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UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)
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)

FAJARDO FEDERAL SAVINGS BANK)
FAJARDO, PUERTO RICO)

Order No. ATL-97- 5

Date: August 26, 1997

STIPULATION AND CONSENT TO THE ISSUANCE OF AN
ORDER TO CEASE AND DESIST FOR AFFIRMATIVE RELIEF

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 Fajardo Federal Savings Bank, Fajardo, Puerto Rico, OTS Docket No. 7283 (the "Association") pursuant to 12 U.S.C. § 1818(b),¹ and

WHEREAS, the Association desires to cooperate with the OTS and to avoid the time and expense of such administrative proceeding and, without admitting or denying that such grounds exist, or the Findings of Fact or opinions and conclusions of the OTS, except as to Jurisdiction, Paragraph 1, below, which is admitted, hereby stipulates and agrees to the following:

1. Jurisdiction

a. The Association is a "savings association" within the meaning of 12 U.S.C. § 1813(b), and 12 U.S.C. § 1462(4). Accordingly, it is an "insured depository institution" as that term is defined in 12 U.S.C. § 1813(c).

b. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the "appropriate Federal Banking agency" to maintain an administrative cease and desist proceeding against such a savings association. Therefore, the Association is subject to the jurisdiction of the OTS to initiate and maintain a cease and

¹ All references to the United States Code ("U.S.C.") are as amended, unless otherwise indicated.

desist proceeding against it pursuant to 12 U.S.C. § 1818(b). The Director of the OTS has delegated to the Regional Director of the Southeast Region of the OTS ("Regional Director") the authority to issue a Cease and Desist Order where the Association has consented to the issuance of the Order.

2. OTS Findings of Fact

The OTS finds that the Association has engaged in unsafe and unsound practices in conducting the business of the Association, and violations of OTS Regulations, specifically 12 C.F.R. § 560.93, regarding lending limitations, 12 C.F.R. § 560.170, regarding records for lending transactions, 12 C.F.R. § 560.160 regarding asset classification, 12 C.F.R. § 563.43, regarding loans by savings associations to their executive officers, directors and principal shareholders, and 12 C.F.R. § 563.200, regarding conflicts of interest. Specific examples of these violations are described in the Association's March 17, 1997 OTS Safety and Soundness Report of Examination.

3. Consent

The Association consents to the issuance by the OTS of the accompanying Consent Order to Cease and Desist For Affirmative Relief ("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 12 U.S.C. § 1818(b). Upon its issuance by the Regional Director for the Southeast Region, OTS, it shall be a final order, effective and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

5. Waivers

The Association waives the following:

a. the right to be served with a written notice of the OTS' charges against it as provided by 12 U.S.C. § 1818(b);

b. the right to an administrative hearing of the OTS' charges against it as provided by 12 U.S.C. § 1818(b);

c. the right to seek judicial review of the Order, including, without limitation, any such right provided by

12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order;

d. any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, the Equal Access to Justice Act, 5 U.S.C. § 504, or 28 U.S.C. § 2412; and

e. the right to assert this proceeding, its consent to the issuance of the Order, the payment of any monies or the provision of any other financial relief as contemplated by the Order as the basis for a claim of double jeopardy in any pending or future proceeding brought by the United States Department of Justice or any other governmental entity.

6. Other Governmental Actions Not Affected

The Association acknowledges and agrees that the consent to the issuance of the Order is for the purpose of resolving this OTS enforcement matter only, i.e., the violations of the OTS Regulations referred to in Paragraph 2 of this Stipulation, and does not release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against or other proceeding, civil or criminal, that may be or has been brought by the OTS or another governmental entity.

7. Miscellaneous

a. The construction and validity of this Stipulation and the Order shall be governed by the laws of the United States of America;

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

c. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the construction hereof;

d. The terms of this Stipulation and the Order represent the final written agreement of the parties with respect to the

subject matters hereof, and constitute the sole agreement of the parties with respect to such subject matters; and

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

8. Signature of Directors

Each Director signing this Stipulation attests that he/she voted in favor of a resolution authorizing the execution of the Stipulation.

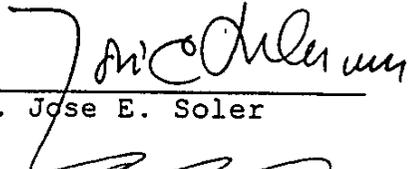
WHEREFORE, Fajardo Federal Savings Bank, by a majority of its Directors, executes this Stipulation and Consent to the issuance of an Order to Cease and Desist For Affirmative Relief, intending to be legally bound hereby.

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FAJARDO FEDERAL SAVINGS BANK
Accepted by a majority of its directors:

OFFICE OF THRIFT SUPERVISION

By:



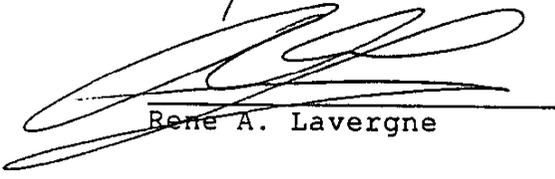
Dr. Jose E. Soler



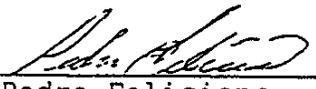
John E. Ryan
Regional Director
Southeast Region

Dated:

Aug 26, 1997



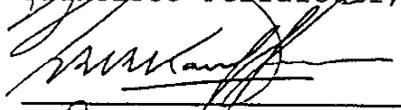
Rene A. Lavergne



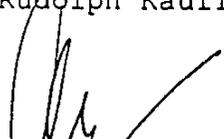
Pedro Feliciano



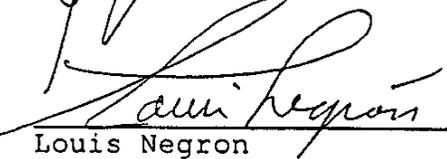
Francisco Ferraiouli, Jr.



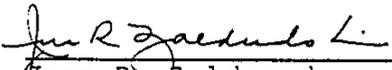
Rudolph Kauffmann



Cesar Montilla, Jr.



Louis Negrón



Juan R. Zalduondo

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)	
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FAJARDO FEDERAL SAVINGS BANK)	Order No. ATL-97-5
FAJARDO, PUERTO RICO)	Date: August 26, 1997
)	
)	

CONSENT ORDER TO
CEASE AND DESIST FOR AFFIRMATIVE RELIEF

WHEREAS, Fajardo Federal Savings Bank, Fajardo, Puerto Rico, OTS Docket Number 7283 (the "Association") by and through its Board of Directors ("Board"), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist for Affirmative Relief ("Stipulation"); and

WHEREAS, the Association, in the Stipulation, has consented and agreed to the issuance of this Consent Order to Cease and Desist for Affirmative Relief ("Order") pursuant to 12 U.S.C. § 1818(b).¹

WHEREAS, the Director of the Office of Thrift Supervision ("OTS") has delegated to the Regional Director of the Southeast Region of the OTS the authority to issue an Order to Cease and Desist on behalf of the OTS where the Association has consented to the issuance of the Order. 99

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

A. Section 560.93 of the OTS Regulations, 12 C.F.R. § 560.93 (regarding lending limitations);

¹All references to the United States Code ("U.S.C.") are as amended, unless otherwise indicated.

- B. Section 560.170 of the OTS Regulations, 12 C.F.R. § 560.170 (regarding records for lending transactions);
- C. Section 560.160 of the OTS Regulations, 12 C.F.R. § 560.160 (regarding asset classification);
- D. Section 563.43 of the OTS Regulations, 12 C.F.R. § 563.43 (regarding loans by savings associations to their executive officers, directors and principal shareholders); and
- E. Section 563.200 of the OTS Regulations, 12 C.F.R. § 563.200 (regarding conflicts of interest).

IT IS FURTHER ORDERED THAT:

CORRECTIVE PROVISIONS

1. Termination of Prior Enforcement Action

As of the Effective Date of this Order, the June 9, 1993 Order to Cease and Desist issued by the OTS against the Association is terminated.

2. Corporate Records

The Association shall at all times maintain detailed and accurate minutes fully describing the discussions held and the business transacted during all regular and special meetings of the Board, as well as any and all committee meetings. -

3. Lending Limitations

All loans and extensions of credit to third parties made by the Association shall comply with the lending limitations contained in 12 C.F.R. § 560.93.

4. Records for Lending Transactions

The Association shall establish and maintain loan documentation practices in accordance with the provisions of 12 C.F.R. § 560.170. Within 30 days of the Effective Date of this Order, the Association shall amend its loan administration procedures to:

a. require the use of loan closing statements for all loans, in order to identify, inter alia, the recipient(s) of the loan proceeds;

b. require that the files for all loans secured by motor vehicles and boats, and all loans which are considered real estate secured loans for purposes of the Thrift Financial Report, contain documented proof that (i) the security is insured against loss in an amount at least as great as the Association's lien amount, and (ii) that the Association is designated as the loss payee on the insurance policy; and

c. establish procedures to monitor the expiration of insurance on real and personal property securing Association loans in order to ensure continued insurance coverage.

5. Valuation Allowances

In accordance with the provisions of 12 C.F.R. § 560.160(b), the Association shall maintain adequate valuation allowances, consistent with generally accepted accounting principles and the practices of the federal banking agencies, and:

a. within five calendar days of the Effective Date of this Order, the Association shall have allowances for loan and lease losses in an amount totaling at least \$362,000; and

b. the Board shall review the adequacy of, and, if needed, adjust the amount of the Association's valuation allowances at least once each calendar quarter and shall maintain written documentation of its quarterly review and findings.

6. Loans to Executive Officers, Directors and Principal Shareholders

a. All Association loans to its executive officers, directors and principal shareholders shall be granted subject to the restrictions contained in 12 C.F.R. § 563.43; and

b. without the prior written approval of the Regional Director, the Association shall not make any extension of credit, as that term is defined at 12 C.F.R. § 215.3, to Juan R. Zalduondo, ~~his immediate family~~, as that term is defined at 12 C.F.R. § 215.2(g), and/or his related interests, as that term is defined at 12 C.F.R. § 215.2(n).

7. Conflicts of Interest

In accordance with the provisions of 12 C.F.R. § 563.200, no member of the Board of Directors may advance his/her own personal or business interests, or those of others with whom he/she has a personal or business relationship, at the expense of the Association. In addition:

a. each member of the Association's Board shall furnish the Board written documentation of his/her compliance, where applicable, with the provisions of 12 C.F.R. § 563.200(b); and

b. without the prior written approval of the Regional Director, the Association shall not sell any parcel of real estate owned by the Association to any Association insider, as that term is defined at 12 C.F.R. § 215.2, and/or any immediate family, as that term is defined at 12 C.F.R. § 215.2(g), of an Association insider.

BOARD OF DIRECTORS

8. Director Responsibility

Notwithstanding the requirements of this Order that the Board submit various matters to the Regional Director or his designee for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual member's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Association at all times, including compliance with the determinations of the Regional Director as required by this Order.

9. 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 quarterly basis, shall adopt a resolution of the Board (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 quarter, 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 30th calendar day of the month following the end of a 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(s) adopted at the Board meeting. 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. 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.

e. The Board shall promptly respond to any request from the OTS for documents that the OTS reasonably requests to demonstrate compliance with this Order.

MISCELLANEOUS

10. 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 ("HOLA"), Federal Deposit Insurance 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.



11. 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.

12. Effective Date

This Order is and shall become effective on the date it is issued, as shown in the caption hereof. The Stipulation and the Order shall remain in effect until terminated, modified or suspended, in writing by the OTS, acting through its Director, Regional Director or other authorized representative.

13. 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, Southeast Region, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree Street, N.E., Atlanta, Georgia 30309, or telecopied to (404)888-5634 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 Fajardo Federal Savings Bank, 161 Celis Aguilera Street, Fajardo, Puerto Rico 00684 or telecopied to (787) 863-3550 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.

14. Time Limits

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

15. Effect of Headings

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

16. 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.

17. No Violations Authorized; OTS Not Restricted

Nothing in this Order or the Stipulation 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.

18. Incorporation.

The Stipulation is made a part hereof and is incorporated herein by this reference.

OFFICE OF THRIFT SUPERVISION

By: _____


John E. Ryan
Regional Director
Southeast Region