

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of	)	
	)	Order No.: SE-09-036
	)	
	)	
INDEPENDENCE FEDERAL	)	Effective Date: August 3, 2009
SAVINGS BANK	)	
Washington, D.C.	)	
OTS Docket No. 07173	)	
	)	

ORDER TO CEASE AND DESIST

WHEREAS, Independence Federal Savings Bank, Washington, D.C., OTS Docket No. 07173 (Association), a federal stock savings bank, by and through its Board of Directors (Board) has executed a Stipulation and Consent to the Issuance of an 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:

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, unsafe and unsound practice, and noncompliance with regulatory guidance noted in the October 14, 2008 Report of Examination of the Association (2008 Examination) as follows:

- (a) operating the Association without an adequate level of experienced and qualified managers and failing to establish and implement an appropriate management structure and succession plan;
- (b) operating without an adequate and effective business plan;
- (c) operating the Association with an excessive concentration of loans related to construction, nonresidential and/or commercial as described in the 2008 Examination;
- (d) engaging in unsafe and unsound loan underwriting practices;
- (e) failing to accurately complete and file financial statements and regulatory reports including, but not limited to, Thrift Financial Reports.
- (f) operating in contravention of supervisory policy statements and other guidance, including, but not limited to, Interagency Guidelines Establishing Standards for Safety and Soundness; Interagency Guidelines for Real Estate Lending Policies; and the Interagency Policy Statement on the Allowance for Loan and Lease Losses; and
- (g) violating applicable laws and regulations, including, but not limited to, 12 C.F.R. § 563.180 (Suspicious Activity Reports); 12 U.S.C. § 2801 et seq. and 12 C.F.R.

Part 203 (Home Mortgage Disclosure Act (HMDA)); 12 U.S.C. § 2601 et seq. (Real Estate Settlement Procedures Act (RESPA)), 24 C.F.R. Part 3500 (Regulation X); 15 U.S.C. § 1601 et seq. (Truth in Lending Act (TILA)); and 12 C.F.R. Part 226 (Regulation Z).

Management.

2. Within thirty (30) days, the Board shall prepare a written plan to ensure that the Association has and maintains a suitable management structure that is adequately staffed by permanent, full-time personnel with adequate knowledge, skills, qualifications, and experience, and a management succession plan (Management Plan). At a minimum, the Management Plan shall:

- (a) identify the type and number of officers¹ (Officer) and management personnel needed, which shall at a minimum include a Chief Executive Officer, Chief Financial Officer and Chief Lending Officer, to manage and supervise the affairs of the Association taking into consideration the Association's business operations, complexity, size, lending activities, asset quality, and financial position;
- (b) establish policies and procedures to ensure that responsibility for any vacant position is immediately assigned to another qualified employee until the vacant position is filled;
- (c) provide for a management succession plan;
- (d) require an evaluation of each Officer to determine whether the individual possesses the knowledge, skills, abilities, and experience necessary to competently perform all present and anticipated duties including, but not limited to, the ability to (i) adhere to applicable laws and regulations and the Association's established policies and

¹ The term officers is defined at 12 C.F.R. § 561.35.

procedures, (ii) ensure the Association operates in a safe and sound condition, and (iii) comply with the requirements of this Order.

3. Within forty-five (45) days, the Board shall provide a copy of the Management Plan to the Regional Director for review and comment. Upon receipt of the Regional Director's written non-objection, the Board shall adopt, implement, and ensure that the Association adheres to the Management Plan.

Business Plan.

4. Within sixty (60) days, the Board shall prepare and submit to the Regional Director for review and comment a new comprehensive business plan that covers the fourth quarter of calendar year 2009, calendar years 2010, 2011, and 2012 (Business Plan). At a minimum, the Business Plan shall include:

- (a) a detailed and specific discussion of the Board's plans and strategies to restructure the Association's operations and strengthen and improve the Association's operations, earnings, net interest margin, and liquidity;
 - (b) a discussion of the Association's current financial position and resources and specific Board's strategies for ensuring that the Association has the financial and personnel resources necessary to implement and adhere to the Business Plan, adequately support the Association's risk profile, maintain compliance with applicable regulatory capital requirements, and maintain appropriate levels of liquidity;
 - (c) quarterly pro forma financial projections (balance sheet, capital forecasts, and income statement) and a detailed budget for each period covered by the Business Plan;
- and

- (d) identification of all relevant assumptions made in formulating the Business Plan, as well as documentation supporting such assumptions.

The Board shall make any changes to the Business Plan required by the Regional Director within twenty (20) days after being notified of such changes and provide a copy of the revised Business Plan to the Regional Director for review.

5. Upon receipt of written non-objection to the Business Plan from the Regional Director, the Board shall adopt the Business Plan and the Business Plan shall be incorporated herein by reference and become a part of this Order, and any violation of the Business Plan shall be a violation of this Order. A copy of the Business Plan adopted by the Board and the Board meeting minutes reflecting the Board's discussion and adoption of the Business Plan shall be provided to the Regional Director within ten (10) days after the Board meeting.

6. The Board shall ensure that the Association adheres to and implements the Business Plan. Any material modifications to the 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 Business Plan; or (b) exceed the level of any activity contemplated in the Business Plan or fail to meet target amounts established in the 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.

7. The Board shall require Management to prepare and submit to the Board quarterly variance reports on the Association's compliance with the Business Plan within thirty (30) days after the close of each calendar quarter (Quarterly Business Plan Variance Reports) beginning with the calendar quarter ending December 31, 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 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.

8. Within forty-five (45) days after the end of each calendar quarter, beginning with the calendar quarter ending December 31, 2009, the Board shall review the Quarterly Business Plan Variance Reports and conduct a thorough review and assessment of the Association's compliance with the Business Plan. The Board will adopt and ensure that corrective action is taken, as necessary, to ensure the Association's adherence to the Business Plan. The Board's review of the Quarterly Business Plan Variance Reports, assessment of the Association's compliance with the Business Plan, and any corrective actions adopted by the Board 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.

Lending.

9. Effective immediately, the Association shall not originate or purchase, or commit to originate or purchase, any new construction, nonresidential, and/or commercial loans, or extend additional funds to existing borrowers on or relating to any construction, nonresidential, and/or commercial loans (except as discussed in Paragraphs 10 and 11 of this Order). After all loan underwriting and credit administration deficiencies discussed in the 2008 Examination and addressed in this Order have been corrected in accordance with Paragraph 12 of this Order, the Association may request the Regional Director's non-objection to resume origination activity on

construction, nonresidential, and commercial loans. A list of all identified deficiencies and corrective measures, including process or policy changes, internal/external audit changes, and the date such changes were made, shall be included with the Association's request to the Regional Director to resume new construction, nonresidential, and commercial loan origination activity.

10. The Association may fund the legally binding commitments and approved loans that were (a) executed, or (b) the borrower was notified of the loan approval prior to June 23, 2009 that were included on the schedule of all outstanding legally binding commitments and loans-in-process provided to the OTS by the Association on July 13, 2009.

11. The Association shall not modify, renew, or extend any construction, nonresidential, and/or commercial loan without prior OTS approval, unless all of the following conditions are met:

- (a) the outstanding loan balance does not and, following modification, renewal, or extension, will not exceed \$1.5 million;
- (b) current financial information is obtained for all borrowers and guarantors, documented in the borrower/guarantor's credit file and reviewed and approved in compliance with the Association's policies at the time of such modification, renewal, or extension;
- (c) there is a current appraisal of the collateral property;
- (d) the loan is performing as agreed and has not been more than thirty (30) days delinquent within the past ninety (90) days;
- (e) interest reserves established using Association funds will not be replenished and no new interest reserves will be established using Association funds;
- (f) the loan term, following modification, renewal, or extension, will not exceed

twelve (12) months or the original term of the loan, whichever is less;

(g) the loan amount, following modification, renewal, or extension, does not exceed the lesser of the appraised value of the collateral or the amount available under the Association's established loan underwriting policies and standards based upon the current appraised value of the collateral;

(h) any renewal other than the first renewal after origination must be accompanied by a principal reduction payment equal to twenty (20) percent of the original balance of the loan, plus all accrued interest;

(i) the loan must meet all underwriting criteria and standards established by the Association for that type of loan; and

(j) all loans should be accounted for in accordance with generally accepted accounting principles (GAAP) and, if any impairment is indicated, it should be properly recorded.

Loan Underwriting.

12. Within sixty (60) days, the Board shall revise the Association's construction and commercial loan underwriting and credit administration, monitoring, and oversight policies, practices, and controls to address all deficiencies and weaknesses discussed in the 2008 Examination. At a minimum, the Board shall establish additional policies, practices, and controls to:

(a) improve the Association's loan grading system and specify parameters for the identification of "problem loans" for each category of loans offered by the Association;

(b) restrict the capitalization of interest, loan fees, late fees, loan costs, and collection costs of problem loans;

- (c) establish funding controls over hard and soft costs on construction projects and ensure that inspections are performed on construction projects to prevent over-disbursements of loan funds;
- (d) formalize and document the appraisal review process and ensure that annual reviews are conducted on all approved appraisers;
- (e) restrict additional advances to borrowers with problem loans;
- (f) establish credit qualification standards including, but not limited to, debt service to income ratios and documentation requirements for all borrowers that demonstrate and support the borrower's ability to meet all contractual debt service obligations from current, verified net income and cash flow;
- (g) establish policies, procedures, and systems to obtain and analyze, on an annual basis, updated borrower financial information on all loans (other than those secured by owner occupied single family dwellings and consumer loans) with an outstanding or committed balance greater than \$250,000;
- (h) provide for the classification of loans, including designation as special mention, or placement of loans on a watch list, if there is a significant decline in a borrower's financial standing whereby the borrower would no longer qualify for the existing loan under the Association's loan underwriting standards or no longer demonstrates the ability to meet global debt service obligations;
- (i) provide for an effective system for the retention, review, renewal, and updating by the Association of all required records, filings, and other credit related documents;

- (j) establish prudent underwriting standards and an internal review and approval process for all loans granted as exceptions to the Association's general lending policies and require such loans to be reported to the Board for review on a monthly basis;
- (k) include adversely classified and Special Mention ratios and delinquency ratios in reports to the Association's Board; and
- (l) address all other underwriting and credit administration recommendations discussed in the 2008 Examination.

Allowance for Loan and Lease Losses.

13. Within forty-five (45) days, the Board shall revise the Association's policies, procedures, and methodology to ensure the timely establishment and maintenance of adequate allowance for loan and lease losses (ALLL) levels in accordance with applicable laws, regulations, and regulatory guidance (ALLL Policy). The ALLL Policy shall, at a minimum: (a) address the deficiencies and weaknesses discussed and adopt the recommendations contained 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 (CEO Memorandum # 250), and Generally Accepted Accounting Principles and Statements of Financial Accounting Standards. The Board shall adopt the ALLL Policy and ensure that the Association adheres to and implements the ALLL Policy.

14. Beginning with the quarter ending June 30, 2009, Management shall analyze the adequacy of the Association's ALLL and prepare and submit to the Board for review at the first regular Board meeting following each calendar quarter end, a written report detailing Management's analysis and conclusions regarding the adequacy of the Association's ALLL

(Quarterly ALLL Report). The Board's review of the Quarterly ALLL Report, including all factors considered and any corrective actions adopted regarding the adequacy of the Association's ALLL, shall be fully documented in the 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 significant² 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 next Thrift Financial Report (TFR) with the OTS.

Liquidity.

15. 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:

² 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.

- (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 subparagraph (a) above are 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 Board shall ensure that the Association complies with the Liquidity Plan.

16. Within thirty (30) days, the Board shall ensure that Management reviews and prepares a monthly 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 15 (Liquidity Review). The 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.

17. The Liquidity Review for the immediately preceding calendar month shall be submitted to the Board prior to each monthly Board meeting, beginning with the July 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 (Funding Report). The Board's review of the Liquidity Review, Funding 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 liquidity position and compliance with the Liquidity Plan within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending September 30, 2009.

Financial Reporting

18. Effective immediately, the Association shall adopt and implement additional processes and controls to ensure the timeliness and accuracy of general ledger and account reconciliations and the accurate and timely completion and filing of financial statements and regulatory reports with the OTS.

Interest Rate Risk Management.

19. Within thirty (30) days, the Board shall revise the policies and procedures governing the Association's interest rate risk exposure (IRR Policy) to address deficiencies described in the 2008 Examination. At a minimum, the IRR Policy shall:

- (a) comply with applicable laws and OTS regulations including 12 C.F.R. § 563.176(b);
 - (b) comply with regulatory guidance, including OTS Thrift Bulletin 13a and Section 650 (Interest Rate Risk Management) of the OTS Examination Handbook;
 - (c) establish Board-approved interest rate risk limits in terms of net portfolio values;
- and

- (d) establish an Asset Liability Committee (ALCO) that, in addition to its monthly meetings and discussions, shall conduct quarterly reviews of the Association's IRR exposure, beginning with the calendar quarter ending September 30, 2009.

The ALCO shall prepare and provide to the Board for review a written report detailing its quarterly reviews and the Association's IRR exposure and compliance with the IRR Policy (IRR Report). The Board's review of the IRR Report, including any corrective actions, shall be fully detailed in the Board meeting minutes.

Compliance Program.

20. Within sixty (60) days, the Board shall develop a new written consumer compliance program (Compliance Program) that: (i) is appropriate for the Association's size, complexity, product lines and business operations and is staffed with qualified personnel; (ii) provides for the allocation of adequate resources, including personnel and training, to implement the Compliance Program; (iii) is designed and structured to ensure the Association's compliance with all applicable consumer and other compliance laws and regulations³ (Compliance Laws and Regulations) on an ongoing basis; and (iv) provides for appropriate processes and systems for the Board and Management to oversee and monitor the effectiveness of the Compliance Program.

At a minimum, the Compliance Program shall:

- (a) address all weaknesses, deficiencies and violations identified and/or discussed in the Association's 2008 Examination;
- (b) include written descriptions of the duties and responsibilities of the Compliance Officer and other key positions in the Compliance area, that clearly define authority and accountability, as well as establish the organization and reporting structure of the

³ The term "consumer and other compliance laws and regulations" means all laws and regulations identified, referenced or discussed in Section 1100 (Compliance Oversight Examination Program) of the OTS Examination Handbook.

compliance area, including any Board level compliance committees;

(c) include a formal training program that provides for ongoing training in Compliance Laws and Regulations for all appropriate personnel, including both operation and lending staff, and the development and implementation of a system to test employees on their knowledge of Compliance Laws and Regulations to monitor training effectiveness. The Association shall document the training activities for its recordkeeping purposes. The training program should be updated periodically, at reasonable intervals to ensure that appropriate personnel are provided with the most current and up-to-date information;

(d) incorporate all Systems, Monitoring, Assessment, Accountability, Response, Training (SMAART) program components as set forth in the revised Compliance Self Assessment Guide discussed in the OTS's December 19, 2002 Chief Executive Officer Letter No. 171;

(e) include a formal compliance review process for new or changed products and services to ensure compliance with applicable Compliance Laws and Regulations;

(f) include policies and procedures manuals covering all applicable Compliance Laws and Regulations for use by appropriate Association personnel in the performance of their duties and responsibilities, which identifies employee accountability for required procedures. The Association shall review and update the written policies and procedures at least annually, or as required by more frequent changes in laws or regulations;

(g) include ongoing periodic internal or external compliance audits and/or reviews to monitor the Association's compliance with Compliance Laws and Regulations, including, as appropriate, transactional testing, documentation of the scope of the review,

identification of all findings and exceptions, and discussion of recommended corrective actions;

(h) include appropriate procedures and systems, including internal controls, designed to ensure that the deficiencies and weaknesses in the Compliance Program are identified and reported to Management and/or the Board and that the deficiencies or weaknesses are promptly corrected; and

(i) establish detailed review processes and reporting requirements that will ensure adequate Board oversight and monitoring of the effectiveness of the Association's Compliance Program and Management's implementation and adherence to corrective actions adopted or required by the Board including, but not limited to, preparation of a findings report on all independent compliance audit findings at the conclusion of each audit, and reported to the Audit Committee immediately after each report is issued (Compliance Audit Report). The Compliance Audit Report shall, at a minimum, contain specific audit findings and conclusions, identify the responsible manager(s), recommend specific corrective action(s) and update the status of all corrective actions and timeframes for completion. The Compliance Audit Report shall also include the findings of the 2008 Examination (including exception and recommendation sheets that were provided to management and not included in the report of examination). The Audit Committee will monitor the progress of management's corrective actions. The Audit Committee's review shall be noted in the Audit Committee minutes and provided to the Board, along with the most recent version of the Compliance Audit Report and the original timeframes for completion of a corrective action (including any extensions).

Suspicious Activity Reporting.

21. Within thirty (30) days, the Association must implement a system to ensure that cash transactions are monitored and reviewed and that all suspicious transactions and activity are reported pursuant to 31 C.F.R. § 103.18 and 12 C.F.R. § 563.180(d). The Association must also provide for the monitoring, assessment, and review of the effectiveness of the Association's investigative procedures related to suspicious transactions and activity, the propriety of its decision whether or not to file a Suspicious Activity Report (SAR), and maintenance of adequate supporting documentation for all SAR investigation and filing decisions.

22. Within thirty (30) days, the Association shall implement additional processes, systems, and procedures that will address the SAR weaknesses and deficiencies discussed in the 2008 Examination and strengthen and enhance the monitoring and review of higher risk account transactions and the identification, investigation, and reporting of suspicious transactions. Adequate supporting documentation shall be maintained for all SAR investigation and filing decisions.

Customer Identification Program.

23. Within thirty (30) days after the Board's review of the 2008 CIP Review required by Paragraph 24 of this Order, the Association must ensure that the Association's BSA Compliance Program contains customer identification policies, procedures, and processes (CIP Policy) that are adequate, effective, and comply with all applicable laws, regulations, and regulatory guidance including 31 C.F.R. § 103.121 and 12 C.F.R. 563.177(b). The Association must also timely obtain and maintain appropriate customer documentation as required by all applicable laws, regulations, and regulatory guidance.

24. Within thirty (30) days, the Association shall conduct or engage a third party to conduct a review and assessment of the adequacy and effectiveness of the Association's compliance with applicable CIP requirements of the BSA laws and regulations for calendar year 2008 (CIP Review). The Board shall require that the consultant prepare and submit a written report of its findings and recommendations to the Board within seventy-five (75) days after the Effective Date of this Order. The Board's review of the consultant's report, including any corrective actions, shall be fully documented in the Board meeting minutes. Thereafter, a CIP Review, which shall include an assessment of the effectiveness of the Association's CIP Policy, shall be completed and submitted to the Board for review within sixty (60) days after the end of each calendar year, beginning with the calendar year ending December 31, 2009.

Real Estate Settlement Procedures Act

25. Within sixty (60) days, the Board shall review and amend the Association's written policies and procedures regarding compliance with the RESPA and Regulation X, 24 C.F.R. Part 3500, (RESPA Policy) to address the violations, deficiencies and weaknesses discussed in the Association's 2008 Examination and ensure that the Association complies with RESPA and 24 C.F.R. Part 3500. The RESPA Policy shall, at a minimum:

- (a) designate a member of Management who shall be responsible for ensuring the Association's day-to-day compliance with its RESPA Policy, the RESPA, and 24 C.F.R. Part 3500 (RESPA Officer);
- (b) require additional training of lending staff on the technical requirements of Regulation X;

(c) provide for additional internal review and controls, including the establishment of a formal regulatory review of all required disclosures, to ensure that RESPA compliance is achieved; and

(d) require that a quarterly review, beginning with the quarter ending September 30, 2009, be conducted of a sample of loans to assess the Association's compliance with its RESPA Policy, the RESPA, and Regulation X.

The Board shall ensure that the RESPA Policy is implemented and fully adhered to by Management and staff of the Association.

26. Within sixty (60) days, the Board shall ensure that Management corrects all deficiencies or non-compliance with the RESPA laws and regulations noted in the 2008 Examination.

Management shall prepare and provide to the Board a report detailing the results of Management's review and completion of its corrective actions (RESPA Review Report). The RESPA Review Report shall specifically identify those loans with deficiencies or otherwise found to be in non-compliance with the RESPA laws and regulations, and specify the corrective action taken to address such deficiencies and non-compliance. A copy of the RESPA Review Report 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.

Truth in Lending.

27. 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 including, but not limited to, record retention requirements. The Board shall ensure that the Association and Management adhere to and implement the revised TILA Policy.

28. Within thirty (30) days, the Board shall engage a qualified independent third party (Consultant) to conduct a review of all loans granted on and after January 1, 2008, for violations of the TILA Laws. The Board shall require the Consultant to complete its review and prepare a written report to the Board detailing the Consultant's findings within ninety (90) days after the Effective Date of this Order (TILA Report). The TILA Report shall specifically list all loans with violations of the TILA Laws, enumerate the specific violations identified (e.g., understated annual percentage rates, understated finance charges, missing documentation, etc.) and identify those loans for which reimbursable restitution is required, including the amount of such restitution. The Board shall review the TILA Report within thirty (30) days after completion and ensure that all required reimbursable restitution to affected consumers is made and Management corrects all deficiencies or non-compliance with the RESPA laws and regulations noted in the 2008 Examination and the TILA Report. A copy of the TILA Report, written confirmation that all required reimbursable restitution has been made to affected consumers, and the Board meeting minutes detailing the Board's review, including any corrective actions, shall be provided to the Regional Director within ten (10) days after the Board meeting.

Growth.

29. 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 September 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 4 of this Order.

Directorate and Management Changes.

30. 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.

31. Effective immediately, the Association shall not enter into any new, or renew, extend, or revise any existing, 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.

32. Effective immediately, the Association shall not make any golden parachute payment⁴ unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

⁴ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

Third Party Contracts.

33. Effective immediately, the Association shall not enter into any new 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.

34. 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 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.

35. Effective immediately, the Association is prohibited from increasing the dollar amount of brokered deposits at the Association without receiving the prior written non-objection of the Regional Director. The Association's written request for such non-objection should be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of acceptance of additional brokered deposits.

36. Within forty-five (45) days after the end of each calendar quarter, beginning with the

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.

calendar quarter ending June 30, 2009, Management shall submit to the Board for review a written report detailing the level of brokered deposits for each month within the quarter (Brokered Deposit Report). The Board shall review the Brokered Deposit Report to ensure the Association's compliance with this Order. A copy of the Board meeting minutes detailing the Board's review and a copy of the Brokered Deposit Report shall be provided to the Regional Director within ten (10) days after the Board meeting.

Dividends.

37. 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 written approval shall 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.

38. Effective immediately, the Association shall not engage in any new 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. The Board shall ensure that documentation demonstrating such compliance is maintained in the Association's files and records.

39. Effective immediately, the Association shall not make any new loans to or enter into any new contracts or agreements with any Insiders except in compliance with Paragraph 38 above

⁶ 12 C.F.R. § 223.2

and all 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.

Violations of Law.

40. Within sixty (60) days, the Board shall ensure that all violations of law, rule, and/or regulation, noncompliance with applicable OTS and Interagency Guidelines, and other deficiencies and weaknesses discussed in the Association's 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, noncompliance or deficiencies and weaknesses.

41. Within thirty (30) days of receipt of any subsequent Report of Examination, internal audit report, independent external audit report, or other report prepared by the Association's employees, agents, or independent contractors, which cites or discusses any weakness, deficiency, noncompliance with applicable OTS and Interagency Guidelines, 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.

Board Compliance Committee.

42. 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.

43. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending September 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.

44. 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 43 of this Order; and (b) a copy of the Board resolution required by Paragraph 43 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.

45. 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.

46. 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.

47. 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.

48. The Regional Director, or an OTS authorized representative, 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.

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

50. 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 the OTS:
Regional Director
Office of Thrift Supervision
1475 Peachtree St., N.E.
Atlanta, Georgia 30309
404.897.1861 (Fax)

- (b) To the Association:
Elliott S. Hall
Chairman of the Board
1229 Connecticut Avenue, N.W.
Washington, DC 20036-2601

No Violations Authorized.

51. 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/
Arthur W. Goodhand
Acting Southeast Regional Director

Date: See Effective Date on page 1

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of	)	
	)	Order No.: SE-09-036
	)	
	)	
INDEPENDENCE FEDERAL	)	Effective Date: August 3, 2009
SAVINGS BANK	)	
Washington, D.C.	)	
OTS Docket No. 07173	)	
	)	

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 Independence Federal Savings Bank, Washington, D.C., OTS Docket No. 07173 (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 proceeding by entering into this Stipulation and Consent to the 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 Paragraphs

1 and 2 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

Jurisdiction.

1. 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).
2. 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).

OTS Findings of Fact.

3. Based on its October 14, 2008 Report of Examination of the Association (2008 Examination), the OTS finds that the Association has engaged in unsafe or unsound banking practices and violations of law and regulation, including but not limited to:
 - (a) operating the Association without an adequate level of experienced and qualified managers and failing to establish and implement an appropriate management structure and succession plan;
 - (b) operating without an adequate and effective business plan;
 - (c) operating the Association with an excessive concentration of loans related to construction, nonresidential and/or commercial as described in the 2008 Examination;
 - (d) engaging in unsafe and unsound loan underwriting practices;
 - (e) failing to accurately complete and file financial statements and regulatory reports

- including, but not limited to, Thrift Financial Reports;
- (f) operating in contravention of supervisory policy statements and other guidance, including, but not limited to, Interagency Guidelines Establishing Standards for Safety and Soundness; Interagency Guidelines for Real Estate Lending Policies; and the Interagency Policy Statement on the Allowance for Loan and Lease Losses;
 - (g) 12 C.F.R. § 563.180 (Suspicious Activity Reports);
 - (h) 12 U.S.C. § 2801 et seq. and 12 C.F.R. Part 203 (Home Mortgage Disclosure Act (HMDA));
 - (i) 12 U.S.C. § 2601 et seq. (Real Estate Settlement Procedures Act (RESPA)) and 24 C.F.R. Part 3500 (Regulation X); and
 - (j) 15 U.S.C. § 1601 et seq. (Truth in Lending Act (TILA)) and 12 C.F.R. Part 226 (Regulation Z);

Consent.

4. 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.

Finality.

5. 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).

Waivers.

6. 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.

OTS Authority Not Affected.

7. 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.

Other Governmental Actions Not Affected.

8. 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 7 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.

Miscellaneous.

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

10 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.

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

12. 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.

13. 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.

14. 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.

Signature of Directors/Board Resolution.

15. 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:

**INDEPENDENCE FEDERAL
SAVINGS BANK
Washington, D.C.**

OFFICE OF THRIFT SUPERVISION

By: /s/
Elliott S. Hall
Chairman

By: /s/
Arthur W. Goodhand
Acting Southeast Regional Director

Date: See Effective Date on page 1

 /s/
Robert B. Isard, Director

 /s/
Morton A. Bender, Director

 /s/
Arturo Brillembourg, Director

 /s/
Nelson Deckelbaum, Director

 /s/
Lisa E. Gordon-Hagerty, Director

 /s/
John K. Jenkins, Director

 /s/
John S. Wilson, Jr., Director

 /s/
Armstrong Williams, Director