

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	
	)	
CITIZENS COMMUNITY BANK	)	ORDER TO CEASE AND DESIST
RIDGEWOOD, NEW JERSEY	)	
	)	FDIC-07-265b
(INSURED STATE NONMEMBER BANK)	)	
_____	)	

Citizens Community Bank, Ridgewood, New Jersey ("Bank"), having been advised of its right to a Notice of Charges and of Hearing detailing the unsafe or unsound banking practices and violations of law, regulations and written conditions imposed by the FDIC in an order granting an application for deposit insurance alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated September 3, 2008, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law, regulations and written conditions imposed by the FDIC in an order granting an application for deposit insurance, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and the January 7, 2008 (as of December 31, 2007) Report of Examination ("Report of Examination") issued jointly by the FDIC and the New Jersey Department of Banking and Insurance ("NJDOBI") and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had committed violations of law, regulations and written conditions imposed by an order granting an application for deposit insurance. The FDIC acknowledges that the Commissioner of Banking and Insurance for the State of New Jersey ("Commissioner") has issued an order dated September 10, 2008 ("State Order") to the Bank addressing the unsafe or unsound banking practices and violations of law and regulations and written conditions set forth in the Report of Examination and issues this ORDER paralleling the provisions of the State Order. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

**ORDER TO CEASE AND DESIST**

IT IS HEREBY ORDERED that the Bank, its directors, officers, employees, agents and other institution-affiliated parties (as that term is defined in Section 3(u) of the Act, 12 U.S.C. § 1813(u)), and its successors and assigns cease and desist from engaging in the unsafe or unsound banking practices and committing the violations of law, regulations and written conditions specified below:

(a) Operating with inadequate management supervision and oversight by the Board of Directors of the Bank ("Board") to ensure compliance with certain written conditions imposed by the FDIC in its July 9, 2003 order approving the Bank's application for deposit insurance, which were in effect during the first three years of the Bank's operation;

(b) Failing to comply with the written conditions imposed by the FDIC in its July 9, 2003 order approving the Bank's application for deposit insurance;

(c) Operating with inadequate management supervision and oversight by the Board to ensure compliance with the provisions of the Commissioner's Decision and Order dated April 28, 2003 and later addenda dated October 18, 2004, January 11, 2005 and October 25, 2007, which approved the Bank's Charter Application;

(d) Operating in violation of the Bank Secrecy Act, as amended, 12 U.S.C. § 1829b, 12 U.S.C. §§ 1951-1959, and 31 U.S.C. §§ 5311-5332, and implemented by rules and regulations issued by the United States Department of Treasury, 31 C.F.R. Part 103, and the FDIC, 12 C.F.R. § 326.8 (hereafter collectively "BSA");

(e) Operating in violation of section 326.8(c)(3) of the FDIC's Rules and Regulations, 12 C.F.R. § 326.8(c)(3);

(f) Operating in violation of section 353.3(e) of the FDIC's Rules and Regulations, 12 C.F.R. § 353.3(e);

(g) Operating in violation of section 353.3(f) of the FDIC's Rules and Regulations, 12 C.F.R. § 353.3(f);

(h) Operating with inadequate management supervision and oversight by the Board to prevent unsafe or unsound practices and violations of law and regulation, including violations of the BSA;

(i) Operating in violation of section 323.3 of the FDIC's Rules and Regulations, 12 C.F.R. § 323.3;

(j) Operating in violation of section 323.5(b) of the FDIC's Rules and Regulations, 12 C.F.R. § 323.5(b);

(k) Operating in violation of section 323.4 of the FDIC's Rules and Regulations, 12 C.F.R. § 323.4;

(l) Operating in violation of section 304.3 of the FDIC's Rules and Regulations, 12 C.F.R. § 304.3;

(m) Operating in violation of sections 17:9A-62 and 17:9A-110 of the New Jersey Banking Act, N.J.S.A. 17:9A-62 and 17:9A-110 and section 3:7-5.2 of the New Jersey Administrative Code, N.J.A.C. 3:7-5.2;

(n) Operating in contravention of the Interagency Guidelines Establishing Standards for Safety and Soundness contained in Appendix A to Part 364 of the FDIC's Rules and Regulations, 12 C.F.R. Part 364;

(o) Operating in contravention of the Interagency Guidelines Establishing Information Security Standards contained in Appendix B to Part 364 of the FDIC's Rules and Regulations, 12 C.F.R. Part 364;

(p) Failing to follow and/or appropriately revise and monitor the business plan submitted to the Regional Director in conjunction with the Bank's application for deposit insurance;

(q) Operating under a budget which is unrealistic and unlikely to be achieved, based on the Bank's historical data;

(r) Engaging in hazardous lending practices, including, but not limited to:

(i) Operating in contravention of the Bank's loan policy relating to appraisals, construction loans and undesirable loans;

(ii) Operating with inadequate loan policies, processes and procedures and an inadequate credit risk identification system;

(iii) Operating without an effective loan review system and an inadequate internal loan grading system;

(s) Operating with an excessive level of adversely classified loans and/or delinquent loans;

(t) Operating with an unsatisfactory level of capital;

(u) Operating with inadequate earnings to cover losses, support operations and augment capital;

(v) Operating with an inadequate allowance for loan and lease losses;

(w) Operating with an inadequate system to measure, monitor and control interest rate risk;

(x) Operating the mortgage banking division without proper oversight and risk analysis and failing to ensure that all

key financial arrangements with its managing directors are reduced to writing;

(y) Operating with inadequate audit policies, processes and procedures; and

(z) Operating with inadequate information technology policies, procedures and processes; and

(aa) Operating with inadequate policies, procedures and processes to ensure compliance with the information security standards established by the Gramm-Leach-Bliley Act, 15 U.S.C. §§ 6801 and 6805(b), and implemented by the FDIC in Appendix B to Part 364 of the FDIC's Rules and Regulations, 12 C.F.R. Part 364, Appendix B.

IT IS FURTHER ORDERED that the Bank, its institution-affiliated parties, and its successors and assigns, shall take affirmative action as follows:

#### CORRECTION AND PREVENTION

1. Beginning on the effective date of this ORDER, the Bank shall take steps necessary, consistent with other provisions of the ORDER and sound banking practices, to correct and prevent the unsafe or unsound banking practices and violations of law and regulations and all contraventions of federal banking agency policies and procedures and guidelines contained in Part 364 of the FDIC's Rules and Regulations that were identified in the Report of Examination. In addition, the Bank shall take all steps

necessary to ensure that the Bank is operated with adequate management supervision and Board oversight to prevent any future unsafe or unsound banking practice or violation of law or regulation.

MANAGEMENT AND BOARD ANALYSIS

2. (a) Within 60 days from the effective date of this ORDER, the Board shall engage an independent third party, acceptable to the Regional Director of the FDIC's New York Regional Office ("Regional Director") and the Commissioner, with the appropriate expertise and qualifications to analyze and assess the Bank's management and staffing needs, including the management and staffing needs of the Bank's mortgage banking division and the performance of the Bank's chairman and vice-chairman of the Board, directors and "Executive Officers" (as that term is defined in 12 C.F.R. § 303.101(b)). The engagement shall require that this analysis and assessment be summarized in a written report to the Board ("Management Report"), with a copy simultaneously delivered to the Regional Director and the Commissioner.

(b) The Board shall provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the third party for review before it is executed. The contract or engagement letter shall, at a minimum, include:

- (i) a description of the work to be performed

under the contract or engagement letter, the fees for each significant element of the engagement and the aggregate fee;

- (ii) the responsibilities of the firm or individual;
- (iii) an identification of the professional standards covering the work to be performed;
- (iv) identification of the specific procedures to be used when carrying out the work to be performed;
- (v) the qualifications of the employee(s) of the independent third party who are to perform the work;
- (vi) the time frame for completion of the work;
- (vii) any restrictions on the use of the reported findings;
- (viii) a provision for unrestricted access to work papers of the third party by the FDIC and the NJDOBI; and
- (ix) a certification that the third party firm or individual is not affiliated in any manner with or a current or former employee of the Bank or any of its Executive Officers or directors (current or former) or any shareholder who owns 5% or more of the Bank's outstanding stock.

(c) Within 30 days of receipt of the Management Report, the Board will develop a written plan of action (the "Management Plan") that incorporates the findings of the Management Report, and a time frame for completing each action. A copy of the Management Report and the Management Plan and any subsequent modification thereto shall be submitted to the



Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment, and after consideration of such comment, the Board shall approve the Management Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved. Thereafter, the Bank and its directors, officers and employees shall implement and follow the Management Plan and any modifications thereto. It shall remain the responsibility of the Board to fully implement the Management Plan within the specified time frames. In the event the Management Plan, or any portion thereof, is not implemented, the Board shall immediately advise the Regional Director and the Commissioner in writing of the specific reasons for deviating from the Management Plan. The Regional Director and the Commissioner must approve any such deviation. At a minimum, the Management Plan shall:

(i) Contain a recitation of the recommendations included in the Management Report or otherwise communicated to the Bank, along with a copy of any report(s) prepared by the outside consultant(s);

(ii) with respect to the positions of chairman and vice-chairman of the Board, giving appropriate consideration to the size and complexity of the Bank, (A) identify the authorities, responsibilities and accountabilities appropriate to the position, (B) present a clear and concise description of the relevant knowledge, skills, abilities and experience necessary for the positions, and (C) assess the appropriateness of all

current and deferred compensation paid to the chairman and vice-chairman in light of each of their respective competence, responsibilities and performance with a comparison of such compensation to that of institutions of comparable size and complexity, and, based on the foregoing analyses and comparisons, present a recommendation as to appropriate compensation, if any;

(iii) identify the type and number of officer positions needed to manage and supervise the affairs of the Bank, including its mortgage banking division, detailing any vacancies or additional needs and giving appropriate consideration to the size and complexity of the Bank, recommend with respect to each such position an appropriate base salary level and bonus range, if any;

(iv) identify the type and number of staff positions needed to implement the Bank's strategic plan, detailing any vacancies or additional needs;

(v) identify the authorities, responsibilities, and accountabilities attributable to each position, as well as the appropriateness of the authorities, responsibilities and accountabilities, giving due consideration to the relevant knowledge, skills, abilities and experience of the incumbent (if any) and the existing or proposed compensation;

(vi) present a clear and concise description of the relevant knowledge, skills, abilities and experience necessary for each position, including delegations of authority and performance objectives;

(vii) identify the appropriate level of current and deferred compensation to each officer and staff position, including executive officer and managing director positions;

(viii) evaluate the current and past performance of all existing directors (including the chairman and vice-chairman of the Board), officers (including Executive Officers and managing directors) and staff members of the Bank, indicating whether the individuals are competent and qualified to perform present and anticipated duties, adhere to the Bank's established plans, policies, procedures and processes, and operate the Bank in a safe and sound manner;

(ix) establish requirements and methodologies to periodically evaluate each individual's job performance;

(x) identify and establish Bank committees needed to provide guidance and oversight to management;

(xi) establish a plan to terminate, rotate or reassign officers and staff as necessary, as well as recruit and retain qualified directors (including the chairman of the Board), Executive officers and other personnel consistent with the Board's analysis and assessment of the Bank's staffing needs;

(xii) a written plan of action to enhance the effectiveness of the Board by adding new members to the Board with the necessary ability, experience, independence and other qualifications commensurate with the size and complexity of the Bank. The new directors shall not include persons who are either related by blood or marriage to, or have a business or

professional relationship with existing directors, their attorneys or consultants. The new directors shall not be officers or full-time employees of the Bank.

(xiii) identify training and development needs of the Bank, as well as a plan to provide such training and development to the appropriate personnel;

(xiv) establish procedures to periodically review and update the Management Plan, as well as periodically review and assess the performance of each officer and staff member;

(xv) contain a current organizational chart that identifies all existing and proposed staff and officer positions, delineates related lines of authority and accountability, and establishes a written plan for addressing any identified needs; and

(xvi) contain a current management succession plan.

(d) While this ORDER is in effect, the Board shall provide written notification to the Regional Director and the Commissioner of the resignations or terminations of any of its Executive Officers or Board members within fifteen days of the event. The Bank shall also establish procedures to ensure compliance with section 32 of the Federal Deposit Insurance 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. In addition, the Board shall provide written notification to the Regional Director and

the Commissioner of any proposed new Executive Officer or Board member at least 30 days prior to the date such proposed officer or Board member is to begin service; such notification shall include a description of the background and experience of the proposed officer or Board member. Such changes will only be effective upon receipt of the Regional Director's and the Commissioner's approval.

BOARD OF DIRECTORS' OVERSIGHT

3. (a) Within 90 days of this ORDER, and annually thereafter, the Board shall review management's adherence to the Bank's written policies and procedures and shall prepare written findings and conclusions of this review along with written descriptions of any management or operational changes that are made as a result of the review. These written findings shall be included in the minutes of the Board.

(b) Within 30 days from the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank, which shall specifically include meeting no less frequently than monthly.

(c) Within 30 days from the effective date of this ORDER, the Board shall establish specific procedures designed to ensure that it is fully informed of all matters regarding the management, operation, and financial condition of the Bank at regular intervals and in a consistent format.

(d) Within 30 days from the effective date of this ORDER, Board minutes shall be improved to clearly reflect all analysis and deliberations undertaken by the Board, including the following:

(i) the Board shall prepare in advance and shall follow a detailed written agenda during each meeting, during which, at a minimum, the following matters shall be reviewed and approved: reports of income and expenses; loan reports, including new, overdue, renewed, extended, restructured, insider, non-accrual, charged-off, and recovered loans; investment activity; asset/liability and funds management reports; operating policies; training reports, personnel actions; audit and supervisory reports; and the minutes summarizing individual committee meetings and actions;

(ii) Board participation shall also require the assumption of full responsibility for the approval of the new and/or enhanced policies, plans and programs specifically required by this ORDER and the Report of Examination and future regulatory reports of examination, along with any other policies, procedures and processes necessary to operate the Bank in a safe and sound manner;

(iii) Board minutes shall be written by an individual who is independent of the Board and who is not engaged in making presentations to the Board and Board minutes shall be approved by the Board and retained for supervisory review; and

(iv) a copy of the Board minutes shall be

provided to the Regional Director and the Commissioner after each monthly Board meeting.

CAPITAL PLAN

4. (a) Within 30 days of the effective date of this ORDER, the Board shall develop a capital plan to achieve and maintain the required minimum capital levels that shall be submitted to the Regional Director and the Commissioner for review and comment. Within 15 days of receipt of all such comments from the Regional Director and/or the Commissioner, and after consideration of all such comments, the Board shall approve the revised 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 capital plan. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Regional Director and the Commissioner. At a minimum, the program shall include:

(i) specific plans to achieve the capital levels required under the plan and 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 paragraph;

(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 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 when the Bank is in compliance with its approved capital program.

(b) Within 60 days of the effective date of this ORDER, the Board shall ensure that the Bank maintains a ratio of Tier 1 capital to total assets ("Tier 1 capital ratio") of at least 8% and shall immediately notify the Regional Director and the Commissioner if the Bank's Tier 1 capital ratio drops below 8%.

(c) For purposes of this ORDER, the terms Tier 1 capital and Tier 1 capital ratio shall have the meaning ascribed to them in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325.



5. (a) Within 10 days from the effective date of this ORDER, the Bank shall eliminate by charge-off or collection all assets classified Loss and 50 percent of all assets classified Doubtful;

(b) Within 90 days from the effective date of this ORDER, the Bank shall formulate a written plan to reduce the Bank's risk exposure in each asset in excess of \$250,000 classified "Substandard" or "Doubtful" or listed as Special Mention 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 FDIC and/or the NJDOBI. In developing the plan mandated by this paragraph, the Bank shall, at a minimum, and with respect to each adversely classified and special mention 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.

(c) In addition, the plan mandated by this provision shall also include, but not be limited to, the following:

(i) a schedule for reducing the outstanding dollar amount of each adversely classified and special mention asset, including timeframes for achieving the reduced dollar

amounts (at a minimum, the schedule for each adversely classified and special mention 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 and special mention asset;

(iii) a schedule showing, on a quarterly basis, the expected consolidated balance of all adversely classified and special mention 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.

(d) The plan mandated by this provision shall further require a reduction in the aggregate balance of assets classified "Substandard" and "Doubtful" in the Report of Examination in accordance with the following schedule: (for purposes of this paragraph, "number of days" means number of days from the effective date of this ORDER):

(i) within 180 days, to not more than 65% of Tier 1 capital plus the allowance for loan and lease losses, as determined at the end of the 180<sup>th</sup> day period;

(ii) within one year, to not more than 40% of

Tier 1 capital plus the allowance for loan and lease losses as determined at the end of the one year period.

(e) The requirements of this paragraph do not represent standards for future operations of the Bank. Following compliance with the above reduction schedule, the Bank shall continue to reduce the total volume of adversely classified and special mention assets. The plan may include a provision for increasing Tier 1 capital when necessary to achieve the prescribed ratio.

(f) The Bank shall immediately submit the plan to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and/or the Commissioner, and after due consideration of any recommended changes, the Bank shall approve the 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 plan.

(g) The Board shall submit quarterly reports to the Regional Director and the Commissioner that reflect the progress the Bank has made in reducing the Bank's risk exposure in each asset in excess of \$250,000 classified Substandard or Doubtful or listed as Special Mention in the Report of Examination.

RESTRICTIONS ON ADVANCES TO ADVERSELY CLASSIFIED BORROWERS

6. (a) While this ORDER is in effect, 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 "Loss" and is uncollected.

(b) While this ORDER is in effect, the Bank shall not make any further extensions of credit, directly or indirectly, to any borrower whose loans are adversely classified "Substandard" or "Doubtful" or listed as Special Mention, without prior approval by the Bank's Board. The Board shall not approve the proposed extension without first making affirmative determinations that:

(i) the extension of credit is in full compliance with the Bank's loan policy;

(ii) the extension of credit is necessary to protect the Bank's interests, or is adequately secured;

(iii) the Bank found the primary and secondary obligors to be creditworthy based on a credit analysis;

(iv) a work out plan is in place; and

(v) all necessary loan documentation is on file, including, at a minimum, current financial and cash flow information, and satisfactory appraisal, title and lien documents.

(c) The affirmative determinations shall be recorded in the minutes of the meeting of the Board, with a copy retained in the borrower's credit file.

REDUCTION OF DELINQUENCIES

7. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate a written plan for the reduction and collection of delinquent loans. For purposes of this provision, "reduce" means to charge-off or collect. The plan shall include, but not be limited to, provisions which:

(i) prohibit the extension of credit for the payment of interest or fees;

(ii) delineate responsibilities for implementing and monitoring the Bank's collection policies;

(iii) establish specific collection actions and procedures to be instituted at various stages of a borrower's delinquency;

(iv) establish specific dollar levels to which the total dollar volume of delinquencies will be reduced within six months and 12 months from the effective date of the plan; and

(v) provide for the submission of monthly written progress reports to the Bank's Board for review and notation in minutes of the meetings of the Board.

(b) Within 180 days the ratio of delinquencies and non-accrual loans shall be reduced to no more than 5% of gross loans;

(c) The Bank shall immediately submit the plan to the

Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and/or the Commissioner, and after due consideration of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of the Board's meeting.

Thereafter, the Bank shall implement and fully comply with the plan; and

(d) The Board shall submit monthly reports to the Regional Director and the Commissioner that reflect loan delinquency levels, ratios and trends no later than three days after the Board's monthly meeting.

#### LOAN POLICIES AND PROCEDURES

8. (a) Within 60 days from the effective date of this ORDER, the Bank shall submit to the Regional Director and the NJDOBI revised written loan policies and procedures that have been approved by the Board, which shall, at a minimum, address the recommendations contained in the Report of Examination, including the following:

(i) adequate underwriting standards for loans, including brokered loans, loan renewals and appraisal reviews, including addressing the pricing structure for real estate loans, ensuring sufficient collateral protection and incorporating limitations on the amount that can be loaned in relation to established collateral values;

(ii) monitoring and reporting of past due loans;

(iii) control and monitoring of concentrations of credit, including: (a) establishing concentrations of credit limits by industries, geographic areas and types of loans; and (b) managing the risk associated with asset concentrations;

(iv) controls and procedures to promptly identify and grade loans with emerging credit weaknesses;

(v) adequate standards for the acceptability of and limits on the use of interest reserves;

(vi) adequate loan to cost guidelines to ensure borrower equity for construction loans;

(vii) adequate pre-sale and minimum unit release requirements for construction loans;

(viii) controls and procedures that address administrative functions such as loan closings, loan payments, loan proceed disbursements and loan payoffs; and

(ix) define how the debt service coverage ratios are calculated for commercial and non-commercial real estate loans, including addressing contingent liabilities and net personal income.

(b) The Bank shall immediately comply with and implement provisions in its existing loan policy, including complying with the commercial real estate underwriting guidelines and the requirement that renewals be brought before the Board for approval.

ALLOWANCE FOR LOAN AND LEASE LOSSES

9. (a) Within 30 days from the effective date of this ORDER, the Bank shall establish a comprehensive allowance for loan and lease losses ("ALLL") methodology.

(b) The Bank shall maintain, through charges to current operating income, an adequate ALLL. The adequacy of the ALLL shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the potential for loan losses in the Bank's portfolio, current economic conditions, and any criticisms as contained in the Bank's most recent report of examination.

(c) The Bank shall conduct, at a minimum, a quarterly assessment of its ALLL and shall maintain a written record, for supervisory review, indicating the methodology used in determining the amount of the ALLL needed and any deficiencies shall be promptly remedied. The quarterly assessment shall be reviewed by the Board and shall be noted in the minutes of the Board.

FUNDS MANAGEMENT

10. (a) Within 30 days from the effective date of this ORDER, the Board shall revise the Asset Liability Management Policy to effectively address interest rate risk, including, at a minimum, measures of Net Interest Income and Economic Value of



Equity tolerance limits.

(b) Within 30 days from the effective date of this ORDER, the Bank shall implement an effective interest rate risk measurement system that is based on reliable data and takes into account risk associated with the mortgage banking division.

(c) The Asset and Liability Committee ("ALCO") shall:

(i) monitor measurement results quarterly and shall fully discuss and analyze, at a minimum, measurement system inputs, assumptions and results, which shall be reflected in the ALCO minutes;

(ii) consider all aspects affecting the management of the Bank's interest rate risk, including fully analyzing the risks associated with current products, contemplated new products, asset maturities and deposit decay rates, which shall be reflected in the ALCO minutes; and

(iii) shall establish appropriate interest rate risk limits and take prudent actions should the measurement system results fall outside of the limits.

#### STRATEGIC PLAN

11. (a) Within 60 days of this ORDER, the Board shall formulate a comprehensive written business/strategic plan covering an operating period of at least three years for the Bank, including the mortgage banking division ("Strategic Plan").

The Strategic Plan shall contain an assessment of the Bank's current financial condition and market area along with a description of the operating assumptions that form the basis for major projected income and expense components of the assessment.

(b) The Strategic Plan shall include short term goals and operating plans to comply with the terms of this ORDER and correct all regulatory criticisms, intermediate goals and project plans, and long-range goals and project plans.

(c) The Board shall submit the Strategic Plan to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and/or the Commissioner and after due consideration of any recommended changes, the Board shall approve the Strategic Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved.

(d) The Board shall implement and fully comply with the Strategic Plan after completion of the requirements of subparagraph (c) above.

(e) Within 15 days from the end of each calendar quarter following the effective date of this ORDER, the Board shall evaluate the Bank's performance in relation to the Strategic Plan and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting during which such evaluation is undertaken. In the event the Board determines that the Strategic Plan should be revised in any manner, the Strategic Plan shall be revised and submitted to the

Regional Director and the Commissioner for review and comment within 15 days after such revisions have been approved by the Board. Within 30 days of receipt of any comments from the Regional Director and/or the Commissioner, and after consideration of all such comments, the Bank shall approve the revised Strategic Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved.

(f) The Board shall implement and fully comply with the revised Strategic Plan after completion of the requirements of this paragraph; and

(g) The Board shall notify the Regional Director and the Commissioner prior to any major deviation or material change from the Strategic Plan.

#### PROFIT AND BUDGET PLAN

12. (a) Within 60 days from the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the Board shall develop and fully implement a written profit plan (the "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 required by this Order.

(b) The Profit Plan should not include any areas representing a material change in the business plan and which have not been submitted to the Regional Director and the

Commissioner 60 days prior to consummation of the change but shall, at a minimum, include:

(i) identification of the major areas in and means by which the Board will seek to improve the Bank's operating performance;

(ii) specific goals to improve the net interest margin, increase interest income, reduce discretionary expenses, improve and sustain earnings, address overhead, as well as maintain adequate provisions to the ALLL;

(iii) realistic and comprehensive budgets for all categories of income and expense items;

(iv) a description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components;

(v) coordination of the Bank's loan, investment, funds management, and operating policies; strategic plan; and ALLL methodology with the profit and budget planning;

(vi) a budget review process and a monthly report thereof to monitor the revenue and expenses of the Bank whereby actual performance is compared against budgetary projections not less than monthly; recording the results of the evaluation and any actions taken by the Bank in the minutes of the Board meeting at which such evaluation is undertaken; and

(vii) identification of the individual(s) responsible for implementing each of the goals and strategies of the Profit Plan.

(c) The Board shall submit the Profit Plan to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and/or the Commissioner and after due consideration of any recommended changes, the Board shall approve the Profit Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved.

(d) Within 15 days from the end of each calendar month following the effective date of this ORDER, the Board shall evaluate the Bank's performance in relation to the Profit Plan and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting during which such evaluation is undertaken. In the event the Board determines that the Profit Plan should be revised in any manner, the Profit Plan shall be revised and submitted to the Regional Director and the Commissioner for review and comment within 25 days after such revisions have been approved by the Board. Within 30 days of receipt of any comments from the Regional Director and/or the Commissioner, and after consideration of all such comments, the Board shall approve the revised Profit Plan, which approval shall be recorded in the minutes of the Board meeting in which it is approved.

(e) The Board shall implement and fully comply with the revised Profit Plan after completion of the requirements of this paragraph.

(f) Copies of the monthly report required by paragraph 12(b)(vi) shall be submitted to the Regional Director and the Commissioner within 5 days of review by the Board.

MORTGAGE BANKING DIVISION

13. (a) Within 60 days of the effective date of this ORDER, the Bank shall perform a complete risk assessment of the mortgage banking division, including any potential repurchase and reputation risks to the Bank arising from the mortgage division.

The results of the risk assessment shall be summarized in a written report which shall be submitted to the Regional Director and the Commissioner.

(b) Within 30 days of the written report and based on the results of this risk assessment, the Bank shall institute any mitigating actions or controls to minimize the identified risks.

(c) Within 30 days of the effective date of this ORDER, the Board shall revise its policies relating to the Bank's mortgage banking division to provide for documentation of lines of authority and operational responsibilities.

(d) Within 30 days of the effective date of this ORDER, the Bank shall reduce to writing the informal profit/loss sharing agreement that exists between the Bank and the mortgage banking division's managing directors, which shall be signed by the managing directors and the Board or its designated representative.

(e) Within 45 days of the effective date of this ORDER, the Bank shall confirm and document the managing directors' ability to fulfill their potential obligations under the agreement.

#### DIVIDENDS

14. The Bank shall not declare or pay any cash dividends that would result in a Tier 1 capital ratio of less than 8% without the prior written approval of the Regional Director and the Commissioner. Requests for approval shall be received at least 30 days prior to the proposed date for the declaration of dividends and shall contain, but not be limited to, information on consolidated earnings for the most recent annual period and the last quarter.

#### AUDIT PROGRAM

15. (a) Within 30 days from the effective date of this ORDER, the Bank shall implement an effective internal and external audit program that ensures adequate audit coverage and testing in all areas.

(b) Within 30 days of the effective date of this ORDER, the Bank shall institute measures to correct deficiencies described in audit findings.

(c) The Audit committee shall meet at least quarterly

to ensure that the audit program is functioning adequately.

(d) The Audit Committee oversight shall include a review of internal audit workpapers.

(e) The audit program shall include the areas recommended in the Audit Booklet of the Federal Financial Institutions Examination Council's Information Technology Examination Handbook dated August 2003 and shall be implemented by individuals or third parties possessing sufficient experience and expertise in conducting such audits.

(f) All audit reports shall be submitted to the Board for review, which shall be noted in the Board minutes.

(g) The Bank shall obtain and submit to the Regional Director and the Commissioner a yearly audited financial statement for the Bank within 90 days after the end of the Bank's fiscal year.

#### INFORMATION TECHNOLOGY

16. (a) Within 60 days from the effective date of this ORDER, the Board shall submit to the Regional Director and the Commissioner revised written information technology ("IT") policies and procedures that have been approved by the Board for Bank-wide IT operations and processes, including the mortgage banking division.

(b) Within 60 days from the effective date of this ORDER, the Bank shall designate a properly qualified and trained Bank employee acceptable to the Regional Director and the



Commissioner as the Bank's IT Administrator to ensure effective managerial oversight over all of the Bank's IT operations, processes and procedures, including the mortgage banking division, and to ensure implementation of Board and/or management decisions affecting the Bank's IT operations, processes and procedures, including the mortgage banking division.

(c) Within 90 days from the effective date of this ORDER, the Board shall develop and implement an effective Bank-wide information security program (Program) to safeguard confidential customer information that meets the requirements of Appendix B to Part 364 of the FDIC's Rules and Regulations, 12 C.F.R. Part 364, Appendix B. This Program should include, but not be limited to, the following measures:

(i) An assessment of Bank-wide risks by identifying internal and external threats and assessing the likelihood and potential damage of these threats, taking into consideration the sensitivity of customer information;

(ii) Effective management and control of risks by implementing access controls, encryption and monitoring systems and other measures to protect customer information;

(iii) Overseeing and monitoring service providers and exercising appropriate due diligence prior to implementing new activities, such as remote deposit capture; and

(iv) Assigning specific responsibility for the program's implementation and reporting the overall status of the Program to the Board on at least an annual basis.

(d) Within 90 days from the effective date of this ORDER, the Board shall ensure that a comprehensive Disaster Recovery/Business Continuity Plan is implemented, including a viable solution for backing-up critical systems and an incident response program that meets the requirements of Supplement A to Appendix B of Part 364 of the FDIC's Rules and Regulations, 12 C.F.R. Part 364, Appendix B, Supplement A.

#### SUSPICIOUS ACTIVITY REPORTS

17. Beginning on the effective date of this ORDER, the Board shall ensure that appropriate policies, procedures, processes and systems are implemented to ensure compliance with Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353, including ensuring that suspicious activity reports are properly tracked, maintained and reported to the Board in a confidential manner.

#### DESIGNATION OF BSA OFFICER

18. Within 30 days from the effective date of this ORDER, the Bank shall provide for the designation of a qualified individual ("BSA Officer") acceptable to the Regional Director and the Commissioner who shall be responsible for coordinating and monitoring day-to-day compliance with all BSA and AML requirements. The BSA Officer shall:

(a) have sufficient executive authority to monitor and ensure compliance with the BSA;

(b) be responsible for determining the adequacy of the Bank's BSA and Anti-Money Laundering ("AML") staffing given its size and risk profile (based upon an appropriate risk assessment) and for supervising such staff;

(c) report directly to the Bank's Board, or designated committee thereof;

(d) report to the Bank's audit committee on a regular basis, not less than quarterly, with respect to BSA/AML matters, and

(e) be responsible for assuring the proper and timely filing of Currency Transaction Reports and any other BSA required reports.

#### COMPLIANCE COMMITTEE

19. (a) Within 30 days from the effective date of this ORDER, the Board shall appoint a committee ("Compliance Committee") composed of at least three directors who are not now, and have never been, involved in the daily operations of the Bank, and whose composition is acceptable to the Regional Director and the Commissioner, to monitor the Bank's compliance with this ORDER.

(b) Within 60 days of this ORDER, and at monthly intervals thereafter, such Compliance Committee shall prepare and present to the Board a written report of its findings, detailing the form, content, and manner of any action taken to ensure compliance with this ORDER and the results thereof, and any recommendations with respect to such compliance. Such progress

reports shall be included in the Board meeting minutes. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

(c) The Bank's Compliance Committee shall monitor and coordinate the Bank's compliance with the provisions of this ORDER.

(d) Within 15 days after its receipt from the Bank's Compliance Committee, the Bank's Board shall forward a copy of the report with any additional comments made by the Board to the Regional Director and the Commissioner.

#### EXTENSIONS

20. Notwithstanding any provision of this ORDER to the contrary, at the Regional Director's and the Commissioner's discretion, the Regional Director and the Commissioner may grant a written extension of time to the Bank to comply with any provision of this ORDER.

#### PROGRESS REPORTS

21. By the 30<sup>th</sup> day after the end of the calendar quarter following the effective date of this ORDER, and by the 30<sup>th</sup> day after the end of every calendar quarter thereafter, the Board shall furnish written progress reports to the Regional Director and the Commissioner detailing the form, content, and manner of any actions taken to secure compliance with this ORDER, and the results thereof.

SHAREHOLDERS

22. Following the effective date of this ORDER, the Board shall provide to the shareholders, or otherwise furnish a description of this ORDER, (i) in conjunction with the Bank's next shareholder communication, and (ii) 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 Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429 and the NJDOBI at 20 West State Street, P.O. Box 040, Trenton, New Jersey 08625-0040 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and/or Commissioner shall be made prior to dissemination of the description, communication, notice, or statement.

OTHER ACTIONS

23. It is expressly and clearly understood that if, at any time, the Regional Director and the Commissioner shall deem it appropriate in fulfilling the responsibilities placed upon her or him under applicable law to undertake any further action affecting the Bank, nothing in this ORDER shall in any way

inhibit, estop, bar, or otherwise prevent her or him from doing so.

24. It is expressly and clearly understood that nothing herein shall preclude any proceedings brought by the Regional Director and the Commissioner to enforce the terms of this ORDER, and that nothing herein constitutes, nor shall the Bank contend that it constitutes, a waiver of any right, power, or authority of any other representatives of the United States, departments or agencies thereof, Department of Justice, or any other representatives of the state of New Jersey or any other departments or agencies thereof, including any prosecutorial agency, to bring other actions deemed appropriate.

25. The Bank shall notify the FDIC and the Commissioner immediately of any material adverse development affecting its conduct, performance or outlook.

ORDER EFFECTIVE

26. The effective date of this ORDER shall be the date of issuance.

27. The provisions of this ORDER shall be binding upon the Bank, its directors, officers, employees, agents, successors, assigns, and other institution-affiliated parties of the Bank.

28. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER have been modified, terminated, suspended or set aside.

Pursuant to delegated authority.

Dated: September 15, 2008.

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Doreen R. Eberley  
Regional Director