

UNITED STATES OF AMERICA  
Before the  
OFFICE OF THRIFT SUPERVISION

\_\_\_\_\_ )  
In the Matter of )

CANISTEO SAVINGS )  
& LOAN ASSOCIATION )  
Canisteo, New York (OTS No. 06571) )  
\_\_\_\_\_ )

Re: Order No. NE 07-08

Date: May 29, 2007

**STIPULATION AND CONSENT TO ISSUANCE OF AN ORDER TO CEASE AND DESIST**

This Stipulation and Consent to Issuance of an Order to Cease and Desist ("Stipulation"), which concerns the accompanying and above-referenced Order to Cease and Desist (the "Order"), is submitted by **CANISTEO SAVINGS & LOAN ASSOCIATION**, Canisteo, New York (the "Savings Association", OTS No. 06571), to the Office of Thrift Supervision ("OTS"), which is acting through its Northeast Regional Director;

WHEREAS, the OTS, based upon information derived from the exercise of its regulatory responsibilities, has informed the Savings Association that the OTS is of the opinion that grounds exist to initiate administrative proceedings against the Savings Association pursuant to 12 U.S.C. § 1818;<sup>1</sup> and

WHEREAS, the Savings Association, desiring to cooperate with the OTS to avoid the time and expense of such administrative proceedings and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraph 1 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

**1. Jurisdiction.**

(a) CANISTEO SAVINGS & LOAN ASSOCIATION is a "savings association" within the meaning of 12 U.S.C. § 1813(b), and 12 U.S.C. § 1462(4). Accordingly, the Savings Association is an "insured depository institution" as that term is defined in 12 U.S.C. § 1813(c).

(b) Pursuant to 12 U.S.C. § 1813(q), the OTS is the "appropriate Federal banking agency" with jurisdiction to maintain administrative enforcement proceedings against savings associations. Therefore, the Savings Association is subject to the authority of the OTS to initiate and maintain administrative cease-and-desist proceedings against it pursuant to 12 U.S.C. § 1818(b).

<sup>1</sup> All references in this Stipulation and in the Order are to the United States Code as amended.

## **2. OTS Findings of Fact.**

The OTS, based on its November 6, 2006 examination of the Savings Association, found that the Savings Association has failed to fully comply with various requirements of the following laws and regulations:

- (i) The OTS' regulations requiring procedures for monitoring Bank Secrecy Act ("BSA") compliance, 12 C.F.R. § 563.177;
- (ii) OTS' Rules concerning Loans in Areas Having Special Flood Hazards, 12 C.F.R. Part 572, including but not limited to 12 C.F.R. § 572.6 (required use of standard flood hazard determination form);
- (iii) The OTS' Rules concerning Privacy of Consumer Financial Information, 12 C.F.R. Part 573, including 12 C.F.R. § 573.4 (requiring provision of initial privacy notices to consumers);
- (iv) The Truth in Lending Act, 15 U.S.C. §§ 1601 *et seq.*, and the regulations ("Regulation Z") issued thereunder by the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 226, including 12 C.F.R. § 226.24 (concerning APR disclosures in advertisements);
- (v) The Truth in Savings Act, 12 U.S.C. §§ 4301 *et seq.*, and the regulations ("Regulation DD") issued thereunder by the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 230, including 12 C.F.R. § 230.8 (rules concerning advertising of interest rates/annual percentage yields on deposit accounts);
- (vi) The Equal Credit Opportunity Act, 15 U.S.C. §§ 1601 *et seq.*, and the regulations ("Regulation B") issued thereunder by the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 202, including 12 C.F.R. §§ 202.9, 202.12, and 202.14 (rules on providing appraisal reports);
- (vii) The Real Estate Settlement Procedures Act, 12 U.S.C. §§ 2601 *et seq.*, and the regulations ("Regulation X") issued thereunder by the U.S. Department of Housing and Urban Development, 24 C.F.R. Part 3500, including 24 C.F.R. 3500.15 (requiring written disclosure of affiliate business relationships); and
- (viii) The Homeownership Counseling provisions of the National Housing Act, 12 U.S.C. § 1701x, including 12 U.S.C. § 1701x(c)(5) (notification of availability of homeownership counseling).

## **3. Consent.**

(a) The Savings Association hereby consents to the issuance by the OTS of the Order.

(b) The Savings Association further agrees to comply with the terms of the Order upon its issuance. The Savings Association further stipulates and agrees that the Order complies with all requirements of law, as applicable.

## **4. Finality.**

The Order is issued by the OTS under the authority of 12 U.S.C. § 1818(b). Upon the issuance of the Order by the OTS, acting by and through the undersigned Regional Director (which term also

shall refer to the Regional Director's authorized designees), the Order shall be a final order, effective and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

**5. Waivers.**

The Savings Association hereby waives the following:

- (i) The right to be served with a written notice of the OTS' charges;
- (ii) The right to an administrative hearing of the OTS' charges; and
- (iii) The right to seek judicial review of either the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order.

**6. Other Government Actions Not Affected.**

The Savings Association acknowledges and agrees that its consent to the issuance of the Order does not release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Savings Association that arise pursuant to this action or otherwise, and that may be or have been brought by any other government entity other than the OTS. The Savings Association further acknowledges and understands that its stipulation and consent to issuance of the Order only settles contemplated cease-and-desist proceedings, pursuant to 12 U.S.C. § 1818(b), that the OTS has indicated that it could have started based on its findings summarized at paragraph 2 of this Stipulation.

**7. Miscellaneous.**

(a) The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

(b) All references to the OTS in this Stipulation and the Order shall also mean any of the OTS' predecessors, successors, and assigns.

(c) The section and paragraph headings in this Stipulation and the Order are for convenience only, and such headings shall not affect the interpretation of this Stipulation or the Order.

(d) The terms of this Stipulation and of the Order represent the final written agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

(e) This Stipulation and the Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director, Regional Director, or other authorized representative.

**WHEREFORE**, the Savings Association executes this Stipulation, intending to be legally bound hereby.

**CANISTEO SAVINGS & LOAN  
ASSOCIATION**

*s/ William Case*

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

William Case  
President

Date: 5-21-07

Accepted by:  
**OFFICE OF THRIFT SUPERVISION**

*s/ Robert C. Albanese*

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

Robert C. Albanese  
Regional Director

Date: See the date in the caption hereof

UNITED STATES OF AMERICA  
Before the  
OFFICE OF THRIFT SUPERVISION

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In the Matter of )	
)	Order No. NE 07-08
<b>CANISTEO SAVINGS</b> )	
<b>&amp; LOAN ASSOCIATION</b> )	Date: May 29, 2007
Canisteeo, New York (OTS No. 06571) )	
_____ )	

**ORDER TO CEASE AND DESIST**

WHEREAS, **CANISTEO SAVINGS & LOAN ASSOCIATION**, Canisteeo, New York (the "Savings Association") has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist ("Stipulation"); and

WHEREAS, the Savings Association, by its execution of the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to 12 U.S.C. § 1818(b);<sup>1</sup> and

WHEREAS, the Director of the Office of Thrift Supervision ("OTS") has delegated to the Regional Directors of the OTS the authority to issue consent orders on behalf of the OTS pursuant to provisions of Section 8 of Federal Deposit Insurance Act, 12 U.S.C. § 1818.

NOW, THEREFORE, IT IS ORDERED THAT:

1. Compliance With Laws and Regulations.

The Savings Association and its directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling or the aiding and abetting of any violation of:

- (i) The Currency and Foreign Transactions Reporting Act, as amended by the USA Patriot Act and other laws (the "Bank Secrecy Act" or "BSA"), 31 U.S.C. §§ 5311 *et seq.*, and the related regulations issued and/or administered by the U. S. Department of the Treasury's FinCEN,<sup>2</sup> 31 C.F.R. §§ 103.11 *et seq.*, and the related BSA regulations issued by the OTS, 12 C.F.R. § 563.177 (collectively with the aforementioned laws and regulations, the "BSA Laws and Regulations");

<sup>1</sup> All references to the United States Code ("U.S.C.") are as amended, unless otherwise indicated.

<sup>2</sup> "FinCEN" refers to the Treasury Department's Financial Crimes Enforcement Network.

- (ii) The OTS' Rules concerning Loans in Areas Having Special Flood Hazards, 12 C.F.R. Part 572, including but not limited to 12 C.F.R. § 572.6 (required use of standard flood hazard determination form);
- (iii) The OTS' Rules concerning Privacy of Consumer Financial Information, 12 C.F.R. Part 573, including but not limited to 12 C.F.R. § 573.4 (requiring provision of initial privacy notices to consumers);
- (iv) The Truth in Lending Act, 15 U.S.C. §§ 1601 *et seq.*, and the regulations ("Regulation Z") issued thereunder by the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 226, including but not limited to 12 C.F.R. § 226.24 (concerning disclosure of annual percentage rates (APRs) in advertisements);
- (v) The Truth in Savings Act, 12 U.S.C. §§ 4301 *et seq.*, and the regulations ("Regulation DD") issued thereunder by the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 230, including but not limited to 12 C.F.R. § 230.8 (rules concerning advertising of interest rates/annual percentage yields on deposit accounts);
- (vi) The Real Estate Settlement Procedures Act, 12 U.S.C. §§ 2601 *et seq.*, and the regulations ("Regulation X") issued thereunder by the U.S. Department of Housing and Urban Development, 24 C.F.R. Part 3500, including but not limited to 24 C.F.R. 3500.15 (requiring written disclosure of affiliate business relationships);
- (vii) The Equal Credit Opportunity Act, 15 U.S.C. §§ 1601 *et seq.*, and the regulations ("Regulation B") issued thereunder by the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 202, including but not limited to 12 C.F.R. §§ 202.9, 202.12, and 202.14 (rules on providing appraisal reports); and
- (viii) The Homeownership Counseling provisions of the National Housing Act, 12 U.S.C. § 1701x, including but not limited to 12 U.S.C. § 1701x(c)(5) (notification of availability of homeownership counseling).

2. Effective Implementation of Anti-Money Laundering/BSA Compliance Program.

(a) The Savings Association shall implement and maintain its BSA Compliance Program, which was adopted pursuant to 12 C.F.R. § 563.177, so that at a minimum:

- (i) There is implementation of a system of *internal controls* to ensure compliance with (i) the BSA Laws and Regulations and (ii) the OFAC<sup>3</sup> regulations at 31 C.F.R. Part 500, and such internal controls must include policies and procedures to detect and monitor all transactions to ensure that they are not being conducted for illegal purposes and that there is full compliance with all applicable laws and regulations;
- (ii) There is *independent testing*, by a qualified and independent third party provider, of compliance with all applicable BSA Laws and Regulations and all applicable regulations requiring the reporting of suspicious transactions; the independent testing and compliance audits must: (A) be performed with an appropriate level of frequency, (B) be fully documented, and (C) be conducted with an appropriate segregation of duties;

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<sup>3</sup> "OFAC" refers to the U.S. Treasury Department's Office of Foreign Assets Control.

- (iii) There is, at all times, an active, full-time Savings Association officer or employee who: (A) is designated as the Savings Association's BSA Officer, and (B) is actively **managing, coordinating and monitoring** the Savings Association's day-to-day compliance with the BSA Laws and Regulations and the Savings Association's BSA Compliance Program. The Savings Association's designated BSA officer shall have day-to-day responsibility for all BSA compliance and related matters, including, without limitation: (A) the filing of Currency Transaction Reports when required, (B) the identification and timely, accurate and complete reporting to law enforcement and supervisory authorities of unusual or suspicious activity or known or suspected criminal activity perpetrated against or involving the Savings Association, and (C) monitoring the Savings Association's compliance and ensuring that full and complete corrective action is taken with respect to previously identified violations and deficiencies;
- (iv) There is provided, no less than annually, meaningful BSA-related **training** by qualified consultants for all appropriate Savings Association personnel.

(b) Within forty-five (45) days of the Effective Date hereof, the Savings Association shall engage an independent and qualified BSA consultant/service-provider (the "BSA Consultant"), who must be acceptable to the OTS,<sup>4</sup> to assist the Savings Association in developing, within ninety (90) days of the Effective Date, written procedures and processes (which may include outsourcing, as appropriate) so that the Savings Association effectively implements its BSA Compliance Program in a manner such that the Savings Association fulfills its responsibilities under the BSA Laws and Regulations and the BSA-related provisions of this Order.

(c) Within 120 days of the Effective Date hereof and following consideration of the recommendations and other guidance from the above-referenced BSA Consultant, the Savings Association shall: (i) by duly recorded action of its Board of Directors ("Board") formally adopt written procedures and processes for effective implementation of its BSA Compliance Program, and (ii) effectively implement such BSA Compliance Program.

(d) On a monthly basis, the Savings Association's Board shall monitor the Savings Association's implementation of the BSA Compliance Program to ensure that Savings Association is effectively implementing all aspects of the BSA Compliance Program.

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<sup>4</sup> The Savings Association may not engage a proposed BSA Consultant until the OTS provides the Savings Association with written notice that it has no supervisory objection to the engagement of the BSA consultant. To seek such non-objection, the Savings Association must make a written submission to the OTS, and the written submission must, *inter alia*, (i) identify the proposed consultant, (ii) include a copy of the proposed consultant's resume, and (iii) include the reasons that the Savings Association believes the proposed consultant is an appropriate selection.

(e) At least semi-annually, the Savings Association’s Board shall review (which may involve guidance from a qualified BSA consultant) the Savings Association’s BSA Compliance Program to determine whether changes in such program may be necessary to adjust to: (i) changes to the BSA Laws and Regulations (as well as related forms), and (ii) changes in the Savings Association’s operations that may impact on its compliance with the BSA and regulations thereunder.

3. Compliance Program Management, Staffing and Resources.

(a) The Savings Association, at all times, shall have and implement an effective Compliance Management Program, *i.e.*, a program (with policies and procedures) for implementing and adhering to the Truth in Lending Act, the Truth in Savings Act, the Real Estate Settlement Procedures Act, the Federal Trade Commission Act, and the other laws and regulations that are referenced in Section 1100 of the OTS’ Examination Handbook (collectively the “Compliance Laws and Regulations”).

(b) In view of the limited full-time staffing of the Savings Association, the Savings Association’s Compliance Management Program may provide for outsourcing to qualified service providers, whose work shall be under the direction of the Savings Association’s President. However, any such outsourcing shall not relieve the Savings Association, its officers and its Board of their responsibility for complying with the Compliance Laws and Regulations.

(c) *Adoption and Implementation of a Written Compliance Management Program.* Within ninety (90) days of the Effective Date hereof, the Savings Association shall commence implementation of a written Compliance Management Program, customized to the activities and needs of the Savings Association that meets the following requirements.

- (i) The Savings Association’s Board must review and approve the written Compliance Management Program, and such approval must be documented in the minutes of the meeting of the Board during which such action was taken.
- (ii) The written Compliance Management Program, which must be reasonably designed to cause the Savings Association to comply with the Compliance Laws and Regulations, must, at a minimum, incorporate the following six SMAART components (which are described further in the OTS’ written guidebook entitled “Compliance: A Self-Assessment Guide”):

<b>Systems</b>	The embodiment of task-specific procedures and internal controls that ensure that transactions are conducted and recorded in compliance with legal obligations and customer-service goals.
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<b>Monitoring</b>	The process of supervising the day-to-day or week-to-week functioning of the Savings Association's compliance systems to assure real-time execution in accordance with program standards.
<b>Assessment</b>	The periodic review of system records and operations to identify transactional violations and program deficiencies.
<b>Accountability</b>	The arrangement of responsibility, authority and reporting relationships that provides direction to staff for implementing institution compliance policy and appraises senior management and the directors about compliance program performance.
<b>Response</b>	The process of addressing consumer complaints, remedying regulatory violations, amending procedures and controls, correcting internal oversight deficiencies, and implementing policy and system revisions or updates.
<b>Training</b>	The communication to appropriate Savings Association personnel of compliance policies, procedures, directives, regulatory requirements, product information and service goals. Also addressed by this component is the commitment and manner in which the Savings Association develops and maintains staff expertise.

- (iii) Among other things, the written Compliance Management Program shall include policies, procedures, and checklists. It addition, it shall indicate the persons (including service providers) who shall be responsible for preparing particular documents and taking other actions required by the applicable Compliance Laws and Regulations.

4. Contingency Plan.

(a) The OTS, in the exercise of its sole discretion following consultation with the New York State Banking Department, may find that an "Event of Default" has occurred if the OTS determines that the Savings Association has: (i) failed to effectively implement its BSA Compliance Program, (ii) failed to adopt and effectively implement the Compliance Management Program (required by Paragraph number 3 of this Order), or (iii) otherwise materially failed to comply with this Order.

(b) Within forty-five (45) days of the Savings Association's receipt from the OTS of a written notice that it has determined there to be an "Event of Default", the Savings Association shall develop and shall submit to the OTS, for its review and prior determination of non-objection, a written Contingency Plan. Such a Contingency Plan shall detail the Savings Association's proposal (with specific time frames) to either: (i) merge with another banking institution, or (ii) voluntarily liquidate the Savings Association by, *inter alia*, filing an appropriate application with the New York State Banking Department in conformity with New York state law and regulations.

(c) In the event a Contingency Plan submitted by the Savings Association outlines a merger of the Savings Association, the written Contingency Plan, at a minimum, shall address the steps that will be taken to ensure that the merger occurs not later than thirty (30) calendar days after the later of: (i) the date of the OTS' issuance of a written notice of non-objection to the Contingency Plan, and (ii) the issuance by the appropriate bank regulatory agencies of all necessary regulatory approvals.

(d) After the OTS has advised the Savings Association in writing that it does not take supervisory objection to the submitted Contingency Plan, the Savings Association shall immediately implement, and its Board shall cause the Savings Association's adherence to, the terms of the Contingency Plan.

5. Board Oversight Committee.

(a) No later than thirty (30) calendar days following the Effective Date of this Order, the Board shall establish and appoint an oversight committee of the Board (the "Oversight Committee") comprised of three or more directors, the majority of whom shall be Outside Directors<sup>5</sup> to monitor and coordinate the Bank's compliance with the provisions of this Order.

(b) No less than monthly, the Bank's Management shall provide to the Oversight Committee such information and reports as are necessary to allow said Committee and the Board to monitor the Bank's compliance and/or non-compliance with the requirements of this Order.

(c) Within thirty (30) days after the end of each calendar quarter, the Oversight Committee shall submit a written quarterly progress report to the Board that:

- (i) Details the actions taken by the Bank to comply with each provision of this Order; also there must be descriptions of the results of such actions; and
- (ii) Identifies all violations of this Order, and further describes all remedial actions that have been effected and/or that are contemplated with respect to such violations.

(b) Within forty-five (45) days after the end of each calendar quarter, the Board shall submit to the OTS: (i) a copy of the Oversight Committee's quarterly progress report required by the foregoing subparagraph, with any additional comments made by the Board, to the OTS, and (ii) a written certification that each director has reviewed the report.

(c) Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Bank's compliance with the provisions of this Order.

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<sup>5</sup> As used in this Order, the term "Outside Director" means a director who is not: (i) an officer or employee of the Savings Association (a mutual institution), or (ii) a service provider (or service provider principal or employee) engaged to provide services for the Savings Association.

6. Submissions to OTS.

All submissions to the OTS that are required by or contemplated by this Order, shall be sent in duplicate to:

Martin J. Lavelle  
Assistant Regional Director  
Office of Thrift Supervision  
Harborside Financial Center Plaza 5, Suite 1600  
Jersey City, New Jersey 07311

7. Definitions; Successor Statutes, Regulations, Guidance, Amendments.

(a) 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 of the Code of Federal Regulations, the Home Owners' Loan Act ("HOLA"), the Federal Deposit Insurance Act ("FDIA"), OTS CEO Memoranda, OTS examination handbooks, and/or other published OTS guidance. Any such technical words or terms used in this Order and undefined in said Code of Federal Regulations, the HOLA, the FDIA, or OTS Memoranda/guidance shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

(b) Reference in this Order to provisions of statutes, regulations, OTS Handbooks, OTS CEO Memoranda, OTS examination handbooks, and other published regulatory guidance shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

8. No Violations Authorized; OTS Not Restricted.

Nothing in this Order or the Stipulation shall be construed as: (a) allowing the Savings Association to violate any law, rule, regulation, or policy statement to which it is subject, or (b) restricting or estopping the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law including, without limitation, any type of supervisory, enforcement or other action that OTS determines to be appropriate, arising out of matters described in the most recent Report of Examination, or based on other matters.

9. Time Limits; Effect of Headings; Separability Clause; Stipulation Incorporated.

(a) Time limitations for compliance with the terms of this Order run from the Effective Date, unless otherwise noted. The OTS' Regional Director (or his designee), in the exercise of

his discretion, may extend any of the deadlines set forth in the provisions of this Order by providing written notice to the Bank of any such extension.

(b) The section and paragraph headings herein are for convenience only and shall not affect the construction hereof.

(c) In case any provision in this Order is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his/her sole discretion determines otherwise.

(d) The Stipulation is made a part hereof and is incorporated herein by this reference.

10. Effective Date; Duration.

This Order is and shall become effective on the date it is issued, *i.e.*, the Effective Date as shown on the first page hereof. This Order (including the related Stipulation) shall remain in effect until terminated, modified or suspended, in writing by the OTS, acting through its Director, Regional Director or other authorized representative.

OFFICE OF THRIFT SUPERVISION

*s/ Robert C. Albanese*

By: \_\_\_\_\_  
Robert C. Albanese  
Regional Director, Northeast Region