

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: SE-09-047
)	
)	
WATERFIELD BANK)	Effective Date: October 1, 2009
)	
Germantown, Maryland)	
OTS Docket No. 15436)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, Waterfield Bank, Germantown, Maryland, OTS Docket No. 15436 (Association), by and through its Board of Directors (Board) has executed a Stipulation and Consent to the Issuance of an 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:

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, unsafe or unsound practice, and noncompliance with regulatory guidance including, but not limited to, the following:

- (a) operating the Association with an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;
- (b) operating the Association with an excessive level of adversely classified and delinquent loans relative to the Association's capital, earnings and allowance for loan and lease losses (ALLL) levels;
- (c) operating the Association without an effective credit administration program ensuring that updated financial and other information is obtained on borrowers;
- (d) violating 12 C.F.R. § 560.101 (Real Estate Lending Standards);
- (e) violating 12 C.F.R. Part 570, Appendix A – Interagency Guidelines Establishing Standards for Safety and Soundness;
- (f) violating 12 C.F.R. § 563.180 (Suspicious Activity Reports);
- (g) violating 12 U.S.C. § 2801 et seq. and 12 C.F.R. Part 203 (Home Mortgage Disclosure Act (HMDA));
- (h) violating 12 U.S.C. § 2601 et seq. (Real Estate Settlement Procedures Act (RESPA)) and 24 C.F.R. Part 3500 (Regulation X);
- (i) violating 15 U.S.C. § 1601 et seq. (Truth in Lending Act (TILA)); and 12 C.F.R. Part 226 (Regulation Z); and
- (j) operating in contravention of supervisory policy statements and other guidance, including, but not limited to, the Interagency Guidelines Establishing Standards for Safety and Soundness at 12 C.F.R. Part 570 – Appendix A, and the Interagency

Guidelines for Real Estate Lending Policies at 12 C.F.R. § 560.101.

Capital.

2. By December 31, 2009, the Association shall have and thereafter maintain a Tier 1 Leverage Capital Ratio equal to or greater than eight percent (8%) and a Total Risk-Based Capital Ratio equal to or greater than twelve percent (12%).

3. By November 30, 2009, the Board shall prepare and submit to the Regional Director for review and comment a written plan to achieve and maintain the Association's capital at the levels prescribed in Paragraph 2 (Capital Plan). At a minimum, the Capital Plan shall:

- (a) address the requirements and restrictions imposed by this Order;
- (b) address the Association's level of classified assets, allowance for loan and lease losses (ALLL), earnings, asset concentrations, liquidity needs, and trends in the foregoing area;
- (c) address trends in asset quality and real estate market conditions;
- (d) detail the Association's capital preservation and enhancement strategies with specific narrative goals; and
- (e) identify the specific sources of additional capital and the timeframes and methods by which additional capital will be raised, including specific target dates and capital levels.

4. Within twenty (20) days after receipt of any comments from the Regional Director, the Board will revise the Capital Plan to incorporate any recommended changes by the Regional Director and adopt the Capital Plan. Thereafter, the Association shall implement and adhere to the Capital Plan. A copy of the Capital 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.

5. At each regular monthly Board meeting, beginning with the December 2009 meeting, the Board will review the Association's compliance with the Capital Plan (Capital Status Report). The Capital Status Report shall include a variance report on the Association's compliance with the Capital Plan that, at a minimum:

- (a) compares actual operating results to projected results;
- (b) identifies and discusses any deviations; and
- (c) describes the specific corrective actions or measures that have been implemented or are proposed to address deviations.

The Board's review of the Capital Status Report shall be fully documented in the Board meeting minutes. A copy of the Capital Status Report and the meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting.

6. Within fifteen (15) days after (i) the Association fails to meet the capital requirements prescribed in Paragraph 2, (ii) the Association fails to comply with the Capital Plan prescribed in Paragraph 3, or (iii) a request from the Regional Director, the Board shall prepare and submit for Regional Director review and comment a written Contingency Plan. The Contingency Plan shall detail the actions to be taken, with specific time frames, to achieve one of the following results by the later of the date of receipt of all required regulatory approvals or sixty (60) days after the implementation of the Contingency Plan: (a) merger with, or acquisition by another federally insured depository institution or holding company thereof; or (b) voluntary liquidation by filing an appropriate application with OTS in conformity with federal laws and regulations.

7. Upon receipt of notification from the Regional Director, the Association shall implement the Contingency Plan immediately. The Board shall provide the Regional Director with written status reports detailing the Association's progress in implementing the Contingency Plan by no later than the 1st and 15th of each calendar month following implementation of the Contingency Plan.

Growth.

8. Effective immediately, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the quarter without the prior written approval of the Regional Director. The growth restrictions imposed by this Paragraph shall remain in effect until the OTS review and acceptance of the Association's Business Plan under Paragraph 9 of this Order.

Business Plan.

9. 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 the calendar years 2010, 2011, and 2012 (Business Plan). At a minimum, the Business Plan shall include:

- (a) a detailed and specific discussion of the Board's plans and strategies to restructure the Association's operations, strengthen and improve the Association's earnings and net interest margin, and achieve positive core income on a consistent basis;
- (b) a discussion of the Association's current financial position and resources and specific Board's strategies for ensuring that the Association has the financial and personnel resources necessary to implement and adhere to the Business Plan, adequately support the Association's risk profile, maintain compliance with applicable regulatory capital requirements, and maintain appropriate levels of liquidity;

(c) quarterly pro forma financial projections (balance sheet, capital forecasts, and income statement) and a detailed budget for each period covered by the Business Plan; and

(d) identification of all relevant assumptions made in formulating the Business Plan, as well as documentation supporting such assumptions.

10. Within twenty (20) days after receipt of any comments from the Regional Director, the Board shall revise the Business Plan to incorporate any recommended changes by the Regional Director and adopt the Business Plan. Thereafter, the Association shall implement and adhere to the Business Plan. A copy of the 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.

11. Any material modifications to the Business Plan must receive the prior written non-objection of the Regional Director. The Association shall submit proposed modifications to the Regional Director 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 Business Plan; or (b) exceed the level of any activity contemplated in the Business Plan or fails to meet target amounts established in the Business Plan by more than ten percent (10%), unless the activity involves assets risk-weighted fifty percent (50%) or less, in which case a variance of more than twenty-five percent (25%) shall be deemed to be a material modification.

12. Within thirty (30) days after the close of each calendar quarter, beginning with the calendar quarter ending December 31, 2009, the Board shall review quarterly variance reports on

the Association's compliance with the Business Plan (Quarterly Business Plan Variance Reports). 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 revised 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.

13. The Board's review of the Quarterly Business Plan Variance Reports, assessment of the Association's compliance with the revised Business Plan, and any corrective actions taken by the Board shall be fully documented in the Board meeting minutes. A copy of the Quarterly Business Plan Variance Report 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.

Management.

14. Within thirty (30) days, the Board shall prepare a written plan to ensure that the Association has and maintains a suitable management structure that is adequately staffed by permanent, full-time personnel with adequate knowledge, skills, qualifications, and experience, and a management succession plan (Management Plan). At a minimum, the Management Plan shall:

- (a) identify the type and number of officers and management needed to manage and supervise the affairs of the Association taking into consideration the Association's business operations, complexity, size, lending activities, asset quality, and financial position, which shall, at a minimum, include a Chief Executive Officer, Chief Financial Officer and Chief Lending Officer;

- (b) establish policies and procedures to ensure that responsibility for any vacant position is immediately assigned to another employee until the vacant position is filled;
- (c) provide for a management succession plan;
- (d) require an evaluation of each member of Management to determine whether the individual possesses the knowledge, skills, abilities, and experience necessary to competently perform all present and anticipated duties including, but not limited to, the ability to: (i) adhere to applicable laws and regulations and the Association's established policies and procedures; (ii) ensure that the Association operates in a safe and sound condition; and (iii) comply with the requirements of this Order.

15. Within forty-five (45) days, the Board shall provide a copy of the Management Plan to the Regional Director for review and comment. Within thirty (30) days of receipt of comments, if any, from the Regional Director the Board shall amend the Management Plan to incorporate such comments and provide the revised Management Plan to the Regional Director for review and comment. Upon receipt of the Regional Director's written approval or non-objection, the Board shall adopt, implement and ensure that the Association adheres to the Management Plan.

Problem Assets.

16. Within thirty (30) days, the Board shall prepare and submit to the Regional Director for review and comment a written plan with specific strategies, targets and timeframes to reduce the Association's level of criticized assets¹ (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

¹ The term "criticized assets" shall include all classified assets, assets designated special mention or watch, all nonperforming assets and all delinquent loans.

Plan shall:

- (a) include an assessment of the experience level of the Association's current staff and identify any need for additional experienced personnel;
- (b) require Management to prepare and submit for Board review individual written asset resolution plans for each criticized asset and delinquent loan of Five Hundred Thousand Dollars (\$500,000) or greater (Asset Resolution Plans); and
- (c) require Management to prepare and submit for Board review a written quarterly asset status report with respect to the status of each criticized asset and delinquent loan identified in Paragraph 16.b (Quarterly Asset Report).

17. Within thirty (30) days of receipt of comments, if any, from the Regional Director, the Board shall amend the Problem Asset Plan to incorporate such comments. Thereafter, the Association shall implement and adhere to the Problem Asset Plan.

18. At a minimum, the Quarterly Asset Report shall include:

- (a) a summary of and update on the current status of all Asset Resolution Plans for criticized assets and delinquent loans of Five Hundred Thousand (\$500,000) or greater;
- (b) a comparison of ALLL levels to the total level of classified assets;
- (c) a comparison of total classified assets to core and risk-based capital;
- (d) a comparison of total classified assets at the current quarter end with total classified assets for the preceding quarter;
- (e) a breakdown of classified assets by type (residential, acquisition and development, construction, land loans, etc.); and
- (f) a discussion of the actions taken during the previous quarter to reduce the Association's level of criticized assets and delinquent loans and recommendations

regarding any additional actions or steps that will be taken by Management.

19. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending December 31, 2009, the Board shall review the Quarterly Asset Reports and evaluate the Association's compliance with the Problem Asset Plan. The Board's review, including any corrective actions adopted by the Board, shall be fully documented in the Board meeting minutes.

20. The Board shall review and assess the Association's compliance with the Problem Asset Plan within thirty (30) days after the close of each calendar quarter, beginning with the quarter ending December 31, 2009 (Quarterly Problem Asset Plan Reviews). The Board's review and assessment of the Association's compliance with the Problem Asset Plan shall be fully documented in the appropriate Board meeting minutes. A copy of the Quarterly Problem Asset Plan Review 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 date.

Financial Reporting.

21. Effective immediately, the Board shall establish comprehensive policies and procedures, including Board monitoring and oversight requirements, that will ensure that the Association timely and accurately completes and files all financial reports and statements in compliance with applicable laws, regulations, and guidelines including, but not limited to, 12 C.F.R. Part 562 and the Thrift Financial Report Instructions.

22. Within five (5) days after receipt of each quarterly CMO report (Report), Management shall provide a copy of the Report, including both the credit and market value reports, to the OTS Field Manager and the Regional Director.

23. Within thirty (30) days, the Board shall develop policies and procedures to ensure that the Association's assets are evaluated for other than temporary impairment (OTTI) in accordance with Generally Accepted Accounting Principles (GAAP) and Statement of Financial Accounting Standards (SFAS) Bulletin 115 (OTTI Policy). The OTTI Policy shall require all OTTI evaluations to be in writing and submitted to the Board for review and discussion at the first regularly scheduled Board meeting following completion of the evaluation.

24. Within sixty (60) days, and thereafter within thirty (30) days after the end of each calendar quarter, the Association shall provide the Regional Director with an updated analysis of the OTTI accounting treatment of the Association's individual private label CMOs (OTTI Analysis).

25. Within thirty (30) days, and thereafter within forty-five (45) days after the end of each fiscal year, the Association shall conduct an impairment analysis of its goodwill that conforms to the guidance contained in SFAS Bulletin 142.

Brokered Deposits.

26. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b) and shall not, without obtaining the prior written waiver of the Federal Deposit Insurance Corporation (FDIC) pursuant to 12 C.F.R. § 337.6(c): (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).

27. Within thirty (30) days, the Board shall prepare and submit to the Regional Director for review and comment a plan to reduce the Association's reliance on brokered deposits (Brokered Deposit Reduction Plan). The Brokered Deposit Reduction Plan shall, at a minimum, include:
(a) a detailed description of the current composition of the Association's brokered deposits,

including the source of each deposit and its maturity date; and (b) an explanation of the means by which such deposits will be paid.

28. Within thirty (30) days after receipt of any comments from the Regional Director, the Board shall revise the Brokered Deposit Reduction Plan to incorporate any recommended changes by the Regional Director and adopt the Brokered Deposit Reduction Plan. Thereafter, the Association shall implement and adhere to the adopted Brokered Deposit Reduction Plan. Any modification to the adopted Brokered Deposit Reduction Plan shall be submitted to the Regional Director for review and written approval of or non-objection to at least forty-five (45) days prior to implementation.

29. The Board shall require Management to prepare and submit to the Board quarterly variance reports on the Association's compliance with the revised Brokered Deposit Reduction Plan within thirty (30) days after the close of each calendar quarter (Quarterly Brokered Deposit Variance Reports), beginning with the calendar quarter ending December 31, 2009. The Board shall review the Quarterly Brokered Deposit Variance Reports each quarter and take corrective actions if necessary to ensure adherence to the adopted Brokered Deposit Plan. The Board's review of the Quarterly Brokered Deposit Variance Reports shall be fully documented in the appropriate Board meeting minutes. A copy of the Quarterly Brokered Deposit 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.

Liquidity.

30. Within sixty (60) days, the Board shall develop and adopt a liquidity management policy in conformance with the guidance contained in OTS Thrift Bulletin 77 and Sections 530 and 560

of the OTS Examination Handbook (Liquidity Policy). The Liquidity Policy shall include procedures for monitoring large volume depositors and 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).

31. 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) the identification of alternative funding sources in order to meet extraordinary demands or to provide liquidity in the event the sources identified in subparagraph (a) above 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.

32. Within sixty (60) days, the Board shall require Management to review the Association's liquidity on a weekly basis and assess the Association's compliance with its Liquidity Policy and the Liquidity Plan (Liquidity Review). Management's review shall 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.

33. At each monthly Board meeting, beginning with the December 2009 meeting, the Board shall require Management to prepare and submit for Board review a written status report on the Association's compliance with its Liquidity Policy and Liquidity Plan. The Board will require Management to provide copies of the weekly Liquidity Reviews required by Paragraph 32 of this Order for the immediately preceding month and identify any funding needs (to repay loans or advances from correspondent banks or to pay off brokered deposits). The Board's review of Management's weekly Liquidity Reviews, and any corrective actions adopted by the Board, shall be fully documented in the Board meeting minutes. The Board will 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 December 31, 2009.

Interest Rate Risk Management.

34. Within sixty (60) days, the Board shall revise the Association's policies and procedures governing interest rate risk exposure (IRR Policy) to address all deficiencies discussed in the Association's December 8, 2008 Report of Examination (2008 ROE). At a minimum, the IRR Policy shall:

- (a) comply with applicable laws and OTS regulations including 12 C.F.R. § 563.176(b);
- (b) comply with regulatory guidance, including OTS Thrift Bulletin 13a and Section 650 (Interest Rate Risk Management) of the OTS Examination Handbook;
- (c) develop strategies for reducing the Association's interest rate risk exposure to the

Board-approved interest rate risk limits in terms of net portfolio values; and

(d) establish an IRR monitoring and review process that requires quarterly IRR exposure reports (IRR Reports) to be provided to the Board for review within twenty-five (25) days after the end of each calendar quarter, beginning with the quarter ending September 30, 2009. The Board meeting minutes shall document the date of the IRR Report under review, current IRR measures, conformance with the IRR Policy, changes in IRR exposure quarter-over-quarter and explanations for such changes, and the Board's assessment of the Association's current position.

35. Within sixty (60) days after the end of each calendar year, beginning with the calendar year ending December 31, 2009, the Board shall conduct a review and assessment of the effectiveness of the Association's IRR Policy and practices and the Association's compliance with the IRR Policy (Annual IRR Review). The Board shall ensure that the IRR Policy remains current and in compliance with applicable laws, regulations, and regulatory guidelines. The Board's review, including any corrective actions adopted by the Board, shall be documented in the Board meeting minutes. A copy of the Board minutes detailing the Board's Annual IRR Review and any information or documentation submitted by Management shall be provided to the Regional Director within ten (10) days after the Board meeting date.

Credit Administration.

36. Within sixty (60) days, the Board shall revise the Association's policies and procedures governing credit administration and documentation (Credit Administration Policy) to address the concerns and recommendations noted in the 2008 ROE.

37. At a minimum, the Credit Administration Policy shall:

(a) require ongoing, periodic documentation of the value of loan collateral;

- (b) provide for the classification of loans, including designation as special mention, or placement of loans on a watch list, if there is a significant decline in a borrower's financial standing whereby the borrower would not qualify under the Association's loan underwriting standards or no longer demonstrates the ability to meet global debt service obligations;
- (c) establish policies, procedures and systems to obtain and analyze, on an annual basis, updated borrower financial information and documentation for all non-single family development loans of \$500,000 or greater; and
- (d) provide for an effective system for the retention, review, renewal and updating by the Association of all required records, filings and other credit related documents.

Compliance Program.

38. Within sixty (60) days, the Board shall review the Association's written consumer compliance program (Compliance Program) and ensure that the Compliance Program:
- (a) is appropriate for the Association's size, complexity, product lines and business operations;
 - (b) is adequately staffed with qualified and experience personnel;
 - (c) provides for the allocation of adequate resources, including personnel and training, to implement the Compliance Program;
 - (d) is designed and structured to ensure the Association's compliance with all applicable consumer and other compliance laws and regulations (Compliance Laws and Regulations) on an ongoing basis; and
 - (e) provides for detailed processes, reports and systems to ensure the Board and Management's proper and prudent oversight and monitoring of the effectiveness of the

Compliance Program, including implementation of and adherence to corrective actions adopted by the Board.

39. Within thirty (30) days, the Board shall ensure that the Association: (i) corrects all weaknesses, deficiencies and violations identified and/or discussed in the 2008 ROE, including exception sheets and memorandums that were provided to Management; and (ii) adopts, implements and adheres to appropriate procedures and systems, including internal controls, designed to ensure that such deficiencies and weaknesses are identified and reported to Management and/or the Board and promptly corrected.

Bank Secrecy Act Compliance.

40. Within sixty (60) days, the Association shall revise its current written program for ensuring compliance with applicable anti-money laundering (AML) laws, rules, and regulations, including the Bank Secrecy Act (31 U.S.C. § 5311 et seq.) (BSA); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103); and the regulations issued by the OTS at 12 C.F.R. §§ 563.177 and 563.180 to address the violations, deficiencies and weaknesses discussed in the 2008 ROE.

Investment Policy.

41. Within sixty (60) days, the Board shall review the Association's investment function policies and procedures (Investment Policy) to ensure that the Investment Policy complies with 12 C.F.R. Part 560, conforms to the guidelines contained in OTS Thrift Bulletin 13a (Interest Rate Risk; Investment Securities and Derivatives Activities) and OTS Thrift Bulletin 73a (Investing in Complex Securities). At a minimum, the Board shall consider Section 540 (Investment Securities) of the OTS Examination Handbook and shall address the weaknesses and

deficiencies in the Association's investment function discussed in the 2008 ROE. The Board shall ensure the Investment Policy includes the following:

- (a) the Association's investment strategies, risk and return objectives and constraints (for example, those imposed by laws and regulations and liquidity needs and interest rate risks);
- (b) delineation of the Association's risks in the authorized investments;
- (c) identification and qualifications of the employee and officer positions within the Association authorized to conduct investment activities, including their lines of authority, responsibilities, and prescribed limits on their authority;
- (d) identification and qualifications of authorized investment brokers and advisors, including limitations on their authority, and required conditions in contracts in accordance with applicable OTS guidance, including Thrift Bulletin 82a (Third Party Arrangements);
- (e) descriptions of the types and levels of authorized investments and instruments and prescribed limits;
- (f) requirements to ensure adequate documentation, legal review and recordkeeping;
- (g) requirements for development and submission of management reports on investment activity and holdings to the Board; and
- (h) a requirement for Board review, on no less than a quarterly basis, of: (i) management reports and periodic monitoring of risks associated with the Association's investment activity and holdings; (ii) compliance with the Association's policies; and (iii) appropriate accounting for investments.

Severance and Indemnification Payments.

42. Effective immediately, the Association shall not make any golden parachute payment² or prohibited indemnification payment³ 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.

Directorate and Management Changes.

43. 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.

Affiliate and Insider Transactions.

44. Effective immediately, the Association shall not engage in any transaction with an Affiliate⁴ 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 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.

45. Effective immediately, the Association shall not make any loans to or enter into any contracts or agreements with any Insiders⁵ except in compliance with all applicable laws, rules, and regulations including, but not limited to, 12 C.F.R. Part 215 and 12 C.F.R. § 564.43, and

² The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

³ The term "prohibited indemnification payment" is defined at 12 C.F.R. § 359.1(l).

⁴ The term "affiliate" is defined at 12 C.F.R. § 223.2

⁵ The term "insider" is defined at 12 C.F.R. § 215.2(h).

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.

Effective Date, Incorporation of Stipulation.

46. 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.

47. 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.

48. 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.

49. The Regional Director, or an OTS authorized representative, 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.

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

51. 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:
Regional Director
Office of Thrift Supervision
1475 Peachtree St., NE
Atlanta, Georgia 30309
404.897.1861 (Fax)

- (b) To the Association:
Waterfield Bank
c/o Robert T. Barnum, Chairman
19828 Century Boulevard
Shops @ Town Center
Germantown, Maryland 20874

No Violations Authorized.

52. 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.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____
 /s/
James G. Price
Southeast Regional Director

Date: See Effective Date on page 1

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of)	Order No.: SE-09-047
)	
)	
WATERFIELD BANK)	Effective Date: October 1, 2009
)	
Germantown, Maryland)	
OTS Docket No. 15436)	

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 Waterfield Bank, Germantown, Maryland, OTS Docket No. 15436 (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 proceeding by entering into this Stipulation and Consent to the 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 Paragraphs

1 and 2 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

Jurisdiction.

1. 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).
2. 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).

OTS Findings of Fact.

3. Based on its December 8, 2008 Report of Examination of the Association (2008 ROE), the OTS finds that the Association has engaged in violations of applicable laws and regulations, failed to comply with regulatory guidelines, and engaged in unsafe or unsound banking practices including, but not limited to:

- (a) operating the Association with an inadequate level of capital protection for the volume, type, and quality of assets held by the Association
- (b) operating the Association with an excessive level of adversely classified and delinquent loans relative to the Association’s capital, earnings and allowance for loan and lease losses (ALLL) levels;
- (c) operating the Association without an effective credit administration program ensuring that updated financial and other information is obtained on borrowers;

- (d) violating 12 C.F.R. § 560.101 (Real Estate Lending Standards);
- (e) violating 12 C.F.R. Part 570, Appendix A – Interagency Guidelines Establishing Standards for Safety and Soundness;
- (f) violating 12 C.F.R. § 563.180 (Suspicious Activity Reports);
- (g) violating 12 U.S.C. § 2801 et seq. and 12 C.F.R. Part 203 (Home Mortgage Disclosure Act (HMDA));
- (h) violating 12 U.S.C. § 2601 et seq. (Real Estate Settlement Procedures Act (RESPA)) and 24 C.F.R. Part 3500 (Regulation X);
- (i) violating 15 U.S.C. § 1601 et seq. (Truth in Lending Act (TILA)); and 12 C.F.R. Part 226 (Regulation Z); and
- (j) operating in contravention of supervisory policy statements and other guidance, including, but not limited to, the Interagency Guidelines Establishing Standards for Safety and Soundness at 12 C.F.R. Part 570 – Appendix A, and the Interagency Guidelines for Real Estate Lending Policies at 12 C.F.R. § 560.101.

Consent.

4. 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.

Finality.

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

12 U.S.C. § 1818(i).

Waivers.

6. 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.

OTS Authority Not Affected.

7. 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.

Other Governmental Actions Not Affected.

8. 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 7 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.

Miscellaneous.

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

10. 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.

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

12. 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.

13. 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.

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

Signature of Directors/Board Resolution.

15. 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.

WHEREFORE, the Association, by its directors, executes this Stipulation.

WATERFIELD BANK
Germantown, Maryland

Accepted by:

OFFICE OF THRIFT SUPERVISION

By: /s/
Robert T. Barnum
Chairman of the Board

By: /s/
James G. Price
Southeast Regional Director

Date: See Effective Date on page 1

 /s/
Charles M. Chamness, Director

 /s/
Timothy R. Chrisman, Director

 /s/
Robb Evans, Director

 /s/
Mark R. Ruh, Director