

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)
)

North Penn Savings and Loan)
Association)
Scranton, Pennsylvania)
)
)

Re: No. NE99-04

Date: July 12, 1999

STIPULATION AND CONSENT TO THE ENTRY OF AN
ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision ("OTS"), based upon information derived from the exercise of its regulatory responsibilities, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against North Penn Savings and Loan Association, Scranton, Pennsylvania, OTS Docket No. 06508, pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b); and

WHEREAS, North Penn Savings and Loan Association desires to cooperate with the OTS and to avoid the time and expense of such administrative proceeding hereby stipulates and agrees to the following terms but without admitting or denying the OTS' Findings of Fact as set forth herein:

1. Jurisdiction (a) North Penn Savings and Loan Association is a "savings association" within the meaning of Section 3(b) of the FDIA, 12 U.S.C. § 1813(b) and Section 2(4) of the Home Owners' Loan Act, 12 U.S.C. § 1462(4). Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, 12 U.S.C. § 1813(c).

(b) Pursuant to section 8(b) of the FDIA, 12 U.S.C. § 1818(b), the appropriate Federal banking agency may issue a cease and desist order against any insured depository institution that engages in unsafe or unsound practices in conducting its business and/or violates a rule or regulation.

(c) Pursuant to Section 3(q) of the FDIA, 12 U.S.C. § 1813(q), the Director of the OTS is the "appropriate Federal banking agency" to maintain an administrative proceeding against such a savings association. Therefore, North Penn Savings and Loan Association is subject to the jurisdiction of the OTS to initiate and maintain a administrative proceeding against it pursuant to Section 8(b) of the FDIA, 12 U.S.C. § 1818(b).

2. OTS Findings of Fact Based on the Report of Compliance Examination dated October 26, 1998 and the Report of Examination November 9, 1998 (the "ROEs"), the OTS is of the opinion that the Board of Directors of North Penn Savings and Loan Association has failed to provide adequate guidance to management, has failed to establish adequate internal policies and controls, and has failed to ensure the implementation of appropriate and necessary corrective actions. As set forth in the ROEs, the OTS is of the opinion that management has failed to comply with various statutory and regulatory requirements, address operational deficiencies, and implement various policies and procedures.
3. Consent North Penn Savings and Loan Association consents to the issuance by the OTS of the accompanying Order to Cease and Desist ("Order"). It further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.
4. Finality The Order is issued under Section 8(b) of the FDIA, 12 U.S.C. § 1818(b). Upon its issuance by the Regional Director or designee for the Northeast Region, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, 12 U.S.C. § 1818(i).
5. Waivers (a) North Penn Savings and Loan Association waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, 12 U.S.C. § 1818(b), and further waives any right to seek judicial review of the Order, including any such right provided by Section 8(h) of the FDIA, 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order.

(b) North Penn Savings and Loan Association acknowledges and agrees that the consent to the entry of the Order are for the purposes of resolving this OTS enforcement matter only, and do not resolve, affect or preclude any other civil or criminal proceeding which may be or has been brought by the OTS or another governmental entity.
6. Signature of Directors Each Director signing this Stipulation attests that s/he voted in favor of a resolution authorizing the execution of the Stipulation.

WHEREFORE, North Penn Savings and Loan Association, by a majority of its directors, execute this Stipulation and Consent to the Entry of an Order to Cease and Desist, intending to be legally bound hereby.

North Penn Savings and Loan Association
by a majority of its directors

By: Lee B. Walter
Director Name

Frank Mueller
Director Name

Accepted by:
Office of Thrift Supervision

Robert C. Albanese
Robert C. Albanese
Regional Director
Northeast Region

Date: 7/12/99

John Schumaker
Director Name

David C. Spauld
Director Name

Guillem S. F. Lopez
Director Name

Herbert C. Kneller
Director Name

Alfred J. Robinson
Director Name

Director Name

NORTH PENN SAVINGS AND LOAN ASSOCIATION

CERTIFIED COPY OF RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly appointed and qualified Secretary of North Penn Savings and Loan Association ("the Association"), hereby certify as follows:

1. A duly called meeting of the Board of Directors of the Association was held on July 9, 1999;
2. At said meeting a quorum was present and voting throughout;
3. The following is a true copy of resolutions duly adopted by the Association's Board of

Directors, which resolutions have not been rescinded or modified and are now in full force and effect:

WHEREAS, the Board of Directors of the Association wishes to cooperate with the OTS and to demonstrate that said Board and the Association have the intent to: (1) comply with all applicable laws and regulations and (2) engage in safe and sound practices; and

WHEREAS, the directors of the Association have read and considered: (i) the Order to Cease and Desist (the "Order") and (ii) the Stipulation and Consent to the Order to Cease and Desist (the "Stipulation") attached to the minutes of the meeting of the Board of Directors held on July 9, 1999 and

WHEREAS, after due consideration, the Directors of the Association have determined to stipulate and consent to the issuance of the Order in the interest of regulatory compliance and cooperation;

NOW, THEREFORE BE IT RESOLVED, that the attached Stipulation, the provisions of which are incorporated herein by reference, be and is hereby approved by the Board of Directors of the Association,

FURTHER RESOLVED, that the Directors and Officers of the Association are directed and authorized to take all necessary steps to implement immediately the terms of the Order and to comply, in all respects with such Order.

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

)
In the Matter of)

)
North Penn Savings and Loan)
Association)
Scranton, Pennsylvania)
)
_____)

Re: No. NE99-04

Date: July 12, 1999

ORDER TO CEASE AND DESIST

WHEREAS, based on the findings in the Report of Compliance Examination dated October 26, 1998 and the Report of Examination dated November 9, 1998 (the "ROEs"), the Office of Thrift Supervision has determined to issue this Order to Cease and Desist ("Order"); and

WHEREAS, North Penn Savings and Loan Association, Scranton, Pennsylvania (the "Association"), OTS Docket Number 06508, has executed a Stipulation and Consent to the Entry of an Order to Cease and Desist ("Stipulation"), by and through its board of directors ("Board"), the provisions of which are incorporated herein by reference; and

WHEREAS, North Penn Savings and Loan Association, in the Stipulation, has consented and agreed to the issuance of this Order pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b)¹; and

WHEREAS, the Director of the Office of Thrift Supervision ("OTS") has delegated to the Regional Directors of the OTS the authority to issue Orders to Cease and Desist on behalf of the OTS where the savings association has consented to the issuance of the Order.

NOW THEREFORE, IT IS ORDERED THAT the Association and its directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling or the aiding and abetting of any unsafe or unsound practice or any violation of:

(a) the Community Reinvestment Act, 12 U.S.C. §§ 2901 et seq. and 12 C.F.R. §§ 563e.43 and 44 (regarding the contents of the public file and public notice);

¹ All references to the U.S.C. are as amended.

(b) the Equal Credit Opportunity Act, 15 U.S.C. §§ 1691 et seq. and 12 C.F.R. §§ 202.9(a), 9(b) and 202.13 (regarding counteroffers, statement of reasons for adverse action and obtaining information for monitoring purposes);

(c) the Expedited Funds Availability Act, 12 U.S.C. §§ 4001 et seq. and 12 C.F.R. § 229.18(b) (regarding public notice of funds availability);

(d) the Home Mortgage Disclosure Act, 12 U.S.C. §§ 2801 et seq. and 12 C.F.R. §§ 203.4 and 203.5(a) and (e) (regarding compilation of loan data and reporting of loan application register and the public availability thereof);

(e) the Real Estate Settlement Procedures Act, 12 U.S.C. §§ 2601 et seq. and 24 C.F.R. §§ 3500.7(a) and (c), 8(b) and 21(b) (regarding good faith estimates, settlement statements, and mortgage servicing disclosures);

(f) the Truth in Lending Act, 12 U.S.C. §§ 1601 et seq. and 12 C.F.R. §§ 226.5b, 18, 19, and 23(a) and (e) (regarding requirements for home equity plans, disclosure of finance charge, timing of disclosure for certain variable rate transactions, and the consumer's right to rescind and the waiver thereof);

(g) the Truth in Savings Act, 12 U.S.C. §§ 4301 et seq. and 12 C.F.R. § 230.8 (regarding disclosures applicable to advertising of annual percentage yield);

(h) 12 C.F.R. § 528.2(a) (regarding review of underwriting standards);

(i) 12 C.F.R. § 528.5 (regarding posting of Equal Housing Lender poster);

(j) 12 C.F.R. § 560.101 (regarding real estate lending standards);

(k) 12 C.F.R. § 560.160(a) (regarding adequacy of valuation allowances);

(l) 12 C.F.R. § 560.170 (regarding records for lending transactions);

(m) 12 C.F.R. § 563.176 (regarding interest rate risk management);

(n) 12 C.F.R. Part 564 (regarding appraisals);

(o) 12 C.F.R. § 568.4 (regarding report of security officer); and

(p) Appendix A of 12 C.F.R. Part 570 (Interagency Guidelines Establishing Standards for Safety and Soundness).

IT IS FURTHER ORDERED that:

I. CORRECTIVE PROVISIONS

1.1 Director Responsibility

A. The Board has the ultimate responsibility for overseeing the safe and sound operation of the Association and shall: (i) establish policies, procedures and controls to ensure the safe and sound operation of the Association, (ii) monitor compliance with such policies and procedures, as well as with the laws and regulations governing the Association, and (iii) more closely supervise management's performance. All policies of the Board and of the Association shall be in writing.

B. The meetings of the Board shall be held at least monthly and each Board member shall actively and fully participate at such meetings unless otherwise excused from attendance pursuant to rules adopted by the Board. A written agenda, together with a package of materials for the board's consideration, shall be prepared in advance of each Board meeting. Such agenda shall not preclude consideration of any other matter.

C. Detailed minutes of all Board and committee meetings shall be maintained and recorded on a timely basis in a sequentially-numbered minute book. All minutes must be properly signed and comprehensively (i) document important matters considered; (ii) reflect discussions held and views and opinions proffered by Board member(s); (iii) delineate both policies and procedures approved and exceptions to approved policies and procedures; (iv) recite information reported by management to the Board and describe the Board's review thereof; and (v) record the results of all votes taken and how each member of the Board voted. The agenda shall be attached to the minutes of the meeting.

D. At least annually, the outside directors of the Board shall prepare, and communicate to the Chief Executive Officer ("CEO"), a written evaluation of the CEO's performance during the preceding year.

1.2 Retention of a Management Consultant

The Association shall retain a management consultant ("Consultant") to perform a study assessing the capability and effectiveness of the Association's board, officers, management, and staff to: (i) carry out the affairs of the Association, (ii) perform present and anticipated duties, and (iii) maintain the Association in a safe and sound manner in accordance with the requirements of this Order ("the Study"). No later than 20 days after the Effective Date, the outside directors of Board shall submit to the Regional Director, for his nonobjection, the name of the Consultant that the Association proposes to retain, together with a list of other candidates considered by the outside directors.

The Study, at a minimum, shall include:

A. a written analysis and description, of (i) the type and number of officer, management and other positions needed to properly manage, supervise and carry out the affairs of the Association, and (ii) an appropriate operational and organizational structure for the Association's staff;

B. a written analysis and assessment of (i) the capabilities of the Association's existing Board members, (ii) the depth and capabilities of the Association's existing officers and managers, (iii) the need for additional officers, managers, and other staff, and (iv) the need for any changes in the composition of the Association's Board, officers, or managers, and

C. a determination as to whether the Association has the appropriate level of qualified personnel with respect to the lending, accounting, internal audit, internal loan review, and asset classification functions; and

D. a plan of action to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications which the Consultant determines are necessary to fill Board, officer, manager, or staff positions.

The Consultant shall complete the study within 60 days of its engagement and forward its report and recommendations to the Board and to OTS within 15 days thereafter. The Board, within 30 days of its receipt of the report, shall advise OTS of its analysis of the Consultant's findings and recommendations and its planned course of action to implement the Consultant's recommendations. To the extent the Board determines not to implement any of the Consultant's recommendations, the Board shall advise OTS thereof and its reasoning therefor.

1.3 Changes in Directors or Executive Officers; Terms of Employment and Golden Parachute Payments

A. As required by Section 32 of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1831i, and 12 C.F.R. Part 563, Subpart H, no person shall be appointed to the position of, serve as, or be hired as a member of the Board or as an executive officer of the Association without the Association first providing at least 30 days prior written notice thereof and receiving the required agency approvals.

B. Pursuant to OTS Regulatory Bulletin 27a, the Association shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any director or senior executive officer of the Association or any subsidiary thereof unless it first (i) provides a minimum of 30 days advance notice of the proposed transaction and (ii) receives a written notice of non-objection from the Regional Director.

C. The Association shall not make any "golden parachute payment", as that term is defined in Section 18(k) of the FDIA, 12 U.S.C. § 1828(k) and in Part 359 of the regulations adopted by the Federal Deposit Insurance Corporation, 12 C.F.R. Part 359.1, except as may be

permitted by the said statute and regulations.

1.4 Code of Ethics

Within 90 days of the Effective Date, the Board shall adopt a written code of ethics ("Code") that contains, at a minimum, the following elements:

A. Corporate Creed - The Code shall set forth a broad statement of corporate policy on ethics.

B. Conflicts of Interest - The Code shall:

(1) define what is meant by a conflict of interest, an apparent conflict of interest, and a potential conflict of interest (collectively referred to as "Conflicts");

(2) mandate timely, comprehensive, and accurate disclosure to the Audit Committee of the Board of Directors of Conflicts;

(3) prescribe a formal system for the identification, disclosure and resolution of Conflicts and the written documentation thereof; and

(4) address (i) the acceptance of gifts, entertainment, favors and loans, (ii) employment of relatives, (iii) participating in any manner in any transaction or loan in which the individual, his/her spouse, child or any related interest has a financial interest, and (iv) providing goods or services to the Association.

C. Finances - The Code shall:

(1) state that improper handling of personal finances could undermine the credibility of the affiliated person, the employee, or the institution and that a precarious financial position could be thought to influence actions or judgments made for the institution;

(2) set forth specific policies and procedures for reporting loans and other financial transactions of employees and affiliated persons;

(3) mandate the disclosure of outside economic interests of all officers and directors at least annually; and

(4) include a formal expense reimbursement system which precludes the reimbursement to any officer, director, or employee of expenses unless the said officer, director, or employee demonstrates that such expense properly relates to the business of the Association and complies with the Association's formal policies and procedures with respect to expenses.

D. Confidentiality - The Code shall:

(1) define confidential information and

(2) show how information must be guarded, and why abuses in this area can be harmful to the institution, the employees, and the customers.

E. Outside Employment/Activities - The Code shall state that affiliated person and employees must manage his/her outside activities without compromising the individual or the institution and adopt explicit restrictions and guidelines.

F. Protection of Institution Property - The Code shall adopt guidelines for the protection of the institution's property, including information, products and services.

G. Laws and Regulations - The Code shall address applicable criminal statutes and financial institution regulations relating to conflicts of interest.

H. Code Administration - The Code shall provide methods for ensuring compliance, and policies and procedures for enforcing the Code should be clearly described. The Code shall require an annual statement from all officers and directors of the Association certifying their respective compliance with the Code and containing the disclosures required by the Code. A non-management member of the Board shall be responsible for maintaining all records, including the annual statements, regarding the matters governed by the policy.

I. Reports - The Association shall submit a report to the Regional Director on a quarterly basis which shall describe all matters arising under the Code during the said quarter and the resolution thereof.

1.5 Business Plan and Budget

No later than 120 days after the Effective Date, the Association shall adopt and implement a written three-year Business Plan and Budget ("BPB"), covering calendar years 1999 through 2001, which has been prepared by management, approved by the Board, and filed with the Regional Director. The Board shall review the BPB annually to determine if revisions are required and, if so, the BPB shall be revised accordingly. Upon the completion by the Board of each annual review of the BPB, the Association shall submit a copy thereof to the Regional Director.

The BPB, at a minimum, must contain the following:

- A. a statement of the Board's general business philosophy;
- B. a description of the Board's business vision, operating strategy, objectives, and goals;
- C. formal operating assumptions;

D. consideration of the following items:

- (i) present and prospective financial condition,
- (ii) acceptable levels of credit risk and interest rate risk exposure;
- (iii) regulatory capital position,
- (iv) profit composition,
- (v) market penetration,
- (vi) deposit sources and related solicitation strategies,
- (vii) asset/liability management,
- (viii) sources and uses of funds,
- (ix) projections as to growth,
- (x) investment plans, and
- (xi) new business initiatives.

E. a budget including pro forma financial statements including income statement, balance sheet, and statement of cash flows;

F. the requirement that, on a monthly basis, the Board review and evaluate the Association's actual performance as compared to the BPB, both on a monthly and a year-to-date basis. All variances shall be analyzed and explained along with a specific description of the measures that have been implemented or proposed to correct or abate such variances, including when necessary, adjustments to the BPB or of its underlying assumptions. The reports required by this Section 1.5.F that are prepared in connection with the months ended March, June, September, and December shall be submitted to the Regional Director.

1.6 Actions to Improve Earnings

In conjunction with the adoption of the Business Plan and Budget, the Board shall adopt and submit to the Regional Director a formal written plan which plan, at a minimum, shall:

A. set forth goals and strategies for substantially improving the earnings of the Association including the net interest margin;

B. identify major areas, the actions and means by which, and specific timeframes in

which, the Board and management will seek to improve the Association's performance including, but not be limited to, the following: (i) reducing cost of funds, (ii) reducing expenses associated with the Association's real estate owned portfolio, and (iii) reducing operating expenses;

C. evaluate the Association's branch offices so that the Board can determine whether the branch office proposed for South Abington should be opened and whether any offices operating as of the Effective Date should be closed, and if so, a schedule for any such closings; and

D. in conjunction with the review of the Association's performance under the BPB required by Section 1.5.F, provide for the quarterly review by the Board of the implementation of the plan to determine if revisions are required and, if so, the plan shall be revised accordingly.

1.7 Loan Administration and Underwriting Policy

Within 90 days of the Effective Date, the Board shall adopt and implement a formal written lending policy which sets forth and establishes, at a minimum, the following requirements:

A. the types of loans, with associated maximum loan amount, which are permitted and those which are prohibited;

B. the lending authority of the president, which in no event shall exceed \$100,000 and the lending authority of each loan officer, which in no event shall exceed \$25,000, and procedures for the approval of loans in excess of those limits which procedures shall include the requirement that the loan committee approve all loans in excess thereof;

C. the lending authority of the loan committee and, with respect to all loans requiring the committee's approval, the designation by the committee of staff to verify the information set forth in sub-paragraph (L) hereof and to provide the committee with a summary thereof prior to the committee's consideration of the loan;

D. the responsibility of the Board in reviewing, ratifying and approving loans;

E. the required approval of the outside directors of the loan committee with respect to all extensions, modifications, or restructuring of outstanding loans;

F. that all loans originated, extended, modified or restructured shall comply with all applicable statutes, regulations and the Association's formal internal policies;

G. designation of personnel to monitor conditions in the Association's lending area, including demographic and economic indicators and valuation trends;

H. loan-to-value limits by type of loan (but no such limit should exceed 80% unless the borrower obtains mortgage insurance in an amount that is at least equal to the portion of the loan that exceeds the 80% loan-to-value limit);

I. limitations on extensions of credit through overdrafts and cash items;

J. guidelines establishing limitations on the maximum volume of loans in relation to total Association assets;

K. standards for extending credit to Association directors, officers, employees, and their related interests which take into account, and are in compliance with, applicable statutes and regulations governing such extensions of credit;

L. that prior to approving any loan, the Association must obtain, analyze, and verify credit and other pertinent information which will be sufficient to justify any such approval including, but not limited to, current financial, income and cash flow information, collateral values and lien information, repayment terms, and past performance by the borrower;

M. that loan files shall contain written evidence of approvals, comments, and disclosures by the loan officer, committee and Board;

N. that all loan files, at a minimum, shall contain (i) an application signed by the borrower setting forth the purpose of the loan, (ii) a credit report, (iii) an appropriate repayment plan setting forth the terms and schedule of repayment, (iv) the determination and documentation of primary and secondary sources of repayment, (v) the financial records and credit information relied on in making the decision whether to extend credit to the borrower, (vi) lien searches and appraisals, and (viii) the disposition of loan proceeds and the method of their disbursement by the Association; and

O. that all necessary collateral documentation, including their execution by all borrowers and interested parties shall be obtained and reviewed before loan proceeds are disbursed. Perfection and recording of all liens and security agreements, shall be effected immediately.

1.8 Loan Review Policy

Within 120 days of the Effective Date, the Board shall adopt and implement a formal written loan monitoring and review policy which includes, at a minimum, the following requirements:

A. the designation of a qualified individual to review all loans made by the Association during the preceding month for compliance with the Association's loan policies and to prepare a written report with respect to each such review which shall list (i) each loan that was not properly approved according to the requirements of the Association's loan policy and the nature of the exception, and (ii) each loan made without complete documentation as required by the Association's loan policies and the nature of the exception; and

B. the written report shall be presented to and considered by the Board.

1.9 Loan Collection Policy

A. Within 120 days of the Effective Date, the Board shall adopt and implement a formal written loan collection policy designed to assure effective and timely collection of monies due and owing to the Association on account of assets maintained in its loan portfolios which policy, at a minimum, includes specific timeframes applicable to and provides for:

- (1) the development and monitoring of loan performance;
- (2) prompt identification of all loans that are past due;
- (3) delinquency follow-up procedures which are specific in nature, will facilitate the timely resolution of the delinquent loan, and require written documentation of the steps taken to cure the delinquency or perfect foreclosure or other remedial action;
- (4) appropriate inspections and/or appraisal reviews are performed when setting and implementing the collection strategy;
- (5) that the status of required filings and payments and any other actions necessary to maintain and protect the Association's collateral interests or to effect remedial action by the Association are known to management; and
- (6) prompt referrals to designated personnel and/or legal counsel for collection and/or foreclosure.

B. The Board shall designate a management official to oversee compliance with the Association's loan collection policy who shall, on at least a quarterly basis, submit a written report to the Board containing (i) the identification and amount of each delinquent loan, (ii) the degree of risk that the loan will not be repaid fully according to its terms, (iii) the reasons why the loan merits special attention, and (iv) a description of the extent of the Association's compliance with the policy. The Board's review of the report and any actions taken shall be documented in the minutes of the Board's meeting.

1.10 Prohibition on Commercial Lending

As of the Effective Date, the Association, whether directly or indirectly, and without the prior written approval of the Regional Director, shall not make, invest in, purchase, sell, refinance, extend or otherwise modify or commit to make, invest in, purchase, sell, refinance, extend or otherwise modify any loan for a business purpose, including: (a) commercial loan or (b) commercial real estate loan. For purposes of this Order, a business loan is a loan for any purpose other than personal, family, or household.

However, the Association is advised that it may make advances necessary to honor legally binding commitments, existing on or before the Effective Date to fund loans ("Commitments") or loans-in-process ("LIP") provided that the Association: (a) prior to finalizing any Commitment or

making any disbursement under an LIP, shall affirmatively determine that all conditions precedent to the Commitment or disbursement have been satisfied; (b) will not violate any law or regulation applicable to it on account of the honoring of such Commitment or LIP; and (c) within 10 days of the Effective Date, shall provide the Regional Director with a list of all Commitments and LIPs existing as of the Effective Date setting forth the amount and type of Commitment or LIP, the date the Commitment was issued, the identity of the borrower, and the schedule of anticipated funding.

1.11 Restriction on Asset Growth

As of the Effective Date, the Association shall limit its asset growth in any quarter to an amount not to exceed net interest credited on deposit liabilities (or earnings credited on share accounts) during the quarter.

1.12 Real Estate Owned

Within 90 days of the Effective Date, the Board shall adopt a written program designed to ensure the timely disposition of the Association's real estate owned property. The program, at a minimum, shall:

- A. facilitate the identification and tracking all real estate owned;
- B. ensure that appraisals are maintained in the relevant file;
- C. require the preparation of written plans for each real estate owned property which plans shall include (i) appropriate timeframes for the disposition of each property, (ii) the method, manner, and pricing thereof, and (iii) projections of the amount of any additional disbursements; and
- D. provide for the treatment of rental income on such property consistent with generally accepted accounting principles.

Management shall provide a written report to the Board on the implementation of the program on at least a quarterly basis. The Board shall review the report at its meeting next subsequent to the preparation of the report and shall take appropriate actions with respect thereto.

1.13 Allowance for Loan and Lease Losses

Within 60 days of the Effective Date, the Board shall promulgate a formal internal system ("System") designed to establish and thereafter maintain an adequate valuation allowance for loan and lease losses. The System shall be supervised by a designated management official independent of the loan origination, approval and appraisal processes and functions and who shall file written reports directly to the Board.

The System, at a minimum, must:

- A. ensure the proper identification of assets as "loss", "doubtful", or "substandard" (collectively referred to as "classified assets") or as "special mention" and the reporting of each such asset and the status thereof to the Board on a quarterly basis;
- B. provide for the maintenance of an adequate allowance for loan and lease losses to reflect credit risk in the Association's loan and lease portfolio; and
- C. require that the Board, on at least a quarterly basis, shall prepare a resolution certifying that it has reviewed all classified assets and special mention assets as determined either by the OTS or by the Association and has determined that the Association's allowance for loan and lease losses is proper and appropriate and adequately reflects the Association's credit risk in its loan and lease portfolio.

In determining the adequacy of the allowance for loan and lease losses, the following items, at a minimum, shall be considered (i) the volume and mix of the existing loan portfolio, (ii) the volume and severity of adversely classified assets and nonperforming loans, (iii) the extent to which loan renewals and extensions are used to maintain loans on a current basis and the degree of risk associated with such loans, (iv) previous loan loss experienced by loan type, (v) economic conditions affecting the collectibility of the loans, and (vi) the overall risk associated with each concentration of credit together with the degree of risk associated with each related borrower.

1.14 Appraisals

A. Within 90 days of the Effective Date, the Board shall adopt and implement a formal written appraisal policy and procedures which conform to the requirements of 12 C.F.R. Part 564 as well as other applicable industry appraisal standards. These policies and procedures shall include, but not be limited to, the following:

- (1) the designation by the Board of independent personnel whose responsibility shall be to review appraisals prepared for the Association to ensure that the appraisals comply with the appraisal regulations and industry standards;
- (2) the requirement that any appraisal which deviates from applicable regulations, industry standards, or the Association's appraisal policies shall be reviewed by the Board;
- (3) that all appraisals shall be performed by qualified outside State-certified or licensed appraisers; and
- (4) that, on an annual basis, the Board shall approve those persons designated to perform appraisals for the Association.

B. Within 60 days of the Effective Date, the Board shall obtain appraisals for the real estate properties referred to on pages 15 and 16 of Report of Examination dated November 9, 1998,

said appraisals to be performed by appraiser(s) acceptable to the Regional Director.

1.15 Interest Rate Risk Management

A. Within 60 days of the Effective Date, the Board shall adopt and implement a formal program to identify, measure, monitor, and manage the Association's interest rate risk exposure in accordance with 12 C.F.R. § 563.176 and OTS Thrift Bulletin 13a. The program, at a minimum, shall:

- (1) designate specific personnel responsible for the management of the Association's interest rate risk;
- (2) establish interest rate risk limits;
- (3) provide for the accurate measuring and monitoring of interest rate risk;
- (4) facilitate the proper and complete preparation of Schedule CMR of the Thrift Financial Report; and
- (5) specify the types of transaction and the scope of analysis that should be conducted prior to the effectuation of the transaction in order both to determine the transaction's effect on the Association's net interest income and ensure that, post-transaction, the Association's interest rate risk exposure falls within Board prescribed limits.

B. The Board, on a quarterly basis, shall review a report (i) describing the Association's actual interest rate risk exposure, (ii) comparing the Association's exposure to the limits approved by the Board, and (iii) reconciling any differences in results between the Association's interest rate risk model and the OTS interest rate risk model.

1.16 Third Party Contracts

The Association shall not enter into any third party contracts outside the normal course of business pursuant to OTS Thrift Bulletin 50, dated November 19, 1991, unless it first (i) provides a minimum of ten days advance notice of a proposed transaction and (ii) receives a written notice of non-objection from the Regional Director.

1.17 Internal Audit

A. No later than 90 days of the Effective Date, the Board shall implement changes in the Association's internal audit program to conform the requirements of this Section. The program shall provide for an Internal Audit Department ("IAD") supervised and managed by an internal auditor.

B. The Board shall designate an independent audit committee ("Audit Committee"), the members of which shall be at least three outside directors who are independent of management of the institution.

C. The IAD shall be independent of the Association's management and directly and exclusively report to and receive assignments from the Audit Committee.

D. The Audit Committee, on an ongoing basis, will assure that the IAD is adequately staffed with qualified personnel and receives such ongoing training as is necessary to assure its effectiveness;

E. On an annual basis, the Audit Committee shall establish, and assure the completion of, a schedule of assignments for the IAD encompassing all of the Association's operations and departments designed to determine:

(1) whether the Association is in compliance with applicable statutes, regulations, and internal Association policies;

(2) whether the internal controls system is working properly;

(3) whether all significant deficiencies noted in internal and/or external audit reports have been corrected by management;

(4) the soundness and adequacy of information systems and of accounting, operating, and administrative controls;

(5) the effectiveness of internal policies and procedures; and

(6) the extent to which the Association's assets are protected against loss.

F. The IAD shall, on a quarterly basis, prepare a report for the Audit Committee which shall, at a minimum, discuss: (i) the scope of the review, (ii) whether the Association is in compliance with its policies and procedures and outstanding OTS Orders and Directives, (iii) whether the internal controls system is effective, (iv) any exceptions noted during the review, and (v) the response of management to the exceptions.

G. The Audit Committee shall direct appropriate corrective action by management to address deficiencies cited by the IAD. The Audit Committee shall periodically report to the Board: (i) the IAD's findings and (ii) corrective actions required, and such reports shall be reflected in the Board minutes.

1.18 Consumer Compliance Program

A. Within 90 days of the Effective Date, the Board shall adopt, and file with the Regional Director, a written compliance program ("Program"), to be amended as directed by the

Regional Director, that sets forth the policies and procedures designed to meet the Association's responsibilities to comply, in a comprehensive manner on an ongoing basis, with the applicable consumer and public-interest laws and regulations ("Consumer Laws"). The Consumer Laws include but are not limited to the Home Mortgage Disclosure Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Community Reinvestment Act, the Truth in Lending Act, the Truth in Savings Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Bank Secrecy Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the regulations implementing these statutory provisions or promulgated thereunder, and 12 C.F.R. §§ 560.210 and 571.24. The Board shall ensure implementation of, and adherence to, the Program.

B. Concomitant with the adoption of the Program, and subject to the approval of the Regional Director, the Board shall appoint, and thereafter retain, a competent compliance officer who shall make reports directly to the Board. The compliance officer shall have the authority to implement and supervise the Program including (i) overseeing training for the Association's Board, officers, managers, and staff in the Consumer Laws, (ii) establishing internal controls and procedures designed to prevent violations of the Consumer Laws, and (iii) performing or supervising periodic audits to ascertain the Association's compliance with the Consumer Laws and the Program.

The ongoing determination of whether the Association is retaining a competent compliance officer within the meaning of this paragraph shall be based upon the officer's continued effectiveness in ensuring that the Association achieves compliance with the Consumer Laws, the Program, and the pertinent requirements of this Order.

C. The Program, at a minimum, shall address and provide for the following:

(1) the opportunity for the compliance officer to receive continuing education and training in the Consumer Laws;

(2) the education and training, pursuant to a specific schedule, of Association officers, directors, managers, and staff in the requirements and prohibitions of the Consumer Laws and the Program;

(3) the reporting to the Board on a quarterly basis of all education and training in Consumer Laws and/or the Program conducted or attended by Association personnel during the quarter;

(4) the establishment of review procedures and a schedule of periodic written reviews to be performed or supervised by the compliance officer for the purpose of monitoring the Association's compliance with the Consumer Laws and the Program; and

(5) the Board's required review of the reviews described in (4) above.

1.19 Significant Regulatory Findings

Within 75 days of the Effective Date, the Association shall eliminate or correct all violations of laws and regulations set forth on pages 6 (beginning with the section on page 6 entitled "Truth-in-Lending - Regulation Z") through and including 12 of the October 26, 1998 Report of Compliance Examination and the Board shall file a resolution with the Regional Director so certifying.

II. BOARD OF DIRECTORS

2.1 Compliance with Order

A. The Board and officers of the Association shall take immediate action to cause the Association to comply with the terms of this Order and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Order.

B. The Board, on a monthly basis, shall adopt a board resolution (the "Compliance Resolution") formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar month, the Association has complied with each provision of this Order currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist, and (ii) identify all notices of exemption issued by the Regional Director that were outstanding as of the date of its adoption.

C. The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each director voting in favor of its adoption; and (ii) the identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such Director's reasoning for opposing or abstaining.

D. No later than the 25th Calendar Day of the month following the end of a calendar quarter, beginning with the end of the first calendar quarter following the Effective Date, the Association shall provide to the Regional Director a certified true copy of the Compliance Resolution adopted at the Board meeting of each month in such calendar quarter. The Board, by virtue of the Association's submission of a certified true copy of each such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as provided below. In the event that one or more Directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of the Association.

III. MISCELLANEOUS

3.1 Definitions

All technical words or terms used in this Order for which meanings are not specified or otherwise provided by the provisions of this Order shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, Home Owners' Loan Act, FDIA or OTS Memoranda. Any such technical words or terms used in this Order and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

3.2 Successor Statutes, Regulations, Guidance, Amendments

Reference in this Order to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

3.3 Notices

A. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Order to be made upon, given or furnished to, delivered to, or filed with:

(1) the OTS by the Association, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 10 Exchange Place, 18th Floor, Jersey City, New Jersey 07302 or telecopied to (201) 413-5842 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

(2) the Association by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered, in each case addressed to the Association at 216 Adams Avenue, Scranton, Pennsylvania 18503 or telecopied to (570) 344-5626 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

B. Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Order, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was received two Business Days after the date of the postmark on the envelope in which the notice was enclosed.

3.4 Duration, Termination or Suspension of Order

A. This Order shall: (i) become effective upon its execution by the OTS, through its

authorized representative whose signature appears below and (ii) remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

B. The Regional Director in his/her sole discretion, may, by written notice, suspend any or all provisions of this Order.

3.5 Time Limits

Time limitations for compliance with the terms of this Order run from the Effective Date, unless otherwise noted.

3.6 Effect of Headings

The Section headings herein are for convenience only and shall not affect the construction hereof.

3.7 Separability Clause

In case any provision in this 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/her sole discretion determines otherwise.

3.8 No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted; Relation To State Law

A. Nothing in this Order shall be construed as (i) allowing the Association to violate any law, rule, regulation, or policy statement to which it is subject or (ii) restricting or estopping the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

B. As an Association chartered under State law and subject to regulation and supervision by a State regulatory authority, the Association may be subject to various restrictions imposed by the appropriate State regulatory authority. The Association must continue to comply with any such restrictions, notwithstanding the receipt by the Association of authorizations or notices of non-objection of the Regional Director, except to the extent that such restrictions have been deemed to be pre-empted by Federal law.

3.9 Successors in Interest/Benefit

The terms and provisions of this Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Order, express or implied, shall give to any person or entity, other than the parties hereto, the Resolution Trust Corporation, and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or

equitable right, remedy or claim under this Order.

THE OFFICE OF THRIFT SUPERVISION

By:

A handwritten signature in cursive script, appearing to read "Robert Albanese", is written over a horizontal line.

Robert C. Albanese
Regional Director
Northeast Region