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UNITED STATES OF AMERICA  
BEFORE THE  
OFFICE OF THRIFT SUPERVISION

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In the Matter of )  
 )  
DOYLESTOWN FEDERAL SAVINGS AND )  
LOAN ASSOCIATION )  
 )  
Doylestown, Pennsylvania )  
 )  
\_\_\_\_\_ )

RE: Resolution No. PIT 90-15

Dated: September 17, 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 Pittsburgh District Office, OTS, and DOYLESTOWN FEDERAL SAVINGS AND LOAN ASSOCIATION, Doylestown, Pennsylvania ("DOYLESTOWN") stipulate and agree as follows:

1. Consideration. The OTS, based upon information reported to it, is of the opinion that the grounds exist to initiate an administrative cease and desist proceeding against DOYLESTOWN 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. § 1818(b)). DOYLESTOWN 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 DOYLESTOWN with respect to the matters covered in the accompanying Order to Cease and Desist ("ORDER").

2. Jurisdiction.

(a) DOYLESTOWN 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. § 1813(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, DOYLESTOWN 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. § 1818(b)).

3. Consent. DOYLESTOWN 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. § 1818(b)). Upon its issuance, 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. § 1818(i)).

5. Waivers. DOYLESTOWN 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. § 1818(b)), and further waives any right to



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RE: Resolution No. PIT 90-15

Dated: September 17, 1990

ORDER TO CEASE AND DESIST

WHEREAS, DOYLESTOWN FEDERAL SAVINGS AND LOAN ASSOCIATION, Doylestown, Pennsylvania ("DOYLESTOWN") through its board of directors ("Board") 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 Pittsburgh District Office ("District Director"); and

WHEREAS, DOYLESTOWN 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. § 1818(b)).

NOW THEREFORE, IT IS ORDERED that DOYLESTOWN 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:

- (i) The loans-to-one borrower limitations of the Home Owners' Loan Act of 1933, as amended by Title III, Section 301 of FIRREA;
- (ii) Section 563.93 (loans to one borrower) of the Rules and Regulations of the Office of Thrift Supervision ("OTS Regulations")(12 C.F.R. § 563.93);
- (iii) Section 563.45 (disclosure) of the OTS Regulations (12 C.F.R. § 563.45);
- (iv) Section 563.46 (charge-off of consumer credit classified as loss) of the OTS Regulations (12 C.F.R. § 563.46);

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- (v) Section 563.160 (classification of certain assets) of the OTS Regulations (12 C.F.R. § 563.160);
- (vi) Section 563.171 (appraisal policies and practices) of the OTS Regulations (12 C.F.R. § 563.171);
- (vii) Section 563.176 (interest rate risk management procedures) of the OTS Regulations (12 C.F.R. § 563.176);
- (viii) Section 563.180(a) (periodic reports) of the OTS Regulations (12 C.F.R. § 563.180(a));
- (ix) Section 567.2 (minimum regulatory capital requirement) of the OTS Regulations (12 C.F.R. § 567.2); and

IT IS FURTHER ORDERED THAT:

1. Within ninety (90) days of the day the District Director provides a list of management consultants, DOYLESTOWN's Board shall develop, adopt and file with the District Director of the Office of Thrift Supervision/Pittsburgh District ("District Director"), a plan for strengthening the institution's management ("Management Plan"). The Management Plan shall include, at a minimum, the following:

- (a) An assessment and performance evaluation of the management of DOYLESTOWN ~~and its subsidiaries provided by an independent management consultant~~ selected from a list of management consultants provided by the District Director. In connection with the selection, the Board shall direct management to inform the District Director of its selection. The management consultant shall be required to reach specific conclusions and make specific recommendations regarding management. The management consultant's review and recommendations shall be detailed in a written report which shall be submitted to the Board within sixty (60) days of the management consultant's employment. A copy of this report shall be submitted to the District Director and he shall retain the right to determine the adequacy of the Management Plan and its compliance with the terms of this Order;
- (b) Implementation strategy to address each recommendation in the management consultant's report, including time frames;
- (c) Major goals and strategies for strengthening and enhancing management, especially in the areas of accounting, regulatory compliance, commercial

and consumer loan underwriting, strategic planning, policy development, operations, capital position and service corporations;

(d) Identification of current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities;

(e) Written job descriptions for each senior officer; and

(f) Identification of corrective actions to address deficiencies in ~~management outlined in the December 11, 1989 Report of Examination~~ ("ROE") including any needed changes in staff.

It shall remain the responsibility of the Board to fully implement the Management Plan within specified time frames. In the event the Management Plan, or any portion thereof, is not implemented, the Board shall immediately advise the District Director, in writing, of specified reasons for deviating from the Management Plan.

2. The Board shall comply in all respects with the limitations on loans to one borrower, and the maintenance of adequate records for multiple borrowers as set forth in 12 C.F.R. Section 563.93 and the Board shall develop and implement such procedures as are necessary to ensure compliance therewith. Moreover, DOYLESTOWN shall immediately commence to dispose of any and all loans in its portfolio that exceed the loans to one borrower limitation. Within thirty (30) days of the effective date of this ORDER the Board shall adopt a plan to dispose of these loans. A copy of the plan shall be

delivered to the District Director within forty-five (45) days of the effective date of this ORDER.

3. Unless legally obligated in writing to do so, as of the date of this ORDER, DOYLESTOWN shall not make or commit to make, purchase or commit to purchase, refinance or commit to refinance, disburse or commit to disburse, all or any part of any loan, with the exception of the following type loans:

(i) Loans secured by one-to-four family dwellings not to exceed \$500,000 to any one borrower provided, the appropriate underwriting is performed and documentation obtained.

(ii) Loans secured by savings accounts.

(iii) Consumer loans granted under Section 12 C.F.R. § 545.50 provided the loans are fully secured.

The restrictions in DOYLESTOWN'S lending shall continue until the District Director has determined that DOYLESTOWN is in substantial compliance with this ORDER.

4. DOYLESTOWN or any of its subsidiaries shall not, directly or indirectly extend credit (which for the purposes of this ORDER shall include renewals, extensions, or capitalization of accrued interest) involving any assets criticized in the ROE or any subsequent ROE or any internal report.

5. The immediately preceding paragraph shall not apply if:

(a) The Board determines that DOYLESTOWN's or its subsidiaries' extension of credit involving a criticized asset is not detrimental to the best interests of DOYLESTOWN or its subsidiaries;

(b) a comparison with any written program adopted pursuant to Paragraph No. 8 indicates that the Board's formal plan to collect or strengthen said asset is not comprised;

(c) prior to extending any additional credit, a majority of the full Board approves the credit extension and certifies, in writing, the specific reasons why failure to so act would be substantially detrimental to the best interests of DOYLESTOWN or its subsidiaries. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s);

(d) a summary of the proposed credit extension has been submitted to the District Director prior to the credit extension, for those extensions exceeding \$100,000, and the District Director has not objected to the credit extension. Lack of objection is not to be construed as the District Director's approval of the proposed credit extension; and

(e) the credit extension does not contravene Paragraph No. 18.

6. The Board shall immediately require recognition of all unreserved indicated losses noted in the ROE for the affected assets which remain on DOYLESTOWN'S books. The Board shall as of September 30, 1990 require that DOYLESTOWN'S general valuation allowances be increased to \$2,549,252 as calculated by the OTS and conveyed to the Board in our letter dated September 4, 1990. Confirmation of the above-required actions shall be provided to the District Director of the OTS within thirty (30) days of the effective date of this ORDER.

Further, within thirty (30) days of the effective date of this ORDER, the Board shall review the adequacy of the Association's general valuation allowances ("Allowance") and shall establish an Allowance policy to ensure the maintenance of an adequate Allowance in accordance with the requirement of 12 C.F.R. § 563.160(d). The Allowance policy shall be developed in accordance with guidelines on maintaining a proper Allowance, as discussed in Section 261 of the OTS Regulatory Handbook for Thrift Activities, and shall focus particular attention on the following factors:

- a. results of DOYLESTOWN'S internal loan review;
- b. loan loss experience;
- c. an estimate of potential loss exposure on each significant credit;
- d. concentrations of credit;
- e. present and prospective economic conditions;
- f. loans criticized by the examiner or identified by the internal asset classification system;
- g. trends of delinquent and/or nonaccrual loans;
- h. charge-off, collection, and recovery policies and procedures and their effectiveness;
- i. trends in portfolio volume, maturity, and composition; and
- j. level, severity, and trend of classified assets.

The Board shall ensure that the Allowance is maintained at a prudent level in accordance with the guidelines set forth in DOYLESTOWN's policy. Additionally, the policy shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, or in the quarter immediately following, prior to the filing of DOYLESTOWN's Thrift Financial Report by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

7. ~~DOYLESTOWN shall take immediate and continuing action to protect its~~  
interest with regard to those assets criticized in the ROE.

8. Within ninety (90) days from the effective date of this ORDER the Board shall ensure adoption and implementation of a written program designed to eliminate the basis of criticism of assets classified in the ROE as "doubtful" or "substandard". This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of DOYLESTOWN's lien on such collateral where applicable;
- (c) an analysis, to the extent available, of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and

- (d) the proposed action to eliminate the basis of criticism and the anticipated time frame for its accomplishment.

A similar program shall be adopted for all additional assets which are criticized by DOYLESTOWN'S internal asset classification system.

- 9. The Board, or a delegated committee thereof, shall conduct a review, on at least a monthly basis, starting from the effective date of this ORDER, to determine:

- (a) the status of each criticized asset or criticized portion thereof;

- (b) management's adherence to the programs adopted;

- (c) the status and effectiveness of the written programs; and

- (d) the need to revise the programs or take alternative action.

A copy of each review shall be maintained by DOYLESTOWN and will be reviewed during the next scheduled examination.

- 10. Within thirty (30) days of the effective date of this ORDER, the Board shall establish a system for the self-classification of assets in accordance with the requirements of 12 C.F.R. Section 563.160(c)(2). Such system shall be consistent with the guidelines set forth at Section 260 of the OTS Regulatory Handbook for Thrift Activities. Additionally, an officer of

DOYLESTOWN shall be appointed to review compliance with this system on a quarterly basis. Any deviations shall be reported to the full Board.

11. The Board shall, within ninety (90) days of the effective date of this ORDER adopt and submit to the District Director a separate policy containing additional requirements for speculative residential construction loans, lot loans and land acquisition and development projects of the types offered by DOYLESTOWN. The policy, in addition to incorporating DOYLESTOWN's present written construction procedures should also be consistent with the guidelines set forth at Section 213 of the OTS Regulatory Handbook for Thrift Activities.

12. All appraisal reports shall reflect market value as defined at 12 C.F.R. Section 563.171 and shall contain sufficient data to support the market value of the security property described in the report. Further, the Board shall by resolution designate (an) officer(s), director(s), or other qualified person(s) to be responsible for the review of all appraisal reports submitted to the DOYLESTOWN. All loan files shall contain documentation of this individual's analysis and no loan shall be disbursed prior to a satisfactory report from such individual(s) regarding the value of the security property offered for such loan.

13. The Loan Committee's practice of approving loans to any one borrower as that term is used at 12 C.F.R. Part 563 (Loans to one Borrower limitations) whose outstanding loans exceed an aggregate of \$450,000 shall immediately cease.

The Board shall implement policies and procedures to ensure compliance with limitations set forth in Section B of DOYLESTOWN's commercial loan policy revised January 20, 1988. Furthermore, within 60 days of the effective date of this ORDER, such policies and procedures shall be filed with the District Director.

14. DOYLESTOWN shall adhere to the policy statement guidelines set forth at 12 C.F.R. Section 571.7 concerning conflicts of interest. Within sixty (60) days of the effective date of this ORDER, the Board shall develop and submit a plan to the District Director for the avoidance of conflicts of interest. Such a plan shall (a) specify, by name, any director or officer whose occupation or business interests may create possible conflicts of interest with DOYLESTOWN, (b) identify specific areas in which such abuses could occur, (c) describe specific policies and actions that DOYLESTOWN will adopt to avoid potential conflicts of interest, and (d) establish specific procedures for dealing with directors and management officials who violate the policies in these areas.
15. Within thirty (30) days of the effective date of this ORDER, the Board shall determine if DOYLESTOWN is subject to the annual disclosure requirements (Form AR) of Section 563.45 of the OTS Regulations, as it relates to transactions in which Director Gilmore and/or any other affiliated person had a direct or indirect material interest. If it is determined that Form AR is required for any prior year, said disclosure shall be made within 30 days of the determination. If it is determined that annual disclosure is required for the current year, DOYLESTOWN shall make said disclosure available in accordance with the aforesaid regulation.

16. The Board shall develop, adopt and implement an internal audit program which addresses the following:

(a) The principle duties of the audit committee. These duties shall include, but are not limited to:

1) The audit committee shall meet at least quarterly and shall maintain complete and accurate minutes of its meetings;

2) The audit committee shall oversee compliance with DOYLESTOWN's internal audit program; and

3) The audit committee shall handle relations with DOYLESTOWN's independent auditor.

(b) The internal auditor's responsibility for carrying out the internal audit program and reporting directly to the audit committee. Administratively, the internal auditor shall report to the Chief Executive Officer.

(c) The development of an internal audit program to be completed in consultation with the independent auditor. At a minimum, the internal audit program shall require an annual review of management's compliance with policies and procedures adopted by the Board.

17. The Board shall within ninety (90) days of the effective date of this Order, adopt and submit to the District Director the following policies and procedures:

- (a) A concentration of credit policy that establishes limitations on concentrations to any one borrower, by property type, by property location and by maximum loan to value ratios;
- (b) Collection policies and procedures for the various types of loans which DOYLESTOWN offers;
- (c) An interest accrual policy which delineates and requires documentation of those instances when the accrual of interest on a problem (classified) loan is appropriate;

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- (d) A Board approved comprehensive business plan, revised to address capital adequacy and the causes for exception noted on pages 10 and 11 of the ROE;
- (e) A Board approved interest rate risk management policy, revised to eliminate the deficiencies noted on page 16 of the ROE;
- (f) A letter of credit policy that thoroughly explains DOYLESTOWN's procedures in issuing both commercial letters of credit and standby letters of credit. The policy shall outline desirable and undesirable issuances, designate persons authorized to issue letters of credit, and define the recordkeeping and documentation requirements concerning issuances of letters of credit; and
- (g) A policy which establishes guidelines for the payments of customers' checks drawn on uncollected funds and the payment of customers' checks drawn on insufficient funds.

18. DOYLESTOWN shall immediately restrict liability growth to interest credited on liabilities in accordance with Regulatory Bulletin RB 3a-1, dated January 9, 1990, titled "Policy Statement on Growth for Savings Associations." Furthermore, on a quarterly basis and within fifteen (15) days of the close of the reporting quarter, DOYLESTOWN shall file with the District Director, a written report detailing compliance with RB 3a-1.
  
19. Beginning with the effective date of this ORDER, and at each month-end thereafter, DOYLESTOWN shall file with the District Director a report detailing compliance with the three capital requirements set forth in 12 C.F.R. § 567.2. If it is determined that DOYLESTOWN fails any of the capital requirements, within sixty (60) days of such determination, DOYLESTOWN shall submit to the District Director a capital plan for raising capital and accomplishing its goals. Said plan shall conform with the guidelines for capital plans set forth in OTS Bulletin TB 36a.
  
20. Within sixty (60) days of the effective date of this ORDER, the Board shall submit to the District Director certified excerpts from the Board meeting minutes documenting that the financial reporting errors outlined on page A-25.1 of the ROE and the violations of laws or regulations identified on page A-26.1 and A-26.2 and not previously discussed in this ORDER have been corrected.

21. The adequacy of and compliance with the various policies and procedures required to be submitted to the District Director by this ORDER, as well as overall compliance with this ORDER shall be determined by the District Director in conjunction with the next examination as well as future examinations of DOYLESTOWN and its subsidiaries.
22. The Board shall take whatever steps are necessary to ensure full compliance by DOYLESTOWN with the requirements of this ORDER.
23. 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 Chapter V of Title 12 Code of Federal Regulations, and any such technical words or terms used in this ORDER and undefined in said Code of Federal Regulations, shall have meanings that accord with the best custom and usage in the savings and loan industry.
24. Any request for modification of this ORDER must be submitted in writing to the Director or his designee and the Director may, in writing, at his sole discretion, modify or suspend the requirements of this ORDER.

OFFICE OF THRIFT SUPERVISION

By: \_\_\_\_\_

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Richard B. Pow  
District Director  
Pittsburgh District Office