

UNITED STATES OF AMERICA  
BEFORE THE  
OFFICE OF THRIFT SUPERVISION

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In The Matter Of: )	
SCITUATE FEDERAL SAVINGS BANK )	Re: Resolution No. BOS 91-7
Scituate, Massachusetts )	Date: June 10, 1991
OTS NO. 05316 )	
_____ )	

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 Boston District Office ("Regional Deputy Director"), and Scituate Federal Savings Bank, Scituate, Massachusetts ("Scituate" or the "Institution"), stipulate and agree as follows:

1. Consideration

The OTS, based upon information reported to it, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against Scituate pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. 1818(b). Scituate desires to cooperate with the OTS 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 OTS from initiating such administrative cease and desist proceedings or litigation against Scituate with respect to the matters covered in the accompanying Order to Cease and

Desist ("Order").

2. Jurisdiction

Scituate 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, Scituate 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

Scituate consents to the issuance by the OTS of the Order. It further agrees to comply with the terms of the Order upon issuance.

4. Finality

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

5. Waivers

Scituate waives its right to the notice of charges and the administrative hearing provided by Section 8(b)(1) of the FDIA, 12 U.S.C. 1818(b)(1), and further waives any right to seek judicial review of the Order, including any such right



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OTS No. 05316 )  
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Re: Resolution No. BOS 91-7  
Date: June 10, 1991

ORDER TO CEASE AND DESIST

WHEREAS, Scituate Federal Savings Bank, Scituate, Massachusetts ("Scituate" or the "Institution"), 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 for the Boston District Office ("Regional Deputy Director"); and

WHEREAS, the Institution, 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 ("FDIA"), 12 U.S.C. 1818(b);

**NOW THEREFORE, IT IS ORDERED that:**

**I. CEASE AND DESIST PROVISIONS**

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) operating in an unsound and unsafe financial condition as evidenced by poor financial operating ratios, substantial operating losses and significant deterioration of asset quality;
- (2) failing to maintain adequate internal controls;
- (3) failing to develop and implement an effective loan review and asset classification system;
- (4) failing to develop and implement an effective loan collection policy;
- (5) granting mortgage and consumer loans without financial information sufficient to show the borrowers' repayment ability; and
- (6) granting real estate loans without adequate appraisals.

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

- (1) 12 C.F.R. 563.160, regarding internal classification of assets and reserves;
- (2) 12 C.F.R. 563.161, regarding management and financial policies;
- (3) 12 C.F.R. 563.170, regarding establishment and maintenance of records (including, in particular, 12 C.F.R. 563.170(c)(1)(i) and (v), regarding loan applications and financial information on borrowers);
- (4) 12 C.F.R. Part 564.8, regarding appraisals; and
- (5) 12 U.S.C. 84 and 12 C.F.R. 563.93, regarding loans to

one borrower.

## II. AFFIRMATIVE CORRECTIVE ACTION

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. Compensation

1. Scituate shall pay no bonuses to management personnel or Directors until such time as the Institution has developed a compensation policy and such policy has been reviewed and approved by the Regional Deputy Director. The policy shall include, at a minimum: (a) job descriptions, detailing the requirements of each management position; (b) pay scales for each management position (including the criteria used (i.e. industry standards) in the development of the pay scales); and (c) should the policy contain a provision for the payment of bonuses, a bonus policy with clearly and specifically detailed qualifiable and quantifiable goals and objectives and/or measures of performance that must be met prior to granting bonuses.

2. Within sixty (60) days of the effective date of this Order, all senior management, as listed on Appendix Page A-2.1 of the Report of Examination ("ROE") dated February 1, 1991, shall reimburse the Institution for all bonuses paid to them since January 1, 1990. Such senior management may accomplish said reimbursement by a reduction or elimination of salary during such period as may be necessary to accomplish said reimbursement; provided, in all cases, the Institution is fully reimbursed within the time frames set forth herein.

B. Loan Policies and Procedures

Loan Policy

3. Within sixty (60) days of the effective date of this Order, the Board shall adopt and submit to the Regional Deputy Director for review, a revised written loan policy. The revised policy shall address each loan product offered and shall include, at a minimum:

- (a) the responsibility of the Board of Directors in reviewing, ratifying, and approving loans and extensions of credit;
- (b) the guidelines under which unsecured loans will be granted;
- (c) the guidelines for terms of repayment for unsecured loans and secured loans;
- (d) the maintenance and review of complete and current credit files on each borrower and income producing property;
- (e) the determination and documentation of sources and terms of loan repayments;
- (f) the procedures to be established to ensure that loan files contain all required documentation in accordance with 12 C.F.R. 563.170(c);
- (g) provisions to monitor collateral (i.e. receivables and inventory) securing commercial loans;
- (h) the guidelines under which the progress of construction loans will be monitored to support the funds advanced; and
- (i) a provision that current loans which do not conform to internal underwriting guidelines will be specifically

reported as such to the Board.

4. The Board shall approve the revised written loan policy, and such approval shall be recorded in the minutes of the Board of Directors. Subsequent material modifications to the revised written loan policy require notification to the Regional Deputy Director. No such modification shall become effective until approved by the Board, and such approval shall be recorded in the Board's minutes. The Institution, its directors, officers and employees shall follow the revised written loan policy and/or any subsequent modification thereto.

Collection Policy

5. Within thirty (30) days of the effective date of this Order, the Board shall adopt, and submit to the Regional Deputy Director for review, a revised collection policy and procedure, which shall include, at a minimum:

- (a) specific collection procedures regarding the identification, supervision and collection of payments from borrowers who fail to make timely payments;
- (b) identification of the individuals to be assigned to perform the collection functions;
- (c) a description of the responsibilities of the individuals assigned to perform the collection functions; and
- (d) the responsibilities of the Board to periodically review overdue, problem and/or adversely classified or criticized loans to monitor management's administration of such distressed credits and to provide guidance.

6. The Board shall approve the revised written collection

policy, and such approval shall be recorded in the Board minutes.

Appraisals

7. Within sixty (60) days of the effective date of this Order, the Board shall develop and submit a written appraisal policy setting forth the Institution's appraisal standards and the procedures to be followed to ensure compliance with 12 C.F.R. 564. The appraisal policy shall be approved by the Board, and such approval shall be recorded in the Board minutes. The Institution, its directors, officers and employees shall follow the written appraisal policy and/or any subsequent modifications thereto.

Reports to Board of Directors .

8. All loans and extensions of credit in excess of \$10,000 and past due thirty (30) days or more shall be reported in writing to the Board on a monthly basis. Full payments of principal and interest must be received from the borrower in order to reduce or eliminate past due status. Partial payments will not change past due status. For purposes of this Order, each past due loan shall be reported by type of loan, loan number(s), principal balance, the date the last payment was received, the date the payment was due, and the reason for the delinquency. All such reports shall be made as of the last business day of each month and shall be reconciled with the Thrift Financial Reports ("TFRs") filed with the OTS. Payment received between the first day of a given month and the next Board meeting shall not affect past due status for purposes of reports to the Board for that month. Each such report to the Board shall become part of the Board minutes.

Loans to One Borrower

9. Scituate shall review its loan portfolio to identify any loans currently in excess of the limitations on loans to one borrower 12 U.S.C. 84 and 12 C.F.R. 563.93 and, within thirty (30) days of the effective date of the Order, develop a written plan of action to bring any loans or extensions of credit in excess of said limitations to within the applicable limitations.

10. Within ninety (90) days of the effective date of this Order, the Institution shall develop and maintain a comprehensive borrower credit ledger. The ledger shall provide at a minimum, an accurate record of total borrower credit in all loan types, including direct liability, (whether as maker, co-maker, partner, or any other type of direct liability) and indirect liability (as endorser, guarantor, and any other type of indirect or contingent liability). Such ledger shall be maintained in a current status for all borrowers with other than one-to-four family owner-occupied residential loans and/or consumer loans.

Asset Classification and Review

11. (a) Within thirty (30) days of the effective date of this Order, the Institution shall charge off all indicated losses identified in the ROE.

(b) The Institution shall review its assets for potential classification and its General Valuation Reserve for adequacy on at least a quarterly basis.

12. The Institution shall, on a quarterly basis, submit to the Regional Deputy Director a status report on each borrower and parcel of real estate classified or subject to Special Mention in the ROE with an aggregate balance of \$150,000 or more. The status report

shall include the balance of each separate asset as of the date of the ROE, the balance as of the reporting date, past due status, the status of efforts to improve or eliminate the classifications, and such other information regarding such assets that the Regional Deputy Director may request. The first such status report shall be submitted on July 31, 1991, with the status as of June 30, 1991. Thereafter, each report shall be due within thirty (30) days following the end of each succeeding three month period.

13. Within sixty (60) days from the effective date of this Order, the Board of Directors shall develop and adopt a written plan of action to lessen the Institution's risk position in each line of credit aggregating \$150,000 or more which was classified "Substandard" or "Doubtful" in the February 1, 1991 ROE. Within ten (10) days thereafter, a copy shall be provided to the Regional Deputy Director. In developing such plan, the Institution shall, at a minimum:

- (a) review the financial position of each such borrower, including source of repayment, repayment ability, and alternative repayment sources; and
- (b) evaluate the available collateral for each such credit, including possible actions to improve the Institution's collateral position.

Based upon such review and evaluation, the written plan of action shall: (1) establish target dollar level of classifications that the Institution shall exert its best efforts to achieve within six (6) to twelve (12) months from the effective date of this Order; and (2) provide for the submission of written monthly progress reports to the Institution's Board of Directors for review and notation in

the Board minutes. As used in this Paragraph 13, "reduce" means to (a) collect, (b) charge off, or (c) improve the quality of such assets so as to warrant removal from adverse classification. Payment of loans with the proceeds of other loans made by the Institution will not constitute "reduction" or "collection" for purposes of this Order, unless such loans are in compliance with the terms of the Institution's lending policy and are made at market terms and rates with a 20% cash downpayment not provided directly or indirectly by the Institution to finance bona fide purchases of property previously mortgaged to the Institution by third parties not related to or affiliated with the selling borrower.

14. The Board of Directors shall approve the plan and such approval shall be recorded in the minutes of the Board of Directors. No modification to the plan shall become effective until approved by the Board of Directors, and such approval shall also be recorded in the minutes of the Board of Directors. The Institution, its directors, officers and employees shall follow the written plan of action and/or any subsequent modification. All material modifications shall be submitted to the Regional Deputy Director with each Quarterly report required by Paragraph 19 of this Order.

D. Interest Rate Risk Management

15. Within sixty (60) days after the effective date of this Order, Scituate shall submit a revised interest rate risk policy prepared in accordance with 12 C.F.R. 563.176, as interpreted and clarified by the OTS policy statement on interest rate risk management, 12 C.F.R. 571.3, and OTS Thrift Bulletin No. 13, to the Regional Deputy Director. Such policy shall be reviewed and approved by the Board, and shall contain interest rate risk exposure

limitations which shall be based on earnings and capital capacity. Such limits shall serve as goals for the Institution's exposure to interest rate risk. In addition, a comparison of actual interest rate risk exposure to the adopted limits shall be made on at least a quarterly basis, which comparison may be based on quarterly estimates provided by OTS, and the comparison shall be documented in the Board minutes.

E. Business Plan

16. Within ninety (90) days from the effective date of this Order, the Institution shall submit to the Regional Deputy Director a revised business plan consisting of goals and strategies for improving the earnings of the Institution. Such written business plan shall include, at a minimum:

- (a) realistic and comprehensive budgets;
- (b) a budget review process to monitor the income and expenses of the Institution and to compare actual figures with budgetary projections; and
- (c) a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

17. The Board shall approve the revised business plan, and such approval shall be recorded in the Board minutes.

F. Regulatory Violations

18. Within sixty (60) days of the effective date of this Order, all violations of law and regulations cited in the OTS ROE as to Scituate dated February 1, 1991, on Page A-26.1 and A-26.2 shall be addressed with actions taken thereon, and the results thereof, reported to the Institution's Board and forwarded to the Regional

Deputy Director quarterly, and procedures adopted by the Board to prevent recurrence shall be documented in the Board minutes.

G. Progress Reports

19. Within thirty (30) days after the Institution's Board of Directors' meeting immediately following the end of each calendar quarter, beginning with the calendar quarter ending September 30, 1991, the Board of Directors shall submit to the Regional Deputy Director a resolution signed by each director, certifying that to the best of his or her knowledge and belief, and based upon a prudent review, during the previous quarter, the Institution is complying in all material respects with each condition of this Order. This resolution shall set forth any exceptions to any conditions of this Order that were approved by the Regional Deputy Director.

H. Effective Date and Effect of Order

20. This Order shall become effective upon execution by the Regional Deputy Director, 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.

~~THE OFFICE OF THRIFT SUPERVISION~~

/S/

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