

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

COMMONWEALTH OF MASSACHUSETTS

DIVISION OF BANKS

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In the Matter of	)	
	)	CONSENT ORDER
HOLBROOK CO-OPERATIVE BANK	)	
HOLBROOK, MASSACHUSETTS	)	FDIC-10-744b
(INSURED STATE NONMEMBER BANK)	)	

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The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Holbrook Co-operative Bank, Holbrook, Massachusetts, (“Bank”), under section 3(q) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1813(q), and the Commonwealth of Massachusetts Division of Banks (“Division”) is the appropriate State regulatory authority under Massachusetts General Law (M.G.L.).

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” (“CONSENT AGREEMENT”), dated October 4, 2010, that is accepted by the FDIC and the Division. With the CONSENT AGREEMENT, 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 Board supervision, poor credit administration practices, ineffective underwriting standards and practices, an excess volume of criticized assets, deficient allowance for loan and lease losses, deficient earnings, deficient capital in light of the Bank’s risk profile, and ineffective liquidity and funds management practices, to the issuance of this Consent Order (“ORDER”) by the FDIC and the Division.

Having determined that the requirements for issuance of an order under section 8(b) of the Act, 12 U.S.C. § 1818(b) and Massachusetts General Laws Chapters 167 and 170 have been satisfied, the FDIC and the Division hereby order that:

### BOARD PARTICIPATION

1. (a) 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; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; liquidity levels and funds management; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including managements' responses; reconciliation of general ledger accounts; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

2. (a) The Bank shall notify the Area Director of the Boston Area Office ("Area Director") and the Commonwealth of Massachusetts Commissioner of Banks ("Commissioner") in writing of any additions, resignations or terminations of any members of its Board or any of its "senior executive officers" (as that term is defined in section 303.101(b) of the FDIC' Rules and Regulations, 12 C.F.R. § 303.101(b)) within 10 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).

(b) 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. Part 303, as well as receive approval from the Division.

### COMPLIANCE COMMITTEE

3. (a) Within 30 days from the effective date of this ORDER, the Board shall establish a compliance committee ("Compliance Committee") a majority of which members who are not now, and have never been, involved in the daily operations of the Bank, with the responsibility of ensuring compliance with the provisions of this ORDER.

(b) The Compliance Committee shall monitor compliance with this ORDER and submit a written report monthly to the entire Board, and a copy of the report and any discussion related to the report or this ORDER shall be part of the minutes of the Board meeting. Copies of the monthly report shall be submitted to the Area Director and the Commissioner as part of the progress reports required by this ORDER. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

### MANAGEMENT

4. (a) The Bank shall have 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 upgrading a low quality loan portfolio; a senior lending officer with an appropriate level of lending, collection, and loan supervision experience for the

type and quality of the Bank's loan portfolio; and a chief financial officer with demonstrated ability in all financial areas including, but not limited to, accounting, regulatory reporting, budgeting and planning, management of the investment function, liquidity management, and interest rate risk management. The Board shall provide the necessary written authority to management to implement the provisions of this ORDER.

(b) 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, asset quality, management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

5. (a) Within 60 days from the effective date of this ORDER, the Board, or a committee appointed by the Board, shall analyze and assess the Bank's Board, management, staffing performance, and needs. The analysis and assessment shall be summarized in a written report ("Management Report").

(b) 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; 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;

iii. identify training and development needs;

iv. identify and establish Board committees needed to provide guidance and oversight to management; and

v. evaluate the current and past performance of all existing Bank Board members and senior officers, 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.

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

#### CLASSIFIED ASSETS REDUCTION

6. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit for review as described in subparagraph (c), a written plan ("Classified Asset Plan") to reduce the Bank's risk position in each asset in excess of \$100,000 which is classified

"substandard" or "doubtful" in the current Report of Examination or in the Bank's internal watchlist. 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 Area Director and the Commissioner.

(b) The Classified Asset Plan shall include, at a minimum, the following:

i. an action plan to review, analyze and document the current financial condition of each classified 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;

ii. 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 dollar balance on a quarterly basis);

iii. provide for the submission of monthly written progress reports to the Board for review and notation in minutes of the Board meetings.

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

7. (a) 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 current or any future Report of Examination, so long as such credit remains uncollected.

(b) 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 current or any future Report of Examination, and is uncollected, unless the Board provides, in writing, a detailed explanation of why the extension is in the best interest 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.

(c) The Board's determinations and approval shall be recorded in the minutes of the Board meeting, or designated committee, and copies shall be submitted to the Area Director and

the Commissioner at such times as the Bank submits the progress reports required by this ORDER or sooner upon the written request of the Area Director or the Commissioner.

CONCENTRATION OF CREDIT-COMMERCIAL REAL ESTATE

8. (a) Within 120 days from the effective date of this ORDER, the Bank shall develop and submit for review as described in subparagraph (c) a written plan for systematically reducing and monitoring the Bank's commercial real estate ("CRE") loan concentration of credit identified in the Report of Condition and Income to an amount that is commensurate with the Bank's business strategy, management expertise, size, and location ("CRE Concentration Reduction Plan"). Such plan shall prohibit any advances that would increase the concentration unless the advance is pursuant to an existing loan agreement and is otherwise permissible pursuant to this ORDER.

(b) The CRE Concentration Reduction Plan shall include, at a minimum 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.

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

#### LOSS CHARGE-OFF

9. (a) The Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" by the FDIC or the Commissioner in the current Report of Examination that have not been previously collected or charged off. Elimination or reduction of such assets with the proceeds of other Bank extensions of credit shall not be considered "collection" for purposes of this paragraph.

(b) Thereafter, within 30 days after the receipt of any Report of Examination of the Bank from the FDIC or the Commissioner, the Bank shall eliminate from its books, by charge-

off or collection, all assets or portions of assets classified "Loss" in any Report of Examination that have not been previously collected or charged off.

ALLOWANCE FOR LOAN AND LEASE LOSSES

10. (a) Within 90 days from the effective date of this ORDER, the Bank shall develop and submit for review as described in subparagraph (d), a comprehensive policy and methodology for determining the 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 15 days prior to the end of each calendar quarter in order that the results of the review conducted by the Board may be properly reported in the quarterly Reports of Condition and Income. Such reviews shall, at a minimum, be made in accordance with:

- i. Financial Accounting Standards Board ("FASB") 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)("FASB 5 and 114");
- ii. the Federal Financial Institutions Examination Council's ("FFIEC") Instructions for the Consolidated Reports of Condition and Income ("Call Report");
- iii. the *Interagency Statement of Policy on the Allowance for Loan and Lease Losses*(FIL-105-206, 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 FDIC and the Commissioner.

(b) Such reviews shall include, at a minimum:

- i. the Bank's loan loss experience;
- ii. an estimate of the potential loss exposure in the portfolio; and
- iii. trends of delinquent and non-accrual loans and prevailing and prospective

economic conditions.

(c) The minutes of the Board meetings at which such reviews are undertaken shall include complete details of the reviews and the resulting recommended adjustment in the ALLL. The Board shall document in the minutes the basis for any determination not to require provisions for loan losses in accordance with subparagraphs (a) and (b).

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

(e) A deficiency in the ALLL shall be remedied in the calendar quarter in which it is discovered by a charge to current operating earnings prior to any Tier 1 capital determinations required by this ORDER and prior to the Bank's submission of its Call Report. The Bank shall thereafter maintain an appropriate ALLL.

(f) The analysis supporting the determination of the adequacy of the ALLL shall be submitted to the Area Director and the Commissioner. These submissions shall be made at such

times as the Bank files the progress reports required by this ORDER or sooner upon the written request of the Area Director or the Commissioner. In the event that the Area Director or the Commissioner determines that the Bank's ALLL is inadequate, the Bank shall increase its ALLL and amend its Call Reports accordingly.

#### LOAN REVIEW PROGRAM

11. (a) Within 90 days from the effective date of this ORDER, the Board shall establish a program of independent loan review that will provide for a periodic review of the Bank's loan portfolio and the identification and categorization of problem credits ("Loan Review Program").

(b) At a minimum, the Loan Review Program shall provide for:

i. prompt identification of loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason why the loan warrants special attention; and assessment of the degree of risk that the loan will not be fully repaid according to its terms;

ii. prompt identification of all outstanding balances and commitments attributable to each obligor identified under the requirements of subparagraph (i), including outstanding balances and commitments attributable to related interests of such obligors, including the obligor of record, relationship to the primary obligor identified under subparagraph (i), and an assessment of the risk exposure from the aggregate relationship;

iii. identification of trends affecting the quality of the loan portfolio and potential problem areas;

iv. assessment of the overall quality of the loan portfolio;

- v. identification of credit and collateral documentation exceptions;
- vi. identification and status of violations of laws, rules, or regulations with respect to the lending function;
- vii. identification of loans that are not in conformance with the Bank's lending policy;
- viii. identification of loans to directors, officers, principal shareholders, and their related interests; and
- ix. a mechanism for reporting periodically, but in no event less than quarterly, the information developed in (i) through (viii) above to the Board.

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

### CAPITAL

12. (a) Within 90 days from the effective date of this ORDER, the Bank shall meet 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 appropriate allowance for loan and lease losses ("ALLL"):

- i. Tier 1 capital at least equal to 8 percent of total assets;

ii. Tier 1 risk-based capital at least equal to 10 percent of total risk-weighted assets; and

iii. Total risk-based capital at least equal to 11 percent of total risk-weighted assets.

(b) For purposes of this ORDER, all terms relating to capital shall be calculated in accordance with Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, and 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.

13. (a) In the event any capital ratio is or falls below the minimum required by this ORDER, the Bank shall immediately notify the Area Director and the Commissioner; and within 30 days shall develop a written plan ("Capital Plan") 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 ("Contingency Plan") for the sale, merger, or liquidation of the Bank in the event the primary sources of capital are not available within 120 days of submission of the Capital Plan. The Capital Plan and Contingency Plan shall be submitted for review as described below:

(b) At a minimum, the Capital Plan shall include:

i. specific plans to achieve the capital levels required under this ORDER;

ii. specific plans for the maintenance of adequate capital that may in no event

be less than the requirements of the provisions of this ORDER;

iii. projections for asset growth and capital requirements, and such projections shall be based upon a detailed analysis of the Bank's current and projected assets, liabilities, earnings, fixed assets, and off-balance sheet activities, each of which shall be consistent with the Bank's strategic business plan;

iv. projections for the amount and timing of the capital necessary to meet the Bank's current and future needs;

v. the primary source(s) from which the Bank will strengthen its capital to meet the Bank's needs;

vi. contingency plans that identify alternative sources of capital should the primary source(s) under (v) above not be available; and

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

(d) The Board shall review the Bank's adherence to the Capital Plan, at minimum, on a monthly basis. Copies of the reviews and updates shall be submitted to the Area Director and the Commissioner as part of the progress reports required by this ORDER.

STRATEGIC PLAN

14. (a) Within 120 days from the effective date of this ORDER, the Bank shall develop and submit for review as required by subparagraph (c), a written strategic plan ("Strategic Plan") supported by an operating budget and 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 Strategic Plan 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 include, at a minimum:

i. identification of the major areas in and means by which the Bank will seek to improve operating performance;

ii. specific goals to improve the net interest margin, increase interest income, reduce discretionary expenses,

iii. financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and

iv. coordination of the Bank's loan, investment, funds management, and operating policies, profit and budget plan, and ALLL methodology with the Strategic Plan.

(c) The Strategic Plan shall be submitted to the Area Director and the Commissioner for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Area Director and the Commissioner, and after incorporation and adoption of all comments, the Board shall approve the Strategic Plan, which approval shall be recorded in the



minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Strategic Plan.

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

### PROFIT AND BUDGET PLAN

15. (a) Within 120 days from the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the Bank shall formulate and submit for review as described in subparagraph (c), a written profit and budget 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.

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

- i. a description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components;
- ii. specific goals to maintain appropriate provisions to the ALLL;
- iii. realistic and comprehensive budgets for all categories of income and expense;
- 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. 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; and

vi. recording the results of the budget review and any actions taken by the Bank as a result of the budget review in the Board minutes.

#### AUDIT PROGRAM

16. (a) Within 90 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.

(b) 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. complete risk assessments for each auditable area to determine audit frequency and scope of each area.

iii address the risk assessment scoring methodology and scoring bands, the three-year risk-based plan, the audit rating definitions, time requirements for management responses, and tracking requirements; and

iv. 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.

17. (a) Within in 60 days from the effective date of the ORDER, the Board shall develop a policy governing employee expenses and reimbursements.

(b) At a minimum, the policy shall:

i identify allowable and disallowable employee expenses and reimbursements;

ii set forth procedural and documentation requirements for reimbursements;

iii approval authority over expense reimbursements; and

iv provide for periodic independent reviews of employee expense reimbursements and report the findings 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.

18. Within 60 days from the effective date of this ORDER, the Bank shall establish a Whistleblower Policy.

LIQUIDITY AND FUNDS MANAGEMENT

19. (a) Within 90 days from the effective date of this ORDER, the Bank shall revise its liquidity and funds management policy to strengthen the Bank's funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs ("Liquidity and Funds Management Policy"). The policy shall be submitted for review as described in subparagraph (c).

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

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 defining how the ratio is to be calculated;

viii. establish contingency plans by 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) and provide for reasonable maturities commensurate with the use of the borrowed funds; address concentration of funding sources; and address 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* (FIL-84-2008, issued August 26, 2008).

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

(d) The Bank shall review annually its Liquidity and Funds Management Policy for adequacy and, based upon such review, shall make necessary revisions to the policy.

### INTEREST RATE RISK

20. (a) Within 90 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:

(b) i. measures designed to control the nature and amount of interest rate risk the Bank takes including those that specify risk limits and defines 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.

(c) The IRR Policy shall address the exceptions noted in the current Report of Examination, comply with the FFIEC's *Advisory on Interest Rate Risk Management* (FIL-2-2010, issued January 20, 2010), the FFIEC's *Supervisory Policy Statement on Investment Securities and End-User Derivative Activities*, and the *Joint Agency Policy Statement on Interest Rate Risk* (FIL-52-96, issued July 12, 1996).

(d) The IRR Policy shall be submitted to the Area Director and the Commissioner for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Area Director and the Commissioner, 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.

#### CALL REPORTS

21. Within 30 days from the effective date of this ORDER, the Bank shall review its Call Reports filed with the FDIC on or after March 31, 2010 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 an appropriate ALLL. Call Reports filed after the effective date of this ORDER shall also accurately reflect the financial condition of the Bank as of the reporting date.

#### GROWTH RESTRICTION

22. In no event shall the Bank increase its total assets by more than 5 percent annually without the prior written consent of the Area Director and the Commissioner. For the purpose of this paragraph, "total assets" shall be defined as in the FFIEC's Instructions for Call Reports.

#### PROGRESS REPORTS

23. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Area Director and the Commissioner written progress reports detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. All progress reports and other written responses to this ORDER shall be reviewed by the Board and made a part of the Board minutes.

The provisions of this ORDER shall not bar, stop, 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 or the Division.

Issued Pursuant to Delegated Authority

Dated at Boston, Massachusetts, this 6th day of October, 2010.

By:

/s/ Julie D. Howland  
Julie D. Howland  
Acting Area Director  
Division of Supervision and Consumer Protection  
Federal Deposit Insurance Corporation

/s/ Steven L. Antonakes  
Honorable Steven L. Antonakes  
Commissioner  
Massachusetts Division of Banks