FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of	)	CONSENT ORDER
	)	
THE HARBOR BANK OF MARYLAND BALTIMORE, MARYLAND	)	FDIC-10-051b
	)	
(INSURED STATE NONMEMBER BANK)	)	

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for The Harbor Bank of Maryland ("Bank"), Baltimore, Maryland, 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 to the Issuance of a Consent Order" ("Stipulation"), dated March 30, 2010, that is accepted by the FDIC, and has also entered into a "Stipulation to the Issuance of a Consent Order", dated April 5, 2010, with the Commissioner of Financial Regulation for the State of Maryland ("Commissioner"). With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices relating to weaknesses in the Bank's management, asset quality, earnings and capital, to the issuance of this Consent Order ("ORDER") by the FDIC, and by entering into the "Stipulation to the Issuance of a Consent Order" with the Commissioner has consented to the adoption of the ORDER by the Commissioner.

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:

MANAGEMENT

1. (a) Within 30 days from the effective date of this ORDER, the Bank shall have initiated actions to retain qualified management, so that within 60 days from the effective date of this ORDER, the Bank shall have in place and retain at all times a qualified management team.

(b) At a minimum, such management shall include a senior vice president of lending with an appropriate level of lending, collection, and loan supervision experience for the type and quality of the Bank's loan portfolio; and a qualified Bank Secrecy Act ("BSA") officer with sufficient executive authority to monitor and ensure compliance with the BSA and its implementing rules and regulations. The Board shall provide the necessary written authority to management to implement the provisions of this ORDER. The qualifications of management shall be assessed on its ability to:

(i) comply with the requirements of this ORDER;

(ii) operate the Bank in a safe and sound manner;

(iii) comply with applicable Federal and state laws, rules, and regulations; and

(iv) restore all aspects of the Bank to a safe and sound condition, including capital adequacy, asset quality, management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

(c) Within 90 days from the effective date of this ORDER, the Board, or a committee appointed by the Board, shall analyze and assess the Bank's management, staffing performance, and needs, including a separate analysis and assessment of each officer of the Bank, taking into account the prudence of any Bank officers engaging in multiple functions, and summarize its analysis and assessment in a written report ("Management Report"), a copy of which shall be provided to the Regional Director and the Commissioner immediately upon completion.

(d) At a minimum, the Management Report shall:

(i) identify the type and number of officer positions needed to manage and supervise the affairs of the Bank, detailing any vacancies or additional needs and giving appropriate consideration to the size and complexity of the Bank;

(ii) identify the type and number of staff positions needed to carry out the Bank's strategic plan, detailing any vacancies or additional needs;

(iii) present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary for each position, including delegations of authority and performance objectives;

(iv) identify training and development needs;

(v) identify and establish Bank committees needed to provide guidance and oversight to management; and

(vi) evaluate the current and past performance of all existing Bank officers, including executive officers and staff members, indicating whether the individuals are competent and qualified to perform present and anticipated duties, adhere to the Bank's established policies and practices, and operate the Bank in a safe and sound manner.

(e) Within 60 days of receipt of the Management Report, the Board shall develop a written management plan ("Management Plan") that incorporates the findings of the Management Report, a plan of action in response to each recommendation contained in the Management Report, and a time frame for completing each action.

(f) At a minimum, the Management Plan shall:

(i) contain a recitation of the recommendations included in the Management Report;

(ii) incorporate a plan to provide necessary training and development for all employees;

(iii) establish procedures to periodically review and update the Management Plan, as well as periodically review and assess the performance of each officer and staff member; and

(iv) contain a current management succession plan.

(g) Immediately upon completion, a copy of the Management Plan and any subsequent modification thereto shall be submitted by the Board to the Regional Director and the Commissioner for non-objection. Within 30 days after the Regional Director and the Commissioner have responded to the plan, the Board shall adopt the Management Plan as amended or modified by the Regional Director and the Commissioner, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and follow the Management Plan and any modifications thereto. It shall remain the responsibility of the Board to fully implement the Management Plan within the specified time frames. In the event the Management Plan, or any portion thereof, is not timely implemented, the Board shall immediately advise the Regional Director and the Commissioner, in writing, of specific reasons for deviating from the Management Plan.

BOARD OF DIRECTORS

2. (a) As of the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size.

(b) Within 30 days from the effective date of this ORDER, the Bank shall seek to fill vacant positions on its Board. The addition of any new director may be accomplished, to the extent permissible by state statute or the Bank's by-laws, by means of appointment or election at a regular or special meeting of the Bank's shareholders.

(c) The Bank shall notify the Regional Director and the Commissioner in writing of any additions, resignations, or terminations of any members of its Board or any of its senior executive officers within 30 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 Federal Deposit Insurance Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. Part 303.

CAPITAL

3. (a) Within 60 days from the effective date of this ORDER, the Bank shall submit, after review by the Board, a written capital plan ("Capital Plan") to the Regional Director and the Commissioner. The Capital Plan shall require the Bank, after establishing an appropriate allowance for loan and lease losses ("ALLL"), to (i) maintain its Tier 1 Leverage Capital ratio equal to or greater than 8.00 percent of the Bank's Average Total Assets, and (ii) on or before December 31, 2010, to achieve and maintain its Total Risk-Based Capital ratio equal to or greater than 12.00 percent of the Bank's Total Risk Weighted Assets.

(b) In developing the Capital Plan, the Bank shall take into consideration:

(i) the volume of the Bank's adversely classified assets;

(ii) the nature and level of the Bank's asset concentrations;

(iii) the appropriateness of the Bank's ALLL;

(iv) the anticipated level of retained earnings;

(v) anticipated and contingent liquidity needs; and

(vi) the source and timing of additional funds to fulfill future capital needs.

The minimum capital levels shall be calculated according to the definitions and methodology set forth in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325.

(c) Within 30 days after receipt of comments to the Capital Plan from the Regional Director and the Commissioner, the Board shall approve the Capital Plan, including any modifications or amendments requested by the Regional Director and the Commissioner, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall immediately initiate measures detailed in the Capital Plan, to the extent such measures have not previously been initiated, to effect compliance with the Capital Plan.

(d) 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's Rules and Regulations, 12 C.F.R. Part 325, App. A.

(e) In the event any capital ratio is or falls below the minimum required by this ORDER, the Bank shall immediately notify the Regional Director and the Commissioner and (i) within 30 days shall increase capital in an amount sufficient to comply with this ORDER, or (ii) within 30 days shall submit, after review by the Board, a written plan to the Regional Director and the Commissioner, describing the primary means and timing by which the Bank shall increase its capital ratios up to or in excess of the minimum requirements set forth in this ORDER, as well as a written contingency plan for the sale, merger, or liquidation of the Bank in the event the Bank does not achieve the required capital ratios under the timeline in the Bank's plan submitted pursuant to this subparagraph (collectively, "Contingency Plan"). Within 30 days of receipt of comments from the Regional Director and the Commissioner, the Board shall adopt the Contingency Plan required by this subparagraph as amended or modified by the Regional Director and the Commissioner, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Contingency Plan.

CLASSIFIED ASSETS

4. (a) As of the effective date of this ORDER, the Bank shall charge off from its books and records any loan classified “loss” in the report of examination dated as of June 30, 2009 (“Report of Examination”) or any future report of examination.

(b) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit, after review by the Board, a detailed written plan (“Asset Plan”) to the Regional Director and the Commissioner to reduce the remaining assets classified “Doubtful” and “Substandard” in the Report of Examination. The Asset 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 $50,000 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).

(c) In addition, the Asset Plan shall provide the following:

(i) the name under which the asset is carried on the Bank’s books;

(ii) type of asset;

(iii) actions to be taken in order to reduce the classified asset ; and

(iv) timeframes for accomplishing the proposed actions.

(d) The Asset Plan shall also include, at a minimum:

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

(ii) an evaluation of the available collateral for each such credit, including possible actions to improve the Bank's collateral position; and

(iii) a requirement for the submission of monthly written progress reports to the Board for review and notation in minutes of the Board meetings.

(e) In addition, the Asset Plan shall require a reduction in the aggregate balance of assets classified "Doubtful" and "Substandard" in the Report of Examination in accordance with the following schedule:

(i) within 270 days from the effective date of this ORDER, shall be reduced by at least 25 percent; and

(ii) by March 31, 2011, shall be reduced by at least 50 percent.

(f) The Bank shall submit the Asset Plan to the Regional Director and the Commissioner for non-objection. Within 30 days after the Regional Director and the Commissioner have responded to the Asset Plan, the Board shall adopt the Asset Plan as amended or modified by the Regional Director and the Commissioner, which approval shall be recorded in the minutes of the Board meeting. The Bank shall then immediately initiate measures detailed in the Asset Plan to the extent such measures have not been initiated.

(g) For purposes of the Asset Plan, the reduction of adversely classified assets 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 Regional Director and the Commissioner; or an increase in the Bank's Tier 1 capital.

RESTRICTIONS ON ADVANCES TO ADVERSELY CLASSIFIED BORROWERS

5. (a) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extensions of credit (including any portion thereof) that has been charged off the books of the Bank or classified “loss” in the Report of Examination or any future report of examination, so long as such credit remains uncollected.

(b) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loan or other credit has been classified “substandard”, “doubtful”, or is listed for Special Mention in the Report of Examination or any future report of examination, and is uncollected.

(c) The provision in this ORDER restricting lending to a classified borrower shall not apply if the Bank’s failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to extending additional credit pursuant to this paragraph, whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Board, or a designated committee thereof, who shall determine that:

(i) the failure of the Bank to extend such credit would be detrimental to the best interests of the Bank, with a written explanation of why the failure to extend such credit would be detrimental;

(ii) the extension of such credit would improve the Bank’s position, with a written explanatory statement of how and why the Bank’s position would improve; and

(iii) an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

(d) The Board's determinations and approval pursuant to this paragraph shall be made a part of the minutes of the Board, or designated committee and copies shall be submitted to the Regional Director and the Commissioner with the next quarterly submission pursuant to paragraph 13, with a copy retained in the borrower's credit file.

REDUCTION OF COMMERCIAL REAL ESTATE CONCENTRATIONS

6. (a) Within 30 days from the effective date of this ORDER, the Bank shall develop and submit, after review by the Board, a written plan for systematically reducing and monitoring the Bank's commercial real estate ("CRE") loan concentration of credit identified in the Report of Examination to an amount which is commensurate with the Bank's business strategy, management expertise, size, and location ("CRE Plan"). The CRE 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:

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

(ii) timeframes for achieving the reduction in dollar levels in response to (i) above;

(iii) 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);

(iv) 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

(v) 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 CRE Plan, “reduce” means to charge-off or collect, or increase Tier 1 capital.

(c) The Bank shall submit the CRE Plan to the Regional Director and the Commissioner for non-objection. Within 30 days after the Regional Director and the Commissioner have responded to the CRE Plan, the Board shall adopt the CRE Plan as amended or modified by the Regional Director and the Commissioner, which approval shall be recorded in the minutes of the Board meeting. The CRE 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. Within 60 days from the effective date of this ORDER, the Board shall establish a comprehensive policy and methodology for determining an appropriate ALLL (“ALLL Policy”). The ALLL Policy shall provide for a review of the ALLL at least once each calendar quarter. Said review should be completed at least 10 days prior to the end of each quarter in order that the findings of the Board may be properly reported in the Bank’s Reports of Condition and Income. Such reviews shall, at a minimum, be made in accordance with: (i) Financial Accounting Standards Board (“FASB”) Statement Numbers 5 and 114, as codified by FASB under its Accounting Standards Codification effective after September 15, 2009 (established by FASB Statement Number 168) (“FASB 5 and 114”); (ii) the Instructions for the Report of Condition and Income; (iii) the *Interagency Policy Statement on the Allowance for Loan and Lease Losses*

(FIL-105-2006, issued December 13, 2006); (iv) other applicable regulatory guidance that addresses the appropriateness of the Bank's ALLL; and (v) any analysis of the Bank's ALLL provided by the Regional Director and the Commissioner. Such reviews shall include, at a minimum, the Bank's loan loss experience, an estimate of the potential loss exposure in the portfolio, trends of delinquent and non-accrual loans and prevailing and prospective economic conditions. The minutes of the Board meetings at which such reviews are undertaken shall include complete details of the reviews and the resulting recommended increases in the ALLL. The Board shall document in the Board minutes the basis for any determination not to require provisions for loan losses in accordance with FASB 5 and 114.

PROFIT AND BUDGET PLAN

8. (a) Within 60 days from the effective date of this ORDER, and within the first 60 days of each calendar year thereafter, the Bank shall develop and fully implement a written profit plan ("Profit Plan") consisting of goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER. The Profit Plan shall include, at a minimum:

(i) specific goals to maintain appropriate provisions to the ALLL;

(ii) realistic and comprehensive budgets for all categories of income and expense items;

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

(iv) an executive compensation plan, addressing any and all salaries, bonuses and other benefits of every kind or nature whatsoever, both current and deferred, whether paid directly or indirectly, which plan incorporates qualitative as well as profitability performance standards for the Bank's Senior Executive Officers;

(v) coordination of the Bank's loan, investment, funds management, and operating policies; strategic plan; and ALLL methodology with the profit and budget planning;

(vi) a budget review process to monitor the revenue and expenses of the Bank whereby actual performance is compared against budgetary projections not less than quarterly;

(vii) recording the results of the budget review and any actions taken by the Bank as a result of the budget review in the minutes of the Board; and

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

(b) Within 30 days following the end of each calendar quarter following completion of the Profit Plan and budget required by this provision, the Board shall evaluate the Bank's actual performance in relation to the Profit Plan and budget, record the results of the evaluation, and note any actions taken by the Bank or Board in the minutes of the Board meeting at which such evaluation is undertaken.

(c) The Profit Plan and budget required by this paragraph shall, after review by the Board, be submitted to the Regional Director and the Commissioner for non-objection. Within 30 days after receipt of comments from the Regional Director and the Commissioner, the Board shall approve the Profit Plan and budget as amended or modified by the Regional Director and the Commissioner, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement the Profit Plan and budget.

STRATEGIC PLAN

9. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate adopt, and implement a realistic and comprehensive written strategic plan (“Strategic Plan”). The Strategic Plan required by this provision 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. The Strategic Plan shall address, at a minimum: (i) strategies for pricing policies and asset/liability management; (ii) an analysis of the effect on the Bank of the expiration on June 30, 2010 of the Temporary Liquidity Guarantee Program's Transaction Account Guarantee Program, pursuant to 12 C.F.R. § 370.4; and (iii) financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(b) The Strategic Plan and any subsequent modification thereto, shall, after review by the Board, be submitted to the Regional Director and the Commissioner for non-objection. Not more than 30 days after the receipt of objections from the Regional Director and the Commissioner, the Board shall approve the Strategic Plan as amended or modified by the Regional Director and the Commissioner and record its approval in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Strategic Plan.

(c) The Strategic Plan required by this ORDER shall be revised 30 days prior to the end of each calendar year during which this ORDER is in effect. Thereafter, the Board shall approve the revised plan, which approval shall be recorded in the minutes of a Board meeting, and the Bank shall implement and adhere to the revised plan.

DIVIDEND RESTRICTION

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

CORRECTIONS

11. Within 90 days after the effective date of this ORDER, the Bank shall address any contraventions of policy noted in the Report of Examination.

COMPLIANCE COMMITTEE

12. Within 30 days from the effective date of this ORDER, the Board shall establish a compliance committee of the Board composed of at least three directors who are not now, and have never been, involved in the daily operations of the Bank, 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

13. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall, after review by the Board, furnish to the Regional Director and the Commissioner written progress reports, detailing the actions taken to secure compliance with this ORDER and the results thereof.

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 against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance.

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 provision has been modified, terminated, suspended, or set aside by the FDIC.

Issued Pursuant to Delegated Authority

Dated: April 5, 2010

By:

/s/

Daniel E. Frye
Acting Regional Director
New York Region
Division of Supervision and
Consumer Protection
Federal Deposit Insurance
Corporation