

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)

Freehold Savings and)
Loan Association)
Freehold, New Jersey)

and its Directors, Officers,)
Employees, Service Corporations,)
and Affiliates)

Re: Regional Director
Northeast

OTS Resolution No. NY-91-14

Dated: July 11, 1991

STIPULATION

This Stipulation is entered into by and between the Office of Thrift Supervision ("OTS"), a bureau within the United States Department of the Treasury, and Freehold Savings and Loan Association, Freehold, New Jersey ("Freehold").

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 Freehold pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b), and Freehold desires to cooperate with the OTS and to avoid the time and expense of such administrative litigation. Freehold, without admitting or denying that such grounds exist, and having considered the attached Order to Cease-and-Desist (the "Order"), hereby stipulates and agrees to the following terms in consideration of the agreement by the OTS to refrain from initiating an administrative cease-and-desist proceeding against Freehold with respect to the matters of concern to the OTS that are identified in the OTS's Report of Examination for the examination of Freehold commenced on March 19, 1990. The Association has represented to the OTS that certain regulatory violations referenced in the Order have been corrected.

2. Jurisdiction.

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

(b) Pursuant to Section 3 of the FDIA, the OTS is the "appropriate Federal banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, Freehold 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. Freehold consents to the issuance by the OTS of the Order. Freehold 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, and upon its issuance by 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).

5. Waivers. Freehold, following consultation with its counsel, hereby waives, with respect to the attached Order dated July 11, 1991, 1991, only, (and not with respect to any other past or future enforcement action, if any, for which all legal rights are expressly retained by Freehold) the following legal rights:

- (1) the right to be served with a written notice of the OTS's charges against it (referred to as a Notice of Charges and Hearing) (see, e.g., Section 8(b) of the FDIA);
- (2) the right to an administrative hearing of the OTS's charges against it (see, e.g., Section 8(b) of the FDIA); and
- (3) the right to challenge the OTS's issuance of the Order, including any such right provided by Section 8(h) of the FDIA, or otherwise to challenge the validity of the Order.

WHEREFORE, in consideration of the foregoing, the OTS and Freehold upon a resolution duly adopted by its Board of Directors (a copy hereof is attached hereto), hereby execute this Stipulation.

OFFICE OF THRIFT SUPERVISION

By:

/S/

FREEHOLD SAVINGS AND LOAN
ASSOCIATION

By:

/S/

Name: David E. Sautters
Title: President

(4) Section 564 of the OTS Regulations, 12 C.F.R. § 564 (regarding Appraisals) (formerly contained in Section 563.171 of the OTS Regulations, 12 C.F.R. § 563.171 regarding Appraisal policies and practices of savings associations and service corporations); and

(5) Section 571.7 of the OTS Regulations, 12 C.F.R. § 571.7 (regarding Conflicts of interest).

IT IS FURTHER ORDERED THAT:

1. The compliance requirements of this Order shall not be construed as an authorization for the Association or its affiliates to engage in the activities governed by the aforesaid laws, rules, and regulations. Nor does it necessarily prohibit those activities. To the extent that it is lawful for the Association or its affiliates to engage in such activities, and if provisions of this Order set forth more strict restrictions, limitations, and requirements than are set forth in applicable laws and regulations, then, under such circumstances, those activities shall be subject to the stricter restrictions, limitations, and requirements set forth in this Order.

OPERATIONAL RESTRICTIONS

2. Lending-Related Restrictions

(a) Unless otherwise permitted by subsection (b) of this paragraph, the Association shall not make, invest in, purchase, sell, refinance, extend or otherwise modify, or commit to make, invest in, purchase, sell, refinance, extend, or otherwise modify loans or loans-in-process without the prior written notice of non-objection from the OTS (acting by and through its Regional Director or his designee).

(b) Unless otherwise directed by the Regional Director, the Association may make the following loans or investments, provided that the Association engages in such activities in a prudent manner:

(1) advances of loan funds necessary to honor existing legally binding commitments to fund loans or loans-in-process ("LIP") as of the effective date of this Order, provided that the Association complies with the requirements of subsections (d) and (e) of this section;

(2) origination of Qualifying Mortgage Loans within the meaning of § 567.1(u) of the OTS Regulations (12 C.F.R. 567.1(u)), provided that each such loan is less than \$500,000 (five hundred thousand dollars);

(3) origination of single-family construction loans, provided that each such loan is less than \$500,000 (five hundred thousand dollars);

(4) origination of consumer loans, excluding home equity loans and home equity lines of credit, provided that each such allowable consumer loan is less than \$50,000 (fifty thousand dollars);

(5) modifications to existing loans which do not constitute an extension of credit as defined in 12 U.S.C. § 84 and 12 C.F.R. §§ 32 and 563.93(b)(5); and

(6) Loans to facilitate the sale of real estate owned, provided that (i) such loans do not exceed \$500,000, (ii) no new funds are advanced by the association to the borrower, and (iii) the association is not placed in a more detrimental position as a result of the sale.

(c) The Association's request for the OTS' non-objection pursuant to section 2(a) above shall, at a minimum, demonstrate that the Association has:

(1) in its employ, adequate experienced personnel to safely underwrite, service and monitor such loans;

(2) established internal controls that ensure management's compliance with policies and procedures relating to such loans;

(3) adopted a system by which the person(s) with approval authority for the origination of such loans is/are required to confirm in writing, as part of the loan file's documentation, that the Association's underwriting policies and procedures have been followed before approving such loans and the association's internal audit procedures routinely verify that such confirmations are done;

(4) effective internal controls in place; evidence of which shall include, but not be limited to, the absence of material deficiencies noted by Freehold's external auditors in connection with its most recent audit;

(5) provided a certification of its Board of Directors that the scope, depth and procedures of Freehold's internal audit program and internal loan review program are adequate to determine compliance with underwriting policies, procedures and internal controls relating to such loans; and

(6) submitted a board of director certification that the Association's internal audit and internal loan review staffing is competent and independent from the management of Freehold.

(d) The Association shall forward to the Regional Director within 30 days of the effective date of this Order a list of its commitments and LIPs for mortgage loans equal to or in excess of \$500,000 as of the effective date of this Order. This list shall include:

(1) the amount and type of commitment or LIP (including whether it is a firm commitment or a standby commitment);

(2) the date on which the commitment was issued or the construction loan was granted;

(3) the identity of the borrower and the aggregate amount of other outstanding loans or commitments and LIPs to the borrower;

(4) the type, location, and most recent appraised value of the security property;

(5) the schedule of anticipated funding of the commitment or the LIP;

(6) the amount of any commitment fee received (specifically identified by its related borrower) and the date of such receipt; and

(7) the amount and portion of interest and fees funded by loan proceeds, if any.

(e) For any commitment or LIP \$500,000 or more, the Association shall forward to the Regional Director within 30 days of the effective date of this Order, a schedule summarizing the written opinion(s) from independent legal counsel setting forth the following:

(1) each commitment and LIP which has been reviewed;

(2) a statement indicating that each such commitment or LIP, in the opinion of counsel, does or does not constitute a legally binding obligation of the Association that could be enforced in a court of law by the party to whom the commitment or LIP is made; and

(3) a statement opining that the honoring of such commitment and LIP will not cause the Association to violate any laws or regulations applicable to it.

(f) Before the Association engages in any new lending activity, requiring the non-objection of the Regional Director, the Board of Directors shall adopt and submit to the Regional Director, a resolution signed by each individual board member, providing as follows:

(1) Freehold's management is capable of underwriting and administering the loans or investments in a safe and sound manner;

(2) Freehold's Board of Directors has adopted policies and procedures to ensure that the loans or investments are prudently underwritten and administered;

(3) internal controls measuring compliance with such policies and procedures are in place; and

(4) Freehold's business plan has been amended to include all its activities in accord with the plan's stated objectives.

All documentation considered by the Board of Directors in adopting each such resolution shall be explicitly referenced in the minutes of the meeting at which the resolution was adopted and shall be made available to representatives of the OTS upon request by OTS' Regional Director or his designee.

AFFIRMATIVE CORRECTIVE ACTION

3. Classified Asset Status Report

The Association shall prepare and submit to the Regional Director a quarterly status report on all assets criticized and classified in the most recent Report of Examination, as well as those assets that have been internally criticized and classified by the Association. The report shall be accompanied by a board resolution, documenting (i) that the Board of Directors has reviewed and approved the report and (ii) that the deliberations of the directors relating to the report have been duly recorded in the minutes. The report shall detail specific actions taken or planned by management to reduce the volume of criticized and classified assets, the dates that such action was taken or is planned to be taken and the expected dates of resolution. The status report for the quarter ending December 31, 1990 shall be submitted within 30 days of the effective date of this Order. Thereafter, the status report should be submitted within 30 days of the end of each quarter-end beginning March 31, 1991.

4. Capitalized Interest

The Association shall discontinue capitalizing interest for the amounts in excess of that permitted under Generally Accepted Accounting Principles.

5. Loan Monitoring

The Association shall, within 30 days of the effective date of this Order, take appropriate steps to improve the supervision and administration of Freehold's loan portfolios. The Board shall provide the Regional Director with written assurance, and shall

routinely ensure, that management is adequately monitoring Freehold's loan portfolios, excluding 1-4 family residential loans less than \$500,000, on a regular basis. Such monitoring shall include, where appropriate, but shall not be limited to, the following:

(a) a review ensuring that periodic financial statements of borrowers are obtained and adequately analyzed on a semi-annual basis;

(b) a review ensuring that operating statements of income producing collateral are obtained and adequately analyzed on a semi-annual basis;

(c) a review ensuring that inspections and appraisals are performed for nonperforming loans and construction loans and that such inspections and appraisals are sufficient to support loan fundings; and

(d) a review ensuring that collection practices followed by the Association are effective and timely.

6. Loan Documentation

The Association shall, at a minimum, obtain and maintain the following listed documentation at the Association for the purpose of evaluating the basis for loan approvals, the collectability of loan participations or any other interest in loans, and the viability of the projects securing loans:

(a) all records and documentation required by 12 C.F.R. §§ 563.170 and 564.1 (formerly 563.171);

(b) written documentation of the Association's review and evaluation of the appraisal report, feasibility study, if applicable, and borrower's financial statement;

(c) a statement, signed by the senior loan officer or chairman of the loan committee, that the loan conforms to the lending authority conferred by the board.

7. Loans to One Borrower

The Association shall make every effort to bring nonconforming loans into conformance pursuant to Loans to One Borrower Limitations contained within 12 C.F.R. 563.93. In the event that conformance is not feasible, the Association must develop and implement a plan to divest itself of these nonconforming loans. (OTS has made no determination that such loans were nonconforming prior to the adoption of the Financial Institutions Reform

Recovery and Enforcement Act.) In addition, the Association must, within 60 days of the effective date of this Order, develop and implement internal policies to ensure compliance with Loans to One Borrower limitations. The Association shall forward a board of directors resolution to the Regional Director of the OTS within 10 days of its adoption indicating that such policies were adopted within 60 days of the effective date of this Order.

8. Internal Asset Review

Pursuant to 12 C.F.R. § 563.160, the Association shall establish an independent, effective asset review program within 90 days of the effective date of this Order. The internal asset review program shall establish procedures that will ensure that the Association appropriately classifies its assets and maintains an adequate and prudent level of general valuation allowances and specific valuation allowances relative to its assets. The Board of Directors, within 90 days of the effective date of this Order, shall provide the Regional Director with copies of the following:

(a) a description of the asset review function that has been established, including the identity of the individual assigned responsibility for ensuring that credit risk is accurately identified on a timely basis;

(b) a board resolution which states that management is adhering to the Association's asset classification policy; and

(c) the minutes of the board meeting at which the resolution, referred to in section 8(b) above, was adopted. All documentation considered by the Board of Directors in adopting such resolution shall be explicitly referenced in the minutes of the meeting at which the resolution was adopted and the methodology utilized by the board should be clearly expressed in the board meeting minutes.

9. Valuation Allowances

Within 30 days from the effective date of this Order, Freehold's Board of Directors shall adopt procedures by which the adequacy of Freehold's GVA is assessed at least quarterly. Such procedures shall consider the composition of Freehold's asset portfolio, not subject to criticism, as well as the criticized assets. On a quarterly basis, Freehold will charge-off or establish specific valuation allowances for all loans, or portions thereof, determined to be uncollectable. The minutes of the Board of Directors of Freehold shall reflect that it has performed such re-evaluation. Freehold shall submit to the Regional Director, within twenty days of each quarter end beginning March 31, 1991, a worksheet detailing the calculation it has utilized in determining the level of the valuation allowances needed.

10. Business Plan/Interest Rate Risk

Freehold's Board of Directors shall direct management to formulate a detailed business plan addressing Freehold's goals with respect to general business plan considerations including, but not limited to, Freehold's plans with regard to stabilizing growth, reducing real estate joint venture activities, eliminating the deterioration in its asset quality, and outlining its plan to maintain adequate capital levels.

The plan shall also address management's strategy to reduce Freehold's exposure to interest rate risk. Incorporated within the plan shall be a specific written interest rate risk strategy with financial projections, which demonstrates how Freehold's exposure to interest rate risk will be reduced. The board shall establish an interest rate risk management plan consistent with 12 C.F.R. § 563.176 and Thrift Bulletins 13, 13-1 and 13-2.

The Board of Directors shall take into consideration whether there are sufficient managerial resources to accomplish the goals and objectives of the business plan. Review and approval of the plan by the board shall be documented in the board's meeting minutes. The Association shall forward its business plan to the Regional Director within 60 days of the effective date of this Order.

11. Code of Ethics

Within 90 days of the effective date of this Order, the Association shall adopt and implement a Code of Ethics Policy ("Code"). Freehold's Code shall at a minimum address the following:

(a) Corporate Creed

The Code shall begin with a broad statement of corporate policy and basic philosophical principles. The creed shall contain statements, guidelines, and examples of what constitute ethical behavior as a basis of how affiliated persons and employees will be judged;

(b) Conflicts of Interest

A conflict of interest occurs if an affiliated person or employee deliberately advances personal interests at the expense of the institution or its customers or stockholders. The Code shall be crafted so as to comprehensively address permissible and impermissible activities, to provide examples and guidance and to clearly communicate the procedures Freehold will use in dealing with conflict problems;

(c) Confidentiality

The Code shall state that information obtained through employment by or affiliation with the Association shall be sacredly private. Freehold's Code shall show how information must be guarded, what information is, and why abuses in this area can be harmful to the Association, the employees, and the customers;

(d) Personal Finances

The Code shall state that improper handling of personal finances could undermine the credibility of the affiliated person, the employee, or the institution. Additionally, a precarious financial position could be thought to influence actions or judgments made for the institution. Specific policies and procedures for reporting financial transactions and liability statements of employees and affiliated persons shall be established.

(e) Outside Activities

To ensure that an affiliated person or employee manages his/her outside activities without compromising the individual or the institution, the Code shall provide explicit restrictions and guidelines;

(f) Protection of Freehold Property

The Code shall provide guidelines for the protection of the Association's property, including information, products, and services;

(g) Laws and Regulations

The Code shall recite applicable criminal statutes and financial institution regulations. The descriptive list shall be as comprehensive as possible including, but not limited to, the following:

(1) Section 23A of the Federal Reserve Act, 12 U.S.C. § 371c (regarding Banking affiliates);

(2) Section 23B of the Federal Reserve Act, 12 U.S.C. § 371c-1 (regarding Restrictions on transactions with affiliates);

(3) Section 22(h) of the Federal Reserve Act, 12 U.S.C. § 375b (regarding Prohibitions respecting loans and extensions of credit to executive officers and directors of banks, political or campaign committees, etc.);

(4) Section 563.34 of the OTS Regulations, 12 C.F.R. § 563.34 (regarding Deposit relationships involving affiliated persons);

(5) Section 563.35 of the OTS Regulations, 12 C.F.R. § 563.35 (regarding Restrictions involving loan services);

(6) Section 563.37 of the OTS Regulations, 12 C.F.R. § 563.37 (regarding Operation of service corporation, liability of savings association for debt of service corporation);

(7) Section 563.39 of the OTS Regulations, 12 C.F.R. § 563.39 (regarding Employment contracts);

(8) Section 563.40 of the OTS Regulations, 12 C.F.R. § 563.40 (regarding Restrictions on loan procurement fees, kickbacks and unearned fees);

(9) Section 563.41 of the OTS Regulations, 12 C.F.R. § 563.41 (regarding Restrictions on real property transactions with affiliates and affiliated persons);

(10) Section 563.43 of the OTS Regulations, 12 C.F.R. § 563.43 (regarding Restrictions on loans and other investments involving affiliates and affiliated persons);

(11) Section 563.44 of the OTS Regulations, 12 C.F.R. § 563.44 (regarding loans involving mortgage insurance);

(12) Section 563.45 of the OTS Regulations, 12 C.F.R. § 563.45 (regarding Form AR Disclosure).

(13) Criminal statutes applicable to financial institutions pursuant to Title 18 of the United States Code.

It should be noted that substantial penalties for noncompliance could be imposed on the institution, affiliated person, or employee;

(h) Code Administration

The Code shall provide for a method for ensuring compliance, and policies and procedures for enforcing the Code shall be clearly described. The sanctions that will be imposed for ethical violations shall be uniformly applied, but flexible in situations where ethical decisions are less than obvious.

MISCELLANEOUS PROVISIONS

12. The Stipulation is made a part hereof and is incorporated herein by this reference.

13. 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 the regulations, policy statements, or bulletins issued by the OTS (many of which are codified or to be codified at Chapter V of Title 12 of the Code of Federal Regulations), and any such technical words or terms used in this Order and undefined in said regulations, policy statements, or bulletins shall have meanings that accord with the best custom and usage in the savings and loan or banking industries, as applicable. For purposes of this Order, all references to regulations, policy statements, bulletins, memoranda and publications shall include any successor regulations, policy statements, bulletins, memoranda and publications.

14. "Regional Director" or his successor is the "senior supervisory official" within the meaning of Section 723(d) of the Financial Institutions Reform, Recovery, and Enforcement Act, and refers to the Regional Director of the Northeast region of OTS. All references to the Regional Director shall include the Regional Director and/or his designee(s).

15. All references to time deadlines contained herein shall be calculated by using calendar days.

16. This Order is effective and enforceable immediately upon the date of its issuance by the OTS ("effective date"), which date is set forth below.

IT IS SO ORDERED on this 11th day of July, 1991.

THE OFFICE OF THRIFT SUPERVISION
By;

/S/

Angelo A. Vigna
Regional Director