

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____	)	
In the Matter of	)	Order No.: SE-09-015
	)	
	)	
Eastern Savings Bank, FSB	)	Effective Date: February 20, 2009
Hunt Valley, Maryland	)	
	)	
OTS Docket No. 08183	)	
_____	)	

STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Southeast Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Eastern Savings Bank, FSB, Hunt Valley, Maryland, OTS Docket No. 08183 (Association) that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

WHEREAS, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

WHEREAS, the Association desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceedings by entering into this Stipulation and Consent to Issuance of Order to Cease and Desist (Stipulation) and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraph 1 below

concerning Jurisdiction, hereby stipulates and agrees to the following terms:

1. Jurisdiction.

a. The Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Association is “an insured depository institution” as that term is defined in 12 U.S.C. § 1813(c).

b. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b)(1).

2. OTS Findings of Fact.

a. Based on its March 24, 2008 Report of Examination of the Association, the OTS finds that the Association has engaged in unsafe and unsound banking practices that have resulted in the Association being in an unsafe and unsound condition with a high and increasing amount of delinquent and defaulted loans due primarily to the following:

- i. Failure to properly underwrite loans;
- ii. Failure to properly identify problem assets and appropriately place them on nonaccrual status;
- iii. Inadequate methodology for establishment of appropriate levels of allowance for loan and lease losses;
- iv. Inadequate capital levels;
- v. Loan underwriting and credit analysis practices that are inconsistent with the OTS guidance;
- vi. Failure to obtain current and complete financial information on the

borrowers when extending and renewing loans;

vii. Failure to obtain updated appraisals (or other acceptable valuations) of collateral for all existing problem assets;

viii. Failure to obtain and maintain complete and accurate loan documentation in its files; and

ix. Failure to properly identify and classify all assets consistent with 12 C.F.R. § 563.160 and the OTS guidelines.

b. Further, the OTS finds that the Association has other deficiencies in its management and operations and has failed to comply with requirements of various laws, regulations and the OTS guidelines, including:

i. The flood insurance requirements of 12 C.F.R. § 572.7;

ii. The requirements of the Home Mortgage Disclosure Act contained in the regulations set forth at 12 C.F.R. § 203.4; and

iii. The Truth in Lending Act, 15 U.D.C. § 1601 et seq., and the regulations issued by the Federal Reserve Board at 12 C.F.R. § 226.18(d) and 18(g), and 226.22(a).

3. Consent.

The Association consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

4. Finality.

The Order is issued by the OTS under 12 U.S.C. § 1818(b) and upon the Effective Date it shall be a final order, effective and fully enforceable by the OTS under the provisions of 12

U.S.C. § 1818(i).

5. Waivers.

The Association waives the following:

- a. The right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- b. The right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- c. The right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and
- d. Any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes, or otherwise.

6. OTS Authority Not Affected.

Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

7. Other Governmental Actions Not Affected.

The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 6 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than

the OTS.

8. Miscellaneous.

a. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

b. If any provision of this Stipulation and/or the Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

c. All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

d. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

e. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

f. The Stipulation and the Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Regional Director or other authorized representative.

9. Signature of Directors/Board Resolution.

Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation.

WHEREFORE, the Association, by its directors, executes this Stipulation.

Accepted by:

EASTERN SAVINGS BANK
Hunt Valley, Maryland

OFFICE OF THRIFT SUPERVISION

By: /s/
Beth H. Goldsmith-Russel
Chairman

By: /s/
John E. Ryan
Southeast Regional Director

Date: See Effective Date on page 1

 /s/
Alan E. Berkowitz, Director

 /s/
Howard K. Cohen, Director

 /s/
David C. Daneker, Director

 /s/
Howard M. Friedel, Director

 /s/
Yaakov S. Neuberger, Director

 /s/
Solomon A. Spetner, Director

 /s/
Barry H. Stern, Director

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of	)	
	)	Order No.: SE-09-015
	)	
EASTERN SAVINGS BANK, FSB	)	
Hunt Valley, Maryland	)	Effective Date: February 20, 2009
	)	
OTS Docket No. 08183	)	
	)	

ORDER TO CEASE AND DESIST

WHEREAS, Eastern Savings Bank, FSB, Hunt Valley, Maryland, OTS Docket No. 08183 (Association), by and through its Board of Directors (Board) has executed a Stipulation and Consent to Issuance of Order to Cease and Desist (Stipulation); and

WHEREAS, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, pursuant to delegated authority, the OTS Regional Director for the Southeast Region (Regional Director) is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

Order to Cease and Desist.

1. The Association and its directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about,

participating in, counseling or the aiding and abetting of any violation of applicable law, regulation and noncompliance with regulatory guidance including, but not limited to, the following:

- a. 12 C.F.R. § 572.7 (Flood Insurance);
- b. 12 C.F.R. § 203.4 (Home Mortgage Disclosure Act); and
- c. 15 U.S.C. § 151601 et seq. and 12 C.F.R. § 226.18(d) and 18(g), and 226.22(a)

(Truth In Lending).

Capital.

2. Effective March 31, 2009, and at all times thereafter, the Association shall have and maintain: (a) a Tier 1 capital ratio of at least twelve (12) percent; and (b) a total risk-based capital ratio of at least eighteen (18) percent.

Business Plan.

3. Within sixty (60) days, the Board shall prepare a new comprehensive business plan that covers calendar years 2009, 2010, and 2011 that reflects changes to the Association's lending strategies and policies (Business Plan). The Business Plan shall, at a minimum, include: (a) a detailed discussion of the Board's business model with specific plans and strategies to strengthen and improve the Association's operations, earnings, and profitability; (b) quarterly pro forma financial projections (balance sheet, income statement, and budget) for each period covered by the Business Plan; and (c) identification of all relevant assumptions and projections made in formulating the Business Plan, as well as documentation supporting such assumptions and projections.

4. The Business Plan shall be submitted to the Regional Director for review and comment. The Board shall make any changes to the Business Plan required by the Regional Director within thirty (30) days after receipt and provide a copy of the revised Business Plan to the Regional Director for review. Upon receipt of approval of or non-objection to the revised Business Plan from the Regional Director, the Board shall adopt the approved Business Plan and ensure that the Association adheres to and implements the approved Business Plan. A copy of the revised Business Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting. Any material modifications to the revised Business Plan shall be submitted to the Regional Director for review and written non-objection at least forty-five (45) days prior to implementation. A modification shall be considered material under this section of the Order if the Association plans to: (a) engage in any activity that is inconsistent with the revised Business Plan; or (b) exceed the level of any activity contemplated in the revised Business Plan or fail to meet target amounts established in the revised Business Plan by more than 10%, unless the activity involves assets risk-weighted 50% or less, in which case a variance of more than 25% shall be deemed to be a material modification.

5. The Board shall require Management to prepare and submit to the Board quarterly variance reports on the Association's compliance with the revised Business Plan within thirty (30) days after the close of each calendar quarter (Quarterly Business Plan Variance Reports) beginning with the calendar quarter ending June 30, 2009. The Quarterly Business Plan Variance Reports shall: (a) identify material variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the revised Business Plan; (b) contain an analysis and explanation of the identified variances; and (c) detail the

specific measures to be taken to address such variances, including adjustments to the underlying assumptions.

6. The Board shall review the Quarterly Business Plan Variance Report each quarter and conduct a thorough review and assessment of the Association's compliance with the revised Business Plan and take corrective actions if necessary to ensure adherence to the revised Business Plan. The Board's review of the Quarterly Business Plan Variance Reports and assessment of the Association's compliance with the revised Business Plan shall be fully documented in the appropriate Board meeting minutes. A copy of the Quarterly Business Plan Variance Report, any supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review and corrective actions, if any, shall be provided to the Regional Director within ten (10) days after the Board meeting.

Problem Assets.

7. Within sixty (60) days, the Board shall prepare and submit to the Regional Director for review and comment a detailed, written plan with specific strategies and timeframes to reduce the Association's level of criticized assets, which include both classified assets and special mention, and delinquent loans (Problem Asset Plan). For purposes of this Paragraph, "reduce" means to collect, sell, charge off, or improve the quality of an asset sufficient to warrant its removal from adverse criticism of classification. At a minimum, the Problem Asset Plan shall require Management to prepare and submit for Board review: (a) specific asset resolution plans for each criticized asset and delinquent loan of one million dollars (\$1,000,000) or greater (Asset Resolution Plans); and (b) a quarterly written asset status report (Quarterly Asset Report). The Quarterly Asset Report shall be submitted to the Board at the first regularly scheduled Board meeting following the end of each calendar quarter, beginning with the quarter ending June 30,

2009. The Quarterly Asset Report shall include:

- i. a summary of and update on the current status of all Asset Resolution Plans for criticized assets and delinquent loans of \$1,000,000 or greater;
- ii. a detailed analysis of the calculation and adequacy of the Association's Allowance for Loan and Lease Losses (ALLL) and comparison of ALLL levels to the total level of classified assets;
- iii. a comparison of classified assets to core and risk based capital;
- iv. a comparison of classified assets at the current quarter end with the preceding quarter;
- v. a breakdown of classified assets by type (residential, acquisition and development, construction, land loans, etc.); and
- vi. a discussion of the actions taken in the preceding quarter to reduce the Association's level of criticized assets and delinquent loans and recommendations regarding any additional actions or steps that Management shall take in the future to reduce the level of criticized assets and delinquent loans.

The Board's review of the Quarterly Asset Reports, and any corrective actions adopted by the Board shall be fully documented in the appropriate Board meeting minutes.

8. The Board shall make any changes to the Problem Asset Plan required by the Regional Director within forty-five (45) days after being notified of such changes and provide a copy of the revised Problem Asset Plan to the Regional Director for review. Upon receipt of approval of or non-objection to the revised Problem Asset Plan from the Regional Director, the Board shall adopt the revised Problem Asset Plan and ensure that the Association adheres to and implements the revised Problem Asset Plan and the revised Problem Asset Plan shall be incorporated herein

by reference and become part of this Order.

9. The Board shall review the Association's compliance with the revised Problem Asset Plan and the Asset Resolution Plans within thirty (30) days after the close of each calendar quarter, beginning with the quarter ending June 30, 2009 (Quarterly Problem Asset Plan Review). The Board's review of the Quarterly Problem Asset Plan Reviews and assessment of the Association's compliance with the revised Problem Asset Plan and the Asset Resolution Plans shall be fully documented in the appropriate Board meeting minutes. A copy of the Quarterly Problem Asset Plan Review and supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting.

Loan Underwriting.

10. Within thirty (30) days, the Board shall revise the Association's loan underwriting policies and procedures to (a) address the deficiencies and weaknesses discussed in the March 24, 2008 OTS Report of Examination of the Association (2008 Examination); and (b) comply with applicable regulations, including 12 C.F.R. Part 560 and with applicable OTS guidance, including Section 201 of the OTS Examinations Handbook (Loan Underwriting Policy). The Loan Underwriting Policy shall be submitted to the Regional Director for review and comment. The Board shall make any changes to the Loan Underwriting Policy required by the Regional Director within thirty (30) days after being notified of such changes and provide a copy of the revised Loan Underwriting Policy to the Regional Director for review. Upon receipt of approval of or non-objection to the revised Loan Underwriting Policy from the Regional Director, the Board shall adopt the revised Loan Underwriting Policy and ensure that the Association adheres to and implements the revised Loan Underwriting Policy.

Classified Assets.

11. Within thirty (30) days, the Association shall conduct a fair value assessment (market value less cost to sell) of the collateral value for each loan at the Association that is one hundred eighty (180) or more days past due and immediately recognize any required charge off consistent with OTS CEO Bulletin Nos. 103 and 128. The fair value assessments required by this Paragraph shall be established by: (a) independent appraisal for each loan of \$750,000 or greater; and (b) other types of valuation assessment, such as brokered price opinions, for each loan of \$750,000 or less. A written analysis supporting the updated fair value of each loan must be maintained at the Association and available for a third-party review. Management shall prepare a written report to the Board detailing the results of each of the fair value assessments (Fair Value Report). Within forty-five (45) days, the Association shall provide the Regional Director with a copy of the Fair Value Report and the Board meeting minutes reflecting the Board's review of the report.

12. Within forty-five (45) days, the Board shall prepare and adopt a written policy with appropriate processes and systems to ensure that the Association conducts fair value assessments (market value less cost to sell) of the collateral for each loan that becomes one hundred eighty (180) days past due and recognizes any required charge off consistent with OTS CEO Bulletin Nos. 103 and (Delinquent Loan Policy). The Delinquent Loan Policy shall, at a minimum:

- a. require quarterly updates of the collateral value for each loan that becomes one hundred eighty (180) days past due;
- b. provide for updated collateral values to be established by independent appraisal for each loans of \$750,000 or greater and for other types of valuation assessment, such as brokered price opinions, for each loan of \$750,000 or less;

c. require that a written analysis supporting the updated fair value of each loan be maintained and available for a third-party review; and

d. require Management to prepare a written monthly status report to the Board detailing the results of the fair value assessments including, but not limited to, (i) the total number of loans affected, (ii) a comparison of the updated values to the previously assigned values and current book value to reflect the change in collateral values, and (iii) the total dollar amounts charged off (Monthly Loan Report).

Thereafter, the Board shall ensure that the Association complies with the Delinquent Loan Policy.

13. The Board's review of each Monthly Loan Report and any corrective actions adopted by the Board shall be fully documented in the appropriate Board meeting minutes. The Board shall provide the Regional Director with quarterly updates on the Association's compliance with the Delinquent Loan Policy, including copies of each Monthly Loan Report prepared during the quarter, within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending June 30, 2009.

Allowance for Loan and Lease Losses.

14. Within thirty (30) days, the Board shall prepare and submit to the Regional Director for review and comment a detailed written plan to ensure that the Association maintains and adheres to ALLL policies, procedures, timeframes, and calculation inputs and criteria that provide for the timely establishment and maintenance of adequate and appropriate ALLL relative to the risk in the Association's loan and lease portfolio (ALLL Program). The ALLL Program shall, at a minimum: (a) address the concerns and recommendations noted in the 2008 Examination; and (b) conform to the regulatory requirements and guidance contained in 12 C.F.R. § 560.160(b),

Section 261 of the OTS Examination Handbook, the December 13, 2006 Interagency Policy Statement on ALLL, and Statement of Financial Accounting Standards (SFAS) No. 5, and SFAS No. 114.

15. The Board shall make any changes to the ALLL Program required by the Regional Director within thirty (30) days after being notified of such changes and provide a copy of the revised ALLL Program to the Regional Director for review. Upon receipt of approval of or non-objection to the revised ALLL Program from the Regional Director, the Board shall adopt the revised ALLL Program and ensure that the Association adheres to and implements the revised ALLL Program and the revised ALLL Program shall be incorporated herein by reference and become part of this Order.. A copy of the revised ALLL Program and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting. Any material modifications to the revised ALLL Policy shall be submitted to the Regional Director for review and written non-objection at least thirty (30) days prior to implementation.

16. Not less than ten (10) days prior to the end of each calendar quarter, beginning with the calendar quarter ending June 30, 2009, Management shall analyze the adequacy of the Association's ALLL and prepare a written report containing Management's analysis of the Association's ALLL for the Board's review (Quarterly ALLL Report). The Board's review of the Quarterly ALLL Report shall be fully documented in the Board meeting minutes and shall include specific details regarding any corrective actions adopted by the Board. The Board shall document the factors considered and conclusions reached by the Board in determining the adequacy of the Association's ALLL in the appropriate Board meeting minutes. In assessing, establishing, and maintaining an appropriate level of ALLL, the Board shall, at a minimum,

consider the following:

- a. the results of all internal loan reviews and classifications;
- b. the loan loss experiences and history of the Association covering an expanded segmentation of the Association's loan portfolio;
- c. an estimate of the potential loss exposure on each significant¹ credit;
- d. concentrations of credit; and
- e. current and prospective markets and economic conditions.

A copy of the Quarterly ALLL Report, any supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting. Any deficiency in the ALLL shall be remedied in the quarter in which it is discovered and before the Association files its Thrift Financial Report (TFR) with the OTS.

Liquidity.

17. Within thirty (30) days, the Board shall prepare and adopt a liquidity plan to ensure that the Association maintains adequate short-term and long-term liquidity to withstand any anticipated or extraordinary demand against its funding base (Liquidity Plan). The Liquidity Plan shall, at a minimum, include the following:

- a. a cash flow analysis that includes reasonable assumptions, identifies all anticipated funding needs and the sources to meet those needs, considers the level and maturity of any brokered deposits, and addresses any contingent liabilities; and
- b. identification of alternative funding sources in order to meet extraordinary demands or to provide liquidity in the event the sources identified in this Paragraph are

¹ A credit shall be considered significant for the purposes of assessing, establishing, and maintaining an appropriate level of ALLL if it is/was \$500,000 or greater at origination.

insufficient. Such alternative funding sources must consider, at a minimum, the selling of assets, obtaining lines of credit from correspondent banks, recovering charged-off assets, and injecting additional equity capital.

Thereafter, the Association shall comply with the Liquidity Plan.

18. Within thirty (30) days, Management shall review and prepare a weekly analysis of the Association's liquidity that assesses the Association's compliance with its liquidity policies and procedures and the Liquidity Plan required by Paragraph 17 (Weekly Liquidity Review). The Weekly Liquidity Review shall evaluate and consider:

- a. a maturity schedule of certificates of deposit, including large uninsured deposits;
- b. the volatility of demand deposits including escrow deposits;
- c. the amount and type of loan commitments and standby letters of credit;
- d. an analysis of the continuing availability and volatility of present funding sources;
- e. an analysis of the impact of decreased cash flow from the Association's loan portfolio resulting from delinquent and non-performing loans; and
- f. an analysis of the impact of decreased cash flow from the sale of loans or loan participations.

19. The Weekly Liquidity Reviews for the immediately preceding calendar month shall be submitted to the Board prior to each monthly Board meeting, beginning with the April 2009 meeting. Management also shall prepare and submit for Board review a written report identifying any funding needs (to repay loans or advances from correspondent banks or to pay off brokered deposits) relating to liquidity issues identified for the immediately preceding month (Monthly Liquidity Review). The Board's review of the Weekly Liquidity Reviews, the Monthly Liquidity Reviews, and any corrective actions adopted by the Board, shall be fully

documented in the appropriate Board meeting minutes. The Board shall provide the Regional Director with quarterly updates on the Association's liquidity position and compliance with the Liquidity Plan within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending June 30, 2009.

Flood Insurance.

20. Within thirty (30) days, the Board shall revise the Association's policies and procedures to ensure compliance with the requirements of the National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973, 42 USC §§ 4001-4129, as implemented by Part 572 of OTS's Rules and Regulations, 12 CFR Part 572 (collectively, Flood Laws and Regulations) and to address the weaknesses and deficiencies discussed in the 2008 Examination (Flood Policy). The Flood Policy shall establish appropriate systems and processes to ensure that the Association complies with the Flood Act Laws and Regulations. The Board shall adopt the revised Flood Policy and ensure that the Association adheres to and implements the revised Flood Policy and the revised Flood Policy shall be incorporated herein by reference and become part of this Order.

Home Mortgage Disclosure Act.

21. Within sixty (60) days, the Board shall revise the Association's policies and procedures to ensure compliance with the requirements of the Home Mortgage Disclosure Act, 12 U.S.C. § 2801 et seq. (HMDA), the regulations set forth at 12 C.F.R. § 203.4 (Regulation C), and to address the weaknesses and deficiencies discussed in the 2008 Examination (HMDA Policy). The HMDA Policy shall, at a minimum:

- a. ensure that the HMDA Policy applies to all loans, whether originated or purchased;

b. designate an individual who shall be responsible for ensuring the accurate collection and recordation of all data and information required to be collected and maintained on the Association's Loan Application Register (LAR) by the provisions of the HMDA and Regulation C (HMDA Officer). The HMDA Officer shall be a Senior Executive Officer² and shall be different from the person(s) responsible for inputting HMDA data into the LAR;

c. provide for the use of a HMDA summary sheet for each loan application file that identifies all information required to be entered and maintained on the Association's LAR to ensure accurate and timely entry of such data on the LAR; and

d. require a quarterly review of the Association's LAR to determine compliance with the Association's HMDA Policy and ensure that the LAR data matches the information in the loan application files by comparing entries on the LAR to an appropriate sample of loan files. The Board shall adopt the revised HMDA Policy and ensure that the Association adheres to and implements the revised HMDA Policy and the revised HMDA Policy shall be incorporated herein by reference and become part of this Order.

22. Within sixty (60) days, the Board shall ensure that all LAR errors identified in the Association's 2008 Examination have been corrected. The Board shall require Management to provide documentation to the Board demonstrating that all identified errors have been corrected.

23. Within sixty (60) days, Management shall conduct a review of the Association's LAR and prepare and submit a written report identifying all loans with HMDA deficiencies or in violation of HMDA's regulations (HMDA Report) to the Board. The HMDA Report shall specify Management's recommended corrective actions, with completion timeframes, to address all identified HMDA deficiencies and violations identified in the HMDA Report. The Board

² The term Senior Executive Officer is defined at 12 C.F.R. § 563.555.

shall review the HMDA Report and adopt such corrective actions, with completion timeframes, as the Board determines necessary and appropriate to fully address and resolve all identified deficiencies and violations. The Board shall require Management to implement the corrective actions adopted by the Board and to provide the Board with documentation demonstrating that each corrective action has been taken and that all deficiencies and violations have been corrected. A copy of the HMDA Report and the Board minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting.

Truth in Lending.

24. Within thirty (30) days, the Board shall revise the Association's policies and procedures to ensure compliance with the requirements of the Truth in Lending Act, 15, U.S.C. § 1601 et seq. (TILA), and the regulations issued by the Federal Reserve Board, 12 C.F.R. § 226.18(d) and 18(g), and 226.22 (a) (collectively, TILA Laws) and to address the violations, weaknesses, and deficiencies discussed in the 2008 Examination (TILA Policy). The TILA Policy shall establish appropriate systems and processes to monitor and ensure that the Association complies with the TILA Laws. The Board shall adopt the revised TILA Policy and ensure that the Association adheres to and implements the revised TILA Policy and the revised TILA Policy shall be incorporated herein by reference and become part of this Order.

Violations of Law.

25. Within sixty (60) days, the Board shall ensure that all violations of law, rule, and/or regulation cited in the 2008 Examination are corrected. Within ninety (90) days, the Board shall prepare, adopt, and thereafter ensure that the Association adheres to specific procedures to prevent future violations.

26. Within thirty (30) days of receipt of any subsequent OTS Report of Examination, internal audit report, independent external audit report, or other report prepared by the Association employees, agents, or independent contractors, which cites or discusses any weakness, deficiency, or violation of law, rule, or regulation, the Board shall prepare, adopt, and thereafter ensure the Association adheres to specific procedures to correct such weaknesses, deficiencies, and violations and prevent future weaknesses, deficiencies, and violations.

Growth.

27. Effective immediately, the Association is subject to and shall comply with the requirements and provisions of OTS Regulatory Bulletin (RB) 3b. Without the prior written approval of the Regional Director, the Association shall not increase its total assets during any quarter, beginning with the quarter ending June 30, 2009, in excess of an amount equal to net interest credited on deposit liabilities during the quarter. The growth restrictions imposed by this Paragraph shall remain in effect until the OTS review and approval of the Association's Business Plan under Paragraph 3 of this Order.

Management Changes.

28. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H, 12 C.F.R. §§ 563.550 through 563.590.

Employment Contracts and Compensation Arrangements.

29. Effective immediately, the Association shall not enter into, renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the OTS with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the OTS shall include a copy of

the proposed employment contract or compensation arrangement, or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to the OTS fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Severance and Indemnification Payments.

30. Effective immediately, the Association shall not make any golden parachute payment³ or prohibited indemnification payment⁴ unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

Third Party Contracts.

31. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant⁵ to the overall operation or financial condition of the Association or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the OTS with a minimum of thirty (30) days prior written notice of such arrangement or contract; (b) determined that the arrangement or contract complies with the standards and guidelines set forth in Thrift Bulletin 82a (TB 82a); and (c) received written notice of non-objection from the Regional Director.

32. Effective immediately, the Association shall provide the OTS with written notice of all arrangements or contracts with third party service providers consistent with the requirements of 12 U.S.C. § 1464(d)(7)(D)(ii). Such notice shall be provided to the Regional Director not later

³ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

⁴ The term "prohibited indemnification payment" is defined at 12 C.F.R. § 359.1(l).

⁵ A contract shall be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two (2) percent of the Association's total capital.

than thirty (30) days after the earlier of: (a) the date on which the Association enters into the contract; or (b) the date on which the performance of the service is initiated. The Board shall review all arrangements or contracts with third party service providers covered by this Paragraph to ensure compliance with the standards and guidelines set forth in TB 82a.

Brokered Deposits.

33. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b)(2) and shall not, without obtaining the prior written approval of the Federal Deposit Insurance Corporation pursuant to 12 C.F.R. § 337.6(c)(i): (a) accept, renew, or roll over any brokered deposit, as that term is defined at 12 C.F.R. § 337.6(a)(2); or (b) act as a deposit broker, as that term is defined at 12 C.F.R. § 337.6(a)(5).

Dividends.

34. Effective immediately, the Association shall pay no dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director. The Association's written request for approval should be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed dividend payment or distribution of capital.

Affiliate and Insider Transactions.

35. Effective immediately, the Association shall not engage in any transaction with an Affiliate⁶ unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which notice also shall include the information set forth in 12 C.F.R. § 563.41(c)(3). The Board shall ensure that any transaction with an affiliate complies with the requirements of 12 C.F.R. § 563.41, 12 C.F.R. Part 223 (Regulation W), and the guidance contained in Section 310 of the OTS Examination Handbook.

⁶ 12 C.F.R. § 223.2

The Board shall ensure that documentation demonstrating such compliance is maintained in the Association's files and records.

36. Effective immediately, the Association shall not make any loans to or enter into any contracts or agreements with any Insiders⁷ except in compliance with applicable laws, rules, and regulations including, but not limited to, 12 C.F.R. Part 215 and 12 C.F.R. § 564.43, and Section 310 of the OTS Examination Handbook. The Board shall ensure that the Association complies with the requirements of this Paragraph and that documentation demonstrating such compliance is maintained in the Association's files and records.

Board Compliance Committee.

37. Within thirty (30) days, the Board shall appoint a committee (Regulatory Compliance Committee) comprising three or more non-employee directors to monitor and coordinate the Association's compliance with the provisions of this Order and the completion of all corrective action required in the 2008 Examination.

38. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending June 30, 2009, the Regulatory Compliance Committee shall submit a written progress report to the Board detailing the actions taken to comply with each provision of this Order, the corrective actions required by the 2008 Examination, and the results of all such actions. The Board shall review the Regulatory Compliance Committee's progress report and adopt a resolution: (a) certifying that each director has reviewed the progress report; (b) detailing the Association's compliance with the provisions of this Order and the corrective actions contained in the 2008 Examination; (c) identifying each instance of noncompliance; and (d) setting forth in detail additional corrective actions or steps adopted or required by the Board to address each instance of noncompliance.

⁷ 12 C.F.R. § 215.2(h)

39. Within forty-five (45) days after the end of each calendar quarter, the Board shall submit to the Regional Director: (a) a copy of the Regulatory Compliance Committee's quarterly progress report required by Paragraph 38 of this Order; and (b) a copy of the Board resolution required by Paragraph 38 of this Order, including the Board meeting minutes. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Association's compliance with the provisions of this Order.

Effective Date, Incorporation of Stipulation.

40. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

Duration.

41. This Order shall remain in effect until terminated, modified, or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

42. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

43. The Regional Director may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

Submissions and Notices.

44. All submissions, including progress reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

45. Except as otherwise provided herein, all submissions, requests, communications, consents, or other documents relating to this Order shall be in writing and sent by first class U.S.

mail (or by reputable overnight carrier, electronic facsimile transmission, or hand delivery by messenger) addressed as follows:

- a. To OTS:
John E. Ryan, Regional Director
Office of Thrift Supervision
1475 Peachtree St., N.E.
Atlanta, Georgia 30309
- b. To the Association:
Attn: Board of Directors
Eastern Savings Bank, FSB
11350 McCormick Rd Ste 200
Hunt Valley, MD 21031-1026

No Violations Authorized.

46. Nothing in this Order or the Stipulation shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____/s/
John E. Ryan
Southeast Regional Director

Date: See Effective Date on page 1