

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

In the Matter of

JACOB H. GOLDSTEIN, individually,

a former institution-affiliated party of

NBRS Financial, Rising Sun, Maryland,
a former state member bank

Docket No. 18-006-E-I

Notice of Intent to Prohibit
Pursuant to Section 8 of the
Federal Deposit Insurance Act,
as Amended

The Board of Governors of the Federal Reserve System (the “Board of Governors”) is of the opinion or has reasonable cause to believe that:

(A) Jacob H. Goldstein (“Goldstein”), former president and chief executive officer (“CEO”) of NBRS Financial (“NBRS” or the “bank”), a former state member bank in Rising Sun, Maryland, engaged in unsafe or unsound practices, violations of law, and breaches of fiduciary duty. The practices, violations, and breaches of fiduciary duty relate to Goldstein using his position as president and CEO to engage in self-dealing by improperly obtaining loans for his personal benefit and withholding material information from the bank’s board of directors. In connection with the misconduct described herein, Goldstein received a financial gain or other benefit and NBRS suffered financial loss or other damage; and

(B) The misconduct described herein involves personal dishonesty or a willful or continuing disregard for the safety and soundness of NBRS on the part of Goldstein.

Accordingly, the Board of Governors hereby institutes this Notice of Intent to Prohibit (the “Notice”) for the purpose of determining whether an appropriate order should be issued:

- i. Permanently barring Goldstein from participating in any manner in the conduct of the affairs of any institution specified in 12 U.S.C. § 1818(e)(7)(a), pursuant to section 8(e) of the Federal Deposit Insurance Act, as amended (the “FDI Act”), 12 U.S.C. § 1818(e).

In support of this Notice, the Board of Governors alleges as follows:

JURISDICTION

1. NBRS was at all material times relevant to this Notice, a state member bank subject to the supervision and regulation of the Board of Governors. Accordingly, the Board of Governors is the appropriate Federal Banking Agency to bring charges against institution-affiliated parties of NBRS within the meaning of sections 3(q)(3) and 8(b)(3) of the FDI Act, 12 U.S.C. §§ 1813(q)(3), 1818(b)(3).

2. Goldstein was employed as president and CEO of NBRS at all material times relevant to this Notice, and was an institution-affiliated party of NBRS, as defined in sections 3(u) and 8(b)(3) of the FDI Act, 12 U.S.C. §§ 1813(u) and 1818(b)(3), and subject to the Board of Governors’ enforcement jurisdiction under sections 8(e) and 8(b)(3) of the FDI Act, 12 U.S.C. §§ 1818(e)(3) and 1818(b)(3).

3. The relevant period for purposes of this notice, unless otherwise stated, is at least January 1, 2008 through October 31, 2014 (“relevant period”).

FACTUAL ALLEGATIONS

4. NBRS was founded in 1880 in Rising Sun, Maryland and became a member of the Federal Reserve System in 2002. The bank operated out of its headquarters in Rising Sun and out of five branches located in Maryland and Pennsylvania.

5. In or around 2001, NBRS hired Goldstein. Goldstein served as the bank's president, CEO, and chairman of the board of directors. Goldstein also served as chief lending officer for the bank and was a member of the bank's loan committee. Goldstein held these positions until his resignation from NBRS in February 2012.

6. In his roles, Goldstein was obligated to comply with all applicable laws and regulations, to ensure an effective system of internal controls, and to otherwise carry out his duties and responsibilities in a safe and sound manner.

7. Goldstein also owed fiduciary duties of care and loyalty to NBRS which required that Goldstein disclose material information to the bank's board of directors and refrain from engaging in self-dealing at the expense of the bank. The duty of loyalty further required Goldstein to disclose the existence, nature, and extent of any conflicts of interest with the bank, refrain from discussing, voting, or having any other involvement on matters where Goldstein had a conflict of interest, and to place the interests of the bank ahead of Goldstein's own personal interests at all times.

8. During the relevant time period, Goldstein was an "executive officer" and an "insider" for purposes of Regulation O, 12 C.F.R. § 215.

9. In October 2014, the Maryland Office of the Commissioner of Financial Information closed NBRS due to its poor financial condition and the Federal Deposit Insurance Corporation ("FDIC") was appointed receiver.

10. The bank failed, in part, because of Goldstein's dominant influence over the bank's operations which limited the institution's ability to overcome its deteriorating financial condition and Goldstein's engaging in improper business practices for his own benefit.

11. While an institution-affiliated party of the bank, Goldstein also undermined the effectiveness of key control functions at the institution which led to significant weaknesses in corporate governance.

12. From at least 2008 through his resignation in 2012, Goldstein leveraged his position as bank president, CEO, and chairman of the board to engage in unsafe or unsound practices, violations of law or regulations, and breaches of his fiduciary duty by engaging in improper business practices for his own benefit.

**Goldstein Used Person A to Obtain a Loan for
Goldstein's Personal Benefit**

13. In May 2010, the bank approved a \$250,000 loan to Person A, the son of a NBRS board member. The stated purpose of the loan was for investment in a real estate partnership. In actuality, Goldstein asked Person A to obtain the \$250,000 loan for Goldstein's personal use and benefit—promising Person A that he would pay off the loan.

14. On May 20, 2010, Goldstein attended a meeting of the bank's board of directors where the loan to Person A was discussed. Goldstein voted to approve the unsecured \$250,000 loan to Person A and did not disclose that he was the true beneficial party of the loan.

15. On May 24, 2010, bank records show that the proceeds of the loan to Person A were disbursed directly to an account for an entity owned in part by Goldstein.

16. On May 26, 2010, a personal line of credit made by NBRS to Goldstein, that was fully drawn and had become due, was paid off by an online transfer from the account that had received the proceeds of the loan to Person A.

17. In addition to the initial board of directors meeting where the loan to Person A was approved, Goldstein participated in several subsequent decisions involving the loan, including increasing the balance from \$250,000 to \$275,000 in August 2010. Goldstein also

made an executive decision to leave all interest rates the same for Person A's loan for another year and participated in a June 2011 loan committee meeting where he voted to approve extending the loan's maturity date. At no time did Goldstein disclose that he was the beneficial recipient of the loan proceeds.

18. Goldstein engaged in the self-dealing transaction without disclosing his interest to the board of directors which constituted an unsafe or unsound practice, a breach of his fiduciary duties and a violation of banking regulations governing extensions of credit to bank insiders.

**Goldstein Deceived the NBRS Board of Directors
Regarding the Company A Loan**

19. In April 2008, NBRS made a \$100,000 unsecured loan to Company A, to finance certain costs related to a development project. Goldstein owned a one-sixth interest in Company A, a special purpose real estate entity.

20. At an April 2008 board of directors meeting where the Company A loan was discussed, Goldstein participated in the meeting, did not disclose his interest in Company A, and voted to approve the extension of credit.

21. In addition, Goldstein actively participated in the management of the loan on behalf of NBRS, including twice extending the maturity date of the loan.

22. Goldstein engaged in the self-dealing transaction without disclosing his interest to the board of directors which constituted an unsafe or unsound practice, a breach of his fiduciary duties and a violation of banking regulations governing extensions of credit to bank insiders.

**Goldstein Caused NBRS to Operate in an
Unsafe or Unsound Manner**

23. During the relevant period, Goldstein caused NBRS to operate in an unsafe or unsound manner by causing the bank to violate Regulation O, 12 C.F.R. § 215, because the bank

did not comply with the requirements governing extensions of credit to insiders as Goldstein did not disclose that the loans to Person A and Company A were for his benefit.

24. In addition, Goldstein's conduct in engaging in self-dealing transactions undermined the effectiveness of the management of the bank and its corporate governance causing NBRS to operate in an unsafe or unsound manner.

25. Goldstein's dominant influence over the bank's operations undermined the effectiveness of key control functions and limited the bank's ability to overcome its deteriorating financial condition.

**VIOLATIONS OF LAW AND REGULATION, UNSAFE OR
UNSAFE PRACTICES, AND BREACHES OF
FIDUCIARY DUTY BY GOLDSTEIN**

COUNT I: Unsafe or Unsound Banking Practices

26. As set forth in paragraphs 1 through 25 above, Goldstein engaged in unsafe or unsound practices by leveraging his position as bank president and CEO to improperly obtain loans from NBRS for his own benefit while withholding information regarding the true purpose of the loans.

27. Further, Goldstein's conduct caused the bank to operate in an unsafe manner and violate banking laws and regulations resulting in personal gain to Goldstein and exposing NBRS to a reasonably foreseeable risk of financial loss and other damage.

COUNT II: Violations of Regulation O (12 C.F.R. § 215)

28. At all relevant times, 12 C.F.R. § 215 governed extensions of credit made by a member bank to an executive officer or director of the member bank. This regulation includes limitations on the aggregate amount of extensions of credit to bank insiders and recordkeeping requirements for such loans.

29. As set forth in paragraphs 1 through 25 above, Goldstein's self-dealing and withholding of material information from the bank's board of directors violated the limitations on extensions of credit and recordkeeping requirements of Regulation O, 12 C.F.R. § 215.

COUNT III: Breaches of Fiduciary Duty

30. In his roles, Goldstein owed fiduciary duties of care and loyalty to the bank which required Goldstein to refrain from engaging in self-dealing at the expense of the bank and undermining key controls at the bank. Goldstein's fiduciary duties further required him to disclose the existence, nature, and extent of any conflicts of interest with the bank, refrain from discussing, voting or having any other involvement on matters where Goldstein had a conflict of interest, and to place the interests of the bank ahead of Goldstein's own personal interests at all times. His fiduciary duties also required him to act with due care for the bank.

31. As set forth in paragraphs 1 through 25 above, Goldstein breached his fiduciary duties by withholding material information from the board of directors and voting to approve and extend loans where he had an undisclosed personal interest.

REQUESTED RELIEF

PROHIBITION ACTION

32. Notice is hereby given that a hearing will be held on a date determined by the presiding administrative law judge, at the United States Courthouse in the District of Maryland or any place designated by the presiding administrative law judge, for the purpose of taking evidence on the charges specified herein, in order to determine whether an appropriate order should be issued under section 8(e) of the FDI Act to prohibit the future participation of Goldstein in the affairs of any insured depository institution, holding company thereof, foreign bank, or any institution specified in section 8(e)(7)(A) of the FDI Act, 12 U.S.C.

§ 1818(e)(7)(A). As set forth above, by reason of Goldstein's violations of law or regulation, unsafe or unsound practices, and breaches of fiduciary duty, Goldstein received a financial gain or other benefit, NBRB has suffered financial loss or other damage, the interests of its depositors have been prejudiced; and the unsafe or unsound practices, violations of law or regulations, and breaches of fiduciary duty involved personal dishonesty or continuing or willful disregard for the safety and soundness of NBRB on Goldstein's part.

33. The hearing shall be held before an administrative law judge to be appointed from the Office of Financial Institution Adjudication ("OFIA"), pursuant to section 263.54 of the Rules of Practice, 12 C.F.R. § 263.54. The hearing shall be public, unless the Board of Governors determines that a public hearing would be contrary to the public interest, and in all other aspects shall be conducted in compliance with the provisions of the FDI Act and the Rules of Practice.

34. **Goldstein is hereby directed to file an answer to this Notice within 20 days of the service of this Notice, as provided by section 19 of the Rules of Practice, 12 C.F.R. § 263.19, with the OFIA. Goldstein is encouraged to file any answer to this Notice by electronic mail with OFIA at ofia@fdic.gov.** Pursuant to section 263.11(a) of the Rules of Practice, 12 C.F.R. § 263.11(a), any answer filed with OFIA shall also be served on the Secretary of the Board of Governors. As provided in section 263.19(c)(1) of the Rules of Practice, 12 C.F.R. § 263.19(c)(1), the failure of Goldstein to file an answer required by this Notice within the time provided herein shall constitute a waiver of his right to appear and contest the allegations of this Notice in which case the presiding officer is authorized, upon proper motion, to find the facts to be as alleged in the Notice and to file with the Secretary of the Board of Governors a recommended decision containing such findings and appropriate conclusions. Any

