

#2000-16

AGREEMENT BY AND BETWEEN
THE NATIONAL BANK OF RISING SUN
RISING SUN, MD
AND
THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

The National Bank of Rising Sun, Rising Sun, MD (Bank) and the Comptroller of the Currency of the United States of America (Comptroller) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination, dated December 13, 1999.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (Board), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

COMPLIANCE COMMITTEE

- (1) Within fifteen (15) days, the Board shall appoint a Compliance Committee of at least three (3) directors, of which no more than one shall be an employee of the Bank. Upon appointment, the names of the members of the Compliance Committee shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement and shall meet at least monthly.

- (2) Within forty-five (45) days of the appointment of the Committee and every thirty (30) days thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:
 - (a) actions taken to comply with each Article of this Agreement;
 - (b) the results of those actions; and,
 - (c) a description of the actions needed to achieve full compliance with each article of this Agreement.
- (3) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receipt of such report.

ARTICLE II

BOARD TO ENSURE COMPETENT MANAGEMENT

- (1) Within forty five (45) days, the Board shall engage an appropriately qualified individual to provide the Board with training concerning their duties and responsibilities as directors. Upon completion of this training, a report detailing the training dates, topical matter, and participants shall be forwarded to the Assistant Deputy Comptroller.
- (2) Within _____ () days, the Board shall ensure that the Bank has competent management in place on a full-time basis in its Senior Loan Officer position to carry out the Board's policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.
- (3) Within sixty (60) days, the Board shall review the capabilities of the Bank's management to perform present and anticipated duties and the Board will determine whether management changes should be made, including the need for additions to or deletions

from current management.

- (4) For incumbent officers in the positions mentioned in Paragraphs (2) and (3) of this Article, the Board shall within _____ () days assess each of these officers' experience, other qualifications and performance compared to the position's description, duties and responsibilities.
- (5) If the Board determines that a member of the senior management team will continue in his or her position, but that the officer's skills need improvement, the Board shall, within one hundred twenty (120) days, develop and implement a written program, with specific time frames, to improve the officer's supervision and management skills. At a minimum, the written program shall include an education program designed to ensure that the officer has skills and abilities necessary to manage and supervise his or her area(s) of responsibility effectively.
- (6) The Board shall, within one hundred twenty (120) days, establish and thereafter maintain an officer performance management program. The program shall include objectives by which the officer's effectiveness will be measured, including a performance appraisal program for evaluating performance against the officer's position description and responsibilities, and for measuring performance against the Bank's goals and objectives.
- (7) If a position mentioned in Paragraph (2) and (3) of this Article is vacant now or in the future, including if the Board realigns an existing officer's responsibilities and a position mentioned in Paragraph (2) and (3) of this Article becomes vacant, the Board shall within ___ days of such vacancy appoint a capable person to the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this

Agreement and the safe and sound operations of functions within the scope of that position's responsibility.

- (9) Upon completion of the requirements set forth in paragraphs (5) and (6) of this Article, the Board shall submit a copy of the written program(s) to the Assistant Deputy Comptroller. In the event the Assistant Deputy Comptroller recommends changes, the Board shall immediately incorporate those changes.

ARTICLE III

LENDING POLICY

- (1) Within one hundred twenty (120) days, the Board shall review and revise the Bank's written loan policy. In revising this policy, the Board shall refer to the following booklets of the Comptroller's Handbook in developing policies for overall loan administration and specific types of lending; Loan Portfolio Management, A-LPM; Commercial Real Estate and Construction Lending, A-CRE; Agricultural Lending, A-AL; and Commercial Lending, A-CL.
- (2) Upon adoption, the policy shall be implemented, the Board shall thereafter ensure Bank adherence to the policy, and a copy of the policy shall be forwarded to the Assistant Deputy Comptroller for review. In the event the Assistant Deputy Comptroller recommends changes, the Board shall immediately incorporate those changes.
- (3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

ARTICLE IV

CREDIT AND COLLATERAL EXCEPTIONS

- (1) Within one hundred twenty (120) days the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.
- (2) Within one hundred twenty (120) days the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.
- (3) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit of \$150,000 or greater only after:
 - (a) documenting the specific reason or purpose for the extension of credit;
 - (b) identifying the expected source of repayment in writing;
 - (c) structuring the repayment terms to coincide with the expected source of repayment;
 - (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations;
 - (i) Failure to obtain the information in (d) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (d) would be

detrimental to the best interests of the Bank.

- (ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank; and
- (e) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

ARTICLE V

CRITICIZED ASSETS

- (1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.
- (2) Within one hundred twenty (120) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:
 - (a) an identification of the expected sources of repayment;
 - (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
 - (c) an analysis of current and satisfactory credit information, including cash flow

- analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.
- (3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding one hundred fifty thousand dollars (\$ 150,000) shall be forwarded to the Assistant Deputy Comptroller.
 - (4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.
 - (5) The Board, or a designated committee, shall conduct a review, on at least a quarterly basis, to determine:
 - (a) the status of each criticized asset or criticized portion thereof that equals or exceeds one hundred fifty thousand dollars (\$150,000);
 - (b) management's adherence to the program adopted pursuant to this Article;
 - (c) the status and effectiveness of the written program; and
 - (d) the need to revise the program or take alternative action.
 - (6) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis.
 - (7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the Report of Examination (ROE), in any subsequent ROE, in any internal or external loan review, or in any list provided to management by the National

Bank Examiners during any examination and whose aggregate loans or other extensions exceed one hundred fifty thousand (\$150,000) only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and
 - (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.
- (8) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

ARTICLE VI

LOAN REVIEW

- (1) The Board shall within ninety (90) days employ or designate a sufficiently experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans and leases.
- (2) Within ninety (90) days, the Board shall establish an effective, independent and on-going loan review system to periodically review, (at least semi-annually), the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the Board after each review

and shall use a loan and lease grading system consistent with the guidelines set forth in Section 215 of the Comptroller's Handbook for National Bank Examiners.

- (3) A written description of the program called for in this Article shall be forwarded to the Assistant Deputy Comptroller upon implementation for review. In the event the Assistant Deputy Comptroller recommends changes, the Board shall immediately incorporate those changes.
- (4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.
- (5) The Board shall evaluate the internal loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).
- (6) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

ARTICLE VII

ALLOWANCE FOR LOAN AND LEASE LOSSES

- (1) The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (Allowance) and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the Allowance for Loan and Lease Losses booklet, A-ALLL, of the Comptroller's Handbook.

- (2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.
- (3) A copy of the Board's program shall be submitted to the Assistant Deputy Comptroller for review. In the event the Assistant Deputy Comptroller recommends changes, the Board shall immediately incorporate those changes.
- (4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE VIII

DEPENDENCE ON WHOLESALE LIABILITIES

- (1) Within ninety (90) days the Bank shall improve its liquidity position and maintain adequate sources of stable funding given the Bank's anticipated liquidity and funding needs. Such actions shall include, but not be limited to:
 - (a) reducing the bank's reliance on secondary funding sources and/or increasing liquid assets; and
 - (b) establishment of a maximum acceptable loan-to-deposit ratio along with a detailed plan for achieving such limits.

- (2) Upon acceptance by the Board, the plan shall be forwarded to the Assistant Deputy Comptroller. In the event the Assistant Deputy Comptroller recommends changes, the Board shall immediately incorporate those changes.

ARTICLE IX

VIOLATIONS OF LAW

- (1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the ROE and in any subsequent Report of Examination. The progress reports required by the Articles of this Agreement shall include the date and manner in which each correction has been effected during that reporting period.
- (2) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.
- (3) Within sixty (60) days of receipt of any subsequent Report of Examination which cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of

responsibility.

- (4) Upon adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller.
- (5) The Board shall ensure that the Bank has policies, processes, personnel, and control systems to ensure implementation of and adherence to the procedures developed pursuant to this Article.

ARTICLE X

CLOSING

- (1) This Agreement shall be construed to be: (i) a "written agreement entered into with the agency" within the meaning of 12 U.S.C. 11818(b)(1); (ii) a "written agreement between such depository institution and such agency" within the meaning of 12 U.S.C. 11818(e)(1) and 12 U.S.C. 11818(I)(2); (iii) a "formal written agreement" within the meaning of 12 C.F.R. 15.51(c)(6)(ii). See 12 U.S.C. 11831i; and (iv) a "final order" within the meaning of 12 U.S.C. 11818(u).
- (2) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
Maryland/National Capital Area Field Office
1025 Connecticut Avenue, Suite 708
Washington, DC 20036

- (3) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.
- (4) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.
- (5) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.
- (6) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his/her hand on behalf of the Comptroller.

 -signed-
John W. Quill
Assistant Deputy Comptroller
Maryland/National Capital Area Field Office

 02/08/2000
Date

The undersigned directors of the Bank each acknowledge having read the foregoing Agreement and approve of the Bank's agreement thereto.

	SIGNATURES:	DATES:
Joseph Cloud, Jr.	<u> -signed- </u>	<u> 2/1/00 </u>
James A. Crothers, II	<u> -signed- </u>	<u> 2/1/00 </u>
Leonard H. Lockhart	<u> -signed- </u>	<u> 2/1/00 </u>
Lowell McCoy	<u> -signed- </u>	<u> 2/1/00 </u>
Robert E. Shallcross	<u> -signed- </u>	<u> 2/7/00 </u>
John S. Tosh, Sr.	<u> -signed- </u>	<u> 2/1/00 </u>
Jesse Wood	<u> -signed- </u>	<u> 2/1/00 </u>