

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)

COLOMBO BANK)
Rockville, Maryland)

OTS Docket No.: 08575)
_____)

Order No.: **ATL-2004-23**
ATL-2004-24

Date: **August 31, 2004**

STIPULATION AND CONSENT TO THE ISSUANCE OF AN
ORDER TO CEASE AND DESIST FOR AFFIRMATIVE RELIEF
AND AN ORDER OF ASSESSMENT OF CIVIL MONEY PENALTIES

WHEREAS, the Office of Thrift Supervision (OTS), based upon information derived from the exercise of its regulatory responsibilities, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding for affirmative relief and the assessment of a civil money penalty against Colombo Bank, Rockville, Maryland, OTS Docket No. 08575 (Colombo or Bank) pursuant to 12 U.S.C. § 1818(b) and (i),¹ and

WHEREAS, Colombo desires to cooperate with the OTS and to avoid the time and expense of such administrative proceeding, and

WHEREAS, Colombo enters into this Stipulation and Consent (i) without any adjudication on the merits, (ii) without admitting or denying that grounds exist to initiate an administrative cease and desist proceeding, (iii) without admitting or denying the Findings of Fact, except as to Jurisdiction (Paragraph 1 below), which jurisdiction is

¹ All references to the United States Code (U.S.C.) are as amended, unless otherwise indicated.

admitted, and (iv) solely for the purpose of settling this matter in accordance with Rule 408 of the Federal Rules of Evidence and equivalent state provisions.

NOW, THEREFORE, on these premises, Colombo hereby stipulates and agrees as follows:

1. Jurisdiction.

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

(b) Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the "appropriate Federal Banking agency" with jurisdiction to maintain an administrative cease and desist proceeding and to assess civil money penalties against such a savings association.

Therefore, the Bank is subject to the jurisdiction of the OTS to initiate and maintain a cease and desist proceeding and to assess civil money penalties against it pursuant to 12 U.S.C. §§ 1818(b) and (i). The Director of the OTS has delegated to the Regional Director of the Southeast Region of the OTS or his/her designee (Regional Director) the authority to issue cease and desist orders and civil money penalty assessment orders where an association has consented to the issuance of the orders.

2. OTS Findings of Fact.

(a) The OTS finds that the Bank has engaged in certain unsafe and unsound practices and violated various laws and regulations to which the Bank is subject, as outlined in detail in the OTS's April 26, 2004 Report of Examination of Colombo (2004 Examination). Such violations include violations of the Bank Secrecy Act (BSA),² the

² 31 U.S.C. § 5311 et seq.

Home Mortgage Disclosure Act (HMDA),³ the Equal Credit Opportunity Act (ECOA),⁴ the Community Reinvestment Act (CRA),⁵ the Expedited Funds Availability Act (EFA),⁶ the Electronic Funds Transfer Act (EFTA),⁷ the Flood Disaster Protection Act (FDPA),⁸ the Truth in Lending Act (TILA),⁹ the Real Estate Settlement Procedures Act (RESPA),¹⁰ the Bank Protection Act (BPA);¹¹ the Truth in Savings Act,¹² and the lending limitations for loans made to one borrower (LTOB).¹³

(b) The Bank was criticized for substantive HMDA violations in its immediately preceding OTS examination report, the May 28, 2002 Report of Compliance Examination (2002 Examination or Prior Examination). The Board was instructed to correct these violations and thereafter to comply with applicable HMDA-related laws and regulations. The Board failed to correct the HMDA problems and, in fact, Colombo has engaged in additional violations of HMDA. The Bank also was cited in the Prior Examination for additional violations of other consumer laws and regulations, and instructed by the OTS to correct the violations and thereafter comply with such laws and regulations. The Board failed to take corrective action as mandated by the OTS and additional repetitive violations have occurred.

(c) The Bank was criticized in its 2004 Examination for substantive violations of the BSA. These violations include a lack of independent testing, which was mandated

³ 12 U.S.C. § 2801 et seq.

⁴ 15 U.S.C. § 1691 et seq.

⁵ 12 U.S.C. § 2901 et seq.

⁶ 12 U.S.C. § 4001 et seq.

⁷ 15 U.S.C. § 1693 et seq.

⁸ 42 U.S.C. § 4001 et seq.

⁹ 15 U.S.C. § 1601 et seq.

¹⁰ 12 U.S.C. § 2601 et seq.

¹¹ 12 U.S.C. § 1881 et seq.

¹² 12 U.S.C. § 4301 et seq.

¹³ 12 C.F.R. § 563.93.

during the Prior Examination. The 2004 Examination also cited the Bank for inadequate policies and procedures for detecting and reporting suspicious transactions, and failing to conduct and document appropriate training of employees with BSA responsibilities.

(d) The Bank engaged in unsafe and unsound practices as a result of its failure to establish and implement an effective and comprehensive formal written compliance program that included policies, procedures and internal controls to adequately monitor and ensure the Bank's compliance with applicable consumer compliance laws and regulations and the Bank's internal policies and procedures (Compliance Program). The Compliance Program deficiencies have resulted in numerous violations of the consumer compliance related laws and regulations to which the Bank is subject. Based upon the nature and extent of the violations and the Compliance Program deficiencies, the OTS has determined that the Bank is operating a materially deficient Compliance Program.

(e) The Bank failed to correct or address concerns and deficiencies identified in the Colombo's 2002 Examination, as directed by the OTS. The OTS directives to correct deficiencies included establishing a strong system of internal or third party review of all compliance areas, review and retention of the results of such review, and the correction of various other consumer compliance violations and deficiencies.

3. **Consent.** Colombo consents to the issuance by the OTS of the accompanying Consent Order to Cease and Desist for Affirmative Relief (C&D Order) and the accompanying Order of Assessment of Civil Money Penalties (CMP Order) (both Orders sometimes collectively referred to as 'the Orders'). The Bank further agrees to comply with the terms of the Orders upon issuance and stipulates that the Orders comply with all requirements of law.

4. **Finality.** The Orders are issued under 12 U.S.C. §§ 1818(b) and (i), respectively. Upon their issuance by the Regional Director for the Southeast Region, each shall be a final order, effective and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

5. **Waivers.** Colombo 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);

(b) The right to an administrative hearing of the OTS's charges against it as provided by 12 U.S.C. § 1818(b);

(c) The right to seek judicial review of the C&D Order or the CMP Order or both, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Orders;

(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 Orders, whether arising under common law, the Equal Access to Justice Act, 5 U.S.C. § 504, or 28 U.S.C. § 2412; and

(e) The right to assert this proceeding, its consent to the issuance of the Orders or the issuance of the Orders, as the basis for a claim of double jeopardy in any pending or future proceeding brought by the United States Department of Justice or any other governmental entity.

6. **Other Governmental Actions Not Affected.** Colombo acknowledges and agrees that the consent to the issuance of the Orders does not release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against or

any other proceeding that may be or has been brought by the OTS or another governmental entity.

7. **Reservation of Rights.** Colombo acknowledges that the OTS reserves the right to bring such additional action(s), charge(s), or proceeding(s) arising from or related in any way to the Findings of Fact or any other matter, as the OTS deems appropriate, in its sole discretion.

8. **Miscellaneous.**

(a) The construction and validity of this Stipulation and the Orders shall be governed by the laws of the United States of America;

(b) All references to the OTS in this Stipulation and the Orders shall also mean any of the OTS's predecessors, successors, and assigns;

(c) The section and paragraph headings in this Stipulation and the Orders are for convenience only and shall not affect the construction hereof; and

(d) This Stipulation and the Orders shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director, Regional Director, or other authorized representative.

9. **Signature of Directors.** Each Director signing this Stipulation attests that he/she voted in favor of a resolution authorizing the execution of the Stipulation.

WHEREFORE, Colombo, by a majority of its directors, executes this Stipulation

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and Consent to the issuance of an Order to Cease and Desist for Affirmative Relief and an Order of Assessment of Civil Money Penalties, intending to be legally bound hereby.

COLOMBO BANK

OFFICE OF THRIFT SUPERVISION

Accepted by a majority of its directors:

By: *Morton A. Bender*
Director- **MORTON A BENDER**

John E. Ryan
John E. Ryan
Regional Director, Southeast Region

R. Hugh Rial, Jr.
Director- **R. HUGH RIAL, JR.**

Dated: *8/31/04*

James W. Pryor
Director- **JAMES W. PRYOR**

James S. Regan
Director- **JAMES S. REGAN**

Scott M. Bender
Director- **SCOTT M. BENDER**

Darryl Boone
Director- **DARRYL BOONE**

John K. Jenkins, Sr.
Director- **JOHN K. JENKINS, SR.**

"see attached paper"
Director- **MARK LEAS**

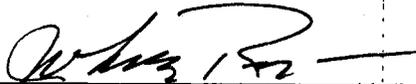
and Consent to the issuance of an Order to Cease and Desist for Affirmative Relief and an Order of Assessment of Civil Money Penalties, intending to be legally bound hereby.

COLOMBO BANK

Accepted by a majority of its directors:

OFFICE OF THRIFT SUPERVISION

By: _____
Director -MORTON A BENDER



John E. Ryan
Regional Director, Southeast Region

Director- R. HUGH RIAL, JR.

Dated: 8/31/04

Director- JAMES W. PRYOR

Director- JAMES S. REGAN

Director- SCOTT M. BENDER

Director- DARRYL BOONE

Director- JOHN K. JENKINS, SR.



Director- MARK LEAS

UNITED STATES OF AMERICA
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In the Matter of)

COLOMBO BANK)
Rockville, Maryland)

OTS Docket No.: 08575)

Order No.: **ATL-2004-23**

Date: **August 31, 2004**

CONSENT ORDER TO CEASE AND DESIST FOR AFFIRMATIVE RELIEF

WHEREAS, Colombo Bank, Rockville, Maryland, OTS Docket No. 08575 (Colombo or Bank), by and through its Board of Directors (Board), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist for Affirmative Relief and an Order of Assessment of Civil Money Penalties (Stipulation); and

WHEREAS, Colombo, by executing the Stipulation, has consented and agreed to the issuance of this Consent Order to Cease and Desist for Affirmative Relief (C&D Order) by the Office of Thrift Supervision (OTS), pursuant to Section 8(b) of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1818(b)¹; and

WHEREAS, the Director of the OTS has delegated to the Regional Directors of the OTS the authority to issue consent orders on behalf of the OTS pursuant to provisions of Section 8 of the FDIA, 12 U.S.C. § 1818.

NOW, THEREFORE, IT IS ORDERED THAT:

¹ All references to the United States Code (U.S.C.) are as amended.

1. Order to Cease and Desist.

The Bank 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:

(a) The Currency and Foreign Transactions Reporting Act, as amended by the USA PATRIOT Act and other laws (referred to herein as the Bank Secrecy Act or BSA), 31 U.S.C. §§ 5311 et seq., and the related BSA regulations issued by the U. S. Department of the Treasury, 31 C.F.R. §§ 103.11 et seq., and the OTS, 12 C.F.R. § 563.177 (collectively with the aforementioned laws and regulations, the BSA Laws and Regulations);

(b) The Home Mortgage Disclosure Act, 12 U.S.C. § 2801 et seq. (HMDA), and the regulations set forth at 12 C.F.R. Part 203;

(c) The Expedited Funds Availability Act, 12 U.S.C. § 4001 et seq. (EFAA) and 12 C.F.R. Part 229 (Regulation CC);

(d) The Electronic Fund Transfer Act, 15 U.S.C. § 1693 et seq. (EFTA) and 12 Part 205 (Regulation E);

(e) The Community Reinvestment Act, 12 U.S.C. § 2901 et seq. (CRA);

(f) The Real Estate Settlement Procedures Act, 12 U.S.C. § 2601 et seq. (RESPA), and the regulations set forth at 24 C.F.R. Part 3500 (Regulation X);

(g) The Bank Protection Act, 12 U.S.C. § 1881 et seq. (BPA), and the regulations set forth at 12 C.F.R. Part 568;

(h) The Truth in Lending Act, 15 U.S.C. § 1601 et seq. (TILA), and the regulations issued by the Federal Reserve Board at 12 C.F.R. Part 226 (Regulation Z);

(i) The Truth in Savings Act, 12 U.S.C. § 4301 et seq., and the regulations set forth in 12 C.F.R. Part 230 (Regulation DD);

(j) The OTS regulations regarding conflicts of interest set forth at 12 C.F.R. § 563.200;

(k) The OTS regulations regarding real estate lending standards set forth in 12 C.F.R. § 560.101;

- (l) The OTS regulations regarding the establishment and maintenance of records set forth in 12 C.F.R. § 563.170;
 - (m) 31 C.F.R. Part 500 (foreign assets control regulations, OFAC list review);
- or
- (n) 12 C.F.R. § 560.93 (Loans to One Borrower).

2. Effective Anti-Money Laundering/BSA Compliance Program.

The Board shall strengthen the Bank's Anti-Money Laundering and BSA Compliance Program (BSA Compliance Program) as follows:

(a) Effective immediately, the Board shall review and amend the Bank's BSA policies and procedures (BSA Policy) to comply with the BSA Laws and Regulations.

The BSA Policy shall:

- i. Designate a member of Senior Management² to serve as the BSA Officer and actively manage, coordinate and monitor the Bank's day-to-day compliance with the BSA Laws and Regulations and the Bank's BSA Compliance Program;
- ii. Establish procedures to ensure that known or suspected criminal activity against or involving the Bank, including transactions that are or appear to be structured to evade or circumvent the BSA requirements, are timely detected and reported, in an accurate and complete manner, to law enforcement and supervisory authorities by the filing of a Suspicious Activity Report (SAR), as required by the suspicious activity reporting provisions of 12 C.F.R. § 563.180(d) and 31 C.F.R. § 103.18 (collectively the SAR Regulations);
- iii. Require quarterly reports to the Board demonstrating the Bank's compliance with its BSA Compliance Program and the BSA Laws and Regulations; and

² The term Senior Management shall be deemed, for purposes of this C&D Order, to mean any individual who meets the definition of Executive Officer as defined in Regulation O at 12 C.F.R. § 215.2(e).

iv. Require annual reviews of all "exempt" entities to determine continued qualification of each such entity for an exemption under the BSA Laws and Regulations and establish procedures for routinely reviewing large cash transactions of exempt entities for possible suspicious transactions that require the filing of an SAR.

(b) Effective immediately, the Bank shall ensure that all Currency Transaction Reports (CTRs) and SARs are accurately completed and timely filed with the appropriate agencies by registered or certified mail with return receipts requested.

(c) Within thirty (30) days after the Effective Date of this Order, the Bank shall take all steps necessary to initiate a program to ensure that all CTRs are accurately completed and electronically filed with the appropriate regulatory and supervisory agencies in a timely manner.

(d) Within ninety (90) days after the Effective Date of this Order, the Bank shall have fully operational a system that ensures all CTRs are accurately completed and electronically filed with the appropriate regulatory and supervisory agencies in a timely manner.

(e) Within ninety (90) days after the Effective Date of this Order, the Bank shall conduct a review of its records from January 1, 2003 forward to ensure that all CTRs and SARs have been filed as required by the BSA Laws and Regulations and the Bank's BSA Compliance Program. The Bank shall immediately file with the appropriate law enforcement and regulatory agencies any required CTRs or SARs. Management shall prepare and provide to the Board a report detailing the results of the Bank's records review. The report shall identify the total number of CTRs and SARs filed during the review period and specify those CTRs and SARs that were not timely filed. A copy of the report and the Board minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the date of the Board meeting at which the report is presented and reviewed by the Board.

(f) Effective immediately, Colombo's Board shall require that all independent testing of the Bank's BSA Compliance Program be conducted by an independent third party with sufficient BSA knowledge and experience.

(g) Effective immediately, the Board shall ensure that the Bank's designated BSA Officer has sufficient authority, competency, time, staff (which may include outsourced staff) and resources to perform his/her assigned BSA responsibilities on a day-to-day basis. The Board shall conduct an annual review to satisfy its obligations under this Paragraph, which review shall be fully documented in the appropriate Board meeting minutes.

3. Home Mortgage Disclosure Act

(a) The Board shall require the immediate correction of all loan application register (LAR) errors identified in the Bank's April 26, 2004 OTS Report of Examination (2004 Examination) and shall ensure that all other HMDA and LAR-related items of concern as noted in the 2004 Examination are fully addressed and resolved. The Board shall require, within sixty (60) days after the Effective Date of this Order, that Management prepare and submit to the Board a report identifying all loans with HMDA deficiencies or otherwise not in compliance with HMDA's requirements, including those loan applications not included on the Bank's LAR. The report to the Board shall specify the corrective actions taken by Management to correct all HMDA deficiencies identified by Management. The Board shall review Management's report and adopt such additional corrective actions as are necessary to address and resolve the deficiencies. The Board shall require Management to implement any corrective actions adopted by the Board and to provide the Board with documentation demonstrating that corrective action has been taken and that all deficiencies, including those discovered by Management and those noted in the 2004 Examination, have been corrected.

(b) Within sixty (60) days after the Effective Date of this Order, the Board shall adopt a formal written policy to ensure the Bank's compliance with the HMDA, 12 U.S.C. § 2801 et seq. (the HMDA), and Regulation C, 12 C.F.R. Part 203 (the HMDA Policy). The HMDA Policy shall designate an individual who shall be responsible for ensuring the accurate collection and recordation of all data and information required to be collected and maintained on the Bank's LAR by the provisions of the HMDA and Section 203.4 of Regulation C. The designated individual shall be a member of Management and

shall be different from the person(s) responsible for inputting the HMDA data. The HMDA Policy shall, at a minimum, require such person to perform a quarterly review of the Bank's LAR to determine compliance with the HMDA, Regulation C and the Bank's HMDA Policy and ensure that the LAR data matches the information in the loan application files. A report detailing the results of the quarterly review shall be provided to the Board at the first regularly scheduled Board meeting following the end of each calendar quarter. The Board's review and discussion of the quarterly HMDA-related report, as well as any required corrective action, shall be fully documented in the appropriate Board meeting minutes.

4. BSA/SAR Training.

(a) Within sixty (60) days after the Effective Date of this Order, Colombo's Board shall develop, implement, and thereafter ensure the Bank's adherence to a comprehensive training program for all appropriate operational and supervisory personnel to ensure their awareness of their responsibility for compliance with the requirements of: (i) the BSA Laws and Regulations; and (ii) the SAR Regulations.

(b) The required comprehensive training program should include strategies for mandatory attendance, the frequency of training, procedures and timing for updating training programs and materials including a thorough review of previously identified violations and deficiencies and the method for delivering training. The Bank shall maintain documentation of all BSA training attended by its employees.

5. Office of Foreign Assets Control

Within sixty (60) days after the Effective Date of this Order, the Board shall review and revise the Bank's policies and procedures to implement the applicable requirements of the Treasury Department Foreign Assets Control Regulations, 31 C.F.R. Part 500, and the Executive Order referenced in OTS CEO Letter 149, dated September 24, 2001 (Executive Order Targeting Terrorist Assets), and ensure that all required OFAC checks are

being conducted for new deposit and loan accounts, as required by applicable law and regulation.

6. Compliance Program

(a) Within sixty (60) days after the Effective Date of this Order, the Board shall review the December 19, 2002 Chief Executive Officer Letter from OTS Managing Director/Supervision Scott Albinson regarding the revised Compliance Self Assessment Guide (CEO Letter 171) and establish and implement an effective and comprehensive formal written compliance program consistent with CEO Letter 171 that includes policies, procedures and internal controls to adequately monitor and ensure the Bank's compliance with applicable consumer compliance laws and regulations and Colombo's internal policies and procedures (Compliance Program). The Compliance Program shall designate a member of Senior Management as the Bank's Compliance Officer who shall be responsible for ensuring that the Bank fully implements and complies with the Compliance Program, as adopted by the Board.

(b) The Board shall draft and adopt a written compliance action plan to fully implement the Compliance Program adopted by the Board (Compliance Action Plan); ensure the Bank's compliance with applicable laws and regulations; and provide for continued monitoring and oversight by the Board. The Compliance Action Plan shall establish specific compliance responsibilities; identify specific deadlines, timeframes and actions for implementation of and continued compliance with the Bank's Compliance Program; and provide for quarterly reports to the Board regarding Colombo's compliance with its Compliance Program, including the identification of any compliance deficiencies and any corrective action taken or suggested by Management.

(c) The Board shall, at a minimum, require an independent external audit of the Bank's Compliance Program (Compliance Audit) be performed annually. The first annual Compliance Audit shall be completed no later than June 30, 2005. Management shall provide the Board with a copy of the Compliance Audit report detailing the audit findings. The Board shall review the Compliance Audit report and adopt and require Management to take such corrective action as the Board deems necessary to address any deficiencies noted in the Compliance Audit report. The Board's review and the

corrective action required of Management shall be fully documented in the Board meeting minutes.

(d) The Bank shall provide the Regional Director with a copy of the Compliance Program and the Compliance Action Plan required by this Paragraph within thirty (30) days after adoption by the Board. The Board shall provide the Regional Director with copies of the quarterly compliance reports prepared by Management and the Board meeting minutes detailing the Board's review of each such report. The Board shall provide the Regional Director with a copy of the Bank's annual Compliance Program audit and the Board meeting minutes detailing the Board's review of the audit findings.

7. Community Reinvestment Act

The Board shall designate a member of Management as the Bank's Community Reinvestment Act Officer responsible for monitoring the Bank's CRA performance, ensuring that the Bank fully satisfies its CRA obligations, and updating the Bank's public CRA file and CRA Notice. The CRA Officer shall report directly to the Board and shall prepare quarterly reports for the Board detailing the Bank's CRA related activities and performance.

8. Loan Pricing

Within forty-five (45) days after the Effective Date of this Order, the Board shall develop specific written guidelines for pricing residential mortgage loans, including the development and adoption of a rate sheet. The Board shall require Management to fully document any exceptions to the adopted pricing guidelines/rate sheet and include such documentation in each respective loan file. The Bank's internal auditor shall conduct a quarterly loan sample review to ensure that loan applicants are being treated equally and consistent with the Board's written pricing guidelines. The sample reviewed by the internal auditor shall include samples from all product types for which pricing may vary and might be based upon prohibited basis factors.

9. Real Estate Settlement Procedures Act

(a) Within sixty (60) days after the Effective Date of this Order, the Board shall review and revise the Bank's written policies and procedures regarding compliance with the RESPA and Regulation X (the RESPA Policy). The RESPA Policy shall designate a member of Management who shall be responsible for the Bank's compliance with its RESPA Policy, the RESPA, and 12 C.F.R. Part 3500. The RESPA Policy shall, at a minimum, require additional training of lending staff on the technical requirements of Regulation X, provide for additional internal review and controls to ensure that RESPA compliance is achieved, and require Colombo's internal auditor to do a quarterly review of a sample of loans to assess the Bank's compliance with its RESPA Policy, the RESPA, and Regulation X.

(b) Within thirty (30) days after the Effective Date of this Order, the Bank shall correct any deficiencies or non-compliance with the RESPA laws and regulations noted in the 2004 Examination. Management shall prepare and provide to the Board a report detailing the results of the Management's review and completion of its corrective actions. The report shall specifically identify those loans with deficiencies or otherwise found to be in non-compliance with the RESPA laws and regulations and specify the corrective action taken to remedy such deficiencies and non-compliance. A copy of the report and the Board minutes detailing the Board's review shall be provided to the Regional Director within thirty (30) business days after the date of the Board meeting at which the report is presented and reviewed by the Board.

10. Truth in Lending.

(a) Within thirty (30) days after the Effective Date of this Order, the Board shall amend its policies and procedures governing compliance with the TILA and Regulation Z, as necessary, to ensure full compliance with the requirements of TILA and Regulation Z (the TILA Policy). The amendments to the Bank's TILA Policy shall be made in consideration of the deficiencies noted in the 2004 Examination to ensure that

such deficiencies do not re-occur. The Bank's TILA Policy shall require additional training of lending staff on the technical requirements of Regulation Z to strengthen the Bank's compliance with Regulation Z, provide for such internal controls as are necessary to ensure the Bank's compliance with Regulation Z, and require Colombo's internal auditor to conduct quarterly reviews of loan samples to assess the Bank's compliance with Regulation Z.

(b) Within sixty (60) days after the Effective Date of this Order, the Board shall require Management to promptly correct all deficiencies or non-compliance with TILA and Regulation Z, as noted in the 2004 Examination. Management shall prepare and provide to the Board a report detailing the results of the Bank's review. The report shall identify all loans with deficiencies or otherwise found to be in non-compliance with the TILA and Regulation Z and specify the corrective action taken to remedy such deficiencies and non-compliance. A copy of the report and the Board minutes detailing the Board's review shall be provided to the Regional Director within thirty (30) days after the date of the Board meeting at which the report is presented and reviewed by the Board.

11. Bank Protection Act

The Board shall ensure that the Bank complies with 12 C.F.R. Part 568. Within sixty (60) days after the Effective Date of this Order, the Board shall adopt and implement appropriate systems and controls to ensure that the Bank's Security Officer prepares and submits to the Board for review the annual report required by 12 C.F.R. § 568.4.

12. Expedited Funds Availability Act

Within sixty (60) days after the Effective Date of this Order, the Board shall review and revise the Bank's policies and procedures regarding funds availability and holds to ensure compliance with the requirements of the EFAA and Regulation CC. The Board shall require Management to implement and comply with the amended policies and procedures.

13. Electronic Fund Transfer Act

Within sixty (60) days after the Effective Date of this Order, the Board shall review and revise the Bank's policies and procedures regarding electronic fund transfers (EFTA Policy) to ensure compliance with the EFTA and Regulation E. The EFTA Policy shall provide for adequate staff training on Regulation E's requirements, establish internal controls as necessary to ensure the Bank's compliance with the EFTA and Regulation E, and provide for quarterly review and testing of the Bank's error resolution practices.

14. Truth in Savings Act

Within sixty (60) days after the Effective Date of this Order, the Board shall review and revise the Bank's policies and procedures regarding TISA and Regulation DD to ensure the Bank's compliance with the requirements of the TISA and Regulation DD. The revised policies and procedures shall provide for additional training of branch and operational staff on the advertising and disclosure requirements of the TISA and Regulation DD; require all advertisements to be reviewed for accuracy and compliance with TISA and Regulation DD; and require the internal auditor to conduct a review and testing of the Bank's compliance with TISA and Regulation DD.

15. Loans to One Borrower

Within sixty (60) days after the Effective Date of this Order, the Board shall develop, adopt and implement such policies and procedures as necessary to ensure that the Bank complies with the LTOB limitations set forth in 12 C.F.R. § 560.93. These policies and procedures must require certifications from all borrowers to whom loans are made in an amount more than the greater of \$500,000 or five (5) % of the Bank's capital and surplus, identifying the persons, entities and interests of such borrower. A copy of the policies and procedures required by this Paragraph must be submitted to the Regional

Director within thirty (30) days after their adoption by the Board. Further, the Board shall prepare and adopt a plan to correct the existing LTOB violations noted in the 2004 Examination.

16. Capital Improvement Plan

(a) The Bank shall reestablish and thereafter maintain the capital levels mandated by the OTS in the 2004 Examination at the earliest possible date, but in no event later than December 31, 2004.

(b) Beginning with calendar quarter ending December 31, 2004, the Board shall perform a quarterly review and evaluation of the adequacy and reasonableness of the Bank's capital position. Such review and evaluation shall specifically include consideration of the results of the Bank's Asset Review and Allowance for Loan and Lease Loss (ALLL) Review, to ensure that the Bank's capital position remains sufficient in the event of any increases in classified assets and the establishment of additional ALLLs. A report detailing the results of the quarterly review shall be provided to the Board at the first regularly scheduled Board meeting following the end of each calendar quarter. The Board's review and discussion of the quarterly capital sufficiency report, as well as any required corrective action/capital infusion, shall be fully documented in the appropriate Board meeting minutes.

17. Board Compliance Committee.

(a) Within thirty (30) days of the Effective Date of this Order, the Board shall appoint a committee (the Regulatory Compliance Committee) comprising three or more Directors, the majority of whom shall be independent of Management, to monitor and coordinate the Bank's compliance with the provisions of this C&D Order.

(b) By September 30, 2004, and thereafter within thirty (30) days after the end of each calendar quarter, the Regulatory Compliance Committee shall submit a written progress report to the Board detailing the actions taken to comply with each provision of this C&D Order and the results of those actions.

(c) By October 30, 2004, and thereafter within sixty (60) 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 the foregoing subparagraph, with any additional comments made by the Board, to the Regional Director; and (ii) a written certification that each Director has reviewed the report.

18. Definitions.

All technical words or terms used in this C&D Order for which meanings are not specified or otherwise provided by the provisions of this C&D Order shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, the Home Owners' Loan Act (HOLA), the FDIA, OTS Memoranda or other published OTS guidance. Any such technical words or terms used in this C&D Order and undefined in said Code of Federal Regulations, the HOLA, the FDIA, or OTS Memoranda/guidance shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

19. Successor Statutes, Regulations, Guidance, Amendments.

Reference in this C&D Order to provisions of statutes, regulations, OTS Memoranda, and other published regulatory guidance shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

20. No Violations Authorized; OTS Not Restricted.

Nothing in this C&D Order or the Stipulation shall be construed as: (a) allowing the Bank to violate any law, rule, regulation, or policy statement to which it is subject, or (b) restricting or estopping the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law including, without limitation, any type of supervisory, enforcement or other action that the OTS determines

to be appropriate, arising out of matters described in the most recent Report of Examination, or based on other matters.

21. Time Limits; Effect of Headings; Separability Clause; Stipulation Incorporated.

- (a) Time limitations for compliance with the terms of this C&D Order run from the Effective Date, unless otherwise noted.
- (b) The section and paragraph headings herein are for convenience only and shall not affect the construction hereof.
- (c) In case any provision in this C&D 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/her sole discretion determines otherwise.
- (d) The Stipulation is made a part hereof and is incorporated herein by this reference.

22. Effective Date; Duration.

This C&D Order is and shall become effective on the date it is issued, i.e., the Effective Date as shown on the first page hereof. This C&D Order (including the related Stipulation) shall remain in effect until terminated, modified or suspended, in writing by

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the OTS, acting through its Director, Regional Director or other authorized representative.

OFFICE OF THRIFT SUPERVISION

By: 
John E. Ryan
Regional Director, Southeast Region