

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In The Matter Of:

HYDE PARK CO-OPERATIVE BANK
Hyde Park, Massachusetts

OTS No. 04186

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) Re: Resolution No. BOS 91-12

) Date: August 26, 1991
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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 the Hyde Park Co-operative Bank, Hyde Park, Massachusetts ("Hyde Park" 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 for it to initiate an administrative cease and desist proceeding against Hyde Park pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. 1818(b). Hyde Park, desiring to cooperate with the OTS and to avoid the time and expense of such administrative proceedings or litigation, 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 Hyde Park with respect to the matters covered in the accompanying

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, dissipation of capital, and significant deterioration of asset quality;
- (2) failing to comply with the provisions of the Supervisory Agreement between the Institution and the OTS dated July 23, 1990;
- (3) failing to maintain appropriate internal controls;
- (4) failing to develop and implement effective loan underwriting policies and procedures;
- (5) failing to develop and implement an effective loan review and asset classification system;
- (6) failing to develop and implement effective appraisal policies and procedures;
- (7) failing to develop and implement an effective interest rate risk management policy;
- (8) failing to develop and implement effective collections practices and procedures; and
- (9) failing to establish and maintain adequate 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. 563.160, regarding internal classification of assets and reserves;
- (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), (iv), (v) and (ix), regarding completed loan applications, appraisals, financial statements, and title certification or insurance, respectively);
- (4) 12 C.F.R. 563.172, regarding re-evaluation of assets and adjustment of book value;
- (5) 12 C.F.R. 563.93, regarding limitations on loans to one borrower; and
- (6) 12 C.F.R. 563.190, regarding fidelity bond coverage.

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. Management

1. Within sixty (60) days from the effective date of this Order, the Board of Directors ("Board") shall submit to the Regional Deputy Director a written analysis and assessment of the

Institution's management and staffing needs ("Management Plan") prepared by an independent party to be commissioned by the Board. The Management Plan 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 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 determines are necessary to fill Institution officer positions at the level of senior vice president and higher; and

(g) An analysis which quantifies and documents the need for outside consultants. The analysis shall include, but not be limited to, the duties performed, compensation received, the involvement of present management in the completion of those duties, and the extent to which the consultants will be involved in the ongoing management of the Institution.

2. The Board shall approve the 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 Regional Deputy Director of all material modifications to the Management Plan. The Institution, its directors, officers and employees shall implement and follow the written Management Plan and/or any subsequent modification(s) thereto.

3. Within thirty (30) days of the effective date of this Order, the Board shall submit to the Regional Deputy Director a written analysis identifying, defining, and documenting the role of Director Landry in the daily operation of the Institution. This analysis shall also include the level of compensation agreed to and approved by the Board of Directors.

B. Asset Quality and Review

4. Within sixty (60) days from the effective date of this

Order, the Board shall adopt and submit to the Regional Deputy Director 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 as interpreted and clarified by the OTS policy statement regarding classification of assets, 12 C.F.R. 571.26. The Classification Policy shall include:

- (a) identification of the individuals responsible for the review and their qualifications, a description of the classification rating system, the frequency of reviews, the method of loan selection, the scope and depth of the review, and the follow-up reporting procedures, some of which individuals shall be independent of the lending function;
- (b) a requirement that general loan loss reserves are reviewed for adequacy on at least a quarterly basis. The Institution shall note this review within its Board minutes;
- (c) appropriate guidelines to ensure that all unsecured consumer credit delinquent more than 120 days is identified as a Loss in accordance with 12 C.F.R. 563.160 and charged off in accordance with 12 C.F.R. 563.46; and
- (d) provisions to ensure that all internally classified assets are reported as required on Thrift Financial Reports ("TFRs") submitted to the OTS.

5. 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 they are considered.

6. Within thirty (30) days from the effective date of this Order, the Institution shall charge off or establish specific reserves for all assets classified "Loss" in the OTS Report of Examination ("ROE") dated April 8, 1991, and shall establish a general loss reserve equal to \$450,000.

C. Lending Policies and Procedures

7. Within sixty (60) days from the effective date of this Order, the Board shall submit to the Regional Deputy Director a written loan underwriting policy (the "Loan Policy"). At a minimum, the Loan Policy shall ensure that the documentation supporting loan is in compliance with the requirements of 12 C.F.R. 563.170(c)(1). The Loan Policy shall also address the underwriting and administrative weaknesses inherent in classified assets identified in the ROE, including the maintenance, review, and analysis of complete and current files on all borrowers and shall set forth procedures relative to internal review and approval of loan documentation provided to the Institution in loan referrals made by its agents, correspondents, and any other person or entity referring loans to the Institution, and loan

documentation provided by underwriters of loans to be purchased. The Board shall approve the Loan Policy, and such approval shall be recorded in the Board minutes. The Institution, its directors, officers, and employees shall implement and follow the written policy and/or subsequent modification(s) thereto.

8. Prior to issuing any loan commitment, the Institution shall have in its possession documentary evidence that each requirement of its underwriting standards, as approved by the Board of Directors and applicable to the particular loan(s), has been complied with. A commitment may be issued prior to receipt of the aforementioned documentation provided the commitment is subject to receipt and satisfactory review of such documentation. As appropriate for the type of loan(s) proposed to be made, such documentary evidence shall include, but not be limited to:

- (a) A written application signed by the borrower(s) and guarantor(s) stating the purpose of the loan;
- (b) financial statements of borrower(s) and guarantor(s) certified by such borrower(s) or guarantor(s) as true and correct;
- (c) current credit reports for the borrower(s) and/or guarantor(s) together with a written report signed by the responsible Institution employee evaluating any outstanding negative items contained in any such report;
- (d) a document, signed by the responsible officer or employee of the Institution, evidencing that material

- items in the borrower(s) and/or guarantor(s) financial statements have been verified or analyzed to ensure that the borrower(s) and/or guarantor(s) has sufficient assets and cash flow to retire the loan under the terms of the note and/or guarantee;
- (e) documented evidence that the Institution has verified the employment of the borrower(s) and/or guarantor(s);
 - (f) an appraisal report which meets the requirements of 12 C.F.R. 563.171 and 12 C.F.R. Part 564; and
 - (g) evidence of adequate hazard insurance coverage.

9. Evidence of adequate construction loan procedures and documentation shall be maintained, including, but not limited to, complete cost estimates, completed inspection sheets, and signed lien waivers.

10. The Institution shall make no commercial real estate loans unless and until it has a commercial real estate loan underwriting policy approved by the Regional Deputy Director.

D. Appraisal Policy and Practices

11. The Institution shall make no loans without obtaining an appraisal report complying with the requirements of 12 C.F.R. Part 564. A market value appraisal shall be obtained for any property that the Institution acquires through or as a result of foreclosure, deed in lieu of foreclosure, or "in substance" foreclosure ("real estate owned" or "REO"), as required by 12 C.F.R. 563.172(a).

12. Within sixty (60) days from the effective date of this Order, the Institution shall adopt and submit to the Regional Deputy Director for review, a written appraisal policy consistent with, and no less stringent than, the provisions of 12 C.F.R. Part 564. The appraisal policy shall include at a minimum:

- (a) a requirement that market value appraisal be obtained pursuant to 12 C.F.R. 563.170(c)(1)(iv) prior to purchasing any loan or extension of credit;
- (b) a requirement that all appraisal reports comply with the requirements of 12 C.F.R. Part 564;
- (c) the guidelines for obtaining appraisals on all types of properties on which the Institution extends credit;
- (d) specific procedures for management to follow in reviewing appraisals for content and compliance with regulatory and internal requirements;
- (e) the responsibility of the Board of Directors to review, ratify and approve appraisers on at least an annual basis; and
- (f) the Board review and approval process for appraisers, which shall provide detailed documentation supporting conclusions reached and shall become part of the Board of Directors' minutes.

E. Collections Policy and Procedures

13. Within sixty (60) days of the effective date of this Order, the Board of Directors shall establish a written collection

policy and forward it to the Regional Deputy Director for review. The Institution, its directors, officers, and employees shall implement and follow the collection policy and/or subsequent modification thereto.

F. Accrual of Interest Policy

14. Within sixty (60) days of the effective date of this Order, the Board of Directors shall establish a written accrual of interest policy and forward it to the Regional Deputy Director for review. The policy shall comply with the requirements of Generally Accepted Accounting Principles and establish documentation requirements to support the continued interest accrual for loans which are greater than 90 days past due. The Institution, its directors, officers, and employees shall implement and follow the written policy and/or subsequent modifications thereto.

G. Interest Rate Risk Management

15. Within sixty (60) days from the effective date of this Order, the Board shall adopt and submit to the Regional Deputy Director for review, an interest rate risk management policy that meets the requirements of 12 C.F.R. 563.176 as interpreted and clarified by the OTS policy statement regarding interest rate risk, 12 C.F.R. 571.3, and Thrift Bulletin No. 13.

16. The Board of Directors shall review the Institution's interest rate risk exposure on at least a quarterly basis. The Institution shall note this review within its Board minutes.

H. Business Plans

17. By November 30, 1991, the Board shall adopt and submit to the Regional Deputy Director for review a business plan for the period ending with the close of the 1995 fiscal year. The plan shall include, at a minimum:

- (a) a mission statement of the basic business, scope, activities, and purpose of the Institution;
- (b) goals that the Institution desires to achieve;
- (c) objectives providing specific quantitative measures consistent with each goal;
- (d) strategies regarding the courses of action the Institution will take to achieve its goals; and
- (e) proforma financial statements and budgets that reflect the existing position of the Institution and the anticipated position demonstrating the impact of its goals, objectives, and strategies on its existing position.

18. The Board of Directors shall review the Institution's operating budget on at least a quarterly basis to compare actual results with those projected. The operating budget shall be formulated on an annual basis, and shall also be revised should the Institution's operating environment change significantly.

19. The Board and management shall take steps to analyze the present level of operating expenses on at least a quarterly basis to properly identify those areas where savings can be achieved. The Institution shall note this review within its Board minutes.

I. Surety Bond

20. The Institution shall ensure that adequate surety bond coverage is maintained, as required by 12 C.F.R. 563.190.

J. Correction of Violations and Deficiencies

21. Within ninety (90) days from the effective date of this Order, the Institution shall take steps designed to correct the violations noted on Page A-26.1 and A-26.2 of the ROE and shall adopt procedures to prevent recurrence of such violations. Such procedures shall be documented in the Board minutes.

22. Within ninety (90) days from the effective date of this Order, the Institution shall take steps designed to correct the cited deficiencies in the loans classified and listed for Special Mention in the ROE.

K. Progress Reports

23. 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 progress reports to the Regional Deputy Director detailing the actions which have been taken to secure compliance with this Order and the results thereof. Said reports may be discontinued only when the corrections required under this Order have been accomplished, and the Regional Deputy Director has, in writing, released the Board from making further reports. In addition, the Institution shall furnish such reports on request of the Regional Deputy Director. All status reports and other written submissions pursuant to this Order shall be reviewed by the Board and made a part of the Board minutes.

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Hyde Park, Massachusetts

OTS No. 04186

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) Re: Resolution No. BOS 91-12
) Date: August 26, 1991
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ORDER TO CEASE AND DESIST

WHEREAS, The Hyde Park Co-operative Bank, Incorporated, Hyde Park, Massachusetts ("Hyde Park" 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 District 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

Order to Cease and Desist ("Order").

2. Jurisdiction

Hyde Park 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 Owner's 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, Hyde Park 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

Hyde Park 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, 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, U.S.C. 1818(i).

5. Waivers

Hyde Park waives its right to a notice of charges and the administrative hearing provided by Section 8(b)(1) of the FDIA, 12

