

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of)
Home Owners Savings Bank F.S.B.)
Burlington, MA 01803)
OTS No. 03696)
)

Re: Resolution No. BOS-90-1
Dated: February 15, 1990

STIPULATION AND CONSENT TO ISSUANCE
OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its District Director for the Boston District Office, OTS, and Home Owners Savings Bank F.S.B., Burlington, Massachusetts, ("Home Owners"), 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 Home Owners 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. s. 1818(b)). Home Owners desires to cooperate with the OTS and to avoid the time and expense of such 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 Home Owners with respect to the

matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) Home Owners 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. s. 1818(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, Home Owners 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. s. 1818(b)).

3. Consent. Home Owners 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, as amended by FIRREA (to be codified at 12 U.S.C. s. 1818(b)). Upon its issuance by the District Director for the Boston District 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. s. 1818(i)).

5. Waivers. Home Owners 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. s. 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. s. 1818(h)), or otherwise to challenge the validity of the Order.

WHEREFORE, in consideration of the foregoing, the OTS, by and through its District Director for the Boston District Office, OTS, and Home Owners, by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

OFFICE OF ~~THRIFT~~ SUPERVISION

Home Owners Savings Bank F.S.B.
by a majority of its directors

By:

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

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In the Matter of
Home Owners Savings Bank F.S.B.)
Burlington, MA 01803)
OTS No. 03696)

Re: Resolution No. BOS-90-1

Dated: *FEBRUARY 15, 1990*

ORDER TO CEASE AND DESIST

WHEREAS, Home Owners Savings Bank F.S.B., Burlington, Massachusetts, ("Home Owners"), 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 ("OTS Boston"); and

WHEREAS, Home Owners, 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. s. 1818(b)).

NOW THEREFORE, IT IS ORDERED that Home Owners 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:

1. 12 C.F.R. 563.176 and 12 C.F.R. 571.3 regarding interest-rate-risk management and management procedures;
2. 12 C.F.R. 563.161 regarding management and financial policies;
3. 12 C.F.R. 563.160 regarding internal classifications and reserves; and
4. 12 C.F.R. 528.5 and 528.6 regarding nondiscrimination in lending.

IT IS FURTHER ORDERED that:

Interest Rate Risk

5. (a) Within forty-five (45) days after the effective date of this Order, Home Owners shall submit an interest rate risk policy prepared in accordance with Thrift Bulletin 13 to OTS Boston, which policy shall be reviewed and approved by the Board of Directors. Within seventy-five (75) days after the effective date of this Order, Home Owners shall submit an interest rate risk plan which shall be approved by the Board of Directors and at a minimum shall contain: goals, strategies and timetables for reducing interest rate risk exposure of Home Owners; clear statements and summaries of the assumptions used in quantitative analysis and projections; and a statement of the appropriate accounting treatment, arrived at after consultation with and concurrence of OTS Boston, to be applied to mortgage derivative products and investments of Home Owners including, but not limited to, CMO

residuals, accrued residual interest receivables or other deferred premiums and purchased mortgage servicing rights. Forecasted results and projections of the interest rate risk policy shall be consistent with the provisions of the business/capital plan submitted to OTS Boston pursuant to Thrift Bulletin 36.

(b) Home Owners shall submit to OTS Boston copies of its quarterly Board of Directors' reports regarding the progress made in reducing interest rate risk exposure, which reports shall have been reviewed and approved by the Board of Directors and at a minimum shall contain: data and analysis of market value of portfolio equity.

Asset Review/Self-Classification

6. (a) Within seventy-five (75) days after the effective date of this Order, Home Owners shall submit an asset review and classification policy to OTS Boston, which policy shall be reviewed and approved by the Board of Directors and shall comply with the provisions of 12 C.F.R. 561.160. The Board of Directors shall designate a single officer with oversight responsibility for the self-classification program. Said officer shall have no direct or indirect operational responsibilities with respect to the assets subject to the program and shall be independent from the investment or loan approval process.

(b) The officer with oversight responsibility for the self-classification program shall submit a quarterly report to the Board of Directors, which report at a minimum shall contain: a complete breakdown of all general and specific reserves; a historical analysis of the level and trend of internally

classified assets and corresponding reserve levels; and a description of all classified assets, including all classifications made by examiners.

Procedure to Identify and Track Assets Held for Sale,

Investment or Trading

7. Within forty-five (45) days after the effective date of this Order, Home Owners shall submit written investment procedures to OTS Boston to identify and track assets held for sale, investment or trading, which procedures shall be reviewed and approved by the Board of Directors and at a minimum shall contain: a means to identify all assets, at the time of commitment to acquire or purchase, as held for sale, held for permanent investment, or held for trading purposes; appropriate accounting treatment utilizing separate ledger accounts for identification and verification; a weekly log noting all asset transfers between ledger accounts, market value and book value at the time of transfer and the reason for the transfer.

Operations Restrictions

8. On and after the effective date of this Order, without the prior written approval of the District Director, Home Owners shall not:

(a) Unless otherwise ordered by the District Director, prior to January 1, 1991, increase its liabilities above the level that existed as of November 30, 1989 other than net interest credited on deposits; except that Home Owners may increase its liabilities in excess of said level, but not to exceed the level that existed as of August 31, 1989, in order to meet liquidity requirements or

to fund loans secured by "residential properties" (as that term is defined in 12 C.F.R. 567.1) held for sale in the normal course of mortgage banking operations, provided that such loans are subject to a firm forward commitment to sell to an unaffiliated third party.

(b) Sell or transfer within any thirty (30) day period any assets, including a sale or transfer to any affiliate or subsidiary of Home Owners, of value equal to or greater than \$5.0 million, without giving written notice and opportunity to OTS Boston to object. For purposes of this paragraph (8)(b), "asset" shall not include: (i) loans secured by "residential properties" in the loans held for sale account that are sold in the normal course of mortgage banking operations; (ii) high yield corporate "junk" bonds sold at or above market value; (iii) commercial, marine, and commercial real estate loans sold without recourse at or above market value and above book value; (iv) the credit card portfolio sold at or above market value and above book value; (v) mortgage servicing rights on mortgages originated or acquired by Home Owners in the ordinary course of business sold at or above market value; and (vi) liquid assets as defined in 12 C.F.R. 566.1(g) sold at or above market value.

(c) Replace, purchase or otherwise acquire any of the following:

- (i) CMO residuals;
- (ii) below-investment grade securities;
- (iii) equity securities;
- (iv) equity positions, including but not limited to

joint venture, ADC lending, or partnership interest, but excluding Home Owners' investment in the Loan Number 71097216 provided that OTS Boston is given written notice and opportunity to object to any such increase in investment; and

(v) "high risk mortgage derivative products" (as that term is used in Thrift Bulletin 12; except that said term shall not include accrued residual interest receivable or mortgage servicing rights.)

(d) Purchase or sell any off-balance sheet item, including, but not limited to, option contracts futures contracts, interest rate swaps, interest rate caps, or pair-off activities, without giving written notice and opportunity to OTS Boston to object, other than such purchases, sales, pair-off activities and option contracts directly related to mortgage pipeline management.

(e) Defeasement or repurchase any subordinated debt or assets-backed bonds of Home Owners, without giving written notice and opportunity to OTS Boston to object.

(f) Pay dividends on capital stock.

Information Systems/Recordkeeping

9. Within seventy-five (75) days after the effective date of this Order, Home Owners shall:

(a) Create, maintain and implement a central management information system which at a minimum shall contain: creation of a central log or indexing system of all key financial, economic,

accounting and other reports generated or obtained by Home Owners; and creation of a central log or indexing system of minutes of meetings of directors and formal committees.

(b) Maintain records of the calculation of Home Owners' regulatory liquidity, including a detailed listing of all eligible liquid investments.

Consumer Compliance

10. (a) The Board of Directors shall designate a single officer with oversight responsibility for a comprehensive consumer compliance program to ensure compliance with 12 C.F.R. 528. Said compliance officer shall be responsible for developing, implementing and maintaining said consumer compliance program.

(b) A comprehensive consumer compliance program shall include but not be limited to:

- (i) a records retrieval and retention procedure consistent with the provisions of 12 C.F.R. 528.6(f);
- (ii) maintenance of a loan application register pursuant to 12 C.F.R. 528.6(d), specifically to include information regarding property location, area data and applicant information pursuant to 12 C.F.R. 528.6(a), (b);
- (iii) preparation of accurate and timely data submission reports pursuant to 12 C.F.R. 528.6(e). The Board of Directors shall ensure that a data submission report for the semiannual period ended December 31, 1989 is submitted to OTS Boston on or before

February 15, 1990; and

- (iv) maintenance of updated policies, procedures and consumer disclosures (Equal Housing Poster) to ensure compliance pursuant to 12 C.F.R. 528.5(b).

11. Nothing in this Order shall be construed to permit any transaction in violation of Section 11 of the Home Owners' Loan Act as amended by FIRREA, 12 U.S.C. 1468 (1989) and regulations promulgated thereunder, or any action in violation of any applicable statute, law or regulation.

THE OFFICE OF THRIFT SUPERVISION

By:

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