

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	CONSENT ORDER,
	)	ORDER FOR RESTITUTION,
NORTHWEST SAVINGS BANK	)	AND ORDER TO PAY
WARREN, PENNSYLVANIA	)	
	)	FDIC-11-361b
(INSURED STATE NONMEMBER BANK)	)	FDIC-11-362k
	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Northwest Savings Bank (“Bank”), Warren, Pennsylvania under section 3(q)(3) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1813(q)(3).

The FDIC has reason to believe that the Bank engaged in violations of law and/or regulations, including unfair and deceptive acts and practices in violation of section 5 of the Federal Trade Commission Act (“Section 5”), 15 U.S.C. § 45(a)(1).

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER, ORDER FOR RESTITUTION, AND ORDER TO PAY (“CONSENT AGREEMENT”), dated July 22, 2011, that is accepted by the FDIC. With the CONSENT AGREEMENT, the Bank has consented, without admitting or denying any charges of violations of law and/or regulations, to the issuance of this CONSENT ORDER, ORDER FOR RESTITUTION, AND ORDER TO PAY (collectively, “ORDER”) by the FDIC.

Having determined that the requirements for issuance of an order under sections 8(b) and 8(i) of the Act, 12 U.S.C. § 1818(b) and (i), have been satisfied, the FDIC hereby orders the

Bank and its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), to take the following actions:

**CONSENT ORDER**

**BOARD OF DIRECTORS**

1. The Board shall participate fully in the oversight of the Bank’s compliance management system (“CMS”) and ensure that the Bank complies with the provisions of this ORDER. It shall assume full responsibility for the approval of sound compliance policies and objectives and, consistent with the expertise commonly expected for directors of banks of comparable size and complexity, provide oversight to Management’s supervision of all the Bank’s compliance-related activities. The Board shall document in Board minutes the Bank’s efforts to comply with the provisions of this ORDER.

**COMPLIANCE MANAGEMENT SYSTEM**

2. (a) The Bank shall develop and implement an effective CMS that is commensurate with the level of complexity of the Bank’s operations and a comprehensive written compliance program (“Compliance Program”).

(b) Within 60 days from the effective date of this ORDER, the Board shall submit to the Regional Director of the New York Regional Office of the FDIC (“Regional Director”) for non-objection a Compliance Program that, at a minimum:

(i) includes policies, controls, procedures, and processes that ensure consistent compliance with all consumer laws, regulations and regulatory guidance to which the Bank is subject (collectively, “Consumer Laws”), including, but not limited to: Section 5; Regulation CC of the Board of Governors of the Federal Reserve System (“Regulation CC”); Regulation DD of the Board of Governors of the Federal Reserve System (“Regulation DD”), 12 C.F.R. Part 230; the Home Mortgage Disclosure Act (“HMDA”), 12 U.S.C. § 2801 *et seq.*;

Regulation C of the Board of Governors of the Federal Reserve System (“Regulation C”), 12 C.F.R. Part 203; the National Flood Insurance Act, as amended by the National Flood Insurance Reform Act of 1994, 42 U.S.C. § 4012a (“Flood Act”); and Part 339 of the FDIC’s Rules and Regulations (“Part 339”), 12 C.F.R. Part 339;

(ii) includes effective monitoring procedures that ensure compliance with Consumer Laws, adherence to internal policies and procedures, and consideration of the best practices specified in the *Joint Interagency Guidance on Overdraft Protection Programs* (FIL-11-2005, issued February 18, 2005) and after July 21, 2011, consideration of the *Overdraft Payment Supervisory Guidance* (FIL-81-2010, issued November 24, 2010). At a minimum, monitoring procedures should include ongoing reviews that include:

(A) applicable departments, branches and Bank subsidiaries, including, Northwest Consumer Discount Company;

(B) disclosures and calculations for various loan and deposit products;

(C) document filing and retention procedures;

(D) marketing and advertising; and

(E) an internal compliance communication system that provides Bank personnel appropriate updates regarding revisions to Consumer Laws;

(iii) implements and maintains a training program on a continuing basis related to compliance with Consumer Laws for all employees who have responsibilities that may relate to Consumer Laws, including senior management and the Board, commensurate with their individual job functions and duties;

(iv) designates a qualified compliance officer (“Compliance Officer”) to oversee the CMS and monitor the completion and effectiveness of the Consumer Laws training programs;

(v) designates an appropriate number of compliance personnel with sufficient experience in, and knowledge of, Consumer Laws to administer the CMS;

(vi) designates compliance responsibilities of the Board and the Bank's management, compliance committee, Compliance Officer, internal audit function, and any third-party auditors; and

(vii) sets forth specific policies and procedures to ensure that consumer complaints, regardless of source, are thoroughly evaluated and addressed and resolved in a timely manner, and that Bank management and compliance personnel provide timely responses to consumers.

(c) Within 30 days from receipt of non-objection or comments from the Regional Director, and after incorporation and adoption of all comments, the Board shall approve the Compliance Program, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Compliance Program.

(d) The Board shall review the Compliance Program annually. Any subsequent modifications to the Compliance Program shall be approved by the Board and recorded in the minutes of the Board. Thereafter, the Bank shall implement and comply with the revised Compliance Program.

### **COMPLIANCE OFFICERS**

3. (a) The Bank shall retain a qualified Compliance Officer with the requisite knowledge and experience to establish and administer an effective CMS. The Board shall ensure that the Bank's Compliance Officer receives adequate ongoing training and sufficient time and resources, including staff assistance, to effectively oversee, coordinate, and implement the CMS. The Compliance Officer shall have sufficient authority and independence to implement policies

and procedures, cross departmental lines, access all areas of the Bank's operations, and effectuate corrective action.

(b) The responsibilities of the Bank's Compliance Officer shall include:

(i) developing and reviewing compliance policies and procedures to ensure compliance with this ORDER, Consumer Laws, the Bank's policies, procedures, and processes, and the Compliance Program;

(ii) assessing emerging issues, potential liabilities, and new Consumer Laws;

(iii) overseeing the training required by the Compliance Program;

(iv) reporting compliance activities and audit or review findings to the Board;

(v) ensuring compliance deficiencies are corrected; and

(vi) evaluating consumer complaints, including significant verbal complaints, and coordinating the responses to the consumer required by the Compliance Program.

#### **COMPLIANCE AUDIT FUNCTION**

4. The Bank shall maintain an effective compliance audit function, which shall, at a minimum, include policies, procedures, and processes that ensure:

(a) adequate monitoring of the Bank's lending and deposit products through a comprehensive audit function;

(b) an audit staff comprised of a sufficient number of qualified persons;

(c) the independence and objectivity of the internal auditor, the audit staff, and the Bank's Audit Committee;

(d) adequate testing and review of the lending and deposit activities of the Bank and its departments, branches, or subsidiaries, such that the scope and testing are adequate to:

(i) detect substantive deficiencies in the operation of the Bank's lending and deposit activities; and

(ii) determine compliance with all applicable Consumer Laws, including Section 5, Regulation CC, the Truth in Savings Act, Regulation DD, HMDA, Regulation C, the Flood Act, and Part 339;

(e) adequate documentation of tests of lending and deposit activities, test findings, and corrective actions;

(f) verification and review of management actions to address material weaknesses in the CMS;

(g) tracking of deficiencies and exceptions noted in audit reports with periodic, but not less than quarterly, status reports to the Board with each deficiency and material exception identified, the source of the deficiency or exception and date noted, responsibility for correction assigned, and the date corrective action was taken;

(h) review by the Board or the Bank's Audit Committee of the effectiveness of the Bank's internal audit systems and/or the internal audit systems of any other department, branch, or subsidiary of the Bank offering loan or deposit products or engaging in lending or deposit activities; and

(i) an annual audit schedule for the Bank and/or any other department or branch of the Bank offering loan or deposit products or engaging in lending or deposit activities approved by the Board, with any planned changes to or deviations from the approved audit schedule, its scope, or content requiring the prior written approval of the Board or its Audit Committee appropriately reflected in the minutes of the meeting wherein the change or deviation was approved.

### **MANAGING THIRD-PARTY RISK**

5. (a) Within 45 days from the effective date of this ORDER, the Bank shall adopt and implement systems and controls to ensure proper management of third-party risk. The Bank's

third-party risk management program shall, at a minimum, conform to the *Guidance for Managing Third-Party Risk* (FIL-44-2008, issued June 6, 2008), and address the following:

- (i) risk assessment;
- (ii) procedures to conduct due diligence in selecting third-party vendors and service providers;
- (iii) procedures to review contract terms; and
- (iv) effective oversight of vendors and service providers.

#### **UNFAIR OR DECEPTIVE ACTS OR PRACTICES**

6. The Bank shall take all action necessary, including thorough reviews of all existing and new Bank deposit products, marketing, and disclosures, to comply with Section 5 and the guidance set forth in *Unfair or Deceptive Acts or Practices by State-Chartered Banks* (FIL-26-2004, issued March 11, 2004).

#### **HMDA COMPLIANCE**

7. Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement systems and controls to ensure compliance with HMDA and Regulation C, with specific provisions to accurately collect and record required data on applications for, and originations, purchases, and refinancing of, home purchase and home improvement loans on a register in the format prescribed in Regulation C within 30 calendar days after the end of the quarter in which the final action is taken, as required by section 203.4(a) of Regulation C, 12 C.F.R. § 203.4(a).

#### **FLOOD INSURANCE COMPLIANCE**

8. Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement systems and controls to ensure compliance with the Flood Act, as implemented by Part 339 of the FDIC's Rules and Regulations, with specific provisions to obtain adequate flood

insurance when originating, extending or increasing the amounts of loans, when required, and to provide flood insurance notices to borrowers when loans are secured by a building or mobile home located in a special flood hazard area.

### **CORRECTIVE ACTION**

9. The Bank shall take all steps necessary, consistent with other provisions of this ORDER and sound banking practices, to eliminate, correct and prevent unsafe or unsound banking practices, violations of law or regulation, and all contraventions of regulatory policies or guidelines cited in the Compliance Report of Examination as of March 29, 2010 (the "ROE") issued by the FDIC.

### **PROGRESS REPORTS**

10. Within 45 days after the end of the first calendar quarter following the effective date of this ORDER, and within 30 days after the end of each successive calendar quarter, the Bank shall furnish written progress reports to the Regional Director detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof ("Quarterly Report"). Each Quarterly Report shall provide a complete account of the Bank's actions to comply with each requirement of this ORDER during the previous quarter, an objective assessment of the extent to which each quantifiable obligation was met, an explanation of why any particular component fell short of meeting its goal for that quarter, and any recommendations for additional actions to achieve the goals of this ORDER. The Bank shall attach to each Quarterly Report representative copies of training material disseminated during the previous quarter pursuant to this ORDER. The Quarterly Reports may be discontinued only following termination of this ORDER or when the Regional Director has otherwise released the Bank in writing from making further reports.



**ORDER FOR RESTITUTION**

11. (a) Within 30 days from the effective date of this ORDER, which period may be extended in writing by the Regional Director, the Bank shall make restitution in amounts specified by the FDIC in the form of reimbursement, by check or in another manner deemed acceptable in writing by the Regional Director, to depositors and former depositors (collectively “Eligible Depositor”) to be identified by the Bank and the FDIC, and alleged by the FDIC as having not been paid the amount of interest that was described in Bank disclosures. The Bank shall maintain copies of each restitution check, or other acceptable form of reimbursement, for review by the FDIC at its next examination of the Bank. The total amount of restitution paid by the Bank shall not exceed \$375,000.

(b) The restitution described by this paragraph shall be issued along with, or concurrently with, a letter by the Bank, and approved by the Regional Director, describing the method of calculation and form of reimbursement made to that particular Eligible Depositor. The Bank shall maintain copies of each letter provided in connection with this subparagraph for review by the FDIC at its next examination of the Bank.

(c) Any checks or letters to be sent by the Bank pursuant to this paragraph shall be sent by cashier’s check by United States Postal Service first-class mail, address correction service requested, to the Eligible Depositor's last address as maintained in the Bank's records. The Bank shall make reasonable attempts to obtain a current address for any Eligible Depositor whose notification letter and/or restitution check is returned for any reason, using standard address search methodologies, and shall promptly re-mail all returned letters and/or restitution checks to current addresses, if any. If the cashier’s check for any Eligible Depositor is returned to the Bank after such second mailing by the Bank, or if a current mailing address cannot be identified using standard address search methodologies, the Bank shall retain the restitution

amount of such Eligible Depositor for a period of three-hundred sixty (360) days from the date the restitution check was originally mailed, during which period such amount may be claimed by such Eligible Depositor upon appropriate proof of identity. After such time these monies will be disposed of in a manner deemed acceptable by the Regional Director.

### **ORDER TO PAY**

12. It is further ordered that, by reason of the alleged violations of Section 5, and after taking into account the CONSENT AGREEMENT, the appropriateness of the penalty with respect to the financial resources and good faith of the Bank, the gravity of the conduct by the Bank, the history of previous conduct by Bank, and such other matters as justice may require, pursuant to section 8(i)(2) of the Act, 12 U.S.C. § 1818(i)(2), a civil money penalty of \$325,000 is assessed against the Bank. The Bank shall pay the civil money penalty to the Treasury of the United States. The Bank shall pay such civil money penalty itself, and is prohibited from seeking or accepting indemnification for such payment from any third party.

### **SHAREHOLDER NOTIFICATION AND REPORTING REQUIREMENTS**

13. Following the effective date of this ORDER, the Bank shall send to its shareholder(s) or otherwise furnish a description of this ORDER in conjunction with the Bank's next shareholder communication or in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Accounting and Securities Section, Division of Risk Management Supervision and Consumer Protection, Accounting-Registration, Disclosure and Securities Section, 550 17th Street, N.W., Washington, D.C. 20429, at least 30 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

**MISCELLANEOUS**

The provisions of this ORDER shall not bar, stop, or otherwise prevent the FDIC 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.

This ORDER shall be effective on the date of issuance.

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

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, suspended, or set aside by the FDIC.

Issued Pursuant to Delegated Authority

Dated at Washington, D.C., this 8<sup>th</sup> day of August, 2011.

/s/  
\_\_\_\_\_  
Sylvia H. Plunkett  
Senior Deputy Director  
Division of Depositor and Consumer Protection  
Federal Deposit Insurance Corporation