

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

COMMONWEALTH OF MASSACHUSETTS

DIVISION OF BANKS

_____)	
In the Matter of:)	CONSENT ORDER
THE COMMUNITY BANK,)	
A MASSACHUSETTS COOPERATIVE BANK)	
BROCKTON, MASSACHUSETTS)	
(INSURED STATE NONMEMBER BANK))	FDIC-10-588b
_____)	

The Federal Deposit Insurance Corporation (FDIC) is the appropriate Federal banking agency for The Community Bank, a Massachusetts Cooperative Bank, Brockton, Massachusetts, (Bank), under section 3(q) of the Federal Deposit Insurance Act (Act), 12 U.S.C. § 1813(q) and the Commonwealth of Massachusetts Division of Banks (Division of Banks) is the appropriate State banking agency for the Bank under the General Laws of the Commonwealth of Massachusetts.

The Bank, by and through its duly elected and acting Board of Directors (Board), has executed a STIPULATION TO THE ISSUANCE OF A CONSENT ORDER (CONSENT AGREEMENT), dated August 12, 2010, that is accepted by the FDIC and the Division of Banks. With the CONSENT AGREEMENT, the Bank has consented, without admitting

or denying any charges of unsafe or unsound banking practices or violations of law and/or regulation relating to inadequate risk management practices, poor asset quality, capital adequacy, earnings performance, liquidity position and management's failure to make acceptable progress in complying with the Order to Cease and Desist issued by the FDIC and the Division of Banks on June 29, 2009 (2009 CEASE AND DESIST ORDER), to the issuance of this CONSENT ORDER by the FDIC and the Division of Banks. This CONSENT ORDER replaces the 2009 CEASE AND DESIST ORDER which will be terminated.

Having determined that the requirements for issuance of an order under section 8(b) of the Act, 12 U.S.C. § 1818(b) and under Massachusetts General Laws Chapters 167 and 170 and that applicable provisions of Chapter 172 have been satisfied, the FDIC and the Division of Banks hereby order that the Bank, its institution-affiliated parties, and its successors and assigns take affirmative action as follows:

1. (a) The Bank shall implement and fully comply with the Management Plan required by paragraph one of the 2009 CEASE AND DESIST ORDER.

(b) In addition to the foregoing, within sixty (60) days from the effective date of this CONSENT ORDER, the Board shall revise the Management Plan to address managerial weaknesses and deficiencies noted in the Report of Examination

for the March 8, 2010 examination (2010 Report of Examination).

(c) The Bank shall submit the Revised Management Plan to the Area Director of the Boston Area Office of the FDIC (Area Director) and the Commissioner of Banks of the Division of Banks (Commissioner) for review. Within thirty (30) days of receipt of comments from the Area Director and the Commissioner, and after incorporation and adoption of any required changes, the Bank shall approve the Revised Management Plan, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the Revised Management Plan.

2. While this CONSENT ORDER is in effect, the Bank shall notify the Area Director and the Commissioner in writing of any resignations or terminations of any members of its Board or any of its senior executive officers within fifteen (15) days of the event. The Bank also shall comply 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. §§ 303.100 through 303.103. In addition, the Bank shall establish procedures to ensure such compliance.

3. (a) The Bank shall implement and fully comply with the Independent Loan Review required by paragraph three of the 2009 CEASE AND DESIST ORDER.

(b) Upon implementation of the Independent Loan Review, a copy of each report prepared pursuant thereto as well as documentation of the actions taken by the Bank or recommendations to the Board that address identified deficiencies in specific loan relationships or the Bank's policies, procedures, strategies, or other elements of the Bank's lending activities shall be submitted to the Board, Area Director and Commissioner. Such reports and recommendations, as well as any resulting determinations, shall be recorded and retained in the minutes of the meeting of the Board.

4. (a) Within sixty (60) days from the effective date of this CONSENT ORDER the Board shall conduct a review of the Bank's loan policies and procedures for adequacy (Loan Policy Review) which will specifically address policy weaknesses noted in the 2010 Report of Examination and shall make all appropriate revisions to the policies and procedures necessary to strengthen the Bank's asset quality and lending functions and to prevent further deterioration. Such revisions shall be submitted to the Area Director and Commissioner for review in accordance with paragraph 4(c).

(b) The Board shall conduct, annually, a Loan Policy Review and, based upon the Loan Policy Review, shall make all appropriate revisions to the policies and procedures necessary to strengthen the Bank's asset quality and lending functions and

to prevent further deterioration. The Bank's loan policies and procedures, as revised pursuant to the Loan Policy Review, shall include at a minimum, provisions and practices that:

(i) Identify the general fields of lending in which the Bank will engage, the types and kinds of loans and collateral considered desirable, and the types and kinds of loans and collateral considered undesirable;

(ii) Establish lending limits for each officer, including limitations on the aggregate level of credit to any one borrower that can be granted without the prior approval of the Bank's loan committee;

(iii) Establish lending limits for the Bank's loan committee, including limitations on the aggregate level of credit to any one borrower that can be granted without the prior approval of the Board;

(iv) Establish review and monitoring procedures to ensure that all lending personnel are adhering to established lending procedures, and that the directorate is receiving timely and fully documented reports on loan activity, including reports that identify deviations from established policy and the loan officers responsible for the deviations;

(v) Designate the Bank's normal trade area;

(vi) Establish limitations on the maximum volume of loans in relation to total assets;

(vii) Require that all extensions of credit originated or renewed by the Bank, including loans purchased from a third party (loan participations):

A) Have a clearly defined and stated purpose;

B) Have a predetermined and realistic repayment source and schedule, including secondary source of repayment;

C) Are supported by complete loan documentation, including lien searches, perfected security interests, and collateral valuations; and

D) Are supported by current financial information, profit and loss statements or copies of tax returns, and cash flow projections, which shall be maintained throughout the term of the loan; and are otherwise in conformance with the Bank's lending policies and procedures.

(viii) Establish standards for extending unsecured credit;

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

(x) Require prior written approval by the Board for any extension of credit, renewal, or disbursement to "related interests," as such term is defined in section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.2(n);

(xi) Require that extensions of credit to any of the Bank's executive officers, directors, or principal shareholders, or to any related interest of such person, be reviewed for compliance with all provisions of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. §§ 215.1-215.11, section 337.3 of the FDIC's Rules and Regulations, 12 C.F.R. § 337.3, and Division of Banks Regulatory Bulletin 2.1-102, "Insider Transactions";

(xii) Require accurate reporting of past due loans to the Board or the Bank's loan committee at least monthly;

(xiii) Establish standards for collection efforts for past due loans;

(xiv) Establish guidelines for timely recognition of loss through charge-off;

(xv) Require a non-accrual policy in accordance with the Federal Financial Institutions Examination Council's Instructions for the Consolidated Reports of Condition and Income;

(xvi) Prohibit the capitalization of interest or loan-related expenses unless the Board or the Bank's loan committee provides, in writing, a detailed explanation of why said deviation is in the best interest of the Bank;

(xvii) Establish limitations on the maximum amount of an overdraft to be paid without the prior written approval of the Bank's loan committee, and impose appropriate limitations on the use of the Cash Items account;

(xviii) Address concentrations of credit and diversification of risk, including goals for portfolio mix, establishment of limits within loan and other asset categories, and development of a tracking and monitoring system for the economic and financial condition of specific geographic locations, industries, and groups of borrowers;

(xix) Require strict guidelines for out-of-territory loans which, at a minimum, include an aggregate limitation on such loans, require complete credit documentation, and require approval by a majority of the Board prior to disbursement of funds, including a written explanation of why such loans are in the best interest of the Bank;

(xx) Establish review and monitoring procedures for compliance with the FDIC's appraisal regulation, 12 C.F.R. Part 323, and the Interagency Appraisal and Evaluation Guidelines;

(xxi) Prohibit issuance of standby letters of credit unless the letters of credit are well secured by readily marketable collateral or are adequately supported by current and complete financial information;

(xxii) Require the establishment and maintenance of a loan grading system and internal loan watch list;

(xxiii) Require loan committee review and monitoring of the status of repayment and collection of overdue and maturing loans, as well as all loans classified "Substandard" and "Doubtful" in Regulatory Reports of Examination and loans similarly classified internally by the Bank;

(xxiv) Prohibit extending the maturity date, advancing additional credit, or renewing a loan to a borrower whose obligations to the Bank were classified "Substandard" or "Doubtful," whether in whole or in part, in Regulatory Reports of Examination, without the full collection in cash of accrued and unpaid interest, unless the loans are well secured or are adequately supported by current and complete financial information, and the extension or renewal has first been approved in writing by a majority of the Bank's Board.

(xxv) Provide guidance for a consistent and accurate calculation of a debt-service-coverage (DSC) ratio;

(xxvi) Identify minimum DSC ratios required on

an individual loan analysis basis as well as a global DSC analysis basis for the approval of a loan;

(xxvii) Provide guidance and requirements for the utilization of interest reserves; and

(xxviii) Provide guidance and requirements for the ongoing collection of borrower financial information.

(c) The Bank shall submit the revised loan policies and procedures resulting from the Loan Policy Review required by paragraphs 4(a) and 4(b) to the Area Director and the Commissioner for review. Within thirty (30) days from receipt of any comment from the Area Director and the Commissioner, and after incorporation and adoption of any required changes, the Bank shall approve the loan policies and procedures resulting from the Loan Policy Review, with its approval recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the loan policies and procedures resulting from the Loan Policy Review.

5. (a) Within sixty (60) days from the effective date of this CONSENT ORDER, the Bank shall formulate a new written plan (Risk Exposure Plan) to reduce the levels of all adversely classified assets and to reduce the Bank's risk exposure in each asset relationship in excess of one million dollars (\$1 million) classified as "Substandard" in the 2010 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 FDIC or the Division. In developing the plan mandated by this paragraph, the Bank shall, at a minimum, with respect to each adversely classified loan or lease, review, analyze, and document the financial position of the 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.

(b) In addition, the Risk Exposure Plan shall include, but not be limited to, the following:

(i) A schedule for reducing the outstanding dollar amount of each adversely classified asset, including timeframes for achieving the reduced dollar amounts (at a minimum, the schedule for each adversely classified asset must show its expected dollar balance on a quarterly basis);

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

(iii) 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;

(iv) A provision for the Bank's submission of monthly written progress reports to its Board; and

(v) A provision mandating Board review of the progress reports, with a notation of the review recorded in the minutes of the meeting of the Board.

(c) The Bank shall submit the Risk Exposure Plan to the Area Director and the Commissioner for review. Within thirty (30) days from receipt of any comment from the Area Director and the Commissioner, and after incorporation and adoption of any required changes, the Board shall approve the Risk Exposure Plan, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the Risk Exposure Plan.

6. The Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit or obligation with the Bank that has been, in whole or in part, charged off or classified "Substandard," "Doubtful," or "Loss" in Regulatory Reports of Examination and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing, after collecting in cash all interest and fees due from a borrower, any credit already extended to the borrower. This provision shall not apply if the Bank's failure to extend further credit

to a particular borrower would be detrimental to the best interests of the Bank provided that, prior to extending such additional credit, whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Board, or a designated committee thereof, who shall certify, in writing:

(a) Why failure of the Bank to extend such credit would be detrimental to the best interests of the Bank;

(b) That the extension of such credit would improve the Bank's position, including an explanatory statement of how the Bank's position would improve; and

(c) An appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

The signed certification shall be made a part of the minutes of the meeting of the Board, or designated Committee, with a copy retained in the borrower's credit file.

7. Within thirty (30) days after the receipt of any Report of Examination of the Bank from the FDIC or the Commissioner, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in any Report of Examination that have not been previously collected or charged off.

8. (a) The Bank shall implement and fully comply with the Concentration Plan required by paragraph eight of the 2009 CEASE AND DESIST ORDER.

(b) The Bank shall not make or renew any extensions or commitments of credit to or for the benefit of any borrower or associated entities so long as such extension or commitment would result in the Bank exceeding any limit contained in the Concentration Plan required by paragraph eight of the 2009 CEASE AND DESIST ORDER.

9. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall revise the comprehensive policy and methodology (Allowance Policy) for determining the appropriateness of the Allowance for Loan and Lease Losses (Allowance) required by paragraph nine of the 2009 CEASE AND DESIST ORDER. In addition to the requirements set forth in paragraph nine of the 2009 CEASE AND DESIST ORDER, the revised Allowance Policy shall include impairment analysis for problem credits that conforms with Accounting Standards Codification Topic 310-10-35 (previously known as FAS #114 *Accounting by Creditors for Impairment of a Loan*). The revised Allowance Policy shall provide for a review of the Allowance by the Board at least once each calendar quarter and be completed at least fifteen (15) days prior to the end of each quarter in order that the results of the review conducted by the Board may be properly

reported in the quarterly Reports of Condition and Income. Such reviews shall, at a minimum, include the following:

(i) The Federal Financial Institutions Examination Council's Instructions for the Reports of Condition and Income, the Interagency Statement of Policy on the Allowance for Loan and Lease Losses, other applicable regulatory guidance that addresses the adequacy of the Allowance, and any analysis of the Allowance provided by the FDIC and the Commissioner;

(ii) The volume and mix of the overall loan portfolio, including trends in the portfolio mix by loan type and geography, trends in the severity of nonperforming or delinquent loans, trends in the severity of weaknesses in extensions of credit identified as "Special Mention" and adversely classified in the latest Report of Examination;

(iii) Previous loan loss experience by loan type, including the level, trends, and severity of overdrafts, trend of net charge-offs as a percent of average loans over the past several years, as well as an analysis of net charge-offs experienced on previously adversely classified loans;

(iv) The degree of risk associated with renewed and extended loans;

(v) The volume, trend, rate and duration of loan growth;

(vi) The results of internal loan reviews;

(vii) Concentrations of credit and significant individual credits;

(viii) Present and prospective economic conditions, generally and locally;

(ix) Off-balance sheet credit risks; and

(x) Any other factors appropriate in determining future allowances, including changes in the Bank's strategic plan, and loan products and markets.

(b) Any deficiency in the Bank's Allowance 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 Report of Condition and Report of Income. The Bank shall thereafter maintain an appropriate Allowance.

(c) The Bank shall submit the revised Allowance Policy to the Area Director and the Commissioner for review. Within thirty (30) days from receipt of any comment from the Area Director and the Commissioner, and after incorporation and adoption of any required changes, the Bank shall approve the revised Allowance Policy, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the revised Allowance Policy.

(d) The Bank shall submit to the Area Director and the Commissioner documents sufficient to support the

determination of the adequacy of the Allowance. These submissions may be made at such times as the Bank files the quarter-end progress reports otherwise required by this CONSENT ORDER. In the event that the Area Director and the Commissioner determine that the Bank's Allowance is inadequate, the Bank shall increase the Allowance and amend its Consolidated Reports of Condition and Income accordingly.

10. (a) Within ninety (90) days from the effective date of this Consent Order the Bank shall achieve and maintain the following minimum capital levels (as defined in Part 325 of the FDIC's Rules and Regulations), after establishing an adequate Allowance:

(i) Tier 1 capital at least equal to eight percent (8%) of total assets;

(ii) Tier 1 risk-based capital at least equal to nine percent (9%) of total risk-weighted assets; and

(iii) Total risk-based capital at least equal to ten percent (10%) of total risk-weighted assets.

(b) In addition, the Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325, Appendix A.

(c) If after achieving any of the minimum capital levels in paragraph 10(a), in the event any ratio falls below

the established minimum, the Bank shall notify the Area Director and the Commissioner and shall, within thirty days (30), submit a plan for increasing such capital ratio up to an amount sufficient to comply with this provision.

(d) The Bank shall not initiate a plan to increase total assets by more than two and one-half percent (2.5%) during any consecutive three-month period, or more than eight percent (8.0%) during any consecutive twelve-month period during the life of this CONSENT ORDER.

11. (a) Within sixty (60) days from the effective date of this CONSENT ORDER the Board shall revise the Capital Plan required by paragraph eleven of the 2009 CEASE AND DESIST ORDER. The revised Capital Plan shall address the findings set forth in the 2010 Report of Examination, reinstate the dividend policy set forth in paragraph 11(a)(vii) of this CONSENT ORDER, reinstate the contingency plan for alternate sources of capital set forth in paragraph 11(a)(vi) of this CONSENT ORDER and correctly calculate and report the Tier 1 Leverage Capital Ratio. The Bank shall submit the revised Capital Plan to the Area Director and Commissioner for review in accordance with paragraph 11(b). At a minimum, the revised Capital Plan shall include:

(i) specific plans to achieve the capital levels required under this CONSENT ORDER;

(ii) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of the provisions of this CONSENT ORDER;

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

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

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

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

(vii) a dividend policy that permits the declaration of a dividend only:

A) when the Bank is in compliance with its approved capital program;

B) when the Bank is in compliance with applicable State and Federal laws and regulations;

C) when, after payment of such dividends, the Bank remains in compliance with the above minimum capital

ratios;

D) when such declaration and payment of dividends has been approved in advance by the Board of Directors of the Bank; and

E) when such declaration and payment of dividends has been approved in advance, in writing, by the Area Director and the Commissioner.

(b) The Bank shall submit the revised Capital Plan to the Area Director and the Commissioner for review. Within thirty (30) days of receipt of any comment from the Area Director and the Commissioner, and after incorporation and adoption of any required changes, the Bank shall approve the revised Capital Plan, which approval shall be recorded in the minutes of the meetings of the Board. Thereafter, the Bank shall implement and fully comply with the revised Capital Plan.

(c) The Board shall review the Bank's adherence to the revised Capital Plan, at a minimum, on a monthly basis. Copies of the reviews and updates shall be submitted to the Area Director and the Commissioner as part of the progress reports required by this CONSENT ORDER. The Board shall ensure that the Bank has processes, personnel, and control systems in place to ensure implementation of and adherence to the program developed pursuant to the revised Capital Plan.

12. (a) Within sixty(60) days from the effective date of

this CONSENT ORDER the Board shall revise the Profit Plan required by paragraph twelve of the 2009 CEASE AND DESIST ORDER. Such revisions shall address the findings set forth in the 2010 Report of Examination. The Bank shall submit the revised Profit Plan to the Area Director and Commissioner for review in accordance with paragraph 12(b).

(b) The Bank shall submit the revised Profit Plan to the Area Director and the Commissioner for review and comment. Within thirty (30) days of receipt of any comments from the Area Director and the Commissioner, and after incorporation and adoption of all such comments, the Bank shall approve the revised Profit Plan, which approval shall be recorded in the minutes of the meetings of the Board. Thereafter, the Bank shall implement and fully comply with the revised Profit Plan. The Board shall review the Bank's adherence to the revised Profit Plan, at a minimum, on a monthly basis. Copies of the reviews and updates shall be submitted to the Area Director and the Commissioner as part of the progress reports required by this CONSENT ORDER.

13. (a) Within sixty (60) days from the effective date of this CONSENT ORDER the Board shall revise the Liquidity Plan required by paragraph 13 of the 2009 CEASE AND DESIST ORDER to address the findings set forth in the 2010 Report of Examination. The Bank shall submit the revised Liquidity Plan

to the Area Director and Commissioner for review in accordance with paragraph 13(b).

(b) The Bank shall submit the revised Liquidity Plan to the Area Director and the Commissioner for review. Within thirty (30) days of receipt of any comments from the Area Director and the Commissioner, and after incorporation and adoption of all such comments, the Bank shall approve the revised Liquidity Plan, which approval shall be recorded in the minutes of the meetings of the Board. Thereafter, the Bank shall implement and fully comply with the revised Liquidity Plan. The Board shall review the Bank's adherence to the revised Liquidity Plan, at a minimum, on a monthly basis. Copies of the reviews and updates shall be submitted to the Area Director and the Commissioner as part of the progress reports required by this CONSENT ORDER.

14. The Bank shall comply with section 337.6 of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6, concerning brokered deposits. In addition, the Bank shall give thirty (30) days prior written notice to the Area Director and the Commissioner at any time the Bank plans to make use of, or increase its use of, volatile liabilities. For purposes of this CONSENT ORDER, volatile liabilities shall include Federal Home Loan Bank borrowings and other such borrowings. The notification shall indicate how the funds are to be utilized, with specific

reference to credit quality of investments/loans and the effect on the Bank's funds position and asset/liability matching.

15. The Bank shall correct the remediable violations of laws and regulations cited within the 2010 Report of Examination and implement policies and procedures to prevent future violations in the identified areas.

16. The Bank shall develop, adopt and implement a revised written plan (BSA Compliance Plan) for the continued administration of the Bank's Bank Secrecy Act (BSA) Compliance Program designed to, among other things, ensure and maintain compliance with the BSA and its implementing rules and regulations. At a minimum, the revised BSA Compliance Plan shall:

(a) provide, within thirty (30) days from the effective date of this CONSENT ORDER, for the designation of qualified individual or individuals (BSA Officer) responsible for coordinating and monitoring day-to-day compliance with the BSA pursuant to Section 326.8 of the FDIC's Rules and Regulations, 12 C.F.R. § 326.8. The BSA Officer shall:

(i) have sufficient executive authority to monitor and ensure compliance with the BSA and its implementing rules and regulations;

(ii) be responsible for determining the adequacy

of BSA/Anti-Money Laundering (AML) staffing and for supervising such staff in complying with the BSA and its implementing rules and regulations;

(iii) report directly to the Bank's board of directors, [or committee established pursuant to this ORDER], or the Bank's Chief Executive Officer;

(iv) report to the Bank's Audit Committee on a regular basis, not less than quarterly, with respect to any BSA/AML matters;

(v) be responsible for assuring the proper filing of CTRs, Monetary Instruments, and SARs relating to the BSA; and

(vi) shall provide monthly comprehensive written reports to the Bank's Board regarding the Bank's adherence to the Compliance Plan.

(b) provide, within sixty (60) days from the effective date of this CONSENT ORDER, for a system of internal controls sufficient to comply in all material respects with the BSA and its implementing rules and regulations and establish a plan for implementing such internal controls. The system of internal controls shall provide, at a minimum:

(i) performance of a comprehensive and supported BSA/AML risk assessment;

(ii) procedures for conducting a risk-based assessment of the Bank's customer base to identify the

categories of customers whose transactions and banking activities are routine and usual; and determine the appropriate level of enhanced due diligence (EDD) necessary for those categories of customers whose transactions and banking activities are not routine and/or usual (High-Risk Accounts);

(iii) policies and procedures with respect to High-Risk Accounts and customers identified through the risk assessment conducted pursuant to paragraph 1(a)(1), including the adoption of adequate methods for conducting and documenting EDD on High-Risk Accounts and customers at account opening and on an ongoing basis, and for monitoring high-risk relationships on a transaction basis, as well as by account and customer;

(iv) policies, procedures, and systems for identifying, evaluating, monitoring; investigating, and reporting suspicious activity in the Bank's products, accounts, customers, services, and geographic areas, including:

(A) establishment of meaningful thresholds for identifying accounts and customers for further monitoring, review and analyses;

(B) periodic testing and monitoring of such thresholds for their appropriateness to the Bank's products, customers, accounts, services, and geographic areas;

(C) development of an escalation process to ensure adequate referral of information about potentially

suspicious activity through appropriate levels of management, including a policy for determining action to be taken in the event of multiple filings of Suspicious Activity Reports (SARs) on the same customer, or in the event a correspondent or other customer fails to provide due diligence information. Such procedures shall describe the circumstances under which an account should be closed and the processes and procedures to be followed in doing so;

(D) procedures and/or systems for each area, including wire transfers, automated clearing house transactions, purchases and sales of monetary instruments, electronic banking transactions, and cash deposits at the automated teller machines of the Bank to identify unusual or suspicious activity, to monitor and evaluate usual or suspicious activity, and to maintain accurate information needed to produce these reports. The periodic reports should cover a broad range of time frames, including individual days, a number of days, and a number of months, as appropriate, and should segregate transactions that pose a greater than normal risk for non-compliance with the BSA.

(E) development of required documentation of management's decisions to file or not to file an SAR; and

(F) systems to ensure the timely, accurate, and complete filing of required SARs and any other similar or related reports required by law.

(G) procedures to ensure customers and transactions are being compared to current Office of Foreign Assets Control (OFAC) listings; and

(H) policies and procedures for transactions involving non-customers, including but not limited to, cashing of on-us checks.

(c) provide, within sixty (60) days from the effective date of this CONSENT ORDER, an effective training program (Training Program) for management and staff on all relevant aspects of laws, regulations, and Bank policies and procedures relating to the Bank Compliance Plan. This Training Program shall ensure that all appropriate personnel are aware of, and can comply with, the requirements of the BSA and its implementing rules and regulations, including the requirements associated with Currency Transaction Reports and Suspicious Activity Reports, as well as all applicable Office of Foreign Assets Control provisions. The Training Program shall also cover:

(i) the Bank's BSA/AML policies and procedures, and new rules and requirements as they arise;

(ii) a requirement that the Bank shall fully document the training of each employee, including the designated BSA Officer; and

(iii) a requirement that training shall be

conducted no less frequently than annually.

(d) (i) Within ninety (90) days of the effective date of this CONSENT ORDER, provide for independent testing for compliance by the Bank with the BSA and its implementing rules and regulations to be conducted by either:

(A) a qualified outside party with the requisite ability to perform such testing and analysis; or

(B) bank personnel independent of the BSA function.

(ii) Such testing shall be done on an annual basis. The independent testing shall, at a minimum:

(A) Test the Bank's internal procedures for monitoring compliance with the BSA and its implementing rules and regulations, including interviews of employees who handle cash transactions;

(B) Test the Bank's recordkeeping system for compliance with the BSA and its implementing rules and regulations, including, but not limited to:

(1) Testing to ensure all reportable transactions have been identified;

(2) Testing to ensure Bank personnel is reviewing all applicable reports, including monitoring reports for structuring activities; and

(3) Testing to ensure compliance with

OFAC provisions.

(4) Test the Bank's customer due diligence procedures;

(5) Test the adequacy of the Bank's training program; and

(6) Document the scope of the testing procedures performed and the findings of the testing. The results of each independent test, as well as any apparent exceptions noted during the testing, shall be presented to the Bank's Board. The Bank's Board shall record the steps taken to correct any exceptions noted and address any recommendations made during each independent test in the minutes of the meeting.

17. Within sixty (60) days from the effective date of this CONSENT ORDER, the Board shall develop, adopt and implement a written plan for the improved administration of Information Technology (IT) supervision (IT Plan) designed to, among other things, ensure ongoing effective supervision of IT activities. At a minimum, the IT Plan shall:

(a) establish an Information Security Program complying with all the provisions of the Interagency Guidelines Establishing Standards for Safeguarding Customer Information, as set forth in Appendix B to Part 364 of the FDIC Rules and Regulations;

(b) require the review of all information technology

internal audit scopes prior to commencement of the related audit to ensure that acceptable scope is included in those audits;

(c) require the review of all Information Technology related policies and procedures for relevance, consistency, and completeness and the development of the following policies and procedures: ACH, Patch Management, Information Security Standards, Remote Capture and procedures for monitoring systems;

(d) require the development of an acceptable Vendor Management/Oversight of Service Provider policies and procedures; and

(e) include an action plan for migration from Netware 6.5 to a supported system.

18. Within thirty (30) days from the effective date of this CONSENT ORDER, the Bank shall develop a written action plan (Action Plan) to address the remaining weaknesses and recommendations set forth in the 2010 Report of Examination, not specifically referenced by paragraphs 1 through 17 of this CONSENT ORDER. The Action Plan shall identify the item, required corrective action, responsibility for implementing the corrective action, and date by which each item will be corrected. The Action Plan shall be submitted to the Area Director and the Commissioner for review and comment. Within thirty (30) days of receipt of all such comments from the Area Director and the Commissioner, and after incorporation and

adoption of all such comments, the Bank shall approve the Action Plan, which approval shall be recorded in the minutes of the meetings of the Board. Thereafter, the Bank shall implement and fully comply with the Action Plan. The Board shall review the Bank's adherence to the Action Plan, at minimum, on a monthly basis. Copies of the reviews and updates shall be submitted to the Area Director and the Commissioner as part of the progress reports required by this CONSENT ORDER.

19. Within thirty (30) days from the effective date of this CONSENT ORDER, the Bank shall review Consolidated Reports of Condition and Income filed with the FDIC on or after December 31, 2009, and amend said reports if necessary to accurately reflect the financial condition of the Bank as of the date of each such report. In particular, such reports shall contain a reasonable Allowance. Reports filed after the effective date of this ORDER shall also accurately reflect the financial condition of the Bank as of the reporting date.

20. (a) The Bank shall continue to maintain a committee, as required by paragraph 20 of the 2009 CEASE AND DESIST ORDER, consisting of at least five (5) Board members, responsible for ensuring compliance with the CONSENT ORDER, overseeing corrective measures with respect to the CONSENT ORDER, and reporting to the Board (C&D Compliance Committee). More than

fifty percent (50%) of the members of the C&D Compliance Committee shall be independent directors as defined herein. The C&D Compliance Committee shall monitor compliance with this CONSENT ORDER and, within thirty (30) days from the effective date of this CONSENT ORDER, and every thirty (30) days thereafter, shall submit a written report detailing the Bank's compliance with this CONSENT ORDER to the Board, for review and consideration during its regularly scheduled meeting. The compliance report and any discussion related to the report or CONSENT ORDER shall be incorporated into the minutes of the meeting of the Board. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this CONSENT ORDER. For the purposes of this CONSENT ORDER, an "independent director" shall be an individual who:

(i) is not employed in any capacity by the Bank, any of its subsidiaries, or affiliated organizations, other than as a director;

(ii) does not own or control more than twenty-five percent (25%) of the outstanding shares of the Bank or its parent company;

(iii) is not related by blood or marriage to an officer or director of the Bank or its affiliates, or to any shareholder owning more than ten percent (10%) of the

outstanding shares of the Bank or its parent company, and who does not otherwise share a common financial interest with such officer, director or shareholder;

(iv) is not indebted, directly or indirectly, to the Bank or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding ten percent (10%) of the Bank's total Tier 1 capital and Allowance; and

(v) is a resident of, or engaged in business in, the Bank's trade area; or is otherwise deemed to be an independent director for purposes of this CONSENT ORDER by the Area Director and the Commissioner.

21. Within thirty (30) days from the effective date of this CONSENT ORDER, and quarterly thereafter, the Bank shall furnish written progress reports to the Area Director and the Commissioner detailing the form, manner, and results of any actions taken to secure compliance with this CONSENT ORDER. In addition, the Bank shall furnish such other reports as requested by the Area Director or the Commissioner. All progress reports and other written responses to this CONSENT ORDER shall be reviewed by the Board and made a part of the minutes of the Board meeting.

This CONSENT ORDER shall not bar, estop, or otherwise prevent the FDIC, the Division of Banks, or any other federal or

state agency or department from taking any action against the Bank, the Bank's current or former institution-affiliated parties, or any of their respective directors, officers, employees, and agents.

Nothing herein shall prevent the FDIC or the Division of Banks from conducting on-site reviews or examinations of the Bank, its affiliates, agents, service providers or other institution-affiliated parties at any time to monitor compliance with this CONSENT ORDER.

This CONSENT ORDER shall become effective upon issuance by the FDIC and the Division of Banks and shall be fully enforceable by the FDIC pursuant to the provisions of section 8(i)(1) of the Act, 12 U.S.C. § 1818(i)(1), and by the Division of Banks pursuant to the provisions of Massachusetts General Laws Chapters 167 through 172 and other applicable statutes.

The provisions of this CONSENT ORDER shall be binding upon the Bank, its successors and assigns, any of their respective directors, officers, employees, and agents, and any of the Bank's institution-affiliated parties.

The provisions of this CONSENT ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision of this CONSENT ORDER shall have been modified, suspended, or terminated in writing by the FDIC and by

