

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of)	Order No.: SE-09-050
)	
)	
COLOMBO BANK)	Effective Date: October 28, 2009
)	
Rockville, Maryland)	
OTS Docket No. 08575)	

ORDER TO CEASE AND DESIST

WHEREAS, Colombo Bank, Rockville, Maryland, OTS Docket No. 08575 (Association) 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 March 23, 2009 Report of Examination of the Association (2009 Examination) as follows:

- (a) 12 C.F.R. § 560.93(c) (Loans to One Borrower);
- (b) 12 C.F.R. §§ 562.1(b)(2) (Regulatory Reporting Requirements) and 562.2(b) (Regulatory Reports);
- (c) 12 C.F.R. § 572.3(a) (Requirement to Purchase Flood Insurance Where Available);
- (d) 12 C.F.R. §§ 230.7 (Payment of Interest) and 230.8(c) (Advertising);
- (e) 31 C.F.R. § 103.27(d) (Filing of Reports);
- (f) operating the Association without an adequate management structure staffed with experienced and qualified managers;
- (g) operating the Association with an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;
- (h) operating the Association with an excessive level of nonresidential real estate loans, commercial loans and adversely classified and delinquent loans relative to the Association's capital, earnings and allowance for loan and lease losses (ALLL) levels;
- (i) operating the Association with inadequate ALLL methodology and failing to establish and maintain adequate ALLL levels for the volume, type, and quality of loans and leases held;
- (j) engaging in unsafe and unsound loan underwriting and monitoring practices related to the Association's auto lending program;
- (k) failing to complete and file accurate Thrift Financial Reports;
- (l) operating the Association without an effective loan review system that includes

policies, procedures, and controls to ensure the accurate and timely identification and resolution of asset quality problems;

- (m) creating and maintaining excessive and unsafe and unsound concentrations of credit;
- (n) failing to maintain a properly functioning and fully effective Audit Committee and failing to fully document Audit Committee meetings; and
- (o) operating in contravention of supervisory policy statements and other guidance, including, but not limited to, the Interagency Guidelines Establishing Standards for Safety and Soundness at 12 C.F.R. Part 570 – Appendix A; Chief Executive Officer (CEO) Memorandum No. 252 - Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (December 14, 2006), Interagency Guidelines for Real Estate Lending Policies at 12 C.F.R. § 560.101; and CEO Memorandum No. 250 - Interagency Policy Statement on the Allowance for Loan and Lease Losses.

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 and management personnel needed, which shall at a minimum include a Chief Executive Officer, Chief Financial Officer and

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

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 employee until the vacant position is filled;

(c) provide for a management succession plan;

(d) require an evaluation of each officer and management personnel 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 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.

Growth.

4. 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 non-objection to the Association's Business Plan under Paragraph 5 of this Order.

Business Plan.

5. 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, capital 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.

Within 15 days after receiving any comments on the Business Plan from the Regional Director, the Board shall revise the Business Plan based on those comments and provide a copy of the revised Business Plan to the Regional Director for review.

6. 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.

7. 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 ten percent (10%), unless the activity involves assets risk-weighted fifty percent (50%) or less, in which case a variance of more than twenty-five percent (25%) shall be deemed to be a material modification.

8. 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.

9. 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 take corrective actions 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 taken 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.

10. Effective immediately, the Association shall not originate or purchase, or commit to originate or purchase, any new construction loans,² land loans,³ nonresidential loans and/or commercial loans or extend additional funds to existing borrowers on or relating to any construction, land, nonresidential and/or commercial loans (except as discussed in Paragraphs 11 and 12 of this Order). The Association may request the Regional Director's non-objection to resume origination activity on construction, land, nonresidential and commercial loans after all deficiencies and weaknesses discussed in the 2009 Examination and the requirements of Paragraph 13 of this Order have been addressed. 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 nonresidential and commercial loan origination activity.

11. The Association may fund legally binding commitments and approved loans that were (a) executed, or (b) the borrower was notified of the loan approval prior to August 31, 2009. Within thirty (30) days, the Association shall provide the Regional Director with a schedule of all outstanding legally binding commitments and loans-in-process as of August 31, 2009.

² The term "construction loan" is defined at 12 C.F.R. § 560.101 – Interagency Guidelines.

³ The term "land loan" is defined at 12 C.F.R. § 561.26.

12. The Association shall not modify, renew, or extend any construction, nonresidential, land 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 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 Policies.

13. Within sixty (60) days, the Board shall revise the Association's construction loan, land loan, nonresidential loan, and commercial loan credit administration, monitoring and oversight policies, practices, and controls to address all deficiencies and weaknesses discussed and implement all recommendations made in the 2009 Examination.

Concentrations of Credit.

14. By November 30, 2009, the Board shall revise the Association's written program for identifying, monitoring, and managing the risks associated with concentrations of credit to address the deficiencies and weaknesses discussed in the 2009 Examination and ensure compliance with the requirements and guidelines contained in 12 C.F.R. § 560.101 and CEO Memorandum # 252 (Credit Concentration Program). At a minimum, the revised Credit Concentration Program shall:

- (a) establish specific limitations on concentrations of credit for all major loan categories (expressed as a percentage of the Association's total assets and total capital) to be implemented and adhered to by the Association;
- (b) provide for additional stratification of each major loan category into subcategories and the establishment of concentration sub-limits within each subcategory (such as per development, subdivision, geographic location, and builder);
- (c) provide for enhanced monitoring and risk analysis of all concentrations of credit;

- (d) require quarterly reviews of the Association's balance sheet to identify any new concentrations of credit requiring enhanced analysis and review consistent with the Credit Concentration Program; and
- (e) require a written analysis and quarterly reports to the Board of identified concentrations of credit assessing credit, liquidity, interest rate, or other risks associated with such concentrations of credit.

The Board shall adopt the Credit Concentration Program and ensure that the Association adheres to and implements the Credit Concentration Program.

Allowance for Loan and Lease Losses.

15. 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 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 2009 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.

16. Within fifteen (15) days after the end of each calendar quarter, beginning with the quarter ending September 30, 2009, Management shall analyze the adequacy of the Association's ALLL and prepare and submit to the Board for review 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 significant⁴ 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 develop and adopt a liquidity management policy in conformance with the guidance contained in OTS Thrift Bulletin 77 and Sections 530 and 560 of the Examinations Handbook (Liquidity Policy). The Liquidity Policy shall include procedures for monitoring large volume depositors and CDARS accounts and 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).

18. The Liquidity Plan shall, at a minimum, include the following:

⁴ 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.

19. Within thirty (30) days, the Board shall require Management to review the Association's liquidity on a weekly basis and assess the Association's compliance with its Liquidity Policy and the Liquidity Plan (Liquidity Review). Management's review shall 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.

20. At each monthly Board meeting, beginning with the October 2009 meeting, the Board shall require Management to prepare and submit for Board review a written status report on the Association's compliance with its liquidity policies and procedures and the Liquidity Plan. The Board will require Management to provide copies of the weekly reviews of the Association's

liquidity required by Paragraph 19 of this Order for the immediately preceding month and identify any funding needs (to repay loans or advances from correspondent banks or to pay off brokered deposits). The Board's review of Management's weekly reviews, and any corrective actions adopted by the Board, shall be fully documented in the Board meeting minutes. The Board will 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 December 31, 2009.

Problem Assets.

21. 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, targets and timeframes to reduce the Association's level of criticized assets⁵ (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 or classification. At a minimum, the Problem Asset Plan shall require Management to prepare and submit for Board review:

(a) individual written asset resolution plans for each criticized asset and delinquent loan of Seven Hundred and Fifty Thousand Dollars (\$750,000) 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 within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending December 31, 2009.

22. At a minimum, the Quarterly Asset Report shall include:

(a) a summary of and update on the current status of all Asset Resolution Plans for

⁵ The term "criticized assets" shall include all classified assets, assets designated special mention or watch, all nonperforming assets and all delinquent loans.

criticized assets and delinquent loans of \$750,000 or greater;

- (b) a detailed analysis of the calculation and adequacy of the Association's ALLL levels and comparison of ALLL levels to the total level of classified assets;
- (c) a comparison of classified assets to core and risk-based capital;
- (d) a comparison of classified assets at the current quarter end with the preceding quarter;
- (e) a breakdown of classified assets by type (residential, acquisition and development, construction, land loans, etc.); and
- (f) a discussion of the actions taken during the preceding quarter to reduce the Association's level of criticized assets and delinquent loans and recommendations regarding any additional actions or steps that should be taken by Management in the future.

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. Within forty-five (45) days after being notified of any comments and concerns of the Regional Director with the Problem Asset Plan the Board shall address those comments or concerns and provide a copy of the revised Problem Asset Plan to the Regional Director for review.

23. Upon receipt of non-objection to the Problem Asset Plan from the Regional Director, the Board shall adopt the Problem Asset Plan and ensure that the Association adheres to and implements the Problem Asset Plan.

24. The Board shall review the Association's compliance with the Problem Asset Plan and the Asset Resolution Plans within thirty (30) days after the close of each calendar quarter, beginning with the quarter ending December 31, 2009 (Quarterly Problem Asset Plan Reviews).

The Board's review of the Quarterly Problem Asset Plan Reviews and assessment of the

Association's compliance with the 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.

Financial Reporting.

25. 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.

Internal Controls.

26. Effective immediately, the Association shall maintain adequate and effective internal controls and corporate governance policies, procedures and practices. Within thirty (30) days, the Board shall take corrective to address all internal control and audit committee weaknesses and deficiencies discussed in the 2009 Examination and the internal control letter included with the June 30, 2008 independent audit findings. At a minimum, the Board shall ensure that:

- (a) a properly functioning and fully effective Audit Committee is maintained and that Audit Committee meetings and discussions are fully documented and periodically reviewed by the full Board;
- (b) the audit committee requests a full explanation from the auditor and management on all deficiencies and weaknesses noted in independent audit findings and control letters with a written response regarding such findings provided to the auditor;
- (c) the accounting department verifies that all general ledger accounts have been reconciled as of each month end and identifying all material adjusting entries;

- (d) an external audit of the Association's wire transfer policies, procedures and systems is completed and that any deficiencies or weaknesses are timely addressed; and
- (e) the Audit Committee conducts and fully documents in the meeting minutes the Committee's review of the qualifications and approval of the Association's external audit firm.

Interest Rate Risk Management.

27. Within sixty (60) days, the Board shall revise the Association's policies and procedures governing interest rate risk exposure (IRR Policy) to address deficiencies described in the 2009 Examination.

Compliance Program.

28. 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; (ii) is adequately staffed with qualified and experience personnel; (iii) provides for the allocation of adequate resources, including personnel and training, to implement the Compliance Program; (iv) is designed and structured to ensure the Association's compliance with all applicable consumer and other compliance laws and regulations⁶ (Compliance Laws and Regulations) on an ongoing basis; and (v) provides for detailed processes, reports and systems to ensure the Board and Management's proper and prudent oversight and monitoring of the effectiveness of the Compliance Program, including implementation of and adherence to corrective actions adopted by the Board. At a minimum, the Compliance Program shall:

- (a) address all weaknesses, deficiencies and violations identified and/or discussed in

⁶ 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.

the Association's 2009 Examination, including exception and recommendation sheets that have been provided to management;

(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 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 training conducted. 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, and 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 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

(h) require the Audit Committee to review and prepare a report on all internal and external audit findings (Compliance Audit Report). The Compliance Audit Report shall, at a minimum, detail all audit findings and conclusions, identify the responsible manager(s), recommend specific corrective action(s), establish timeframes for the completion of corrective action(s) and require monthly updates from the responsible manager(s) on the status of all corrective actions. The Compliance Audit Report shall be presented to the Board for review and approval. The Board's review and approval, including any modifications, shall be documented in the Board meeting minutes. The Audit Committee will monitor the progress of all corrective actions and update the Compliance Audit Report on a monthly basis, beginning with the month ending November 30, 2009. The Audit Committee's review shall be detailed in the Audit Committee minutes.

29. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending December 31, 2009, the Audit Committee will provide the full Board with the updated Compliance Audit Report, including all original corrective action completion timeframes and any extensions, and the Audit Committee meeting minutes. The Board shall review the Compliance Audit Report, the Audit Committee meeting minutes and other supporting materials as may be provided by the Audit Committee. The Board's review, including any corrective actions, shall be detailed in the Board meeting minutes. A copy of the Board minutes, the Audit Committee meeting minutes, the Compliance Audit Report and other supporting materials shall

be provided to the Regional Director within ten (10) days after the date of the Board meeting.

Currency Transaction Reporting.

30. Within sixty (60) days, the Association must implement a system that allows for the effective aggregation of multiple transactions and the proper filing of a Currency Transaction Report (CTR) pursuant to 31 C.F.R. § 103.22(c)(2) and 12 C.F.R. § 563.177(c)(1).

Fair Lending Monitoring Program.

31. Within sixty (60) days, the Board shall develop and adopt a Fair Lending Monitoring Program for all lending products that addresses the deficiencies, weaknesses and corrective actions discussed in the Association's 2009 Examination and ensures the Association's compliance with applicable nondiscrimination laws, regulations and regulatory guidance (Fair Lending Monitoring Program). The Association's Fair Lending Monitoring Program shall consider and conform to the Interagency Fair Lending Examination Procedures. At a minimum, the Board shall ensure that the Association's Fair Lending Monitoring Program:

- (a) includes an analysis of the Association's lending patterns and review of transactions in areas of risk revealed by such lending pattern analysis;
- (b) contains procedures for the regular submission to the Board, or its designated committee, formal written reports of compliance issues, including proposed corrective measures and a timetable for implementation of such measures;
- (c) requires a regular testing program and procedures for all products and product delivery channels;
- (d) contains mechanisms and/or processes for the review and revision of all written manuals and other materials, including, but not limited to, advertising and marketing materials, to ensure ongoing compliance with the Association's ECOA Policies and all applicable consumer protection laws and regulations;

- (e) specifies the procedures for new product development to assess any potential fair lending consequences, particularly relating to nonstandard, special or added underwriting requirements, for each product or product delivery channel;
- (f) requires the Association to conduct a comparison and analysis of its products within each product delivery channel and across different delivery channels and identify and support or explain any identified variances or discrepancies; and
- (g) specifies appropriate documentation and recordkeeping requirements for the Association's products that shall be applicable to all products regardless of the delivery channel.

Flood Insurance.

32. Within thirty (30) days, the Board shall revise the Association's policies, procedures and systems for compliance with the requirements of the National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973, as amended, 42 U.S.C. §§ 4001-4129, as implemented by Part 572 of the OTS's Rules and Regulations, 12 C.F.R. Part 572 (collectively, Flood Laws and Regulations) to address the weaknesses and deficiencies discussed in the 2009 Examination including, but not limited to, the establishment of procedures and systems to verify and document the amount of flood insurance required and the methodology used to determine the amount of flood insurance required.

33. Within sixty (60) days, the Board shall require Management to conduct a review of all loans originated by the Association on or after March 27, 2007 (Relevant Loans) for compliance with the Flood Laws and Regulations. Management shall identify all Relevant Loans that are secured by buildings or mobile homes located in special flood hazard areas and prepare a written report that, at a minimum, identifies all loans that do not comply with the Flood Act Laws and Regulations or have supporting documentation deficiencies and weaknesses, details all violations

of the Flood Act Laws and Regulations or deficiencies and weaknesses identified, and sets forth recommended corrective actions to address instances of noncompliance or weaknesses and deficiencies (Flood Loan Report).

34. Within seventy-five (75) days, the Board shall adopt and ensure that Management implements appropriate corrective actions to ensure that all loans noted on the Flood Loan Report comply with the Flood Act Laws and Regulations. The Board's review of the Flood Loan Report, and the corrective actions adopted by the Board shall be fully documented in the Board meeting minutes. A copy of the Flood Loan Report and the Board minutes shall be provided to the Regional Director within ten (10) calendar days after the date of the Board meeting.

Truth in Savings.

35. Within sixty (60) days, the Board shall revise the Association's policies, procedures and systems for compliance with the requirements of the Truth in Savings Act, 12 U.S.C. § 4301 et seq. (TISA), and the TISA regulations set forth at 12 C.F.R. Part 230 to address the violations, weaknesses and deficiencies discussed in the 2009 Examination. The Board shall ensure that Management, at a minimum:

- (a) reviews the system inputs and specifications for all categories of deposit accounts to ensure they are reflective of the disclosed terms;
- (b) tests a sample of deposit account statements on a periodic basis to verify that the interest calculation and compounding methods, fees, and minimum balance requirements, are being applied consistent with the disclosed terms;
- (c) establishes adequate controls, systems and processes to ensure timely and accurate change in terms notices, web site content, and advertisements;
- (d) identifies and addresses any required reimbursements; and

- (e) provides monthly updates to the Board on the completion status of all corrective actions.

Directorate and Management Changes.

36. 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.

37. 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.

38. Effective immediately, the Association shall not make any golden parachute payment⁷ 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 CFR § 545.121.

⁷ The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

Third Party Contracts.

39. Effective immediately, the Association shall not enter into any new arrangement or contract with a third party service provider that is significant⁸ 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.

40. 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.

41. Effective immediately, the Association is prohibited from increasing the dollar amount of brokered deposits at the Association from the level at July 31, 2009, 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.

⁸ 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.

42. Within forty-five (45) days, the Board shall prepare and submit to the Regional Director for review and comment a plan to reduce the Association's reliance on brokered deposits (Brokered Deposit Reduction Plan). The Brokered Deposit Reduction Plan must, at a minimum, include: (a) a detailed description of the current composition of the Association's brokered deposits, including the source of each deposit and its maturity date; and (b) an explanation of the means by which such deposits will be paid. The Board shall make any changes to the Brokered Deposit Reduction Plan required by the Regional Director within thirty (30) days after being notified of such changes and provide a copy of the revised Brokered Deposit Reduction Plan to the Regional Director for review. Upon receipt of written non-objection from the Regional Director, the Board shall adopt the Brokered Deposit Reduction Plan and ensure that Management and the Association implement and adhere to the Brokered Deposit Reduction Plan. Any material modification to the Brokered Deposit Reduction Plan shall be submitted to the Regional Director for review and written non-objection at least forty-five (45) days prior to implementation.

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

44. 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.

45. Effective immediately, the Association shall not engage in any new transaction with an Affiliate⁹ 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.

46. 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 45 above 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. Nothing in this paragraph prevents the Association from continuing its management services arrangement with Independence Bank under the Memorandum of Understanding between the Association and Independence Federal Savings Bank.

⁹ 12 C.F.R. § 223.2

Violations of Law.

47. Within sixty (60) days, the Board shall ensure that all violations of law, rule, and/or regulation discussed in the Association's 2009 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.

48. 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 violations of law, rule, or regulation, the Board shall prepare, adopt, and thereafter ensure the Association adheres to specific procedures to correct such violations and prevent future violations.

Board Compliance Committee.

49. 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 2009 Examination.

50. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending December 31, 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 2009 Examination, and the results of all such actions. The Board shall review the Regulatory Compliance Committee's progress report and adopt a resolution: (i) certifying that each director has reviewed the progress report; (ii) detailing the Association's compliance with the provisions of this Order and the corrective actions contained in the 2009 Examination; (iii) identifying each instance of noncompliance; and (iv)

setting forth in detail additional corrective actions or steps adopted or required by the Board to address each instance of noncompliance.

51. Within forty-five (45) days after the end of each calendar quarter, the Board shall submit to the Regional Director: (i) a copy of the Regulatory Compliance Committee's quarterly progress report required by Paragraph 50 of this Order; and (ii) a copy of the Board resolution required by Paragraph 50 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.

52. 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.

53. 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.

54. 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.

55. 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.

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

57. 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:
Colombo Bank
c/o Morton Bender, Chairman
14801 Southlawn Lane
Rockville, Maryland 20850
240.268.2291 (Fax)

No Violations Authorized.

58. 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

/s/
By: _____
James G. Price
Regional Director, Southeast Region

Date: See Effective Date on page 1

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: SE-09-050
)	
)	
COLOMBO BANK)	Effective Date: October 28, 2009
)	
Rockville, Maryland)	
OTS Docket No. 08575)	
_____)	

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 Colombo Bank, Rockville, Maryland, OTS Docket No. 08575 (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 an 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 March 23, 2009 examination (2009 Examination) of the Association, 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) 12 C.F.R § 560.93(c) (Loans to One Borrower);
- (b) 12 C.F.R. §§ 562.1(b)(2) (Regulatory Reporting Requirements) and 562.2(b) (Regulatory Reports) ;
- (c) 31 C.F.R. § 103.27(d) (Filing of Reports);
- (d) 12 C.F.R. § 572.3(a) (Requirement to Purchase Flood Insurance Where Available);
- (e) 12 C.F.R. §§ 230.7 (Payment of Interest) and 230.8(c) (Advertising);
- (f) operating the Association without an adequate management structure staffed with experienced and qualified managers;

- (g) operating the Association with an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;
- (h) operating the Association with an excessive level of nonresidential real estate loans, commercial loans and adversely classified and delinquent loans relative to the Association's capital, earnings and allowance for loan and lease losses (ALLL) levels;
- (i) operating the Association with inadequate ALLL methodology and failing to establish and maintain adequate ALLL levels for the volume, type, and quality of loans and leases held;
- (j) engaging in unsafe and unsound loan underwriting and monitoring practices related to the Association's auto lending program;
- (k) failing to complete and file accurate Thrift Financial Reports;
- (l) operating the Association without an effective loan review system that includes policies, procedures, and controls to ensure the accurate and timely identification and resolution of asset quality problems;
- (m) creating and maintaining excessive and unsafe and unsound concentrations of credit;
- (n) failing to maintain a properly functioning and fully effective Audit Committee and failing to fully document Audit Committee meetings; and
- (o) operating in contravention of supervisory policy statements and other guidance, including, but not limited to, Interagency Guidelines Establishing Standards for Safety and Soundness; Chief Executive Officer Memorandum No. 252 - Concentrations in Commercial Real Estate Lending, Sound Risk Management

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). Upon the Effective Date, the Order 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 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.

[Remainder of Page Intentionally Left Blank]

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

COLOMBO BANK
Rockville, Maryland

/s/
By: _____
Morton A. Bender
Chairman

/s/

Lester W. Johnson, Director

/s/

Scott M. Bender, Director

/s/

Edward W. Gold, Director

/s/

Mark Leas, Director

/s/

Bruce Levin, Director

/s/

James S. Regan, Director

Accepted by:

OFFICE OF THRIFT SUPERVISION

/s/
By: _____
James G. Price
Regional Director, Southeast Region

Date: See Effective Date on page 1