

WHEREAS, the regular examination of First Federal as of May 30, 1989 disclosed that, although First Federal complied with most of the Supervisory Agreement dated January 15, 1986, certain loan underwriting and recordkeeping by First Federal are not in full compliance with said Supervisory Agreement; and

WHEREAS, the regular examination also disclosed that First Federal failed to meet its liquidity requirement from November 1987 through May 1989 pursuant to 12 C.F.R. 566.2 and to report those deficiencies as required by 12 C.F.R. 566.4 by reason of erroneously including certain nonqualifying assets in liquidity; and

WHEREAS, the special compliance examination of First Federal as of June 29, 1989 disclosed management's lack of understanding of and non-compliance with the requirements of the Truth in Lending Act ("the TIL Act") and Federal Reserve Board Regulation Z ("Reg. Z"); and

WHEREAS, OTS is of the opinion that First Federal has not complied with certain of the laws or regulations to which First Federal is subject, and has engaged in certain unsafe or unsound practices in conducting the business of First Federal, thereby providing grounds for the initiation of cease and desist proceedings against First Federal by OTS; and

WHEREAS, OTS is willing to forbear at this time from the initiation of cease and desist proceedings against First Federal

on the subjects covered by this Agreement so long as First Federal is in compliance with the provisions of this Agreement; and

WHEREAS, in the interest of regulatory compliance and cooperation, First Federal is willing to enter into this Agreement to avoid the initiation of such cease and desist proceedings;

NOW, THEREFORE, in consideration of the above-stated forbearance by OTS from the initiation of cease and desist proceedings against First Federal on subjects covered by this Agreement, it is agreed between the parties hereto as follows:

A. Loan Underwriting Policies and Procedures

1. First Federal shall periodically review and revise its loan policies and procedures and adhere to them. These underwriting guidelines shall set minimum standards for all lending in real estate, including acquisition, construction and development loans.

2. Prior to committing to make any loan or set of loans, First Federal shall possess documentary evidence of compliance with every requirement of its loan underwriting standards, as applicable to the particular loan. In addition to those items required specifically under Paragraph C(2) of the January 15, 1986 Supervisory Agreement, all loan files shall contain documentary evidence as to: a) the identity of the individual(s) at First Federal who approved the loan, b) the purpose of the loan

and the intended use of the proceeds, c) the borrower's source of repayment, and d) the creditworthiness of the borrower.

3. For any loan, including construction loans, made or purchased by First Federal which includes the periodic disbursement of funds from a loans-in-process account over the term of the project, in addition to those items in Paragraph C(5) of the January 15, 1986 Supervisory Agreement, the loan files shall contain documentary evidence as to the identity of the individual(s) at First Federal who approved the disbursement. Additionally, for any loan extended beyond its original term, the loan files shall contain updated annual financial statements and current borrower and property information to determine the ability of the borrower to service the loan on an extended basis.

B. Truth in Lending (Regulation Z)

1. a. Within thirty (30) days after the effective date of this Agreement, the Board of Directors shall submit documentary evidence to the District Director of the Boston District that First Federal has adopted and implemented procedures of internal routine and controls to ensure compliance with the TIL Act and Reg. Z.

b. Within sixty (60) days after the effective date of this Agreement, the Board of Directors shall employ for a period of one year a qualified independent certified public accountant to conduct not less than four (4) quarterly audits

of First Federal for compliance with all provisions of the TIL Act and Reg. Z. These audits shall particularly focus on the accuracy of the disclosures provided to consumers as required by the TIL Act and Reg. Z.

c. The reports issued by the independent certified public accountant to First Federal shall be provided to the District Director within thirty (30) days after the completion of each audit. Any deficiencies noted in the report shall be addressed by First Federal in writing in a cover letter to the District Director accompanying the report.

2. a. The Board of Directors shall take immediate steps to ensure that comprehensive training on the technical aspects of the TIL Act and Reg. Z is completed by First Federal's ^{Ph. A} ~~_____~~, executive vice president/managing officer, vice ^{Russ} president/chief lending officer and all other personnel charged with the responsibility for complying with the TIL Act and Reg. Z. The training program shall be evaluated by the Board of Directors on its ability to adequately and comprehensively train all levels of lending staff on the requirements of the TIL Act and Reg. Z.

b. The Board of Directors shall notify the District Director in writing of its final training selection. Such notification shall include the name and background of the individual or entity selected to provide the training, a

description of the course(s) to be presented and a schedule of training with an expected date of completion for all personnel. Upon completion of the course by all staff, the Board of Directors shall provide copies to the District Director of the certificates of completion or similar written evidence from the trainer that said personnel completed the course.

3. The Board of Directors shall adopt and implement all policy to provide continuing education for current staff and initial training for new employees on the requirements of the TIL Act and Reg. Z. First Federal's records shall accurately reflect the training and qualifications of all lending staff, particularly as they relate to the TIL Act and Reg. Z.

C. Liquidity

1. a. The Board of Directors shall adopt a policy to ensure that First Federal shall comply in all respects with the provisions of Section 6 of Home Owners Loan Act of 1933 ("HOLA"), 12 U.S.C. 1461 et seq., as amended by the FIRREA, Pub. L. No. 101-73, S. 301 (1989), regarding the minimum amount of liquid assets and short-term liquid assets for any calendar month.

b. The Board of Directors shall adopt a policy to ensure that for every month in which First Federal's liquid assets or short-term liquid assets are less than the minimum

required amount, the deficiency and the penalty are calculated.

c. The Board of Directors of First Federal shall adopt a policy to ensure that by the 10th day of the month following assessment of a liquidity deficiency penalty that a report is filed with the District Director and a check in the amount of the penalty is submitted.

The Board of Directors shall submit to the District Director a resolution signed by each of a majority of the directors, certifying that, to the best of his or her knowledge and belief, and based on a prudent review, during the previous Quarter, First Federal complied with each condition of this Agreement. Within ten (10) days after the appropriate Board of Directors meeting, First Federal shall submit to the District Director a copy of the minutes of the Board of Directors meeting and the minutes of Board of Directors committee(s) meeting, the aforementioned resolution, and any management report of First Federal.

As used in this Agreement, the District Director or his successor is the "senior supervisory official" within the meaning of Section 723(d) of the FIRREA, Pub. L. No. 101-73, S. 723(d) (1989).

Reference in this Agreement to provisions of statutes, regulations and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made

as of the effective date of this Agreement pursuant to Section 401(h) of FIRREA, Pub. L. No. 101-73, 401(h) (1989), and references to successor provisions as they become applicable.

All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provisions of the Agreement, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, HOLA, and Federal Deposit Insurance Act, as amended ("FDI Act"). Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDI Act, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

This Agreement shall remain in effect until terminated, modified or suspended by the OTS, acting through the District Director.

IN WITNESS WHEREOF, the parties have executed this Agreement.

FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION,
Hyannis, Massachusetts
By: Its Board of Directors

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Philip A. Boudreau

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William M. Hemeon

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Robert G. Kesten, Sr.

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Luke P. Lally

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John H. Moye

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John J. Pendergast

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Leaman E. Ward

DEPARTMENT OF THE TREASURY
OFFICE OF THIRIFT SUPERVISION

By: 151
Ralph W. Gridley
District Director