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(b) The Board shall approve and adopt the revised loan policy mandated by this paragraph, which shall be recorded in the corresponding Board meeting.

#### **LOAN REVIEW**

14. (a) Within 60 days from the effective date of this ORDER, the Board shall revise its independent loan review program to ensure that it is consistent with the Bank's loan review policy and that it is sufficiently comprehensive to assess risks in Bank lending and minimize credit losses. At a minimum, the revised program shall provide for:

- (1) increased monitoring and oversight of loan review by management;
- (2) assessment of the overall quality of the loan portfolio;
- (3) identification of credit and collateral documentation exceptions and an action plan to address the identified deficiencies;
- (4) identification of loans that are not in conformance with the Bank's lending policy or laws, rules, or regulations and an action plan to address the identified deficiencies;
- (5) identification of loans to directors, officers, principal shareholders, and their related interests; and
- (6) document the rationale for the Bank assigning a different classification than the independent loan review.

(b) The Bank shall submit the revised program to the

Superintendent for review and comment. Within 30 days from receipt of any comment from the Superintendent, and after due consideration of any recommended changes, the Board shall approve the revised program, which approval shall be recorded in the minutes of the corresponding Board meeting. Thereafter, the Bank shall implement and fully comply with the program.

#### **INTEREST RATE RISK**

15. (a) Within 7 days from the effective date of this ORDER, the Bank shall maintain its interest rate risk ("IRR") exposure within the limits and parameters established and approved by the Board and in accordance with safe and sound banking practices, including holding, at a minimum, hold monthly meetings of the Bank's Asset/Liability Committee (ALCO). The Bank shall record minutes for each ALCO meeting. Cash flow reports shall be presented at least monthly to the Board and IRR reports shall be presented at least quarterly to the Board.

(b) The Bank shall ensure accurate and timely IRR reporting, including IRR reports prepared by external consultants.

#### **AMENDED CALL REPORTS**

16. Within 30 days from the effective date of this ORDER, the Bank shall review its Consolidated Reports of Condition and Income filed with the FDIC on or after December 31, 2008, and amend said reports if necessary to accurately reflect the financial condition of the Bank as of the date of each such report. Reports filed after the effective date of this ORDER shall also accurately reflect the financial condition of the Bank as of the reporting date.

#### **COMPLIANCE MANAGEMENT SYSTEM**

17. (a) Within 45 days from the effective date of this ORDER, the Bank shall develop and implement an effective Compliance Management System ("CMS") that is commensurate with the level of complexity of the Bank's operations to ensure the establishment and implementation of a comprehensive written compliance program ("Compliance Program"). The CMS shall at a minimum include:

(1) a Compliance Program that shall embrace all of the Consumer Laws to which the Bank is subject and that is reviewed and approved annually by the Board, which approval shall be recorded in the minutes of the meeting of the Board;

(2) written policies, operating procedures and processes, and controls that ensure that the Bank's loan products and lending activities comply with all applicable Consumer Laws and ensure that they are periodically updated to reflect changes in the Bank's business and regulatory environment;

(3) designation of an appropriate Compliance Officer to oversee the CMS and Compliance Program, as well as an appropriate number of compliance personnel with sufficient experience in, and knowledge of, Consumer Laws to administer the CMS;

(4) implementation and maintenance of a training program related to Consumer Laws for employees having responsibilities that relate to applicable Consumer Laws, including senior management and the Board, commensurate with their individual job functions and duties. The Compliance Officer shall be responsible for the administration of the Compliance Program, and

shall provide training to officers and employees on a continuing basis;

(5) effective compliance monitoring procedures that have been incorporated into the normal activities of every department. At a minimum, monitoring procedures should include ongoing reviews of:

- a. applicable departments and branches;
- b. disclosures and calculations for various loan and deposit products;
- c. document filing and retention procedures;
- d. marketing literature and advertising; and
- e. internal compliance communication system that provides appropriate Bank personnel updates resulting from revisions to Consumer Laws;

(6) an annual independent, comprehensive written audit. The Board shall document its efforts, including the review of and corrective measures made pursuant to the audit's findings, in the minutes of Board meetings. The audit shall at a minimum:

- a. provide for sufficient transactional testing, as appropriate, for all areas of significant compliance risk, including those areas identified in the Compliance Examination Report; and
- b. identify the deficiencies noted, provide descriptions of or suggestions for corrective actions and time frames for correction, and establish follow-up procedures to verify that corrective actions were implemented and effective.

(b) Within 7 days after the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of Consumer Laws identified in the Compliance Examination Report and ensure that the Bank's CMS will facilitate compliance with all Consumer Laws in the future.

**COMPLIANCE OFFICER**

18. (a) Within 7 days from the effective date of this ORDER, the Bank shall have and retain a qualified Compliance Officer with the requisite knowledge and experience to establish and administer an effective CMS. The Board shall ensure that the Compliance Officer receives ongoing training, sufficient time, and adequate resources to effectively oversee, coordinate, and implement the CMS.

(b) The responsibilities of the Compliance Officer shall include:

(1) developing and reviewing compliance policies and procedures to ensure compliance with all applicable Consumer Laws and the Bank's Compliance Program;

(2) assessing emerging issues or potential liabilities and training management and employees in Consumer Laws;

(3) reporting compliance activities and audit or review findings to the Board and ensuring corrective actions; and

(4) coordinating responses to consumer complaints.

(c) The Board shall ensure that the Compliance Officer has and retains sufficient authority and independence to implement policies related to Consumer Laws and to institute corrective action as needed. At a minimum, this authority shall include the ability to cross departmental lines; access all areas of the



Bank's operations; and effectuate corrective action.

### **MANAGING THIRD-PARTY RISK**

19. Within 45 days from the effective date of this ORDER, the Bank shall adopt and implement systems and controls to ensure proper management of third-party risk. The Bank's third-party risk management program should address (1) risk assessment, (2) due diligence in selecting third-party vendors and service providers, (3) contract structuring and review, and (4) effective oversight of vendors and service providers. At a minimum, the program shall conform to the *Guidance for Managing Third-Party Risk* (FIL-44-2008, issued June 6, 2008).

### **CORRECTION AND PREVENTION**

20. (a) Within 7 days from the effective date of this ORDER, the Bank shall cease the practice of implementing an interest rate floor on those home equity lines of credit ("HELOCs") for which such a floor was not disclosed in the respective borrower's HELOC agreement. Furthermore, within 7 days after the effective date of this ORDER, the Bank shall reset the interest rates of all HELOCs to correspond with the terms contained within the respective HELOC agreements and shall calculate the daily periodic rate for the HELOCs using the methodology contained in such HELOC agreements.

(b) Beginning on the effective date of this ORDER, the Bank shall take steps necessary, consistent with other provisions of this ORDER and sound banking practices, to correct and prevent the unsafe or unsound banking practices and/or violations of law or regulation that were identified in the 2009 Joint ROE and the Compliance Examination Report.

## ORDER FOR RESTITUTION AND OTHER RELIEF

### IT IS FURTHER ORDERED THAT:

21. (a) The Bank shall immediately commence the restitution and other relief described below and complete such restitution within 90 days from the effective date of this ORDER.

(b) The Bank shall pay to each HELOC accountholder whose account was charged interest in excess of that provided for in the respective accountholder's HELOC agreement, the difference between the interest actually charged by the Bank and interest calculated in accordance with the terms of the HELOC agreements ("Interest Differential"). The Interest Differential shall be determined with respect to both (i) any excess interest charged where an "interest-rate floor," not disclosed in the respective borrower's HELOC agreement, was used to calculate interest and/or (ii) any excess interest charged on HELOC accounts where daily periodic rate(s) of  $1/360^{\text{th}}$  of the annual percentage rate(s), which fraction was not set forth in the respective borrower's HELOC agreement, was used to calculate interest rather than  $1/365^{\text{th}}$  of the annual percentage rate(s), which was the calculation method set forth in the HELOC agreements. The Interest Differential shall be calculated for the period commencing December 28, 2005 or the date upon which a particular HELOC account was opened, whichever is later, through the date the Bank shall reset the interest rates of all HELOCs to correspond with the terms contained within the respective HELOC agreements in accordance with this ORDER ("Restitution Period").

(c) Payment of the Interest Differential for the Restitution Period and resetting of interest rates of all HELOCs in accordance with this ORDER shall apply to existing Bank accountholders and former Bank accountholders of HELOC accounts that are now closed, charged off, or have been sold or otherwise transferred by the Bank. Payment of the Interest Differential for the Restitution Period may be reduced by any Interest Differential credited to the HELOC accounts during the Restitution Period and prior to the effective date of this ORDER.

(d) Except as provided below, payments of the Interest Differential for the Restitution Period shall be made by restitution checks to HELOC accountholders entitled to credits to their accounts. If on the effective date of this Order a HELOC accountholder is more than 30 days delinquent in making payment on the account, including any account that has been charged off, the amount of restitution to which the HELOC accountholder is entitled will be credited to the respective account. In the event that a credit, to any HELOC account that is more than 30 days delinquent, exceeds the balance owed on the HELOC account, the excess shall be paid by sending a restitution check to the affected HELOC accountholder. The Bank will report the reduced outstanding balances of HELOC accounts to the credit reporting agencies.

(e) It is agreed that the restitution calculations submitted by the Bank and approved by the Superintendent constitute compliance with the restitution calculations prescribed in this paragraph.

(f) Within 15 days from the effective date of this ORDER, the Bank shall submit to the Superintendent for review and non-objection the proposed text

of the letters that will accompany the restitution checks to HELOC accountholders and the letters that will be sent to HELOC accountholders entitled to credits to their accounts. Such letters shall include satisfactory language explaining the reason the Bank is sending a restitution check or crediting the account together with an explanation of the manner in which the amount of restitution was calculated. The Superintendent shall notify the Bank in writing of any comments or non-objection. The Bank shall then address any comments of the Superintendent, making such changes as may be required to the proposed letters. The letters, incorporating any changes that may be required in response to comments by the Superintendent, shall be sent to all to HELOC accountholders entitled to receive a check for restitution and to HELOC accountholders entitled to credits to their accounts in accordance with this ORDER.

(g) Within 60 days from the effective date of this Order, and then every 30 days thereafter until completion of the restitution required by this ORDER, the Bank shall prepare and send to the Superintendent a detailed written report that explains the processes and procedures by which the Bank identified the HELOC accountholders and determined the applicable restitution amounts described above.

The report shall also include the following: (i) total number of HELOC accountholders, (ii) names, contact, and account information of the HELOC accountholders, (iii) amount of restitution to which each HELOC accountholder is entitled, (iv) number of HELOC accountholders who are to receive restitution, (v) total amount of restitution to be paid, (vi) the Bank's procedures to contact HELOC accountholders who do not receive restitution, and (vii) number of HELOC

accountholders for whom the amount of restitution has yet to be determined.

(h) Within 7 days from the effective date of this Order, the Bank shall hire an independent auditor, acceptable to the Superintendent, who shall verify that the Bank accurately identified HELOC accountholders with respect to whom restitution checks are to be issued or HELOC accounts are to be credited as required by this ORDER. The independent auditor shall prepare a detailed written report of the processes and procedures by which the Bank determined and made the restitution. The report described shall be submitted to the Superintendent for review, comment, and non-objection within 60 days from the effective date of this Order, and then every 30 days thereafter until completion of the restitution required by this ORDER.

(i) Upon receipt of the Superintendent's written non-objection, the letters described above and the restitution checks shall be mailed in accordance with the Superintendent's comments, if any, but in no event later than 90 days from the effective date of this Order by the United States Postal Service first-class mail, address correction service requested. The envelopes shall contain no materials other than the approved letters, checks and any other materials reviewed and not objected to by the Superintendent. The Bank shall make reasonable attempts to locate HELOC accountholders, including a standard address search using the National Change of Address System, whose notification letter and/or restitution check is returned for any reason. The Bank shall promptly re-mail all returned letters and any restitution checks to corrected addresses, if any.

(j) For three (3) years from the effective date of this Order, the

Bank shall retain all records pertaining to the restitution including, but not limited to: documentation of the processes and procedures used to determine the HELOC accountholders, the names, contact and account information of the HELOC accountholders, any mailing records, and documentation that the appropriate restitution was made.

(k) Any Interest Differential payment not credited to an accountholder or made by a restitution check shall be treated as abandoned property in accordance with applicable law.

#### **ORDER TO PAY**

**IT IS FURTHER ORDERED THAT**, by reason of the alleged violations of law and/or regulations, and after taking into account the Resolution adopted by the Board, the appropriateness of the penalty with respect to the financial resources and good faith of the Bank, the gravity of the conduct by the Bank, the history of previous conduct by Bank, and such other matters as justice may require, pursuant to Section 44 of the Banking Law:

22. The Bank shall pay a civil monetary penalty of TEN THOUSAND DOLLARS (\$10,000). The penalty shall be remitted in full on the effective date of this Order, pursuant to transfer instructions received from the Superintendent.

#### **DIVIDEND RESTRICTION**

23. As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Superintendent.

#### **COMPLIANCE COMMITTEE**

24. Within 7 days from the effective date of this ORDER, the Board shall

establish a committee of the Board members charged with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. At least 3 of the members of such committee shall be Board members not employed in any capacity by the Bank other than as a trustee. The committee shall report monthly to the full Board, and a copy of the report and any discussion relating to the report or the ORDER shall be noted in the minutes of the Board meeting. The establishment of this committee shall not diminish the responsibility of liability of the entire Board to ensure compliance with the provisions of this ORDER.

#### **PROGRESS REPORTS**

25. Within 30 days after the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Superintendent written progress reports detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished, and the Superintendent has released, in writing, the Bank from making further reports.

#### **SHAREHOLDERS**

26. Following the effective date of this ORDER, the Bank shall send to its shareholder(s) or otherwise furnish a description of this ORDER in conjunction with the Bank's next written shareholder communication and also in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting following the effective date of this ORDER. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication,

statement, or notice shall be sent to the address specified below in Section 29, at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the Superintendent shall be made prior to dissemination of the description, communication, notice, or statement.

#### **SAVINGS CLAUSE**

27. The provisions of this Order shall not bar, estop or otherwise prevent the FDIC or any other federal or state agency or department from taking any other action or seeking further remedies against the Bank or any of the Bank's current or former institution-affiliated parties or agents for violations of any laws, engaging in unsafe or unsound banking practices, or unfair or deceptive practices. The provisions of this Order apply to the Bank's successors and assigns.

#### **ORDER EFFECTIVE**

28. The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside in writing by the Department.

#### **NOTICES**

29. All communications regarding this Order shall be sent to:

Martin D. Cofsky, Deputy Superintendent of Banks  
New York State Banking Department  
One State Street  
New York, N.Y. 10004-1511



By order of the Superintendent, effective this \_\_, day of \_\_\_\_\_, 2010.

Pursuant to delegated authority.

Dated: \_\_\_\_\_, 2010

NEW YORK STATE  
BANKING DEPARTEMENT

FIRST CENTRAL SAVINGS  
BANK

By: \_\_\_\_\_  
Martin D. Cofsky  
Deputy Superintendent of Banks

By: \_\_\_\_\_  
Joseph Pistilli  
Chairman, President and C.E.O.