

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: NE-10-31
)	
)	
MONADNOCK COMMUNITY BANK)	Effective Date: November 26, 2010
)	
Peterborough, New Hampshire)	
OTS Docket No. 12716)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, Monadnock Community Bank, Peterborough, New Hampshire, OTS Docket No. 12716 (Association), by and through its Board of Directors (Board), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

WHEREAS, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, pursuant to delegated authority, the OTS Regional Director for the Northeast Region (Regional Director) is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

Cease and Desist.

1. The Association, its institution-affiliated parties,¹ and its successors and assigns, shall cease and desist from any action (alone or with others) for or toward causing, bringing about, participating in, counseling, or the aiding and abetting the unsafe or unsound banking practices that resulted in:

- (a) operating the Association with an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;
- (b) operating the Association with an excessive level of adversely classified loans;
- (c) operating the Association with an inadequate allowance for loan and lease losses (ALLL) for the volume, type, and quality of loans and leases held;
- (d) operating the Association with credit administration and documentation policies, procedures, systems, and controls that are inadequate for the complexity of and risk inherent in the Association's loan portfolio; and
- (e) operating the Association with an excessive concentration of Higher Risk Loans (HRL) as defined in the Report of Examination dated June 14, 2010 (2010 ROE).

2. The Association, its institution-affiliated parties, and its successors and assigns, shall also cease and desist from any action (alone or with others) for or toward causing, bringing about, participating in, counseling, or the aiding and abetting violations of the following regulations:

- (a) 12 C.F.R. §§ 560.100 and 101 (requiring adoption of and compliance with prudent written real estate lending standards);
- (b) 12 C.F.R. § 560.160 (requiring evaluation and accurate classification of assets);

¹ The term "institution-affiliated party" is defined at 12 U.S.C. § 1813(u).

(c) 12 C.F.R. § 202.7(d) (generally prohibiting creditors from requiring the signature of a spouse that is not a co-applicant on credit instruments); and

(d) 12 C.F.R. § 203.4 (requiring financial institutions to collect and report data for home purchase loans, home improvement loans and refinancings).

Capital.

3. Effective immediately, the Association shall have and maintain a Tier 1 (Core) Capital Ratio equal to or greater than seven percent (7%) and a Total Risk-Based Capital Ratio equal to or greater than twelve percent (12%).²

4. By December 31, 2010, the Association shall submit a written plan to maintain the Association's capital at the levels prescribed in Paragraph 3 (Capital Plan) that is acceptable to the Regional Director³. The Capital Plan shall detail the Association's capital preservation and enhancement strategies with specific narrative goals.

5. Upon receipt of written notification from the Regional Director that the Capital Plan is acceptable, the Association shall adopt, implement, and adhere to the Capital Plan. A copy of the Capital Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting.

6. The Association shall submit a written Contingency Plan that is acceptable to the Regional Director, within fifteen (15) days after: (a) the Association fails to meet the capital requirements prescribed in Paragraph 3; (b) the Association fails to comply with the Capital Plan prescribed in Paragraph 4; or (c) any written request from the Regional Director.

² The requirement in Paragraph 3 to have and maintain a specific capital level means that the Association may not be deemed to be "well-capitalized" for purposes of 12 U.S.C. §1831o and 12 C.F.R. Part 565, pursuant to 12 C.F.R. §565.4(b)(1)(iv).

³ References to the "Regional Director" shall include his authorized designee.

7. The Contingency Plan shall detail the actions to be taken, with specific time frames, to achieve one of the following results by the later of the date of receipt of all required regulatory approvals or sixty (60) days after the implementation of the Contingency Plan: (a) merger with, or acquisition by, another federally insured depository institution or holding company thereof; or (b) voluntary dissolution by filing an appropriate application with the OTS in conformity with applicable laws, regulations, and regulatory guidance.

8. Upon receipt of written notification from the Regional Director, the Association immediately shall implement and adhere to the Contingency Plan. The Association shall provide the Regional Director with written status reports detailing the Association's progress in implementing the Contingency Plan by no later than the first (1st) and fifteenth (15th) of each month following implementation of the Contingency Plan.

Business Plan.

9. By December 31, 2010, the Association shall submit a new comprehensive business plan for the period beginning January 1, 2011 to December 31, 2013 (Business Plan) that is acceptable to the Regional Director and addresses all corrective actions in the 2010 ROE relating to the Association's Business Plan. At a minimum, the Business Plan shall conform to applicable laws, regulations, and regulatory guidance and include:

- (a) plans to improve the Association's core earnings and achieve profitability on a consistent basis throughout the term of the Business Plan;
- (b) strategies for ensuring that the Association has the financial and personnel resources necessary to implement and adhere to the Business Plan, adequately support the Association's risk profile, maintain compliance with applicable regulatory capital requirements, and comply with this Order;

(c) quarterly pro forma financial projections (balance sheet, regulatory capital ratios, and income statement) for each quarter covered by the Business Plan that are presented in a format consistent with the Thrift Financial Report (TFR); and

(d) identification of all relevant assumptions made in formulating the Business Plan and a requirement that documentation supporting such assumptions be retained by the Association.

10. Upon receipt of written notification from the Regional Director that the Business Plan is acceptable, the Association shall adopt, implement, and adhere to the Business Plan. A copy of the Business Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting.

11. Any material modifications⁴ to the Business Plan must receive the prior written non-objection of the Regional Director. The Association shall submit proposed material modifications to the Regional Director at least forty-five (45) days prior to implementation.

12. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending March 31, 2011, the Board shall review quarterly variance reports on the Association's compliance with the Business Plan (Business Plan Variance Reports). The Business Plan Variance Reports shall:

- (a) identify variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan;
- (b) contain an analysis and explanation of identified variances; and

⁴ A modification shall be considered material under this Section of the Order if the Association plans to: (a) engage in any activity that is inconsistent with the Business Plan; or (b) exceed the level of any activity contemplated in the Business Plan or fail to meet target amounts established in the Business Plan by more than ten percent (10%), unless the activity involves assets risk-weighted fifty percent (50%) or less, in which case a variance of more than twenty-five percent (25%) shall be deemed to be a material modification.

(c) discuss the specific measures taken or to be taken to address identified variances.

13. A copy of the Business Plan Variance Reports and Board meeting minutes shall be provided to the Regional Director within five (5) days after the Board meeting.

Concentrations of Credit.

14. Within thirty (30) days, the Association shall develop a written program for identifying, monitoring, and controlling risks associated with concentrations of credit (Credit Concentration Program) to ensure that it addresses all corrective actions set forth in the 2010 ROE relating to concentrations of credit. The Credit Concentration Program shall comply with all applicable laws, regulations, and regulatory guidance and shall:

- (a) establish concentration limits of HRL that are no greater than three hundred percent (300%) of Tier 1 (Core) Capital plus the allowance for loan and lease losses (ALLL);
- (b) establish stratification categories of the Association's concentrations of credit in Commercial Real Estate Loans (CRE Loans) and Commercial and Industrial Loans (C&I Loans)⁵, including sub-limits of concentrations relative to Core Capital plus ALLL for each category, and establish enhanced risk analysis, monitoring, and management for each stratification category;
- (c) contain specific review procedures and reporting requirements, including written reports to the Board, designed to identify, monitor, and control the risks associated with concentrations of credit; and
- (d) contain a written action plan, including specific time frames, for bringing the Association into compliance with its concentration of credit limits.

⁵ The terms "CRE Loans" and "C&I Loans" are defined in the 2010 ROE.

15. Within forty (40) days, the Association shall submit its Credit Concentration Program to the Regional Director for review and comment. Upon receipt of written notification from the Regional Director that the Credit Concentration Program is acceptable, the Association shall implement and adhere to the Credit Concentration Program. The Board's review of the Credit Concentration Program shall be documented in the Board meeting minutes. A copy of the Credit Concentration Program shall be provided to the Regional Director within three (3) days of adoption by the Board.

Restriction on Lending.

16. Effective immediately, the Association shall not directly or indirectly make, invest in, purchase, refinance, extend, or otherwise modify, or commit to make, invest in, purchase, refinance, extend, or otherwise modify any CRE Loan or C&I Loan without the prior written non-objection of the Regional Director. A request for non-objection must be received by OTS at least fifteen (15) days before a response is needed.

17. Notwithstanding the restrictions at paragraph 16 above, the Association may:

- (a) make advances necessary to honor legally binding commitments to fund CRE Loans or C&I Loans ("Commitments") or loans-in-process ("LIP") in existence as of August 6, 2010, provided that the Association: (i) prior to finalizing any Commitment or making any disbursement under an LIP, shall affirmatively determine that all conditions precedent to the Commitment or disbursement have been satisfied; (ii) will not violate any law or regulation applicable to it by honoring such Commitment or LIP; and (iii) with respect to LIP, confirms, through inspections by persons or firms independent of the borrower(s), that required work or stages of the project have been completed satisfactorily in accordance with the loan agreements and Association policy;

- (b) refinance, modify, or extend existing CRE Loans or C&I Loans where: (i) refinancing by a third party is not reasonably feasible, (ii) no new funds are advanced by the Association, and (iii) the Association improves the credit quality and collectability of the loan through receipt of a material principal pay-down, new guarantees, or new collateral and fully documents and supports the improved credit quality and collectability of the loan in the loan file. If the Association cannot obtain new guarantees or new collateral to support the refinance, modification, or extension, then the Association at a minimum must document at the time of loan maturity that the existing borrower has demonstrated the ability to make timely payments on the loan and on its other debts; and
- (c) make, invest in, purchase, refinance, extend, or otherwise modify loans guaranteed by the United States Small Business Administration or the New Hampshire Business Finance Authority.

Credit Administration.

18. Within thirty (30) days, the Association shall revise and implement credit administration policies, procedures, practices, and controls (Credit Administration Policy) to ensure that it addresses all corrective actions in the 2010 ROE relating to credit administration. The Credit Administration Policy shall comply with all applicable laws, regulations, and regulatory guidance and, at a minimum:

- (a) require clearly documented file commentary concerning borrower contacts and project status; and
- (b) require timely collection of current borrower and guarantor financial statements, including operating statements for businesses and collateral properties, and require that

interim financial statements are obtained when annual statements are delayed or not yet available.

Small Business Administration (SBA) Loan Review.

19. Within thirty (30) days, the Association shall engage an independent third party (Consultant), acceptable to the Regional Director, to conduct a review and analysis of the Association's SBA loan portfolio, and prepare a written report for the Board that addresses whether the Association is in compliance with SBA lending requirements (SBA Loan Report).

20. The SBA Loan Report shall be completed within thirty (30) days after the Regional Director deems the Consultant to be acceptable, shall address any deficiencies noted in the SBA loan portfolio, and shall include recommendations to the Board regarding any actions to be taken to address any deficiencies noted. The Board's review of the SBA Loan Report shall be documented in the Board meeting minutes. A copy of the SBA Loan Report and Board meeting minutes shall be provided to the Regional Director within five (5) days after the Board meeting.

21. Within thirty days (30) days after receipt of the SBA Loan Report, the Association shall take action to address the findings, any deficiencies noted, and specific recommendations contained in the SBA Loan Report.

Appraisal Policy.

22. Within thirty (30) days, the Association shall revise its appraisal policies and procedures (Appraisal Policy) to ensure that the Association obtains and reviews appraisals in compliance with applicable laws and regulations and to otherwise minimize risks to the Association. In revising the Appraisal Policy, the Association shall address the specific problems and issues identified in the 2010 ROE, and at a minimum, shall:

- (a) require appraisals of all real estate owned (REO) and in-process foreclosure properties, in accordance with regulatory requirements, and obtain updated annual appraisals or evaluations on all such properties; and
- (b) establish and implement documented procedures requiring: (i) review of any new appraisals supporting HRLs and commercial REO exceeding \$250,000 by a State certified or licensed appraiser, and (ii) for any extension, modification, or refinance of a HRL, obtain an updated appraisal or evaluation, as appropriate.

23. Within ten (10) days, the Association shall obtain updated appraisals for the two specific properties noted in the 2010 ROE.

Internal Asset Review and Classification.

24. Within thirty (30) days, the Association shall revise its written internal asset review and classification program (IAR Program) to address all corrective actions set forth in the 2010 ROE relating to internal asset review and classification and to comply with all applicable laws, regulations, and regulatory guidance. At a minimum, the IAR Program shall:

- (a) ensure the accurate and timely identification, classification, and reporting of the Association's assets;
- (b) detail the Association's loan grading system and specify parameters for the identification of problem loans for each type of loan offered by the Association, inclusive of performance criteria that, if not satisfied, would trigger a downgrade of the loan; and
- (c) provide for a full review by December 31, 2010 of all loan modifications outstanding to determine which need to be designated as Troubled Debt Restructurings (TDR).

Allowance for Loan and Lease Losses.

25. Within thirty (30) days, the Association shall revise its policies, procedures, and methodology relating to the timely establishment and maintenance of an adequate allowance for loan and lease losses (ALLL) level (ALLL Policy) to address all corrective actions set forth in the 2010 ROE relating to ALLL. The ALLL Policy shall comply with applicable laws, regulations, and regulatory guidance, and shall:

- (a) address the historical loan loss rates of the Association in compliance with regulatory guidance; and
- (b) include the appropriate use of Financial Accounting Standards Board (FASB) 114 impairment analysis.

26. Within thirty (30) days after the end of each quarter, beginning with the quarter ending December 31, 2010, the Association shall analyze the adequacy of the ALLL consistent with its ALLL Policy (Quarterly ALLL Report). The Board's review of the Quarterly ALLL Report, including, but not limited to, all qualitative factors considered in determining the adequacy of the Association's ALLL, shall be fully documented in the Board meeting minutes. Any deficiency in the ALLL shall be remedied by the Association in the quarter in which it is discovered and before the Association files its TFR with the OTS.

Problem Assets.

27. Within forty-five (45) days, the Association shall submit a detailed, written plan with specific strategies, targets and timeframes to reduce⁶ the Association's level of problem assets⁷

⁶ For purposes of this Paragraph, "reduce" means to collect, sell, charge off, or improve the quality of an asset sufficient to warrant its removal from adverse criticism or classification.

⁷ For purposes of this Paragraph, the term "problem asset" shall include all delinquent assets, classified assets, assets designated special mention, and real estate owned.

(Problem Asset Reduction Plan) that is acceptable to the Regional Director. The Problem Asset Reduction Plan, at a minimum, shall include:

- (a) quarterly targets for the level of problem assets as a percentage of Tier 1 (Core) capital plus ALLL;
- (b) a description of the methods for reducing the Association's level of problem assets to the established targets; and
- (c) all relevant assumptions and projections.

28. Upon receipt of written notification from the Regional Director that the Problem Asset Reduction Plan is acceptable, the Association shall implement and adhere to the Problem Asset Reduction Plan.

29. Within forty-five (45) days, and on a continuing basis thereafter as additional problem assets are identified, the Association shall develop and implement an individual, written, specific workout plan for each HRL loan or loans to one borrower of \$150,000 or greater (HRL Asset Workout Plan). Each HRL Asset Workout Plan shall, at a minimum, include

- (a) an analysis of all loan documents and the identification of any missing documentation;
- (b) a realistic and documented assessment of: (i) the borrower's repayment capacity; (ii) support provided by any guarantee; and (iii) collateral value of property securing the loan;
- (c) an assessment of potential legal issues or other impediments that may impair the Association's ability to recover the full value of the HRL problem asset;
- (d) an evaluation of potential impairment under FASB 114, inclusive of collateral dependency and loss analysis; and

(e) a detailed description of strategies and actions necessary to reduce the risk associated with the HRL problem asset (including collection of principal balance owed, enhancement of collateral, guarantees or other factors contributing to the quality of the asset, and a schedule to complete all actions).

30. Within thirty (30) days after the end of each quarter, beginning with the quarter ending December 31, 2010, the Association shall submit a quarterly written classified asset status report (Quarterly Classified Asset Report) to the Board. The Board's review of the Quarterly Asset Report shall be documented in the Board meeting minutes. The Quarterly Classified Asset Report shall, at a minimum:

- (a) include the current status of all HRL Asset Workout Plans;
- (b) identify variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Problem Asset Reduction Plan;
- (c) contain an analysis and explanation of identified variances; and
- (d) discuss the specific measures taken or to be taken to address identified variances.

31. Within forty-five (45) of days after the end of each quarter, a copy of the Quarterly Asset Report shall be provided to the Regional Director.

Liquidity Management.

32. Within thirty (30) days, the Association shall develop and implement a liquidity and funds management policy (Liquidity Management Policy) that is acceptable to the Regional Director and addresses all corrective actions set forth in the 2010 ROE relating to liquidity and funds management. The Liquidity Management Policy shall comply with all applicable laws, regulations and regulatory guidance and shall, at a minimum, include procedures and systems for (a) identifying, measuring, monitoring, and controlling of the Association's funding and liquidity

risks; (b) diversification of funding sources; (c) stress testing; (d) establishment of a cushion of liquid assets; (e) establishment of a contingency funding plan; and (f) daily liquidity reports to the OTS until such time as the OTS directs otherwise.

Violations of Law.

33. Within five (5) days, the Association shall ensure that all violations of law and/or regulation discussed in the 2010 ROE are corrected and that adequate policies, procedures and systems are established or revised and thereafter implemented to prevent future violations.

Growth.

34. Effective immediately, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior written notice of non-objection of the Regional Director.

Dividends and Other Capital Distributions.

35. Effective immediately, the Association shall not declare or pay dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director in accordance with applicable regulations and regulatory guidance. The Association's written request for approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed declaration, dividend payment or distribution of capital.

Brokered Deposits.

36. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b). The Association shall provide to the Regional Director a copy of any waiver request submitted to the Federal Deposit Insurance Corporation (FDIC).

Transactions with Affiliates.

37. Effective immediately, the Association shall not engage in any new transaction with an affiliate unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which shall include the information set forth in 12 C.F.R. § 563.41(c)(3). The Board shall ensure that any transaction with an affiliate for which notice is submitted pursuant to this Paragraph, complies with the requirements of 12 C.F.R. § 563.41 and Regulation W, 12 C.F.R. Part 223.

Third Party Contracts.

38. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Association⁸ or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty (30) days prior written notice of such arrangement or contract and a written determination that the arrangement or contract complies with the standards and guidelines set forth in Thrift Bulletin 82a (TB 82a); and (b) received written notice of non-objection from the Regional Director.

Directorate and Management Changes.

39. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers⁹ set forth in 12 C.F.R. Part 563, Subpart H.

⁸ A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association's total capital, where there is a foreign service provider, or where it involves information technology that is critical to the Association's daily operations without regard to the contract amount.

⁹ The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

Golden Parachute Payments.

40. Effective immediately, the Association shall not make any golden parachute payment¹⁰ unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

Employment Contracts and Compensation Arrangements.

41. Effective immediately, the Association shall not enter into, renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Board Oversight of Compliance with Order.

42. Effective immediately, the Board shall monitor and coordinate the Association's compliance with the provisions of this Order and the completion of all corrective actions required in the 2010 ROE. The Board shall review and adopt all policies and procedures required by this Order prior to submission to the OTS.

¹⁰ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

43. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending December 31, 2010, the Association shall prepare a written compliance progress report for the Board (Compliance Tracking Report). The Compliance Tracking Report shall, at a minimum:

- (a) separately list each corrective action required by this Order and the 2010 ROE;
- (b) identify the required or anticipated completion date for each corrective action; and
- (c) discuss the current status of each corrective action, including the action(s) taken or to be taken to comply with each corrective action.

44. Within fifty (50) days after the end of each quarter, beginning with the quarter ending December 31, 2010, the Board shall review the Compliance Tracking Report and all reports required to be prepared by this Order. Following its review, the Board shall adopt a resolution:

- (a) certifying that each director has reviewed the Compliance Tracking Report and all required reports; and
- (b) documenting any corrective actions adopted by the Board. A copy of the Compliance Tracking Report and the Board resolution shall be provided to the Regional Director within five (5) days after the Board meeting.

45. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Association's compliance with the provisions of this Order.

Effective Date, Incorporation of Stipulation.

46. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

Duration.

47. This Order shall remain in effect until terminated, modified, or suspended by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

48. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

49. The Regional Director, or an OTS authorized representative, may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

Submissions and Notices.

50. All submissions, including any reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

51. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Order shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

- (a) To the OTS:
Office of Thrift Supervision
Attn: Michael E. Finn
Regional Director, Northeast Region
Harborside Financial Center Plaza Five
Suite 1600
Jersey City, NJ 07302
Fax: (201) 413-7543

With a copy to:
Michael Moriarty
Assistant Director, Northeast Region
Suite 201
35 Braintree Hill Office Park
Braintree, MA 02184

- (b) To the Association:
Monadnock Community Bank
Attn: William M. Pierce, Jr.
President and CEO
One Jaffrey Road
Peterborough, NH 03458
Fax: (603) 924-9379

No Violations Authorized.

52. Nothing in this Order or the Stipulation shall be construed as allowing the Association, its Board, officers, or employees to violate any law, rule, or regulation.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____/s/_____
Michael E. Finn
Regional Director, Northeast Region

Date: See Effective Date on page 1

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

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In the Matter of)	Order No.: NE-10-31
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MONADNOCK COMMUNITY BANK)	Effective Date: November 26, 2010
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Peterborough, New Hampshire)	
OTS Docket No. 12716)	
_____)	

STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Northeast Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Monadnock Community Bank, Peterborough, New Hampshire, OTS Docket No. 12716 (Association), that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

WHEREAS, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

WHEREAS, the Association desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or

denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs 1 and 2 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

Jurisdiction.

1. The Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Association is “an insured depository institution” as that term is defined in 12 U.S.C. § 1813(c).
2. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

OTS Findings of Fact.

3. Based on its June 14, 2010 examination of the Association (2010 ROE), the OTS finds that the Association has engaged in unsafe or unsound banking practices including:
 - (a) operating the Association with an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;
 - (b) operating the Association with an excessive level of adversely classified loans;
 - (c) operating the Association with an inadequate allowance for loan and lease losses (ALLL) for the volume, type, and quality of loans and leases held;
 - (d) operating the Association with credit administration and documentation policies, procedures, systems, and controls that are inadequate for the complexity of and risk inherent in the Association’s loan portfolio; and

(e) operating the Association with an excessive concentration of Higher Risk Loans (HRL) as defined in the 2010 ROE.

4. Based on its 2010 ROE of the Association, the OTS finds that the Association has engaged in violations of law and regulation, including:

(a) 12 C.F.R. § 560.100 & 101 (requiring adoption of and compliance with prudent written real estate lending standards);

(b) 12 C.F.R. § 560.160 (requiring evaluation and accurate classification of assets);

(c) 12 C.F.R. § 202.7(d) (generally prohibiting creditors from requiring the signature of a spouse that is not a co-applicant); and

(d) 12 C.F.R. § 203.4 (requiring financial institutions to collect and report data for home purchase loans, home improvement loans and refinancings).

Consent.

5. The Association consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

Finality.

6. The Order is issued by the OTS under 12 U.S.C. § 1818(b). Upon the Effective Date, the Order shall be a final order, effective, and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

Waivers.

7. The Association waives the following:

- (a) the right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (b) the right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (c) the right to seek judicial review of 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; and
- (d) any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes, or otherwise.

OTS Authority Not Affected.

8. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

9. The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 8 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

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

11. If any provision of this Stipulation and/or the 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 or her sole discretion determines otherwise.

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

13. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

14. The terms of this Stipulation and of the Order represent the final 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.

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

Signature of Directors/Board Resolution.

16. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation. This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting. A copy of the

Board Resolution authorizing execution of this Stipulation shall be delivered to the OTS, along with the executed original(s) of this Stipulation.

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WHEREFORE, the Association, by its directors, executes this Stipulation.

Accepted by:

MONADNOCK COMMUNITY BANK
Peterborough, New Hampshire

OFFICE OF THRIFT SUPERVISION

By: _____ /s/ _____
Kenneth A. Christian, Chairman

By: _____ /s/ _____
Michael E. Finn
Regional Director, Northeast Region

Date: See Effective Date on page 1

_____/s/_____
Nancy L. Carlson, Director

_____/s/_____
Samuel J. Hackler, Director

_____/s/_____
Thomas C. LaFortune, Director

_____/s/_____
William M. Pierce, Director

_____/s/_____
Edward J. Shea, Director