

## **FEDERAL DEPOSIT INSURANCE CORPORATION**

**In Re: Bay Bank, FSB (In Organization)  
Lutherville, Baltimore County, Maryland**

**Application for Federal Deposit Insurance**

### **ORDER**

The undersigned, acting on behalf of the Board of Directors of the Federal Deposit Insurance Corporation ("FDIC") pursuant to delegated authority, has fully considered all relevant facts and information relating to the factors of Section 6 of the Federal Deposit Insurance Act regarding the application for Federal deposit insurance filed on August 20, 2009 for Bay Bank, FSB ("Bay Bank" or "Bank"), a proposed new federal savings bank to be headquartered in Lutherville, Maryland, and established for the purpose of acquiring the assets and deposits of a failing institution from the FDIC in its capacity as receiver, and has concluded that the application should be approved.

Accordingly, it is hereby ORDERED, for the reasons set forth in the attached Statement, that the application submitted by Bay Bank for Federal deposit insurance be approved, and the same is hereby approved, subject to the following conditions:

1. Initial paid-in capital funds of not less than \$24,000,000 shall be provided.
2. Federal deposit insurance shall not become effective unless and until Bay Bank has been granted a charter and authority to conduct a depository institution business, and its establishment and operation have been fully approved by the Office of Thrift Supervision ("OTS").
3. Federal deposit insurance shall not become effective unless and until Hovde Private Equity Advisors, LLC, Financial Services Partners Fund I LLC, Jefferson Bancorp, Inc., and Hovde Acquisition I, LLC obtain OTS approval to become thrift holding companies.
4. Federal deposit insurance shall not become effective unless Bay Bank is a successful bidder for, and subsequently acquires the assets and certain liabilities from the FDIC as receiver for Bay National Bank, Lutherville, Maryland.
5. Each Investor, each Holding Company, each member of Management, and the Bank shall comply with all applicable provisions of the FDIC's Statement of Policy on Qualifications for Failed Bank Acquisitions ("SOP") including but not limited to Condition 6 of this Order which provides that the Bank shall maintain its Tier 1 common equity capital to total assets ratio at not less than 10 percent (10%) during the first three years of operation. For purposes of this ORDER, "Investor" means an investor with more than five percent (5%) of the voting interests of any Holding Company. "Holding Company" means Jefferson Bancorp, Inc.; Financial

Services Partners Fund I LLC; Hovde Private Equity Advisors LLC; or Hovde Acquisition I LLC. "Management" means Eric D. Hovde, Joseph J. Thomas, and Irving R. Beimler.

6. The Bank shall maintain its Tier 1 common equity capital to total assets ratio, as defined in the SOP, at not less than 10 percent (10%) during the first three years of operation. After such 3-year period and as long as the Investors, directly or indirectly, own the Bank, the Bank shall maintain no lower level of capital adequacy than "well capitalized" as defined in the appropriate capital regulations. The Bank shall at all times maintain an adequately funded allowance for loan and lease losses.
7. Any changes in the proposed management or the proposed ownership of the Bank prior to the Bank opening for business can only be made if approved by the FDIC's appropriate Regional Director, as defined in 12 C.F.R section 303.2(g).
8. Prior to the effective date of Federal deposit insurance, the Bank shall have appointed and shall thereafter retain a Board of Directors and senior executive officers who possess the knowledge, experience, and capability to carry out the responsibilities of the position in a safe and sound manner. For purposes of this Order, such senior executive officers shall include the President and Chief Executive Officer, Chief Credit Officer, Chief Financial Officer, and Chief Operations Officer (or those employees that have duties and responsibilities typical for persons with the foregoing titles).
9. Within 30 days after opening the Bank, the Bank shall appoint a Chief Lending Officer who possesses the knowledge, experience, and capability to carry out the responsibilities of the position in a safe and sound manner.
10. With respect to any proposed director or senior executive officer for whom background checks have not been completed, the Bank must take such action as required by the FDIC's appropriate Regional Director as of the Bank's opening or the OTS, if either objects to any such person based on information obtained during the background check.
11. The Bank shall provide to the FDIC's appropriate Regional Director, and the OTS, the final employment agreements and compensation arrangements (including bonus plans) for the Bank's senior executive officers, and obtain the prior written non-objection of the appropriate Regional Director for those agreements and compensation arrangements prior to execution. The submission shall include a compensation study or similar documentation to support the reasonableness of the proposed compensation.
12. During the Bank's first three years of operation, the Bank shall obtain the written non-objection of the appropriate FDIC's appropriate Regional Director prior to the implementation of any stock benefit plans, including stock options, stock warrants,

and other similar stock-based compensation plans established by either the Bank or any Holding Company.

13. The Bank shall obtain adequate fidelity coverage prior to the date Federal deposit insurance becomes effective.
14. The applicant shall adopt an accrual accounting system for maintaining the books of the Bank in accordance with U.S. Generally Accepted Accounting Principles.
15. The Bank shall submit a detailed, revised Business Plan to the FDIC's appropriate Regional Director within 60 days after the acquisition of a failed insured depository institution from the FDIC as receiver, and shall obtain the prior written non-objection of the FDIC's Appropriate Regional Director prior to implementing the revised Business Plan. For the first three years following the commencement of operations, the Bank shall obtain the prior written non-objection of the FDIC's appropriate Regional Director prior to implementing any material deviations from the Business Plan.
16. The Bank shall obtain an audit of its financial statements by an independent public accountant annually for at least the first three years after Federal deposit insurance coverage becomes effective and shall submit to the FDIC's Appropriate Regional Director (i) a copy of the audited annual financial statements and the independent auditor's report thereon within 120 days after the end of the Bank's fiscal year; (ii) a copy of any other reports by the independent auditor (including any management letters) within 15 days after their receipt by the Bank; and (iii) written notification within 15 days after a change in the Bank's independent auditor occurs.
17. Full disclosure shall be made to all proposed directors and stockholders of the Bank of the facts concerning the interest of any insider in any transactions being effected or then contemplated, including the identity of the parties to the transaction and the terms and costs involved. An "insider" is a person who (i) is or is proposed to be a director, officer, or incorporator of the Bank; (ii) a shareholder who directly or indirectly controls ten percent (10%) or more of any class of the Bank's outstanding voting stock; or (iii) an associate or related interest of any such person.
18. Until Federal deposit insurance becomes effective, the FDIC retains the right to alter, suspend, or withdraw its approval should an interim development be deemed to warrant such action.

19. If Federal deposit insurance has not become effective within six months from the date of this ORDER, unless, in the meantime, a request for an extension of time has been approved by the FDIC, this approval shall expire at the end of said six-month period.

Dated at Washington, D.C. this 9<sup>th</sup> day of July, 2010.

**FEDERAL DEPOSIT INSURANCE CORPORATION**

By: \_\_\_\_\_  
**Lisa D. Arquette**  
**Associate Director**  
**Division of Supervision and Consumer Protection**

## **FEDERAL DEPOSIT INSURANCE CORPORATION**

**In Re: Bay Bank, FSB (In Organization)  
Lutherville, Baltimore County, Maryland**

**Application for Federal Deposit Insurance**

### **STATEMENT**

Pursuant to the provisions of Section 5 of the Federal Deposit Insurance Act (12 U.S.C. §1815), the Federal Deposit Insurance Corporation ("FDIC") received an Interagency Charter and Federal Deposit Insurance Application on behalf of Bay Bank, FSB, a proposed new institution that will be located in Lutherville, Maryland ("Bank"). The application is intended to establish a newly chartered federal savings bank for the purpose of acquiring the assets and deposits of Bay National Bank, Lutherville, Maryland (the "Failed Bank") from the FDIC in its capacity as receiver in a purchase and assumption transaction.

The organizers have concurrently applied for a federal savings bank charter to facilitate the proposed acquisition. The Office of Thrift Supervision ("OTS") granted preclearance on November 25, 2009, to the organizers to bid on failed banks with the FDIC. In addition, in connection with final approval and the Bank commencing business, the OTS will require the Bank to submit a comprehensive business plan acceptable to the OTS.

In accordance with FDIC regulations, the deposit insurance application will not be subject to public notice, as the application is in furtherance of the resolution of the Failed Bank (12 C.F.R. section 303.23(b)). We are advised that the OTS intends to waive its public notice requirements pursuant to its regulations, which permit a waiver in supervisory cases.

The Bank will be a wholly-owned subsidiary of Jefferson Bancorp, Inc. ("Bancorp"), a proposed shell thrift holding company. Bancorp will be a wholly-owned subsidiary of Financial Services Partners Fund I LLC (the "Fund"), which is a Delaware limited liability company that has sold limited liability membership interests to qualified purchasers and accredited investors. There are currently 38 separate investors in the Fund. The Fund was established in 2005 and will provide the capital for the acquisition of any institution. Hovde Private Equity Advisors, LLC ("Equity Advisors LLC") serves as the investment advisor to the Fund and does not advise any other entity. Hovde Acquisition I, LLC ("Acquisition LLC") is the managing member of the Fund. Bancorp, the Fund, Equity Advisors LLC, and Acquisition LLC have each applied to the OTS for approval as a thrift holding company with respect to the organization of the Bank.

FDIC staff has analyzed the deposit insurance application based upon (1) the Fund and the proposed Bank being the successful bidder for the Failed Bank and (2) capital of at least \$24 million being committed by the Fund for purposes of the organization of the

**Bank. The Fund intends to provide the Bank with sufficient capital, funding, and managerial resources to accomplish several strategic priorities. If the Bank is identified as the successful bidder, then the Bank would assume liabilities and acquire assets from the FDIC as receiver in a purchase and assumption transaction under the Bank Merger Act, 12 U.S.C. §1828(c).**

**The Bank plans to build a retail bank in the markets served. Bank management intends to diversify the loan portfolio with more traditional banking products, as well as offer small balance, commercial real estate loans and consumer loans. The financial projections show that the Bank will (1) remain "well capitalized" for Prompt Corrective Action purposes and (2) achieve a Tier 1 common equity to total assets ratio of not less than 10 percent upon acquiring the Failed Bank and throughout the first three years of operation, which will be consistent with the FDIC's Statement of Policy on Qualifications for Failed Bank Acquisitions. The Bank plans to be funded through retail deposits. Future earnings prospects for the Bank are attainable, and Bank management is considered satisfactory. Corporate powers to be exercised are consistent with the purpose of the Federal Deposit Insurance Act, and no undue risk to the Deposit Insurance Fund is apparent.**

**Accordingly, based upon a careful evaluation of all available facts and information and in consideration of the factors of Section 6 of the Federal Deposit Insurance Act, the Associate Director, pursuant to delegated authority, has concluded that approval of the application is warranted, subject to certain prudential conditions.**

**ASSOCIATE DIRECTOR  
DIVISION OF SUPERVISION AND CONSUMER PROTECTION  
FEDERAL DEPOSIT INSURANCE CORPORATION**