

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of	)	
	)	CONSENT ORDER
STONEBRIDGE BANK	)	
EXTON, PENNSYLVANIA	)	FDIC-11-137b
	)	
(INSURED STATE NONMEMBER BANK)	)	
	)	

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The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Stonebridge Bank, Exton, Pennsylvania (“Bank”), under section 3(q) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER (“CONSENT AGREEMENT”), dated May 19, 2011, that is accepted by the FDIC. With the CONSENT AGREEMENT, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to management and Board oversight, asset quality, capital, liquidity, and earnings, to the issuance of this Consent Order (“ORDER”) by the FDIC.

Having determined that the requirements for issuance of an order under section 8(b) of the Act, 12 U.S.C. § 1818(b) have been satisfied, the FDIC hereby orders that:

**MANAGEMENT**

1. (a) 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 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.

### **BOARD PARTICIPATION**

2. (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 management's 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.

(c) The Bank shall notify the Regional Director of the FDIC's New York Regional Office ("Regional Director") and the Director of the Bureau of Commercial Institutions of the Commonwealth of Pennsylvania Department of Banking (the "Bureau") 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's 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). 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.

### **CAPITAL**

3. (a) Within 60 days from the effective date of this ORDER, the Board shall develop a written capital plan ("Capital Plan"), subject to review and approval of the Regional Director and the Bureau, as described in subparagraph (c), that details the manner in which the Bank will meet and maintain a Leverage Ratio of at least 9.00% and a Total Risk-Based Capital Ratio of at least 12.50% (as such terms are defined in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325). At a minimum, the Capital Plan shall include specific benchmark Leverage Ratios and Total Risk-Based Capital Ratios to be met at each calendar quarter end until the required capital levels are achieved. 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.

(b) In the event any required capital ratio falls below the minimum required by the approved Capital Plan, the Bank shall immediately notify the Regional Director and the Bureau and within 60 days shall either:

(i) increase capital in an amount sufficient to comply with the capital ratios as set forth in the approved Capital Plan; or

(ii) submit to the Regional Director and the Bureau a contingency plan for the sale, merger, or liquidation of the Bank in the event the primary sources of capital are not available.

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

(d) The Board shall review the Bank's adherence to the Capital Plan, at a minimum, on a monthly basis. Copies of the reviews and updates shall be submitted to the Regional Director and the Bureau as part of the Progress Reports required by this ORDER, and any material changes to the Capital Plan shall be submitted to the Regional Director and the Bureau no later than 10 days after completion.

#### **LOSS CHARGE-OFF**

4. 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 Bureau 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. Thereafter, within 10 days after the receipt of any report of examination of the

Bank or visitation summary letter from the FDIC or the Bureau, 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 or visitation summary letter that have not been previously collected or charged off.

### **CLASSIFIED ASSETS REDUCTION**

5. (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 loan relationship or other real estate owned property in excess of \$250,000 which is classified "Substandard" or "Doubtful" in the current Report of Examination. 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 Regional Director and the Bureau.

(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 specific action plan to reduce delinquencies and classified assets to 150% of Tier 1 Capital and ALLL, and 100% of Tier 1 Capital and ALLL, within 12 and 18 months, respectively, from the effective date of this ORDER;

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

(iv) delineate areas of responsibility for loan officers; and

(v) 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 Regional Director and the Bureau for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Regional Director and the Bureau, 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.

(d) 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 or visitation summary letter, so long as such credit remains uncollected.

(e) 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" or "Doubtful," or is listed for "Special Mention," in the current or any future Report of Examination or visitation summary letter, and is uncollected, unless the Board provides, in writing, a detailed explanation of why the extension is in the best interests of the Bank. Prior to extending additional credit pursuant to this subparagraph, 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, which 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; provided, however, that the Bank may extend additional credit in the form of a renewal or extension without the prior Board, or committee thereof, approval required pursuant to this subparagraph (e) if (1) there is no further advance of funds or new money and (2) the term of such renewal or extension is no greater than 6 months.

(f) The Board, or designated committee thereof, determinations and approval shall be recorded in the minutes of the Board meeting and copies shall be submitted to the Regional Director and the Bureau at such times as the Bank submits the Progress Reports required by this ORDER or sooner upon the written request of the Regional Director or the Bureau.

**CONCENTRATION OF CREDIT-COMMERCIAL REAL ESTATE**

6. (a) Within 60 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 Examination to an amount which 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:
  - (i) dollar levels and percent of Total Risk-Based 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, and 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 Regional Director and the Bureau for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Regional Director and the Bureau, 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.

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

7. (a) Within 60 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. Such review shall 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 Consolidated 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 Instructions for the Consolidated Reports of Condition and Income;

(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 Bureau.

(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 Regional Director and the Bureau for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Regional Director and the Bureau, 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 Regional Director and the Bureau. 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 Regional Director or the Bureau. In the event that the Regional Director or the Bureau determines that the Bank's ALLL is inadequate, the Bank shall increase its ALLL and amend its Call Report accordingly.

#### **LIQUIDITY AND FUNDS MANAGEMENT**

8. (a) Within 60 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 the Bank's net non-core funding ratio as computed in the Uniform Bank Performance Report, and address the means by which the Bank will seek to reduce its reliance on non-core funding and high cost rate-sensitive deposits;

(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-term and long-term liquidity objectives;

(vii) establish a minimum liquidity ratio, and define 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; concentration of funding sources; and pricing and collateral requirements with specific allowable funding channels (i.e., brokered deposits, Internet deposits, federal 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 Regional Director and the Bureau for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Regional Director and the Bureau, 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.

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

9. (a) Within 60 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.

(c) The Profit Plan shall be submitted to the Regional Director and the Bureau for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Regional Director and the Bureau, and after incorporation and adoption of all comments, the Board shall approve the Profit Plan, which approval shall be recorded in the minutes of the Board meeting. 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 Board's meeting at which such evaluation is undertaken.

### **STRATEGIC PLAN**

10. (a) Within 60 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, and 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 Regional Director and the Bureau for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Regional Director and the Bureau, 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, and approved by the Board, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and adhere to the revised Strategic Plan.

**DIVIDEND RESTRICTION**

11. The Bank shall not declare or pay any dividend without the prior written consent of the Regional Director and the Bureau.

**BROKERED DEPOSITS**

12. (a) The Bank shall not accept, renew, or rollover any brokered deposit, as defined by section 337.6(a)(2) of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6(a)(2), unless the Bank is in compliance with the requirements of 12 C.F.R. § 337.6(b), governing solicitation and acceptance of brokered deposits by insured depository institutions.

(b) The Bank shall comply with the restrictions on the effective yields on deposits described in section 337.6 of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6.

**CORRECTIVE ACTION**

13. The Bank shall take all steps necessary, consistent with other provisions of this ORDER and safe and sound banking practices, to eliminate or correct and prevent unsafe or unsound banking practices, violations of law or regulation, and all contraventions of regulatory policies or guidelines cited in the current Report of Examination.

**OVERSIGHT COMMITTEE**

14. (a) Within 15 days from the effective date of this ORDER, the Board shall establish a subcommittee of the Board ("Oversight Committee"), a majority of which members shall not be part of Bank management, with the responsibility of ensuring compliance with the provisions of this ORDER.

(b) The Oversight 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 Regional Director and the Bureau 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.

### **PROGRESS REPORTS**

15. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the Bureau 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.

### **SHAREHOLDER DISCLOSURE**

16. Within 30 days from the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its parent holding company. The description shall fully describe the ORDER in all material respects.

### **ORDER EFFECTIVE**

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 in writing by the FDIC.



**OTHER ACTIONS**

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: May 23, 2011

By:

/s/  
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John F. Vogel  
Deputy Regional Director  
Division of Risk Management Supervision  
Federal Deposit Insurance Corporation