

THE SUPERINTENDENT OF NEW YORK STATE  
DEPARTMENT OF FINANCIAL SERVICES

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In the Matter of	)	
	)	
FIRST CENTRAL SAVINGS BANK	)	AMENDED ORDER ISSUED
	)	UPON CONSENT
GLEN COVE, New York	)	PURSUANT TO SECTION 39
	)	OF THE NEW YORK
	)	BANKING LAW
_____	)	

WHEREAS, in recognition of their common goals to ensure compliance with all applicable federal and state laws, rules and regulations, and the conduct of safe and sound banking operations by First Central Savings Bank (the "Bank"), an institution chartered by the New York State Department of Financial Services (the "Department"), the deposits of which are insured by the Federal Deposit Insurance Corporation (the "FDIC"), the Department and the Bank have mutually agreed to enter into this AMENDED ORDER ("AMENDED ORDER"), which amends and restates the Consent Order issued by the Department on February 17, 2010 ("Order"); and

WHEREAS, the Superintendent of the Department of Financial Services (the "Superintendent") is concerned that the Bank's operations were not conducted in a safe and sound manner and that management has failed to take steps and to establish the controls necessary to operate the Bank in a safe, prudent and lawful manner; and

WHEREAS, the Superintendent possesses the authority under New York Banking Law ("Banking Law") Section 39 to issue an order to address supervisory concerns regarding unlawful and unsafe practices; and

WHEREAS, the Superintendent believes that prompt enforcement action and the issuance of this AMENDED ORDER are necessary to address the supervisory concerns with respect to the Bank and further believes that additional enforcement action may be necessary to address any other supervisory concerns that may come to the attention of the Department; and

WHEREAS, on \_\_\_\_\_, 2012, the board of directors of the Bank (the "Board"), at a duly constituted meeting, adopted a resolution (the "Resolution"):

1. Authorizing and directing the Chairman and CEO Joseph Pistilli to enter into this AMENDED ORDER on behalf of the Bank, and to consent to compliance on behalf of the Bank with each and every provision of this AMENDED ORDER;
2. Waiving any and all rights to judicial review of this AMENDED ORDER;
3. Waiving any and all rights to challenge or contest the validity, effectiveness, terms or enforceability of the provisions of this AMENDED ORDER.

**NOW, THEREFORE**, without the Bank admitting or denying any findings of fact or conclusions of law, and without this AMENDED ORDER constituting an

admission of wrongdoing or an adoption, approval or admission of any allegation made by the Department, and pursuant to the aforesaid resolution:

**IT IS HEREBY ORDERED**, pursuant to Section 39 of the Banking Law, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Federal Deposit Insurance Act (the "Act"), 12 U.S.C. § 1813(u), and its successors and assigns, take the following affirmative actions:

### **MANAGEMENT**

1. (a) The Bank shall have and retain qualified management. Each member of management shall possess qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management personnel shall be evaluated on their ability to:

- (1) comply with the requirements of this AMENDED ORDER;
- (2) operate the Bank in a safe and sound manner;
- (3) comply with applicable laws and regulations; and
- (4) restore all aspects of the Bank to a safe and sound

condition, including improving the asset quality, capital adequacy, earnings, management effectiveness, and liquidity.

(b) The Bank shall notify the Superintendent in writing of any resignations or terminations of any members of its Board or any of its senior executive officers within 15 days of the event. The Bank shall establish

procedures to ensure compliance with section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations.

### **BOARD PARTICIPATION**

2. (a) Within 7 days from the effective date of this AMENDED ORDER, the Board shall increase its participation in the affairs of the Bank by assuming full responsibility for the approval of the Bank's policies and objectives and for the supervision of management, including all the Bank's activities. The Board's participation shall include, at a minimum, monthly meetings in which the following areas shall be reviewed and approved by the Board: reports of income and expenses; new, overdue, renewed, insider, charged-off, delinquent, noncurrent, and recovered loans; liquidity and funds management; operating policies; and individual committee actions. The Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 90 days from the effective date of this AMENDED ORDER, the Bank shall increase the number of directors such that a majority of the Board is "independent," as that term is defined below.

(c) The addition of any new director shall be accomplished in accordance with applicable state and federal law, and the Bank's by-laws and/or other governing corporate instrument(s).

(d) For the purposes of this AMENDED ORDER, an "independent" director shall be an individual who:

(1) is not employed in any capacity by the Bank, any of its subsidiaries, or affiliated organizations, other than as a director;

(2) is not related by blood or marriage to an officer or director of the Bank or its affiliates, or any shareholder owning more than 5 percent (%) of the outstanding shares of the Bank or its affiliates, and who does not otherwise share a common financial interest with such officer, director, or shareholder;

(3) is not indebted, directly or indirectly, to the Bank or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 5 percent (%) of the Bank's total Tier 1 Capital and Allowance for Loan and Lease Losses ("ALLL"); and

(4) is a resident of, or engaged in business in the Bank's trade area; or is otherwise deemed to be an independent director for purposes of this AMENDED ORDER by the Superintendent.

### **CLASSIFIED ASSETS - CHARGE-OFF AND PLAN FOR REDUCTION**

3. (a) Within 7 days from the effective date of this AMENDED ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" by the FDIC and the Department in the Report of Examination, dated June 30, 2011 ("Report of Examination"). Elimination or reduction of these assets

through proceeds of loans made by the Bank shall not be considered "collection" for the purpose of this paragraph.

(b) Within 45 days from the effective date of this AMENDED ORDER, the Bank shall formulate and submit a detailed written plan to the Superintendent to reduce the percentage of remaining assets classified "Doubtful" and "Substandard" in the Report of Examination to Tier 1 Capital plus the Bank's allowance for loan and lease losses. The plan shall address each asset so classified where the borrower and any related interest has an aggregate indebtedness to the Bank with a balance of \$250,000 or greater. For the purpose of this AMENDED ORDER the term "related interest" is defined as in section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.2(n). In addition, the plan shall provide the following:

- (1) the name under which the asset is carried on the Bank's books;
- (2) type of asset;
- (3) actions to be taken in order to reduce the classified asset;
- (4) time frames for accomplishing the proposed actions;
- (5) a review of the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and
- (6) an evaluation of the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

In addition, the plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the plan shall contain a provision requiring the submission of monthly progress reports to the Board and a provision mandating a review by the Board.

(c) The Bank shall submit the plan to the Superintendent for review and comment. Within 30 days after the Superintendent has responded to the plan, the Board shall adopt the plan as amended or modified by the Superintendent, which approval shall be recorded in the minutes of the Board meeting. The Bank shall then immediately initiate measures detailed in the plan to the extent such measures have not been initiated.

(d) For purposes of the plan, the reduction in the classified assets shall be detailed using quarterly targets and may be accomplished by (i) increasing the Bank's Tier 1 Capital; or (ii) charging off, collecting, or sufficiently improving the quality of adversely classified assets so as to warrant removing any adverse classification as determined by the FDIC and/or the Department.

(e) While this AMENDED ORDER is in effect, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" as determined at any future examination.

#### **REDUCTION OF DELINQUENCIES**

4. (a) Within 45 days from the effective date of this AMENDED ORDER, the Bank shall revise and update, and submit to the Superintendent for review and comment a detailed written plan to reduce the Bank's risk position in

each asset in excess of \$250,000, which is more than 90 days delinquent. Such plan shall include, but not be limited to, provisions which:

(1) prohibit the extension of credit in the form of new or additional funds for the payment of interest, unless the Board adopts prior to such extension of credit a detailed written statement giving reasons why such extension of credit is in the best interests of the Bank and how it improves the position of the Bank. Copies of the statement approved by the Board shall be made a part of the Board minutes, placed in the appropriate loan file and submitted to the Superintendent with the quarterly progress reports required pursuant to this AMENDED ORDER;

(2) delineate areas of responsibility for implementing and monitoring collection policies;

(3) establish specific collection procedures to be instituted at various stages of a borrower's delinquency;

(4) establish dollar levels to which the Bank shall reduce delinquencies within 6 months and 12 months from the effective date of this AMENDED ORDER; and

(5) provide for the submission of monthly written progress reports to the Board for review and notation in the Board minutes.

(b) For purposes of the plan, "reduce" means to charge-off or collect.

(c) Within 30 days after the Superintendent has responded to the plan, the Board shall adopt the plan as amended or modified by the Superintendent. The plan shall be implemented immediately to the extent that the provisions of the plan are not already in effect at the Bank.

#### **RESTRICTION ON ADVANCES TO CLASSIFIED BORROWERS**

5. (a) While this AMENDED ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit in the form of new or additional funds to or for the benefit of any borrower whose existing credit has been classified "Loss" in the Report of Examination, either in whole or in part, and is uncollected, or to any borrower who is already obligated in any manner to the Bank on any extension of credit, including any portion thereof, that has been charged off the books of the Bank and remains uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing (after full collection, in cash, of any interest due from the borrower) any credit already extended to the borrower.

(b) While this AMENDED ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit in the form of new or additional funds to or for the benefit of any borrower whose extension of credit is classified "Doubtful" and/or "Substandard" in the Report of Examination, either in whole or in part, and is uncollected, unless the Board has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the best interests of the Bank. The statement shall be placed in the appropriate loan file, included in the minutes of the applicable meeting of the Board and submitted to the

Superintendent with the quarterly progress reports required pursuant to this AMENDED ORDER.

**CONCENTRATIONS OF CREDIT - COMMERCIAL REAL ESTATE**

6. (a) Within 45 days from the effective date of this AMENDED ORDER, the Bank shall revise and update, and submit a written plan, acceptable to the Superintendent, for systematically reducing and monitoring its commercial real estate ("CRE") loan concentration of credit identified in the Report of Examination to an amount which is commensurate with the Bank's business strategy, management expertise, size, and location. Such plan shall prohibit any advances that would increase the concentration unless the advance is pursuant to an existing loan agreement and shall include, but not be limited to:

- (1) dollar levels and percent of capital to which the Bank shall reduce the concentration;
- (2) timeframes for achieving the reduction in dollar levels and percent of capital in response to (1) above;
- (3) provisions requiring compliance with the *Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices* (FIL-104-2006, issued December 12, 2006) and *Managing Commercial Real Estate Concentrations in a Challenging Environment* (FIL-22-2008, issued March 17, 2008);
- (4) provisions for controlling and monitoring of CRE lending, including plans to address the rationale for CRE loan levels as they relate to growth

and capital targets, segmentation and testing of the CRE loan portfolio to detect and limit concentrations with similar risk characteristics; and

(5) provisions for the submission of monthly written progress reports to the Board for review and notation in minutes of the Board meetings.

(b) For purposes of the plan, "reduce" means to charge-off or collect, or increase Tier 1 capital.

(c) The Bank shall submit the plan to the Superintendent for review and comment. Within 30 days after the Superintendent has responded to the plan, the Board shall adopt the plan as amended or modified by the Superintendent, which approval shall be recorded in the minutes of the Board meeting. The plan shall be implemented immediately to the extent that the provisions of the plan are not already in effect at the Bank.

#### **ALLOWANCE FOR LOAN AND LEASE LOSSES**

7. (a) Within 15 days from the effective date of this AMENDED ORDER, the Bank shall revise and update a comprehensive policy and methodology for determining the ALLL ("ALLL Policy"). The ALLL Policy shall provide for a review of the ALLL at least once each calendar quarter. Said review should be completed at least 15 days prior to the end of each calendar quarter in order that the results of the review conducted by the Board may be properly reported in the quarterly Reports of Condition and Income. Such reviews shall, at a minimum, be made in accordance with:

(1) Financial Accounting Standards Board (“FASB”) ASC 310-40 and FASB ASC 310-10-35-2 through 30;

(2) the Federal Financial Institutions Examination Council’s (“FFIEC”) Instructions for the Consolidated Reports of Condition and Income (“Call Report”);

(3) the *Interagency Statement of Policy on the Allowance for Loan and Lease Losses* (FIL-105-206, issued December 13, 2006);

(4) other applicable regulatory guidance that addresses the appropriateness of the Bank’s ALLL; and

(5) any analysis of the Bank’s ALLL provided by the FDIC and the Department.

(b) Such reviews shall include, at a minimum:

(1) the Bank’s loan loss experience;

(2) an estimate of the potential loss exposure in the portfolio; and

(3) trends of delinquent and non-accrual loans and prevailing and prospective economic conditions.

(c) The minutes of the Board meetings at which such reviews are undertaken shall include complete details of the reviews and the resulting recommended adjustment in the ALLL. The Board shall document in the minutes the basis for any determination not to require provisions for loan losses in accordance with subparagraphs (a) and (b).

(d) A deficiency in the ALLL shall be remedied in the calendar quarter in which it is discovered by a charge to current operating earnings prior to any Tier 1 capital determinations required by this AMENDED ORDER and prior to the Bank's submission of its Call Report. The Bank shall thereafter maintain an appropriate ALLL.

(e) The analysis supporting the determination of the adequacy of the ALLL shall be submitted to the Superintendent. These submissions shall be made at such times as the Bank files the progress reports required by this AMENDED ORDER or sooner upon the written request of the Superintendent. In the event that the Superintendent determines that the Bank's ALLL is inadequate, the Bank shall increase its ALLL and amend its Call Reports accordingly.

#### **CAPITAL PLAN**

8. (a) While this AMENDED ORDER is in effect, the Board shall, in a manner acceptable to the Superintendent, obtain sufficient capital to meet and maintain the leverage and total risk-based capital ratios set forth below (for purposes of this AMENDED ORDER, all terms relating to capital shall be defined and calculated in accordance with Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325):

(1) beginning on the effective date of this AMENDED ORDER, the Bank shall meet and maintain a leverage ratio of at least 7% and maintain a total risk-based capital ratio of at least 10%.

(b) The Board shall, within 45 days from the effective date of this AMENDED ORDER, develop a written capital plan ("Capital Plan") that, at a minimum includes:

(1) specific plans to meet and maintain the leverage and total risk-based capital ratios as set forth in paragraph (a) above until such time as this AMENDED ORDER is terminated by the Superintendent in writing. In developing these plans the Bank should consider the volume of its adversely classified assets, the nature and volume of its asset concentrations, the adequacy of its ALLL, its anticipated and contingent liquidity needs as well as the other written plans, policies, or actions required by this AMENDED ORDER. These plans may include and should consider: (A) the sale of new securities (common stock and/or noncumulative perpetual preferred stock); (B) the direct contribution of cash by the directors or shareholders; (C) the retention of earnings, restrictions on assets growth or asset sales; (D) the merger with or acquisition by another federally insured depository institution or holding company thereof; and/or (E) any other method acceptable to the Superintendent and approved in advance in writing by the Superintendent;

(2) policies and procedures to ensure compliance with FDIC's *Statement of Policy on Risk-Based Capital* found in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, App. A;

(3) projections for the amount and timing of the capital necessary to meet the Bank's current and future needs;

(4) the primary source(s) from which the Bank will obtain capital to meet its needs; and

(c) The Board shall, within 45 days from the effective date of this AMENDED ORDER, develop a written contingency plan ("Contingency Plan") that, at a minimum includes:

(1) specific plans that identify alternative sources of capital should the primary source(s) under subparagraph 8(b)(4) above not be available; and

(2) specific plans for the sale, merger, or liquidation of the Bank in the event the primary sources of capital are not available; and

(d) The Bank shall submit the Capital Plan and the Contingency Plan to the Superintendent for review and comment. Within 30 days after the Superintendent has responded to the Capital Plan and the Contingency Plan, the Board shall adopt the plans as amended or modified by the Superintendent, which approval shall be recorded in the minutes of the Board meeting. The Capital Plan and the Contingency Plan shall be implemented immediately to the extent that the provisions of the plans are not already in effect at the Bank.

(e) No increase in Tier 1 capital necessary to meet the requirements of this AMENDED ORDER may be accomplished through a deduction from the ALLL or other reserve accounts. Furthermore, the Bank shall not lend funds directly or indirectly, whether secured or unsecured, to any borrower for the purpose of

purchasing Bank or affiliate stock or other securities until such time as the Bank has achieved the increase in Tier 1 capital required in this AMENDED ORDER.

### **STRATEGIC PLAN**

9. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop and submit for review as required by subparagraph (c), a written strategic plan ("Strategic Plan") supported by an operating budget and consisting of goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER. The Strategic Plan shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The Strategic Plan shall include, at a minimum:

(i) identification of the major areas in and means by which the Bank will seek to improve operating performance;

(ii) specific goals to improve the net interest margin, increase interest income, reduce discretionary expenses;

(iii) financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and

(iv) coordination of the Bank's loan, investment, funds management, and operating policies, profit and budget plan, and ALLL methodology with the Strategic Plan.

(c) The Strategic Plan shall be submitted to the Superintendent for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Superintendent, and after incorporation and adoption of all comments, the Board shall approve the Strategic Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Strategic Plan.

(d) The Strategic Plan required by this ORDER shall be revised 30 days prior to the end of each calendar year, and approved by the Board, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and adhere to the revised Strategic Plan.

#### **PROFIT AND BUDGET PLAN**

10. (a) Within 60 days from the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the Bank shall formulate and submit for review as described in subparagraph (c), a written profit and budget plan ("Profit Plan") consisting of goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER.

(b) The Profit Plan shall include, at a minimum:

(i) a description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components;

(ii) specific goals to maintain appropriate provisions to the ALLL;

(iii) realistic and comprehensive budgets for all categories of income and expense;

(iv) an executive compensation plan, addressing any and all salaries, bonuses and other benefits of every kind or nature whatsoever, both current and deferred, whether paid directly or indirectly, which plan incorporates qualitative as well as profitability performance standards for the Bank's senior executive officers;

(v) a budget review process to monitor the revenue and expenses of the Bank whereby actual performance is compared against budgetary projections not less than quarterly; and

(vi) recording the results of the budget review and any actions taken by the Bank as a result of the budget review in the Board minutes.

(c) The Profit Plan shall be submitted to the Superintendent for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Superintendent, and after incorporation and adoption of all comments, the Board shall approve the Profit Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Profit Plan.

(d) Within 15 days following the end of each calendar quarter following completion of the Profit Plan required by this paragraph, the Board shall evaluate the Bank's actual performance in relation to the Profit Plan, record the results of

the evaluation, and note any actions taken by the Bank in the minutes of the Boards' meeting at which such evaluation is undertaken. A copy of the evaluation, including any action taken, shall be submitted to the Superintendent at such times as the Bank submits the progress reports required by this Order.

### **AUDIT PROGRAM**

11. (a) Within 90 days from the effective date of this AMENDED ORDER, the Bank shall develop internal and external audit programs ("Audit Programs") that establish procedures to protect the integrity of the Bank's operational and accounting systems. At a minimum the Audit Programs shall:

(1) comply with the *Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations and the Interagency Policy Statement on the Internal Audit Function and its Outsourcing*;

(2) provide procedures to test the validity and reliability of operating systems, procedural controls, and resulting records; and

(3) provide for monthly reports of audit findings from the auditors directly to the Board. The minutes of the Board shall reflect consideration of these reports and describe any discussion or action taken as a result thereof.

### **INTERNAL ROUTINE AND CONTROLS**

12. (a) Within 90 days from the effective date of this AMENDED ORDER, the Bank shall revise and submit for review as described in subparagraph

(b), the Bank's internal routine and controls policy ("IRC Policy") for the operation of the Bank in such a manner as to provide adequate internal routines and controls consistent with safe and sound banking practices.

(b) The IRC Policy shall be submitted to the Superintendent for non-objection or comment. Within 60 days from receipt of non-objection or any comments from the Superintendent, and after incorporation and adoption of all comments, the Board shall approve the IRC Policy, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the IRC Policy.

#### **LIQUIDITY AND FUNDS MANAGEMENT**

13. (a) Within 45 days from the effective date of this AMENDED ORDER, the Bank shall revise and update a liquidity and funds management plan and submit it to the Superintendent for review and comment. Annually thereafter, while this AMENDED ORDER is in effect, the Bank shall review its policy for adequacy and, based upon such review, shall make necessary revisions to the policy to strengthen funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs. The plan shall include, at a minimum, provisions:

(1) establishing a reasonable range for its net non-core funding dependence ratio as computed in the Uniform Bank Performance Report

and the means by which the Bank will seek to reduce its reliance on non-core funding and high-cost, rate-sensitive deposits;

(2) identifying the source and use of borrowed and/or volatile funds;

(3) establishing sufficient back-up lines of credit that would allow the Bank to borrow funds to meet depositor demands if the other provisions for liquidity prove to be inadequate;

(4) requiring the retention of securities and/or other identified categories of investments that can be liquidated within one day in amounts sufficient (as a percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives;

(5) establishing a minimum liquidity ratio and defining how the ratio is to be calculated;

(6) establishing contingency plans that identify alternative courses of action designed to meet the Bank's liquidity needs and are consistent with guidance issued in *Liquidity Risk Management* (FIL-84-2008, issued August 26,2008) ; and

(7) addressing the use of borrowings (i.e., seasonal credit needs, match funding mortgage loans, etc.) and providing for reasonable maturities commensurate with the use of the borrowed funds; addressing concentration of funding sources; and addressing pricing and collateral requirements with specific

allowable funding channels (i.e., brokered deposits, internet deposits, Fed funds purchased and other correspondent borrowings).

(b) Within 30 days after the Superintendent has responded to the plan, the Board shall adopt the plan as amended or modified by the Superintendent. The revised plan shall be implemented immediately to the extent that the provisions of the revised plan are not already in effect at the Bank.

### **BROKERED DEPOSITS**

14. (a) The Bank shall not solicit, accept, renew, or roll over any brokered deposits unless it has applied for and been granted a waiver by the Regional Director of the FDIC New York Regional Office, in accordance with the provisions of section 337.6 of the FDIC Rules and Regulations, 12 C.F.R § 337.6.

(b) The Bank shall comply with the interest rate restrictions on the effective yields on deposits described in section 337.6 of the FDIC Rules and Regulations, 12 C.F.R. § 337.6.

### **LOAN POLICIES AND PROCEDURES**

15. (a) Within 60 days from the effective date of this AMENDED ORDER, the Bank shall conduct a review of the Bank's loan policies and procedures for adequacy and, based upon such review, shall make all appropriate revisions to the loan policies and procedures ("Loan Policy") necessary to address the lending deficiencies identified in the Report of Examination. The revised Loan Policy shall be submitted for review as described in subparagraph (c). The Board shall also establish review and monitoring procedures to ensure that all lending personnel

adhere to the Loan Policy, and that the Board receives timely and fully documented reports on loan activity, including reports that identify deviations from the Loan Policy.

(b) The Loan Policy shall, at minimum:

(1) require that all extensions of credit originated or renewed by the Bank, including loans purchased from a third party (loan participations):

- a. have a clearly defined and stated purpose;
- b. have a predetermined and realistic repayment source and schedule, including secondary source of repayment;
- c. are supported by complete loan documentation, including lien searches, perfected security interests, and collateral valuations; and
- d. are supported by current financial information, profit and loss statements or copies of tax returns, and cash flow projections, which shall be maintained throughout the term of the loan; and are otherwise in conformance with the Loan Policy;

(2) incorporate limitations on the amount that can be loaned in relation to established collateral values, require the source of collateral valuations to be identified, require that collateral valuations be completed prior to the extension of credit, and require that collateral valuations be performed on a periodic basis over the term of the loan;

(3) require that extensions of credit to any of the Bank's executive officers, trustees, or principal shareholders, or to any related interest of

such person, be reviewed for compliance with Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 215, section 337.3 of the FDIC's Rules and Regulations, 12 C.F.R. § 337.3, and applicable State law or regulation on insider transactions, including 3 N.Y. Comp. Codes R. & Regs., Part 11;

(4) require accurate reporting of past due loans to the Board or the Bank's loan committee at least monthly;

(5) require the individual reporting of loans granted as exception to the Loan Policy and aggregation of such loans in the portfolio;

(6) prohibit the capitalization of interest or loan-related expenses unless the Board or the Bank's loan committee provides, in writing, a detailed explanation of why such action is in the best interest of the Bank; and

(7) establish review and monitoring procedures for compliance with the FDIC's appraisal regulation, 12 C.F.R. Part 323, and the *Interagency Appraisal and Evaluation Guidelines* (FIL-74-94, issued November 11, 1994).

### **INTEREST RATE RISK**

16. (a) Within 30 days from the effective date of this AMENDED ORDER, the Bank shall develop and submit for review as described in subparagraph (c), an interest rate risk policy and procedures ("IRR Policy") that shall include, at a minimum:

(1) measures designed to control the nature and amount of interest rate risk consistent with the Bank's risk profile, including those that specify risk limits and defines lines of responsibilities and authority for managing risk;

(2) a system for identifying and measuring interest rate risk;

(3) a system for monitoring and reporting risk exposures;

and

(4) a system of internal controls, review, and audit to ensure the integrity of the overall risk management process.

(b) The IRR Policy shall address the exceptions noted in the Report of Examination, comply with the Federal Financial Institutions Examination Council's ("FFIEC") *Advisory on Interest Rate Risk Management* (FIL-2-2010, issued January 20, 2010), the FFIEC's *Supervisory Policy Statement on Investment Securities and End-User Derivative Activities* (FIL-45-98, issued April 28, 1998), and the *Joint Agency Policy Statement on Interest Rate Risk* (FIL-52-96, issued July 12, 1996).

### **INSIDER TRANSACTIONS**

17. No new loans or other extensions of credit shall be granted to or for the benefit of Bank directors, executive officers, principal shareholders, or their "related interests," (as such terms are defined in section 215.2 of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.2), referred to collectively as "insiders", without first providing the Superintendent with 45 days prior written notice of the anticipated action and the extension of

credit is in full compliance with the Bank's loan, ethics, and other applicable policies; underwriting and documentation requirements; and this AMENDED ORDER.

### **CALL REPORTS**

18. Within 30 days from the effective date of this AMENDED ORDER, the Bank shall review its Call Reports filed with the FDIC on or after September 30, 2011, and amend said reports if necessary to accurately reflect the financial condition of the Bank as of the date of each such report. In particular, such reports shall contain an appropriate ALLL. Call Reports filed after the effective date of this AMENDED ORDER shall also accurately reflect the financial condition of the Bank as of the reporting date.

### **COMPLIANCE MANAGEMENT SYSTEM**

19. (a) Within 45 days from the effective date of this AMENDED ORDER, the Bank shall revise, update 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; and

- (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; 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.

#### **COMPLIANCE OFFICER**

20. (a) Within 7 days from the effective date of this AMENDED 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**

21. Within 45 days from the effective date of this AMENDED 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 OF VIOLATIONS**

22. The Bank shall take all steps necessary, consistent with other provisions of this AMENDED ORDER and safe and sound banking practices, to eliminate or correct and prevent unsafe or unsound banking practices, violations of law or regulation, and all contraventions of regulatory policies or guidelines.

### **DIVIDEND RESTRICTION**

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

### **OVERSIGHT COMMITTEE**

24. Within 30 days from the effective date of this AMENDED 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 AMENDED ORDER. At least 3 of the members of such committee shall be independent Board members. The committee shall report monthly to the full Board, and a copy of the report and any discussion relating to the report or the AMENDED 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 AMENDED ORDER.

**PROGRESS REPORTS**

25. Within 30 days after the end of each calendar quarter following the effective date of this AMENDED 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 AMENDED ORDER and the results thereof. Such reports may be discontinued when the corrections required by this AMENDED 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 AMENDED ORDER, the Bank shall send to its shareholder(s) or otherwise furnish a description of this AMENDED 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 AMENDED ORDER. The description shall fully describe the AMENDED ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the Department at the address stated below in Section 29. Any changes requested to be made by the Department shall be made prior to dissemination of the description, communication, notice, or statement.

**SAVINGS CLAUSE**

27. The provisions of this AMENDED ORDER shall not bar, estop or otherwise prevent the Department or any other federal or state agency or department from taking any other action 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. The provisions of this AMENDED ORDER shall apply to the Bank's successors and assigns.

**ORDER EFFECTIVE**

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

**NOTICES**

29. All communications regarding this AMENDED ORDER shall be sent to:

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

By order of the Superintendent, effective this \_\_\_\_, day of \_\_\_\_\_, 2012.

Pursuant to delegated authority.

Dated: \_\_\_\_\_, 2012

NEW YORK STATE  
DEPARTMENT OF FINANCIAL SERVICES

FIRST CENTRAL SAVINGS BANK

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

Martin D. Cofsky  
Deputy Superintendent

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

Joseph Pistilli  
Chairman and CEO