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IN THE MATTER OF UNITED HERITGAGE BANK)  
EDISON, NEW JERSEY )

STATE OF NEW JERSEY  
DEPARTMENT OF  
BANKING AND INSURANCE

ORDER TO CEASE AND DESIST  
UNSAFE AND UNSOUND  
PRACTICES

TO: UNITED HERITAGE BANK  
1876 Route 27  
Edison, NJ 08817

JACK KUNG  
Chairman of the Board  
1876 Route 27  
Edison, NJ 08817

BOARD OF DIRECTORS  
UNITED HERITAGE BANK

HERBERT HERSH  
One Park Gate Drive  
Edison, NJ 08820

JACK KUNG  
4 Dock Watch Hollow  
Warren, NJ 07059

SHA-TING LIN  
16 Pleasant Valley Way  
West Windsor, NJ 08550

THOMAS J. O'DONNELL  
64 Rockwell Circle  
Marlboro, NJ 07746

MIN S. TJIA  
8 Manor Drive  
Warren, NJ 07059

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WHEREAS, the Commissioner of Banking and Insurance of the State of New Jersey ("Commissioner") is charged with the responsibility of administering and enforcing the Banking Act of 1948, N.J.S.A. 17:9A-1 et seq.; and

WHEREAS, pursuant to N.J.S.A. 17:9A-267, the Commissioner may order a bank to cease unsafe and unsound practices if she finds that a bank is conducting its business in an unsafe and unsound manner; and

WHEREAS, United Heritage Bank ("The Bank") has been and is presently operating in an unsafe and unsound manner as evidenced by the concurrent Report of Examination performed by the Department of Banking and Insurance ("Department") and the Federal Deposit Insurance Corporation (FDIC) as of close of business October 30, 2000 ("Report of Examination") which disclosed the following unsafe and unsound conditions.

- (a) Failing to provide the Bank with operational personnel who have experience that is adequate to ensure safe and sound operation of the Bank and to ensure compliance with applicable laws and regulations;
- (b) Operating the Bank with policies and practices that result in excessive employee turnover;
- (c) Operating the Bank without proper internal controls and less than satisfactory risk management policies and procedures;
- (d) Engaging in violations of applicable Federal and State laws or regulations, as more fully set forth in the concurrent Reports of Examination of the Bank by the Department and the FDIC as of October 30, 2000;

**IT IS THEREFORE ORDERED, pursuant to N.J.S.A. 17:9A-267, that the Bank, its officers, board of directors, and employees correct the foregoing unsafe and unsound practices and that it institute all measures necessary to correct said unsafe or unsound practices and conditions including, but not limited to, the following:**

**1. (a) The Bank shall have and retain qualified management. Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management shall be assessed on its ability to:**

- (i) comply with the requirements of this ORDER;**
- (ii) operate the Bank in a safe and sound manner;**
- (iii) comply with all applicable laws and regulations;**
- (iv) restore all aspects of the Bank to a safe and sound condition, including management effectiveness; and**
- (v) properly manage the day to day affairs of the Bank with the appropriate level of authority granted by the board of directors.**

**(b) (i) During the life of this ORDER, the Bank shall notify the Commissioner and the Regional Director of the New York Regional Office of the FDIC ("Regional Director") in writing of any resignations or terminations of any members of its board of directors or any of its officers.**

**(ii) The Bank shall comply with section 32 of the Act, 12 U.S.C. §1831i, which includes a requirement that the Bank shall notify the Commissioner and the Regional Director in writing at least 30 days prior to any individual assuming a new position as a senior executive officer or any additions to its board of directors.**

**2. (a) To facilitate having and retaining qualified management, the board of directors of the Bank shall, within 60 days from the effective date of this ORDER, undertake an in-depth analysis and review of the Bank's managerial requirements and staffing needs and make**

a written report ("Management and Staffing Report"). The Management and Staffing Report shall incorporate an analysis of the Bank's management and staffing requirements and shall, at a minimum include:

- (i) identification of both the type and number of officer and operational staff positions that are needed to properly manage and supervise the affairs of the Bank in a safe and sound manner;
- (ii) a recommendation of whether current operating management should be changed, or the terms and conditions under which current operating management should be continued;
- (iii) an evaluation of each Bank officer indicating whether these officials possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to the Bank's established policies and practices and maintenance of the Bank in a safe and sound condition;
- (iv) a clear and concise description of the general duties, responsibilities, and authority for each bank officer and their key support staff;
- (v) identification of the skills, experience and compensation required for each position;
- (vi) a plan to recruit, hire and replace personnel based on ability and experience;
- (vii) a plan providing for periodic evaluation of each individual's job performance; and
- (viii) a plan for periodic review of the Bank's management.

(b) The board of directors of the Bank shall obtain the services of an outside consultant, acceptable to the Department and the FDIC, who is knowledgeable in the area of bank management, to assist the board of directors in reviewing the Bank's management needs

and preparing the Management and Staffing Report. The acceptability of the consultant shall be based on the consultant's ability to advise the Bank in each of the areas identified in paragraph 2(a).

(c) Within 90 days from the effective date of this ORDER, the board of directors of the Bank, with the assistance of the outside consultant, shall prepare a written plan of implementation ("Plan") addressing the findings of the Management and Staffing Report. The Plan shall specify the actions to be taken by the board of directors and the time frames for each action.

(d) Within 90 days from the effective date of this ORDER, the board of directors of the Bank shall prepare a written report ("Written Report") which shall contain (1) a recitation identifying the recommendations made by the outside consultant which have been incorporated in the Management and Staffing Report and Plan, (2) a recitation identifying the recommendations made by the outside consultant which were not incorporated in the Management and Staffing Report and Plan and the reasons for not including such recommendations, and (3) a copy of any report prepared by the outside consultant.

(e) A copy of the Management and Staffing Report, Plan, and Written Report shall promptly be submitted to the Commissioner and the Regional Director for review and comment. Within 30 days from receipt of any comment, and after consideration of such comment, the board of directors of the Bank shall approve the Management and Staffing Report and Plan, which approval shall be recorded in the minutes of the meeting of the board of directors. It shall remain the responsibility of the board to fully implement the Plan within the specified time frames. In the event the Plan, or any portion thereof, is not implemented, the board shall immediately advise the Commissioner and the Regional Director, in writing, of the specific reasons for deviating from the Plan.

3. (a) Within 90 days from the effective date of this ORDER, the board of directors shall develop a written analysis and assessment of the composition and functions of the board of directors ("Directors' Plan"), which shall include, at a minimum:

- (i) an evaluation of each member of the board of directors to determine whether these individuals and the board as a whole have the ability, experience, independence, and other qualifications which are necessary to perform the duties of the board, including providing effective oversight and guidance of management and staff to ensure adherence to the board's policies and to maintain the Bank in a safe and sound condition;
- (ii) a written plan of action to enhance the effectiveness of the board by either adding new members to the board with the necessary ability, experience, independence and other qualifications, or requiring additional education and training for existing members of the board, or both.

(b) The board of directors of the Bank shall obtain the services of an outside consultant, acceptable to the Department and the FDIC, who is knowledgeable in the area of bank management, to assist in evaluating the board of directors and preparing the Directors' Plan. This consultant may be the same consultant employed to prepare the Management and Staffing Report required by paragraph 2(a).

(c) The Directors' Plan and any subsequent modifications thereto shall be submitted to the Commissioner and the Regional Director for review and comment. Within 30 days from the receipt of any comment from the Commissioner or Regional Director, and after considering such comment, the board of directors shall approve the Directors' Plan and any subsequent modification thereto, which approval shall be recorded in the minutes of the board of directors. Thereafter, the board of directors of the Bank shall implement and follow the Directors' Plan and any subsequent modifications thereto. In the event the Directors' Plan, or any portion thereof, is not implemented, the board shall immediately advise the Commissioner and the Regional Director, in writing, of the specific reasons for deviating from the Directors' Plan.

4. Within 60 days from the effective date of this ORDER, the Bank shall revise, adopt and implement written policies and procedures to provide effective guidance and controls over the internal routine and controls of the Bank, in accordance with safe and sound banking practices. The revised policies and procedures shall at a minimum, specifically provide for correction of all internal routine and controls deficiencies scheduled in the concurrent Reports of Examination of the Bank by the Department and the FDIC as of October 30, 2000. Such policies and procedures and their implementation shall be in a form and manner acceptable to the Commissioner and the Regional Director, as determined at subsequent examinations or visitations.

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall have and thereafter retain a qualified Bank Secrecy Act officer ("Officer"). The Officer must be a senior bank official who shall be responsible for the Bank's compliance with Title 31, U.S.C. §§ 5311 to 5326, and its implementing Bank Secrecy Regulation, 31 C.F.R. Part 326. The Officer shall be given written authority by the Bank's board of directors to implement and supervise the Bank's Bank Secrecy Act program, including but not limited to, ensuring that Bank employees receive appropriate training in bank secrecy laws and regulations enumerated in section 326.8(b) of the FDIC Rules and Regulations, 12 C.F.R 326.8(b). The Officer shall also be responsible for establishing internal controls and procedures reasonably designed to prevent violations of the bank secrecy laws. The Officer shall report directly to the Bank's board of directors. The Bank shall provide the Officer with appropriate training in the bank secrecy laws, and each instance of said training shall be reported to, and recorded in, the minutes of the board of directors.

(b) The Bank shall promptly notify the Commissioner and the Regional Director of the identity of the Officer. The assessment of whether the Bank has a qualified Officer shall be based upon the Officer's record of achieving compliance with the requirements of this ORDER and with the bank secrecy laws.

(c) Within 60 days from the effective date of this ORDER, the Bank shall eliminate and correct all violations of law and regulations, as described in the concurrent Reports

of Examination of the Bank by the Department and the FDIC as of October 30, 2000, for compliance with the Bank Secrecy Act and the related rules and regulations.

6. Following the effective date of this ORDER, there shall be no payment or accrual of salary to the Chairman of the Board until a comprehensive job description supporting any compensation is submitted and approved by the Commissioner. The Board shall also notify the Regional Director prior to the payment or accrual of any salary to the Chairman.

7. While this ORDER is in effect, the Bank shall not declare or pay either directly or indirectly any dividends, whether in cash, stock, or otherwise, on any class of its stock, without the prior written consent of the Commissioner. The Board shall also notify the Regional Director prior to the payment or accrual of any dividends.

8. Effective immediately, there shall be no payment or accrual of any director fees, whether in cash, stock, or otherwise, without the prior approval of the Commissioner. The Board shall also notify the Regional Director prior to the payment or accrual of any director fees.

9. During the life of this ORDER, the bank shall submit annual audited financial statements to the Commissioner and the Regional Director. Such statements shall be prepared by a qualified, independent, external auditor and filed within 60 days after each annual period end.

10. Following the effective date of this ORDER, the Bank shall send to its shareholders or otherwise furnish a description of this ORDER (i) in conjunction with the Bank's next shareholder communication, and also (ii) 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 Department and the FDIC, Registration and Disclosure Section, Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and Department shall be made prior to dissemination of the description, communication, notice, or statement.

11. The Bank's board of directors shall appoint a committee composed of at least three directors who are not now and have never been involved in the daily operations of the Bank, and whose composition is acceptable to the Commissioner and the Regional Director (the



"Compliance Committee"), to monitor the Bank's compliance with this ORDER. Within 30 days from the effective date of this ORDER, and at monthly intervals thereafter, such Compliance Committee shall prepare and present to the Bank's board of directors a written report of its findings, detailing the form, content, and manner of any action taken to secure compliance with this ORDER and the results thereof, and any recommendations with respect to such compliance. Such progress reports shall be included in the minutes of the meeting of the Bank's board of directors.

12. By the 30th day after the end of the calendar quarter following the effective date of this ORDER, and by the 25th day after the end of every calendar quarter thereafter, the Bank shall furnish written progress reports to the Commissioner and the Regional Director detailing the form, content, and manner of any actions taken to secure compliance with this ORDER, and the results thereof.

13. The Bank shall notify the Commissioner and the Regional Director immediately of any material adverse development affecting its condition, performance, or outlook.

Each provision of this ORDER shall be binding upon the Bank and all its officers, directors, employees, and their successors and assigns.

Each provision of this ORDER shall remain effective and enforceable until stayed, modified, terminated or suspended by the Commissioner.

In case any provision in this 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.

Failure to comply with this ORDER may result in imposition of penalties upon the Bank as provided by law or other appropriate supervisory action.

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This ORDER is effective and enforceable 10 days from the date of its issuance by the Commissioner as set forth below.

IT IS SO ORDERED on this 17 day of October, 2001.

  
Nicholas J. Ketcha Jr.  
Division Director

Consented to both as to form and substance:

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Herbert Hersh  
Director

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Jack Kung  
Director

\_\_\_\_\_  
Sha-Ting Lin  
Director

\_\_\_\_\_  
Thomas J. O'Donnell  
Director

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Min S. Tjia  
Director