

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

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In the Matter of)	ORDER TO CEASE AND DESIST
)	
FIRST BANK)	
WILLIAMSTOWN, NEW JERSEY)	FDIC-09-378b
)	
(Insured State Nonmember Bank))	
_____)	

First Bank, Williamstown, New Jersey (“Bank”), through its board of directors (“Board”), having been advised of its right to the issuance and service of a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and/or regulations alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1818(b), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST (“CONSENT AGREEMENT”) with counsel for the Federal Deposit Insurance Corporation (“FDIC”) dated September 30, 2009, whereby, solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST (“ORDER”) by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws and/or regulations. The FDIC, therefore, accepted the CONSENT AGREEMENT and issues the

following:

ORDER TO CEASE AND DESIST

IT IS ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, cease and desist from the following unsafe or unsound banking practices and violations of laws and/or regulations:

1. Operating with inadequate management and Board supervision and direction over the affairs of the Bank;
2. Operating with inadequate earnings to support operations and augment capital;
3. Operating with inadequate policies to monitor and control asset growth;
4. Operating with an outdated strategic plan and budget;
5. Operating with an inadequate internal audit program;
6. Operating with inadequate interest rate risk policies and procedures;
7. Operating with inadequate Information Technology (“IT”) policies and procedures;
8. Operating outside of the provisions of the order granting deposit insurance, including failing to notify the Regional Director of the FDIC’s New York Regional Office (“Regional Director”) of a major deviation from the business plan submitted with the Bank’s application for deposit insurance at least 60 days prior to consummation of the deviation;
9. Operating in violation of section 326.8 of the FDIC Rules and Regulations, 12 C.F.R. § 326.8, regarding a satisfactory Bank Secrecy Act (“BSA”) and Anti-Money Laundering (“AML”) compliance program (“BSA/AML Compliance

Program”);

10. Operating in violation of section 103.27 of the Rules and Regulations of the Department of Treasury, 31 C.F.R. § 103.27, regarding the failure to file currency transaction reports in a timely fashion; and
11. Operating in contravention of the *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (FIL-105-2006, issued December 13, 2006) and the *Joint Agency Policy Statement on Interest Rate Risk* (FIL-52-96, issued July 12, 1996).

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties and its successors and assigns take affirmative action as follows:

CORRECTION AND PREVENTION

1. Beginning on the effective date of this ORDER, the Bank shall take steps necessary, consistent with other provisions of this ORDER and sound banking practices, to correct and prevent the unsafe or unsound banking practices and violations of law and regulations and all contraventions of federal banking agency policies and procedures and guidelines that were identified in the Report of Examination as of March 31, 2009 (“Report of Examination”) issued by the FDIC. In addition, the Board shall take all steps necessary to ensure that the Bank is operated with adequate management supervision and Board oversight to prevent any future unsafe or unsound banking practice or violation of law or regulation.

QUALIFIED MANAGEMENT

2. (a) The Bank shall have qualified management with the requisite knowledge, skills, ability, and experience to operate the Bank in a safe and sound manner, and in compliance

with applicable laws and regulations, and restore the Bank to a satisfactory financial condition, including, but not limited to, management effectiveness, sensitivity to market risk, information technology, and BSA/AML compliance.

(b) In addition, the Board shall provide written notification to the Regional Director and the Commissioner of the New Jersey Department of Banking and Insurance (“Commissioner”) of any proposed change in Board member or senior executive officer of the Bank at least 30 days prior to the date such proposed change is to become effective; such notification shall include a description of the knowledge, skills, ability, and experience required by this paragraph of the proposed senior executive officer or Board member. Such changes will only be effective upon receipt of the Regional Director’s and the Commissioner’s approval. The Bank shall also establish procedures to ensure compliance with section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. Part 303.

BOARD SUPERVISION

3. Within 30 days after the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank by assuming full responsibility for the approval of the Bank’s policies and objectives and for the supervision of the Bank’s management, including all the Bank’s activities. The Board’s participation shall include, at a minimum, monthly meetings in which the following areas shall be reviewed and approved by the Board: reports of income and expenses; investment activities; BSA/AML compliance; operating policies; and individual committee actions. The Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

BUDGET AND PROFIT PLAN

4. (a) Within 90 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and comment a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2010. The plan required by this paragraph shall contain formal goals and strategies, be consistent with sound banking practices, control discretionary expenses (including any salaries and bonuses paid to management), improve the Bank's overall earnings and net interest income, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written profit plan shall address, at a minimum:

- (1) an analysis of the Bank's pricing structure;
- (2) a recommendation for reducing the Bank's cost of funds; and
- (3) the Bank's net interest margin.

(c) Within 30 days after the end of each calendar quarter following completion of the profit plan and budget required by this paragraph, the Board shall evaluate the Bank's actual performance in relation to the written profit plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the Board meeting when such evaluation is undertaken. The Bank shall also submit a written summary of the evaluation to the Regional Director and the Commissioner.

(d) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect and shall be submitted to the Regional Director and the Commissioner for review and comment within 30 days after the end of each year. Within 30 days after receipt of all such comments from the Regional Director and the Commissioner, and

after adoption of any recommended changes, the Board shall approve the written profit plan and budget, which approval shall be recorded in the Board minutes. Thereafter, the Bank shall implement and follow the plan.

DIVIDEND RESTRICTION

5. As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director and the Commissioner.

EXECUTIVE COMPENSATION

6. Within 60 days after the effective date of this ORDER, the Bank shall submit to the Regional Director and the Commissioner for review and approval an executive compensation plan that incorporates qualitative as well as profitability performance standards for the Bank's directors and executive officers. For purposes of this paragraph, "compensation" refers to any and all salaries, bonuses and other benefits of every kind or nature whatsoever, both current and deferred, whether paid directly or indirectly, and the term "executive officer" shall be defined as in Regulation O, 12 C.F.R. Part 215.

GROWTH PLAN

7. While this ORDER is in effect, the Bank shall not increase its Total Assets by more than 8 percent for the 12-month period beginning on September 30, 2009, and for each consecutive 12-month period thereafter, without providing, at least 30 days prior to its implementation, a written growth plan to the Regional Director and the Commissioner. The first consecutive 12-month period shall be based on the Bank's Total Assets reported in its September 30, 2009 Report of Condition and Income. Each 12-month period thereafter shall be based on the Bank's Total Assets reported in its Report of Condition and Income as of the September 30th

beginning such 12-month period. Such growth plan, at a minimum, shall include the funding source to support the projected growth, as well as the anticipated use of funds, along with the anticipated effects on the Bank's capital ratios. This growth plan shall not be implemented without the prior written consent of the Regional Director and the Commissioner. In no event shall the Bank increase its Total Assets by more than 10 percent in a 12-month period without the prior written consent of the Regional Director and the Commissioner.

CAPITAL PLAN

8. (a) Within 90 days after the effective date of this ORDER, the Bank shall submit a written capital plan to the Regional Director and the Commissioner. The capital plan shall require the Bank, after establishing an Allowance for Loan and Lease Losses, to maintain its Tier 1 Leverage Capital ratio equal to or greater than 8 percent of the Bank's Average Total Assets, and to maintain its Total Risk-Based Capital ratio equal to or greater than 12 percent of the Bank's Total Risk Weighted Assets.

(b) Within 30 days after receipt of comments to the capital plan from the Regional Director and the Commissioner, the Board shall adopt the capital plan, including any modifications or amendments requested by the Regional Director and the Commissioner. Thereafter, the Bank shall immediately initiate measures detailed in the capital plan, to the extent such measures have not previously been initiated, to effect compliance with the plan within 30 days after the Regional Director and the Commissioner respond to the capital plan.

(c) If any such capital ratios are less than required by the ORDER, as determined as of the date of any Report of Condition and Income or at an examination by the FDIC or the New Jersey Department of Banking and Insurance, the Bank shall, within 30 days after receipt of a written notice of the capital deficiency from the Regional Director and the

Commissioner, present to the Regional Director and the Commissioner a new capital plan to increase the Bank's Tier 1 Capital or to take other measures to bring the Tier 1 Leverage and Total Risk Based capital ratios to the percentages required by this ORDER. Such other measures shall include, but not be limited to, the direct contribution of cash by the directors, or the merger with or acquisition by another federally insured institution or holding company thereof. Within 30 days after receipt of comments to the new capital plan from the Regional Director and the Commissioner, the Board shall adopt the new capital plan, including any modifications or amendments requested by the Regional Director and the Commissioner.

(d) Thereafter, the Bank shall immediately initiate measures detailed in the new capital plan, to the extent such measures have not previously been initiated, to increase its capital by an amount sufficient to bring the Tier 1 Leverage and Total Risk Based capital ratios to the percentages required by this ORDER.

(e) In addition, the Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325, App. A.

(f) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325.

BROKERED DEPOSITS

9. (a) Upon the effective date of this ORDER, the Bank shall not accept, renew or roll over any "brokered deposits" (as that term is defined in section 337.6(a)(2) of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6(a)(2)), unless the Bank has been granted a waiver by the Regional Director.

(b) While this ORDER is in effect, the Bank shall comply with the restrictions on the effective yield on deposits described in section 337.6 of the FDIC's Rules and Regulations.

(c) Within 60 days from the effective date of this ORDER, the Bank shall develop a plan to reduce the Bank's reliance on non-core deposits and wholesale funding sources to a level acceptable to the Regional Director and the Commissioner.

STRATEGIC PLAN

10. (a) Within 90 days after the effective date of this ORDER, the Bank shall prepare and adopt a comprehensive strategic plan. The strategic plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written strategic plan shall address, at a minimum:

- (1) strategies for pricing policies and asset/liability management;
- (2) financial goals, including pro forma statements for asset growth, capital adequacy, and earnings;
- (3) formulation of a mission statement and the development of a strategy to carry out that mission.

(c) The Bank shall submit the strategic plan to the Regional Director and the Commissioner for review and comment. After consideration all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of the corresponding Board meeting. Thereafter, the Bank shall implement and follow the strategic plan.

(d) Within 30 days after the end of each calendar quarter following the

effective date of this ORDER, the Board shall evaluate the Bank's performance in relation to the strategic plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken.

(e) The strategic plan required by this ORDER shall be revised and submitted to the Regional Director and the Commissioner for review and comment 30 days after the end of each calendar year for which this ORDER is in effect. Within 30 days after receipt of all such comments from the Regional Director and the Commissioner and after consideration of all such comments, the Bank shall approve the revised plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement the revised plan.

INTEREST RATE RISK POLICY

11. (a) Within 60 days after the effective date of the ORDER, the Bank shall develop, adopt, and implement an interest rate risk policy and procedures that shall include, at a minimum:

(1) goals and strategies for reducing and managing the Bank's interest rate risk;

(2) measures designed to control the nature and amount of interest rate risk the Bank takes, including those that specify risk limits and defines lines of responsibilities and authority for managing risk;

(3) a system for identifying and measuring interest rate risk, including a periodic calculation to measure interest rate risk exposure at various time horizons and establish target ratios;

(4) a system for monitoring and reporting risk exposures; and

(5) a system of internal controls, review, and audit to ensure the

integrity of the overall risk management process.

(b) Within 120 days from the date of this ORDER, the Bank shall have an independent review of interest rate risk conducted in accordance with the *Joint Agency Policy Statement on Interest Rate Risk* (FIL-52-96, issued July 12, 1996). Within 15 days of its receipt of the results of the independent review, the Bank shall submit the results to the Regional Director and the Commissioner.

(c) The Bank shall submit the interest rate risk policy required by this paragraph to the Regional Director and the Commissioner for review and comment. After due consideration of all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of the corresponding Board meeting. Thereafter, the Bank shall implement and follow the interest rate risk policy.

BSA COMPLIANCE PLAN

12. Within 90 days from the effective date of this ORDER, the Bank shall develop, adopt and implement a revised written plan ("Compliance Plan") for the continued administration of the Bank's BSA/AML Compliance Program and the Bank's Customer Identification Program ("CIP") designed to, among other things, ensure and maintain compliance with the BSA and its implementing rules and regulations, taking into consideration the Bank's size and risk profile. The Bank shall submit the revised Compliance Plan to the Regional Director and the Commissioner for review and comment. Upon receipt of comments from the Regional Director and the Commissioner, if any, the Board shall review and approve the revised Compliance Plan. The review and approval of the revised Compliance Plan shall be recorded in the minutes of the Board. Thereafter, the Bank shall implement the revised Compliance Plan. At a minimum, the revised Compliance Plan shall:

(a) *Internal Controls.* Provide for a system of internal controls sufficient to comply in all material respects with the BSA and its implementing rules and regulations and establish a plan for implementing such internal controls. The system of internal controls shall provide, at a minimum:

(1) procedures for conducting a risk-based assessment, no less frequently than every twelve to eighteen months, of the Bank's customer base to identify the categories of customers whose transactions and banking activities are routine and usual; and determine the appropriate level of enhanced due diligence necessary for those categories of customers whose transactions and banking activities are not routine and/or usual ("high-risk accounts");

(2) policies and procedures with respect to high-risk accounts and customers identified through the risk assessment conducted pursuant to subsection (a)(1) of this paragraph, including the adoption of adequate methods for conducting enhanced due diligence on high-risk accounts and customers at account opening and on an ongoing basis, and for monitoring high-risk client relationships on a transaction basis, as well as by account and customer;

(3) policies, procedures, and systems for identifying, evaluating, monitoring, investigating, and reporting suspicious activity in the Bank's products, accounts, customers, services, and geographic areas, including:

a. establishment of meaningful thresholds for identifying accounts and customers for further monitoring, review, and analyses;

b. periodic testing and monitoring of such thresholds for their appropriateness to the Bank's products, customers, accounts, services, and geographic areas;

c. review of existing systems to ensure adequate referral of information about potentially suspicious activity through appropriate levels of management, including a policy for determining action to be taken in the event of multiple filings of Suspicious Activity Reports ("SARs") on the same customer, or in the event a correspondent or other customer fails to provide due diligence information. Such procedures shall describe the circumstances under which an account should be closed and the processes and procedures to be followed in doing so;

d. procedures and/or systems for each business area of the Bank to produce periodic reports designed to identify unusual or suspicious activity, to monitor and evaluate unusual or suspicious activity, and to maintain accurate information needed to produce these reports with the following features:

i. the Bank's procedures and/or systems should be able to identify related accounts, countries of origin, location of the customer's businesses and residences to evaluate patterns of activity; and

ii. the periodic reports should cover a broad range of time frames, including individual days, a number of days, and a number of months, as appropriate, and should segregate transactions that pose a greater than normal risk for non-compliance with the BSA;

e. documentation of management's decisions to file or not to file an SAR; and

f. systems to ensure the timely, accurate, and complete filing of required SARs and any other similar or related reports required by law; and

(4) policies and procedures for transactions involving non-customers,

including, but not limited to, wire transfer services, traveler's check services, and foreign exchange services.

(5) policies and procedures to ensure that the Banks CIP is consistently implemented;

(6) policies and procedures that ensure that maintenance of sufficient documentation of the filing and mailing of all Currency Transaction Report ("CTR") filings.

(b) *Independent Testing.* Provide for annual independent testing for compliance by the Bank with the BSA and its implementing rules and regulations to be conducted by either a qualified outside party with the requisite ability to perform such testing and analysis, or Bank personnel independent of the BSA function. The independent testing shall, at a minimum:

(1) test the Bank's internal procedures for monitoring compliance with the BSA and its implementing rules and regulations, including interviews of employees who handle cash transactions;

(2) sample large currency transactions followed by a review of the CTR filings;

(3) test the validity and reasonableness of the customer exemptions granted by the Bank;

(4) test the Bank's recordkeeping system for compliance with the BSA and its implementing rules and regulations, including, but not limited to:

a. testing to ensure all reportable transactions have been identified;

b. testing to ensure Bank personnel is reviewing all applicable reports, including monitoring reports for structuring activities; and

c. testing to ensure compliance with Office of Foreign Assets Control (“OFAC”) provisions.

(5) test the Bank’s CIP procedures;

(6) test the adequacy of the Bank’s training program; and

(7) document the scope of the testing procedures performed and the

findings of the testing. The results of each independent test, as well as any apparent exceptions noted during the testing, shall be presented to the Board. The Board shall record the steps taken to correct any exceptions noted and address any recommendations made during each independent test in the minutes of the meeting.

(c) *Designation of BSA Officer.* Provide for the designation of a qualified individual or individuals (“BSA Officer”) responsible for coordinating and monitoring day-to-day compliance with the BSA pursuant to section 326.8 of the FDIC’s Rules and Regulations, 12 C.F.R. § 326.8. The BSA Officer shall provide monthly comprehensive written reports to the Board regarding the Bank’s adherence to the Compliance Plan and this ORDER. The BSA Officer shall:

(1) have sufficient executive authority to monitor and ensure compliance with the BSA and its implementing rules and regulations;

(2) be responsible for determining the adequacy of BSA/AML staffing and for supervising such staff in complying with the BSA and its implementing rules and regulations;

(3) report directly to the Board;

(4) report to the Bank's Audit Committee on a regular basis, not less than quarterly, with respect to any BSA/AML matters; and

(5) be responsible for assuring the proper filing of CTRs, Reports of International Transportation of Currency or Monetary Instruments, and SARs relating to the BSA.

(d) *Training Program.* Provide an effective training program ("Training Program") for management and staff on all relevant aspects of laws, regulations, and Bank policies and procedures relating to the Bank Compliance Plan. This training shall ensure that all appropriate personnel are aware of, and can comply with, the requirements of BSA and its implementing rules and regulations, including the currency and monetary instruments reporting requirements and the reporting requirements associated with Suspicious Activity Reports, as well as all applicable OFAC provisions. The Training Program shall also cover:

(1) the Bank's BSA/AML policies and procedures, and new rules and requirements as they arise;

(2) a requirement that the Board shall fully document the training of each employee, including the designated BSA Compliance Officer; and

(3) a requirement that training shall be conducted no less frequently than annually.

INTERNAL AUDIT CONTROL PROGRAM

13. Within 60 days after the effective date of this ORDER, the Board shall implement an effective program for internal audit and control. The audit program shall provide procedures to test the validity and reliability of operating systems, procedural controls, and resulting records, and shall comply with the *Interagency Policy Statement on the Internal Audit Function and its*

Outsourcing (FIL-21-2003, issued March 17, 2003). The internal auditor shall report quarterly to the Board. The report and any comments made by any Board members regarding the internal auditor's report shall be noted in the minutes of the Board meeting.

INFORMATION TECHNOLOGY

14. (a) Within 90 days after the effective date of this ORDER, the Bank shall develop and implement an IT audit program that provides comprehensive and continuous audit coverage, the scope of which shall be based on a comprehensive risk assessment. The audit program shall include coverage of the areas recommended in the Audit Booklet of the FFIEC's Information Technology Examination Handbook dated August 2003, and be performed by an auditor with experience and expertise in IT. Audit reports shall be presented to the Board for review with the review noted in the Board minutes.

(b) Within 90 days after the effective date of this ORDER, the Bank shall revise its Information Security Program to meet the Guidelines Establishing Standards for Safeguarding Customer Information as described in Part 364, Appendix B, of the FDIC's Rules and Regulations, 12 C.F.R. Part 364, App. B.

(c) Within 120 days after the effective date of this ORDER, the Bank shall conduct a business continuity impact analysis and utilize the results of such analysis to develop Disaster Recovery and Business Continuity Plans following the format detailed in the FFIEC's Business Continuity Planning Information Technology Examination Handbook. The Board shall approve the plans and ensure that they are communicated to appropriate personnel. The plan shall be tested annually thereafter.

(e) Within 90 days after the effective date of this ORDER, the Board shall ensure that all other information technology deficiencies cited in the Report of Examination are

corrected, or document its best efforts to ensure that such deficiencies are corrected.

SHAREHOLDERS

15. After the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its shareholders (1) in conjunction with the Bank's next shareholder communication, and also (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC Accounting and Securities Disclosure Section, 550 17th Street, NW, Room F-6066, Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any changes requested by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

COMPLIANCE COMMITTEE

16. Within 30 days after the effective date of this ORDER, the Board shall establish a compliance committee of the Board with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. The compliance committee shall be composed of at least three directors who are not now, and have never been, involved in the daily operations of the Bank. The compliance committee shall report monthly to the entire Board, and a copy of the report and any discussion related to the report or this ORDER shall be included in the minutes of the Board meeting. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

PROGRESS REPORTS

17. Within 30 days after the end of the first calendar quarter following the effective

date of this ORDER, and within 30 days after the end of each successive calendar quarter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by the ORDER have been accomplished and the Regional Director and the Commissioner have released the Bank in writing from making additional reports.

This ORDER shall be binding upon the Bank, its successors and assigns, and all institution-affiliated parties of the Bank. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision of this ORDER shall have been modified, terminated, superseded, or set aside in writing by the FDIC.

This ORDER will become effective upon its issuance by the FDIC.

Pursuant to delegated authority.

Dated this 30th day of September, 2009.



James C. Watkins
Deputy Regional Director
New York Region
Division of Supervision and Consumer Protection
Federal Deposit Insurance Corporation