

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of )	ORDER TO CEASE AND DESIST
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ROYAL BANK AMERICA )	
NARBERTH, PENNSYLVANIA )	FDIC 09-282b
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(Insured State Nonmember Bank) )	
_____ )	

Royal Bank America, Narberth, Pennsylvania (“Bank”), through its board of directors, having been advised of its right to the issuance and service of a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1818(b), 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 July 15, 2009, whereby, solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices, the Bank 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 Bank had engaged in unsafe or unsound banking practices. The FDIC, therefore, accepts the CONSENT AGREEMENT and issues the following:

## **ORDER TO CEASE AND DESIST**

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

1. Operating the Bank with inadequate management, policies and practices that are detrimental to the Bank.
2. Operating the Bank without adequate supervision and direction by the Bank's board of directors over the management of the Bank to prevent unsafe or unsound banking practices.
3. Operating the Bank with an excessive level of adversely classified loans or assets.
4. Operating the Bank with an excessive level of delinquent loans.
5. Operating the Bank with an excessive level of nonaccrual loans.
6. Engaging in unsatisfactory lending and collection practices, including, but not limited to:
  - a. Insufficient monitoring and controls over receivable-based loans.
  - b. Excessive out-of-territory lending.
  - c. Over-reliance on real estate liquidation as a loan repayment source and over-reliance on guarantors' real estate net worth.
  - d. Operating with inadequate underwriting, loan-grading system and loan administration practices.
7. Operating the Bank with an inadequate level of capital protection for the kind and quality of assets held by the Bank.

8. Operating the Bank with inadequate earnings to fund growth and augment capital.
9. Operating the Bank with inadequate net interest margins.
10. Operating the Bank without adequate liquidity and funds management policies and procedures.
11. Operating with an inadequate investment policy.
12. Operating the Bank with a heavy reliance on non-core funding sources.
13. Operating the Bank with inadequate internal routines and controls.

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

**MANAGEMENT**

1. (a) The Bank shall have and retain qualified management. Each member of management shall possess qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management personnel shall be evaluated on their ability to:

- (1) comply with the requirements of this ORDER;
- (2) operate the Bank in a safe and sound manner;
- (3) comply with applicable laws and regulations; and
- (4) restore all aspects of the Bank to a safe and sound condition,

including improving the Bank's asset quality, capital adequacy, earnings, management effectiveness, and liquidity.

(b) While this ORDER is in effect, the Bank shall notify the Regional Director of the FDIC's New York Regional Office ("Regional Director") in writing of any changes of any member of the Bank's board of directors ("Board") or senior management officer

within 15 days of the event. Any notification required by this subparagraph shall include a description of the background(s) 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). The Bank shall also establish procedures to ensure compliance with section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. Part 303.

### **MANAGEMENT – BOARD SUPERVISION**

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

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

3. (a) Within 30 days after the effective date of this ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" by the FDIC and the Commonwealth of Pennsylvania Department of Banking in the Joint Report of Examination as of December 31, 2008 ("ROE"). Elimination or reduction of these assets through proceeds of loans made by the Bank shall not be considered "collection" for the purpose of this paragraph.

(b) Within 60 days after the effective date of this ORDER, the Bank shall

formulate and submit a detailed written plan to the Regional Director to reduce the remaining assets classified “Doubtful” and “Substandard” in the ROE. The plan shall address each asset so classified with a balance of \$1,000,000 or greater and provide the following:

- (1) the name under which the asset is carried on the Bank’s books;
- (2) type of asset;
- (3) actions to be taken in order to reduce the classified asset; and
- (4) timeframes for accomplishing the proposed actions.

The plan shall also include, at a minimum:

- (1) a review of the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and
- (2) an evaluation of the available collateral for each such credit, including possible actions to improve the Bank’s collateral position.

In addition, the plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the plan shall contain a provision requiring the submission of monthly progress reports to the Board and a provision mandating a review by the Board.

(c) The Bank shall submit the plan to the Regional Director for review and comment. Within 30 days after the Regional Director has responded to the plan, the Board shall adopt the plan as amended or modified by the Regional Director, which approval shall be recorded in the minutes of the Board meeting. The Bank shall then immediately initiate measures detailed in the plan to the extent such measures have not been initiated.

(d) For purposes of the plan, the reduction of adversely classified assets shall be detailed using quarterly targets expressed as a percentage of the Bank’s Tier 1 capital plus the

Bank's Allowance for Loan and Lease Losses and may be accomplished by charge-off; collection; sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC; or an increase in the Bank's Tier 1 capital.

(e) While this ORDER is in effect, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" as determined at any future examination.

### **REDUCTION OF DELINQUENCIES**

4. (a) Within 60 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director for review and comment a detailed written plan for the reduction and collection of delinquent loans. Such plan shall include, but not be limited to, provisions which:

(1) prohibit the extension of credit for the payment of interest, unless the Board adopts prior to such extension of credit a detailed written statement giving reasons why such extension of credit is in the best interests of the Bank and how it improves the position of the Bank. Copies of the statement approved by the Board shall be made a part of the Board minutes and placed in the appropriate loan file and submitted to the Regional Director with the quarterly progress reports required pursuant to paragraph 16 of this ORDER;

(2) delineate areas of responsibility for implementing and monitoring the Bank's collection policies;

(3) establish specific collection procedures to be instituted at various stages of a borrower's delinquency;

(4) establish dollar levels to which the Bank shall reduce delinquencies within 6 and 12 months from the effective date of this ORDER; and

(5) provide for the submission of monthly written progress reports to the Board for review and notation in the Board minutes.

(b) For purposes of the plan, “reduce” means to charge-off or collect.

(c) Within 30 days after the Regional Director has responded to the plan, the Board shall adopt the plan as amended or modified by the Regional Director. The plan shall be implemented immediately to the extent that the provisions of the plan are not already in effect at the Bank.

#### **RESTRICTION ON ADVANCES TO CLASSIFIED BORROWERS**

5. (a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose existing credit has been classified “Loss” in the ROE, either in whole or in part, and is uncollected, or to any borrower who is already obligated in any manner to the Bank on any extension of credit, including any portion thereof, that has been charged off the books of the Bank and remains uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing (after full collection, in cash, of interest due from the borrower) any credit already extended to the borrower.

(b) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose extension of credit is classified “Doubtful” and/or “Substandard” in the ROE, either in whole or in part, and is uncollected, unless the Board has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the best interests of the Bank. The statement shall

be placed in the appropriate loan file and included in the minutes of the applicable meeting of the Board.

**REDUCTION OF COMMERCIAL REAL ESTATE CONCENTRATIONS**

6. (a) Within 45 days from the effective date of this ORDER, the Bank shall develop and submit a written plan, acceptable to the Regional Director, for systematically reducing and monitoring the Bank's commercial real estate ("CRE") loan concentration of credit identified in the ROE to an amount which is commensurate with the Bank's business strategy, management expertise, size, and location. Such plan shall prohibit any advances that would increase the concentration unless the advance is pursuant to an existing loan agreement and shall include, but not be limited to:

(1) dollar levels and percent of capital to which the Bank shall reduce the concentration;

(2) timeframes for achieving the reduction in dollar levels in response to (1) above;

(3) compliance with the *Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices* (FIL-104-2006, issued December 12, 2006) and *Managing Commercial Real Estate Concentrations in a Challenging Environment* (FIL-22-2008, issued March 17, 2008);

(4) provisions for controlling and monitoring of CRE, including plans to address the rationale for CRE levels as they relate to growth and capital targets, segmentation and testing of the CRE portfolio to detect and limit concentrations with similar risk characteristics; and

(5) provisions for the submission of monthly written progress reports to



the Board for review and notation in minutes of the Board meetings.

(b) For purposes of the plan, “reduce” means to charge-off or collect, or increase Tier 1 capital.

(c) The Bank shall submit the plan to the Regional Director for review and comment. Within 30 days after the Regional Director has responded to the plan, the Board shall adopt the plan as amended or modified by the Regional Director, which approval shall be recorded in the minutes of the Board meeting. The plan shall be implemented immediately to the extent that the provisions of the plan are not already in effect at the Bank.

### **CAPITAL MAINTENANCE**

7. (a) Within 30 days after the effective date of this ORDER, and at all times thereafter while this ORDER is in effect, the Bank, after establishing an adequate Allowance for Loan and Lease Losses, shall increase and maintain its ratio of Tier 1 capital to total assets (“leverage ratio”) equal to or greater than 8 percent and its ratio of qualifying total capital to risk-weighted assets (“total risk-based capital ratio”) equal to or greater than 12 percent.

(b) If said capital ratios are less than required by this ORDER, as determined as of the date of any Report of Condition and Income or at any future examination, the Bank shall, within 30 days after notice of its capital deficiency, submit to the Regional Director a plan to increase its capital or to take such other measures to bring its leverage ratio and total risk-based capital ratio to the percentages required by this ORDER. After the Regional Director responds to the plan, the Board shall adopt the plan, including any modifications or amendments requested by the Regional Director.

(c) In addition, the Bank shall comply with the FDIC’s Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC Rules and Regulations, 12

C.F.R. Part 325, App. A.

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

### **BUDGET AND PROFIT PLAN**

8. (a) Within 60 days after the effective date of this ORDER, the Bank shall submit to the Regional Director for review and comment a written profit plan and a realistic, comprehensive budget for all categories of income and expense for the remainder of the year 2009. The plan required by this paragraph shall contain formal goals and strategies, be consistent with sound banking practices, reduce discretionary expenses, improve the Bank's overall earnings and net interest income, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) Within 45 days after the end of each calendar quarter following completion of the profit plan and budget required by this paragraph, the Board shall evaluate the Bank's actual performance in relation to the written profit plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the Board minutes when such evaluation is undertaken.

(c) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect and shall be submitted to the Regional Director for review and comment within 30 days after the end of each year. Within 30 days after receipt of all such comments from the Regional Director and after adoption of any recommended changes, the Bank shall approve the written profit plan and budget, which approval shall be recorded in the Board minutes. Thereafter, the Bank shall implement and follow the plan.

## **STRATEGIC PLAN**

9. (a) Within 90 days after the effective date of this ORDER, the Bank shall develop and submit to the Regional Director for review and comment a comprehensive business/strategic plan (“Strategic Plan”) covering at least an operating period of three years. The Strategic Plan shall contain an assessment of the Bank’s current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The Strategic Plan shall address, at a minimum:

- (1) strategies for pricing policies and asset/liability management;
- (2) specific plans for the maintenance of capital that may in no event be less than the requirement of the provisions of paragraph 7 of this ORDER and shall detail the actions to be taken to maintain the required capital ratios, including but not limited to, the sale of new securities, the direct contribution of cash by the directors or parent holding company, or the merger with or acquisition by another federally insured institution or holding company thereof;
- (3) plans for redeeming or buying back the senior securities from the U.S. Department of the Treasury issued pursuant to the Troubled Asset Relief Program Capital Purchase Program;
- (4) plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;
- (5) goals for reducing problem loans;
- (6) financial goals, including pro forma statements for asset growth, capital adequacy, and earnings;

(7) formulation of a mission statement and the development of a strategy to carry out that mission.

(c) The Bank shall submit the Strategic Plan to the Regional Director for review and comment. Within 30 days after the Regional Director has responded to the plan, the Board shall adopt the plan as amended or modified by the Regional Director, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and follow the Strategic Plan.

(d) Within 45 days after the end of each calendar quarter following the effective date of this ORDER, the Board shall evaluate the Bank's performance in relation to the Strategic Plan and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the meeting of the Board at which such evaluation is undertaken. A copy of the evaluation shall be submitted to the Regional Director.

(e) The Strategic Plan required by this ORDER shall be revised and submitted to the Regional Director for review and comment 45 days after the end of each calendar year for which this ORDER is in effect. Within 30 days after the Regional Director has responded to the plan, the Board shall adopt the plan as amended or modified by the Regional Director, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement the Strategic Plan.

#### **LIQUIDITY AND FUNDS MANAGEMENT**

10. (a) Within 60 days after the effective date of this ORDER, the Bank shall revise its liquidity and funds management policy and submit it to the Regional Director for review and comment. Annually thereafter, while this ORDER is in effect, the Bank shall review its policy for adequacy and, based upon such review, shall make necessary revisions to the policy

to strengthen funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs. The initial plan shall include, at a minimum, provisions:

- (1) establishing a reasonable range for its net non-core funding ratio as computed in the Uniform Bank Performance Report and shall address the means by which the Bank will seek to reduce its reliance on non-core funding and high cost rate-sensitive deposits;
- (2) identifying the source and use of borrowed and/or volatile funds;
- (3) establishing sufficient 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;
- (4) requiring 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;
- (5) establishing a minimum liquidity ratio and defining how the ratio is to be calculated;
- (6) establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs; and
- (7) addressing the use of borrowings (i.e., seasonal credit needs, match funding mortgage loans, etc.) and providing for reasonable maturities commensurate with the use of the borrowed funds; addressing concentration of funding sources; and addressing pricing and collateral requirements with specific allowable funding channels (i.e., brokered deposits, internet deposits, Fed funds purchased and other correspondent borrowings).

(b) Within 30 days after the Regional Director has responded to the plan, the

Board shall adopt the plan as amended or modified by the Regional Director. The plan shall be implemented immediately to the extent that the provisions of the plan are not already in effect at the Bank.

### **BROKERED DEPOSITS**

11. (a) Beginning with the effective date of this ORDER, and so long as this ORDER is in effect, the Bank shall not solicit, accept, renew, or roll over any brokered deposits unless it has applied for and been granted a waiver by the Regional Director in accordance with the provisions of section 337.6 of the FDIC Rules and Regulations.

(b) Within 60 days from the effective date of this ORDER, the Board shall develop a plan to reduce the Bank's reliance on non-core deposits and wholesale funding sources to a level acceptable to the Regional Director.

### **DIVIDEND RESTRICTION**

12. As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director.

### **HOLDING COMPANY – RESTRICTIONS ON PAYMENTS**

13. (a) As of the effective date of this ORDER, the Bank shall not make any payment, directly or indirectly, to or for the benefit of the Bank's holding company or any other Bank affiliate, without the prior written consent of the Regional Director.

(b) The Bank shall not enter into any contract with its holding company or any other Bank affiliate or increase payment under any existing contract without submitting the new contract or information concerning the increase in any existing contract to the Regional Director for review and comment.

### **CORRECTION AND PREVENTION**

14. Beginning on the effective date of this ORDER, the Bank shall take steps necessary, consistent with other provisions of this ORDER and sound banking practices, to correct and prevent the unsafe or unsound banking practices that were identified in the ROE.

### **COMPLIANCE COMMITTEE**

15. (a) Within 30 days after the effective date of this ORDER, the Board shall establish a compliance committee of the Board with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. The compliance committee shall report monthly to the entire Board, and a copy of the report and any discussion related to the report or this ORDER shall be included in the minutes of the Board meeting. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

### **PROGRESS REPORTS**

16. Within 45 days after the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director written progress reports detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director has released, in writing, the Bank from making further reports.

### **EXECUTIVE COMPENSATION**

17. (a) Within 45 days from the effective date of this ORDER, the Bank shall submit to the Regional Director for review and approval an executive compensation plan which incorporates qualitative as well as profitability performance standards for the Bank's executive officers. For purposes of this paragraph, "compensation" refers to any and all salaries, bonus and

other benefits of every kind or nature whatsoever, both current and deferred, whether paid directly or indirectly, and the term “executive officers” shall include the Bank’s chairman of the Board, vice-chairman of the Board, president, chief executive officer, executive vice president(s), senior vice president(s), and chief financial officer.

### **SHAREHOLDERS**

18. After the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its parent holding company in conjunction with the Bank’s next shareholder communication. The description shall fully describe the ORDER in all material respects.

### **ORDER EFFECTIVE**

19. This ORDER shall be binding upon the Bank, its successors and assigns, and all institution-affiliated parties of the Bank. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision of this ORDER shall have been modified, terminated, superseded, or set aside in writing by the FDIC.

This ORDER will become effective upon its issuance by the FDIC.

Pursuant to delegated authority.

Dated this 16<sup>th</sup> day of July, 2009.

/s/

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John M. Lane  
Acting Regional Director  
New York Region  
Division of Supervision and Consumer Protection  
Federal Deposit Insurance Corporation