

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	
	)	
ISN BANK	)	ORDER TO CEASE AND DESIST
CHERRY HILL, NEW JERSEY	)	
	)	FDIC-07-215b
(INSURED STATE NONMEMBER BANK)	)	
	)	

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ISN BANK, CHERRY HILL, NEW JERSEY ("Insured Institution" or "Institution"), having been advised of its right to a Notice of Charges and of Hearing detailing the unsafe or unsound banking practices, violations of law and regulation alleged to have been committed by the Insured Institution and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated December 19, 2007, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and regulation by an order granting an application, the Insured Institution consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Insured Institution had engaged in

unsafe or unsound banking practices and had committed violations of law and/or regulation. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED that the Insured Institution, its directors, officers, employees, agents and other 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 engaging in the unsafe or unsound banking practices and committing the violations of law and regulation specified below:

(a) operating with inadequate management supervision and oversight by the Institution's Board of Directors ("Board of Directors") to prevent unsafe or unsound practices and violations of law and regulation;

(b) failing to provide the Insured Institution with adequate management and staff who have the experience that is adequate to ensure safe and sound operation of the Insured Institution and to ensure compliance with applicable laws and regulations;

(c) operating with an unrealistic business/strategic plan;

(d) operating with an unrealistic budget/profit plan;

(e) operating with an excessive level of adversely classified assets;

(f) operating with an excessive level of delinquent loans;

(g) operating with inadequate loan policies, processes and procedures, and an inadequate loan review program;

(h) operating with an unsatisfactory level of capital in relation to the kind and quality of assets held by the Insured Institution;

(i) operating the Insured Institution in such a manner as to produce unsatisfactory earnings;

(j) operating with excessive concentration of credit in its construction loan portfolio;

(k) operating with an inadequate Allowance for Loan and Lease Losses;

(l) operating with inadequate audit policies, processes and procedures; and

(m) operating in violation of applicable Federal and State laws and regulations, as more fully set forth in the October 2, 2006 Safety & Soundness Report of Examination ("Report of Examination") of the Insured Institution by the FDIC and New Jersey Department of Banking and Insurance ("Department").

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

CORRECTION AND PREVENTION

1. Within 30 days from the effective date of this ORDER, the Institution shall take steps necessary, consistent with sound banking practices, to eliminate and/or correct all violations of laws, rules and regulations identified in the Report of Examination issued by the FDIC and Department. In addition, the Institution shall take all necessary steps to ensure future compliance with all applicable laws, rules and regulations.

ASSESSMENT OF MANAGEMENT AND STAFF

2. (a) Within 60 days from the effective date of this ORDER, the Board of Directors shall engage an independent third party acceptable to the Regional Director that possesses the appropriate expertise and qualifications to analyze and assess the Institution's management and staffing needs. The engagement shall require that the analysis and assessment shall be summarized in a written report to the Board of Directors("Management Report"), which at a minimum shall:

- i. identify the type and number of officer positions needed to manage and supervise the affairs of the Insured Institution, detailing any vacancies and additional needs giving appropriate consideration

to the size and complexity of the Insured Institution;

- ii. identify the type and number of staff positions needed to carry out the Strategic Plan described in paragraph 16 of this ORDER, detailing any vacancies and additional needs;
- iii. identify the authorities, responsibilities, and accountabilities attributable to each position, as well as the appropriateness of the authorities, responsibilities, and accountabilities, giving due consideration to the relevant knowledge, skills, abilities, and experience of the incumbent (if any) and the existing or proposed compensation;
- iv. present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary for each position, including delegations of authority and performance objectives;
- v. establish a plan to recruit and retain qualified personnel consistent with the Management Report's analysis and assessment of the Insured Institution's management and staffing needs;
- vi. identify training and development needs and present a plan to provide such training and development to the appropriate personnel; and

- vii. present procedures to provide for an annual review and update of the Management Plan, including a review and assessment of the performance of each officer and staff member.

The engagement also shall require that on the date the Management Report is delivered to the Board, a copy of the Management Report shall be delivered simultaneously to the Regional Director and the Commissioner of Banking and Insurance of the State of New Jersey ("Commissioner").

(b) The Insured Institution shall provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the third party before it is executed. The contract or engagement letter shall, at a minimum, include:

- (i) a description of the work to be performed under the contract or engagement letter, the fees for each significant element of the engagement, and the aggregate fee;
- (ii) the responsibilities of the firm or individual;
- (iii) the 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;
  - (viii) a provision for unrestricted access to work papers of this third party by the FDIC and State Regulator; and
  - (ix) a certification that the firm or individual is not affiliated in any manner with the Insured Institution.

(c) Within 30 days of receipt of the Management Report, the Board of Directors will develop a written plan that incorporates the findings of the Management Report, a plan of action in response to each recommendation contained in the Management Report, and a time frame for completing each action (the "Management Plan"). A copy of the Management Plan and any subsequent modification thereto shall be submitted within five (5) days after preparation and/or modification, of the Management Plan to the Regional Director and the Commissioner. Within 30 days from receipt of any comment from the Regional Director, and after consideration of such comment, the Board of Directors shall approve the Management Plan, which approval shall be recorded in the minutes of the next meeting of the Board of Directors.

Thereafter, the Insured Institution and its directors, officers and employees shall implement and follow the Management Plan and any modifications thereto. It shall remain the responsibility of the Board of Directors to fully implement the Management Plan within the specified time frames. In the event the Management Plan, or any portion thereof, is not implemented, the Board of Directors shall immediately advise the Regional Director and the Commissioner in writing of the specific reasons for deviating from the Management Plan.

3. (a) The Insured Institution shall have and retain qualified management and adequate staffing, including, but not limited to, a President and a Senior lending officer, with the requisite knowledge, skills, ability, and experience, giving consideration to the size and complexity of the Institution, to operate the Institution in a safe and sound manner, and in compliance with applicable laws and regulations, and restore the Institution to a satisfactory financial condition. Each member of management shall be provided appropriate written authority from the Institution's Board of Directors to implement the provisions of this ORDER.

(b) To facilitate having and retaining qualified management and adequate staffing, the Insured Institution shall recruit and hire and/or retain management and staffing as required by the Management Plan in paragraph 2(c).

(c) During the life of this ORDER, the Insured

Institution shall provide written notification to the Regional Director and the Commissioner of the resignations or terminations of any of its Senior Executive Officers, as defined by 12 C.F.R. § 303.101(b), or members of the Board of Directors within fifteen days of the event. The Insured Institution shall also establish procedures to ensure compliance with section 32 of the Federal Deposit Insurance Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC's Rules and Regulations, 12 C.F.R. §§ 303.100 - 303.103. In addition, the Insured Institution shall provide written notification to the Regional Director and the Commissioner of any proposed new Senior Executive Officer or member of the Board of Directors at least 30 days prior to the date such proposed Senior Executive Officer or Board member is to begin service; such notification shall include a description of the background and experience of the proposed Senior Executive Officer or Board member. Such changes will only be effective upon receipt of the approval of the Regional Director.

4. (a) Within 30 days from the effective date of this ORDER, the Board of Directors shall develop a written analysis and assessment ("New Directors' Plan") to determine the number of new directors to be added to the Board of Directors. The New Directors' plan shall indicate the rationale for the number of new directors to be added to the Board of Directors and require that a majority of the new directors be independent with respect to the Insured Institution.

(b) For purposes of this ORDER, an individual who is "independent with respect to the Insured Institution" shall be any individual who:

- (i) is not employed in any capacity by the Insured Institution, other than as a director;
- (ii) does not own or control more than 5 percent of the outstanding shares of the Insured Institution; and
- (iii) is not related by blood or marriage to an officer or director of the Insured Institution or to any shareholder owning more than 5 percent of the outstanding shares of the Insured Institution, and who does not otherwise share a common financial interest or business relationship with such officer, director or shareholder.

(c) Within 60 days after approval by the Board of Directors of the New Directors' Plan, the Insured Institution shall add new directors to the Board of Directors in accordance with paragraphs 4(a) and 4(b).

(d) The addition of any new director required by this paragraph may be accomplished, to the extent permissible by state statute or the Insured Institution's by-laws, by means of appointment or election at a regular or special meeting of the Insured Institution's shareholders. The Insured Institution shall cause its articles of incorporation or by-laws or other

governing corporate instrument to be amended to reflect the action required by this paragraph.

CAPITAL

5. (a) Within 45 days of the effective date of this ORDER, the Board shall develop a capital plan to achieve and maintain Tier 1 capital (as defined in Part 325 of the FDIC's Rules and Regulations) at least equal to 7.5 percent, after establishing adequate allowance for loan and lease losses. Approval of the plan shall be recorded in the minutes of the meetings of the Board of Directors and a copy of the capital plan shall be submitted immediately to the Regional Director and the Commissioner. Thereafter, the Institution shall implement and fully comply with the capital plan.

(b) In the event that the Tier 1 capital ratio falls below the established minimum, the Insured Institution shall immediately notify the Regional Director and the Commissioner; and, in accordance with the Institution's capital plan, shall achieve and maintain the established minimum within the following timeframe:

- (i) within 45 days of such notification to the Regional Director and the Commissioner, the Institution shall increase Tier 1 capital at least equal to 7.0 percent; and

- (ii) within 90 days of such notification, the Institution shall increase Tier 1 capital at least equal to 7.5 percent.

6. (a) Any increase in capital necessary to meet the requirements of the provisions of this paragraph may be accomplished by the following:

- (i) the sale of new securities in the form of common stock;
- (ii) the sale of noncumulative perpetual preferred stock;
- (iii) the direct contribution of cash by the directors or shareholders of the Insured Institution; or
- (iv) any other method acceptable to the FDIC and approved in advance in writing by the Regional Director.

(b) No increase in Tier 1 capital necessary to meet the requirements of this ORDER may be accomplished through a deduction from the Institution's allowance for loan and lease losses or other reserve accounts. Further, the Insured Institution shall not lend funds directly or indirectly, whether secured or unsecured, to any purchaser of institution or affiliate stock or other securities, or to any investor by any other means for any portion of any increase in Tier 1 capital required herein.

7. (a) If all or part of the increase in capital required by the provisions of this paragraph is accomplished by the sale of new securities, the Board of Directors of the Insured Institution shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Insured Institution's securities (including a distribution limited only to the Insured Institution's existing shareholders), the Insured Institution shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Insured Institution and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with the Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 15 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the Regional Director, the Commissioner, and FDIC, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17<sup>th</sup> Street, N.W., Room F-6043 , Washington, D.C. 20429 and the New Jersey Department of Banking and Insurance, 20 West Street, Trenton, New Jersey 08625. Any changes requested by the FDIC to be made in the plan or materials shall be made prior to their dissemination. If the Regional Director allows any part

of the increase in Tier 1 capital to be provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to the interest rate and any convertibility factor, shall be presented to the Regional Director for prior approval.

(b) In complying with the provisions of this paragraph, the Insured Institution shall provide to any subscriber and/or purchaser of the Insured Institution's securities written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Institution securities. The written notice required by this paragraph shall be furnished within 10 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Insured Institution's securities who received or was tendered the information contained in the Institution's original offering materials.

(c) 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.

CONCENTRATION OF ASSETS

8. (a) Within 60 days from the effective date of this ORDER, the Insured Institution shall establish a mechanism to identify existing and potential concentrations of credit exceeding 25 percent of the Institution's Tier 1 capital on any date. The Board of Directors shall regularly review such existing and potential concentrations of credit. The Insured Institution shall also develop and submit a written plan to the Regional Director and the Commissioner for systematically reducing and monitoring the Institution's portfolio of loans, securities, or other extensions of credit advanced or committed, directly or indirectly, to or for the benefit of any borrowers in construction loans (the "concentration plan") as listed on page 40 in the Report of Examination, to an amount which is commensurate with the Insured Institution's business strategy, management expertise, size, and location. At a minimum, the concentration plan shall be approved by the Board of Directors and include:

- (i) dollar levels and percent of capital to which the Insured Institution shall reduce each concentration;
- (ii) time frames for achieving the reduction in dollar levels identified in response to (i) above;
- (iii) provisions for the submission of monthly written progress reports to the Insured

Institution's Board of Directors for review and notation in minutes of the meetings of the Board of Directors ("Board minutes"); and

- (iv) procedures for monitoring the Insured Institution's compliance with the plan.

#### CLASSIFIED ASSETS

9. (a) Within 10 days from the effective date of this ORDER, the Insured Institution shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" and 50 percent of all assets or portions of assets classified "Doubtful" in the Report of Examination that have not been previously collected or charged off. If an asset classified "Doubtful" is a loan or a lease, the Insured Institution may, in the alternative, increase its allowance for loan and lease losses by an amount equal to 50 percent of the loan or lease classified "Doubtful".

(b) Additionally, as long as this ORDER remains in effect, within 30 days after the receipt of any future Report of Examination of the Insured Institution from the FDIC and/or Department, the Insured Institution shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" and 50 percent of all assets or portions

of assets classified "Doubtful" in the Report of Examination that have not been previously collected or charged off. If an asset classified "Doubtful" is a loan or a lease, the Insured Institution may, in the alternative, increase its allowance for loan and lease losses by an amount equal to 50 percent of the loan or lease classified "Doubtful".

(c) Elimination or reduction of assets through proceeds of other loans made by the Institution is not considered collection for purposes of this provision.

10. (a) Within 90 days from the effective date of this ORDER, the Insured Institution shall formulate a written plan to reduce the Institution's risk exposure in each asset in excess of \$250,000 classified "Substandard" or "Doubtful" or listed for "Special Mention" in the Report of Examination. For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification or Special Mention by the FDIC and the Department.

In developing the plan mandated by this paragraph, the Insured Institution shall, at a minimum, and with respect to each adversely classified or Special Mention loan or lease:

- (i) review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources;
- (ii) evaluate the value and accessibility of any

- pledged or assigned collateral, and any possible actions to improve the Insured Institution's collateral position;
- (iii) prepare a schedule for reducing the outstanding dollar amount of each adversely classified asset, including timeframes for achieving the reduced dollar amounts (at a minimum, the schedule for each adversely classified asset must show its expected dollar balance on a semi-annual basis);
- (iv) develop specific action plans intended to reduce the Insured Institution's risk exposure in each classified asset; and weaknesses identified in loans listed for Special Mention;
- (v) prepare a schedule showing, on a quarterly basis, the expected consolidated balance of all adversely classified assets, and the ratio of the consolidated balance to the Insured Institution's projected Tier 1 capital plus the allowance for loan and lease losses;
- (vi) contain a provision for the Insured Institution's submission of monthly written progress reports to its Board of Directors;

and

- (vii) contain a provision mandating review by the Board of Directors of the progress reports, with a notation of the review recorded in the Board minutes.

(b) The plan mandated by this provision shall further require a reduction in the aggregate balance of assets classified "Substandard" and "Doubtful" in the Report of Examination in accordance with the following schedule. For purposes of this paragraph, "number of days" means number of days from the effective date of this ORDER.

- (i) Within 180 days, to not more than 65 percent of Tier 1 capital plus the allowance for loan and lease losses as determined at the end of the 180 day period.

- (ii) Within 1 year, to not more than 40 percent of Tier 1 capital plus the allowance for loan and lease losses as determined at the end of the year.

(c) The requirements of this paragraph do not represent standards for future operations of the Insured Institution. Following compliance with the above reduction schedule, the Insured Institution shall continue to reduce the

total volume of adversely classified assets. The plan may include a provision for increasing Tier 1 capital when necessary to achieve the prescribed ratio.

(d) The Insured Institution shall immediately submit the plan to the Regional Director and the Commissioner. Within 30 days from receipt of any comment from the Regional Director, and after due consideration of any recommended changes, the Insured Institution shall approve the plan, which approval shall be recorded in the Board minutes. Thereafter, the Insured Institution shall implement and fully comply with the plan.

(e) The Insured Institution shall send quarterly progress reports on the status of each criticized asset equal to or exceeding \$250,000 to the Regional Director and the Commissioner as part of the Progress Reports required by paragraph 21.

(f) Additionally, as long as this ORDER is in effect the requirements of this paragraph shall apply to any future Report of Examination of the Insured Institution issued by the FDIC and/or the Department.

11. (a) While this ORDER is in effect, the Insured Institution shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit or obligation with the Institution that has been, in whole or in part, charged off or classified "Loss".

(b) While this ORDER is in effect, the Insured Institution shall not make any further extensions of credit, directly or indirectly, to any borrower whose loans are adversely classified "Substandard" or "Doubtful" or listed as "Special Mention" by the FDIC and/or the Department, without prior approval by the Insured Institution's Board of Directors. The Insured Institution's Board of Directors shall not approve the proposed extension without first making affirmative determination that:

- (i) The extension of credit is in full compliance with the Institution's loan policy;
- (ii) The extension of credit is necessary to protect the Insured Institution's interests, or is adequately secured;
- (iii) The Insured Institution found the primary and secondary obligors to be creditworthy based on a credit analysis;
- (iv) An appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended; and
- (v) All necessary loan documentation is on file, including, at a minimum, current financial and cash flow information, and

satisfactory appraisal, title and lien documents.

(c) The affirmative determination shall be recorded in the Board minutes, with a copy retained in the borrowers' credit files.

MAINTENANCE OF ALLOWANCE FOR LOAN & LEASE LOSSES

12. (a) Within 30 days from the effective date of this ORDER, the Board of Directors shall establish a comprehensive policy and methodology for determining the adequacy of the allowance. For the purpose of this determination, the adequacy of the allowance shall be determined after the charge-off of all loans or other items classified "Loss". The policy shall provide for a review of the allowance at least once each calendar quarter and be completed at least 10 days prior to the end of each quarter in order that the results of the review conducted by the of Directors may be properly reported in the quarterly Reports of Condition and Income. Such reviews shall, at a minimum, include the following:

- (i) the Federal Financial Institutions Examination Council's Instructions for the Reports of Condition and Income, the Interagency Statement of Policy on the Allowance for Loan and Lease Losses, other

applicable regulatory guidance that addresses the adequacy of the Institution's allowance, and any analysis of the Insured Institution's allowance provided by the FDIC and the Department;

- (ii) the volume and mix of the overall loan portfolio, including trends in the portfolio mix by loan type and geography, trends in the severity of nonperforming or delinquent loans, trends in the severity of weaknesses in extensions of credit identified as "Special Mention" and adversely classified in the latest Report of Examination;
- (iii) the previous loan loss experience by loan type,
- (iv) the degree of risk associated with renewed and extended loans;
- (v) the volume, trend, rate and duration of loan growth;
- (vi) the results of internal loan reviews;
- (vii) concentrations of credit and significant individual credits;
- (viii) present and prospective economic conditions, generally and locally;

- (ix) off-balance sheet credit risks; and
- (x) any other factors appropriate in determining future allowances, including changes in the Insured Institution's strategic plan, and loan products and markets.

(b) A deficiency in the allowance 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 Insured Institution's submission of its Report of Condition and Report of Income. The Board of Directors shall thereafter maintain an adequate allowance.

(c) The Board minutes for the meeting at which such review is undertaken shall indicate the results of the review.

(d) The Insured Institution's policy for determining the adequacy of the ALLL and its implementation shall be satisfactory to the FDIC and the Department as determined at subsequent examinations and/or visitations.

13. (a) Within 90 days after the effective date of this ORDER, the Insured Institution shall formulate a written plan for the reduction and collection of delinquent loans. For purposes of this provision, "reduce" means to charge-off, collect, or bring payments current. The plan shall include, but not be limited to, provisions which:

- (i) prohibit the extension of credit for the payment of interest or fees;
- (ii) delineate responsibilities for implementing and monitoring the Insured Institution's collection policies;
- (iii) establish specific collection actions and procedures to be instituted at various stages of a borrower's delinquency;
- (iv) establish specific dollar levels to which the total dollar volume of delinquencies will be reduced within six and twelve months from the effective date of this ORDER; and
- (v) provide for the submission of monthly written progress reports to the Insured Institution's Board of Directors for review and notation in the Board minutes.

Additionally, any exceptions to the written plan for the reduction and collection of delinquent loans shall be

supported by a detailed written statement by the Board of Directors giving the reasons why such exception is in the best interest of the Bank. A copy of such statement shall be placed in the appropriate loan file and shall be incorporated in the Board minutes.

(b) Within 180 days of the effective date of this ORDER, the Board of Directors shall reduce the number and volume of delinquent and non-accrual loans to not more than 5 percent of gross loans. The Board of Directors shall submit reports monthly to the FDIC and the Department that reflect loan delinquency levels, ratios and trends three days after the Board's monthly meeting.

#### LOAN POLICY

14. (a) Within 60 days from the effective date of this ORDER, and annually thereafter, the Board of Directors of the Insured Institution shall review the Insured Institution's loan policies and procedures for adequacy and, based upon this review, shall make all appropriate revisions to the policies and procedures necessary to strengthen the Insured Institution's asset quality and lending functions and to prevent further deterioration. As required by this paragraph, the Insured Institution's loan policies shall be enhanced to include, at a minimum, provisions that:

(i) establish lending limits for each officer,

including limitations on the aggregate level of credit to any one borrower that can be granted without the prior approval of the Insured Institution's loan committee;

- (ii) establish review and monitoring procedures to ensure that all lending personnel are adhering to established lending procedures, and that the directorate is receiving timely and fully documented reports on loan activity, including reports that identify deviations from established policy and the loan officers responsible for the deviations;
- (iii) require that for all extensions of credit originated or renewed by the Insured Institution, including loans purchased from a third party (loan participations):
  - a. have a clearly defined and stated purpose;
  - b. have a predetermined and realistic repayment source and schedule, including secondary source of repayment;
  - c. are supported by complete loan and collateral documentation, including lien

searches, perfected security interests, and collateral valuations; and

- d. are supported by current financial information, profit and loss statements or copies of tax returns, and cash flow projections, which information shall be maintained throughout the term of the loan; and are otherwise in conformance with the Insured Institution's lending policies and procedures;
- (iv) require that extensions of credit to any of the Insured Institution's executive officers, directors, or principal shareholders, or to any related interest of such person, be reviewed for compliance with all applicable provisions of 12 C.F.R. Part 215 ("Regulation O") and Part 337 of the FDIC's Rules and Regulations, 12 C.F.R. Part 337;
- (v) address concentrations of credit and diversification of risk, including goals for portfolio mix, establishment of limits within loan and other asset categories, and development of a tracking and monitoring system for the economic and financial

- condition of specific geographic locations, industries, and groups of borrowers;
- (vi) establish review and monitoring procedures for compliance with the FDIC's appraisal regulation, 12 C.F.R. Part 323;
  - (vii) require loan committee review and monitoring of the status of repayment and collection of overdue and maturing loans; and
  - (viii) establish an effective "loans to one borrower" report that lists direct and indirect obligations of borrowers and guarantors, displaying borrowing relationships in dollar volume order with the largest relationships listed first, and which shall be monitored by Bank management to identify any existing or potential concentrations of credit.

(b) The Insured Institution shall approve the policy, with its approval recorded in the Board minutes. The policy and its implementation shall be in a form and manner acceptable to the Regional Director and Commissioner as determined at subsequent examinations and/or visitations.

LOAN REVIEW

15. (a) Within 30 days of the effective date of this ORDER, the Board of Directors shall develop a program of independent loan review that will provide for a periodic review of the Insured Institution's loan portfolio and the identification and categorization of problem credits. At a minimum, the system shall provide for:

- (i) prompt identification of 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) assessment of the overall quality of the loan portfolio;
- (iii) the identification and amount of each delinquent loan;
- (iv) identification of credit and collateral documentation exceptions and an action plan to address the identified deficiencies;
- (v) identification and status of violations of laws, rules, or regulations with respect to the lending function and an action plan to

- address the identified violations;
- (vi) identification of loans that are not in conformance with the Insured Institution's lending policy and an action plan to address the identified deficiencies;
  - (vii) identification of loans to directors, officers, principal shareholders, and their related interests; and
  - (viii) a mechanism for reporting periodically, but in no event less than quarterly, to the Board of Directors on the status of each problem loan identified and the action(s) taken by management with respect to problem credits.

(b) A written report of the Insured Institution's internal loan review shall be submitted to the Board of Directors quarterly, as well as documentation of the action taken by the Insured Institution to collect or strengthen assets identified as problem credits. The quarterly internal loan review and grading report shall be kept with the Board minutes.

#### STRATEGIC PLAN

16. (a) Within 60 days from the effective date of this ORDER, the Board of Directors shall formulate a comprehensive

written business/strategic plan covering an operating period of at least three years for the Insured Institution ("Strategic Plan"). The Strategic Plan shall contain an assessment of the Insured Institution's current financial condition and market area along with a description of the operating assumptions that form the basis for major projected income and expense components of the assessment.

(b) The Strategic Plan shall include short term goals and operating plans to comply with the terms of this ORDER and correct all regulatory criticisms, intermediate goals and project plans, and long-range goals and project plans. Additionally, the Strategic Plan shall, at a minimum, include:

- (i) strategies for pricing policies and asset/liability management;
- (ii) anticipated average maturity and average yield on loans and securities, average maturity and average cost of deposits, the level of earning assets as a percentage of total assets and the ratio of net interest income to average earning assets;
- (iii) dollar volume of total loans, total investment securities and total deposits;
- (iv) plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;

- (v) financial goals including pro forma statements for asset growth, capital adequacy and earnings; and
- (vi) formulation of a mission statement and the development of a strategy to carry out that mission.

(c) The Insured Institution shall submit the Strategic Plan within 5 days of adoption to the Regional Director and Commissioner. Within 30 days after the receipt of any comment from the Regional Director and after due consideration of any recommended changes, the Insured Institution shall approve the revised Strategic Plan, which approval shall be recorded in the minutes of the next meeting of the Board of Directors.

(d) The Insured Institution shall implement and fully comply with the Strategic Plan after completion of the requirements of paragraph 16(c) above.

#### PROFIT AND BUDGET PLAN

17. (a) Within 60 days from the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the Board of Directors shall develop and fully implement a written plan consisting of goals and strategies, consistent with sound banking practices, and taking into account the Insured Institution's other written plans, policies, or other

actions required by this Order (the "Profit Plan"). The Profit Plan shall, at a minimum, include:

- (i) identification of the major areas in and means by which the Board of Directors will seek to improve the Insured Institution's operating performance;
- (ii) 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;
- (iii) realistic and comprehensive budgets for all categories of income and expense items;
- (iv) a description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components;
- (v) coordination of the Insured Institution's loan, investment, funds management, and operating policies; strategic plan; and ALLL methodology with the profit and budget planning;
- (vi) a budget review process to monitor the revenue and expenses of the Insured Institution whereby actual performance is

compared against budgetary projections not less than quarterly; recording the results of the evaluation and any actions taken by the Insured Institution in the minutes of the meeting of the Board of Directors at which such evaluation is undertaken; documenting reasons for any significant variances on not less than a quarterly basis; and

- (vii) individual(s) responsible for implementing each of the goals and strategies of the Profit Plan.

(b) The Insured Institution shall submit the Profit Plan and any subsequent modification to the Regional Director and Commissioner. Within 30 days from receipt of any comment from the Regional Director and after due consideration of any recommended changes, the Insured Institution shall approve the Profit Plan, which approval shall be recorded in the minutes of the next meeting of the Board of Directors.

(c) The Insured Institution shall implement and fully comply with the Profit Plan after completion of the requirements of paragraph 17(b) above.

(d) Copies of the quarterly reports required by paragraph 17(a)(vi) shall be submitted to the Regional Director and the Commissioner by the 30<sup>th</sup> day after the end of the calendar

quarter following the effective date of this ORDER, and by the 25<sup>th</sup> day after the end of every calendar quarter, thereafter.

AUDIT PROGRAM

18. (a) Within 90 days from the effective date of this ORDER, the Board of Directors shall provide for an effective external and independent internal audit program ("Audit Program") that includes, but is not limited to the following:

- (i) regular Audit Committee meetings of adequate frequency, but in no event less than once each calendar quarter;
- (ii) audit practices that are consistent with generally accepted auditing standards;
- (iii) completion of an internal audit plan each calendar year that is reviewed and approved by the Audit Committee of the Board;
- (iv) provisions that ensure the adequacy of the scope and independence of internal audits;
- (v) annual risk assessments to ensure that internal audits of critical or high-risk

areas are performed with reasonable frequency;

- (vi) assignment of ratings or expression of opinion as to the adequacy, effectiveness, and efficiency of the internal control environment of each function reviewed in each internal audit report;
- (vii) external audit program that conforms to the Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations;
- (viii) submission of formal written internal audit reports and external audit reports to the Audit Committee of the Board;
- (ix) provisions for management to respond to audit findings and implementation of corrective actions;
- (x) provisions for an adequate formal tracking and monitoring system for exceptions identified at internal audits or external audits and regulatory examinations; and
- (xi) provisions to ensure adequate audit coverage in all areas.

(b) The minutes of the meetings of the Board of Directors shall reflect consideration of the audit reports provided to the Board of Directors in accordance with the Audit Program and describe any discussions or action taken as a result thereof.

(c) The Audit program shall be implemented and maintained in a manner that is acceptable to the Regional Director and Commissioner as determined at subsequent examinations.

19. During the life of this ORDER, the Insured Institution shall forward copies of any external audit reports, along with the engagement letter, management letter regarding internal control deficiencies and any Insured Institution response, to the Regional Director and the Commissioner within 10 days from the Insured Institution's receipt of such documents.

#### COMPLIANCE COMMITTEE

20. Effective immediately the Insured Institution's Board of Directors shall appoint a committee ("Compliance Committee") composed of at least three directors who are not now, and have never been, involved in the daily operations of the Insured Institution, and whose composition is acceptable to the Regional Director and Commissioner, to monitor the Insured Institution's compliance with this ORDER. Within 30 days from the effective

date of this ORDER, and at monthly intervals thereafter, such Compliance Committee shall prepare and present to the Insured Institution's Board of Directors a written report of its findings, detailing the form, content, and manner of any action taken to ensure compliance with this ORDER and the results thereof, and any recommendations with respect to such compliance. Such progress reports shall be included in the Board meeting minutes. Nothing contained herein shall diminish the responsibility of the entire Board of Directors to ensure compliance with the provisions of this ORDER.

#### PROGRESS REPORTS

21. Within 30 days after the end of the month following the effective date of this ORDER, and within 25 days of the end of each quarter thereafter, the Insured Institution shall furnish written progress reports to the Regional Director and the Commissioner detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. This shall include the progress reports required by paragraphs 10(e) and 17(d) of this ORDER.

22. The Insured Institution shall notify the Regional Director and the Commissioner immediately of any material adverse development affecting its condition, performance, or outlook.

DIVIDEND RESTRICTIONS

23. While this ORDER is in effect, the Insured Institution shall not declare or pay any cash dividends without the prior written approval of the Regional Director.

BROKERED DEPOSITS

24. While this ORDER is in effect, the Insured Institution shall not accept, renew or rollover brokered deposits other than as and to the extent permitted pursuant to section 29 of the Act, 12 U.S.C. §1831f, as amended, and the FDIC's Rules and Regulations, including section 337.6, 12 C.F.R. § 337.6, as amended and supplemented. For the purposes of this ORDER, the term "brokered deposits" are defined in section 337.6(a)(2) of the FDIC's Rules and Regulations to include any deposits managed by a trustee or custodian when each individual beneficial interest is entitled to or asserts a right to federal deposit insurance.

SHAREHOLDERS

25. Following the effective date of this ORDER, the Insured Institution shall provide to its shareholders or otherwise

furnish a description of this ORDER, (i) in conjunction with the Insured Institution's next shareholder communication, and (ii) in conjunction with its notice or proxy statement preceding the Insured Institution'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, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17<sup>th</sup> Street, N.W., Room F-6043, Washington, D.C. 20429 and New Jersey Department of Banking and Insurance, 20 West Street, Trenton, New Jersey 08625, at least 20 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.

#### OTHER ACTIONS

26. It is expressly and clearly understood that if, at any time, the Regional Director shall deem it appropriate in fulfilling the responsibilities placed upon him or her under applicable law to undertake any further action affecting the Insured Institution, nothing in this ORDER shall in any way inhibit, estop, bar or otherwise prevent him or her from doing so, including, but not limited to, the imposition of civil money penalties.

27. It is expressly and clearly understood that nothing herein shall preclude any proceedings brought by the Regional Director to enforce the terms of this ORDER, and that nothing herein constitutes, nor shall the Insured Institution contend that it constitutes, a waiver of any right, power, or authority of any other representatives of the United States or agencies thereof, Department of Justice or any other representatives of the State of New Jersey or any other agencies thereof, including any prosecutorial agency, to bring other actions deemed appropriate.

ORDER EFFECTIVE

28. The effective date of this ORDER shall be the date of issuance.

29. The provisions of this ORDER shall be binding upon the Insured Institution, its directors, officers, employees, agents, successors, assigns, and other institution-affiliated parties of the Insured Institution.

30. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER have been modified.

Pursuant to delegated authority.

Dated: December 31, 2007.

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Doreen R. Eberley  
Regional Director