

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of)

COMMUNITY FIRST BANK)
SOMERSET, NEW JERSEY)

(INSURED STATE NONMEMBER BANK))
_____)

CONSENT ORDER

FDIC-13-194b

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for COMMUNITY FIRST BANK, SOMERSET, NEW JERSEY ("Bank"), under section 3(q) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("CONSENT AGREEMENT"), dated September 20, 2013, that is accepted by the FDIC. With the CONSENT AGREEMENT, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to weaknesses in the Bank's management, operations and compliance with the Bank Secrecy Act, 31 U.S.C. § 5311 et seq., 12 U.S.C. § 1829b and 12 U.S.C. §§ 1951-1959, and its implementing regulations, 31 C.F.R. Chapter X and 12 C.F.R. Part 353, and 12 U.S.C. § 1818(s) and its implementing regulation, 12 C.F.R. § 326.8 (collectively referred to as "BSA"), to the issuance of this Consent Order ("ORDER") by the FDIC.

Having determined that the requirements for issuance of an order under section 8(b) of the Act, 12 U.S.C. § 1818(b), have been satisfied, the FDIC hereby orders that:

BOARD SUPERVISION

1. The Bank's Board shall increase its supervision and direction in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. The supervision shall include holding meetings no less frequently than monthly, at which it shall review and approve, at a minimum, programs and practices pertaining to Bank operations, including BSA compliance, along with all respective committee minutes pertaining to these matters. The Bank's Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

MANAGEMENT

2. The Bank shall have and retain management qualified to oversee all aspects of the Bank's operations, including the Bank's BSA Compliance Program. Management shall ensure compliance with all applicable laws and regulations. Each member of management shall have the qualifications and experience commensurate with his or her duties and responsibilities related to applicable laws and regulations.

WRITTEN BSA COMPLIANCE PROGRAM

3. (a) Within 30 days from the effective date of this ORDER, the Bank shall develop, adopt, and implement a revised, written BSA Compliance Program, including policies and procedures, which fully meets all applicable requirements of section 326.8 of the FDIC's Rules

and Regulations, 12 C.F.R. § 326.8, and which is designed to, among other things, ensure and maintain full compliance by the Bank with the BSA and the rules and regulations issued pursuant thereto.

(b) The Bank shall provide the Regional Director of the FDIC's New York Regional Office ("Regional Director") and the Commissioner of Banking and Insurance of the State of New Jersey ("Commissioner") with a copy of the revised, written BSA Compliance Program for non-objection or comment. Thereafter, the revised program shall be implemented in a manner acceptable to the Regional Director and the Commissioner, as determined at subsequent examinations and/or visitations of the Bank.

BSA/AML RISK ASSESSMENT

4. (a) Within 30 days from the effective date of this ORDER, the Bank shall conduct an initial and subsequent periodic risk assessments of the Bank's operations ("Risk Assessment"), no less than annually, consistent with the guidance for risk assessments set forth in the *Bank Secrecy Act/Anti-Money Laundering Examination Manual* compiled by the Federal Financial Institutions Examination Council (www.ffiec.gov/bsa_aml_infobase/default.htm) (the "BSA Manual"), and shall establish appropriate written policies, procedures, and processes regarding Risk Assessments. The Risk Assessment shall address all pertinent risk factors that affect the overall BSA/Anti-money laundering ("AML") risk profile of the bank and ensure that risk ratings are accurate and well supported through qualitative and quantitative data.

(b) Based on the results of the Risk Assessment, a comprehensive system of internal controls to mitigate the risk shall be developed.

BSA INTERNAL CONTROLS

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop a revised system of internal controls designed to ensure full compliance with the BSA ("BSA Internal Controls") taking into consideration its size and risk profile.

(b) At a minimum, such system of BSA Internal Controls shall include policies, procedures, and processes addressing the following areas:

(i) **Suspicious Activity Monitoring and Reporting:** The Bank shall, taking into account its size and risk profile, develop, adopt, and implement policies, procedures, processes, and systems for monitoring, detecting, and reporting suspicious activity being conducted in all areas within or through the Bank. The Bank shall cause the timely, accurate, and complete filing of Suspicious Activity Reports ("SARs"), with an appropriate level of documentation and support for management's decisions to file or not to file a SAR, as required by law. These policies, procedures, processes and systems should ensure that all relevant areas of the Bank are monitored for suspicious activity, including, but not limited to: cash transactions, international and domestic wire transfers, and ACH and ATM transactions;

(ii) **Due Diligence:** The Bank shall review and enhance its customer due diligence ("CDD") policies, procedures, and processes for new and existing customers to:

a. be consistent with the guidance for CDD set forth in the BSA Manual; and

b. operate in conjunction with its Customer Identification Program (“CIP”);

(iii) At a minimum, the CDD program shall provide for:

a. a risk assessment of the customer base through an appropriate risk rating system to ensure that the risk level of the Bank’s customers is accurately identified based on the potential for money laundering or other illicit activity posed by the customer’s activities, with consideration given to the purpose of the account, the anticipated type and volume of account activity, types of products and services offered, and locations and markets served by the customer;

b. an appropriate level of ongoing monitoring commensurate with the risk level to ensure that the Bank can reasonably detect suspicious activity and accurately determine which customers require enhanced due diligence (“EDD”);

c. obtaining and analyzing a sufficient level of customer information at account opening to assist and support the risk ratings assigned;

d. a process for documenting and supporting the analysis conducted under the CDD process, including a process for validating risk ratings assigned at account opening, and resolving issues when insufficient or inaccurate information is obtained; and

e. processes to reasonably ensure the timely identification and accurate reporting of known or suspected criminal activity, as required by the suspicious activity reporting provisions of Part 353 of the FDIC’s Rules, 12 C.F.R. Part 353.

(iv) **Enhanced Customer Due Diligence:** The Bank shall establish EDD policies, procedures, and processes to conduct EDD necessary for those categories of customers

the Bank has reason to believe pose a heightened risk of suspicious activity, including, but not limited to, high risk accounts. The EDD policies, procedures, and processes adopted shall:

- a. be consistent with the guidance for EDD set forth in the BSA Manual; and
- b. operate in conjunction with its CIP and CDD policies, procedures and processes;

(v) At a minimum, the EDD program shall require EDD procedures to:

- a. determine the appropriate frequency for conducting ongoing reviews, based on customer risk level;
- b. determine the appropriate documentation necessary to conduct and support ongoing reviews and analyses in order to reasonably understand the normal and expected transactions of the customer; and
- c. reasonably ensure the timely identification and accurate and complete reporting of known or suspected criminal activity against or involving the Bank to law enforcement and supervisory authorities, as required by the suspicious activity reporting provisions of Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353.

(vi) These policies, procedures, processes and practices shall operate in conjunction with each other, and be consistent with the guidance for account/transaction monitoring and reporting set forth in the BSA Manual, including arranging for the dissemination of a high risk customer list to appropriate departments within the Bank;

(c) The BSA Internal Controls shall be submitted to the Regional Director and the Commissioner for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Regional Director and the Commissioner, and after incorporation and adoption of all comments, the Board shall approve the BSA Internal Controls, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the BSA Internal Controls.

BSA INDEPENDENT TESTING

6. (a) Within 30 days from the effective date of this ORDER, the Bank shall establish independent testing programs for compliance with the BSA and OFAC rules and regulations, to be performed on no less than an annual basis. The scope of the testing procedures to be performed shall be documented in writing and approved by the Board or its designee. Testing results shall be documented in writing and approved by the Board or its designee within 60 days of completion. Testing procedures should be consistent with the guidance for independent testing as set forth in the BSA Manual and, at a minimum, address the following:

- (i) overall integrity and effectiveness of the BSA/AML compliance program, including policies, procedures, and processes;
- (ii) BSA/AML risk assessment;
- (iii) BSA reporting and recordkeeping requirements;
- (iv) CIP implementation;

- (v) adequacy of CDD and EDD policies, procedures, and processes and whether they comply with internal requirements;
- (vi) personnel adherence to the Bank's BSA/AML policies, procedures, and processes;
- (vii) appropriate transaction testing, with particular emphasis on high-risk operations;
- (viii) training adequacy, including its comprehensiveness, accuracy of materials, the training schedule, and attendance tracking;
- (ix) an evaluation of management's efforts to resolve violations and deficiencies noted in the previous tests or audits and regulatory examinations;
- (x) an assessment of the overall process for identifying and reporting suspicious activity, including a review of filed or prepared SARs to determine their accuracy, timeliness, completeness, and effectiveness of the Bank's policy; and
- (xi) accuracy and completeness of account risk profiles.

(b) Written reports shall be prepared which document the testing results and provide recommendations for improvement. Such reports shall be presented to the Bank's Board.

BSA OFFICER

7. Within 30 days from the effective date of this ORDER, the Bank shall designate a qualified individual or individuals ("BSA Officer"), acceptable to the Regional Director and the

Commissioner, with delegated authority and an adequate level of appropriate resources to implement and enforce BSA compliance, including training, in all material respects with all laws and regulations. The BSA Officer's qualifications should be commensurate with the complexity of the Bank's activities and operations and the appointment of the BSA Officer shall conform with guidance for the BSA officer position, as set forth in the BSA Manual.

BSA STAFFING NEEDS

8. Within 30 days from the effective date of this ORDER, and periodically thereafter, no less than annually, the Bank will perform a review of its BSA staffing needs to ensure adequate and appropriate resources are in place at all times. The review should include, at a minimum, consideration of the institution's size and growth plans, geographical areas served, products and services offered, and changes in the BSA/AML practices, rules, and regulations.

REPORTS

9. The Bank shall ensure that all required reports, including Currency Transaction Reports ("CTRs"), SARs, Reports of International Transportation of Currency or Monetary Instruments, Reports of Foreign Bank and Financial Accounts, and any other similar or related reports required by law or regulation are completed accurately and properly filed within required timeframes.

LOOK BACK REVIEW

10. (a) Within 30 days from the effective date of this ORDER, the Bank shall engage a qualified firm, acceptable to the Regional Director and the Commissioner, to conduct a review of all accounts and transaction activity for the time period beginning January 1, 2012 through the effective date of this ORDER to determine whether suspicious activity involving any accounts or

transactions within or through the Bank was properly identified and reported in accordance with the applicable suspicious activity reporting requirements ("Look Back Review").

(b) Within 60 days of receipt of the Regional Director's and Commissioner's non-objection, the qualified firm shall commence the Look Back Review, and shall prepare any additional CTRs and SARs necessary based upon the review. Upon completion of the Look Back Review, the Bank shall submit the findings of the review and copies of any additional SARs and CTRs filed to the Regional Director and the Commissioner.

LOAN POLICY

11. (a) Within 60 days from the effective date of this ORDER, the Bank shall conduct a review of the Bank's loan policies and procedures for adequacy and, based upon such review, shall make all appropriate revisions to the loan policies ("Loan Policy") necessary to address the lending and review and monitoring deficiencies identified in the current Report of Examination. The Bank shall ensure that all lending personnel adhere to the Loan Policy and that the Board receives timely and fully documented reports on loan activity, including reports that identify deviations from the Loan Policy.

(b) Loan Policy, including review and monitoring procedure revisions, shall, at a minimum, require:

(i) that all extensions of credit originated or renewed by the Bank:

a. have a predetermined and realistic repayment source and schedule, including secondary source of repayment;

- b. are supported by complete loan documentation, including lien searches, perfected security interests, and collateral valuations; and
 - c. are supported by assessments of current financial information; profit and loss statements or copies of tax returns; cash flow projections and written analyses thereof; documentation supporting decisions to approve, extend or renew any loan; and status reports documenting communications with the borrower, which shall be maintained throughout the term of the loan; and are otherwise in conformance with the Loan Policy;
- (ii) accurate reporting of “past due,” “nonaccrual” loans, and “troubled debt restructurings” in accordance with the Bank’s Consolidated Reports of Condition and Income (“Call Report”);
 - (iii) procedures for the prompt identification of loans with credit weaknesses that warrant the special attention of management, including: the name of the borrower; amount of the loan; reason why the loan warrants special attention; assessment of the degree of risk that the loan will not be fully repaid according to its terms; and a mechanism for reporting periodically, but in no event less than quarterly, the information developed to the Board;
 - (iv) procedures for the underwriting, review, and monitoring of commercial real estate loans in accordance with *Concentrations in Commercial Real Estate Lending Joint Guidance* (FIL-104-2006, issued December 12, 2006), and *Managing Commercial Real Estate Concentration in a Challenging Environment* (FIL-22-2008, issued March 17, 2008); and
 - (v) procedures for the reporting of loan concentrations to the Board.

(c) The Loan Policy shall be submitted to the Regional Director and the Commissioner for non-objection or comment. Within 45 days from receipt of non-objection or comments from the Regional Director and the Commissioner, and after incorporation and adoption of all comments, the Board shall approve the Loan Policy, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Loan Policy.

LOSS CHARGE-OFF

12. The Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the Report of Examination. Elimination or reduction of these assets through proceeds of loans made by the Bank shall not be considered "collection" for the purpose of this paragraph or elsewhere, as applicable, in the ORDER. Thereafter, within 10 days after the receipt of any subsequent report of examination of the Bank from the FDIC or the New Jersey Department of Banking and Insurance, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" that have not been previously collected or charged off.

ALLOWANCE FOR LOAN AND LEASE LOSSES

13. (a) Within 30 days from the effective date of this ORDER, the Bank shall revise and update a comprehensive policy and methodology for determining the Bank's allowance for loan and lease losses ("ALLL")("ALLL Policy"). The ALLL Policy shall provide for a review of procedures for identifying and recognizing loan loss, with particular emphasis on addressing recommendations made in the Report of Examination for the purpose of ensuring that loss is recognized in a timely manner; that the ALLL is appropriately funded; and that financial

reporting properly reflects the Bank's financial condition.

(b) The ALLL Policy shall provide for a review of the ALLL at least once each calendar quarter, completed at least 15 days after the end of each calendar quarter, in order that the results of the review conducted by the Board may be properly reported in the Bank's Call Report. Such reviews shall, at a minimum, be made in accordance with:

(i) Financial Accounting Standards Board ("FASB") Accounting Standards Certification ("ASC") 450 (formerly known as FAS 5) and ASC 310-10-35 (formerly known as FAS 114);

(ii) the Federal Financial Institutions Examination Council's ("FFIEC") Instructions for the Call Report;

(iii) the *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (FIL-105-206, issued December 13, 2006), and the *Interagency Policy Statement on the Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions* (July 2, 2001);

(iv) other applicable regulatory guidance that addresses the appropriateness of the Bank's ALLL; and

(v) any analysis of the Bank's ALLL provided by the FDIC and the Commissioner.

(c) Such reviews shall include, at a minimum:

(i) the Bank's loan loss experience;

(ii) an estimate of the potential loss exposure in the portfolio; and

(iii) trends of delinquent and non-accrual loans and prevailing and

prospective economic conditions and qualitative factors.

(d) The minutes of the Board meetings at which such reviews are undertaken shall include complete details of the reviews and the resulting recommended adjustment in the ALLL. The Board shall document in the minutes the basis for any determination not to require provisions for loan losses in accordance with subparagraphs (a) and (b).

(e) A deficiency in the ALLL shall be remedied in the calendar quarter in which it is discovered by a charge to current operating earnings prior to any capital determinations required by this ORDER and prior to the Bank's submission of its Call Report. The Bank shall thereafter maintain an appropriate ALLL.

(f) The analysis supporting the determination of the adequacy of the ALLL shall be submitted to the Regional Director and the Commissioner at such times as the Bank files the progress reports required by this ORDER or sooner upon the written request of the Regional Director or the Commissioner. In the event that the Regional Director and the Commissioner determines that the Bank's ALLL is inadequate, the Bank shall increase its ALLL and amend its Call Reports accordingly.

INFORMATION TECHNOLOGY

14. (a) Within 90 days from the effective date of this ORDER, the Bank shall prepare and present for the Board's approval a Strategic Plan for Information Technology ("IT") that is consistent with the Bank's overall strategic plan, provides for guidance of decision-making in the IT area and addresses the deficiencies noted in the Report of Examination.

(b) Within 60 days from the effective date of this ORDER, the Bank shall institute procedures to ensure meeting the standards contained in Part 364, Appendix B, of the FDIC's Rules and Regulations, 12 C.F.R. Part 364, App. B, including the performance of a

comprehensive information security risk assessment and development of an adequate corporate information security policy to safeguard confidential customer information that meets the requirements of the Information Security Booklet of the FFIEC's IT Examination Handbook, including properly securing all wireless network connections provided to Bank customers and guests.

(c) Within 30 days from the effective date of this ORDER, the Bank shall implement a tracking system for all IT audit and examination exceptions that includes the source of the exception, corrective action promised, the person responsible for the corrective action, and the date by which corrective action is due. The internal auditor shall report on all outstanding exceptions at each meeting of the Audit Committee and exceptions cleared since the previous meeting.

(d) Within 45 days from the effective date of this ORDER, the Bank shall implement a Board approved Vendor Management Program that includes a due diligence process for selecting vendors, an on-going review process, requirements for service level agreements, and a classification process that identifies vendors with access to customer information.

(e) Within 120 days from the effective date of this ORDER, management shall develop E-Banking layered security controls that track suspicious or anomalous activities related to E-Banking payments. These controls should include an evaluation of items such as new payees, foreign payments, and changes in payment frequency.

(f) Within 120 days from the effective date of this ORDER, management shall develop an Identity Theft Program that includes an annual Red Flag Risk Assessment of all

covered accounts, and annual reporting to the Board that describes the overall status of the Identity Theft Flags Program.

BUSINESS/STRATEGIC PLAN AND PROFIT AND BUDGET PLAN

15. (a) Within 45 days from the effective date of this ORDER, and within 30 days from the first day in each calendar year thereafter, the Board shall develop a written three-year business/strategic plan and a one-year profit and budget plan covering the overall operation of the Bank and its goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER.

(b) The business/strategic plan shall provide specific objectives for asset growth, balance sheet composition, loan portfolio mix, market focus, earnings projections, capital needs, and liquidity position. The profit and budget plan shall include goals and strategies for improving the earnings of the Bank. The budget shall include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(c) The business/strategic plan and profit and budget plan, and any modifications thereto, shall be submitted to the Regional Director and the Commissioner for non-objection or comment. Within 30 days from receipt of non-objection or any comments from the Regional Director and the Commissioner, and after incorporation and adoption of all comments, the Board shall approve the business/strategic plan and the profit and budget plan, which approvals shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the business/strategic plan and profit and budget plan.

(d) At the Board's first meeting following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plans required by this provision and shall record the results of that evaluation, and any responsive actions taken or to be taken by the Bank, in the Board's minutes.

CORRECTIVE ACTION

16. The Bank shall take all steps necessary, consistent with other provisions of this ORDER and sound banking practices, to eliminate, correct any unsafe or unsound banking practices and prevent any violations of law or regulation cited in the Report of Examination.

COMPLIANCE COMMITTEE

17. Within 30 days from the effective date of this ORDER, the Board shall establish a compliance committee ("Compliance Committee") a majority of which members who are not now, and have never been, involved in the daily operations of the Bank, and whose composition is acceptable to the Regional Director and the Commissioner, with the responsibility of ensuring compliance with the provisions of this ORDER. The Compliance Committee shall monitor compliance with this ORDER and submit a written monthly report to the full Board detailing the form, content, and manner of any action taken to ensure compliance with this ORDER. A copy of the report and any discussion related to the report or the ORDER shall be included in the minutes of the Board meeting. Copies of the monthly report shall be submitted to the Regional Director and the Commissioner as part of the progress reports required by this ORDER. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

PROGRESS REPORTS

18. Within 45 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the Commissioner written progress reports detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. All progress reports and other written responses to this ORDER shall be reviewed by the Board, and made a part of the Board minutes.

SHAREHOLDER DISCLOSURE

19. The Bank shall provide to its shareholders or otherwise furnish a description of this ORDER, in conjunction with the Bank's next shareholder communication and 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, Division of Risk Management Supervision, Accounting-Registration, Disclosure and Securities Section, 550 17th Street, N.W., Washington, D.C. 20429 and the New Jersey Department of Banking and Insurance, 20 West State Street, Trenton, New Jersey 08625, for non-objection or comment at least 30 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC or the Commissioner shall be made prior to dissemination of the description, communication, notice, or statement.

MISCELLANEOUS

It is expressly understood that if, at any time, the Regional Director and the Commissioner shall deem it appropriate in fulfilling the responsibilities placed upon him under

applicable law to undertake any further action affecting the Bank, nothing in this ORDER shall bar, estop, or otherwise prevent him or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance.

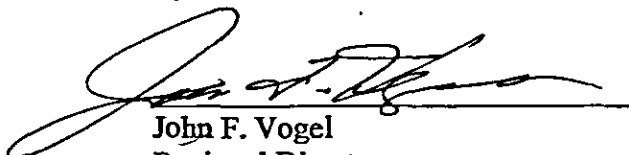
The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC.

Issued Pursuant to Delegated Authority

Dated: 9/20, 2013

By:



John F. Vogel
Regional Director
New York Region
Federal Deposit Insurance Corporation