

**UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.**

**STATE OF MARYLAND  
COMMISSIONER OF FINANCIAL REGULATION  
BALTIMORE, MARYLAND**

In the Matter of

CAPITAL FUNDING BANCORP, INC.  
Baltimore, Maryland

CFG COMMUNITY BANK  
Baltimore, Maryland

Docket Nos. 11-091-B-HC  
11-091-B-SM

**CONSENT ORDER**

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”), Capital Funding Bancorp, Inc., Baltimore, Maryland (“Bancorp”), a registered bank holding company, and its subsidiary bank, CFG Community Bank, Baltimore, Maryland (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, and the Maryland Commissioner of Financial Regulation (the “Commissioner”) have the common goal to restore and maintain the financial soundness of the Bank;

WHEREAS, on October 1, 2008, the Bank, formerly known as AmericasBank, entered into a Written Agreement with the Federal Reserve Bank of Richmond (the “Reserve Bank”) and the Commissioner designed to correct certain deficiencies at the Bank relating to safety and soundness (the “Written Agreement”);

WHEREAS, following the execution of the Written Agreement, Bancorp acquired the Bank in August, 2009;

WHEREAS, the Reserve Bank and the Commissioner conducted a full scope examination of the Bank concluding on February 25, 2011 (the “Report of Examination”) and identified certain safety and soundness deficiencies at the Bank and violations of laws and regulations;

WHEREAS, in order to address the safety and soundness deficiencies and violations of laws and regulations identified in the examination, Bancorp, the Bank, the Board of Governors, and the Commissioner have mutually agreed to enter into this Consent Order to Cease and Desist (the “Order”); and

WHEREAS, on October 25, 2011, the boards of directors of Bancorp and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Mr. John W. (“Jack”) Dwyer, Chairman of the Board of Bancorp, and Mr. A. Gary Rever, President of the Bank, to enter into this Order on behalf of Bancorp and the Bank, respectively, and consenting to compliance by Bancorp and the Bank, and their respective institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)), and section 5-808 of the Financial Institutions Article, Maryland Annotated Code (Md. Code Ann. Fin. Inst. § 5-808) and waiving any and all rights that Bancorp and Bank may have pursuant to section 8 of the FDI Act (12 U.S.C. § 1818) and section 5-808 of the Financial Institutions Article, Maryland Annotated Code (Md. Code Ann. Fin. Inst. § 5-808) and the Administrative Procedure Act of the State Government Article, Maryland Annotated Code (Md. Code Ann. State Gov’t § 10-201 et seq.), including, but not limited to: (i) the issuance of a notice of charges; (ii) a hearing for the purpose of taking evidence on any matters set forth in this Order; (iii) judicial review of this Order; (iv) contest the issuance of this Order by the Board of Governors and the Commissioner; and (v) challenge or contest, in any manner, the

basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof.

NOW, THEREFORE, before the filing of any notices, or taking of any testimony or adjudication of or finding on any issues of fact or law herein, and without this Order constituting an admission by Bancorp, the Bank, or any of its subsidiaries of any allegation made or implied by the Board of Governors and the Commissioner in connection with this matter, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony, it is hereby ordered by the Board of Governors and the Commissioner that, pursuant to sections 8(b)(1) and (3) of the FDI Act (12 U.S.C. §§1818(b)(1) and 1818(b)(3)), and section 5-808 of the Financial Institutions Article, Maryland Annotated Code (Md. Code Ann. Fin. Inst. § 5-808), Bancorp, the Bank, and their institution-affiliated parties shall cease and desist and take affirmative action as follows:

**Source of Strength**

1. The board of directors of Bancorp shall take appropriate steps to fully utilize Bancorp's financial and managerial resources, pursuant to section 38A of the FDI Act (12 U.S.C. § 1831o-1) and section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure the Bank complies with the applicable provisions of this Order.

**Corporate Governance and Management Review**

2. (a) Within 10 days of this Order, the Bank shall retain an independent consultant acceptable to the Reserve Bank and the Commissioner to assess the effectiveness of the Bank's corporate governance and board and management structure, and the capabilities of senior management and the directorate (the "Review") and to prepare a written report of findings

and recommendations (the “Management Report”). The Review shall, at a minimum, address, consider, and include:

- (i) an assessment of the current structure, composition, and qualifications of the Bank’s board of directors, and its committees, and a determination of the structure, composition, and qualifications needed to effectively oversee the affairs the Bank;
- (ii) the effectiveness of the Bank’s board of directors’ oversight of compliance with laws and regulations;
- (iii) the qualifications and performance of each of the Bank’s senior executive officers to determine whether the individual possesses the ability, experience, and other qualifications necessary to competently perform present and anticipated duties, including the ability to: adhere to applicable laws and regulations and the Bank’s established policies and procedures; restore and maintain the Bank to a safe and sound condition; and comply with the requirements of this Order; and
- (iv) development of a formal management succession plan for all senior executive officers.

(b) Within 10 days of the Reserve Bank’s and the Commissioner’s approval of the independent consultant selection, the Bank shall submit an engagement letter to the Reserve Bank and the Commissioner for approval. The engagement letter shall require the independent consultant to submit the Management Report within 60 days of the Reserve Bank’s and the Commissioner’s approval of the engagement letter and to provide a copy of the

Management Report to the Reserve Bank and the Commissioner at the same time that it is provided to the Bank's board of directors.

3. Within 60 days of receipt of the Management Report, the board of directors of the Bank shall submit a written plan to the Reserve Bank and the Commissioner that fully addresses the findings and recommendations in the Management Report and describes the specific actions, including time frames, that the board of directors shall take to strengthen the Bank's corporate governance and management; hire, as necessary, additional or replacement officers, directors, or staff to properly oversee, manage and operate the Bank; strengthen board oversight of the management and operations of the Bank; and improve the overall condition of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The responsibility of the board of directors to monitor management's adherence to, and take appropriate, prompt action to address any failure to comply with applicable laws, regulations, and approved plans, policies, and procedures;

(b) revising the charter of the Audit Committee so that the Audit Committee is composed solely of outside directors;

(c) policies and procedures for the approval of expense reimbursements to directors and senior executive officers;

(d) a description of the detailed information to be included in the periodic reports that will be reviewed by the board of directors in its oversight of the operations and management of the Bank, including but not limited to, compliance with laws and regulations, affiliate transactions, and conflicts of interest;

(e) a formal process for tracking regulatory and audit review findings, promptly resolving findings, including timetables for taking corrective actions, and reporting the corrective actions and the results thereof to the board of directors; and

(f) periodic training for directors regarding their fiduciary duties and banking laws and regulations.

### **Composition of the Board of Directors**

4. (a) The Bank's board of directors shall take actions necessary to have a majority of its members be outside directors and shall report quarterly to the Reserve Bank and the Commissioner on its efforts to secure new outside directors and the results thereof.

(b) For purposes of paragraph 4(a) of this Order, the term "outside director" is defined as an individual who: (i) is not an executive officer, as defined in section 215.2(e)(1) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(e)(1)), or other employee of the Bank or its affiliates; (ii) is not an executive officer, other employee, director, or principal shareholder of Bancorp; (iii) is not a related interest, as defined in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)), of any of the above executive officers, employees, directors, or shareholders; and (iv) is not an immediate family member, as defined in section 225.41(b)(3) of Regulation Y of the Board of Governors (12 C.F.R. § 225.41(b)(3)), of any of the above executive officers, employees, directors, or shareholders.

### **Compensation Committee**

5. Within 45 days of this Order, the board of directors of the Bank shall establish a compensation committee ("Compensation Committee") comprised solely of outside directors.

The Compensation Committee shall meet at least annually and shall:

(a) Review and approve employment contracts for all senior executive

officers;

(b) ensure that salaries and other compensation are commensurate with the duties and responsibilities for each senior executive officer, and take into account the Bank's and the individual's performance;

(c) review and evaluate the performance of senior executive officers; and

(d) approve bonuses for senior executive officers.

### **Ethics and Conflict of Interest Policy**

6. Within 90 days of this Order, Bancorp and the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written code of ethics and conflicts of interest policy that applies to all institution-affiliated parties of Bancorp and the Bank. The code of ethics and conflicts of interest policy shall address the responsibilities of institution-affiliated parties to avoid conflicts of interest in transactions with Bancorp and the Bank. At a minimum, the code of ethics and conflicts of interest policy shall:

(a) Prohibit self-dealing by institution-affiliated parties and their related interests, and the advancing of personal, business, or other interests at the expense of the Bancorp and the Bank; and

(b) describe the ethical conduct and other standards expected of institution-affiliated parties in the performance of their duties and responsibilities.

7. Within 90 days of this Order, Bancorp and the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to establish policies, procedures, and controls designed to ensure compliance with the code of ethics and conflicts of interest policy described in paragraph 6 of this Order. The plan shall, at a minimum, address, consider, and include:

(a) Internal controls to monitor compliance with the code of ethics and conflicts of interest policy and report any noncompliance or exceptions to the approved policy to Bancorp's and the Bank's boards of directors; and

(b) training for all institution-affiliated parties provided on a regular basis regarding the code of ethics and conflicts of interest policy and the requirements of Regulation O of the Board of Governors (12 C.F.R. § 215), sections 23A and 23B of the Federal Reserve Act (12 U.S.C. §§371c and 371c-1), and Regulation W of the Board of Governors (12 C.F.R. Part 223)("Regulation W").

8. For purposes of this Order, the term "institution-affiliated parties" is defined in sections 3(u) and 8(b)(3) of the FDI Act.

#### **Expense and Reimbursement Review**

9. Within 20 days of this Order, the Bank shall retain an independent consultant acceptable to the Reserve Bank and the Commissioner to conduct a review of all expenses of directors and senior executive officers reimbursed by Bancorp or the Bank for the period of August 2009 through the date of this Order, including but not limited to, travel and entertainment, to ensure that the reimbursed expenses are related to Bancorp or Bank business.

10. Within 10 days of the Reserve Bank's and the Commissioner's approval of the independent consultant, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable engagement letter detailing the scope of the independent consultant's review. The engagement letter shall require the outside consultant to review all relevant records and documentation and shall prepare a written report of findings (the "Expense and Reimbursement Report") that includes, at a minimum, a detailed description of each expense and its purpose, the benefit of the expense to Bancorp or the Bank, and the amount involved.



11. Within 30 days of receipt of the independent consultant's Expense and Reimbursement Report, Bancorp and the Bank shall submit to the Reserve Bank and the Commissioner a copy of the Expense and Reimbursement Report, together with an acceptable plan for seeking repayment of any expense not of direct benefit to Bancorp or the Bank, as appropriate.

### **Affiliate Transactions**

12. The Bank shall take all necessary actions to ensure that it complies with sections 23A and 23B of the Federal Reserve Act (12 U.S.C. §§371c and 371c-1) and Regulation W of the Board of Governors (12 C.F.R. Part 223)("Regulation W") in all transactions between the Bank and its affiliates, including, but not limited to Bancorp and its nonbank subsidiary.

13. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner acceptable policies and procedures to ensure that the Bank complies with sections 23A and 23 B of the Federal Reserve Act and Regulation W.

14. Bancorp and its nonbank subsidiary shall not cause the Bank to violate any provision of sections 23A and 23B of the Federal Reserve Act or Regulation W.

15. Within 30 days of this Order, Bancorp shall submit to the Reserve Bank and the Commissioner an acceptable written plan to repay to the Bank all funds received by Bancorp, its nonbank subsidiary, or any affiliate of the Bank, in connection with the Bank's violations of Regulation W.

16. Without the prior approval of the Reserve Bank and the Commissioner, the Bank shall not pay any fees to any affiliate or insider with respect to assets, including lines of business, transferred to the Bank from an affiliate of the Bank on or after Bancorp acquired the Bank.

17. During the term of this Order, the Bank shall submit to the Reserve Bank and the

Commissioner, on a quarterly basis, a report of all transactions with affiliates.

### **Allowance for Loan and Lease Losses**

18. (a) Within 60 days of this Order, the Bank shall review and revise its allowance for loan and lease losses (“ALLL”) methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank and the Commissioner. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the loans tested for impairment, accurate documentation of environmental factors, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank’s loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectibility.

(b) Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in

determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

### **Concentrations Risk**

19. Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to reduce industry-specific concentrations risk. The plan shall, at a minimum, address, consider, and include:

- (a) Establishment of concentration risk tolerances or limits by industry, products, and other common risk characteristics or sensitivities;
- (b) periodic risk assessments, including market analysis and trends;
- (c) strategic planning regarding concentrations risks, including steps to reduce the overall level of industry-specific concentrations in relation to capital and earnings;
- (d) use of reasonable assumptions in its model to value servicing rights that are supported, thoroughly documented and detailed; and
- (e) institute periodic reporting to management and the board of directors regarding healthcare industry concentrations, including, but not limited to, reports containing market analyses of the healthcare industry, supply and demand trends, occupancy trends, capitalization rates, and changes in reimbursement rates.

### **Internal Controls**

20. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner acceptable written procedures designed to strengthen its internal controls which

shall, at a minimum, address, consider, and include dual controls, segregation of duties, and approved individual signing authorities for all levels of employees, with additional emphasis placed on transactions associated with senior officers and their related interests, as defined in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. 215.2(n)).

### **Strategic/Business Plan**

21. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner a written strategic plan and budget concerning the Bank's proposed business activities for 2012. The plan and budget shall, at a minimum, provide for or describe:

- (a) The responsibilities of the Bank's board of directors regarding the definition, approval, implementation, and monitoring of the strategic plan, and the procedures designed to ensure that the board of directors fulfills such responsibilities;
- (b) management, lending, and operational objectives given the condition of the Bank, as reflected in the Report of Examination and subsequent reports;
- (c) the operating assumptions that form the bases for major projected income and expense components, and the sources and uses of new funds; and
- (d) the establishment of a monthly review process to monitor the actual income and expenses of the Bank in comparison to budgetary projections.

22. The Bank shall submit to the Reserve Bank and the Commissioner a revised strategic plan and budget at least 30 days prior to the occurrence of any planned material changes to the adopted plan and budget, and the Bank shall promptly notify the Reserve Bank and the Commissioner of any significant deviations from the adopted strategic plan and budget.

23. Any amendments to the strategic plan and budget for any calendar year subsequent to 2012 shall be submitted to the Reserve Bank and the Commissioner at least one month prior to the beginning of that calendar year.

### **Dividends**

24. (a) Bancorp and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the “Director”), and as to the Bank, the Commissioner.

(b) Bancorp shall not directly or indirectly take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) All requests for prior written approval shall be received at least 30 days prior to the proposed dividend declaration date and proposed distribution on subordinated debentures. All requests shall contain, at a minimum, current and projected information, as appropriate, on Bancorp’s capital, earnings, and cash flow; the Bank’s capital, asset quality, earnings, and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, Bancorp and the Bank, as appropriate, must also demonstrate the requested declaration or payment of dividends is consistent with the Board of Governors’ Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323), and Maryland Code Annotated Financial Institutions §§ 3-307 Cash Dividends and 3-308 Stock Dividends.

### **Debt and Stock Redemption**

25. (a) Bancorp shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Bancorp shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

### **Compliance with Laws and Regulations**

26. The Bank shall immediately take all necessary steps to correct all violations of law and regulation cited in the Report of Examination. In addition, the board of directors of the Bank shall take all necessary steps to ensure the Bank's future compliance with all applicable laws and regulations, including but not limited to, Regulation O of the Board of Governors.

### **Compliance with Order**

27. (a) Within 10 days of this Order, the boards of directors of Bancorp and the Bank shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate compliance with the provisions of this Order. The Compliance Committee shall include a majority of outside directors as defined in 4(b) of this Order. At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and periodically report its findings to the boards of directors of Bancorp and the Bank.

(b) Within 30 days after the end of each calendar quarter following the date of this Order, Bancorp and the Bank shall submit to the Reserve Bank and the Commissioner written progress reports detailing the form and manner of all actions taken to secure compliance

with this Order and the results thereof.

### **Approval and Implementation**

28. (a) Bancorp and the Bank shall submit engagement letters, plans, policies, and procedures that are acceptable to the Reserve Bank and the Commissioner within the applicable time periods set forth in paragraphs 6, 7, 10, 11, 13, 15, 18(b), 19 and 20 of this Order.

Independent consultants acceptable to the Reserve Bank and the Commissioner shall be retained in the time periods set forth in paragraphs 2(a) and 9.

(b) Within 10 days of approval by the Reserve Bank and the Commissioner, Bancorp and the Bank shall adopt the approved engagement letters, plans, policies, and procedures. Upon adoption, Bancorp and the Bank shall promptly implement the approved plans, policies, and procedures and thereafter fully comply with them.

(c) During the term of this Order, the engagement letters and the approved plans, policies, and procedures shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Commissioner.

### **Communications**

29. All communications regarding this Order shall be sent to:

- (a) Eugene W. Johnson, Jr.  
Vice President  
Federal Reserve Bank of Richmond  
P.O. Box 27622  
Richmond, Virginia 27622
- (b) Teresa M. Louro  
Assistant Commissioner for Bank Supervision  
State of Maryland Commissioner of Financial Regulation  
500 North Calvert Street  
Suite 402  
Baltimore, Maryland 21202

(c) John W. (“Jack”) Dwyer  
Chairman  
Capital Funding Bancorp, Inc.  
1422 Clarkview Road  
Baltimore, Maryland 21209

(d) A. Gary Rever  
President  
CFG Community Bank  
1422 Clarkview Road  
Baltimore, Maryland 21209

### **Miscellaneous**

30. Notwithstanding any provision of this Order, the Reserve Bank and the Commissioner may, in their sole discretion, grant written extensions of time to Bancorp and the Bank to comply with any provision of this Order.

31. The provisions of this Order shall be binding upon Bancorp, the Bank, and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

32. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Commissioner.

33. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Commissioner, or any other federal or state agency from taking any other action affecting Bancorp, its nonbank subsidiary, the Bank, its subsidiaries, or any of their current or former institution-affiliated parties and their successors and assigns.



34. This Order supersedes and terminates the Written Agreement.

By Order of the Board of Governors of the Federal Reserve System and the Commissioner effective this 31<sup>st</sup> day of October, 2011.

CAPITAL FUNDING BANCORP, INC.

By: /s/ John W. Dwyer  
John W. Dwyer  
Chairman

BOARD OF GOVERNORS OF  
THE FEDERAL RESERVE SYSTEM

By: /s/ Jennifer J. Johnson  
Jennifer J. Johnson  
Secretary of the Board

CFG COMMUNITY BANK

By: /s/ A. Gary Rever  
A. Gary Rever  
President

THE STATE OF MARYLAND  
Commissioner of Financial Regulation

By: /s/ Mark A. Kaufman  
Mark A. Kaufman  
Commissioner