

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of	)	
	)	AMENDED ORDER
	)	TO CEASE AND DESIST
EARTHSTAR BANK	)	
SOUTHAMPTON, PENNSYLVANIA	)	FDIC-08-080b
	)	
(Insured State Nonmember Bank)	)	
_____	)	

EARTHSTAR BANK, SOUTHAMPTON, PENNSYLVANIA (“Bank”), having been advised of its right to a Notice of Charges and of Hearing detailing the unsafe or unsound banking practices and violations of law and/or regulation alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1818(b)(1), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN AMENDED ORDER TO CEASE AND DESIST (“CONSENT AGREEMENT”) with counsel for the Federal Deposit Insurance Corporation (“FDIC”), dated \_\_\_\_\_, 2010, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulation, the Bank consented to the issuance of an AMENDED ORDER TO CEASE AND DESIST (“AMENDED ORDER”) by the FDIC which amends and restates the ORDER TO CEASE AND DESIST issued by the FDIC dated May 28, 2008 (“2008 Order”).

The FDIC considered the matter and determined that it had reason to believe that the Bank has engaged in unsafe or unsound banking practices and violations of law and/or regulation. The FDIC, therefore, accepts the CONSENT AGREEMENT and issues the

following:

**AMENDED ORDER TO CEASE AND DESIST**

IT IS ORDERED, that the Bank, its directors, officers, employees, agents, and other institution-affiliated parties (as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u)), and their successors and assigns, cease and desist from the following unsafe or unsound banking practices and violations of law and/or regulation, which were identified at the visitation of the Bank, as of June 30, 2009, jointly conducted by the Pennsylvania Department of Banking (“Department”) and the FDIC (“Visitation”), and the FDIC Compliance Report of Examination, as of August 4, 2009 (“Compliance Report”):

- (a) Operating in noncompliance with the 2008 Order;
- (b) Operating with inadequate management supervision and oversight by the board of directors of the Bank (“Board”) to prevent unsafe or unsound practices and violations of law and regulation;
- (c) Operating with ineffective policies and procedures to ensure compliance with laws and regulations;
- (d) Operating with inadequate staff to perform present and anticipated duties, including lack of a Chief Executive Officer, Chief Financial Officer, and Chief Risk Officer;
- (e) Operating with inadequate capital in relation to the kind and quality of assets held by the Bank;
- (f) Operating in such a manner as to produce insufficient earnings to support operations and augment capital;
- (g) Operating the Bank with inadequate net interest margins;
- (h) Operating the Bank with an excessive level of interest rate risk;

(i) Operating without a current, comprehensive written business/strategic plan and budget;

(j) Operating with inadequate loan policies, processes, and procedures to ensure adequate supervision of the loan portfolio;

(k) Operating with an inadequate allowance for loan and lease losses (“ALLL”) and in contravention of the *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (FIL-105-2006, issued December 13, 2006);

(l) Failing to develop and administer an effective Compliance Management System that ensures compliance with federal consumer protection laws, regulations, regulatory guidance and policies (“Consumer Laws”).

(m) Failing to establish an effective process to monitor compliance with Consumer Laws;

(n) Operating with ineffective compliance policies and procedures and an inadequate compliance audit program;

(o) Operating in violation of applicable Consumer Laws and regulations, as more fully described in the Compliance Report, including: (i) the Truth in Lending Act (“TILA”), 15 U.S.C. § 1601 *et seq.*, and its implementing regulation, Regulation Z of the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 226; (ii) the Real Estate Settlement Procedures Act (“RESPA”), 12 U.S.C. § 2601 *et seq.*, and its implementing regulation, Regulation X of the U.S. Department of Housing and Urban Development, 24 C.F.R. Part 3500; (iii) the Flood Disaster Protection Act of 1973 as amended by the National Flood Insurance Reform Act of 1994, 42 U.S.C. § 4012a, and its implementing regulation, Part 339 of the FDIC’s

Rules and Regulations (“Part 339”), 12 C.F.R. Part 339; and (iv) Regulation E of the Board of Governors of the Federal Reserve System (“Regulation E”), 12 C.F.R. Part 205; and

(p) Operating in violation of: (i) section 337.6 of the FDIC’s Rules and Regulations, 12 C.F.R. § 337.6; (ii) section 13.31(a) of Title 10 of the Pennsylvania Code, 10 Pa. Code § 13.31(a); (iii) sections 323.3 and 323.4 of the FDIC’s Rules and Regulations, 12 C.F.R. §§ 323.3 and 323.4; (iv) section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC’s Rules and Regulations, 12 C.F.R. § 303.100 *et seq.*; and (v) section 7(a) of the Act, 12 U.S.C. § 1817(a), and section 304.3(a) of the FDIC’s Rules and Regulations, 12 C.F.R. § 304.3(a).

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

#### MANAGEMENT

1. (a) The Bank shall have and retain qualified management, including a Chief Executive Officer, Chief Financial Officer, and Chief Risk Officer. 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:

- (i) comply with the requirements of this AMENDED ORDER;
- (ii) operate the Bank in a safe and sound manner;
- (iii) comply with applicable laws and regulations; and

(iv) restore all aspects of the Bank to a safe and sound condition, including improving the Bank's asset quality, capital adequacy, earnings, management effectiveness, and liquidity.

(b) In addition, the Board shall provide written notification to the Regional Director and the Department of any proposed change in Board member or senior executive officer of the Bank at least 30 days prior to the date such proposed change is to become effective; such notification shall include a description of the knowledge, skills, ability, and experience required by this paragraph of the proposed senior executive officer or Board member. Such changes will only be effective upon receipt of the Regional Director's and the Department's approval. The Bank shall also establish procedures to ensure compliance with section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC's Rules and Regulations, 12 C.F.R. § 303.100 *et seq.*

#### BOARD OF DIRECTORS' OVERSIGHT

2. (a) Within 120 days from the effective date of this AMENDED ORDER, and annually thereafter, the Board shall review management's adherence to the Bank's written policies and procedures and shall prepare written findings and conclusions of this review along with written descriptions of any management or operational changes that are made as a result of the review. These written findings shall be included in the minutes of the Board.

(b) The Board shall increase its participation in the affairs of the Bank and assume full responsibility for the approval of sound policies and objectives for compliance with this AMENDED ORDER and for the supervision of Bank management and all the Bank's activities. The Board's participation in the Bank's affairs shall include, at a minimum, monthly meetings in which the following areas shall be reviewed and approved by the Board: capital;

reports of income and expenses; new, overdue, renewed, insider, charged-off, delinquent, nonaccrued, nonperforming, classified and recovered loans; internal loan watch list; operating policies; and individual committee actions. The Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(c) The Board shall maintain adequate and complete minutes of all Board meetings, approve such minutes, and retain them for supervisory review.

#### CAPITAL MAINTENANCE

3. (a) The Bank shall achieve by June 30, 2010 and maintain the following minimum capital levels (as defined in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325), after establishing an adequate ALLL:

- (i) Tier 1 capital at least equal to 8 percent of total assets;
- (ii) Tier 1 risk-based capital at least equal to 9 percent of total risk-weighted assets; and
- (iii) Total risk-based capital at least equal to 12 percent of total risk-weighted assets.

(b) The Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325, App. A.

(c) Within 30 days of the last day of each calendar quarter, the Bank shall determine, from its Reports of Condition and Income, its capital ratios for that calendar quarter. If any capital measure falls below the minimum established by this AMENDED ORDER, within 30 days of such required determination of capital ratios, the Bank shall submit a written plan to the Regional Director and the Department, describing the means and timing by which the Bank

shall increase such ratio up to or in excess of the established minimum.

(d) In the event any capital ratio is or falls below the minimum required by this AMENDED ORDER, the Bank shall immediately notify the Regional Director and the Department and (i) within 30 days shall increase capital in an amount sufficient to comply with this AMENDED ORDER, or (ii) within 30 days shall submit a written plan to the Regional Director and the Department, 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 AMENDED ORDER, as well as a contingency plan for the sale or merger of the Bank in the event the primary sources of capital are not available within 30 days. Within 10 days of receipt of all such comments from the Regional Director and the Department, and after consideration of all such comments, the Bank shall approve the written capital plan, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the written plan.

#### REDUCTION OF ADVERSELY CLASSIFIED ASSETS

4. (a) Within 30 days from the effective date of this AMENDED ORDER, the Bank shall formulate a new written plan to reduce the Bank's risk exposure in each asset classified "Substandard" or "Doubtful" at the Visitation, in the joint FDIC and Department Report of Examination as of September 30, 2007 ("2007 Report"), in the joint FDIC and Department Report of Examination as of December 31, 2008 ("2008 Report"), and in the Bank's internal loan watch list and other applicable reports (collectively, the "Reports") (including loans, other real estate owned, and securities). For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the FDIC and/or the Department. In developing the plan mandated by this

paragraph, the Bank shall, at a minimum, and with respect to each adversely classified loan or lease, review, analyze and document the financial position of the borrower, including source of repayment, repayment ability and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral and any possible actions to improve the Bank's collateral position.

(b) In addition, the plan mandated by this provision shall also include, but not be limited to, the following:

(i) a schedule for reducing the outstanding dollar amount of each adversely classified asset, including timeframes for achieving the reduced dollar amounts (at a minimum, the schedule for each adversely classified asset must show its expected dollar balance on a quarterly basis);

(ii) specific action plans intended to reduce the Bank's risk exposure in each classified asset;

(iii) a schedule showing, on a quarterly basis, the expected consolidated balance of all adversely classified assets identified in the Reports, and the ratio of the consolidated balance to the Bank's projected Tier 1 capital plus the ALLL;

(iv) a provision for the Bank's submission of monthly written progress reports to its Board; and

(v) a provision mandating Board review of the progress reports, with a notation of the review recorded in the minutes of the meeting of the Board.

(c) The plan mandated by this provision shall further require a reduction in the aggregate balance of assets classified "Substandard" and "Doubtful" in the Reports in accordance with the following schedule.

- (i) within 90 days, to not more than \$10 million; and
- (ii) within 270 days, to not more than \$5 million.

For purposes of this paragraph, “number of days” means number of days from the effective date of this AMENDED ORDER.

(d) The requirements of this paragraph do not represent standards for future operations of the Bank. Following compliance with the above reduction schedule, the Bank shall continue to reduce the total volume of adversely classified assets.

(e) The Bank shall submit the plan required by this paragraph to the Regional Director and the Department for review and comment. Within 30 days from receipt of any comment from the Regional Director and/or the Department, and after due consideration of any recommended changes, the Board shall approve the plan, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the plan.

#### RESTRICTIONS ON ADVANCES TO ADVERSELY CLASSIFIED BORROWERS

5. (a) While this AMENDED ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit or obligation with the Bank that has been, in whole or in part, charged off or classified “Loss” and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing, after collecting in cash all interest and fees due from a borrower, any credit already extended to the borrower. Prior to renewing credit pursuant to this subparagraph, such additional credit shall be approved by the Board, or a designated committee thereof, who shall certify in writing:

- (i) why failure of the Bank to extend such credit would be detrimental

to the best interests of the Bank;

(ii) that the extension of such credit would improve the Bank's position, including an explanatory statement of how the Bank's position would improve; and

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

(b) While this AMENDED ORDER is in effect, the Bank shall not make any further extensions of credit, directly or indirectly, to any borrower whose loans are adversely classified "Substandard" or "Doubtful" by the FDIC and/or the Department in the Reports or the Bank's internal loan reports without prior approval by the Board, and 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 Board shall not approve the proposed extension without first making affirmative determinations that:

(i) the extension of credit is in full compliance with the Bank's loan policy;

(ii) the extension of credit is necessary to protect the Bank's interests, or is adequately secured;

(iii) the Bank found the primary and secondary obligors to be creditworthy based on a credit analysis; and

(iv) all necessary loan documentation is on file, including, at a minimum, current financial and cash flow information, and satisfactory appraisal, title and lien documents.

(c) All written certifications and determinations from the Board required under this paragraph shall be recorded in the minutes of the meeting of the Board, with a copy

retained in the borrower's credit file and a copy provided to the Regional Director and the Department in the progress reports required by paragraph 17 of this AMENDED ORDER.

#### REDUCTION OF DELINQUENCIES

6. (a) Within 30 days from the effective date of this AMENDED ORDER, the Bank shall formulate a new written plan, based on the Bank's financial information as of March 31, 2010, for the reduction and collection of delinquent loans. For purposes of this provision, "reduce" means to charge-off or collect. The plan shall include, but not be limited to, provisions which:

- (i) prohibit the extension of credit for the payment of interest or fees;
- (ii) delineate responsibilities for implementing and monitoring the Bank's collection policies;
- (iii) establish specific collection actions and procedures to be instituted at various stages of a borrower's delinquency;
- (iv) establish specific dollar levels to which the total dollar volume of delinquencies will be reduced, and the projected timeframes for achieving the projected reduction; and
- (v) provide for the submission of monthly written progress reports to the Board for review and notation in minutes of the meetings of the Board.

(b) The Bank shall immediately submit the plan to the Regional Director and the Department for review and comment.

(c) Within 30 days from receipt of any comment from the Regional Director and/or the Department, and after due consideration of any recommended changes, the Board shall approve the plan, which approval shall be recorded in the minutes of the Board's meeting.

Thereafter, the Bank shall implement and fully comply with the plan.

#### CORRECTION OF LOAN DOCUMENTATION EXCEPTIONS

7. (a) Within 60 days from the effective date of this AMENDED ORDER, the Bank shall correct all loan documentation exceptions that have been identified and establish a system to identify and correct loan documentation exceptions. All attempts to correct exceptions shall be documented in the borrowers' credit files. In all future operations, the Bank shall ensure that all necessary supporting documentation is obtained and evaluated before any credit or loan is extended by the Bank.

(b) Progress reports detailing each outstanding exception and the Bank's plan for corrective action shall be submitted to the Board for review during each regularly scheduled meeting. The review shall be noted in the minutes of the meeting of the Board.

#### LOAN POLICIES AND PROCEDURES

8. (a) Within 30 days from the effective date of this AMENDED ORDER, the Bank shall revise its written loan policies and procedures to, at a minimum, address, consider, and include the following:

(i) Control and monitoring of concentrations of credit, including: (a) establishing concentrations of credit limits by industries and types of loans; and (b) managing the risk associated with asset concentrations; and

(ii) Procedures to monitor the volume and status of speculative real estate projects.

(b) The Bank shall submit the revised written loan policies and procedures required by this paragraph to the Regional Director and the Department for review and comment.

(c) Within 30 days from receipt of any comment from the Regional Director

and/or the Department, and after due consideration of any recommended changes, the Board shall approve the written loan policies and procedures, which approval shall be recorded in the minutes of the Board's meeting. Thereafter, the Bank shall implement and fully comply with the plan.

#### ALLOWANCE FOR LOAN AND LEASE LOSSES AND CALL REPORTS

9. (a) 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 as contained in the Bank's most recent report of examination. 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 allowance needed. The quarterly assessment shall be reviewed by the Board and shall be noted in the minutes of the Board.

(b) Within 60 days from the effective date of this AMENDED ORDER, the Bank shall use Financial Accounting Standards Board Statements Numbers 5 and 114, as codified by FASB under its Accounting Standards Codification effective after September 15, 2009 (established by FASB Statement Number 168), for determining the adequacy of the Bank's ALLL. Provisions for loan losses shall be based on the inherent risk in the Bank's loan portfolio and the Board shall document in writing the basis for any determination not to require provisions for loan losses in accordance with Financial Accounting Standards Board Statements Numbers 5 and 114, as codified by FASB under its Accounting Standards Codification effective after September 15, 2009 (established by FASB Statement Number 168), in the Board minutes.

(c) Within 60 days from the effective date of this AMENDED ORDER, the Bank shall review Consolidated Reports of Condition and Income filed with the FDIC on or after June 30, 2009, and amend said reports if necessary to accurately reflect the financial condition of the Bank as of the date of each such report. In particular, such reports shall contain a reasonable ALLL and accurately reflect credit charged off as “Loss.” Reports filed after the effective date of this AMENDED ORDER shall also accurately reflect the financial condition of the Bank as of the reporting date.

#### STRATEGIC PLAN

10. (a) Within 60 days of this AMENDED ORDER, the Bank shall formulate a revised comprehensive written business/strategic plan (“Strategic Plan”), based on the Bank’s financial information as of March 31, 2010, covering an operating period of at least three years. The Strategic Plan shall contain an assessment of the Bank’s current financial condition and market area along with a description of the operating assumptions that form the basis for major projected income and expense components of the assessment.

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

- (i) strategies for pricing policies and asset/liability management;
- (ii) anticipated average maturity and average yield on loans and securities, average maturity and average cost of deposits, the level of earning assets as a percentage of total assets, and the ratio of net interest income to average earning assets;

- (iii) dollar volume of total loans, total investment securities, and total deposits;
- (iv) plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;
- (v) financial goals including pro forma statements for asset growth, capital adequacy and earnings; and
- (vi) formulation of a mission statement and the development of a strategy to carry out that mission.

(c) The Board shall submit the Strategic Plan to the Regional Director and the Department for review and comment. Within 30 days from receipt of any comment from the Regional Director and/or the Department, and after due consideration of any recommended changes, the Board shall approve the Strategic Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved.

(d) The Bank shall implement and fully comply with the Strategic Plan after completion of the requirements of subparagraph (c) of this paragraph.

(e) Within 15 days from the end of each calendar quarter following the effective date of this AMENDED ORDER, the Board shall evaluate the Bank's performance in relation to the Strategic Plan and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting during which such evaluation is undertaken. In the event the Board determines that the Strategic Plan should be revised in any manner, the Strategic Plan shall be revised and submitted to the Regional Director and the Department for review and comment within 15 days after such revisions have been approved by the Board.

(f) Within 30 days of receipt of any comments from the Regional Director and/or the Department, and after consideration of all such comments, the Bank shall approve the revised Strategic Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved.

(g) The Board shall implement and fully comply with the revised Strategic Plan after completion of the requirements of subparagraph (f) of this paragraph.

#### PROFIT AND BUDGET PLAN

11. (a) Within 120 days from the effective date of this AMENDED ORDER, and within the first 30 days of each calendar year thereafter, the Board shall develop and fully implement a revised 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 required by this AMENDED ORDER.

(b) The Profit Plan should not include any areas representing a material change in the business plan and which have not been submitted to the Regional Director and the Department at least 60 days prior to consummation of the change, but 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;

(ii) specific goals to improve the net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings;

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

(iv) a description of the operating assumptions that form the basis for,

and adequately support, material projected revenue and expense components;

(v) coordination of the Bank's loan, investment, funds management, and operating policies; strategic plan; and allowance for loan and lease losses 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 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

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

(c) The Board shall submit the Profit Plan required by this paragraph to the Regional Director and the Department for review and comment. Within 30 days from receipt of any comment from the Regional Director and/or the Department, and after due consideration of any recommended changes, the Board shall approve the Profit Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved. Thereafter, the Bank shall implement and fully comply with the Profit Plan.

(d) Within 30 days from the end of each calendar month following the effective date of this AMENDED ORDER, the Board shall evaluate the Bank's performance in relation to the Profit Plan and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting during which such evaluation is undertaken. In the event the Board determines that the Profit Plan should be revised in any manner, the Profit Plan shall be revised and submitted to the Regional Director and the Department for review and comment within 25 days after such revisions have been approved by the Board. Within 30 days

of receipt of any comments from the Regional Director and/or the Department, and after consideration of all such comments, the Board shall approve the revised Profit Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved. Thereafter, the Bank shall implement and fully comply with the revised Profit Plan.

#### FUNDS MANAGEMENT AND LIQUIDITY

12. Within 60 days from the effective date of this AMENDED ORDER, the Bank shall submit to the Regional Director and the Department a revised and comprehensive funds management and liquidity plan. The plan shall address the means by which the Bank will seek to reduce its reliance on non-core funding and high cost rate-sensitive deposits, and comply with section 337.6 of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6, as revised effective January 1, 2010 (74 Fed. Reg. 27679 (June 11, 2009)). The plan shall also assess possible liquidity events that the Bank may encounter and identify contingency responses to the potential impact of such events on the Bank's short-term, intermediate-term and long-term liquidity profiles.

#### AUDIT PROGRAM

13. (a) The Board shall provide for an effective external and independent internal audit program ("Audit Program"), and implement and maintain the Audit Program in a manner that is acceptable to the Regional Director and the Department as determined at subsequent examinations.

(b) During the life of this AMENDED ORDER, the Bank shall forward copies of any external audit reports, along with the engagement letter, management letter regarding internal control deficiencies and any Bank response, to the Regional Director and the Department within 10 days from the Bank's receipt of such documents.

## DIVIDENDS

14. The Bank shall not declare or pay any cash dividends without the prior written approval of the Regional Director and the Department. Requests for approval shall be received at least 30 days prior to the proposed date for the declaration of dividends and shall contain, but not be limited to, information on consolidated earnings for the most recent annual period and the last quarter.

## COMPLIANCE MANAGEMENT SYSTEM

15. (a) Within 60 days from the effective date of this AMENDED ORDER, the Bank shall develop and implement an effective Compliance Management System (“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. The CMS shall, at a minimum, include:

(i) appointment and/or retention of a qualified compliance officer and/or establishment and/or retention of a compliance committee with the requisite level of knowledge and experience to administer an effective CMS;

(ii) receipt of ongoing training, sufficient time, and adequate resources to ensure that the compliance officer and/or compliance committee effectively oversee, coordinate, and implement the CMS;

(iii) adoption of clear and specific written policies, operating procedures and processes, particularly in regard to Regulation E and the spousal signature requirements of Regulation B, that ensure all activities comply with all applicable Consumer Laws and allow personnel to carry out their job responsibilities in compliance with Consumer Laws;

(iv) periodic updating of policies, operating procedures and processes to reflect changes in the Bank's business and regulatory environment;

(v) implementation and maintenance of a training program related to Consumer Laws, including for employees having responsibilities that relate to applicable Consumer Laws, including senior management, the Board, the compliance officer and/or members of the compliance committee, as well as all applicable employees and staff, that provides for ongoing and meaningful training commensurate with their individual job functions and duties;

(vi) implementation of an independent, comprehensive written plan outlining the ongoing and timely audit of the Bank's compliance with Consumer Laws and adherence to internal policies, operating procedures processes and at a minimum:

(A) provides for ongoing and sufficient transactional testing, as appropriate, for all areas of significant compliance risk, including those areas identified in the Compliance Report, and

(B) identifies the deficiencies noted, provides descriptions of or suggestions for corrective actions and time frames for correction, and establishes follow-up procedures to verify that corrective actions were implemented in a timely fashion and effective;

(vii) documentation of the Board's review of audit findings, including the review of corrective measures needed and or taken;

(viii) establishment of specific robust corrective mechanisms to ensure that violations noted in the Compliance Report have been corrected and do not recur;

(ix) establishment of a process whereby the Board certifies in writing at each of its meetings held during the existence of this AMENDED ORDER that all actions

required in this section are or have been implemented and that management is presenting actions taken to ensure compliance with these provisions to the Board at each such meeting.

#### COMPLIANCE COMMITTEE

16. (a) Within 15 days from the effective date of this AMENDED ORDER, the Board shall establish a Compliance Committee and appoint to it 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 Department, to monitor the Bank's compliance with this AMENDED ORDER.

(b) Within 30 days of this AMENDED 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 AMENDED ORDER and the results thereof, and any recommendations with respect to such compliance. Such progress reports shall be included in the Board meeting minutes. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this AMENDED ORDER.

(c) The Bank's Compliance Committee shall monitor and coordinate the Bank's compliance with the provisions of this AMENDED ORDER.

(d) Within 15 days after its receipt from the Bank's Compliance Committee, the Board shall forward a copy of the report with any additional comments made by the Board to the Regional Director and the Department.

#### PROGRESS REPORTS

17. By the 30th day after the end of the calendar quarter following the effective date of this AMENDED ORDER, and by the 30th day after the end of every calendar quarter

thereafter, the Board shall furnish written progress reports to the Regional Director and the Department detailing the form, content and manner of any actions taken to secure compliance with this AMENDED ORDER, and the results thereof.

#### CAPITAL REPORTS

18. (a) Until such time as the Bank achieves the minimum capital levels and ratios required by paragraph 3 of this AMENDED ORDER, the Bank shall determine and report to the Regional Director and the Department the Bank's capital levels and ratios on a monthly basis or sooner as may be required by the Bureau or Regional Director.

(b) Unless otherwise directed, the monthly reports required by this paragraph shall be submitted no later than the 15 days after the last day of the month and the report shall be signed and submitted by the Bank's Chief Financial Officer or the committee established pursuant to paragraph 16 of this AMENDED ORDER.

#### SHAREHOLDERS

19. Following the effective date of this AMENDED ORDER, the Board shall provide to the shareholders, or otherwise furnish a description of this AMENDED 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 AMENDED 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 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

## OTHER ACTIONS

20. It is expressly and clearly understood that if, at any time, the Regional Director and the Department shall deem it appropriate in fulfilling the responsibilities placed upon him or the Department under applicable law to undertake any further action affecting the Bank, nothing in this AMENDED ORDER shall in any way inhibit, estop, bar or otherwise prevent him or the Department from doing so.

21. It is expressly and clearly understood that nothing herein shall preclude any proceedings brought by the Regional Director and the Department to enforce the terms of this AMENDED 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, departments or agencies thereof, Department of Justice, or any other representatives of the Commonwealth of Pennsylvania or any other departments or agencies thereof, including any prosecutorial agency, to bring other actions deemed appropriate.

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

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

The provisions of this AMENDED ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this AMENDED ORDER have been modified, terminated, suspended or set aside.

Pursuant to delegated authority.

Dated this 29th day of April, 2010.

/s/

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