

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	CONSENT ORDER,
	)	ORDER FOR RESTITUTION
FIRST CENTRAL SAVINGS BANK	)	AND ORDER TO PAY
GLEN COVE, NEW YORK	)	
	)	FDIC-09-702b
	)	FDIC-09-701k
(INSURED STATE NONMEMBER BANK)	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for First Central Savings Bank, Glen Cove, New York (“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, Order for Restitution and Order to Pay” (“Stipulation”), dated January 14, 2010 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 relating to weaknesses in management, asset quality, capital and earnings as well as weaknesses in the Bank’s system for ensuring compliance with applicable consumer protection laws and regulations and its oversight of third parties, to the issuance of this CONSENT ORDER, ORDER FOR RESTITUTION AND ORDER TO PAY (“ORDER”) by the FDIC.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and 12 U.S.C. § 1818(i)(2) have been satisfied, the FDIC hereby orders that:

## **CONSENT ORDER**

### **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 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 resignations or terminations of any members of its Board or any of its senior executive officers within 15 days of the event. The Bank shall 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.

### **MANAGEMENT – BOARD SUPERVISION**

2. Within 7 days from 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 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; 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 7 days from 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 New York State Banking Department (“NYSBD”) in the Report of Examination reflecting their joint examination of the Bank as of June 30, 2009 (“2009 Joint 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 45 days from the effective date of this ORDER, the Bank shall formulate and submit a detailed written plan to the Regional Director to reduce the percentage of remaining assets classified “Doubtful” and “Substandard” in the 2009 Joint ROE to Tier 1 Capital plus the Bank’s allowance for loan and lease losses (“Percentage of Classified Assets”). The plan shall address each asset so classified where the borrower and any related interest has an aggregate indebtedness to the Bank with a balance of \$250,000 or greater. For the purpose of this ORDER the term “related interest” is defined as in section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.2(n). In addition, the plan shall 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;
- (4) time frames for accomplishing the proposed actions;

(5) a review of the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and

(6) 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 in the Percentage of Classified Assets shall be detailed using quarterly targets and may be accomplished by (i) increasing the Bank's Tier 1 Capital or (ii) charging off, collecting, or sufficiently improving the quality of adversely classified assets so as to warrant removing any adverse classification as determined by the FDIC and/or the NYSBD.

(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 45 days from 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 in the form of new or additional funds 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, placed in the appropriate loan file and submitted to the Regional Director with the quarterly progress reports required pursuant to paragraph 25 of this ORDER;

(2) delineate areas of responsibility for implementing and monitoring 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 months 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 in the form of new or additional funds to or for the benefit of any borrower whose existing credit has been classified “Loss” in the 2009 Joint 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 in the form of new or additional funds to or for the benefit of any borrower whose extension of credit is classified “Doubtful” and/or “Substandard” in the 2009 Joint 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, included in the minutes of the applicable meeting of the Board and submitted to the Regional Director with the quarterly progress reports required pursuant to paragraph 25 of this ORDER.

**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 its commercial real estate (“CRE”) loan concentration of credit identified in the 2009 Joint 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 and percent of capital in response to (1) above;
- (3) provisions requiring 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 lending, including plans to address the rationale for CRE loan levels as they relate to growth and capital targets, segmentation and testing of the CRE loan 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.

#### **ALLOWANCE FOR LOAN AND LEASE LOSSES**

7. (a) Within 15 days from the effective date of this ORDER, the Board shall establish and document an accurate, comprehensive and consistent methodology for determining its allowance for loan and lease losses (“ALLL”) consistent with sound banking practices and shall eliminate and/or correct all contraventions of the *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (FIL-105-2006, issued December 13, 2006).

(b) The Bank shall maintain, through charges to current operating income, an adequate ALLL. The adequacy of the ALLL shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the potential for loan losses in the Bank’s portfolio, current economic conditions, and any criticisms contained in the Bank’s most recent report of examination.

(c) The Bank shall conduct, at a minimum, a quarterly assessment of its ALLL and shall maintain a written record, for supervisory review, indicating the methodology used in determining the amount of the ALLL needed and any deficiencies shall be promptly remedied. The quarterly assessment shall be reviewed by the Board and shall be noted in the minutes of the corresponding Board meeting.

### **CAPITAL PLAN**

8. (a) While this ORDER is in effect, the Board shall, in a manner acceptable to the Regional Director, obtain sufficient capital to meet and maintain the leverage and total risk-based capital ratios set forth below (for purposes of this ORDER, all terms relating to capital shall be defined and calculated in accordance with Part 325 of the FDIC’s Rules and Regulations, 12 C.F.R. Part 325):

(i) beginning on the effective date of this ORDER, the Bank shall meet and maintain a leverage ratio at least 6.5% and a total risk-based capital ratio of at least

9.5%; and

(ii) on or before June 30, 2010, the Bank shall meet and maintain a leverage ratio of at least 7% and maintain a total risk-based capital ratio of at least 10%.

(b) The Board shall, within 45 days of the effective date of this ORDER, develop a written capital plan (“Capital Plan”) that, at a minimum includes:

(i) specific plans to meet and maintain the leverage and total risk-based capital ratios as set forth in paragraph (a) above until such time as this ORDER is terminated by the Regional Director in writing. In developing these plans the Bank should consider the volume of its adversely classified assets, the nature and volume of its asset concentrations, the adequacy of its ALLL, its anticipated and contingent liquidity needs as well as the other written plans, policies, or actions required by this ORDER. These plans may include and should consider: (A) the sale of new securities (common stock and/or noncumulative perpetual preferred stock); (B) the direct contribution of cash by the directors or shareholders; (C) the retention of earnings, restrictions on assets growth or asset sales; (D) the merger with or acquisition by another federally insured depository institution or holding company thereof; and/or (E) any other method acceptable to the Regional Director and approved in advance in writing by the Regional Director;

(ii) policies and procedures to ensure compliance with FDIC’s Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC’s Rules and Regulations, 12 C.F.R. Part 325, App. A.

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

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

(v) contingency plans that identify alternative sources of capital should the primary source(s) under (iv) above not be available. These contingency plans shall include a provision that requires the Bank, upon receipt of written notice from the Regional Director, to recommend to its shareholders the merger with or acquisition by another federally-insured institution or a holding company thereof in the event that the Bank fails to achieve and/or maintain the minimum capital ratios required by subparagraph 8(a) or fails to adhere to the Capital Plan.

(c) The Bank shall submit the Capital Plan to the Regional Director for review and comment. Within 30 days after the Regional Director has responded to the Capital 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 Capital Plan shall be implemented immediately to the extent that the provisions of the plan are not already in effect at the Bank.

(d) No increase in Tier 1 capital necessary to meet the requirements of this ORDER may be accomplished through a deduction from the ALLL or other reserve accounts. Furthermore, the Bank shall not lend funds directly or indirectly, whether secured or unsecured, to any borrower for the purpose of purchasing Bank or affiliate stock or other securities until such time as the Bank has achieved the increase in Tier 1 capital required herein.

### **STRATEGIC PLAN**

9. (a) Within 45 days from the effective date of this ORDER, the Bank shall develop and submit to the Regional Director a business/strategic plan (“Strategic Plan”) covering an operating period of at least three years. The Strategic Plan shall include specific goals for the dollar volume of total loans, total investment securities, and total deposits. The Strategic Plan will also specify the anticipated average maturity and average yield on loans and securities; the

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. In addition, the Strategic Plan shall include a written profit plan that includes goals and strategies for improving and sustaining the earnings of the Bank, including:

(1) identification of the major areas in, and means by which, the Board will seek to improve the Bank's operating performance;

(2) realistic and comprehensive budgets;

(3) a budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections; and

(4) a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(b) The Bank's policies, including but not limited to loan, investment, and operating policies, shall be amended to implement the Strategic Plan.

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

10. (a) Within 45 days from 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 calendar year 2010. 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, including executive officers' compensation. For purposes of this paragraph, "compensation" refers to any and all salaries, bonuses 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 chairman

of the Board, vice-chairmen of the Board, president, chief executive officer, executive vice president(s), senior vice president(s), and chief financial officer.

(b) Within 30 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 also shall be prepared for any calendar year commencing with calendar year 2011 for which this ORDER is in effect and shall be submitted to the Regional Director for review and comment within 30 days after the start of each such calendar year. 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.

## LIQUIDITY AND FUNDS MANAGEMENT

11. (a) Within 45 days from the effective date of this ORDER, the Bank shall develop a liquidity and funds management plan 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 plan shall include, at a minimum, provisions:

- (1) establishing a reasonable range for its net non-core funding dependence ratio as computed in the Uniform Bank Performance Report and 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 other provisions for liquidity prove 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 that identify alternative courses of action designed to meet the Bank's liquidity needs and are consistent with guidance issued in *Liquidity Risk Management* (FIL-84-2008, issued August 26,2008) ; 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 revised plan shall be implemented immediately to the extent that the provisions of the revised plan are not already in effect at the Bank.

#### **BROKERED DEPOSITS**

12. (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, 12 C.F.R § 337.6.

(b) While this ORDER is in effect, the Bank shall comply with the interest rate restrictions on the effective yields on deposits described in section 337.6(b)(2)(ii) of the FDIC Rules and Regulations, 12 C.F.R. § 337.6(b)(2)(ii).

#### **LOAN POLICIES AND PROCEDURES**

13. (a) Within 60 days from the effective date of this ORDER, the Bank shall submit to the Regional Director revised written loan policies and procedures that have been approved by the Board, which shall, at a minimum, address the recommendations contained in the 2009 Joint ROE and include the following:

(1) documentation of lines of authority and operational responsibilities within the loan department;

- (2) adequate underwriting standards and procedures for loans, loan renewals and appraisal reviews;
- (3) establishing 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 any deviations from established policy;
- (4) monitoring and reporting of past due loans and procedures to promptly identify and grade loans with emerging credit weaknesses;
- (5) controlling and monitoring of CRE concentrations of credit, including (A) establishing concentrations of credit limits by industries, geographic areas and types of loans; and (B) managing the risk associated with asset concentrations;
- (6) controlling and monitoring of CRE, including plans to address the rationale for CRE levels as they relate to growth and capital targets, segmentations and testing of the CRE portfolio to detect and limit concentrations with similar risk characteristics;
- (7) for real estate loans, appropriate pricing structures, sufficient collateral protection, and limits on amounts that can be loaned in relation to established collateral values;
- (8) specific procedures for prior approval of loans to directors, officers and principal shareholders and their related interests in compliance with applicable laws and regulations, including section 215.4(a) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.4(a), and made applicable to insured state nonmember banks by section 18(j)(2), of the Act, 12 U.S.C. § 1828(j)(2), and section 337.3 of the FDIC Rules and Regulations, 12 C.F.R. § 337.3;
- (9) compliance with the *Interagency Policy Statement on the*

*Allowance for Loan and Lease Losses* (FIL-105-2006, issued December 13, 2006) and the *Statement of Policy on Uniform Retail Credit Classification and Account Management Policy* (FIL-40-2000, issued June 29, 2000);

(10) prohibiting the capitalization of interest or loan-related expenses unless the Board formally approves such extensions of credit as being in the best interest of the Bank and provides detailed written support of its position in the Board minutes;

(11) establishing standards for extending unsecured credit;

(12) establishing guidelines for timely recognition of loss through charge-off;

(13) prohibiting the payment of any overdraft in excess of that permitted under Board-approved policies without the prior written approval of the Board;

(14) identification of exceptions to the loan policy and timely reports to the Board regarding such exceptions; and

(15) control and monitoring of CRE, including at least quarterly written reports to the Board regarding concentrations in CRE.

(b) The Board shall approve and adopt the revised loan policy mandated by this paragraph, which shall be recorded in the corresponding Board meeting.

## **LOAN REVIEW**

14. (a) Within 60 days from the effective date of this ORDER, the Board shall revise its independent loan review program to ensure that it is consistent with the Bank's loan review policy and that it is sufficiently comprehensive to assess risks in Bank lending and minimize credit losses. At a minimum, the revised program shall provide for:

- (1) increased monitoring and oversight of loan review by management;
- (2) assessment of the overall quality of the loan portfolio;
- (3) identification of credit and collateral documentation exceptions and an action plan to address the identified deficiencies;
- (4) identification of loans that are not in conformance with the Bank's lending policy or laws, rules, or regulations and an action plan to address the identified deficiencies;
- (5) identification of loans to directors, officers, principal shareholders, and their related interests; and
- (6) document the rationale for the Bank assigning a different classification than the independent loan review.

(b) The Bank shall submit the revised program to the Regional Director for review and comment. Within 30 days from receipt of any comment from the Regional Director, and after due consideration of any recommended changes, the Bank shall approve the revised program, which approval shall be recorded in the minutes of the corresponding Board meeting. Thereafter, the Bank shall implement and fully comply with the program.

## **INTEREST RATE RISK**

15. (a) Within 7 days from the effective date of this ORDER, the Bank shall

maintain its interest rate risk (“IRR”) exposure within the limits and parameters established and approved by the Board and in accordance with safe and sound banking practices, including holding, at a minimum, monthly meetings of the Bank’s Asset/Liability Committee (“ALCO”). The Bank shall record minutes for each ALCO meeting. Cash flow reports shall be presented at least monthly to the Board and IRR reports shall be presented at least quarterly to the Board.

(b) The Bank shall ensure accurate and timely IRR reporting, including IRR reports prepared by external consultants.

### **AMENDED CALL REPORTS**

16. Within 30 days from the effective date of this ORDER, the Bank shall review its Consolidated Reports of Condition and Income filed with the FDIC on or after December 31, 2008, and amend said reports if necessary to accurately reflect the financial condition of the Bank as of the date of each such report. Reports filed after the effective date of this ORDER shall also accurately reflect the financial condition of the Bank as of the reporting date.

### **COMPLIANCE MANAGEMENT SYSTEM**

17. (a) Within 45 days from the effective date of this ORDER, the Bank shall develop and implement an effective CMS that is commensurate with the level of complexity of the Bank’s operations to ensure the establishment and implementation of a comprehensive written compliance program (“Compliance Program”). The CMS shall at a minimum include:

(1) a Compliance Program that shall embrace all of the Consumer Laws to which the Bank is subject and that is reviewed and approved annually by the Board, which approval shall be recorded in the minutes of the meeting of the Board;

(2) written policies, operating procedures and processes, and controls that ensure that the Bank’s loan products and lending activities comply with all applicable Consumer Laws and ensure that they are periodically updated to reflect changes in the Bank’s

business and regulatory environment;

(3) designation of an appropriate Compliance Officer to oversee the CMS and Compliance Program, as well as an appropriate number of compliance personnel with sufficient experience in, and knowledge of, Consumer Laws to administer the CMS;

(4) implementation and maintenance of a training program related to Consumer Laws for employees having responsibilities that relate to applicable Consumer Laws, including senior management and the Board, commensurate with their individual job functions and duties. The Compliance Officer shall be responsible for the administration of the Compliance Program, and shall provide training to officers and employees on a continuing basis;

(5) effective compliance monitoring procedures that have been incorporated into the normal activities of every department. At a minimum, monitoring procedures should include ongoing reviews of:

- a. applicable departments and branches;
- b. disclosures and calculations for various loan and deposit products;
- c. document filing and retention procedures;
- d. marketing literature and advertising; and
- e. internal compliance communication system that provides appropriate Bank personnel updates resulting from revisions to Consumer Laws; and

(6) an annual independent, comprehensive written audit. The Board shall document its efforts, including the review of and corrective measures made pursuant to the audit's findings, in the minutes of Board meetings. The audit shall at a minimum:

- a. provide for sufficient transactional testing, as appropriate, for all areas of significant compliance risk, including those areas identified in the Compliance

Examination Report; and

b. identify the deficiencies noted, provide descriptions of or suggestions for corrective actions and time frames for correction, and establish follow-up procedures to verify that corrective actions were implemented and effective.

(b) Within 7 days after the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of Consumer Laws identified in the Compliance Examination Report and ensure that the Bank's Compliance Management System will facilitate compliance with all Consumer Laws in the future.

### **COMPLIANCE OFFICER**

18. (a) Within 7 days from the effective date of this ORDER, the Bank shall have and retain a qualified Compliance Officer with the requisite knowledge and experience to establish and administer an effective CMS. The Board shall ensure that the Compliance Officer receives ongoing training, sufficient time, and adequate resources to effectively oversee, coordinate, and implement the CMS.

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

(1) developing and reviewing compliance policies and procedures to ensure compliance with all applicable Consumer Laws and the Bank's Compliance Program;

(2) assessing emerging issues or potential liabilities and training management and employees in Consumer Laws;

(3) reporting compliance activities and audit or review findings to the Board and ensuring corrective actions; and

(4) coordinating responses to consumer complaints.

(c) The Board shall ensure that the Compliance Officer has and retains sufficient authority and independence to implement policies related to Consumer Laws and to

institute corrective action as needed. At a minimum, this authority shall include the ability to cross departmental lines; access all areas of the Bank's operations; and effectuate corrective action.

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

19. Within 45 days from the effective date of this ORDER, the Bank shall adopt and implement systems and controls to ensure proper management of third-party risk. The Bank's third-party risk management program should address (1) risk assessment, (2) due diligence in selecting third-party vendors and service providers, (3) contract structuring and review, and (4) effective oversight of vendors and service providers. At a minimum, the program shall conform to the *Guidance for Managing Third-Party Risk* (FIL-44-2008, issued June 6, 2008).

### **CORRECTION AND PREVENTION**

20. (a) Within 7 days from the effective date of this ORDER, the Bank shall cease the practice of implementing an interest rate floor on those home equity lines of credit ("HELOCs") for which such a floor was not disclosed in the respective borrower's HELOC agreement. Furthermore, within 7 days after the effective date of this ORDER, the Bank shall reset the interest rates of all HELOCs to correspond with the terms contained within the respective HELOC agreements and shall calculate the daily periodic rate for the HELOCs using the methodology contained in such HELOC agreements.

(b) 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 and/or violations of law or regulation that were identified in the 2009 Joint ROE and the Compliance Examination Report.

### **ORDER FOR RESTITUTION AND OTHER RELIEF**

**IT IS FURTHER ORDERED** that:

21. (a) The Bank shall immediately commence the restitution and other relief described below and complete such restitution within 90 days from the effective date of this ORDER.

(b) The Bank shall pay to each HELOC accountholder whose account was charged interest in excess of that provided for in the respective accountholder's HELOC agreement, the difference between the interest actually charged by the Bank and interest calculated in accordance with the terms of the HELOC agreements ("Interest Differential"). The Interest Differential shall be determined with respect to both (i) any excess interest charged where an "interest-rate floor" not disclosed in the respective borrower's HELOC agreement was used to calculate interest and (ii) any excess interest charged on HELOC accounts where daily periodic rate(s) of  $1/360^{\text{th}}$  of the annual percentage rate(s), which fraction was not set forth in the respective borrower's HELOC agreement, was used to calculate interest rather than  $1/365^{\text{th}}$  of the annual percentage rate(s), which was the calculation method set forth in the HELOC agreements. The Interest Differential shall be calculated for the period commencing December 28, 2005 or the date upon which a particular HELOC account was opened, whichever is later, through the date the Bank shall reset the interest rates of all HELOCs to correspond with the terms contained within the respective HELOC agreements in accordance with this ORDER ("Restitution Period").

(c) Payment of the Interest Differential for the Restitution Period and resetting of interest rates of all HELOCs in accordance with this ORDER shall apply to existing Bank accountholders and former Bank accountholders of HELOC accounts that are now closed, charged off, or have been sold or otherwise transferred by the Bank. Payment of the Interest Differential for the Restitution Period may be reduced by any Interest Differential credited to the HELOC accounts during the Restitution Period and prior to the effective date of this ORDER.

(d) Except as provided below, payments of the Interest Differential for the Restitution Period shall be made by restitution checks to HELOC accountholders entitled to credits to their accounts. If on the effective date of this Order a HELOC accountholder is more than 30 days delinquent in making payment on the account, including any account that has been charged off, the amount of restitution to which the HELOC accountholder is entitled will be credited to the respective account. In the event that a credit to any HELOC account more than 30 days delinquent exceeds the balance owed on the HELOC account, the excess shall be paid by sending a restitution check to the affected HELOC accountholder. The Bank will report the reduced outstanding balances of HELOC accounts to the credit reporting agencies.

(e) It is agreed that the restitution calculations submitted by the Bank and approved by the FDIC constitute compliance with the restitution calculations prescribed in this paragraph.

(f) Within 15 days from the effective date of this ORDER, the Bank shall submit to the Regional Director for review and non-objection the proposed text of the letters that will accompany the restitution checks to HELOC accountholders and the letters that will be sent to HELOC accountholders entitled to credits to their accounts. Such letters shall include satisfactory language explaining the reason the Bank is sending a restitution check or crediting the account together with an explanation of the manner in which the amount of restitution was calculated. The Regional Director shall notify the Bank in writing of any comments or non-objection. The Bank shall then address any comments of the Regional Director, making such changes as may be required to the proposed letters. The letters, incorporating any changes that may be required in response to comments by the Regional Director, shall be sent to all to HELOC accountholders entitled to receive a check for restitution and to HELOC accountholders entitled to credits to their accounts in accordance with this ORDER.

(g) Within 60 days from the effective date of this Order, and then every 30 days thereafter until completion of the restitution required by this ORDER, the Bank shall prepare and send to the Regional Director a detailed written report that explains the processes and procedures by which the Bank identified the HELOC accountholders and determined the applicable restitution amounts described above. The report shall also include the following: (i) total number of HELOC accountholders, (ii) names, contact, and account information of the HELOC accountholders, (iii) amount of restitution to which each HELOC accountholder is entitled, (iv) number of HELOC accountholders who are to receive restitution, (v) total amount of restitution to be paid, (vi) the Bank's procedures to contact HELOC accountholders who do not receive restitution, and (vii) number of HELOC accountholders for whom the amount of restitution has yet to be determined.

(h) Within 7 days from the effective date of this ORDER, the Bank shall hire an independent auditor, acceptable to the Regional Director, who shall verify that the Bank accurately identified HELOC accountholders with respect to whom restitution checks are to be issued or HELOC accounts are to be credited as required by this ORDER. The independent auditor shall prepare a detailed written report of the processes and procedures by which the Bank determined and made the restitution. The report described shall be submitted to the Regional Director for review, comment, and non-objection within 60 days from the effective date of this Order, and then every 30 days thereafter until completion of the restitution required by this ORDER.

(i) Upon receipt of the Regional Director's written non-objection, the letters described above and the restitution checks shall be mailed in accordance with the Regional Director's comments, if any, but in no event later than 90 days from the effective date of this ORDER, by United States Postal Service first-class mail, address correction service requested.

The envelopes shall contain no materials other than the approved letters, checks and any other materials reviewed and not objected to by the Regional Director. The Bank shall make reasonable attempts to locate HELOC accountholders, including a standard address search using the National Change of Address System, whose notification letter and/or restitution check is returned for any reason. The Bank shall promptly re-mail all returned letters and any restitution checks to corrected addresses, if any.

(j) For three (3) years from the effective date of this Order, the Bank shall retain all records pertaining to the restitution including, but not limited to: documentation of the processes and procedures used to determine the HELOC accountholders, the names, contact and account information of the HELOC accountholders, any mailing records, and documentation that the appropriate restitution was made.

### **ORDER TO PAY**

**IT IS FURTHER ORDERED** that, by reason of the alleged violations of law and/or regulations, and after taking into account the CONSENT AGREEMENT, the appropriateness of the penalty with respect to the financial resources and good faith of the Bank, the gravity of the conduct by the Bank, the history of previous conduct by Bank, and such other matters as justice may require, pursuant to section 8(i)(2) of the Act, 12 U.S.C. § 1818(i)(2):

22. The Bank shall pay a civil money penalty of ONE HUNDRED THOUSAND DOLLARS (\$100,000). The Bank shall pay the civil money penalty to the Treasury of the United States. The Bank shall pay such civil money penalty itself, and is prohibited from seeking or accepting indemnification for such payment from any third party.

### **DIVIDEND RESTRICTION**

23. 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.

### **COMPLIANCE COMMITTEE**

24. Within 7 days from the effective date of this ORDER, the Board shall establish a committee of the Board members charged with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. At least 3 of the members of such committee shall be Board members not employed in any capacity by the Bank other than as a trustee. The committee shall report monthly to the full Board, and a copy of the report and any discussion relating to the report or the ORDER shall be noted in the minutes of the Board meeting. The establishment of this committee shall not diminish the responsibility of liability of the entire Board to ensure compliance with the provisions of this ORDER.

### **PROGRESS REPORTS**

25. Within 30 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.

### **SHAREHOLDERS**

26. Following the effective date of this ORDER, the Bank shall send to its shareholder(s) or otherwise furnish a description of this ORDER in conjunction with the Bank's next written shareholder communication and also in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting following the effective date of this ORDER. 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, Registration and Disclosure Unit, 550 17<sup>th</sup> Street, N.W., Washington, D.C. 20429, 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.

**SAVINGS CLAUSE**

27. The provisions of this Order shall not bar, estop or otherwise prevent the FDIC or any other federal or state agency or department from taking any other action or seeking further remedies against the Bank or any of the Bank's current or former institution-affiliated parties or agents for violations of any laws, engaging in unsafe or unsound banking practices, or unfair or deceptive practices. The provisions of this Order apply to the Bank's successors and assigns.

**ORDER EFFECTIVE**

28. The effective date of this ORDER shall be the date of issuance by the FDIC. The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof. The provisions of this ORDER shall remain effective and

enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside in writing by the FDIC.

Pursuant to delegated authority.

Dated: February 17, 2010.

/s/

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Christopher J. Spoth  
Senior Deputy Director  
Division of Supervision and Consumer Protection  
Federal Deposit Insurance Corporation