

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of	)	CONSENT ORDER
	)	
PUBLIC SAVINGS BANK	)	
HUNTINGDON VALLEY, PENNSYLVANIA	)	FDIC-11-107b
	)	
(INSURED STATE NONMEMBER BANK)	)	

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The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Public Savings Bank, Huntingdon Valley, 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 Trustees (“Board”), has executed a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER (“CONSENT AGREEMENT”), dated May 11, 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, asset quality, capital, earnings, and the Bank’s system for ensuring compliance with applicable consumer protection laws and regulations, 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 the ability to manage a bank of the

Bank's size and complexity and who is qualified to upgrade 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 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 trustees of banks of comparable size. Without limiting the generality of the foregoing, the Board shall increase its participation in the supervision of the Bank's BSA program and the Bank's compliance management system, and assume full responsibility for the approval of sound

policies and objectives to ensure that the Bank complies with the BSA and all consumer laws, regulations, and regulatory guidance to which the Bank is subject (collectively, “Consumer Laws”).

(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; oversight and supervision over third-party service providers; oversight of the Bank’s compliance program; oversight of the Bank’s BSA program, including management’s responses to recommendations from all external or internal audits or reviews, which shall be included as part of the Progress Reports required by the ORDER; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting trustees.

(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 “trustee” and /or “senior executive” 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%; a Tier 1 Risk-Based Capital Ratio of at least 12.00%; and a Total Risk-Based Capital Ratio of at least 13.50% (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, Tier 1 Risk-Based Capital 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 of all comments, the Board shall adopt the Capital Plan, which adoption 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. (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 Bureau in the current Report of Examination dated December 13, 2010 issued jointly by the FDIC and the Bureau ("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 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 issued while this ORDER remains in effect, to the extent that such loans have not previously been 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 \$200,000 which is classified "Substandard" or "Doubtful" in the 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 borrower with loans classified "Substandard," "Doubtful" or "Loss," 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 showing, on a quarterly basis, the expected consolidated balance of all adversely classified assets, and the ratio of the consolidated balance to the Bank's projected Tier 1 Capital plus the allowance for loan and lease losses ("ALLL");

(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 of all comments, the Board shall adopt the Classified Asset Plan, which adoption 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 have 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, unless it receives the prior written consent of the Regional Director and the Bureau.

(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, 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.

(f) The Board's or designated committee's determinations and approval shall be recorded in the meeting minutes of the Board or designated committee, 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.

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

6. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop or enhance and submit for review, as described in subparagraph (d), a comprehensive policy and methodology for determining the ALLL ("ALLL Policy") that incorporates the comments set forth in the Report of Examination. The ALLL Policy shall provide for a review of the ALLL at least once each calendar quarter. Said review should be completed within 25 days following 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 ("Call Report"). 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;

(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 of all comments, the Board shall adopt the ALLL Policy, which adoption 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 Reports accordingly.

### **LOAN REVIEW PROGRAM**

7. (a) Within 30 days from the effective date of this ORDER, the Board shall establish or enhance a program of independent loan review that provides 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 trustees, 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 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 of all comments, the Board shall adopt the Loan Review Program, which adoption shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Loan Review Program.

### **CONCENTRATION OF CREDIT-COMMERCIAL REAL ESTATE**

8. (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 to which the Bank shall reduce the concentration;
- (ii) target 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 of all comments, the Board shall adopt the CRE Concentration Reduction Plan, which adoption shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the CRE Concentration Reduction Plan.

### **PROFIT AND BUDGET PLAN**

9. (a) Within 90 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 of all comments, the Board shall adopt the Profit Plan, which adoption 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 90 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 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 of all comments, the Board shall adopt the Strategic Plan, which adoption 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.

### **LIQUIDITY AND FUNDS MANAGEMENT**

11. (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 of all comments, the Board shall adopt the Liquidity and Funds Management Policy, which adoption 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**

12. (a) Within 75 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 responsibility 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 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).

(c) The IRR 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 of all comments, the Board shall adopt the IRR Policy, which adoption shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the IRR Policy.

### **BANK SECRECY ACT**

13. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop, adopt, and implement a system of internal controls designed to ensure full compliance with the BSA ("BSA Internal Controls") taking into consideration the Bank's size and risk profile.

(b) At a minimum, such system of BSA Internal Controls shall include policies, procedures and processes addressing the following areas:

(i) Risk Assessment: The Bank shall conduct an initial and subsequent periodic risk assessment of the Bank's operations ("Risk Assessment") consistent with the guidance for risk assessments set forth in the FFIEC's *Bank Secrecy Act/Anti-Money Laundering*

*Examination Manual* (the "BSA Manual"), and shall establish appropriate written policies, procedures and processes regarding Risk Assessments. Based on the results of the Risk Assessment, a comprehensive list of high risk accounts should be designated, a formal means of monitoring internally designated high risk accounts should be specified, and processes should be developed to allow for changes to a customer's risk rating or profile;

(ii) Suspicious Activity Monitoring and Reporting: The Bank shall, taking into account its size and risk profile (based upon the Risk Assessment), develop, adopt, and implement policies, procedures, processes, and systems for monitoring, detecting, and reporting suspicious activity being conducted in all areas within or through the Bank; and ensure the timely, accurate, and complete filing of Suspicious Activity Reports ("SARs"). These policies, procedures, processes and systems should ensure that all relevant areas of the Bank are monitored for suspicious activity, including, but not limited to: cash-out transactions, international and domestic wire transfers, secured credit cards, remote deposit capture activity, and foreign money service business ("MSB") customer accounts;

(iii) Customer Identification Program: The Bank shall review and enhance the customer identification program ("CIP") required by 12 C.F.R. § 326.8(b) to ensure that the Bank's CIP is consistent with the guidance for CIPs set forth in the BSA Manual;

(iv) Customer Due Diligence: The Bank shall review and enhance its customer due diligence policies, procedures, and processes for new and existing customers to:

a. be consistent with the guidance for customer due diligence set forth in the BSA Manual;

b. operate in conjunction with its CIP; and

c. enable the Bank to predict with relative certainty the types of transactions in which a customer is likely to engage;

(v) Enhanced Customer Due Diligence: The Bank shall establish enhanced due diligence policies, procedures, and processes to identify, understand, and monitor new and existing high risk customers, including foreign correspondent accounts conducting business as MSBs and their associated relationships, to:

a. be consistent with the guidance for enhanced customer due diligence set forth in the BSA Manual; and

b. operate in conjunction with the Bank's CIP and customer due diligence policies, procedures, and processes; and

c. operate in conjunction with each other, and be consistent with the guidance for account/transaction monitoring and reporting set forth in the BSA Manual, including ensuring that foreign language documents are properly translated and understood, and arranging for the dissemination of a high risk customer list to appropriate departments within the Bank; and

(vi) ensure that adequate guidelines are developed related to all appropriate areas of Bank operations, including, but not limited to, foreign MSB customers, secured credit cards and remote deposit capture customers.

(c) Upon the effective date of this ORDER, the Board shall take the steps necessary to hire a qualified individual as BSA Officer to replace the Interim BSA Officer, and ensure that the Interim BSA Officer, subsequent BSA Officers, and other qualified individuals who are responsible for coordinating and monitoring day-to-day compliance with the BSA and Office of

Foreign Assets Control (“OFAC”) laws and regulations are appropriately trained in their duties and responsibilities. The appointment of a qualified individual as BSA Officer shall conform with guidance for the BSA officer position, as set forth in the BSA Manual.

(d) The Bank shall develop, adopt, and implement a comprehensive and effective risk-based training program designed for the Board, management, and staff and their specific duties on all relevant aspects of BSA and OFAC laws, regulations, and Bank policies and procedures that are consistent with the guidance for training as set forth in the BSA Manual. Within 90 days from the effective date of this ORDER, the Board shall ensure that comprehensive training on all relevant aspects of BSA and OFAC laws has been provided to appropriate personnel, with a record of all training provided to Bank employees, officers and trustees established and maintained on a continuing basis. The BSA Officer and related staff shall participate in external BSA training that is relevant and appropriate to the activities and overall BSA risk profile of the Bank.

(e) The Bank shall ensure that all required reports, including Currency Transaction Reports (“CTRs”), Reports of International Transportation of Currency or Monetary Instruments, Reports of Foreign Bank and Financial Accounts and any other similar or related reports required by law or regulation are completed accurately and properly filed within required timeframes.

(f) Within 90 days from the effective date of this ORDER, the Board shall ensure that a full scope independent test or review of the Bank’s BSA program for compliance with the BSA and OFAC rules and regulations be performed, and no less than annually thereafter. The scope of the testing procedures to be performed, and testing results, shall be documented in writing and approved by the Board or its designee. Minimum testing procedures should be consistent with the guidance for independent testing as set forth in the BSA Manual. The review

must be initiated by an external party qualified to review foreign MSB activity, supported by documentation, including a written report to the Board, which report shall be provided to the Regional Director and the Bureau within 10 days of its receipt by the Board. The Board shall provide a copy of the scoping agreement to the Regional Director and the Bureau within 10 days of the engagement of the review; further, the Board shall provide to the Regional Director and the Bureau a written summary of all corrective actions taken or proposed by the Board within 45 days of the Board's receipt of the written report.

(g) Within 90 days from the effective date of this ORDER, the Board shall ensure that a review of all accounts and transaction activity for the time period beginning January 2008 to June 2010 is performed, to determine whether suspicious activity involving any accounts or transactions within or through the Bank was properly identified and reported in accordance with the applicable suspicious activity reporting requirements, and shall prepare any additional CTRs and SARs necessary based upon the review. Upon completion of the review, the Bank shall submit the findings of the review and copies of any additional SARs and CTRs filed to the Regional Director and the Bureau.

(h) Within 60 days from the effective date of this ORDER, the Bank shall obtain all necessary due diligence documentation for its current foreign MSB customers.

(i) The BSA Internal Controls 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 of all comments, the Board shall adopt the BSA Internal Controls, which adoption shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the BSA Internal Controls.

### **CALL REPORTS**

14. Within 60 days from the effective date of this ORDER, the Bank shall review its Call Reports filed with the FDIC on or after December 31, 2009, and amend said Call Reports to incorporate the comments set forth in the Report of Examination and to accurately reflect the financial condition of the Bank as of the date of each such Call Report, as required by the FFIEC's Instructions for the Call Reports. In particular, such Call 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.

### **BROKERED DEPOSITS**

15. (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.

### **DIVIDEND RESTRICTION**

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

## **INFORMATION TECHNOLOGY**

17. (a) Within 75 days from the effective date of this ORDER, the Bank shall institute procedures to ensure meeting the standards contained in Part 364, Appendix B, of the FDIC's Rules and Regulations, 12 C.F.R. Part 364, App. B, including the performance of a comprehensive information security assessment and the development of a response program for use in the event of unauthorized access to customer information.

(b) Within 75 days from the effective date of this ORDER, the Bank shall institute procedures to ensure meeting the standards contained in Part 364, Appendix B, Supplement A, of the FDIC's Rules and Regulations, 12 C.F.R. Part 364, App. B, including conducting an investigation of the July, August, and October 2010 disclosure incidents to determine the scope of customers affected, and the likelihood that sensitive customer information has been or will be misused, as well as notifying customers when warranted.

(c) Within 75 days from the effective date of this ORDER, the Bank shall develop and implement an effective software quality assurance function that meets the requirements of the Development and Acquisition Booklet of the FFIEC's IT Examination Handbook.

## **GROWTH RESTRICTION**

18. (a) The Bank shall not increase its total assets by more than 2% during any consecutive three-month period without providing, at least 30 days prior to its implementation, a growth plan ("Growth Plan") to the Regional Director and the Bureau. The Growth Plan, at a minimum, shall include the funding source to support the projected growth, as well as the

anticipated use of funds. The Growth Plan shall not be implemented without the prior written consent of the Regional Director and the Bureau.

(b) The Bank shall not increase its total assets by more than 5% annually without the prior written approval of the Regional Director and the Bureau. For the purpose of this paragraph, “total assets” shall be defined as in the FFIEC’s Instructions for the Call Reports.

(c) For the purposes of subsections (a) and (b) above, any increase in total assets which is the direct result of a cash infusion to the Bank’s equity capital may be excluded from the calculation of the Bank’s percentage of increase in its total assets.

### **COMPLIANCE MANAGEMENT SYSTEM**

19. (a) The Bank shall develop and implement an effective Compliance Management System (“CMS”) that is commensurate with the level of complexity of the Bank’s operations and a comprehensive written compliance program (“Compliance Program”).

(b) Within 60 days from the effective date of this ORDER, the Board shall submit to the Regional Director for non-objection a Compliance Program that, at a minimum:

(i) includes policies, controls, procedures, and processes that ensure consistent compliance with all Consumer Laws, including, but not limited to: the Equal Credit Opportunity Act, 15 U.S.C. § 1691 *et seq.* (“ECOA”); Regulation B of the Board of Governors of the Federal Reserve System (“Regulation B”), 12 C.F.R. Part 202; the Home Mortgage Disclosure Act (“HMDA”), 12 U.S.C. § 2801 *et seq.*; Regulation C of the Board of Governors of the Federal Reserve System (“Regulation C”); the Truth in Lending Act, 15 U.S.C. §1601; the Credit Card Accountability, Responsibility and Disclosure Act of 2009, 15 U.S.C. § 1637(c); Regulation Z of the Board of Governors of the Federal Reserve, 12 C.F.R. Part 226 (“Regulation Z”); and Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45(a)(1), and the guidance

set forth in *Unfair and Deceptive Acts or Practices by State-Chartered Banks* (FIL-26-2004, issued March 11, 2004);

(ii) includes effective monitoring procedures that ensure compliance with Consumer Laws and adherence to internal policies and procedures. At a minimum, monitoring procedures should include ongoing reviews that include:

- a. applicable departments and any Bank subsidiaries;
- b. disclosures and calculations for various loan and deposit products;
- c. document filing and retention procedures;
- d. marketing and advertising; and
- e. an internal compliance communication system that provides Bank personnel appropriate updates regarding revisions to Consumer Laws;

(iii) implements and maintains a training program on a continuing basis related to compliance with Consumer Laws for all employees who have responsibilities that may relate to Consumer Laws, including senior management and the Board, commensurate with their individual job functions and duties;

(iv) designates a qualified compliance officer (“Compliance Officer”) to oversee the CMS and monitor the completion and effectiveness of the Consumer Laws training programs;

(v) designates an appropriate number of compliance personnel with sufficient experience in, and knowledge of, Consumer Laws to administer the CMS;

(vi) designates compliance responsibilities of the Board and the Bank’s management, compliance committee, Compliance Officer, internal audit function, and any third-party auditors; and

(vii) sets forth specific policies and procedures to ensure that consumer complaints from all sources, including but not limited to third-party servicers and merchants for which the Bank processes payments, are thoroughly evaluated and addressed, and resolved in a timely manner, and that Bank management and compliance personnel provide timely responses to consumers.

(c) Within 30 days from receipt of non-objection or comments from the Regional Director, and after incorporation of all comments, the Board shall adopt the Compliance Program, which adoption shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Compliance Program.

(d) The Board shall review the Compliance Program annually. Any subsequent modifications to the Compliance Program shall be approved by the Board and recorded in the minutes of the Board. Thereafter, the Bank shall implement and comply with the revised Compliance Program.

### **COMPLIANCE OFFICER**

20. (a) Within 45 days from the effective date of this ORDER, the Bank shall have and retain a qualified Compliance Officer with the requisite knowledge and experience to establish and administer an effective CMS. The Board shall ensure that the Compliance Officer receives adequate ongoing training and sufficient time and resources, including staff assistance, to effectively oversee, coordinate, and implement the CMS. The Compliance Officer shall have sufficient authority and independence to implement policies and procedures, cross departmental lines, access all areas of the Bank's operations, and effectuate corrective action.

- (b) The responsibilities of the Compliance Officer shall include:
- (i) developing and reviewing compliance policies and procedures to ensure compliance with this ORDER, Consumer Laws, the Bank's policies, procedures, and processes, and the Compliance Program;
  - (ii) assessing emerging issues, potential liabilities, and new Consumer Laws;
  - (iii) overseeing the completion and effectiveness of the training required by the Compliance Program;
  - (iv) reporting compliance activities and audit or review findings to the Board on a monthly basis;
  - (v) ensuring compliance deficiencies are corrected; and
  - (vi) evaluating consumer complaints, including significant verbal complaints, and coordinating the responses to the consumer required by the Compliance Program.

#### **COMPLIANCE AUDIT FUNCTION**

21. The Bank shall maintain an effective compliance audit function, which shall, at a minimum, include policies, procedures, and processes that ensure:

- (a) adequate monitoring of the Bank's lending and deposit products through a comprehensive audit function.
- (b) an audit staff comprised of a sufficient number of qualified persons.
- (c) the independence and objectivity of the internal auditor, the audit staff, and the Bank's Audit Committee.
- (d) adequate testing and review of the lending and deposit activities of the Bank and its departments, branches, or subsidiaries, such that the scope and testing are adequate to:
  - (i) detect substantive deficiencies in the operation of the Bank's lending and deposit activities; and

- (ii) determine compliance with all applicable Consumer Laws.
- (e) adequate documentation of tests of lending and deposit activities, test findings, and corrective actions.
- (f) verification and review of management actions to address material weaknesses in the CMS.
- (g) tracking of deficiencies and exceptions noted in audit reports with periodic, but not less than quarterly, status reports to the Board, with each deficiency and material exception identified, the source of the deficiency or exception and date noted, responsibility for correction assigned, and the date corrective action was taken.
- (h) review by the Board or the Bank's Audit Committee of the effectiveness of the Bank's internal audit systems and/or the internal audit systems of any other department, branch, or subsidiary of the Bank offering loan or deposit products or engaging in lending or deposit activities.
- (i) an annual audit schedule for the Bank and/or any other department or branch of the Bank offering loan or deposit products or engaging in lending or deposit activities approved by the Board, with any planned changes to or deviations from the approved audit schedule, its scope, or content requiring the prior written approval of the Board or the Bank's Audit Committee appropriately reflected in the minutes of the meeting wherein the change or deviation was approved.

### **MANAGING THIRD-PARTY RISK**

22. Within 45 days from the effective date of this ORDER, the Bank shall adopt and implement systems and controls to ensure proper management of third-party risk. The Bank's third-party risk management program shall, at a minimum, conform to the *Guidance for*

*Managing Third-Party Risk* (FIL-44-2008, issued June 6, 2008) and the *Guidance on Payment Processor Relationships* (FIL-127-2008, issued November 7, 2008), and address the following:

- (a) an initial and subsequent periodic risk assessments;
- (b) procedures to conduct due diligence in selecting third-party vendors and service providers, including subcontractors and clients;
- (c) procedures to review contract terms;
- (d) effective oversight of vendors and service providers; and
- (e) effective oversight of the Bank's Remotely Created Check program to

ensure compliance with all applicable Consumer Laws and the *Guidance on Payment Processor Relationships* (FIL-127-2008, issued November 7, 2008), including clarifying acceptable rates of returns and actions to be taken should those rates be exceeded, as well as customer complaint monitoring and handling processes, actions to be taken should complaint levels and/or trends warrant intervention, and updating the Bank's Third Party Payment Processing Policy and Procedures.

### **HMDA COMPLIANCE**

23. Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement systems and controls to ensure compliance with HMDA and Regulation C, with specific provisions to accurately collect and record required data on applications for, and originations, purchases, and refinancing of, home purchase and home improvement loans on a register in the format prescribed in Regulation C within 30 calendar days after the end of the quarter in which the final action is taken, as required by section 203.4(a) of Regulation C, 12 C.F.R. § 203.4(a). The Bank shall ensure that a complete and accurate loan application register is electronically provided to the Federal Reserve Board by March 1<sup>st</sup> following the calendar year

for which the loan data are compiled, as required by section 203.5(a) of Regulation C. The Bank shall retain a copy for its records for at least three years.

### **CORRECTIVE ACTION**

24. The Bank shall take all steps necessary, consistent with other provisions of this ORDER and sound banking practices, to eliminate, correct and prevent unsafe or unsound banking practices, violations of law or regulation, and all contraventions of regulatory policies or guidelines cited in the Report of Examination and the FDIC's Compliance Examination Report conducted as of September 20, 2010 ("Compliance Report").

### **FIDELITY BOND**

25. (a) Immediately upon renewal of the Bank's current bond required by 7 P.S. § 1410 (the "Bond"), the Bank shall provide a full and complete copy to the Regional Director and the Bureau. The Bank shall provide a copy of the required Bond to the Regional Director and the Bureau each time the Bond is renewed while this ORDER is in effect.

(b) The Bank shall immediately notify the Regional Director and the Bureau of any notifications or information from the Bank's Bond insurance carrier, its agents and/or representatives that the Bond is not going to be renewed or will be terminated.

### **OVERSIGHT COMMITTEE**

26. The Board shall establish a subcommittee of the Board ("Oversight Committee") charged with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. The Oversight Committee shall submit a written report monthly to the full Board and a copy of the report and any discussion related to the report or the ORDER shall be included in the minutes of the Board meeting. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

## **PROGRESS REPORTS**

27. Within 45 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**

28. The Bank shall provide to its shareholders or otherwise furnish a description of this ORDER, in conjunction with the Bank's next shareholder communication or in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Risk Management Supervision, Accounting-Registration, Disclosure and Securities Section, 550 17th Street, N.W., Washington, D.C. 20429 for non-objection or comment at least 30 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

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.

Issued Pursuant to Delegated Authority

Dated: May 12, 2011

By:

/s/ \_\_\_\_\_

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