

**UNITED STATES OF AMERICA**  
**Before The**  
**OFFICE OF THRIFT SUPERVISION**

In the Matter of	)	Order No.: ATL-2005-02
Chesapeake Bank of Maryland	)	Date: January 10, 2005
Baltimore, Maryland	)	
OTS Docket No.: 02148	)	
	)	

**STIPULATION AND CONSENT TO THE ISSUANCE OF AN  
ORDER TO CEASE AND DESIST FOR AFFIRMATIVE RELIEF**

**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 against Chesapeake Bank of Maryland, Baltimore, Maryland, OTS Docket No. 02148 (Chesapeake or Bank) pursuant to Section 8(b) of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1818(b),<sup>1</sup> and

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

**WHEREAS**, Chesapeake enters into this Stipulation and Consent to the Issuance of an Order to Cease and Desist for Affirmative Relief (Stipulation) (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 admitted; and (iv) solely for the purpose

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

of settling this matter in accordance with Rule 408 of the Federal Rules of Evidence and equivalent state provisions.

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

**1. Jurisdiction.**

- a. Chesapeake is a “savings association” within the meaning of Section 3(b) of the FDIA, 12 U.S.C. § 1813(b), and Section 2(4) of the Home Owners’ Loan Act (HOLA), 12 U.S.C. § 1462(4). Accordingly, Chesapeake is an “insured depository institution” as that term is defined in Section 3(c) of the FDIA, 12 U.S.C. § 1813(c).
- b. Pursuant to Section 3(q) of the FDIA, 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 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 against it pursuant to Section 8(b) of the FDIA, 12 U.S.C. § 1818(b). 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 where the savings 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 July 26, 2004 Report of Examination of Chesapeake (2004

Examination). Such violations include violations of the loans to one borrower (LTOB) regulations, 12 C.F.R. § 560.93; the appraisal regulations, 12 C.F.R. Part 564; and the interagency real estate lending standards, 12 C.F.R. § 560.101.

- b. The Bank also has engaged in a number of unsafe and unsound practices, including (i) entering into loan commitments that exceed its LTOB limit without including appropriate language to ensure that the Bank is not required to fund any amounts that would exceed its LTOB limit; (ii) entering into large loan commitments without having arranged for the sale of participations sufficient to prevent LTOB violations; (iii) entering into land acquisition and development loan commitments that are far in excess of prudent limits; and (iv) entering into large loan commitments that have resulted in excessive concentrations of credit to a small number of real estate developers.

**3. Consent.**

Chesapeake consents to the issuance by the OTS of the accompanying Consent Order to Cease and Desist for Affirmative Relief (C&D Order). The Bank further agrees to comply with the terms of the C&D Order upon issuance and stipulates that the C&D Order complies with all requirements of law.

**4. Finality.**

The C&D Order is issued under 12 U.S.C. §§ 1818(b). Upon its issuance by the Regional Director, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, 12 U.S.C. § 1818(i).

**5. Waivers.**

Chesapeake waives the following:

- a. the right to be served with any written notice of the OTS's charges against it as provided by Section 8(b) of the FDIA, 12 U.S.C. § 1818(b);
- b. the right to an administrative hearing of the OTS's charges against it as provided by Section 8(b) of the FDIA, 12 U.S.C. § 1818(b);
- c. the right to seek judicial review of the C&D Order including, without limitation, any such right provided by Sections 8(h) or (i) of the FDIA, 12 U.S.C. §§ 1818(h) and (i), or otherwise to challenge the validity of the C&D Order;
- 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 C&D Order, 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 issuance of the C&D Order, and/or the issuance of the C&D Order, 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.**

- a. Upon the OTS's issuance of the accompanying C&D Order, following the OTS's acceptance of this Stipulation executed by Chesapeake, OTS does release and discharge the Bank from all potential claims and charges that have been or might have been asserted by the OTS, based on the alleged violations described in the Findings of Fact set forth in Paragraph 2 of this Stipulation, to the extent known to the OTS as of the effective date of the accompanying C&D Order. However, the violations alleged above in Paragraph 2 of this Stipulation may be utilized by

the OTS in future enforcement actions to establish a pattern or practice of violations or the continuation of a pattern or practice of violations. This release shall not preclude or affect any right of the OTS to determine and ensure compliance with the terms and provisions of this Stipulation and the accompanying C&D Order.

- b. Chesapeake acknowledges and agrees that its consent to the issuance of the accompanying C&D Order is solely for the purpose of resolving certain potential OTS administrative enforcement charges as provided by Paragraph 6(a) above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, liability, or other administrative, civil, or criminal proceeding that arise pursuant to this action or otherwise, and that may be or have been brought by another governmental entity.

**7. Agreement for Continuing Cooperation.**

Chesapeake agrees that, on reasonable notice and without service of a subpoena, it will promptly respond to any written request from the OTS for documents that the OTS reasonably requests to demonstrate compliance with the C&D Order. Chesapeake agrees to cooperate with the OTS or any other federal agency in any review requested by the OTS or any other federal government agency, or in any investigation, litigation, or other proceeding relating to Chesapeake, its holding company, subsidiaries, service corporations, or institution-affiliated parties.

**8. Miscellaneous.**

- a. The construction and validity of this Stipulation and the C&D Order shall be governed by the laws of the United States of America.

- b. If any provision of this Stipulation and the 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 or her sole discretion determines otherwise.
- c. All references to the OTS in this Stipulation and the C&D Order shall also mean any of the OTS's predecessors, successors, and assigns.
- d. The section and paragraph headings in this Stipulation and the C&D Order are for convenience only, and such headings shall not affect the interpretation of this Stipulation or the C&D Order.
- e. The terms of this Stipulation and the C&D Order represent the final agreement of the parties with respect to the subject matters hereof and constitute the sole agreement of the parties with respect to such subject matters.
- f. This Stipulation and the C&D Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director, Deputy 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**, Chesapeake, by a majority of its directors, executes this Stipulation and

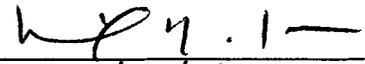
Consent to the Issuance of an Order to Cease and Desist for Affirmative Relief intending to be legally bound hereby.

**CHESAPEAKE B OF MARYLAND**  
Accepted by a majority of its directors:

**OFFICE OF THRIFT SUPERVISION**

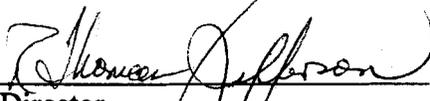
By:   
Director  
FRANCIS J. REISIG

  
John E. Ryan  
Regional Director

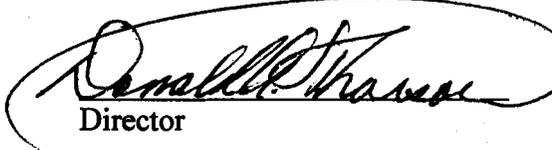
  
Director RICHARD N. KERR

Dated:  12/10/05

  
Director H. ALLEN BECKER

  
Director

  
Director

 DONALD A. THORSON  
Director

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OTS Docket No.: 02148	)	
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**CONSENT ORDER TO CEASE AND DESIST FOR AFFIRMATIVE RELIEF**

**WHEREAS**, Chesapeake Bank of Maryland, Baltimore, Maryland, OTS Docket No. 02148 (Chesapeake 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 (Stipulation); and

**WHEREAS**, Chesapeake, 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)<sup>1</sup>; 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:**

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

**Order to Cease and Desist.**

1. 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 OTS regulations regarding real estate lending standards set forth in 12 C.F.R. § 560.101;
- b. the OTS regulation regarding loans to one borrower (LTOB) set forth in 12 C.F.R. § 560.93; and
- c. the OTS regulations regarding appraisals set forth in 12 C.F.R. Part 564.

**Lending Restrictions**

2. The Bank shall not enter into any new commitment to fund any loan to any borrower that will result in Chesapeake's commitment to fund a loan or loans to the borrower in excess of the Bank's LTOB limitation unless Chesapeake has first (i) obtained a legally binding loan participation agreement from a third party participant sufficient to reduce Chesapeake's funding obligation to an amount at or below its LTOB limit; and (ii) included in the commitment documents the appropriate funding restriction language, as required by the OTS's September 24, 1993 Chief Counsel Opinion (1993 Opinion). Management and the Board shall take all steps necessary to ensure strict compliance with this provision.

3. Notwithstanding Paragraph 2 above, the Bank shall not make or commit to make any new acquisition, development and/or construction (ADC) loan<sup>2</sup> in an amount in excess of one million dollars (\$1,000,000) until every loan identified in Paragraphs 5 and 6 below as being in violation of the LTOB limits has been corrected, and the corrective action has been adequately documented and accepted by the OTS. At such time as OTS accepts in writing Chesapeake's

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<sup>2</sup> "ADC loan" is generally defined at Section 213 of the Thrift Activities Handbook (TAH).

documentation that all LTOB violations have been corrected, the Bank may resume making ADC loans in excess of the above-established dollar restriction. Management and the Board shall take all steps necessary to ensure strict compliance with this provision.

### **Loans to One Borrower**

4. Within thirty (30) days after the Effective Date of this C&D 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 (LTOB Policies). The LTOB Policies adopted by the Board shall, at a minimum, fully address all LTOB deficiencies noted in the 2004 Examination. The LTOB Policies shall prohibit (i) entering into commitments to loan funds in excess of the Bank's LTOB limit (A) without the appropriate funding restriction language in the loan commitment, as required by the 1993 Opinion, and (B) without having first obtained a legally binding loan participation agreement from a third party participant sufficient to reduce Chesapeake's funding obligation to an amount at or below its LTOB limit; and (ii) knowingly advancing loan proceeds in excess of the Bank's LTOB limit. The LTOB Policies also must require documentation in each loan file sufficient to demonstrate full compliance with all requirements of 12 C.F.R. § 560.93, including (i) information sufficient to identify any and all related persons, entities and interests of the borrower, and (ii) must establish an aggregate per borrower loan amount above which full Board approval must be obtained and documented prior to making any loan commitment. The Board shall submit a copy of the LTOB Policies required by this Paragraph 4 to the Regional Director for approval within thirty (30) days after their adoption by the Board.

5. Within fifteen (15) days after the Effective Date of this C&D Order, the Board shall retain an independent outside third party to conduct a complete review of all ADC loans at Chesapeake as of the Effective Date to determine the full extent of LTOB violations at the Bank and prepare for the Board a written report detailing each violation, broken down by borrower and listing each individual loan contributing to the violation, including all relevant information regarding each loan (i.e., loan date, amount, purpose, dates funds distributed, collateral, all parties involved in both the underwriting and approval of the loan) (Independent LTOB Report). Within forty-five (45) days after the Effective Date of this C&D Order, the independent third

party shall provide the Independent LTOB Report to the Board. A copy of the Independent LTOB Report shall be provided to the Regional Director within ten (10) days of receipt by the Board.

6. Within forty-five (45) days after the Effective Date of this C&D Order, the Board shall require Management to prepare and submit for Board review and approval a detailed written plan to correct all LTOB violations, including those identified in the Independent LTOB Report and by the OTS in the Bank's 2004 Examination (LTOB Plan). The Board's review and approval of the LTOB Plan shall be fully detailed in the appropriate Board meeting minutes. A copy of the LTOB Plan and the Board meeting minutes shall be submitted to the Regional Director for approval within ten (10) days after the Board's approval.

7. The Board shall require Management to provide quarterly updates, to be submitted in writing within thirty (30) days following the end of each calendar quarter, to the Board regarding Management's progress and compliance with the terms of the LTOB Plan. The Board also shall require Management to provide the Board with a separate quarterly report, to be submitted in writing within thirty (30) days following the end of each calendar quarter, on all loan relationships or commitments that exceed 10% of the Bank's unimpaired capital and surplus. The Board shall conduct its review of each of these quarterly reports required by this Paragraph 7 within thirty (30) days of receipt of the quarterly reports from Management. The Board shall fully document its review of each quarterly report in the appropriate Board meeting minutes. A copy of these required quarterly reports and the Board meeting minutes shall be provided to the Regional Director within ten (10) days after the date of each of the Board's quarterly reviews.

#### **ADC Loan Underwriting**

8. Within sixty (60) days after the Effective Date of this C&D Order, the Board shall review the Bank's loan underwriting policies and procedures for ADC loans (ADC Underwriting Policy). The ADC Underwriting Policy shall be revised to conform to the provisions of 12 C.F.R. §§ 560.100, 563.101 and 560.170 and the guidance provided in TAH Section 210. The ADC Underwriting Policy shall, at a minimum:

- a. establish the Board's requirements for the types of ADC loans that will be granted by the Bank, which requirements shall at a minimum include (i) limitations on the nature and types of projects to be considered; (ii) establishment of the minimum amount of equity the borrower must invest in the project; (iii) obtaining a feasibility study on each project prior to making any loan commitment; (iv) establishment of the amount and terms of any required presales of developed lots; (v) obtaining any mandatory regulatory approvals that are required prior to making the loan ; and (vi) establishment of loan requirements specifically tailored to the needs and capabilities of the Bank, including consideration of the Bank's lines of business, complexity, and size, the expertise of the Bank's lending personnel, the liability structure of the Bank, profitability and competition factors, and the credit needs of the community;
- b. detail the types and frequency of reports required by the Board to monitor the Bank's activities and compliance with its ADC Underwriting Policy;
- c. require at least an annual review of the ADC Underwriting Policy by the Board to ensure that it remains appropriate in light of changes in market conditions and applicable laws and regulations;
- d. clearly define the Bank's market area, which definition should be consistent with the Bank's business plan and Community Reinvestment Act Statement;
- e. establish requirements for the amount of borrower's equity, the financial condition and resources of the borrower and any guarantor, acceptable levels and types of collateral, loan to value ratios, and loan terms and pricing;
- f. establish loan approval authority limits for each lending officer based on the officer's experience and tenure with the Bank, as well as limits for groups of officers, who may be given greater limits than an individual officer, and those limits above which Board approval is required;

- g. require Bank personnel to conduct a thorough analysis and documentation of each loan's compliance with the ADC Underwriting Policy prior to entering into a credit commitment;
- h. require a thorough analysis and confirmation, prior to credit commitment, of all feasibility studies, pre-sales, builder takeout commitments, and any necessary county and/or state development or building permits;
- i. establish a system of independent, ongoing credit monitoring and review to ensure periodic updated financials, collateral status, and other necessary information is obtained with appropriate communication to Management and to the Board; and
- j. consider the risks associated with concentrations of credit and establish specific diversification limits for all ADC loans (i) as a percentage of the Bank's assets, (ii) as a percentage of the Bank's capital, (iii) by borrower, including all persons and entities with loans that would be required to be combined under the loans to one borrower regulations set forth in 12 C.F.R. § 560.93, (iv) by loan type (speculative versus pre-sold), (v) by subdivision or development, (vi) by borrower for each subdivision or development, and (vii) by metropolitan area.

9. The Board shall ensure the Bank's compliance with the ADC Underwriting Policy and shall require such reports as are necessary from Management to satisfy this obligation and its fiduciary responsibility. A copy of the ADC Underwriting Policy and the Board meeting minutes reflecting the Board's discussion and approval of the ADC Underwriting Policy shall be provided to the Regional Director for approval within ten (10) days after the Board's approval.

### **Appraisals**

10. Within forty-five (45) days after the Effective Date of this C&D Order, the Board shall review its existing appraisal policies and procedures and revise, adopt and implement changes to

such policies that are consistent with the provisions and requirements of 12 C.F.R. Part 564 and TAH Section 208 (Appraisal Policy). Specifically, the Appraisal Policy shall, at a minimum:

- a. require appraisals to be obtained for all real estate related transactions;
- b. require all appraisals to comply with the requirements of 12 C.F.R. Part 564;
- c. require the use of only state certified or licensed appraisers and detail those transactions where state certified appraisers are required and those where state licensed appraisers may be used;
- d. prohibit the use of appraisals with an "as if completed" valuation of property and/or improvements thereto;
- e. require appraisers to perform all appraisals on single family residential and lot loans consistent with the forms and guidelines of either FANNIE MAE or FREDDIE MAC, as applicable;
- f. require the Board to review and approve all appraisers to be engaged by Chesapeake, which review shall focus on the qualifications of each appraiser, including but not limited to, (i) background; (ii) education; (iii) training; (iv) experience; (v) licensing and certification; (vi) any business relationships with any Chesapeake affiliated party, including members of the Board, and (vii) ensure compliance with the requirements and standards contained in 12 C.F.R. Part 564 and, thereafter, the Board shall annually review the performance of all approved appraisers consistent with the requirements of 12 C.F.R. § 564.8(c)(3);
- g. require the written engagement of appraisers for the rendering of any and all appraisal services and such written engagement shall specifically address or detail (A) the appraisal services requested, (B) any special conditions, requirements or issues to be addressed or considered by the appraiser, (C) the fee for such

appraisal, (D) the timeframes for completion of the appraisal, and (E) the independence of the appraiser;

- h. prohibit the engagement of any appraiser to whom the Bank has loans outstanding, with whom Chesapeake has any business relationship other than employing the individual to perform appraisals on behalf of the Bank, or who is related to or has any interest, direct or indirect, financial or otherwise, in the property, the transaction or the parties thereto;
- i. require a senior lending officer to perform a review of every loan involving an appraisal of real estate, except individual single family residential loans of \$500,000 or less, which review shall be independent of and in addition to the review performed by the loan account manager or loan officer handling the loan and shall specifically focus on the sufficiency of the appraisal, and the Board shall ensure that the senior lending officer has sufficient expertise to assure that all appraisals comply with the Bank's Appraisal Policy and with the requirements of 12 C.F.R. Part 564; and
- j. require that all appraisal services be rendered only by appraisers directly engaged and paid by Chesapeake.

11. Within sixty (60) days after the Effective Date of this C&D Order, the Board shall require Management to obtain appraisals for all loans without an appraisal or where the appraisal fails to comply with the requirements of 12 C.F.R. Part 564. Management shall prepare a list for the Board identifying all loans for which appraisals must be obtained and shall provide the Board with a report demonstrating compliance with the requirement to obtain such appraisals. The Board shall document its review of the list and Management's report in the appropriate Board meeting minutes.

### **Internal Asset Review Program**

12. Within sixty (60) days after the Effective Date of this C&D Order, the Board shall adopt and implement an internal asset review program (IAR Program) that is consistent with the requirements of OTS Chief Executive Officer Memorandum No. 140 (CEO 140). The IAR Program shall fully address the comments made in the Bank's 2004 Examination and shall establish timeframes and procedures for reporting the results of all independent asset reviews to the Board for consideration. The IAR Program shall require Management to conduct quarterly reviews of classified assets and to prepare quarterly reports to the Board, to be submitted in writing within thirty (30) days following the end of each calendar quarter, regarding the status and resolution of each such classified asset. The Board shall conduct its review of the quarterly reports required by this Paragraph 12 within thirty (30) days of receipt of the quarterly reports from Management. The Board shall fully document its review of the IAR Program results in the appropriate Board meeting minutes. The Board shall provide a copy of the Bank's IAR Program and the Board meeting minutes regarding the adoption of the IAR Program to the Regional Director for approval within ten (10) days after adoption by the Board.

13. Within thirty (30) days after the adoption and implementation of the IAR Program, the Board shall require an independent asset review of the Bank's assets to be conducted by a qualified independent third party in accordance with the requirements of CEO 140 and the Bank's IAR Program (Independent Review). Copies of the Independent Review shall be provided to the Board for review immediately after completion. The Board's review shall be fully detailed in the appropriate Board minutes. The Board shall submit a copy of the Independent Review and the Board meeting minutes reflecting the Board's consideration of the Independent Review to the Regional Director within ten (10) days after the date of the Board's review.

### **Board Oversight**

14. Within sixty (60) days after the Effective Date of this C&D Order, the Bank shall actively seek new, qualified members for the Board, who are not members of (i) Management (defined

herein as the officers of the Bank, as the term "officer" is defined at 12 C.F.R. §561.35); (ii) the board of directors of Banks of the Chesapeake, MHC (MHC or Holding Company); or (iii) the board of directors of any affiliate or subsidiary of MHC or the Bank, and who are not deemed to be acting in concert (as that term is defined in 12 C.F.R. Part 574) with current members of the Board or Management or the board of directors or management of (ii) or (iii) above. The new Board members shall be local residents of the Bank's market area. The Bank shall ensure that all of the Board's committees include representation of the new Board members. The minutes of the meetings of the Board shall fully document these efforts.

15. Within forty-five (45) days after the Effective Date of this C&D Order, the Board shall review its existing organizational structure and develop, adopt, and implement policies and procedures establishing clear lines of authority, responsibility and reporting. The Board shall ensure that the authority, responsibilities and reporting requirements of each position are clearly defined and communicated to each employee. The Board shall ensure the coordination and oversight of all activities and operations of the Bank. The Board shall include procedures to ensure that all matters are presented to the Board for review and approval as appropriate. The Board will ensure that Management fully implements and addresses all matters as directed by the Board. The Board shall submit a copy of the policies and procedures required by this Paragraph 15 to the Regional Director within thirty (30) days after adoption by the Board.

16. Effective immediately, the Board shall require Management to prepare and submit to the Board for review a quarterly report, to be submitted in writing within thirty (30) days following the end of each calendar quarter, identifying all loans granted by the Bank as an exception to the Bank's loan policies, including but not limited to loan to value requirements. The Board shall ensure that all loans granted as exceptions to the Bank's loan policies do not exceed the limitations set forth in 12 C.F.R. § 560.101. The Board shall conduct its review of the quarterly reports required by this Paragraph 16 within thirty (30) days of receipt of the quarterly reports from Management. The Board's review of all loans granted as exceptions to the Bank's loan policies shall be fully documented in the appropriate Board minutes.

17. The Board shall promptly address and correct all matters identified in the Matters Requiring Board Attention section of the Bank's 2004 Examination. The Board also shall address and correct all matters identified in the Matters Requiring Board Attention section of the Bank's prior examination that were not previously corrected and were thus subject to additional criticism in the Bank's 2004 Examination. A copy of the Board's corrective actions, including documentation evidencing completion of all such corrective actions, shall be provided to the Regional Director within sixty (60) days after the Effective Date of this C&D Order.

18. The Board shall conduct a review of the Bank's existing personnel and determine the Bank's current and future staffing needs based upon the Bank's current and projected operations. This review will be conducted utilizing the services of a qualified independent third party to review all aspects of Chesapeake's operations, with particular emphasis on the ADC lending operation. The independent third party shall prepare for the Board a staffing plan, including a management succession plan, to strengthen and improve the Bank's Management and operations and designed to meet the Bank's future needs (Staffing Plan). The Staffing Plan must specifically address Chesapeake's Management and personnel deficiencies in the area of ADC lending and these deficiencies must be remedied prior to the resumption of unrestricted ADC lending pursuant to Paragraph 3 above. The Staffing Plan shall include a training plan to ensure that employees receive the necessary training based upon their respective positions and responsibilities. The training plan shall require mandatory attendance, specify the frequency of training, and include procedures and timeframes for updating training programs and materials and the method for delivering training. The Bank shall maintain adequate documentation and records of all training attended by each employee. The Board will adopt and implement the Staffing Plan.

19. The Board shall fully document its review and approval of all director and employee bonuses and other incentive compensation in the appropriate Board meeting minutes. The basis for any increase in compensation or award of a bonus or incentive compensation payment shall be fully documented by the Board. The amount of such bonus or award should be reasonable and commensurate, as well as appropriate, with the documented basis for each such bonus or award. Within sixty (60) days after the Effective Date of this C&D Order, the Board shall

review all bonuses and incentive compensation awarded during 2003 and 2004 for compliance with this Paragraph 19. All instances of noncompliance with the standards above shall be specifically addressed by the Board and procedures established to ensure such failures do not recur. A copy of the Board meeting minutes containing the Board's review shall be provided to the Regional Director within ten (10) days after the date of the Board meeting.

20. Within sixty (60) days after the Effective Date of this C&D Order the Board shall develop, adopt and require Management to implement a Business Continuity Plan. A copy of the Board meeting minutes documenting the Board's review of the Business Continuity Plan, with a copy of the Business Continuity Plan, shall be provided to the Regional Director within ten (10) days after the date of the Board meeting at which the Business Continuity Plan is adopted.

21. Within sixty (60) days after the Effective Date of this C&D Order the Board will review and, if appropriate, approve the Bank's Information Technology Security Risk Management Policy (IT Policy). A copy of the Board meeting minutes documenting the Board's review of the IT Policy shall be provided to the Regional Director within ten (10) days after the Board meeting at which the IT Policy is adopted.

22. The Board shall assess the Bank's capital position and exposure to higher risk loan products on a quarterly basis, within thirty (30) days following the end of each calendar quarter. The Board's review shall include consideration of the Bank's Management and personnel resources, capital levels, earnings, classified assets and allowance for loan and lease losses. The Board shall ensure that the Bank effectively measures, monitors and controls the Bank's risk, maintains adequate liquidity, and complies with applicable capital requirements.

23. Beginning with the first Board meeting following the Effective Date of this C&D Order, each Board meeting will include an opportunity for directors who are not members of Management to meet in executive session (Executive Session). The Board minutes from each Board meeting shall include a record regarding the Executive Session.

### **Board Compliance Committee**

24. Within thirty (30) days after the Effective Date of this C&D 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 and the completion of all corrective actions required in the 2004 Examination.

25. By February 28, 2005, 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 actions required by the 2004 Examination, as well as the results of such actions.

26. By March 15, 2005, 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 Paragraph 25, with any additional comments made by the Board, to the Regional Director; and (ii) a written certification that each Director has reviewed the report.

### **Compliance With Order**

27. All policies, procedures, corrective actions, plans, programs, reviews and systems required by this C&D Order (collectively, Policies and Procedures) shall conform to all applicable statutes, regulations, OTS policy and guidance. The Board shall submit copies of all Policies and Procedures required by this C&D Order to the Regional Director within the timeframes specified or, in the event a timeframe is not specified, within thirty (30) days after adoption by the Board. The Board shall revise such Policies and Procedures as required by the Regional Director within thirty (30) days of receipt of written direction from the Regional Director. The Policies and Procedures, as modified consistent with the written direction of the Regional Director, shall be incorporated into this C&D Order and any deviation from such Policies and Procedures shall be a violation of this C&D Order.

## **Definitions**

28. 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.

## **Successor Statutes, Regulations, Guidance, Amendments**

29. 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.

## **No Violations Authorized; OTS Not Restricted**

30. 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.

## **Time Limits; Effect of Headings; Separability Clause; Stipulation Incorporated**

31. 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.

**Effective Date; Duration**

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

**OFFICE OF THRIFT SUPERVISION**

By:   
John E. Ryan  
Regional Director