

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

and

COMMONWEALTH OF MASSACHUSETTS  
DIVISION OF BANKS  
BOSTON, MASSACHUSETTS

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In the Matter of )

SAGE BANK )

LOWELL, MASSACHUSETTS )

(Insured State Nonmember Bank) )

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**CONSENT ORDER**

FDIC-16-0247b-

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Sage Bank, Lowell, Massachusetts (“Bank”), under section 3(q) of the Federal Deposit Insurance Act (“FDI Act”), 12 U.S.C. § 1813(q), and the Commonwealth of Massachusetts Division of Banks (“Division”) is the appropriate State banking agency for the Bank under the Massachusetts General Laws (“M.G.L.”).

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 (“CONSENT AGREEMENT”), dated December 8, 2016 that is accepted by the FDIC and the Division. With the CONSENT AGREEMENT, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to weaknesses in management, earnings, capital, liquidity, and interest rate risk, to the issuance of this Consent Order (“ORDER”) by the FDIC and the Division.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and under M.G.L. Chapters 167 and 170 have been satisfied, the FDIC and the Division hereby order that:

## MANAGEMENT AND BOARD OF DIRECTORS

1. (a) The Bank shall:

- (i) hire and retain qualified management;
- (ii) have a Board that functions effectively and fulfills its responsibilities, including responsibilities concerning management oversight, strategic direction, and audit; and
- (iii) have an organizational structure that establishes clear lines of authority and responsibility for monitoring adherence to established policies.

At a minimum, the Bank's management shall include: a chief executive officer with proven ability in managing a bank of comparable size and complexity; a secondary market lending officer with an appropriate level of experience and ability in managing mortgage banking operations comparable in volume and complexity to the Bank's mortgage banking activities; a senior lending officer with an appropriate level of lending, collection, and loan supervision experience for the type and quality of the Bank's loan portfolio; and a chief financial officer with demonstrated ability in all financial areas including, but not limited to, accounting, regulatory reporting, budgeting and planning, management of the investment function, liquidity management, and interest rate risk management.

The Board shall provide the necessary written authority to management to implement the provisions of this ORDER.

(b) The Bank's management and Board shall be assessed, in accordance with the subparagraphs below, on their ability to:

- (i) comply with all requirements of this ORDER;
- (ii) operate the Bank in a safe and sound manner;
- (iii) comply with applicable laws, rules, and regulations; and
- (iv) restore all aspects of the Bank to a safe and sound condition.

(c) The Bank, with a view to meeting the requirements of subparagraphs (a) and (b), shall make appropriate changes to management and the Board (including its practices and committees) by developing and implementing a written plan (“Management Plan”) that is prepared in conformity with the requirements specified by the provisions of this Paragraph 1.

(d) Within 60 days from the issuance of this ORDER, the Bank shall: (i) formulate the Management Plan and (ii) submit it to the FDIC’s Deputy Regional Director for the Boston Area Office (“Deputy Regional Director”) and the Massachusetts Commissioner of Banks (“Commissioner”) for non-objection or comment, as addressed further in subparagraph (f).

(e) The Management Plan, at a minimum, shall:

- (i) establish and require implementation of procedures to periodically review and update the Management Plan;
- (ii) contain a management succession plan that appropriately addresses the management needs of the Bank including a plan to fill existing and future vacancies;
- (iii) identify the type and number of officer positions needed to carry out the Strategic Plan, as described in paragraph 2 of the ORDER, and supervise the affairs of the Bank, detailing any vacancies or additional needs and giving appropriate consideration to the size and complexity of the Bank;
- (iv) present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary for each officer position, including delegations of authority and performance objectives;
- (v) evaluate the performance of all Bank officers, indicating whether the individuals are competent and qualified to perform present and anticipated duties, adhere to the Bank’s established policies and practices, and operate the Bank in a safe and sound manner;

- (vi) include an assessment of individual Board member qualifications and skills compared to necessary qualifications and skills to engage in effective oversight and supervision of the Bank's operations;
- (vii) include an assessment of the Board committees to ensure members are knowledgeable about areas delegated to the respective committees;
- (viii) set out specific recommendations to correct or eliminate any identified weaknesses in the supervision or organizational structure of the Bank.

(f) By the deadline specified in subparagraph (d), the Management Plan shall be submitted to the Deputy Regional Director and the Commissioner for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Deputy Regional Director and the Commissioner, and after incorporation and adoption of all comments, the Board shall approve the Management Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall immediately implement and fully comply with the Management Plan.

#### **STRATEGIC PLAN**

2. (a) Within 90 days of the receipt of comments from the Deputy Regional Director and the Commissioner or 90 days from the effective date of the ORDER (whichever is later), the Bank shall:

- (i) incorporate and adopt all such comments into the existing written strategic plan ("Strategic Plan") submitted by the Bank as ordered in the Consent Order issued by the FDIC and Division on December 18, 2014 (the "2014 Consent Order");
- (ii) obtain Board approval of the Strategic Plan as revised, which approval shall be recorded in the minutes of the Board meeting; and
- (iii) implement and fully comply with such revised Strategic Plan. Until such time as the revised Strategic Plan is approved by the Board, the existing Strategic Plan submitted by the Bank pursuant to the 2014 Consent Order will remain in effect.

(b) The Strategic Plan, and any revisions thereto, shall: contain an assessment of the Bank's current financial condition and market area; describe the strategic goals and the resources needed to achieve those goals; and take into account the other requirements, actions and restrictions set out in this ORDER. The Strategic Plan also shall include, at a minimum:

- (i) identification of the major areas in and means by which the Bank will seek to improve operating performance;
- (ii) specific goals to improve the net interest margin and reduce discretionary expenses;
- (iii) financial goals, including pro forma statements for asset growth, mortgage banking activity, capital adequacy, and earnings; and
- (iv) coordination of the Bank's loan, investment, funds management, and operating policies, profit and budget plan, and allowance for loan and lease losses ("ALLL") methodology with the Strategic Plan.

(c) By no later than 30 days prior to the end of each calendar year, the Strategic Plan required by this ORDER shall be revised and such revised Strategic Plan shall be approved by the Board, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and adhere to the revised Strategic Plan. The Bank shall submit the Board-approved revised Strategic Plan to the Deputy Regional Director and the Commissioner with the appropriate Progress Report required by this ORDER.

#### **PROFIT AND BUDGET PLAN**

3. (a) By no later than 15 days prior to the end of each calendar year while this ORDER is in effect, the Bank shall:

- (i) revise the Bank's current written profit and budget plan ("Profit Plan"), taking into account the Bank's other written plans, policies, the requirements of the Paragraph (b), and other actions as required by this ORDER;

- (ii) obtain Board approval of the Profit Plan, which approval shall be recorded in the minutes of the Board meeting;
- (iii) implement and adhere to the Profit Plan; and
- (iv) submit the Board-approved Profit Plan to the Deputy Regional Director and the Commissioner with the appropriate Progress Report required by paragraph 14 of this ORDER.

(b) The Profit Plan, at a minimum, shall include:

- (i) provisions that specifically address the criticisms from the FDIC or Division of the profit and budget plan that was submitted pursuant to the 2014 Consent Order;
- (ii) a description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components;
- (iii) specific goals to maintain appropriate provisions to the ALLL; and
- (iv) realistic and comprehensive budgets for all categories of income and expense, including the income and expense categories of the Secondary Market Lending Division.

(c) Within 45 days following the end of each quarter thereafter the Board shall: (i) evaluate the Bank's actual performance in relation to the Profit Plan; and (ii) record the results of the evaluation and note any actions taken by the Bank in the minutes of the Board meeting at which such evaluation is undertaken. The Bank shall submit copies of the most recent Board evaluations of performance with the Progress Reports required by paragraph 14 of this ORDER.

#### CAPITAL

4. (a) The Bank shall: (i) immediately take appropriate actions, consistent with prudent banking practices, to prevent its capital levels (as defined in applicable FDIC regulations at 12 C.F.R. Parts 324 and 325) from dropping below the levels reported in the Bank's Call Report for the quarter

ended March 31, 2016; (ii) increase its capital levels each quarter until it reaches, by December 31, 2017, the capital levels set out below; and (iii) thereafter meet and maintain such minimum capital levels, after establishing and maintaining an appropriate ALLL that conforms to all applicable FDIC guidance. The minimum capital levels to be achieved and thereafter maintained are:

- (I) Tier 1 Leverage Capital at least equal to 9.0% percent of average total assets;
- (II) Tier 1 Risk-Based Capital at least equal to 11.0% percent of total risk-weighted assets; and
- (III) Total Risk-Based Capital at least equal to 11.0% percent of total risk-weighted assets.

(b) For purposes of this ORDER, all terms relating to capital shall have the meanings and be calculated in accordance with the applicable FDIC's Rules and Regulations concerning Capital Adequacy/Capital Maintenance (currently at 12 C.F.R. Parts 324 and 325), and the Bank shall comply with all applicable regulatory guidance on capital, including 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.

(c) Within 90 days of the effective date of this ORDER, the Bank shall:

- (i) submit a revised written plan ("Capital Plan") detailing the manner in which the Bank will meet and maintain the capital levels required by this Paragraph 4;
- (ii) obtain Board approval of the Capital Plan, which approval shall be recorded in the minutes of the Board meeting; and
- (iii) submit the Capital Plan to the Deputy Regional Director and the Commissioner for non-objection or comment, as addressed further in subparagraph (e).

(d) At a minimum, the Capital Plan shall include:

- (i) specific benchmark Tier 1 Leverage and Risk-Based Capital Ratios to be met at each calendar quarter end until the capital levels required under this ORDER are achieved;
- (ii) specific plans to achieve the capital levels required under this ORDER;
- (iii) projections for asset growth, secondary market mortgage loan originations, 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;
- (vi) contingency plans that identify alternative sources of capital should the primary source(s) under (v) above not be available.

(e) By the deadline specified in subparagraph (c), the Board-approved Capital Plan shall be submitted to the Deputy Regional Director and the Commissioner for non-objection or comment. Within 30 days from receipt of non-objection or comments from the Deputy Regional Director and the Commissioner: (i) the Bank shall incorporate and adopt all such comments into the Capital Plan; (ii) the Board shall approve such revised Capital Plan (the "Definitive Capital Plan"), which approval shall be recorded in the minutes of the Board meeting; and (iii) the Bank shall implement and fully comply with such Definitive Capital Plan.



(f) In the event any capital ratio falls below the levels defined in paragraph 4(a) (a “Capital Event”), the Bank shall immediately provide written notification to the Deputy Regional Director and the Commissioner and, within 30 days of such Capital Event, shall:

- (i) Increase capital in an amount sufficient to comply with the ratios established in the Definitive Capital Plan and this ORDER; or
- (ii) Develop and submit to the Deputy Regional Director and the Commissioner a revised Capital Plan (“Revised Capital Plan”) that (A) describes the primary means and timing by which the Bank shall increase its capital ratios up to or in excess of the minimum requirements set forth in this ORDER and (B) includes a contingency plan that considers the sale, merger, or liquidation of the Bank. The Revised Capital Plan must contain realistic goals and expectations.

(g) Any Revised Capital Plan required by subparagraph (f) shall be submitted to the Deputy Regional Director and the Commissioner for non-objection or comment by the deadline specified in the preceding subparagraph. Within 30 days from receipt of non-objection or any comments from the Deputy Regional Director and the Commissioner: (i) the Bank shall incorporate and adopt all such comments into the Revised Capital Plan; (ii) the Board shall review and approve the Revised Capital Plan as so revised, which approval shall be recorded in the minutes of the Board meeting; and (iii) the Bank shall implement and fully comply with the Revised Capital Plan.

(h) On no less than a monthly basis, the Board shall review the Bank’s adherence to the Definitive Capital Plan, and where appropriate any Revised Capital Plan, and a record of each such review shall be recorded in the minutes of the Board meeting. Copies of the reviews and updates shall be submitted to the Deputy Regional Director and the Commissioner as part of the Progress Reports required by paragraph 14 of this ORDER.

### **DIVIDEND RESTRICTION**

5. The Bank shall not declare or pay any dividend without the prior written consent of the Deputy Regional Director and the Commissioner.

### **GROWTH RESTRICTIONS**

6. During any quarterly period, the Bank shall not increase the dollar volume of Secondary Market Mortgage Loan Originations by more than 5% from the corresponding quarterly period of the year prior, as reported in the Call Report. The Bank shall not exceed the 5% limit on the dollar volume of Secondary Market Mortgage Loan Originations without the prior written consent of the Deputy Regional Director and the Commissioner. For the purposes of this Paragraph 6, "Secondary Market Mortgage Loan Originations" means mortgage loan assets reported in items 1 and 2 of Call Report Schedule RC-P.

### **EXECUTIVE COMPENSATION**

7. Within 90 days of the effective date of this ORDER, the Bank shall create an executive compensation plan, addressing any and all salaries, bonuses and other benefits of every kind or nature whatsoever, both current and deferred, whether paid directly or indirectly, which plan incorporates qualitative as well as profitability performance standards for the Bank's senior executive officers within the meaning of 12 C.F.R. § 303.101(b). The Executive Compensation Plan shall comply with the guidelines set forth in 12 C.F.R. Part 364, Appendix A.

### **LIQUIDITY AND FUNDS MANAGEMENT**

8. (a) The Bank shall attain and maintain an adequate level of liquidity and shall manage its funding and liquidity risk in a safe and sound manner that conforms to all applicable laws and regulations (including 12 C.F.R. § 337.6) and is consistent with all applicable regulatory guidance, including the *Interagency Policy Statement on Funding and Liquidity Risk Management* (distributed

by FDIC FIL-13-2010), which supplements the FDIC's guidance on Liquidity Risk Management (distributed by FIL-84-2008).

(b) Within 120 days from the effective date of this ORDER, the Bank shall: (i) revise the written liquidity and funds management plan submitted on October 30, 2015 to strengthen and maintain adequate funds to meet the Bank's liquidity needs ("Liquidity Plan"); (ii) obtain Board approval of the Liquidity Plan, which approval shall be recorded in the minutes of the Board meeting; and (iii) implement the Board-approved Liquidity Plan.

(c) The Liquidity Plan shall include, at a minimum, provisions that:

- (i) provide a statement of the Bank's long-term and short-term liquidity needs and plans for ensuring that such needs are met;
- (ii) provide for a quarterly review of the Bank's deposit structure, including the volume and trend of total deposits and the volume and trend of the various types of deposits offered, the maturity distribution of time deposits, rates being paid on each type of deposit, rates being paid by trade area competition, caps on listing service deposits, large time deposits, public funds, out-of-area deposits, and any other information needed;
- (iii) address the means by which the Bank will seek to reduce its reliance on non-core funding and high cost rate-sensitive deposits;
- (iv) identify the sources and uses of borrowed and volatile funds;
- (v) identify back-up lines of credit that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved to be inadequate;
- (vi) provide for the retention of securities and/or other identified categories of investments that can be liquidated within one day in amounts sufficient (as a

percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives;

- (vii) define contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;
- (viii) address the use of borrowings (*i.e.*, seasonal credit needs, match funding mortgage loans) and provide for reasonable maturities commensurate with the use of the borrowed funds; address concentration of funding sources; and address pricing and collateral requirements with specific allowable funding channels (*i.e.*, brokered deposits, internet deposits, Fed funds purchased and other correspondent borrowings); and
- (ix) comply with the regulatory guidance referenced in subparagraph (a) (see FIL-84-2008 and FIL-13-2010).

#### INTEREST RATE RISK

9. (a) Within 120 days from the effective date of this ORDER, the Bank shall: (i) develop and submit for review an interest rate risk policy and procedures ("IRR Policy"); (ii) obtain Board approval of the IRR Policy, which approval shall be recorded in the minutes of the Board meeting; (iii) implement the Board-approved IRR Policy; and (iv) submit the Board-approved IRR Policy to the Deputy Regional Director and the Commissioner.

(b) The IRR Policy shall include, at a minimum:

- (i) measures designed to control the nature and amount of interest rate risk the Bank takes, including those that specify risk limits and define lines of responsibilities and authority for managing risk;
- (ii) a system for identifying and measuring interest rate risk;

- (iii) a system for monitoring and reporting risk exposures; and
- (iv) a system of internal controls, review, and audit to ensure the integrity of the overall risk management process.

(b) The IRR Policy shall address the exceptions noted by the FDIC and Division, comply with the Federal Financial Institutions Examination Council's ("FFIEC") *Advisory on Interest Rate Risk Management* (dated January 6, 2010) (an attachment to FIL-2-2010, issued January 20, 2010), the FFIEC's *Supervisory Policy Statement on Investment Securities and End-User Derivative Activities* (FIL-45-98, issued April 28, 1998), and the *Joint Agency Policy Statement on Interest Rate Risk* (FIL-52-96, issued July 12, 1996).

#### **BROKERED DEPOSITS**

10. (a) The Bank shall not accept, renew, or rollover any "brokered deposit," as defined at 12 C.F.R. § 337.6(a)(2), unless and until the Bank has applied for and been granted a waiver by the Deputy Regional Director (or other appropriate FDIC official) in accordance with the provisions of 12 C.F.R. §§ 337.6(b)(2) and 337.6(c).

(b) The Bank shall comply with the restrictions on the effective yields on deposits described in section 337.6 of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6.

#### **RESTRICTIONS PURSUANT TO 12 C.F.R. PART 359**

11. The Bank must comply with the requirements of 12 C.F.R. Part 359, and, therefore, except with the prior written consent of the Deputy Regional Director (or other appropriate FDIC official), the Bank must not make (or enter into an agreement to make) a "golden parachute payment" or a "prohibited indemnification payment" (as those terms are defined at 12 C.F.R. § 359.1). The Bank and its Board must review the terms "golden parachute payment" and "prohibited indemnification payment" (as those terms are defined at 12 C.F.R. § 359.1) to ensure compliance with these requirements.

## HUMAN RESOURCES FUNCTION

12. (a) Within 90 days of the effective date of this Order, the Bank shall review the human resources policies and procedures ("Human Resources Policy") for adequacy and, based upon such review, shall make all appropriate revisions to the Human Resources Policy necessary to address the findings identified in the current Report of Examination.

(b) The Human Resources Policy shall, at a minimum:

(i) establish hiring practices, including background investigation procedures, consistent with the FDIC's *Statement of Policy for Section 19 of the FDI Act* to avoid hiring or permitting participation in the Bank's affairs by a person who has a conviction or program entry for a covered offense, as defined in Section 19 of the FDI Act;

(ii) provide procedures for mortgage loan originator licensing and registration and annual registration renewal to assure compliance with the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 ("SAFE Act");

(iii) identify the positions requiring SAFE Act training and the frequency of training;

(iv) develop descriptions of all employee positions;

(v) establish documentation standards for personnel files; and

(vi) develop standards for employee financial responsibility and guidelines for addressing non-compliance with the financial responsibility standards.

## INTERNAL AUDIT SYSTEM

13. (a) Within 120 days of the effective date of this Order, the Bank shall expand the internal audit system to ensure that its audit system, including its implementation, conforms to the standards set out in 12 C.F.R. Part 364, Appendix A.

(b) At a minimum, the Internal Audit System shall include:

(i) include a mechanism to track each audit and examination finding ("Audit and Examination Action Plan"); the action required to satisfactorily address each finding; the individuals responsible for each action; a target timeframe for completing each action; the status of completion of each action; and monthly review of the Audit and Examination Action Plan by the Board or Audit Committee;

(ii) a process for verification and review of management actions to address material weaknesses; and

(iii) procedures for employees to submit confidential and anonymous concerns to the Audit Committee about questionable accounting, internal accounting control, or auditing matters as well as procedures for timely investigation of complaints.

#### **BOARD OVERSIGHT**

14. (a) The entire Board shall monitor compliance with this ORDER.

(b) Within 45 days of the end of the first quarter following the effective date of this ORDER, and within 45 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Deputy Regional 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 Deputy Regional Director or the Commissioner. All progress reports and other written responses to this ORDER shall be reviewed by the Board of the Bank and made a part of the minutes of the Board meeting.

#### **DIRECTOR AND/OR SENIOR EXECUTIVE OFFICER CHANGES**

15. (a) The Bank shall comply with the requirements of 12 C.F.R. § 303.102. The Bank shall provide written notice to the Deputy Regional Director and the Commissioner of any additions of any members of its Board or any of its "senior executive officers" (as that term is defined in 12 C.F.R. § 303.101(b)). Any notification required by this Paragraph shall include a description of

the background and experience of any proposed replacement personnel and must be received at least 30 days prior to the individual(s) assuming the new position(s).

(b) The Bank shall provide written notice to the Deputy Regional Director and the Commissioner of any resignations or termination of any members of its Board or any of its "senior executive officers" within 5 days of the event.

**GENERAL PROVISIONS; ORDER EFFECTIVE**

16. The provisions of 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 other action against the Bank or any of the Bank's current or former institution-affiliated parties.

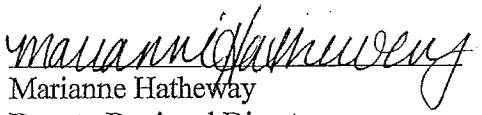
17. The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

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

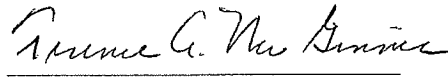
19. The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by joint action of the FDIC and the Division.

Issued on December 13, 2016

By:

  
Marianne Hatheway  
Deputy Regional Director  
Boston Area Office  
Federal Deposit Insurance Corporation

By:

  
Hon. Terence A. McGinnis  
Commissioner of Banks  
Commonwealth of Massachusetts  
Division of Banks