

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of	)	
	)	CONSENT ORDER
COLONIAL AMERICAN BANK	)	
HORSHAM, PENNSYLVANIA	)	FDIC-10-473b
	)	
(INSURED STATE NONMEMBER BANK)	)	

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The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Colonial American Bank (“Bank”), Horsham, Pennsylvania, 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 August 10, 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 and violations of law or regulation relating to weaknesses in capital, earnings, management and Board oversight, and liquidity, to the issuance of this Consent Order (“ORDER”) by the FDIC.

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

MANAGEMENT

- The Bank shall have and retain qualified management.
  - At a minimum, such management shall include a chief executive officer with proven ability in managing a bank of comparable size and complexity and experience in credit administration. The Board shall provide the necessary written authority to management to implement the provisions of this ORDER.

- (c) 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 laws, rules, and regulations; and
  - (iv) restore all aspects of the Bank to a safe and sound condition, including capital adequacy, management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

### BOARD OF DIRECTORS

2. (a) Immediately upon 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) This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; investment activity; liquidity levels and funds management; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including management's responses; and compliance with this ORDER. 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, including the attendance of each director at each meeting, approve such minutes, and retain them for supervisory review.

(d) 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.

(e) The Bank shall also establish procedures to ensure compliance with section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. Part 303.

### CAPITAL

3. (a) The Bank shall meet by December 31, 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 greater than or equal to 8 percent of total assets; and

(ii) Total risk-based capital greater than or 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 ORDER, within 30 days of such required determination of capital ratios, the Bank shall submit a written plan to the Regional Director 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 ORDER, the Bank shall immediately notify the Regional Director and (i) within 30 days shall increase capital in an amount sufficient to comply with this ORDER, or (ii) within 30 days shall submit a written plan to the Regional Director 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 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 30 days of receipt of all such comments from the Regional Director, 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.

#### STRATEGIC PLAN

4. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a realistic and comprehensive 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.

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

- (i) strategies for pricing policies and asset/liability management; and
- (ii) financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(c) The Strategic Plan required by this provision shall be submitted to the Regional Director for non-objection. Within 30 days of receipt of any objections from the Regional Director, and after incorporation and adoption of all objections or comments, the Board shall approve the Strategic 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 Strategic Plan.

#### PROFIT AND BUDGET PLAN

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop and fully implement a written profit and budget 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 ("Profit Plan").

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

(i) specific goals to maintain appropriate provisions to the allowance for loan and lease losses;

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

(iii) 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;

(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 loss 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 of directors; and

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

(c) The Profit Plan required by this provision shall be submitted to the Regional Director for non-objection. Within 30 days of receipt of any objections from the Regional

Director, and after incorporation and adoption of all objections or comments, 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 Profit Plan.

(d) Within 30 days following the end of each calendar quarter following completion of the Profit Plan required by this paragraph, the Board shall evaluate the Bank's actual performance in relation to the Profit Plan, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the Boards' meeting at which such evaluation is undertaken. The copies of the quarterly reports required by this paragraph shall be submitted to the Regional Director with the quarterly progress reports required pursuant to paragraph 14 of this ORDER.

#### LIQUIDITY AND FUNDS MANAGEMENT PLAN

6. (a) Within 60 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 non-objection. Annually thereafter, while this ORDER is in effect, the Bank shall review its plan for adequacy and, based upon such review, shall make necessary revisions to the Liquidity and Funds Management Plan to strengthen funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs.

(b) The Liquidity and Funds Management Plan shall include, at a minimum, provisions which:

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

(ii) provide for a periodic review of the Bank's deposit structure, including the volume and trend of total deposits and the volume and trend of the various types of deposits offered, the maturity distribution of time deposits, rates being paid on each type of deposit, rates

being paid by trade area competition, caps on large time deposits, public funds, out-of-area deposits, and any other information needed;

(iii) establish a reasonable range for its net non-core funding ratio as computed in the Uniform Bank Performance Report;

(iv) identify the source and use of borrowed and/or volatile funds;

(v) establish sufficient back-up lines of credit that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved to be inadequate;

(vi) require 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;

(vii) establish a minimum liquidity ratio and define how the ratio is to be calculated;

(viii) establish a liquidity contingency plan ("Liquidity Contingency Plan") that identifies sources of liquid assets to meet the Bank's contingency funding needs. At a minimum, the Liquidity Contingency Plan shall be prepared in conformance with the guidance set forth in *Liquidity Risk Management* (FIL-84-2008, issued August 26, 2008), identifying alternative courses of action designed to meet the Bank's liquidity needs;

(ix) address 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); and

(x) comply with the guidance set forth in *Liquidity Risk Management*.

(c) The Liquidity and Funds Management Plan and the Liquidity Contingency Plan required by this provision shall be submitted to the Regional Director for non-objection. Within 30 days of receipt of any objections from the Regional Director, and after incorporation and adoption of all objections or comments, the Board shall approve the plans, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the Liquidity and Funds Management Plan and the Liquidity Contingency Plan.

(d) The Bank shall submit to the Regional Director within five days of the end of each calendar month after the effective date of this ORDER a report of the Bank's liquid assets and access to additional sources of liquidity as of the end of such month ("Liquidity Monitoring Report").

#### AUDIT PROGRAM

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall comply with the *Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations*. Changes made by the Board in the Bank's audit program as a result of complying with this paragraph shall be recorded in the applicable Board minutes and forwarded to the Regional Director.

(b) Within 60 days from the effective date of this ORDER, the Bank shall comply with the *Interagency Policy Statement on Internal Audit Function and its Outsourcing*. Changes made by the Board in the Bank's audit program as a result of complying with this paragraph shall be recorded in the applicable Board minutes and forwarded to the Regional Director.

(c) Within 60 days from the effective date of this ORDER, the Bank shall develop internal and external audit programs ("Audit Programs") that establish procedures to protect the

integrity of the Bank's operational and accounting systems. At a minimum the Audit Programs shall:

- (i) comply with the *Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations* and the *Interagency Policy Statement on the Internal Audit Function and its Outsourcing*;
- (ii) provide procedures to test the validity and reliability of operating systems, procedural controls, and resulting records; and
- (iii) provide for monthly reports of audit findings from the auditors directly to the Board. The minutes of the Board shall reflect consideration of these reports and describe any discussion or action taken as a result thereof.

(d) The Bank shall provide the Regional Director with a copy of all external audit reports, management letters, and qualifications within 15 days of the Bank's receipt of such report(s). The Board shall address all findings of the external audit reports at its next regular meeting after receipt of the reports. Any action or inaction taken as a result of addressing the reports shall be noted in the minutes of the Board meeting with each individual member's vote recorded.

(e) The Audit Programs shall be submitted to the Regional Director for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Regional Director, and after incorporation and adoption of all comments, the Board shall approve the Audit Programs, which approval shall be recorded in the minutes of the Board meeting.

Thereafter, the Bank shall implement and fully comply with the Audit Programs.

#### LOAN POLICY

8. (a) Within 90 days from the effective date of this ORDER, the Bank shall conduct a review of the Bank's loan policies and procedures for adequacy and, based upon such review,

shall make all appropriate revisions to the loan policies and procedures (“Loan Policy”) necessary to address the credit underwriting and administration deficiencies identified in the joint FDIC and Pennsylvania Department of Banking (“Department”) report of examination as of December 31, 2009 (“Report of Examination”). The revised Loan Policy shall be submitted for review as described in subparagraph (c). The Board shall also establish review and monitoring procedures to ensure that all lending personnel are adhering to the Loan Policy, and that the Board is receiving timely and fully documented reports on loan activity, including reports that identify deviations from the Loan Policy.

(b) The Loan Policy shall, at minimum:

(i) require that all extensions of credit originated or renewed by the Bank, including loans purchased from a third party (loan participations) are supported by current financial information, profit and loss statements or copies of tax returns, and cash flow projections, which shall be updated and maintained throughout the term of the loan, and are otherwise in conformance with the Loan Policy;

(ii) incorporate limitations on the amount that can be loaned in relation to established collateral values, require the source of collateral valuations to be identified, require that collateral valuations be completed prior to the commitment to lend funds, and require that collateral valuations be performed on a periodic basis over the term of the loan; and

(iii) establish a formal appraisal review policy and procedure, and review and monitoring procedures for compliance with the FDIC's appraisal regulation, 12 C.F.R. Part 323, and the *Interagency Appraisal and Evaluation Guidelines*.

(c) The Loan Policy shall be submitted to the Regional Director for non-objection or comment. Within 30 days of receipt of non-objection or comments from the Regional Director, and after incorporation and adoption of all comments, the Board shall approve the Loan Policy,

which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Loan Policy.

### CONCENTRATIONS

9. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit for review as described in subparagraph (b) a written plan to monitor concentrations of credit ("Concentrations Plan"). At a minimum, the Concentrations Plan must provide for written procedures for the ongoing measurement and monitoring of the concentrations of credit, and a limit on concentrations commensurate with the Bank's capital position, business strategy, management expertise, size, location, safe and sound banking practices, and the overall risk profile of the Bank. Such plan shall prohibit any advances that would increase the concentration beyond such limit unless the advance is pursuant to an existing loan agreement and is otherwise permissible pursuant to this ORDER.

(b) The Concentrations Plan shall be submitted to the Regional Director for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Regional Director, and after incorporation and adoption of all comments, the Board shall approve the Concentrations Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the plan.

### INTEREST RATE RISK

10. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop and submit for review as described in subparagraph (c) an interest rate risk policy and procedures ("IRR Policy") that shall include, at a minimum:

(i) measures designed to control the nature and amount of interest rate risk the Bank takes including those that specify risk limits and define lines of responsibilities and authority for managing risk;

- (ii) a system for identifying and measuring interest rate risk;
- (iii) a system for monitoring and reporting risk exposures; and
- (iv) a system of internal controls, review, and audit to ensure the integrity of

the overall risk management process.

(b) The IRR Policy shall address the exceptions noted in the Report of Examination and comply with the Federal Financial Institutions Examination Council's ("FFIEC") *Advisory on Interest Rate Risk Management* (FIL-2-2010, issued January 6, 2010) and the *Joint Agency Policy Statement on Interest Rate Risk* (FIL-52-96, issued July 12, 1996).

(c) The IRR Policy shall be submitted to the Regional Director for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Regional Director, and after incorporation and adoption of all comments, the Board shall approve the IRR Policy, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the IRR Policy.

(d) Within 120 days from the date of this ORDER, the Bank shall have an independent review of interest rate risk conducted in accordance with the *Joint Agency Policy Statement on Interest Rate Risk* (FIL-52-96, issued July 12, 1996). Within 15 days of its receipt of the results of the independent review, the Bank shall submit the results to the Regional Director.

#### RESTRICTION ON DIVIDENDS

11. Beginning on the effective date of this ORDER, the Bank shall not declare or pay any dividend without the prior written consent of the Regional Director.

#### CORRECTION AND PREVENTION

12. 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, violations of law and regulations, and all contraventions of federal banking agency policies, procedures, and guidelines that were identified in the Report of Examination.

#### COMPLIANCE COMMITTEE

13. Within 30 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. The Compliance Committee shall be composed of at least three (3) Board members who are not now, and have never been, involved in the daily operations of the Bank. 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 Board minutes. The establishment of this committee shall not diminish the responsibility or liability of the entire Board to ensure compliance with the provisions of this ORDER.

#### PROGRESS REPORTS

14. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Board shall furnish written progress reports to the Regional Director detailing the form, content, and manner of any actions taken to ensure compliance with this ORDER.

#### ORDER EFFECTIVE

15. 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.

OTHER ACTIONS

16. 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.

Issued Pursuant to Delegated Authority

Dated: August 11, 2010

By:

/s/  
Doreen R. Eberley  
Regional Director  
New York Region  
Division of Supervision and Consumer  
Protection  
Federal Deposit Insurance Corporation