

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

and

COMMONWEALTH OF MASSACHUSETTS  
DIVISION OF BANKS

_____	)	
In the Matter of	)	CONSENT ORDER
	)	
	)	
ATHOL-CLINTON CO-OPERATIVE BANK	)	
ATHOL, MASSACHUSETTS	)	FDIC -09-605b
	)	
(Insured State Nonmember Bank)	)	
_____	)	

The Federal Deposit Insurance Corporation (FDIC) is the appropriate Federal banking agency for Athol-Clinton Co-operative Bank, Athol, Massachusetts (Bank), under 12 U.S.C. § 1813(q), and the Commonwealth of Massachusetts Division of Banks (Division of Banks) is the appropriate State banking agency for the Bank under the General Laws of the Commonwealth of Massachusetts.

The Bank, by and through its duly elected and acting Board of Directors (Board), has executed a STIPULATION TO THE ISSUANCE OF A CONSENT ORDER (STIPULATION), dated January 13, 2010, that is accepted by the FDIC and the Division of Banks. With the STIPULATION, the Bank, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulations relating to deterioration in the quality of the loan and investment portfolios, management's failure to act to improve the Bank's overall financial condition, to ensure compliance with statutory requirements, internal policies, and an outstanding Board Resolution (Resolution) with the FDIC and the Division of Banks effective

October 29, 2008, has consented to the issuance of this Consent Order (ORDER) by the FDIC and the Division of Banks.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and under Massachusetts General Laws Chapters 167 and 170 have been satisfied, the FDIC and the Division of Banks hereby order that the Bank, its institution-affiliated parties, and its successors and assigns take affirmative action as follows:

**CAPITAL MAINTENANCE**

1. (a) Within ninety (90) days after the effective date of this ORDER, the Bank, after establishing an adequate Allowance for Loan and Lease Losses (ALLL), shall maintain its Tier 1 Leverage Capital ratio equal to or greater than 7.75 percent of the Bank's Average Total Assets.

(b) If the Tier 1 Leverage Capital ratio is less than required by the ORDER, as determined as of the date of any Report of Condition and Income (Call Report) or at an examination by the FDIC or the Division of Banks, the Bank shall, within thirty (30) days after receipt of a written notice of the capital deficiency from the Area Director of the Boston Area Office of the FDIC (Area Director) or the Commissioner of Banks of the Division of Banks (Commissioner), present to the Area Director and the Commissioner a plan to increase the Bank's Tier 1 Capital by an amount sufficient to bring it to the percentage required by this ORDER. After the Area Director and the Commissioner respond to the plan, the Board shall adopt the plan, including any modifications or amendments requested by the Area Director and/or the Commissioner.

(c) Thereafter, to the extent such measures have not previously been initiated, the Bank shall immediately initiate measures detailed in the plan, to increase its Tier 1 Capital by

an amount sufficient to bring it to the percentage required by this ORDER within 30 days after the Area Director and the Commissioner respond to the plan.

(d) 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's Rules and Regulations, 12 C.F.R. Part 325, App. A.

(e) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325.

### **PROFIT PLAN**

2. (a) Within ninety (90) days after the effective date of this ORDER, and within the first thirty (30) days of each calendar year thereafter, the Board shall develop a written profit plan (Profit Plan) consisting of goals and strategies for improving the earnings of the Bank for each calendar year. The Profit Plan shall include, at a minimum:

- (1) Identification of the major areas in, and means by, which the Board will seek to improve the Bank's operating performance;
- (2) Realistic and comprehensive budgets;
- (3) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections on not less than a quarterly basis; and
- (4) A description of the operating assumptions that form the basis for and support major projected income and expense components.

(b) Such Profit Plan and any subsequent modification thereto shall be submitted to the Area Director and the Commissioner for review and comment. Within thirty

(30) days after the receipt of any comment from the Area Director and/or the Commissioner, and after incorporation and adoption of 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.

### **LIQUIDITY PLAN**

3. (a) Within sixty (60) days after the effective date of this ORDER, the Bank shall develop and submit to the Area Director and the Commissioner for review and comment a written plan addressing liquidity (Liquidity Plan). Annually thereafter, while this ORDER is in effect, the Bank shall review the Liquidity Plan for adequacy and, based upon such review, shall make necessary revisions to meet the Bank's liquidity needs. The Liquidity Plan shall include, at a minimum, provisions:

(1) Limiting the Bank's ratio of total loans to total assets to not more than 85% percent;

**OR**

(2) Establishing a reasonable range for its net non-core funding ratio as computed in the Uniform Bank Performance Report;

(3) Identifying the source and use of borrowed and/or volatile funds;

(4) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;

(5) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;

(6) Addressing the use of borrowings (i.e., seasonal credit needs, match funding mortgage loans, etc.) and providing for reasonable

maturities commensurate with the use of the borrowed funds; addressing concentration of funding sources; and addressing pricing and collateral requirements with specific allowable funding channels (i.e., brokered deposits, internet deposits, Fed funds purchased and other correspondent borrowings); and

- (7) Establishing procedures for managing the Bank's sensitivity to interest rate risk which comply with the Interagency Advisory on Interest Rate Risk Management (January 6, 2010), the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996), and the Supervisory Policy Statement on Investment Securities and End-user Derivative Activities (April 23, 1998).

(b) Within thirty (30) days after the receipt of all comments from the Area Director and the Commissioner, and after incorporating and adopting such comments, the Bank shall approve the Liquidity 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 Liquidity Plan.

**ALLOWANCE FOR LOAN AND LEASE LOSSES  
AND  
AMENDED CALL REPORTS**

4. (a) Within thirty (30) days after the effective date of this ORDER, based on the Joint Report of Examination of the Bank as of June 30, 2009 (Report of Examination), the Bank shall make an appropriate provision to its ALLL, consistent with generally accepted accounting principles and regulatory guidance (which provision the Bank agrees shall be not be less than \$1.3 million). The ALLL should be funded by charges to current operating income. After the initial provision is made, the Bank shall thereafter maintain an appropriate ALLL.

Prior to 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. A deficiency in the ALLL shall be remedied in the calendar quarter in which it is discovered by a charge to current operating income and prior to the Bank's submission of its Call Report. The minutes of the Board meetings, at which such reviews are undertaken, shall include complete details of the reviews and the resulting recommended increases or decreases in the ALLL.

(b) Within thirty (30) days after the effective date of this ORDER, the Bank shall review Call Reports filed with the FDIC on or after June 30, 2009, and amend said reports if necessary to accurately reflect the financial condition of the Bank as of the date of each such report. In particular, such reports shall contain an adequate ALLL. Reports filed after the effective date of this ORDER shall also accurately reflect the financial condition of the Bank as of the reporting date.

(c) Within thirty (30) days after the effective date of this ORDER, the Bank shall use Financial Accounting Standards Board Statements Numbers 5 and 114 for determining the Bank's ALLL reserve adequacy. The Bank shall submit to the Area Director and the Commissioner the analysis supporting the determination of the appropriateness of the ALLL considering the then existing condition and inherent risk of the Bank's loan portfolio, including any determination not to require provisions for loan losses. These submissions shall be made at such times as the Bank files the quarter-end progress reports required by this ORDER.

**RESTRICTION ON ADVANCES TO CLASSIFIED BORROWERS**

5. (a) The Bank shall not extend or renew, directly or indirectly, credit to, or for the benefit of, any borrower whose existing credit with the Bank has been classified , in whole or in part, “Loss” by the FDIC or the Division of Banks as the result of their examination of the Bank, and is uncollected, or to any borrower who is already obligated in any manner to the Bank on any extension of credit, including any portion thereof, that has been charged off the books of the Bank and remains uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing credit already extended to a borrower after full collection, in cash, of principal and interest due from the borrower.

(b) The Bank shall not extend or renew, directly or indirectly, credit to, or for the benefit of, any borrower whose existing credit has been classified, in whole or in part, “Doubtful,” or “Substandard” by the FDIC or the Division of Banks as the result of their examination of the Bank, and is uncollected, unless the Board has signed a detailed written statement giving reasons why failure to extend or renew such credit is not in the best interests of the Bank. The statement shall be placed in the appropriate loan file and included in the minutes of the meeting of the Board.

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

6. (a) Within thirty (30) days after the effective date of this ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified “Loss” by the FDIC or the Division of Banks as a result of their Report of Examination.

(b) Within one hundred twenty (120) days after the effective date of this ORDER, the Bank shall submit a written plan (Risk Reduction Plan) to the Area Director and the

Commissioner for review and comment, to reduce the remaining risk exposure in each asset classified “Doubtful” or “Substandard” in the Report of Examination. For purposes of this provision, “reduce” means to collect, charge-off, or improve the quality of the asset so as to warrant its removal from the adverse classification by the FDIC and the Division of Banks. The Risk Reduction Plan shall address each asset so classified with a balance in excess of \$250,000 and provide the following:

- (1) The name under which the asset is carried on the books of the Bank;
  - (2) Type of asset;
  - (3) Actions to be taken in order to reduce the classified asset; and
  - (4) Timeframes for accomplishing the proposed actions.
- (c) The Risk Reduction Plan shall also, at a minimum:
- (1) Review the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and
  - (2) Evaluate the available collateral for each such credit, including possible actions to improve the Bank’s collateral position.

In addition, the Bank’s Risk Reduction Plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the Risk Reduction Plan shall contain a provision requiring the submission and review of monthly progress reports to the Board.

(d) Within thirty (30) days after the Bank receives the Area Director’s and/or the Commissioner’s comments, and after incorporation and adoption of such comments, the

Bank shall approve the Risk Reduction Plan, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall fully comply with the Risk Reduction Plan.

(e) For purposes of the Risk Reduction Plan, the reduction of adversely classified assets in the Report of Examination shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's ALLL and may be accomplished by:

- (1) Charge-off;
- (2) Collection;
- (3) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the Division of Banks; or
- (4) Increase in the Bank's Tier 1 Capital.

(f) Within thirty (30) days after the receipt of any future Report of Examination of the Bank from the FDIC and/or Division of Banks, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the Report of Examination that have not been previously collected or charged off.

#### **REDUCTION OF DELINQUENCIES**

7. (a) Within ninety (90) days after 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 for the reduction and collection of delinquent loans (Reduction of Delinquencies Plan). Such Reduction of Delinquencies Plan shall include, but not be limited to, provisions that:

- (1) Prohibit the extension of credit for the payment of interest;
- (2) Delineate areas of responsibility for implementing and monitoring the Bank's collection policies;

- (3) Establish specific collection procedures to be instituted at various stages of a borrower's delinquency;
- (4) Establish dollar levels to which the Bank shall reduce delinquencies within 120 days of the implementation of the plan;  
and
- (5) Provide for the submission of monthly written progress reports to the Board for review and notation in minutes of the meetings of the Board.

(b) For purposes of the Reduction of Delinquencies Plan, "reduce" means to:

- (1) Charge-off; or
- (2) Collect.

(c) Within thirty (30) days after the Bank receives the Area Director's and the Commissioner's comments, and after incorporation and adoption of such comments, the Bank shall approve the Reduction of Delinquencies 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 Reduction of Delinquencies Plan.

#### **INTERNAL AUDIT CONTROL PROGRAM**

8. Within ninety (90) days after the effective date of this ORDER, the Board shall implement an effective program for internal audit and control. The audit program shall provide procedures to test the validity and reliability of operating systems, procedural controls, and resulting records, and shall comply with the Interagency Policy Statement on the Internal Audit Function and its Outsourcing. The internal auditor shall report quarterly to the Board. The report and any comments made by the directors regarding the internal auditor's report shall be

noted in the minutes of the meeting of the Board.

**MANAGEMENT – BOARD SUPERVISION**

9. Within (30) days after the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank by assuming full responsibility for the approval of the Bank's policies and objectives and for the supervision of the Bank's management, including all the Bank's activities. The Board's participation in the Bank's affairs shall include, at a minimum, monthly meetings in which the following areas shall be reviewed and approved by the Board: reports of income and expenses; new, overdue, renewed, insider, charged-off, delinquent, nonaccrued, and recovered loans; investment activities; operating policies; and individual committee actions. The Board's minutes shall document the Board's reviews and approvals, including the names of any dissenting directors.

**MANAGEMENT CLAUSE – STAFFING STUDY**

10. (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 Area 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, shall include:

- (1) A description of the work to be performed under the contract or engagement letter;
- (2) The responsibilities of the consultant;

- (3) An identification of the professional standards covering the work to be performed;
- (4) Identification of the specific procedures to be used when carrying out the work to be performed;
- (5) The qualifications of the employee(s) who are to perform the work;
- (6) The time frame for completion of the work;
- (7) Any restrictions on the use of the reported findings; and
- (8) A provision for unrestricted examiner access to work papers of the consultant.

(c) The Management Plan shall be developed and submitted to the Area Director and Commissioner for review and comment within one hundred eighty (180) days after the effective date of this ORDER. The Management Plan shall include, at a minimum:

- (1) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;
- (2) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (3) Evaluation of Senior management and the Board 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

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

(d) Within thirty (30) days after the Bank receives the Area Director's and the Commissioner's comments, and after adoption and incorporation of such comments, the Bank shall approve the Management 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 Management Plan.

#### **CORRECTION OF VIOLATIONS**

11. (a) Within ninety (90) days after the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of laws, rules and regulations cited in the Report of Examination.

(b) Within ninety (90) days after the effective date of this ORDER, the Bank shall eliminate and/or correct all contraventions of policy cited in the Report of Examination.

(c) Within ninety (90) days after the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules and regulations, and regulatory guidance.

#### **TECHNICAL EXCEPTIONS**

12. (a) Within one hundred twenty (120) days after the effective date of this ORDER, the Bank shall correct the technical exceptions listed in the Report of Examination.

(b) Within sixty (60) days after the effective date of this ORDER, the Bank shall implement a system of monitoring loan documentation exceptions on an ongoing basis and

implement procedures designed to reduce the occurrence of such exceptions in the future.

### **OTHER PROVISIONS**

13. Within thirty (30) days after the end of the first calendar quarter following the effective date of this ORDER, and within thirty (30) days after the end of each successive calendar quarter, 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. All progress reports and other written responses to this ORDER shall be reviewed by the Board prior to their submission. Such reports may be discontinued when the corrections required by the ORDER have been accomplished and the Area Director and the Commissioner have released the Bank in writing from making additional reports.

14. The provisions of this ORDER shall not bar, estop, or otherwise prevent the FDIC, the Division of Banks, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

15. This ORDER shall be effective on the date of issuance.

16. The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

17. The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, superseded, or set aside by the FDIC and the Division of Banks.

Issued Pursuant to Delegated Authority.

Dated this 19th day of January, 2010.

/s/ Gregory P. Bottone  
Gregory P. Bottone  
Acting Area Director  
Boston Area Office  
Division of Supervision and Consumer Protection  
Federal Deposit Insurance Corporation

Commonwealth of Massachusetts  
Division of Banks

By /s/ Steven L. Antonakes  
Honorable Steven L. Antonakes  
Commissioner of Banks