

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of	)	
	)	CONSENT ORDER
	)	
FIRST STATE BANK	)	
CRANFORD, NEW JERSEY	)	FDIC-08-166b
	)	
(Insured State Nonmember Bank)	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for First State Bank, Cranford, New Jersey (“Bank”), under 12 U.S.C. § 1813(q).

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” (“Stipulation”), dated October 2nd, 2009 that is accepted by the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation, to the issuance of this Consent Order (“ORDER”) by the FDIC.

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

**ASSESSMENT OF MANAGEMENT**

1. (a) Within 30 days from the effective date of this ORDER, the Board shall engage an independent third party, acceptable to the Regional Director of the New York Regional Office of the FDIC (“Regional Director”) and the Commissioner

(“Commissioner”) of Banking and Insurance for the State of New Jersey (“DOBI”) with the appropriate expertise and qualifications to analyze and assess the independence and performance of the Bank’s “Senior Executive Officers” (as that term is defined in 12 C.F.R. § 303.101(b)), as well as the appropriateness of all current and deferred compensation paid to each Senior Executive Officer in light of their respective competence, responsibilities and performance with a comparison of such compensation to that of institutions of comparable size and complexity, and, based on the foregoing analyses and comparisons, to identify an appropriate level of compensation for each Senior Executive Officer. The engagement shall require that this analysis and assessment be completed and summarized in a written report to the Board (“Management Report”) within 45 days of the third party’s engagement, with a copy simultaneously delivered to the Regional Director and Commissioner.

(b) The Board shall provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the third party for review and approval in accordance with paragraph 10 of this CONSENT ORDER before it is executed.

(c) Within 30 days of receipt of the Management Report, the Board will develop a written plan of action (“Management Plan”) in response to each recommendation contained in the Management Report and a time frame for completing each action. A copy of the Management Plan and any subsequent modification thereto shall be submitted to the Regional Director and the Commissioner in accordance with paragraph 10 of this ORDER. In the event the Management Plan, or any portion thereof, is not implemented, the Board shall immediately advise the Regional Director and the

Commissioner in writing of the specific reasons for deviating from the Management Plan. The Regional Director and the Commissioner must approve any such deviation.

(d) While this ORDER is in effect, the Board shall provide written notification to the Regional Director and the Commissioner of the resignations or terminations of any of its Senior Executive Officers or Board members within 15 days of the event. The Bank 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. Part 303. In addition, the Board shall provide written notification to the Regional Director and the Commissioner of any proposed new Senior Executive Officer or Board member at least 30 days prior to the date such proposed officer or Board member is to begin service; such notification shall include a description of the background and experience of the proposed officer or Board member. Such changes will only be effective upon receipt of the Regional Director's and the Commissioner's approval.

### **PARTICIPATION**

2. Immediately upon the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank, which shall specifically include meeting no less frequently than monthly. The Board shall establish specific procedures designed to ensure that it is fully informed of all matters regarding the management, operation, and financial condition of the Bank at regular intervals and in a consistent format. The Board shall prepare in advance and shall follow a detailed written agenda during each meeting, during which, at a minimum, the following matters shall be reviewed and approved: reports of income and expenses; new, overdue, renewed, insider,

charged-off, delinquent, nonaccrual and recovered loans; concentrations of credit; investment activity; asset/liability and funds management reports; operating policies; training reports, personnel actions; audit and supervisory reports; the minutes summarizing individual committee meetings and actions; compliance with section 337.6 of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6 ("Section 337.6"), if required, and any reports required by this ORDER. Participation shall also require the assumption of full responsibility for the approval of significant new and/or enhanced policies, plans and programs including those specifically required by this ORDER and the 2009 ROE along with any other policies, procedures and processes necessary to operate the Bank in a safe and sound manner. Board minutes shall be detailed, recorded on a timely basis by an individual not serving on the Board or making presentations to it, and shall document reviews and any related actions, including the names of any dissenting directors. Nothing in this paragraph shall preclude the Board from considering matters other than those contained in the agenda.

### **CAPITAL PLAN**

3. (a) Within 60 days from the effective date of this ORDER, the Board shall consistent with sound banking practices, assess the capital needs of the Bank taking into account the Bank's plans for future growth, the level of problem loans, the portfolio of sub-prime loans, concentrations of credit, operating losses and heightened liquidity risk, as well as the other written plans, policies, or actions required by this Order and/or the 2009 ROE and develop a written capital plan ("Capital Plan"). The Board shall review the Capital Plan and assess the capital needs of the Bank as described above

within the first 30 days of each calendar year thereafter or more frequently if necessary.

The Capital Plan shall, at a minimum, include:

(i) projections for asset growth 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;

(ii) projections for the amount and timing of the capital necessary to meet the Bank's current and future needs;

(iii) the primary source(s) from which the Bank will meet its capital needs; and

(iv) contingency plans that identify alternative sources of capital should the primary source(s) under (iii) above not be available.

(b) Any increase in capital contemplated by the Capital Plan may be accomplished by the sale of new securities in the form of common stock, the sale of noncumulative perpetual preferred stock, the direct contribution of cash by the directors or shareholders, merger with or acquisition by or of another federally insured depository institution or holding company thereof or any other method acceptable to the FDIC and the DOBI and approved in advance in writing by both the Regional Director and the Commissioner pursuant to paragraph 10 of this ORDER.

(c) No increase in Tier 1 capital contemplated by the Capital Plan may be accomplished through a deduction from the Bank's Allowance for Loan and Lease Losses ("ALLL") or other reserve accounts. Further, the Bank shall not lend funds directly or indirectly, whether secured or unsecured, to any purchaser of Bank or affiliate

stock or other securities, or to any investor by any other means for any portion of any increase in Tier 1 capital contemplated by the Capital Plan.

(d) The Board shall submit the Capital Plan to the Regional Director and the Commissioner in accordance with paragraph 10 of this ORDER.

### **PROFIT AND BUDGET PLAN**

4. (a) Within 60 days from the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the Board shall, consistent with sound banking practices and taking into account the Bank's other written plans, policies, or other actions required by this Order and/or the 2009 ROE, develop a written profit and budget plan ("Profit Plan").

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

(i) identification of the major areas in and means by which the Board will seek to improve the Bank's operating performance. The Profit Plan should not include any area representing a material change in the Bank's current business and/or strategic plan unless specifically noted as such in the Profit Plan and the Bank may not make any such material change while this ORDER is in effect unless and until the Profit Plan has been submitted and approved pursuant to paragraph 10 of this ORDER. For purposes of this paragraph, a material change in the business and/or strategic plan would include the Bank's entry into, participation in, or withdrawal from a new business or new business line and a level of business or activity that is substantially above or below that currently outlined in the Bank's business and/or strategic plan;

(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 allowance for loan and lease losses (“ALLL”);

(iii) realistic and comprehensive budgets for all categories of income and expense items, including, but not limited to, all current and deferred compensation to be paid to each director (including the COB) and each Senior Executive Officer;

(iv) a description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components;

(v) a budget review process to monitor the revenue and expenses of the Bank whereby actual performance is compared against budgetary projections not less than monthly; recording the results of the evaluation and any actions taken by the Bank in the minutes of the Board meeting at which such evaluation is undertaken; and

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

(c) The Board shall submit the Profit Plan to the Regional Director and Commissioner in accordance with paragraph 10 of this ORDER.

(d) Within 30 days from the end of each quarter following the effective date of this ORDER, the Board shall evaluate the Bank’s performance in relation to the Profit Plan and record the results of the evaluation along with any actions taken by the Bank in the Board minutes during which such evaluation is undertaken. Copies of each monthly evaluation shall be submitted to the Regional Director and

Commissioner within 5 days of presentation to the Board. In the event the Board determines that the Profit Plan should be revised in any manner, the Profit Plan shall be revised and submitted within 5 days after Board approval to the Regional Director and Commissioner in accordance with paragraph 10 of this ORDER.

### **BROKERED DEPOSITS**

5. Immediately upon the effective date of this ORDER and for as long as this ORDER is in effect, the Board shall take all steps necessary to ensure that the Bank does not solicit, accept, renew or roll over any “brokered deposit” as defined in Section 337.6 unless and until the Bank has applied for and been granted a waiver by the FDIC in accordance with the provisions of Section 337.6.

### **ASSET/LIABILITY AND FUNDS MANAGEMENT**

6. (a) Within 30 days from the effective date of this ORDER, the Board shall, consistent with sound banking practices and taking into account the other written plans, policies or actions required by this ORDER and/or the 2009 ROE, review its written asset/liability and funds management policies and plans and amend each as necessary. The Board shall submit the policies and plans, and any future modifications, to the Regional Director and the Commissioner in accordance with paragraph 10 of this ORDER. Quarterly or more frequently thereafter, while this ORDER is in effect, the Board shall review the policies and plans for adequacy and shall make all necessary revisions; any such revisions shall be submitted to the Regional Director and the Commissioner in accordance with paragraph 10 of this ORDER. At a minimum, the policies and plans shall:



(i) provide a statement of the Bank's long-term and short-term liquidity needs and plans for insuring that such needs are met;

(ii) provide for a monthly (or more frequently if necessary or appropriate) review of and report on the Bank's deposit structure, including the volume and trend of total deposits, the maturity distribution of time deposits, rates being paid on each type of deposit, rates being paid by trade area competition, caps on large time deposits, public funds, out of area deposits, cash flow forecasts, compliance with Section 337.6 and any other information necessary to appropriately monitor the Bank's liquidity position. The Bank shall provide a copy of this report to the Regional Director and the Commissioner within 30 days of the end of each calendar quarter subsequent to the effective date of this ORDER;

(iii) establish target liquidity and dependency ratios and/or parameters;

(iv) provide for a monthly (or more frequently if necessary or appropriate) review of and report on the calculations measuring the Bank's liquidity posture and the extent to which the Bank is funding long term assets with short term liabilities, and review performance with established liquidity ratio targets. The Bank shall provide a copy of this report to the Regional Director and the Commissioner within 30 days of the end of each calendar quarter subsequent to the effective date of this ORDER;

(v) provide a method of loan pricing that considers costs of funds, overhead and administrative costs as well as desired profits and determine when to use fixed rates and when to use floating rates;

(vi) establish contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs, review possible alternative sources of funds and address their use, and establish lines of credit and test accessibility on a periodic basis, but no less frequently than annually; and

(v) provide for a system of internal control, review and audit to ensure the integrity of the overall asset/liability and funds management process.

### **INTERNAL AUDIT PROGRAM**

7. Within 30 days of the effective date of this ORDER, the Board shall revise the Bank's internal audit program to (i) address all of the internal audit and control deficiencies noted in the 2009 ROE and (ii) ensure conformity with the *Interagency Policy Statement on the Internal Audit Function and its Outsourcing* and (iii) require monthly reports of all audit findings to the Board.

### **CHARGE-OFF AND REDUCTION OF CLASSIFIED ASSETS**

8. (a) Within 30 days of the effective date of this ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss by the FDIC or DOBI as a result of their March 30, 2009 examination of the Bank. 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 45 days after the effective date of this ORDER, the Board shall submit a written plan to reduce the remaining assets classified Doubtful and Substandard by the FDIC or DOBI as a result of their March 30, 2009 examination of the Bank to the Regional Director and the Commissioner in accordance with paragraph 10 of

this ORDER. The plan shall address each asset so classified with a balance of \$200,000 or greater and provide the (i) name under which the asset is carried on the books of the Bank; (ii) type of asset; (iii) actions to be taken in order to reduce the classified asset; and (iv) timeframes for accomplishing the proposed actions. The plan shall also review the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources and evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position. In addition, the Bank's 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 present the plan to the Regional Director and the Commissioner in accordance with paragraph 10 of this ORDER.

(d) For purposes of the plan, the reduction of adversely classified assets as required by this paragraph of the ORDER shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's ALLL and may be accomplished by 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 DOBI; 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 a result of any future examination conducted by the FDIC or DOBI.

## **REDUCTION OF DELINQUENCIES**

9. (a) Within 30 days after the effective date of this ORDER, the Bank shall formulate and submit a written plan for the reduction and collection of delinquent loans to the Regional Director and the Commissioner in accordance with paragraph 10 of this ORDER. At a minimum, such plan shall include provisions which:

- (i) Prohibit the extension of credit for the payment of interest;
- (ii) Delineate areas of responsibility for implementing and monitoring the Bank's collection policies;
- (iii) Establish specific collection procedures to be instituted at various stages of a borrower's delinquency;
- (iv) Establish a goal for dollar levels to which the Bank shall reduce delinquencies; and
- (v) 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.

## **SUBMISSION OF PROPOSED PLANS**

10. Whenever a provision of this ORDER shall require submission of a proposed plan, program, policy or enhancements, revisions or additions to a plan, program, policy, procedure or other matter ("Plan") to the Regional Director and Commissioner for comment, review and approval, the submission shall be made to the Regional Director at 20 Exchange Place, New York, New York 10005 and to the Commissioner at 20 West State Street, P.O. Box 040, Trenton, New Jersey 08625. The Regional Director and Commissioner shall provide comments to the Board within 45

days of receipt of the proposed Plan submitted for review and comment. Within 30 days of receipt of comments from the Regional Director and Commissioner, the Board shall make such modifications as the Regional Director, Commissioner and the Bank determine are necessary to respond to such comments and shall adopt the Plan and shall revise and amend the Bank's business and/or strategic plan to appropriately reflect the provisions of the Plan. The Board's actions shall be appropriately recorded in the Board minutes. Thereafter, the Bank and its directors, officers and employees shall fully implement and follow the Plan as adopted and shall enforce full and complete compliance with it. It shall remain the responsibility of the Board to fully implement the Plan as adopted within the specified time frames.

#### **DIVIDENDS**

11. Immediately upon the effective date of this ORDER, the Bank shall not declare or pay either directly or indirectly any dividends, whether in cash, stock, or otherwise, on any class of its stock without the prior written consent of the Regional Director. The Board shall also notify the Commissioner prior to the declaration or payment of dividends.

#### **SHAREHOLDERS**

12. Following the effective date of this ORDER, the Board shall provide to shareholders, or otherwise furnish a description of this ORDER, (i) in conjunction with the Bank's next shareholder communication, and (ii) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of

Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429 and to the New Jersey Department of Banking and Insurance, 20 West State Street, Trenton, New Jersey 08625 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by FDIC and/or DOBI shall be made prior to dissemination of the description, communication, notice, or statement.

### **COMPLIANCE COMMITTEE**

13. Within 30 days from the effective date of this ORDER, the Board 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 Bank, and whose composition is acceptable to the Regional Director and the Commissioner, to monitor the Bank'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 Board 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 minutes. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

### **PROGRESS REPORTS**

14. By the 30th day after the end of the calendar quarter following the effective date of this ORDER, and by the 25th day after the end of every calendar quarter thereafter, the Bank shall furnish written progress reports which shall be approved by a

majority of the Board by resolution set forth in the Board minutes detailing the form, content, and manner of any actions taken to secure compliance with this ORDER, and the results thereof to the Regional Director and the Commissioner.

#### **OTHER ACTIONS**

15. It is expressly and clearly understood that if, at any time, the Regional Director and the Commissioner shall deem it appropriate in fulfilling the responsibilities placed upon him or her under applicable law to undertake any further action affecting the Bank, 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.

16. It is expressly and clearly understood that nothing herein shall preclude any proceedings brought by the Regional Director and the Commissioner to enforce the terms of this ORDER, and that nothing herein constitutes, nor shall the Bank 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**

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

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

19. 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 this 2nd day of October, 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