

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: SE-09-017
)	
Bradford Bank)	Effective Date: February 26, 2009
Baltimore, Maryland)	
)	
OTS Docket No. 01348)	
_____)	

STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Southeast Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Bradford Bank, Baltimore, Maryland, OTS Docket No. 01348 (Association), that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

WHEREAS, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

WHEREAS, the Association desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceedings by entering into this Stipulation and Consent to Issuance of Order to Cease and Desist (Stipulation) and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraph 1 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

1. Jurisdiction.

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

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 enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b)(1).

2. OTS Findings of Fact.

a. Based on its February 19, 2008 Report of Examination of the Association, the OTS finds that the Association has engaged in unsafe and unsound acts and practices including, but not limited to:

i. The Association initiated and pursued an aggressive growth strategy that was poorly planned and executed, unsupported by adequate and appropriate levels of capital, and included increased levels of higher risk assets that have resulted in significant deterioration in the Association’s earnings, operations, and financial condition and inadequate management of the Association’s asset-liability structure that has created an excessive level of interest rate risk sensitivity;

ii. As part of its aggressive growth strategy, the Association initiated and pursued aggressive nonresidential, commercial, land, and acquisition, development, and construction (ADC) lending programs (Lending Programs) that significantly increased the levels of these types of loans at a time when the Lending Programs were not prudently and effectively managed and monitored by the Association’s Board and Senior Executive

Officers (Management) to ensure the Lending Programs did not present undue risk to the Association and were undertaken in a safe and sound manner; and

iii. The Board failed to ensure the Association and Management's compliance with internal policies, procedures, and systems, as well as applicable laws, regulations, and OTS guidance, and failed to ensure that the Association's activities and operations were conducted in a safe and sound manner and did not present undue risk to the Association's financial condition.

b. The OTS finds that the Association has failed to comply with applicable laws, regulations, and regulatory guidance including, but not limited to:

- i. the regulations governing loans to officers, directors and principal shareholders, 12 C.F.R. Part 215 and 12 C.F.R. § 563.43;
- ii. the regulations governing regulatory reporting, 12 C.F.R. Part 562;
- iii. the regulations governing loans to one borrower, 12 C.F.R. § 560.93;
- iv. the regulations governing management and financial policies, 12 C.F.R. § 563.161;
- v. the regulations governing records for lending transactions, 12 C.F.R. § 560.170;
- vi. the Interagency Guidelines Establishing Standards for Safety and Soundness set forth in Appendix A of 12 C.F.R. Part 570; and
- vi. the regulations governing the requirement imposed by the National Flood Insurance Act, 12 C.F.R. Part 572.

3. Consent.

The Association consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

4. Finality.

The Order is issued by the OTS under 12 U.S.C. § 1818(b) and upon the Effective Date it shall be a final order, effective and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

5. Waivers.

The Association waives the following:

- a. The right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- b. The right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- c. The right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and
- d. Any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes, or otherwise.

6. OTS Authority Not Affected.

Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

7. Other Governmental Actions Not Affected.

The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 6 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any

way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

8. Miscellaneous.

a. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

b. If any provision of this Stipulation and/or the Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

c. All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

d. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

e. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

f. The Stipulation and the Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Regional Director or other authorized representative.

9. Signature of Directors/Board Resolution.

Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation.

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Before the
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In the Matter of)	Order No.: SE-09-017
)	
Bradford Bank)	Effective Date: February 26, 2009
Baltimore, Maryland)	
)	
OTS Docket No. 01348)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, Bradford Bank, Baltimore, Maryland, OTS Docket No. 01348 (Association), by and through its Board of Directors (Board), has executed a Stipulation and Consent to Issuance of Order to Cease and Desist (Stipulation); and

WHEREAS, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, pursuant to delegated authority, the OTS Regional Director for the Southeast Region (Regional Director), is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

Order to Cease and Desist.

1. The Association and its directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling, or the aiding and abetting of any violation of applicable law,

regulation, and nonconformance with regulatory guidance including, but not limited to, the following:

- a. 12 C.F.R. Part 215 (Loans to Executive Officers, Directors and Principal Shareholders);
- b. 12 C.F.R. Part 562 (Regulatory Reporting Standards);
- c. 12 C.F.R. § 560.93 (Loans to One Borrower);
- d. 12 C.F.R. § 563.161 (Management and Financial Policies);
- e. 12 C.F.R. § 560.170 (Records for Lending Transactions);
- f. 12 C.F.R. Part 570, Appendix A – Interagency Guidelines Establishing Standards for Safety and Soundness; and
- g. 12 C.F.R. Part 572 (Flood Regulations).

Capital.

2. Effective June 30, 2009, and at all times thereafter, the Association shall have and maintain: (a) a Tier 1 capital ratio of at least eight (8) percent; and (b) a total risk-based capital ratio of at least twelve (12) percent.

3. Within forty-five (45) days, the Board shall prepare and submit for Regional Director review and comment a written plan to preserve and maintain: (a) a Tier 1 capital ratio of at least eight (8) percent; and (b) a total risk-based capital ratio of at least twelve (12) percent (Capital Augmentation Plan). At a minimum, the Capital Augmentation Plan shall:

- i. consider the requirements and restrictions imposed by this Order;
- ii. establish the timeframes by which additional capital will be raised;
- iii. detail the method by which the additional capital will be raised and identify the sources of such capital; and

- iv. establish an alternative strategy, including but not limited to, seeking a merger or acquisition partner, to be implemented immediately if the Board's primary strategy to raise additional capital is unsuccessful.
4. The Board shall make any changes to the Capital Augmentation Plan required by the Regional Director within twenty (20) days after being notified of such changes and provide a copy of the revised Capital Augmentation Plan to the Regional Director for review. Upon receipt of approval of or non-objection to the revised Capital Augmentation Plan from the Regional Director, the Board shall adopt the revised Capital Augmentation Plan and the revised Capital Augmentation Plan shall be incorporated herein by reference and become part of this Order and any violation of the revised Capital Augmentation Plan shall be a violation of this Order. The Board shall ensure that the Association adheres to and implements the revised Capital Augmentation Plan. A copy of the revised Capital Augmentation Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting.

Business Plan.

5. Within sixty (60) days, the Board shall prepare and submit to the Regional Director for review and comment a new comprehensive business plan that covers calendar years 2009, 2010, and 2011 (Business Plan). The Business Plan shall, at a minimum, include: (a) a detailed and specific discussion of the Board's plans and strategies to strengthen and improve the Association's operations, earnings, and profitability, including plans to reduce the Association's operating expenses; (b) a discussion of the Association's current financial position and resources and detail the Board's strategies for preserving and enhancing the Association's financial resources to meet the Association's needs under the Business Plan, adequately support the

Association's risk profile, maintain compliance with applicable regulatory capital requirements, and satisfy the Association's liquidity needs; (c) quarterly pro forma financial projections (balance sheet and income statement) for each period covered by the Business Plan; and (d) identification of all relevant assumptions and projections made in formulating the Business Plan, as well as documentation supporting such assumptions and projections.

6. The Board shall make any changes to the Business Plan required by the Regional Director within twenty (20) days after being notified of such changes and provide a copy of the revised Business Plan to the Regional Director for review. Upon receipt of approval of or non-objection to the revised Business Plan from the Regional Director, the Board shall adopt the revised Business Plan and the revised Business Plan shall be incorporated herein by reference and become a part of this Order any any violation of the revised Business Plan shall be a violation of this Order. The Board shall ensure that the Association adheres to and implements the revised Business Plan. A copy of the revised Business Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting. Any material modifications to the revised Business Plan shall be submitted to the Regional Director for review and written non-objection at least forty-five (45) days prior to implementation. A modification shall be considered material under this section of the Order if the Association plans to: (a) engage in any activity that is inconsistent with the revised Business Plan; or (b) exceed the level of any activity contemplated in the revised Business Plan or fail to meet target amounts established in the revised Business Plan by more than 10%, unless the activity involves assets risk-weighted 50% or less, in which case a variance of more than 25% shall be deemed to be a material modification.

7. The Board shall require Management to prepare and submit to the Board quarterly variance reports on the Association's compliance with the revised Business Plan within thirty (30) days after the close of each calendar quarter (Quarterly Business Plan Variance Reports) beginning with the calendar quarter ending June 30, 2009. The Quarterly Business Plan Variance Reports shall: (a) identify material variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan; (b) contain an analysis and explanation of the identified variances; and (c) detail the specific measures to be taken to address such variances, including adjustments to the underlying assumptions.

8. The Board shall review the Quarterly Business Plan Variance Reports each quarter and conduct a thorough review and assessment of the Association's compliance with the revised Business Plan and take corrective actions if necessary to ensure adherence to the revised Business Plan. The Board's review of the Quarterly Business Plan Variance Reports and assessment of the Association's compliance with the revised Business Plan shall be fully documented in the appropriate Board meeting minutes. A copy of the Quarterly Business Plan Variance Report, any supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review and corrective actions, if any, shall be provided to the Regional Director within ten (10) days after the Board meeting.

Lending.

9. Effective immediately, the Association shall not originate or commit to originate any acquisition and development, nonresidential real estate, commercial, construction, or land loans (High Risk Loans). The Association may continue to fund legally binding loan commitments for High Risk Loans entered into prior to December 29, 2008. Further, the Association shall not

modify, renew, or extend any High Risk Loan without prior OTS approval, unless all of the following conditions are met:

- a. The outstanding loan balance does not and, following modification, renewal, or extension, will not exceed \$3.0 million;
- b. Current financial information¹ is: obtained for all borrowers and guarantors; documented in the borrower/guarantor's credit file; and reviewed and approved in compliance with the Association's policies at the time of such modification, renewal, or extension;
- c. There is a current appraisal² of the collateral property;
- d. The loan is performing as agreed and has not been more than thirty (30) days delinquent within the past ninety (90) days;
- e. Established interest reserves will not be replenished and new interest reserve will not be established;
- f. The loan term, following modification, renewal, or extension, will not exceed twelve (12) months or the original term of the loan, whichever is less;
- g. The loan amount, following modification, renewal, or extension, does not exceed the lesser of the appraised value of the collateral or the amount available under the Association's established loan underwriting policies and standards based upon the current appraised value of the collateral;
- h. Any renewal other than the first renewal after origination must be accompanied by a principal reduction payment equal to twenty (20) percent of the original balance of the loan, plus all accrued interest;

¹ Financial information will be considered current if it is not more than 90 days old or, in the case of tax returns or audited financial statements, is the most recent return or statement that is available.

² An appraisal will be considered current if it is not more than six (6) months old.

- i. The loan must meet all underwriting criteria and standards established by the Association for that type loan; and
- j. All loans should be accounted for in accordance with generally accepted accounting principles (GAAP) and, if any impairment is indicated, it should be properly recorded.

The restrictions above do not apply to any permanent, amortizing loans collateralized by improved nonresidential real estate that have call features of five (5) years or less.

10. Effective immediately, the Association shall not originate or commit to originate any loan that is not fully underwritten and supported by a detailed review and assessment of each borrower's creditworthiness and repayment ability including, but not limited to, source of repayment, repayment capability, debt to income levels, alternative repayment sources, and the value and accessibility of any pledged or assigned collateral. The Association shall verify the information provided by each borrower and include documentation in the Association's loan files that fully demonstrates compliance with the requirements of this Paragraph.

Problem Assets.

11. Within sixty (60) days, the Board shall prepare and submit to the Regional Director for review and comment a detailed, written plan with specific strategies and timeframes to reduce the Association's level of criticized assets, which include both classified assets and special mention, and delinquent loans (Problem Asset Plan). For purposes of this Paragraph, "reduce" means to collect, sell, charge off, or improve the quality of an asset sufficient to warrant its removal from adverse criticism or classification. At a minimum, the Problem Asset Plan shall require Management to prepare and submit for Board review: (a) specific asset resolution plans for each criticized asset and delinquent loan of \$500,000 or greater (Asset Resolution Plans); and

(b) a quarterly written asset status report (Quarterly Asset Report). The Quarterly Asset Report shall be submitted to the Board at the first regularly scheduled Board meeting following the end of each calendar quarter, beginning with the quarter ending June 30, 2009. The Quarterly Asset Report shall include:

- i. a summary of and update on the current status of all Asset Resolution Plans for criticized assets and delinquent loans of \$500,000 or greater;
- ii. a detailed analysis of the calculation and adequacy of the Association's Allowance for Loan and Lease Losses (ALLL) and comparison of ALLL to the total level of classified assets;
- iii. a comparison of classified assets to core and risk based capital;
- iv. a comparison of classified assets at the current quarter end with the preceding quarter;
- v. a breakdown of classified assets by type (residential, acquisition and development, construction, land loans, etc.); and
- vi. a discussion of the actions taken during the preceding quarter to reduce the Association's level of criticized assets and delinquent loans and recommendations regarding any additional actions or steps that should be taken by Management in the future.

The Board's review of the Quarterly Asset Reports, and any corrective actions adopted by the Board shall be fully documented in the appropriate Board meeting minutes.

12. The Board shall make any changes to the Problem Asset Plan required by the Regional Director within forty-five (45) days after being notified of such changes and provide a copy of the revised Problem Asset Plan to the Regional Director for review. Upon receipt of approval of or non-objection to the revised Problem Asset Plan from the Regional Director, the Board shall

adopt the revised Problem Asset Plan and ensure that the Association adheres to and implements the revised Problem Asset Plan.

13. The Board shall review the Association's compliance with the revised Problem Asset Plan and the Asset Resolution Plans within thirty (30) days after the close of each calendar quarter, beginning with the quarter ending June 30, 2009 (Quarterly Problem Asset Plan Review). The Board's review of the Quarterly Problem Asset Plan Reviews and assessment of the Association's compliance with the revised Problem Asset Plan and the Asset Resolution Plans shall be fully documented in the appropriate Board meeting minutes. A copy of the Quarterly Problem Asset Plan Review, and supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting.

Concentrations of Credit.

14. Within sixty (60) days, the Association shall prepare and submit to the Regional Director for review and comment a written plan to reduce and monitor the Association's concentration in High Risk Loans, including funded extensions of credit and unfunded commitments, to an amount which is reasonable and commensurate with the Association's business strategy, management expertise, financial resources, capital, size, and location (Credit Concentration Plan). The Credit Concentration Plan shall, at a minimum, include:

- a. the dollar levels and percent of capital to which the Association shall reduce each concentration;
- b. a timeframe for achieving the reduction in dollar levels established above;
- c. provisions for the submission of monthly written progress reports to the Board for review and notation in the Board meeting minutes; and

d. procedures for monitoring the Association's compliance with the Credit Concentration Plan.

15. The Board shall make any changes to the Credit Concentration Plan required by the Regional Director within forty-five (45) days after being notified of such changes and provide a copy of the revised Credit Concentration Plan to the Regional Director for review. Upon receipt of approval of or non-objection to the revised Credit Concentration Plan from the Regional Director, the Board shall adopt the revised Credit Concentration Plan and ensure that the Association adheres to and implements the revised Credit Concentration Plan.

16. The Board shall review the Association's compliance with the revised Credit Concentration Plan within thirty (30) days after the close of each calendar quarter, beginning with the quarter ending June 30, 2009 (Quarterly Credit Concentration Plan Review). The Board's review of the Quarterly Credit Concentration Plan Reviews and assessment of the Association's compliance with the revised Credit Concentration Plan shall be fully documented in the appropriate Board meeting minutes. A copy of the Quarterly Credit Concentration Plan Review, any supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting. Any material modifications to the revised Credit Concentration Plan shall be submitted to the Regional Director for review and written non-objection at least thirty (30) days prior to implementation.

Allowance for Loan and Lease Losses.

17. Within thirty (30) days, the Board shall revise and submit to the Regional Director for review and comment the Association's policies, procedures, and methodology to ensure the timely establishment and maintenance of adequate ALLL in accordance with applicable

regulatory requirements and guidance (ALLL Policy). The ALLL Policy shall, at a minimum, conform to the regulatory requirements and guidance contained in 12 C.F.R. § 560.160(b), Section 261 of the OTS Examination Handbook, the December 13, 2006 Interagency Policy Statement on ALLL, and Statement of Financial Accounting Standards (SFAS) No. 5 and SFAS No. 114.

18. The Board shall make any changes to the ALLL Policy required by the Regional Director within twenty (20) days after being notified of such changes and provide a copy of the revised ALLL Policy to the Regional Director for review. Upon receipt of approval of or non-objection to the revised ALLL Policy from the Regional Director, the Board shall adopt the revised ALLL Policy and ensure that the Association adheres to and implements the revised ALLL Policy. A copy of the revised ALLL Policy and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting. Any material modifications to the revised ALLL Policy shall be submitted in writing to the Regional Director for review and written non-objection at least thirty (30) days prior to implementation.

19. Not less than ten (10) days prior to the end of each calendar quarter, beginning with the quarter ending March 31, 2009, Management shall analyze the adequacy of the Association's ALLL and prepare a written report containing Management's analysis of the Association's ALLL for the Board's review (Quarterly ALLL Report). The Board's review of the Quarterly ALLL Report shall be fully documented in the Board meeting minutes and shall include specific details regarding any corrective actions adopted by the Board. The Board shall document the factors considered and conclusions reached by the Board in determining the adequacy of the Association's ALLL in the appropriate Board meeting minutes. In assessing, establishing, and

maintaining an appropriate level of ALLL, the Board shall, at a minimum, consider the following:

- a. the results of all internal loan reviews and classifications;
- b. the loan loss experiences and history of the Association covering an expanded segmentation of the Association's loan portfolio;
- c. an estimate of the potential loss exposure on each significant³ credit;
- d. concentrations of credit; and
- e. current and prospective markets and economic conditions.

A copy of the Quarterly ALLL Report, any supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting. Any deficiency in the ALLL shall be remedied in the quarter in which it is discovered and before the Association files its Thrift Financial Report (TFR) with the OTS.

Loans to One Borrower.

20. Within thirty (30) days, the Board shall revise and submit to the Regional Director for review and comment the Association's policies and procedures to ensure its compliance with the Loans to One Borrower (LTOB) requirements set forth in 12 C.F.R. § 560.93 (LTOB Policy). At a minimum, the LTOB Policy shall include appropriate review and approval procedures to ensure that all loan participations are evaluated for compliance with the requirements set forth in 12 C.F.R. § 32.2(k)(2)(vi)(A).

21. The Board shall make any changes to the LTOB Policy required by the Regional Director within twenty (20) days after being notified of such changes and provide a copy of the revised

³ A credit will be considered significant for the purposes of assessing, establishing, and maintaining an appropriate level of ALLL if it is/was \$500,000 or greater at origination.

LTOB Policy to the Regional Director for review. Upon receipt of approval of or non-objection to the revised LTOB Policy from the Regional Director, the Board shall adopt the revised LTOB Policy and ensure that the Association adheres to and implements the revised LTOB Policy. A copy of the revised LTOB Policy and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting. Any material modifications to the revised LTOB Policy shall be submitted to the Regional Director for review and written non-objection at least thirty (30) days prior to implementation.

22. Within sixty (60) days, the Board shall prepare and implement a written action plan containing specific steps and completion timeframes to correct the LTOB violation identified in the Association's February 19, 2008 Report of Examination (2008 Examination) (LTOB Plan). The Board also shall ensure that beginning in March 2009 monthly status reports are submitted to the Board detailing the Association's compliance with the LTOB Plan (Monthly LTOB Reports). The Board's review of the LTOB Plan and the Monthly LTOB Reports, including any adopted corrective actions, shall be fully detailed in the appropriate Board meeting minutes and be provided to the Regional Director within ten (10) days after the Board meeting.

Reporting and Recordkeeping.

23. Effective immediately, the Board shall ensure that: (a) all Schedule Consolidated Capital Requirement (CCR) corrections discussed in the 2008 Examination are made and adhered to by the Association; and (b) all thrift financial statements and regulatory reports are accurately and timely prepared and filed in compliance with applicable laws, regulations, and GAAP. The Association's quarterly TFRs shall be submitted to a committee of the Board, the majority of which shall be non-management directors (the Board's Monitoring Committee) for review and certification prior to filing such reports with the OTS. The Board's Monitoring Committee shall

review the TFRs for accuracy and execute the required Officers and Directors Certification. The minutes of the Board's Monitoring Committee meetings at which such quarterly TFR reviews are conducted shall be provided to the full Board of Directors at the next regularly scheduled Board meeting.

Interest Rate Risk Management.

24. Within thirty (30) days, the Board shall review and amend the Association's policies and procedures governing the Association's interest rate risk (IRR) exposure (IRR Policy). At a minimum, the IRR Policy shall:

- a. comply with applicable laws, regulations, and regulatory guidance, including 12 C.F.R. § 563.176(b); OTS TB 13a, and the OTS Examination Handbook Sections 500 and 600;
- b. address all deficiencies and weaknesses noted in the 2008 Examination; and
- c. establish an IRR review process that includes quarterly reports (Quarterly IRR Reports) to the Board for discussion and corrective action.

Within sixty (60) days, the Board shall prepare, adopt, and thereafter ensure that the Association complies with the IRR Policy.

25. The Board shall review the Association's compliance with the IRR Policy and the Quarterly IRR Report within sixty (60) days after the close of each calendar quarter, beginning with the quarter ending March 31, 2009. The Board's review of the Quarterly IRR Report and assessment of the Association's compliance with the IRR Policy shall be fully documented in the appropriate Board meeting minutes. A copy of the Quarterly IRR Report, any supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review, including any corrective actions taken by the Board, shall be provided to the Regional Director within ten (10) days after the Board meeting.

Liquidity.

26. Within thirty (30) days, the Board shall prepare and adopt a liquidity plan to ensure that the Association maintains adequate short-term and long-term liquidity to withstand any anticipated or extraordinary demand against its funding base (Liquidity Plan). The Liquidity Plan shall, at a minimum, include the following:

- a. a cash flow analysis that includes reasonable assumptions, identifies all anticipated funding needs and the sources to meet those needs, considers the level and maturity of any brokered deposits, and addresses any contingent liabilities; and
- b. identification of alternative funding sources in order to meet extraordinary demands or to provide liquidity in the event the sources identified in this Paragraph are insufficient. Such alternative funding sources must consider, at a minimum, the selling of assets, obtaining lines of credit from correspondent banks, recovering charged-off assets, and injecting additional equity capital.

Thereafter, the Board shall ensure that the Association complies with the Liquidity Plan.

27. Within thirty (30) days, the Board shall ensure that Management reviews and prepares a weekly analysis of the Association's liquidity that assesses the Association's compliance with its liquidity policies and procedures and the Liquidity Plan required by Paragraph 26 (Weekly Liquidity Review). The Weekly Liquidity Review shall evaluate and consider:

- a. a maturity schedule of certificates of deposit, including large uninsured deposits;
- b. the volatility of demand deposits including escrow deposits;
- c. the amount and type of loan commitments and standby letters of credit;
- d. an analysis of the continuing availability and volatility of present funding sources;

e. an analysis of the impact of decreased cash flow from the Association's loan portfolio resulting from delinquent and non-performing loans; and

f. an analysis of the impact of decreased cash flow from the sale of loans or loan participations.

28. The Weekly Liquidity Reviews for the immediately preceding calendar month shall be submitted to the Board prior to each monthly Board meeting, beginning with the February 2009 meeting. Management also shall prepare and submit for Board review a written report identifying any funding needs (to repay loans or advances from correspondent banks or to pay off brokered deposits) relating to liquidity issues identified for the immediately preceding month (Monthly Liquidity Review). The Board's review of the Weekly Liquidity Reviews, the Monthly Liquidity Reviews, and any corrective actions adopted by the Board, shall be fully documented in the appropriate Board meeting minutes. The Board shall provide the Regional Director with quarterly updates on the Association's liquidity position and compliance with the Liquidity Plan within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending March 31, 2009.

Flood Insurance.

29. Within thirty (30) days, the Board shall amend the Association's policies and procedures to ensure compliance with the requirements of the National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973, 42 U.S.C. §§ 4001-4129, as implemented by Part 572 of the OTS's Rules and Regulations, 12 C.F.R. Part 572 (collectively, Flood Laws and Regulations) so that the Association: (a) fully complies with the Flood Laws and Regulations; and (b) addresses all weaknesses and deficiencies discussed in the 2008 Examination (Flood Policy). The Flood Policy shall establish appropriate systems and processes to ensure that that

Association complies with the Flood Act Laws and Regulations. Within sixty (60) days, the Board shall prepare, adopt, and thereafter ensure that the Association complies with the Flood Policy.

Violations of Law.

30. Effective immediately, the Board shall ensure that all violations of law, rule, and/or regulation cited in the 2008 Examination are corrected. Within thirty (30) days, the Board shall prepare, adopt, and thereafter ensure that the Association adheres to specific procedures to prevent future violations.

Growth.

31. Effective immediately, the Association is subject to and shall comply with the requirements and provisions of OTS Regulatory Bulletin (RB) 3b. Without the prior written approval of the Regional Director, the Association shall not increase its total assets during any quarter, beginning with the quarter ending March 31, 2009, in excess of an amount equal to net interest credited on deposit liabilities during the quarter. The growth restrictions imposed by this Paragraph shall remain in effect until the OTS review and approval of the Association's Business Plan under Paragraph 5 of this Order.

Management Changes.

32. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H, 12 C.F.R. §§ 563.550 through 563.590.

Employment Contracts and Compensation Arrangements.

33. Effective immediately, the Association shall not enter into, renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or

director of the Association, unless it first provides the OTS with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the OTS shall include a copy of the proposed employment contract or compensation arrangement, or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the OTS fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Severance and Indemnification Payments.

34. Effective immediately, the Association shall not make any golden parachute payment⁴ or prohibited indemnification payment⁵ unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

Third Party Contracts.

35. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant⁶ to the overall operation or financial condition of the Association or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the OTS with a minimum of thirty (30) days prior written notice of such arrangement or contract; (b) determined that the arrangement or contract complies with the standards and guidelines set forth in Thrift Bulletin 82a (TB 82a); and (c) received written notice of non-objection from the Regional Director.

⁴ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

⁵ The term "prohibited indemnification payment" is defined at 12 C.F.R. § 359.1(l).

⁶ A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two (2) percent of the Association's total capital.

36. Effective immediately, the Association shall provide the OTS with written notice of all arrangements or contracts with third party service providers consistent with the requirements of 12 U.S.C. § 1464(d)(7)(D)(ii). Such notice shall be provided to the Regional Director not later than thirty (30) days after the earlier of: (a) the date on which the Association enters into the contract; or (b) the date on which the performance of the service is initiated. The Board shall review all arrangements or contracts with third party service providers covered by this Paragraph to ensure compliance with the standards and guidelines set forth in TB 82a.

Dividends.

37. Effective immediately, the Association shall pay no dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director. The Association's written request for written approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed dividend payment or distribution of capital.

Brokered Deposits.

38. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b)(2) and shall not, without obtaining the prior written approval of the Federal Deposit Insurance Corporation pursuant to 12 C.F.R. § 337.6(c)(i): (a) accept, renew, or roll over any brokered deposit, as that term is defined at 12 C.F.R. § 337.6(a)(2); or (b) act as a deposit broker, as that term is defined at 12 C.F.R. § 337.6(a)(5).

Affiliate and Insider Transactions.

39. Effective immediately, the Association shall not engage in any transaction with an Affiliate⁷ unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which notice also shall include the

⁷ 12 C.F.R. § 223.2

information set forth in 12 C.F.R. § 563.41(c)(3). The Board shall ensure that any transaction with an affiliate complies with the requirements of 12 C.F.R. § 563.41, 12 C.F.R. Part 223 (Regulation W), and the guidance contained in Section 310 of the OTS Examination Handbook. The Board shall ensure that documentation demonstrating such compliance is maintained in the Association's files and records.

40. Effective immediately, the Association shall not make any loans to or enter into any contracts or agreements with any Insiders⁸ except in compliance with applicable laws, rules, and regulations including, but not limited to, 12 C.F.R. Part 215 and 12 C.F.R. § 564.43, and Section 310 of the OTS Examination Handbook. The Board shall ensure that the Association complies with the requirements of this Paragraph and that documentation demonstrating such compliance is maintained in the Association's files and records.

Board Compliance Committee.

41. Within thirty (30) days, the Board shall appoint a committee (Regulatory Compliance Committee) comprising three or more non-employee directors to monitor and coordinate the Association's compliance with the provisions of this Order and the completion of all corrective action required in the 2008 Examination.

42. Within sixty (60) days after the end of each calendar quarter, beginning with the quarter ending March 31, 2009, the Regulatory Compliance Committee shall submit a written progress report to the Board detailing the actions taken to comply with each provision of this Order, the corrective actions required by the 2008 Examination, and the results of all such actions. The Board shall review the Regulatory Compliance Committee's progress report and adopt a resolution: (a) certifying that each director has reviewed the progress report; (b) detailing the

⁸ 12 C.F.R. § 215.2(h)

Association's compliance with the provisions of this Order and the corrective actions contained in the 2008 Examination; (c) identifying each instance of noncompliance; and (d) setting forth in detail additional corrective actions or steps adopted or required by the Board to address each instance of noncompliance.

43. Within seventy-five (75) days after the end of each calendar quarter, the Board shall submit to the Regional Director: (a) a copy of the Regulatory Compliance Committee's quarterly progress report required by Paragraph 42 of this Order; and (b) a copy of the Board resolution required by Paragraph 42 of this Order, including the Board meeting minutes. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Association's compliance with the provisions of this Order.

Effective Date, Incorporation of Stipulation.

44. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

Duration.

45. This Order shall remain in effect until terminated, modified, or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

46. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

47. The Regional Director may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

Submissions and Notices.

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

49. Except as otherwise provided herein, all submissions, requests, communications, consents, or other documents relating to this Order shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission, or hand delivery by messenger) addressed as follows:

- a. To the OTS:
John E. Ryan, Regional Director
Office of Thrift Supervision
1475 Peachtree St., N.E.
Atlanta, Georgia 30309
404.897.1861 (Fax)

- b. To the Association:
Board of Directors
Bradford Bank
6900 York Road
Baltimore, Maryland 21212-1550
410.372.2958 (Fax)

No Violations Authorized.

50. Nothing in this Order or the Stipulation shall be construed as allowing the Association, its Board, officers, or employees to violate any law, rule, or regulation.

