

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

COMMONWEALTH OF MASSACHUSETTS

DIVISION OF BANKS

_____	)	
In the Matter of:	)	
	)	
MT. WASHINGTON CO-OPERATIVE BANK	)	ORDER TO CEASE
SOUTH BOSTON, MASSACHUSETTS	)	AND DESIST
	)	
(INSURED STATE NONMEMBER BANK)	)	FDIC-09-311b
_____	)	

MT. WASHINGTON CO-OPERATIVE BANK, South Boston, Massachusetts (Bank), having been advised of its right to a Notice of Charges and of Hearing detailing the unsafe or unsound banking practices alleged to have been committed by the Bank, and of its right to a hearing on such alleged charges under section 8(b) of the Federal Deposit Insurance Act (Act), 12 U.S.C. § 1818(b), and having waived those rights, and having waived any rights that the Bank has or may have under the Massachusetts General Laws, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST (CONSENT AGREEMENT) with a representative of the Legal Division of the Federal Deposit Insurance Corporation (FDIC), and with the

Commissioner of Banks of the Commonwealth of Massachusetts (Commissioner), dated July 13, 2009, whereby solely for the purpose of this proceeding and without admitting or denying any unsafe or unsound banking practices, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST (ORDER) by the FDIC and the Commonwealth of Massachusetts Division of Banks (Division).

The FDIC and the Division considered the matter and determined that they had reason to believe that the Bank engaged in unsafe or unsound banking practices. The FDIC and the Division, therefore, accepted the CONSENT AGREEMENT and issued the following:

**ORDER TO CEASE AND DESIST**

IT IS HEREBY ORDERED that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, cease and desist from the following unsafe or unsound banking practices:

- a. Operating with an inadequate level of capital for the kind and quality of assets held;
- b. Engaging in speculative or hazardous investment practices;
- c. Operating with an excessive volume of criticized assets;
- d. Operating with deficient earnings;
- e. Failing to provide for an effective system to identify

problem assets and prevent deterioration;

f. Operating with an inadequate allowance for loan and lease losses (ALLL) for the volume, type and quality of loans and leases held;

g. Operating without adequate supervision and direction by the Bank's Board of Directors (Board) over the management of the Bank to prevent unsafe and unsound banking practices; and

h. Operating with inadequate written policies and procedures.

IT IS FURTHER ORDERED that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

#### CAPITAL

1. (a) The Bank shall achieve and maintain the following minimum capital levels after establishing an adequate ALLL:

(i) Tier 1 capital of not less than seven percent (7.0%) of total assets;

(ii) Tier 1 risk-based capital of not less than eight percent (8.0%) of total risk-weighted assets; and

(iii) Total risk-based capital of not less than ten percent (10%) of total risk-weighted assets.

(b) In addition, the Bank shall comply with the

FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325, App. A.

(c) If after achieving any of the minimum capital levels in paragraph 1(a), in the event any such ratio falls below the established minimum, the Bank shall notify the Area Director of the Boston Area Office of the FDIC (Area Director) and the Commissioner and shall, within sixty (60) days thereafter, submit a plan for increasing such capital ratio up to or in excess of an amount sufficient to comply with this provision.

2. (a) On or before June 15, 2009, the Board shall develop a capital plan (Capital Plan) that shall be submitted to the Area Director and the Commissioner for review and comment. Within thirty (30) days of receipt of all such comments from the Area Director and the Commissioner, and after incorporation and adoption of all such comments, the Bank shall approve the Capital Plan, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the Capital Plan. The Board shall review the Bank's adherence to the Capital Plan, at minimum, on a monthly basis. Copies of the reviews and updates shall be submitted to the Area Director and the Commissioner as part of the progress reports required under paragraph 12 of this ORDER.

At a minimum, the Capital Plan shall include:

(i) specific plans to achieve the capital levels required under paragraph 1(a) of this ORDER;

(ii) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of the provisions of paragraph 1(a) of this ORDER;

(iii) projections for asset growth and capital requirements, and such projections shall be based upon a detailed analysis of the Bank's current and projected assets, liabilities, earnings, fixed assets, and off-balance sheet activities, each of which shall be consistent with the Bank's strategic business plan;

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

(v) the primary source(s) from which the Bank will strengthen its capital to meet the Bank's needs; and

(vi) contingency plans that identify alternative sources of capital should the primary source(s) under (v) above not be available.

(b) The Board shall ensure that the Bank has adequate processes, personnel, and control systems adequate to enable the Bank to implement and adhere to the program developed pursuant to the Capital Plan.

INVESTMENT POLICY AND PROCEDURES

3. (a) Within thirty (30) days after the effective date of this ORDER, the Board shall revise the Bank's investment policy to provide effective guidelines and control over the Bank's investment portfolio (Investment Policy) and submit the Investment Policy to the Area Director and Commissioner for review and comment. Within thirty (30) days of receipt of all such comments from the Area Director and Commissioner, and after incorporation and adoption of all such comments, the Bank shall approve the Investment Policy, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the Investment Policy. The Board shall review and update the Investment Policy on at least an annual basis. Copies of the reviews and updates shall be submitted to the Area Director and Commissioner within as part of the progress reports required under paragraph 12 of this ORDER. At a minimum the Investment Policy should address the following:

(i) appropriate market pricing procedures for structured investments in accordance with Generally Accepted Accounting Principles (GAAP);

(ii) procedures for performing and documenting impairment analysis on individual investment securities in accordance with GAAP and specifically providing that:

(A) GAAP impairment analysis shall be conducted at least quarterly; and

(B) impairment write-downs shall be initiated in accordance with GAAP on individual securities if impairment is deemed other than temporary;

(iii) specific hedging goals as part of an overall effort to lessen interest rate risk and incorporate revisions to interest rate risk management;

(iv) procedures for securities risk analysis;

(v) position limits;

(vi) performance review of investment portfolio;

(vii) goals, guidelines, and performance measures for the trading account (if the Bank were to establish a trading account); and

(viii) standards to evaluate securities dealers.

(b) The Investment Policy should also be consistent with the Federal Financial Institutions Examination Council's instructions for Consolidated Reports of Condition and Income, GAAP, and the Bank's loan, liquidity, and asset/liability management policies.

#### CHARGE-OFFS

4. Within thirty (30) days after the receipt of any Report of Examination of the Bank from the FDIC and/or the

Division, including the March 9, 2009 Report of Examination, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" that have not been previously collected or charged off.

RISK EXPOSURE PLAN

5. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall formulate and submit to the Area Director and the Commissioner for review and comment a written plan (Risk Exposure Plan) addressing the Bank's risk exposure in each loan relationship and each investment security in excess of \$750,000 classified as "Substandard." Within thirty (30) days of receipt of all such comments from the Area Director and the Commissioner, and after incorporation and adoption of all such comments, the Bank shall approve the Risk Exposure Plan, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the Risk Exposure Plan subject to such modification as may be necessary to respond to changed circumstances. At a minimum, the Risk Exposure Plan shall include:

(i) a schedule for reducing the outstanding dollar amount of each adversely classified loan, including targeted timeframes for achieving the reduced dollar amounts (at a minimum, the schedule for each adversely classified loan must



show its expected dollar balance on a quarterly basis);

(ii) specific action plans intended to reduce the Bank's risk exposure in each classified loan;

(iii) a schedule showing, on a quarterly basis, the expected consolidated balance of all adversely classified assets (loans and investment securities), and the ratio of the consolidated balance to the Bank's projected Tier 1 capital plus the ALLL;

(iv) a provision to account for any potential additions to criticized assets based on internal loan downgrades or investment rating agency downgrades to below investment grade;

(v) a requirement that the Bank determine and support the market pricing of each investment security, at least quarterly;

(vi) a requirement that the Bank prepare, prior to the submission of each Call Report, an impairment analysis on each investment security to determine whether an instrument is other than temporarily impaired;

(vii) a provision for the Bank's submission of monthly written progress reports to its Board; and

(vi) a provision mandating Board review of the progress reports, with a notation of the review recorded in the minutes of the meeting of the Board.

(b) For purposes of this paragraph, "reduce" means to

collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the FDIC and/or the Division. In developing the Risk Exposure Plan, the Bank shall, at a minimum, and with respect to each adversely classified loan or lease, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

#### MANAGEMENT AND BOARD OVERSIGHT

6. 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:

- (a) comply with the requirements of the ORDER;
- (b) operate the Bank in a safe and sound manner;
- (c) comply with applicable laws and regulations;

and

- (d) restore all aspects of the Bank to a safe and sound condition, including improve the Bank's asset quality,

capital adequacy, earnings, management effectiveness, liquidity, and its sensitivity to market risk.

7. (a) Within sixty (60) days after the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Area Director and the Commissioner. The consultant shall develop a written analysis and assessment of the Bank's management and staffing needs (Management Plan) for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the consultant for review before it is executed. The contract or engagement letter, at a minimum, should include:

(i) a description of the work to be performed under the contract or engagement letter;

(ii) the responsibilities of the consultant;

(iii) an identification of the professional standards covering the work to be performed;

(iv) identification of the specific procedures to be used when carrying out the work to be performed;

(v) the qualifications of the employee(s) who are to perform the work;

(vi) the time frame for completion of the work;

(vii) any restrictions on the use of the reported findings; and

(viii) a provision for unrestricted examiner access to work papers.

(c) The Management Plan shall be developed within ninety (90) days after the effective date of this ORDER and submitted to the Area Director and the Commissioner for review and comment. Within thirty (30) days from the receipt of any comments from the Area Director and the Commissioner, and after the adoption of any recommended changes, the Bank shall approve the Management Plan, and record its approval in the minutes of the Board meeting. Thereafter, the Bank shall implement and follow the Management Plan. At a minimum, the Management Plan shall include:

(i) identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;

(ii) identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;

(iii) evaluation of all Bank officers at the level of vice president and above to determine whether these

individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to the Bank's established policies and practices, and restoration and maintenance of the Bank in a safe and sound condition; and

(iv) a plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer positions identified in the Management Plan.

8. The Bank shall notify the Area Director and the Commissioner in writing when it proposes to add any individual to the Board or employ any individual as a senior executive officer. Such notification must be received at least thirty (30) days before such addition or employment is intended to become effective. The Bank shall not add any individual to the Board or employ any individual as a senior executive officer if the Area Director or Commissioner, in response to the notification required by this subparagraph, objects to such addition or employment.

#### LOAN REVIEW PROGRAM

9. (a) Within sixty (60) days of the effective date of this ORDER, the Board shall develop a program of independent loan review (Loan Review Program) that will provide for a

periodic review of the Bank's loan portfolio and the identification and categorization of problem credits. The Loan Review Program shall be submitted to the Area Director and the Commissioner for review and comment. Within thirty (30) days of receipt of all such comments from the Area Director and the Commissioner, and after incorporation and adoption of all such comments, the Bank shall approve the Loan Review Program, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the Loan Review Program. At a minimum, the Loan Review Program shall provide for:

(i) implementation of procedures designed to promptly identify loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason why the loan warrants special attention, and assessment of the degree of risk that the loan will not be fully repaid according to its terms;

(ii) prompt identification of all outstanding balances and commitments attributable to each obligor identified under the requirements of subparagraph (i), including outstanding balances and commitments attributable to related interests of such obligors, including the obligor of record, relationship to the primary obligor identified under subparagraph (i), and an assessment of the risk exposure from

the aggregate relationship;

(iii) identification of trends affecting the quality of the loan portfolio, potential problem areas, and action plans to reduce the Bank's risk exposure;

(iv) assessment of the overall quality of the loan portfolio;

(v) implementation of procedures designed to identify credit and collateral documentation exceptions and an action plan to address the identified deficiencies;

(vi) identification of risk in the speculative construction loans; and

(vii) a mechanism for reporting periodically, but in no event less than monthly, the information developed in paragraphs (i) through (vi) above to the Board. The report should also describe the action(s) taken by management with respect to problem credits.

(b) Upon implementation, a copy of each periodic report required by the Loan Review Program shall be submitted to the Board, as well as documentation of the actions taken by the Bank or recommendations to the Board that address identified deficiencies in specific loan relationships or the Bank's policies, procedures, strategies, or other elements of the Bank's lending activities. Such reports and recommendations, as well as any resulting determinations, shall be recorded and

retained in the minutes of the meeting of the Board.

PROFIT PLAN

10. Within thirty (30) days after the effective date of this ORDER, and within the first thirty (30) days of each calendar year thereafter, the Bank shall develop and submit to the Regional Director and the Commissioner for review and comment a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2009 and for each calendar year thereafter (Profit Plan). Within thirty (30) days of receipt of all such comments from the Area Director and the Commissioner, and after incorporation and adoption of all such comments, the Bank shall approve the Profit Plan, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the Profit Plan. The plan required by this paragraph shall contain formal goals and strategies and be consistent with sound banking practices. The Profit Plan shall include, at a minimum:

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

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



and improve and sustain earnings, as well as maintain adequate provisions to the ALLL;

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

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

(e) coordination of the Bank's loan, investment, funds management, and operating policies; strategic plan; and ALLL methodology with the profit and budget planning;

(f) 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; recording the results of the evaluation and any actions taken by the Bank in the minutes of the Board meeting at which such evaluation is undertaken; and

(g) identification of personnel responsible for implementing each of the goals and strategies of the Profit Plan.

ALLL

11. (a) The Bank shall maintain its ALLL at a level in accordance with GAAP and regulatory policy statements. Within thirty (30) days after the end of each calendar quarter, the

Board shall review the adequacy of the Bank's ALLL. Such reviews shall include, at a minimum, the Bank's loan loss experience, an estimate of potential loss exposure in the portfolio, trends of delinquent and non-accrual loans and prevailing and prospective economic conditions. Provisions for loan losses must be based on the inherent risk in the Bank's loan portfolio. The minutes of the Board meetings at which such reviews are undertaken shall include complete details of the information and documentation considered in such reviews and the resulting recommended increases in the ALLL.

(b) 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 ORDER and prior to the Bank's submission of its Consolidated Report of Condition and Income. The Board shall thereafter maintain an adequate ALLL.

#### MONITORING PROGRAM

12. (a) Within thirty (30) days from the effective date of this ORDER, the Board shall adopt and implement a program that will provide for monitoring of the Bank's compliance with this ORDER (Monitoring Program). The Bank shall submit the Monitoring Program, and any future modifications, to the Area Director and the Commissioner for review and comment. Within

thirty (30) days of receipt of all such comments from the Area Director or the Commissioner, and after incorporation and adoption of any required changes, the Bank shall approve the Monitoring Program, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the Monitoring Program.

Following the adoption of the program, the Board shall review the Bank's compliance with this ORDER and record its review in the minutes of the meeting of the Board. At a minimum, the Monitoring Program will incorporate the provisions of subparagraphs (b) and (c) below.

(b) The Board shall be responsible for ensuring compliance with the ORDER and overseeing corrective measures with respect to the ORDER. The Board shall monitor compliance with this ORDER and any discussion or report relating to such compliance shall be incorporated into the minutes of the meeting of the Board.

(c) Within thirty (30) days of the effective date of this ORDER, and within thirty (30) days of the end of each calendar quarter thereafter, the Bank shall furnish written progress reports to the Area Director and the Commissioner detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. In addition, the Bank shall furnish such other reports as requested by the Area Director or

the Commissioner. All progress reports and other written responses to this ORDER shall be reviewed by the Board and made a part of the minutes of the Board meeting.

OTHER

13. This ORDER shall not bar, estop, or otherwise prevent the FDIC, the Division, or any other federal or state agency or department from taking any action against the Bank, the Bank's current or former institution-affiliated parties, and/or any of their respective directors, officers, employees, and agents.

14. Nothing herein shall prevent the FDIC or the Division from conducting on-site reviews and/or examinations of the Bank, its affiliates, agents, service providers or other institution-affiliated parties at any time to monitor compliance with this ORDER.

ORDER EFFECTIVE

15. This ORDER shall become effective upon issuance by the FDIC and the Division and shall be fully enforceable by the FDIC pursuant to the provisions of section 8(i)(1) of the Act, 12 U.S.C. § 1818(i)(1), and by the Division pursuant to the provisions of Massachusetts General Laws Chapters 167 through 172 and other applicable statutes.

16. The provisions of this ORDER shall be binding upon the Bank, its successors and assigns, any of their respective

