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Comptroller of the Currency  
Administrator of National Banks

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August 15, 2002

**Conditional Approval #543  
September 2002**

Mr. William C. Myers  
Community Bank of Orange, National Association (In Organization)  
643 Route 211 East  
Middletown, New York 10941

Re: Significant Change in Operating Plan for Community Bank of Orange, National Association (In Organization), Middletown, New York  
Charter Number: 24177  
Application Control Number: 2000-NE-01-0030

Dear Mr. Myers:

This letter is in response to significant deviations in the operating plan for the above referenced application granted preliminary conditional approval on May 9, 2001. OCC was informed of these changes after they had occurred contrary to OCC chartering policy. Our views on the significant deviations to the operating plan were detailed in our June 4, 2002 letter, and the Bank's response has been expressed within various written correspondence through July 31, 2002. The changes included:

- Execution of a SubContractor Agreement between Bank and a company in Hasbrouck Heights, New Jersey, dated February 26, 2002, to provide mortgage lending services.
- Execution of an Employment Agreement between Bank and an individual, dated March 6, 2002. While this Agreement contemplated the individual would manage the Bank's mortgage operations, the Bank contended he would not be an officer of the Bank and would not be involved in the daily operations of the Bank.
- Execution of a Capital Agreement, between Bank and an individual, dated March 6, 2002.
- Nomination of certain prospective shareholders, not included in the original operating plan, as additional directors. Certain of these shareholders have provided working capital. Certain shareholders would receive stock in exchange for the loaned funds, and certain others are to be repaid.

We understand that, after June 4, 2002, the Organizers voided all the aforementioned contracts by reaching a settlement with the parties, and will provide an amended prospectus offering

subscribers a 15-day rescission period.

We have evaluated each of the significant deviations and the remedies taken by Bank. We conclude that the organization of the bank can continue subject to the additional and revised preopening requirements and ongoing conditions outlined below.

The requirements and conditions in the OCC's preliminary conditional approval letter dated May 9, 2001 remain in effect to the extent consistent with the following additional requirements and conditions. The following requirements must be satisfied before the OCC will grant final charter approval:

1. The Bank must undergo an additional on-site review by the OCC as follow-up to our earlier preopening examination. The results of this review will assist the OCC in its determination of whether the Bank is ready to open. The scope of the review will include an evaluation of the Bank's operating plan and revised financial projections, and any revised policies, procedures, and controls (including those related to credit policy, insider and third party arrangements, or mortgage origination and purchase operations).
2. The Organizers and Directors ("Group") will issue a Prospectus Supplement and Notice of Rescission Offer providing a 15-day rescission period for stock subscribers, consistent with previous communications with our Securities and Corporate Practices Division.
3. The Bank's minimum opening capital requirement of \$5,750,000, net of preopening and organizational expenses, remains unchanged. The Organizers and Directors cleared by the OCC may purchase additional bank stock to offset the rescissions received following distribution of the amended prospectus, to the extent that the purchase does not represent a financial hardship to any such individual and is supported by his or her financial capacity as determined by the OCC. In addition, the individual and aggregate stock purchases must conform to any Federal Deposit Insurance Corporation's (FDIC) limitations and Directors must maintain a qualifying equity interest pursuant to 12 C.F.R. § 7.2005. The Organizers and Directors must receive prior OCC non-objection to their purchase of additional bank stock or receipt of any stock options or warrants. The request must include a current financial statement and income information for each individual proposing to make such purchase.
4. The Board of Directors, elected by the shareholders, should adopt a Resolution, and establish a Bank policy, requiring that any new product, service, or contract be subject to the prior review and approval of the Board before its implementation or execution.
5. The Board of Directors should adopt an internal and external audit program that provides for a periodic and comprehensive review of insider transactions and third party relationships and contracts to ensure the Bank's compliance with applicable laws, rules, regulations, OCC guidance, and safe and sound banking practices.
6. The Bank shall submit to the OCC a written program for training its Directorate on the duties and responsibilities of new bank directors. The program should describe initial training prior to the bank's opening and ongoing training during the first year of operations. The Bank must obtain the OCC's prior written determination of no objection for this program.

Final approval will be subject to the following conditions:

1. Within three months after opening, the Group must develop and maintain alternative business strategies to ensure that it can prudently, efficiently, and effectively manage potential scenarios where actual performance might differ significantly from the operating plan, including with respect to loan or deposit mixes, interest rates, projected initial losses, operating expenses, marketing costs, and growth rates. The alternative business strategies should also identify primary and secondary sources of additional capital for potential future requirements. The strategies must be integrated into the Bank's operating and strategic plans and funds management and capital policies. The Bank must submit the alternative business strategies and related documents to the OCC for review and obtain its written determination of no objection. The Bank should update the alternative business strategies periodically as the Bank's condition and marketplace conditions change.
2. Within three months of the Bank's opening, the Bank should nominate for OCC's approval, two additional independent directors who have had recent experience as an executive officer or director of an insured commercial bank. Any further expansion of the Board within the first three years of operation would be considered a significant change to the Bank's business plan and subject to OCC condition # 3 described below. For purposes of this condition, the term "independent" shall be defined to include any individual who:
  - Is not an officer or employee of the Bank or its affiliates;
  - Is not related by birth or marriage to any executive officer, or organizer of the Bank;
  - Has not served as an executive officer, director, advisory director, or employee of any financial institution that has, since June 30, 1997, employed any executive officer or organizer of the Bank; and
  - Is not now, and since June 30, 1997 has not served as, an executive officer, director, employee, or principal shareholder of any related interest of an executive officer or organizer of the Bank.

For purposes of this condition, the terms "executive officer," "director," "advisory director," "principal shareholder," and "related interest" shall be defined in the manner set forth in 12 C.F.R. § 215.2.

3. The Bank: (i) shall give the New Jersey Field Office at least sixty (60) days prior written notice of the Bank's intent to significantly deviate or change from its business plan or operations<sup>1</sup> and (ii) shall obtain the OCC's prior written determination of no objection before the Bank engages in any significant deviation or change from its business plan or operations. For the first three years of operation, the Bank must also provide a copy of such notice to the FDIC's New York Regional Office.

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<sup>1</sup> If such deviation is the subject of an application filed with the OCC for its prior approval, the OCC does not require notice to the supervisory office.

The conditions of this approval are “condition[s] imposed in writing by the agency in connection with the granting of any application or other request” within the meaning of 12 U.S.C. § 1818. As such, these conditions are enforceable under 12 U.S.C. § 1818.

The Organizers are also reminded that they must ensure that the FDIC’s New York Regional Office has been apprised of all developments relative to the Bank’s organization and obtain the appropriate consents of that Office.

These decisions, and the activities and communications by OCC employees in connection with the filing, do not constitute a contract, express or implied, or any other obligation binding upon the OCC, the U.S., any agency or entity of the U.S., or an officer or employee of the U.S, and do not affect the ability of the OCC to exercise its supervisory, regulatory and examination authorities under applicable law and regulations. The foregoing may not be waived or modified by any employee or agent of the OCC or the U.S.

We would like to commence the additional on-site review as soon as the organizers believe that the above requirements are satisfied and the Bank is ready to open. Please contact Licensing Analyst Linda Leickel at (212) 790-4055 with any questions and to schedule the additional on-site review.

Sincerely,

**-signed-**

Anthony DosSantos  
Licensing Manager