

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

In the Matter of	)	Order No.: NE-10-36
	)	
	)	
<b>PHOENIXVILLE FEDERAL BANK</b>	)	Effective Date: December 30, 2010
<b>AND TRUST</b>	)	
	)	
Phoenixville, Pennsylvania	)	
OTS Docket No. 04504	)	

**ORDER TO CEASE AND DESIST**

**WHEREAS**, Phoenixville Federal Bank and Trust, Phoenixville, Pennsylvania, OTS Docket No. 04504 (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,<sup>1</sup> 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 excessive level of adversely classified assets;
- (b) operating the Association with an inadequate allowance for loan and lease losses (ALLL) for the volume, type, and quality of loans and leases held;
- (c) operating the Association with loan underwriting and/or 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;
- (d) engaging in unsafe or unsound lending and/or ineffective or unsafe or unsound collection practices;
- (e) operating the Association in contravention of written loan policies and procedures;
- (f) creating concentrations of credit without adequate and effective risk management;
- and
- (g) operating the Association with inadequate internal asset review and classification policies or procedures.

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 laws and regulations:

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

- (a) 12 C.F.R. § 560.1(b) (concerning general lending standards);
- (b) 12 C.F.R. § 560.160(a)(1) (concerning asset classifications); and
- (c) 12 C.F.R. § 560.30 (concerning lending limitations).

**Capital.**

3. By December 31, 2010, the Association shall have and maintain a Tier 1 (Core) Capital Ratio equal to or greater than eight percent (8%) after the funding of an adequate Allowance for Loan and Lease Losses (ALLL) and a Total Risk-Based Capital Ratio equal to or greater than twelve percent (12%).<sup>2</sup>

4. By December 31, 2010, the Association shall submit a written plan to achieve and maintain the Association's capital at the levels prescribed in Paragraph 3 (Capital Plan) that is acceptable to the Regional Director<sup>3</sup>. At a minimum, the Capital Plan shall:

- (a) detail the Association's capital preservation and enhancement strategies with specific narrative goals; and
- (b) address the Association's level of classified assets, ALLL, earnings, asset concentrations, liquidity needs, and trends in the foregoing areas.

5. Upon receipt of written notification from the Regional Director that the Capital Plan is acceptable, the Association shall 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. 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

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<sup>2</sup> 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).

<sup>3</sup> References to the "Regional Director" shall include his authorized designee.

Paragraph 4; or (c) any written request from the Regional Director, the Association shall submit a written Contingency Plan that is acceptable to the Regional Director.

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 shall implement and adhere to the Contingency Plan immediately. 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 (1<sup>st</sup>) and fifteenth (15<sup>th</sup>) of each month following implementation of the Contingency Plan.

#### **Board Oversight of Compliance with Order.**

9. Within one hundred twenty (120) days, the Board shall, subject to the requirements of 12 C.F.R. Part 563, Subpart H and the requirements of Paragraph 30 of this Order, take all appropriate actions to add a minimum of three additional independent<sup>4</sup> outside qualified<sup>5</sup>

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<sup>4</sup> For purposes of this Order, an individual who is "independent" with respect to the Association shall be any individual who: (a) is not employed in any capacity by the Association, its subsidiaries, or its affiliates, other than as a director; (b) does not own or control more than ten percent (10%) of the outstanding shares of the Association or any of its affiliates; (c) is not related by blood or marriage to any officer or director of the Association or any of its affiliates, or to any shareholder owning more than ten percent (10%) of the outstanding shares of the Association or any of its affiliates, and who does not otherwise share a common financial interest with any such officer, director or shareholder; (d) is not indebted, directly or indirectly, to the Association or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest; and (e) has not served as a consultant, advisor, underwriter, or legal counsel to the Association or any of its affiliates.

<sup>5</sup> Qualification of board members shall be assessed on each director's ability to comply with the requirements of this Order, operate the Association in a safe and sound manner, comply with applicable laws and regulations and restore all aspects of the Association to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.

directors to its Board. The Board's efforts shall be fully documented in the monthly Board meeting minutes.

10. Within sixty (60) days, the Board shall designate a committee to 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 (Oversight Committee). The Oversight Committee shall be comprised of four (4) or more directors, the majority of whom shall be independent Directors who have substantial banking, financial management, audit and/or accounting, credit administration and/or workout background and experience.

11. Within thirty (30) days after the end of each quarter, beginning with the quarter ending December 31, 2010, the Oversight Committee shall submit a written compliance progress report to 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;
  - (c) discuss the current status of each corrective action, including the action(s) taken or to be taken to comply with each corrective action;
  - (d) identify the individual responsible for implementation of each corrective action;
- and
- (e) assign a senior executive officer<sup>6</sup> to oversee the implementation of all corrective actions to ensure that deficiencies are timely and fully addressed.

12. Within sixty (60) days at the end of each quarter, beginning with quarter ending December 31, 2010, the Board shall review the Compliance Tracking Report and all reports

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<sup>6</sup> The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

required to be prepared by this Order. A copy of the Compliance Tracking Report shall be provided to the Regional Director within ten (10) days after the Board meeting.

13. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Association's compliance with the provisions of this Order. The Board shall review and adopt all policies and procedures required by this Order prior to submission to the OTS.

**Underwriting and Credit Administration Policies and Procedures.**

14. Within forty-five (45) days, the Association shall revise and implement loan underwriting and credit administration policies and procedures (Loan Policies and Procedures) to address all corrective actions in the 2010 ROE relating to its loan underwriting and credit administration policies and procedures. The revised Loan Policies and Procedures shall comply with all applicable laws, regulations and regulatory guidance and, at a minimum, shall:

- (a) specify requirements for approval for Association exceptions to the Loan Policies and Procedures, including required supporting documentation and approvals;
- (b) establish a system to identify and track all loans approved by the Association as an exception to the Association's Loan Policies and Procedures and provide a detailed report to the Board of the status of all loans originated as exceptions to the Loan Policies and Procedures;
- (c) establish a system to identify and monitor commercial loans that are subject to statutory lending limitations;
- (d) set internal lending limits by percent of capital for all sub-categories of commercial loans offered by the Association, including but not limited to commercial real estate loans, commercial and industrial loans, and construction loans; and
- (e) ensure that all loans are appropriately risk rated and assets classified.

15. The Board's review of the Credit Administration Policy shall be documented in the Board meeting minutes. A copy of the Credit Administration Policy shall be provided to the Regional Director within ten (10) days of adoption by the Board.

**Loan Review and Classification.**

16. Effective immediately, the Association shall address all corrective actions set forth in the 2010 ROE relating to loan review and classification to ensure the accurate and timely identification, classification, and reporting of the Association's assets, including the designation of loans as special mention.

17. Within thirty (30) days after the end of each quarter, beginning with the quarter ending December 31, 2010, the Board shall review the quarterly loan review (Quarterly Loan Review Report) in place at the Association and shall adopt and implement any recommendations in the Quarterly Loan Review Report.

18. The Board's quarterly review and adoption of the recommendations in the quarterly Loan Review Report shall be documented in the Board meeting minutes.

**Allowance for Loan and Lease Losses.**

19. Within forty-five (45) days, the Association shall revise its policies, procedures, and methodology relating to the timely establishment and maintenance of an ALLL level (ALLL Policy) to address all corrective actions set forth in the 2010 ROE relating to ALLL.

20. The Board's review of the ALLL Policy shall be documented in the Board meeting minutes. A copy of the ALLL Policy shall be provided to the Regional Director within ten (10) days of adoption by the Board.

**Asset Workout Policy.**

21. Within forty-five (45) days, the Association shall establish and implement loan workout policies, procedures, practices, and controls (Asset Workout Policy) that addresses all corrective

actions in the 2010 ROE relating to asset workout and complies with all applicable laws, regulations and regulatory guidance.

22. Within forty-five (45) days, the Association shall develop individual, written, specific workout plans for each problem asset<sup>7</sup> or group of loans to any one borrower or loan relationship of five hundred thousand dollars (\$500,000) or greater (Asset Workout Plan).

23. Within thirty (30) days after the end of each quarter, beginning with the quarter ending December 31, 2010, the Association shall submit a written report to the Board of the status of each Asset Workout Plan (Quarterly Asset Workout Report). The Quarterly Asset Workout Report shall include, at a minimum:

- (a) the current status of each Asset Workout Plan; and
- (b) any recommended revisions or updates to any Asset Workout Plan.

24. The Board's review and adoption of the Quarterly Asset Workout Report shall be documented in the Board meeting minutes. A copy of the Quarterly Asset Workout Report shall be provided to the Regional Director within ten (10) days of adoption by the Board.

**Restrictions on Lending.**

25. Effective immediately, the Association shall not make, invest in, or purchase any new commercial real estate, commercial and industrial, and/or real estate construction loans, except for legally binding commitments outstanding as of September 13, 2010.

26. Notwithstanding the restrictions set forth in Paragraph 25 above, the Association may refinance, extend, or otherwise modify any existing commercial real estate, commercial and industrial, and/or real estate construction loans, so long as no new funds are advanced and there is no release of collateral.

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<sup>7</sup> For the purposes of this Paragraph, "problem assets" are defined as classified assets (substandard, doubtful, or loss) and assets designated special mention.

**Growth.**

27. 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.

28. Effective immediately, the Association shall not accept, renew or roll over any brokered deposit, as that term is defined at 12 C.F.R. § 337.6(a)(2), without the written non-objection of the Regional Director.

**Employment Contracts and Compensation Arrangements.**

29. 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.

**Directorate and Management Changes.**

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

**Golden Parachute and Indemnification Payments.**

31. Effective immediately, the Association shall not make any golden parachute payment<sup>8</sup> or prohibited indemnification payment<sup>9</sup> unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

**Dividends and Other Capital Distributions.**

32. 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.**

33. 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.**

34. Effective immediately, the Association shall not engage in any 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

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<sup>8</sup> The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

<sup>9</sup> The term "prohibited indemnification payment" is defined at 12 C.F.R. § 359.1(l).

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.

**Violations of Law.**

35. Within ninety (90) 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.

**Effective Date, Incorporation of Stipulation.**

36. 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.**

37. 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.**

38. 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.

39. 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.**

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

41. 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:

Michael E. Finn, Regional Director  
Office of Thrift Supervision  
Harborside Financial Center Plaza Five  
Suite 1600  
Jersey City, New Jersey 07311

(b) To the Association:

Phoenixville Federal Bank and Trust  
Richard A. Kunsch, Sr.  
President and Chief Executive Officer  
564 Nutt Road  
P.O. Box 629  
Phoenixville, PA 19460

**No Violations Authorized.**

42. 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**

In the Matter of	)	Order No.: NE-10-36
	)	
<b>PHOENIXVILLE FEDERAL BANK</b>	)	Effective Date: December 30, 2010
<b>AND TRUST</b>	)	
	)	
Phoenixville, Pennsylvania	)	
OTS Docket No. 04504	)	
	)	

**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 Phoenixville Federal Bank and Trust, Phoenixville, Pennsylvania, OTS Docket No. 04504 (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 7, 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 excessive level of adversely classified assets;
  - (b) operating the Association with an inadequate allowance for loan and lease losses (ALLL) for the volume, type, and quality of loans and leases held;
  - (c) operating the Association with loan underwriting and/or credit administration and documentation polices, procedures, systems and controls that are inadequate for the complexity of and risk inherent in the Association’s loan portfolio;
  - (d) engaging in unsafe or unsound lending and/or ineffective or unsafe or unsound collection practices;

- (e) operating the Association in contravention of written loan policies and procedures;
- (f) creating concentrations of credit without adequate and effective risk management; and
- (g) operating the Association with inadequate internal asset review and classification policies or procedures.

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. § 560.1(b) (concerning general lending standards);
- (b) 12 C.F.R. § 560.160(a)(1) (concerning asset classifications); and
- (c) 12 C.F.R. § 560.30 (concerning lending limitations).

**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. 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.

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

Accepted by:

**PHOENIXVILLE FEDERAL BANK  
AND TRUST**

**OFFICE OF THRIFT SUPERVISION**

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

Date: See Effective Date on page 1

By: \_\_\_\_\_/s/\_\_\_\_\_  
Richard A. Kunsch, Sr.  
Director

By: \_\_\_\_\_/s/\_\_\_\_\_  
James S. Lorah  
Director

By: \_\_\_\_\_/s/\_\_\_\_\_  
James G. Reading  
Director

By: \_\_\_\_\_/s/\_\_\_\_\_  
Randall R. Ruch  
Director

By: \_\_\_\_\_/s/\_\_\_\_\_  
Jay R. Schaeffer  
Director

By: \_\_\_\_\_/s/\_\_\_\_\_  
Virgil P. Templeton  
Director