

#2002-46

AGREEMENT BY AND BETWEEN
HARBOR CAPITAL NATIONAL BANK
ROCKVILLE, MD
and
The Office of the Comptroller of the Currency

HARBOR CAPITAL NATIONAL BANK, ROCKVILLE, MD ("Bank") and the Comptroller of the Currency of the United States of America ("Comptroller") wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules, and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination dated September 30, 2001 ("ROE").

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

JURISDICTION

(1) This Agreement shall be construed to be a "written agreement entered into with the agency" within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a "written agreement between such depository institution and such agency" within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller (“ADC”) pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
Maryland/National Capital Area Field Office
1025 Connecticut Avenue, N.W.
Suite 708
Washington, D.C. 20036

Article I

COMPLIANCE COMMITTEE

(1) Immediately, the Board shall appoint a Compliance Committee of at least four (4) directors, no more than one of which shall be an employee of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)). Upon appointment, the names of the members of the Compliance Committee shall be submitted in writing to the ADC. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within thirty (30) days of the appointment of the Committee and every thirty (30) days thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) actions taken to comply with each Article of this Agreement; and
- (b) the results of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the ADC.

Article II

BOARD TO ENSURE COMPETENT MANAGEMENT

(1) Within sixty (60) days, the Board shall ensure that the Bank has competent management in place on a full-time basis in its President position to carry out the Board's policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) Within ninety (90) days, the Board shall review the capabilities of the Bank's management to perform present and anticipated duties and the Board will determine whether management changes should be made, including the need for additions to or deletions from current management.

(3) If the Board determines that an officer will continue in his/her position but that the officer's depth of skills needs improvement, the Board will within 120 days develop and implement a written program, with specific time frames, to improve the officer's supervision and management of the Bank. Upon completion, a copy of the written program shall be submitted to the ADC.

(4) Prior to the appointment of any individual to a senior executive officer position, the Board shall submit to the ADC the following information:

- (a) the information sought in the "Changes in Directors and Senior Executive Officers" booklet of the Comptroller's Corporate Manual, together with a legible fingerprint card for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed

officer; and

(c) a written description of the proposed officer's duties and responsibilities.

(5) The Assistant Deputy Comptroller shall have the power of veto over the employment of the proposed senior executive officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

(6) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. § 1818(b)(6)(E) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

(7) Within sixty (60) days, the Board shall develop a director education program to strengthen individual director weaknesses. Among other things, the program shall include the Board engaging the services of a corporate attorney to provide counsel on individual and collective Board responsibilities under the law.

(8) Upon adoption, a copy of the plan under paragraph (7) shall be forwarded to the ADC for review and approval.

Article III

STRATEGIC PLAN

(1) Within one hundred twenty (120) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development

and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;
- (d) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(c) of this Article;
- (e) a definition of the bank's primary trade area and the circumstances under which out of trade areas loans will be considered;
- (f) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;
- (g) a management employment and succession program to promote the retention and continuity of capable management;
- (h) product line development and market segments that the Bank intends to promote or develop;
- (i) an action plan to improve bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability and specific time frames;

- (j) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (k) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (l) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and
- (m) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) Upon adoption, a copy of the plan shall be forwarded to the ADC for review and prior determination of no supervisory objection.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

Article IV

BUDGET/BUSINESS PLAN

(1) Within one hundred twenty (120) days, the Board shall prepare, implement, and thereafter ensure Bank adherence to a written three-year business plan that shall include a projection of major balance sheet and income statement components, and shall provide for injections of equity capital, as necessary. The business plan shall also include a written profit plan and a detailed budget. Specifically, the plan shall describe the Bank's objectives for

improving Bank earnings and strategies contemplated to do so. Such strategies shall include specific market segments that the Bank intends to promote or develop. Procedures shall also be established to monitor the Bank's actual results against these projections and to provide for appropriate adjustments to the budget and profit plan. The plan shall set forth specific time frames for the accomplishment of these objectives.

(2) A copy of the plan shall be submitted to the ADC for review and a determination of no supervisory objection.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

Article V

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall maintain the following capital level (as defined in 12 C.F.R. Part 3): Tier 1 capital at least equal to eight percent (8%) of adjusted total assets. Adjusted total assets is defined in 12 C.F.R. Part 3.2(a) as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets.

(2) The requirement in this Agreement to meet and maintain a specific capital level means that the Bank may not be deemed to be "well capitalized" for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) Within one hundred twenty (120) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three year capital program. The program shall include:

(a) specific plans for the maintenance of adequate capital that may in no event

be less than the requirements of paragraph (1);

- (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs if necessary;
- (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and
- (f) a dividend policy that permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - and
 - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60.

(4) Upon completion, the Bank's capital program shall be submitted to the ADC for determination of no supervisory objection. Upon such determination by the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the ADC.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

Article VI

ASSET/LIABILITY MANAGEMENT

(1) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to written liquidity, interest rate risk, and asset and liability management policies that conform to regulatory guidance. In formulating these policies, the Board shall refer to the Liquidity and Funds Management booklet of the Comptroller's Handbook, issued February 2001. The policy shall provide for a coordinated asset/liability management strategy and, at a minimum, address:

- (a) duties and responsibilities of the Asset Liability Committee (ALCO);
- (b) adequate management reports that enable the Board and management to monitor the Bank's liquidity and interest rate risk positions and maintain both at adequate levels;
- (c) the liquidity, maturity and pledging requirements of the investment portfolio;
- (d) development of a liquidity contingency plan;
- (e) limits on concentrations of funding sources; and
- (f) periodic review of the Bank's adherence to the policy.

(2) Upon adoption, a copy of the written policies shall be forwarded to the ADC for review.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policies developed pursuant to this Article.

Article VII

INTERNAL AUDIT

- (1) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent, internal audit program sufficient to:
 - (a) detect irregularities in the Bank's operations;
 - (b) determine the Bank's level of compliance with all applicable laws, rules and regulations;
 - (c) evaluate the Bank's adherence to established policies and procedures, with particular emphasis directed to the Bank's adherence to its loan policies concerning underwriting standards and problem loan identification and classification;
 - (d) ensure adequate audit coverage in all areas; and
 - (e) establish an annual audit plan using a risk based approach sufficient to achieve these objectives.
- (2) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.
- (3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.
- (4) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(5) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board, which shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board, or the Audit Committee thereof, and not through any intervening party.

(6) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.

(7) The audit staff shall have access to any records necessary for the proper conduct of its activities. National Bank Examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

(8) Upon adoption, a copy of the internal audit program shall be promptly submitted to the ADC.

Article VIII

LOAN PORTFOLIO MANAGEMENT

(1) The Board shall, within sixty (60) days, develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management. The program shall include, but not be limited to:

- (a) procedures to ensure satisfactory and perfected collateral documentation;
- (b) procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information;
- (c) procedures to ensure conformance with loan approval requirements;

- (d) a system to track and analyze exceptions, including;
 - (i) ensure that policy exceptions are approved under dual control;
 - (ii) report policy exceptions by type to the board.
 - (e) regularly assessing whether the loan policy is appropriate or should be revised.
 - (f) procedures to ensure conformance with Call Report instructions;
 - (g) procedures to ensure the accuracy of internal management information systems;
 - (h) a performance appraisal process, including performance appraisals, job descriptions, and incentive programs for loan officers, which adequately consider their performance relative to policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters; and
 - (i) procedures to track and analyze concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios.
- (2) Upon completion, a copy of the program shall be forwarded to the ADC.
- (3) Within thirty (30) days, the Board shall develop, implement, and thereafter ensure

Bank adherence to systems that provide for effective monitoring of:

- (a) early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;
- (b) previously charged-off assets and their recovery potential;
- (c) compliance with the Bank's lending policies and laws, rules, and

regulations pertaining to the Bank's lending function;

- (d) adequacy of credit and collateral documentation; and
- (e) concentrations of credit.

(4) Beginning immediately, on a monthly basis, management will provide the Board with written reports including, at a minimum, the following information:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent loans and leases;
- (c) credit and collateral documentation exceptions;
- (d) the identification and status of credit related violations of law, rule or regulation;
- (e) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (a) through (d) of this Article and Paragraph;
- (f) an analysis of concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios;
- (g) the identification and amount of loans and leases to executive officers, directors, principal shareholders (and related interests) of the Bank; and
- (h) the identification of loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program and systems developed

pursuant to this Article.

Article IX

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within thirty (30) days, the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent ROE, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(2) Within thirty (30) days the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, in any subsequent ROE, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(3) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;
 - (i) Failure to obtain the information in (3)(d) shall require a majority

of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (3)(d) would be detrimental to the best interests of the Bank.

- (ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank; and
- (e) the assignment of a credit risk rating, based upon management's analysis of the credit, that is in conformance with the bank's loan and lease grading system;
- (f) the implementation of financial covenants, when appropriate;
- (g) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable; and
- (h) a determination that the borrower has complied with loan approval requirements, prior to funding.

Article X

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent ROE, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent ROE, or by any internal or external loan review, or in

any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding seventy five thousand dollars (\$75,000) shall be forwarded to the ADC.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(5) The Board, or a designated committee, shall conduct a review, on at least a monthly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof ;
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(6) A copy of each review shall be forwarded to the ADC on a quarterly basis.

(7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are

criticized in the ROE, in any subsequent ROE, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed fifty thousand (\$50 thousand) only if each of the following conditions are met:

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

(8) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

Article XI

INTERNAL LOAN REVIEW

(1) The Board shall within thirty (30) days employ or designate a sufficiently experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans and leases. A copy of the Bank's proposed "Engagement Letter" with this independent loan review person or firm, and any amendments thereto, shall be submitted to the ADC for review and determination of no supervisory objection.

(2) Within sixty (60) days, the Board shall establish an effective, independent and on-going loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in the Rating Credit Risk booklet, A-RCR, of the Comptroller's Handbook issued April 2001 (you may also want to refer to Loan Portfolio Management booklet, A-LPM, of the Comptroller's Handbook). Such reports shall, at a minimum, include conclusions regarding:

- (a) the overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) the identification and amount of delinquent loans and leases;
- (d) credit and collateral documentation exceptions;
- (e) the identification and status of credit related violations of law, rule or regulation;
- (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (e) of this Article and paragraph;
- (g) concentrations of credit;
- (h) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank;
- (i) the adequacy of the Allowance for Loan and Lease Losses; and
- (j) loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

(3) A written description of the program called for in this Article shall be forwarded to the ADC upon implementation.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(5) The Board shall evaluate the internal loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

(6) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

Article XII

ALLOWANCE FOR LOAN AND LEASE LOSSES

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

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the

Allowance.

(3) A copy of the Board's program shall be submitted to the ADC for review and prior determination of no supervisory objection.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

Article XIII

CONSUMER COMPLIANCE PROGRAM

(1) Immediately, the Bank shall adopt, implement, and thereafter ensure adherence to a written consumer compliance program designed to ensure that the Bank is operating in compliance with all applicable consumer protection laws, rules and regulations. This program shall include, but not be limited to:

- (a) a written description of the duties and responsibilities of the compliance officer;
- (b) adequate internal controls to ensure compliance with consumer protection laws, rules, and regulations;
- (c) the preparation of a policies and procedures manual covering all consumer protection laws, rules and regulations for use by appropriate Bank personnel in the performance of their duties and responsibilities;
- (d) semiannual updates of the written policies and procedures manual to ensure it remains current;
- (e) an audit program to test for compliance with consumer protection laws,

rules and regulations;

- (f) procedures to ensure that exceptions noted in the audit reports are corrected and responded to by the appropriate Bank personnel;
- (g) the education and training of all appropriate Bank personnel in the requirements of all federal and state consumer protection laws, rules and regulations; and
- (h) quarterly reporting of the results of the consumer compliance audit to the Board or a committee thereof.

(2) Upon adoption, a copy of the program shall be forwarded to the ADC for review.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

Article XIV

CORRECT INFORMATION TECHNOLOGY SYSTEMS DEFICIENCIES

(1) The Bank shall immediately take all steps necessary to improve the management of the Information Technology ("IT") systems and correct each deficiency cited in the ROE or any subsequent ROE.

(2) Within sixty (60) days, the Bank shall ensure that the data processing manager has the necessary skills and experience to supervise effectively the IT area.

(3) Within sixty (60) days, the Bank shall implement effective IT security and operations procedures as described in the Federal Financial Institutions Examination Council's 1996 Information Systems Examination Handbook, and Banking Circular Number 229, dated May 31, 1988. These procedures shall include a program to safeguard customer information,

periodic reviews of system access levels, and formal reviews of master file changes for accuracy.

(4) Within thirty (30) days, the Bank shall develop an effective and independent internal IT audit program. At a minimum, the IT audit program shall be performed by an independent and qualified individual, and include fundamental elements of a sound audit program as described in the Federal Financial Institutions Examination Council's 1996 Information Systems Examination Handbook.

(5) Within 60 days, the Board shall approve and implement improved IT policies and procedures, to include: a business resumption and contingency plan, improved vendor management procedures, and an Internet Banking Policy.

(6) The Board shall provide a quarterly written progress report on each of the requirements of this article to the ADC.

Article XV

VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the ROE and in any subsequent ROE. The progress reports required by Article I of this Agreement shall include the date and manner in which each correction has been effected during that reporting period.

(2) Immediately, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility. Within ninety (90) days the

Board shall have management review all home equity loans made since September 30, 2000, and adjust the accounts of any consumers who received inaccurate disclosures in violation of the Truth in Lending Act (15 U.S.C. 1604 *et seq.*) and Federal Reserve Regulation Z (12 C.F.R. Part 226).

(3) Within thirty (30) days of receipt of any subsequent ROE which cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(4) Upon adoption, a copy of these procedures shall be promptly forwarded to the ADC.

(5) The Board shall ensure that the Bank has policies, processes, personnel, and control systems to ensure implementation of and adherence to the procedures developed.

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the ADC for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Agreement in which the Board is required to ensure the Bank's adherence to, or undertake to perform certain obligations of the Bank, it is intended to mean that the Board will consistent with its duties and responsibilities: (i) authorize and direct the commencement of such actions as may be necessary for the bank to perform its obligations and undertakings under the terms of the Agreement; (ii) require the timely implementation by Bank management of such actions directed by the Board to be taken under the terms of this Agreement; (iii) require the timely reporting by Bank management on the level and manner of the Bank's compliance with such actions; and (iv) devise and direct in a timely and appropriate manner any follow-up or corrective action to be taken in response to any non-compliance with such actions.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory "written agreement entered into with the agency" as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its supervisory powers, including 12 U.S.C. § 1818(b)(1),

and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the OCC's exercise of its supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or arrangements, or negotiations between the parties, whether oral or written.

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

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

5/6/02
Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

Signed
Scot R. Browning

5/6/02
Date

Signed
Michael J. Burke

5/6/02
Date

Signed
Chi Ping Chow

5/6/02
Date

