

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION
AND THE
STATE OF CONNECTICUT
BEFORE THE
BANKING COMMISSIONER

In The Matter Of:

THE DANBURY SAVINGS AND LOAN ASSOCIATION,
INCORPORATED
Danbury, Connecticut

OTS No. 00350

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) Re: Resolution No. BOS 91-4
) Date: April 16, 1991
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STIPULATION AND CONSENT TO ISSUANCE
OF ORDER TO CEASE AND DESIST

The Banking Commissioner of the State of Connecticut (the "Commissioner") and the Office of Thrift Supervision ("OTS"), by and through its Regional Deputy Director for the Boston District Office ("Deputy Director"), (hereinafter collectively referred to as the "Regulators"), and The Danbury Savings and Loan Association, Incorporated, Danbury, Connecticut ("Danbury" or the "Institution"), stipulate and agree as follows:

1. Consideration

The Regulators, based upon information reported to them, are of the opinion that grounds exist for each of them to initiate an administrative cease and desist proceeding against Danbury pursuant to Section 36-25 of the Connecticut General Statutes ("CGS") and Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. 1818(b). Danbury desires to cooperate with the Regulators and to avoid the

time and expense of such administrative proceedings or 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 Regulators from initiating such administrative cease and desist proceedings or litigation against Danbury with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction

(a) The Commissioner is charged with the administration of Chapter 645 of the CGS, "Savings and Loan Associations". Danbury is a savings and loan association organized under Section 36-173 of Chapter 645 of the CGS. Section 36-25(2) of the CGS authorizes the Commissioner to commence administrative proceedings against an institution subject to his jurisdiction to determine whether an order to cease and desist should be issued against it. Therefore, Danbury is subject to the authority of the Commissioner to initiate and maintain a cease and desist proceeding against it pursuant to Section 36-25(2) of the CGS.

(b) Danbury is a "savings association" within the meaning of Section 3(b) of the FDIA, 12 U.S.C. 1813(b) and Section 2(4) of the Home Owners' Loan Act, 12 U.S.C. 1462(4). Accordingly, it 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). Pursuant to Section 3(q)(4) of the FDIA, 12 U.S.C. 1813(q)(4), the Director of OTS is the "appropriate Federal banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, Danbury 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, 12 U.S.C. 1818(b).

3. Consent

Danbury consents to the issuance by the Regulators 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 36-25 of the CGS and under Section 8(b) of the FDIA, 12 U.S.C. 1818(b). Upon its issuance by the Regulators, it shall be a final order, effective and fully enforceable by the Regulators under applicable state and federal law, including Section 36-25 of the CGS and Section 8(i) of the FDIA, U.S.C. 1818(i).

5. Waivers

Danbury waives its right to a notice of charges and the administrative hearing provided by Section 36-25 of the CGS and Section 8(b)(1) of the FDIA, 12 U.S.C. 1818(b)(1), and

General Statutes ("CGS");

NOW THEREFORE, IT IS ORDERED that:

I. The Institution and its directors, officers, employees, agents, successors, assigns and other persons participating in the conduct and affairs of the Institution, and its service corporations, shall cease and desist from:

A. Engaging in any of the following unsafe and unsound banking practices and/or violations of law, and from aiding and abetting in the same:

- (1) failing to use best efforts to avoid operating in an unsound and unsafe financial condition as evidenced by poor financial operating ratios, substantial operating losses, dissipation of capital and significant deterioration of asset quality;
- (2) failing to comply with all of the provisions of the resolution of its Board of Directors adopted on March 19, 1987;
- (3) failing to take all reasonable action so as to meet minimum regulatory capital requirements as soon as possible;
- (4) failing to maintain reasonable internal controls;
- (5) failing to develop and implement an effective loan review and asset classification system; and
- (6) failing to establish and maintain reasonable general loss reserves;

B. Violating the following regulations, and from aiding and abetting in the same:

- (1) 12 C.F.R. 563.161, regarding management and financial

policies;

(2) 12 C.F.R. 563.41 regarding restrictions on real property transactions with affiliated persons;

(3) 12 C.F.R. 563.160 regarding internal classification of assets and reserves.

II. IT IS FURTHER ORDERED THAT the Institution, its directors, officers, employees, agents, successors, assigns, and other persons participating in the conduct of the affairs of the Institution, take affirmative corrective action as follows:

A. Management

1. Within sixty (60) days from the effective date of this Order, the Board of Directors shall develop and submit to the Regulators a written analysis and assessment of the Institution's management and staffing needs ("Management Plan") which shall include, at a minimum:

- a. identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Institution;
- b. identification and establishment of one or more Institution committees needed to provide guidance and oversight to active management;
- c. evaluation of each Institution officer and senior staff member to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to applicable Federal and State regulatory provisions and the Institution's established policies and practices, and maintenance of the Institution in a safe and sound condition;

- d. an analysis of management's strengths and weaknesses, including an assessment of current compensation and organizational structure;
- e. an assessment of senior management staff's ability to effectively manage and resolve current problems confronting the Institution;
- f. a plan of action to recruit and hire any additional or replacement personnel with the ability, experience and other qualifications, which the Board of Directors determines are necessary to fill Institution officer and senior staff member positions; and
- g. a requirement that the Board of Directors (or a committee thereof, a majority of whom are outside directors) provide supervision over the lending, investment and operating policies of the Institution sufficient to ensure that the Institution complies with the terms of this Order.

2. The Board of Directors ("Board") shall approve the written Management Plan, and such approval shall be recorded in the Board minutes. Any modification shall become effective when approved by the Board, and such approval shall be recorded in the Board minutes. The Board shall notify the Regulators of all material modifications to the Plan. The Institution, its directors, officers and employees shall implement and follow the written Management Plan and/or any subsequent modification thereto.

B. Board of Directors

3. Within ninety (90) days of the effective date of this Order, the Institution shall endeavor to increase its Board membership to at

least seven (7) members and thereafter to maintain such membership at that level.

C. Conflict of Interest Policy

4. Within ninety (90) days of the effective date of this Order, the Board shall develop and submit to the Regulators a Board approved written conflict of interest policy (the "Conflicts Policy"), which shall require, at a minimum, compliance with the provisions of 12 C.F.R. 563.40, 563.41, and 563.43, as interpreted and clarified by the OTS policy statements regarding conflicts of interest and corporate opportunity, 12 C.F.R. 571.7 and 571.9, as well as sections 22(h), 23A, and 23B of the Federal Reserve Act, 12 U.S.C. 375b, 371c, and 371c-1, as made applicable to savings associations by Section 11 of the Home Owners' Loan Act, 12 U.S.C. 1468. The Conflicts Policy shall also establish internal review procedures to be followed with respect to any transaction entered into by an "affiliated person" of the Institution, as defined by 12 C.F.R. 561.5, which might have the appearance of being a potential conflict of interest. The Conflicts Policy shall be distributed to all directors and officers of the Institution and its subsidiaries. The Institution, its directors, officers and employees shall implement and follow the written Conflicts Policy and/or any subsequent modification thereto.

D. Asset Quality

5. By April 10, 1991, the Institution shall have charged-off or established specific reserves for all assets classified "loss" in the OTS Report of Examination ("ROE") dated July 9, 1990. In addition, by April 10, 1991, the Institution shall have established a general loss reserve equal to \$2.5 million. Such entries shall be reflected in the Thrift Financial Report for the quarter ended March 31, 1991.

6. Within sixty (60) days from the effective date of this Order, the Board of Directors of the Institution shall adopt and submit to the Regulators for review, an internal classification of assets policy ("Classification Policy") consistent with, and no less stringent than, the provisions of 12 C.F.R. 563.160. The Classification Policy shall include:

- a. a requirement that updated financial information be obtained at least annually from all borrowers and guarantors with speculative and/or commercial real estate loans in excess of \$250,000 in the aggregate. In addition, operating statements on properties securing such speculative and/or commercial real estate loans shall be obtained at least annually from such borrowers and guarantors. All such requests, responses and subsequent analysis shall be maintained as loan file documentation;
- b. identification of the individuals responsible for the review, the frequency of reviews, the method of loan selection, the scope and depth of the review, and follow-up reporting procedures, some of which individuals shall be independent of the lending function; and
- c. a provision to ensure that all classified assets are reported as required on Thrift Financial Reports ("TFRs") submitted to the OTS.

7. The Institution shall review its assets for potential classification and its general loss reserve for adequacy on at least a quarterly basis. Adjustments to the reserve shall be made within

15 days following each such quarterly review. Such reviews and supporting analysis for the adequacy of the general loss reserve shall be documented within the Board minutes of the meeting at which considered.

E. Lending Policies and Procedures

8. (a) The Institution shall not extend or renew, directly or indirectly, any additional credit to any borrower whose loans have been classified or listed for special mention in the aforementioned ROE without the prior approval of the Board of Directors. Such approval shall include approval of each advance individually or of a project budget with which each advance is consistent. A written record of the Board's prior approval of any advance under the terms of this provision shall be maintained in the credit file of the affected borrower(s) as well as the Board minutes.

(b) All future appraisals of real estate investment properties and REO shall be appraised by independent certified appraisers who are not, and within the last thirty-six (36) months have not been, affiliated persons of the Institution as defined by 12 C.F.R. 561.5. Within thirty (30) days of the effective date of this Order, the Board shall adopt a policy to ensure compliance with this requirement.

F. Financial Operations

9. The Institution shall immediately cease the capitalization of, or specifically reserve for, any interest expense subsequent to June 30, 1990, relating to its subsidiaries' real estate investments known as Sterling Woods, Hunter's Glen, and 273 Federal Road.

10. No interest payments on loans or extensions of credit shall be made from proceeds of new loans or extensions of credit unless the

income to the Institution is offset by a corresponding credit to a deferred income account or valuation reserve. The net effect of such transaction shall be to defer income recognition until such income is received in cash. Any request to loan funds or extend credit to make interest payments on other loans or extensions of credit shall be based on full written disclosure to, and require the prior affirmative approval by, the Board of Directors. Each request shall include: (1) the number and principal amounts of all loans and extensions of credit outstanding to the borrower(s) and affiliates of the borrower(s); (2) the last date upon which payment was made and next date payment is due on each loan to such borrower; (3) the reason that the borrower was unable to make the required interest payment from conventional sources; and (4) a full explanation of how the Institution's position has been improved by additional collateral. This disclosure and a written record of the Board's prior approval, as well as the votes of each Director shall become part of the Board minutes.

G. Capital

11. Within ninety (90) days from the effective date of this Order, the Institution shall attain and maintain capital sufficient to meet minimum tangible, core and risk-based capital requirements, as required by 12 C.F.R. Part 567 and any subsequent changes thereto, or, in lieu of meeting such minimum requirements, shall comply with all provisions and interim targets of a capital plan approved by the Regional Deputy Director and the Commissioner. The capital plan will address both internal and external sources of capital augmentation, including additional capital infusions, retention of earnings, pledged deposits and control of growth with specific timetables for

defined capital objectives. In the event that the Regional Deputy Director and/or the Commissioner do not approve the Institution's capital plan and the Institution does not meet the capital requirements set forth in 12 C.F.R. Part 567 or any subsequent changes thereto within ninety (90) days of the effective date of this Order, the Institution shall comply with the restrictions of 12 U.S.C. 1464(t)(6) and 12 C.F.R. 567.10(b), as interpreted and clarified and OTS Regulatory Bulletin 3a-1.

H. Progress Reports

12. Within thirty (30) days of the effective date of this Order, and, thereafter, within thirty (30) days of the end of each calendar quarter, the Institution shall furnish written status reports to the Regulators detailing the actions which have been taken to secure compliance with this Order and the results thereof. Such quarterly reports shall also include the most recent profit and loss statements and balance sheet of the Institution. Additionally, loan reviews, status and balance reports on all criticized assets, including assets listed for Special Mention, over \$250,000 detailed in the July 1990 Reports of Examination shall be provided in the format provided in Exhibits A and B attached hereto, along with any information requested. Said reports may be discontinued only when the corrections required under this Order have been accomplished, and the Banking Commissioner and the Deputy Director have, in writing, released the Board from making further reports. In addition, the Institution shall furnish such reports on request of the Regulators. All status reports and other written submissions pursuant to this Order shall be reviewed by the Board of Directors of the Institution and made a part of the Board minutes.

I. Effective Date and Effect of Order

13. This Order shall become effective upon execution by the Regional Deputy Director and the Commissioner, and shall remain effective and enforceable until such time as any provisions thereof shall have been modified, terminated, suspended, and or set aside by the Regional Deputy Director and the Commissioner.

THE OFFICE OF THRIFT SUPERVISION

/S/

~~Ralph W. Gridley~~
~~Regional Deputy Director~~
~~Boston District Office~~

STATE OF CONNECTICUT
DEPARTMENT OF BANKING

/S/

~~Ralph M. Shulansky~~
~~Commissioner~~