the effective date of this ORDER, SUBURBAN shall file with the Regional Deputy Director a fully detailed Operating Plan (budget) setting forth the SAVINGS BANK'S projected operating strategy, budget assumptions, and pro-forma financial statements for the calendar year ending December 31, 1991. Said Operating Plan shall be compatible with the SAVINGS BANK'S business plan, as it may be amended and shall reflect provisions for loan loss expense.

9. Within thirty (30) days of the end of each quarter in the Operating Plan, the Board shall file with the Regional Deputy Director a written report documenting its review of the SAVINGS BANK'S financial performance under the Operating Plan. Such report shall include a comparison of actual results against the projections in the Operating Plan. A written explanation of any material deviation from the projections in the Operating Plan shall be included in the report along with a specific description on the measures that have been implemented or proposed to correct, abate, or improve any such deficiencies.

10. Within ninety (90) days of the effective date of this ORDER, the Board shall develop, adopt, and file with the Regional Deputy Director a Loan Diversification Policy covering all of the SAVINGS BANK'S assets. Said policy shall conform in all material respects with the guidelines set forth in Section 211 of the OTS Regulatory Handbook: Thrift Activities.

11. The Board shall, within ninety (90) days of the effective date of this ORDER, develop, adopt, and implement a Letter of Credit/Standby Letter of Credit Policy which conforms in all material respects to the guidelines set forth in Section 215 of the OTS Regulatory Handbook: Thrift Activities.

12. SUBURBAN shall henceforth, either maintain specific valuation allowances in accordance with 12 C.F.R. § 563.160(d)(2) for losses in the amount of one hundred (100) percent of that portion of the SAVINGS BANK'S asset(s) classified "loss", or charge-off such amounts, which action shall be reflected on its Thrift Financial Reports (TFRs). The SAVINGS BANK has amended its classification of problem credits to conform with the classifications established by the ROE. The amount reserved as a result thereof as it relates to assets classified "loss" in the ROE conforms to the amounts set forth in the ROE, subject to any adjustments to such assets occurring subsequent to the date of the ROE as a result of charge-offs or principal repayments of the balance due. Accordingly, as of February 28, 1991, SUBURBAN has established additional specific valuation allowances totaling \$1,714,881 which shall be reflected on the SAVINGS BANK'S March 31, 1991 TFR.

13. In accordance with the ROE'S findings and the methodology set forth therein, the SAVINGS BANK has increased its general valuation allowance ("GVA") as of February 28, 1991 to \$3,876,264. In addition, the Board shall review the SAVINGS BANK'S GVA on a quarterly basis and ensure that it is maintained at an adequate level in accordance with 12 C.F.R. § 563.160(d)(3).

Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the GVA. Particular attention shall be focused on the following factors:

- (a) results of the SAVINGS BANK'S internal loan review;
- (b) loan loss experience;
- (c) an estimate of potential loss exposure on each significant credit;
- (d) concentrations of credit in the SAVINGS BANK;
- (e) present and prospective economic conditions;
- (f) loans criticized in the ROE or identified by the SAVINGS BANK'S internal loan review system;
- (g) trends of delinquent and/or nonaccrual loans;
- (h) charge-off, collection, and recovery policies and procedures and their effectiveness;
- (i) trends in portfolio volume, maturity, and composition; and
- (j) level, severity, and trend of classified assets.

Any deficiency in the GVA shall be remedied in the quarter it is discovered, prior to the filing of the SAVINGS BANK'S Thrift Financial Report, by an additional provision of earnings to the GVA.

14. Within thirty (30) days of the effective date of this ORDER, the Board shall adopt, implement, and file with the Regional Deputy Director a written plan designed to eliminate the basis of criticism of those assets, or

portions thereof, criticized "Substandard" or "Special Mention" as identified in the ROE if the SAVINGS BANK'S total exposure to the particular borrower involved exceeds \$500,000. The plan shall address the following:

- (a) expected source(s) of repayment;
- (b) appraised value of collateral and the SAVINGS BANK'S lien position;
- (c) analysis of current financial information of the borrower and the property securing the loan, including cash flow analysis for loans repaid from operations; and
- (d) the proposed action to be taken to eliminate the basis of criticism and the approximate time frame for accomplishment.

Further, the plan shall continuously be revised to include every additional criticized asset, which is identified by the SAVINGS BANK'S internal loan review function, within sixty (60) days of the such asset's identification.

15. The Board, or a delegated committee thereof, shall conduct a review, on at least a monthly basis, starting from the effective date of this ORDER, to determine:

- (a) the status of each criticized asset or criticized portion thereof identified by the plan established pursuant to paragraph 14 hereof;
- (b) management's adherence to the plan adopted;
- (c) the status and effectiveness of the written programs; and
- (d) the need to revise the programs or take alternative action.

A copy of each review shall be maintained by SUBURBAN and will be reviewed during the next scheduled examination.

16. All appraisal reports shall reflect market value as defined at 12 C.F.R. § 564.2(f) and shall contain sufficient data to support the market value of the security property described in the report. Additionally, as required by 12 C.F.R. § 564.8(c)(3), SUBURBAN shall review on an annual basis the performance of all approved appraisers used within the preceding 12-month period for compliance in all material respects with (i) the SAVINGS BANK'S appraisal policies and procedures; and (ii) the reasonableness of the value estimates reported. Documentation of said review shall be maintained in the minutes of the Board.
17. Within thirty (30) days of the effective date of this ORDER, the Board shall advise the Regional Deputy Director, in writing, of the corrective actions taken to address the financial reporting errors cited on page A-25.1 of the ROE and the regulatory violations noted on page A-26.1 of the ROE.
18. The adequacy of and compliance with the various policies and procedures required by this ORDER as well as overall compliance with this ORDER shall be determined by the Regional Deputy Director in conjunction with the next examination as well as future examinations of SUBURBAN and its subsidiaries. Upon written request by SUBURBAN and a showing of good cause, the time frames for submission of material and performance required hereunder may be extended by the Regional Deputy Director or his designee.

19. The Board shall take whatever steps are necessary to ensure substantial compliance by SUBURBAN with the requirements of this ORDER.
20. 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 Code of Federal Regulations, and 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.
21. Any request for modification of this ORDER must be submitted in writing to the Regional Deputy Director or his designee and the Regional Deputy Director may, in writing, at his sole discretion, modify or suspend the requirements of this ORDER. This ORDER shall remain in effect until terminated, modified or suspended by the OTS acting through the Regional Deputy Director or his designee.

OFFICE OF THRIFT SUPERVISION

/S/

By:

Richard B. Pov
Regional Deputy Director
Pittsburgh Office