

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

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In the Matter of	)	CONSENT ORDER
	)	
HANOVER COMMUNITY BANK	)	
GARDEN CITY PARK, NEW YORK	)	FDIC-10-292b
	)	
(INSURED STATE NONMEMBER BANK)	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Hanover Community Bank, Garden City Park, New York, (“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 TO THE ISSUANCE OF A CONSENT ORDER” (“CONSENT AGREEMENT”), dated July 27, 2010, 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 relating to weaknesses in management, capital, earnings, asset quality, and interest rate risk procedures 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:

MANAGEMENT

1. (a) The Bank shall have and retain qualified management. Within 90 days from the effective date of this ORDER, the Bank shall hire a chief executive officer with proven ability in managing a bank of comparable size and complexity, and a senior lending officer with an appropriate level of lending, collection, and loan supervision experience for the type and quality

of the Bank's loan portfolio. The Bank shall also ensure that management includes a chief financial officer with demonstrated ability in all financial areas including, but not limited to, accounting, regulatory reporting, budgeting and planning, management of the investment function, liquidity management, and interest rate risk management. The Board shall provide the necessary written authority to management to implement the provisions of this ORDER.

(b) 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 applicable laws, rules, and regulations; and
- (iv) restore all aspects of the Bank to a safe and sound condition, including

capital adequacy, asset quality, management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

(c) Within 60 days from the effective date of this ORDER, the Bank shall retain a bank consultant who is acceptable to the Regional Director and who will develop a written analysis and assessment of the Bank's management needs ("Management Report") for the purpose of providing qualified management for the Bank.

(d) The Management Report shall be developed within 90 days from the effective date of this ORDER and shall include, at a minimum:

- (i) identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;
- (ii) identification of the type and number of staff needed to assure effective branch operations and commercial lending;
- (iii) identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;

(iv) evaluation of all Bank officers and Board directors to determine whether these individuals 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 restoration and maintenance of the Bank in a safe and sound condition; and

(v) a plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer or staff member positions identified in the Management Report.

(e) Within 30 days from the effective date of this ORDER, the Bank shall provide the Regional Director with a copy of the proposed engagement letter or contract with the bank consultant for non-objection or comment before it is executed. The contract or engagement letter, at a minimum, shall include:

(i) a description of the work to be performed under the contract or engagement letter, the fees for each significant element of the engagement, and the aggregate fee;

(ii) the responsibilities of the firm or individual;

(iii) an identification of the professional standards covering the work to be performed;

(iv) identification of the specific procedures to be used when carrying out the work to be performed;

(v) the qualifications of the employee(s) who are to perform the work;

(vi) the time frame for completion of the work;

(vii) any restrictions on the use of the reported findings;

(viii) a provision for unrestricted examiner access to work papers; and

(ix) a certification that the firm or individual is not affiliated in any manner with the Bank.

(f) Within 45 days from receipt of the Management Report, the Bank shall formulate a written plan ("Management Plan") that incorporates the findings of the Management Report, a plan of action in response to each recommendation contained in the Management Report, and a time frame for completing each action. At a minimum, the Management Plan shall:

(i) contain a recitation of the recommendations included in the Management Report;

(ii) incorporate a plan to provide necessary training and development for all employees;

(iii) establish procedures to periodically review and update the Management Plan, as well as periodically review and assess the performance of each officer and staff member; and

(iv) contain a current management succession plan.

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

BOARD PARTICIPATION

2. (a) The Board shall increase its participation in the affairs of the Bank, assuming full responsibility for ensuring compliance with the requirements set forth in the Federal Deposit Insurance Order, dated June 20, 2008 ("Deposit Insurance Order"), and the New York State Banking Department Authorization Certificate, dated November 4, 2008 ("Authorization

Certificate”), approving sound policies and objectives, and supervising all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size.

(b) This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; liquidity levels and funds management; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including managements' responses; reconciliation of general ledger accounts; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(c) The Bank shall notify the Regional Director in writing of any additions, resignations or terminations of any members of its Board or any of its “senior executive officers” (as that term is defined in section 303.101(b) of the FDIC’s Rules and Regulations, 12 C.F.R. § 303.101(b)) within 10 days of the event. Any notification required by this subparagraph shall include a description of the background(s) and experience of any proposed replacement personnel and must be received at least 30 days prior to the individual(s) assuming the new position(s). The Bank shall also establish procedures to ensure compliance with section 32 of the Act, 12 U.S.C. § 1831(i), and Subpart F of Part 303 of the FDIC’s Rules and Regulations, 12 C.F.R. Part 303.

COMPLIANCE WITH DEPOSIT INSURANCE ORDER

3. Unless otherwise modified by this ORDER or set aside in writing by the FDIC, the Bank shall comply with the Deposit Insurance Order, and the business plan that was submitted in

conjunction with the Deposit Insurance Order and approved by the FDIC (“approved business plan”).

CAPITAL

4. (a) Immediately upon the effective date of this ORDER, the Bank shall maintain the following minimum capital levels (as defined in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325), after establishing an appropriate allowance for loan and lease losses ("ALLL"):

- (i) Tier 1 capital at least equal to 10 percent of total assets;
- (ii) Tier 1 risk-based capital at least equal to 12 percent of total risk-weighted assets; and
- (iii) Total risk-based capital at least equal to 12 percent of total risk-weighted assets.

(b) For purposes of this ORDER, all terms relating to capital shall be calculated in accordance with Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325 and 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's Rules and Regulations, 12 C.F.R. Part 325, App. A.

(c) In the event any capital ratio is or falls below the minimum required by this ORDER, the Bank shall immediately notify the Regional Director; and

- (i) within 60 days shall increase capital in an amount sufficient to comply with this ORDER, or
- (ii) within 60 days shall develop a written plan ("Capital Plan") describing the primary means and timing by which the Bank shall increase its capital ratios up to or in excess of the minimum requirements set forth in this ORDER, as well as a contingency plan ("Contingency Plan") for the sale, merger, or liquidation of the Bank in the event the primary

sources of capital are not available. The Capital Plan and Contingency Plan shall be submitted for review as described below:

- (d) At a minimum, the Capital Plan shall include:
 - (i) specific plans to achieve the capital levels required under this ORDER;
 - (ii) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of the provisions of this ORDER;
 - (iii) projections for asset growth and capital requirements, and such projections shall be based upon a detailed analysis of the Bank's current and projected assets, liabilities, earnings, fixed assets, and off-balance sheet activities, each of which shall be consistent with the Bank's strategic business plan;
 - (iv) projections for the amount and timing of the capital necessary to meet the Bank's current and future needs;
 - (v) the primary source(s) from which the Bank will strengthen its capital to meet the Bank's needs;
 - (vi) contingency plans that identify alternative sources of capital should the primary source(s) under (v) above not be available; and
 - (vii) a dividend policy that permits the declaration of a dividend only:
 - a. when the Bank is in compliance with its approved Capital Plan;
 - b. when the Bank is in compliance with applicable State and Federal laws and regulations;
 - c. when, after payment of such dividends, the Bank remains in compliance with the above minimum capital ratios;
 - d. when such declaration and payment of dividends has been approved in advance by the Board; and

e. such declaration and payment of dividends has been approved in advance, in writing, by the Regional Director.

(e) The Capital Plan and the Contingency Plan shall be submitted to the Regional Director for non-objection or comment. Within 15 days from receipt of non-objection or any comments from the Regional Director, and after incorporation and adoption of all comments, the Board shall approve the Capital Plan and the Contingency Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Capital Plan and the Contingency Plan.

(f) The Board shall review the Bank's adherence to the Capital Plan, at minimum, on a monthly basis. Copies of the reviews and updates shall be submitted to the Regional Director as part of the progress reports required by this ORDER, and in any event no later than 10 days after completion, until such time as the Regional Director indicates in writing that the Capital Plan reviews and updates and/or their submission are no longer required.

PROFIT AND BUDGET PLAN

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit for review a three year written profit and budget plan ("Profit Plan") consisting of 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 and the approved business plan. The Profit Plan shall include, at a minimum:

- (i) a description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components;
- (ii) the maintenance of an appropriate ALLL;

- (iii) realistic and comprehensive budgets for all categories of income and expense;
- (iv) an executive compensation plan, addressing any and all salaries, bonuses and other benefits of every kind or nature whatsoever, both current and deferred, whether paid directly or indirectly, which plan incorporates qualitative as well as profitability performance standards for the Bank's senior executive officers;
- (v) a budget review process to monitor the revenue and expenses of the Bank whereby actual performance is compared against budgetary projections not less than quarterly; and
- (vi) recording the results of the budget review and any actions taken by the Bank as a result of the budget review in the Board minutes.

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

(c) Within 30 days following the end of each calendar quarter following completion of the Profit Plan required by this paragraph, the Board shall evaluate the Bank's actual performance in relation to the Profit Plan, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the Boards' meeting at which such evaluation is undertaken.

ALLOWANCE FOR LOAN AND LEASE LOSSES

6. (a) Within 30 days from the effective date of this ORDER, the Bank shall develop and submit for review as described in subparagraph (d) a comprehensive policy and

methodology for determining the ALLL ("ALLL Policy"). The ALLL Policy shall provide for a review of the ALLL at least once each calendar quarter. Said review should be completed at least 15 days prior to the end of each calendar quarter in order that the results of the review conducted by the Board may be properly reported in the quarterly Reports of Condition and Income. Such reviews shall, at a minimum, be made in accordance with:

- (i) Financial Accounting Standards Board ("FASB") Statements Numbers 5 and 114, as codified by FASB under its Accounting Standards Codification effective after September 15, 2009 (established by FASB Statement Number 168)("FASB 5 and 114");
- (ii) the Federal Financial Institutions Examination Council's ("FFIEC") Instructions for the Consolidated Reports of Condition and Income;
- (iii) the *Interagency Statement of Policy on the Allowance for Loan and Lease Losses* (FIL-105-206, issued December 13, 2006);
- (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.

Such reviews shall include, at a minimum:

- (a) the Bank's loan loss experience;
- (b) an estimate of the potential loss exposure, including off-balance sheet credit exposure, in the portfolio; and
- (c) trends of delinquent and non-accrual loans and prevailing and prospective economic conditions.

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).

(b) The Board shall approve the ALLL Policy, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the ALLL Policy.

(c) Any deficiency in the ALLL shall be remedied in the calendar quarter in which it is identified by a charge to current operating earnings prior to any Tier 1 capital determinations required by this ORDER and prior to the Bank's submission of its Consolidated Reports of Condition and Income ("Call Report"). The Bank shall thereafter maintain and report an appropriate ALLL.

LOAN POLICY

7. (a) Within 60 days from the effective date of this ORDER, the Board 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 and procedures ("Loan Policy") necessary to address the lending deficiencies identified in the FDIC's Report of Examination reflecting the examination of the Bank as of September 30, 2009 ("ROE").

(b) The Board shall also establish review and monitoring procedures to ensure that all lending personnel are adhering to the Loan Policy, and that the Board is receiving timely and fully documented reports on loan activity, including reports that identify deviations from the Loan Policy. At minimum, the Loan Policy shall:

- (i) require that all extensions of credit originated or renewed by the Bank, including loans purchased from a third party (loan participations):
 - a. have a clearly defined and stated purpose;
 - b. have a predetermined and realistic repayment source and schedule,

including secondary source of repayment;

c. are supported by complete loan documentation, including lien searches, perfected security interests, loan history sheets, and collateral valuations;

d. are supported by an adequate analysis of a borrower's repayment capacity, verification of borrower income and employment, including time spent in employment, and explanations of negative information on borrower credit reports; and

e. are supported by current financial information, profit and loss statements or copies of tax returns, and cash flow projections, which shall be maintained throughout the term of the loan; and are otherwise in conformance with the Loan Policy;

(ii) incorporate limitations on the amount that can be loaned in relation to established collateral values, require the source of collateral valuations to be identified, require that collateral valuations be completed prior to the commitment to lend funds, and require that collateral valuations be performed on a periodic basis over the term of the loan;;

(iii) in compliance with the parameters of the approved business plan, prohibit extensions of credit defined as subprime in the *Interagency Guidance on Subprime Lending* (FIL 20-99, issued March 1, 1999), the *Expanded Examination Guidance for Subprime Lending Programs* (FIL 9-2001, issued January 31, 2001) or any subsequent guidance issued by the FDIC (collectively, "FDIC Subprime Lending Guidance") unless the Bank notifies the Regional Director of its intention to originate subprime loans within 60 days of such originations and receives approval from the Regional Director;

(iv) prohibit extensions of credit to borrowers with Fair Isaac and Company (FICO) credit scores of 660 or below or otherwise defined as subprime in the FDIC Subprime Lending Guidance;

- (v) ensure prudent and satisfactory underwriting of 1-4 family residential loans;
- (vi) include guidelines regarding the use and reporting of interest reserves, including limitations on their use and prudent lines of authority for approving their use;
- (vii) require timely inspections of vacant properties and incomplete construction projects;
- (viii) require monitoring for building violations;
- (ix) limit the underwriting of unsecured loans to 10% and the of Tier 1 Capital plus ALLL (as defined in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325) and the underwriting of secured loans to 20% of Tier 1 Capital plus ALLL;
- (x) set forth the scope of the Bank's independent loan review, including the percentage of the Bank's loan portfolio to be independently procedures and policies to ensure documentation of the independent review of ALLL;
- (xi) limit to 10% of the Bank's unimpaired capital, extensions of credit to any of the Bank's executive officers, trustees, or principal shareholders, or their "related interests," as such terms are defined in section 215.2 of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.2;
- (xii) require accurate reporting of past due loans to the Board or the Bank's loan committee at least monthly;
- (xiii) require the individual reporting of loans granted as exception to the Loan Policy and aggregation of such loans in the portfolio; and
- (xiv) prohibit the capitalization of interest or loan-related expenses unless the Board or the Bank's loan committee provides, in writing, a detailed explanation of why such action is in the best interest of the Bank.

INTEREST RATE RISK

8. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop and submit for review as described in subparagraph (b) an interest rate risk policy and procedures ("IRR Policy") that shall include, at a minimum:

(i) 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;

(ii) a system for identifying and measuring interest rate risk;

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

(iv) a system of internal controls, review, and audit to ensure the integrity of the overall risk management process;

(v) an annual independent third party review of the Bank's interest rate risk practices and the submission of annual reports to the Board; and

(vi) The IRR Policy shall address the exceptions noted in the current Report of Examination, comply with the FFIEC's *Advisory on Interest Rate Risk Management* (FIL-2-2010, issued January 6, 2010), the FFIEC's *Supervisory Policy Statement on Investment Securities and End-User Derivative Activities*, and the *Joint Agency Policy Statement on Interest Rate Risk* (FIL-52-96, issued July 12, 1996).

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

OPERATIONAL CONTROLS

9. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop the following:

- (i) a manual of audit policies and procedures tailored to the Bank's operations and risks ("Audit Policy");
- (ii) a manual of accounting policies and procedures ("Accounting Policy"); and
- (iii) a revised inter-bank liability policy ("Inter-Bank Liability Policy") that includes guidelines for timing the charge-offs of stale items from correspondent banks.

REPORTS OF CONDITION AND INCOME

10. All Call Reports shall contain an appropriate ALLL, properly account for employee training and travel expenses, and accurately reflect the financial condition of the Bank as of the reporting date.

BANK SECRECY ACT

11. Within 60 days from the effective date of this ORDER, the Bank shall develop, adopt, and implement a system of internal controls designed to ensure full 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. Part 103 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 Internal Controls") taking into consideration its size and risk profile. At a minimum, such system of BSA Internal Controls shall ensure compliance with the Bank's BSA Policy and establish new policies, procedures and processes to address the weaknesses cited in the ROE, including but not

limited to due diligence, information sharing controls, oversight of BSA training, and automatic monitoring of wire transfers.

PROGRESS REPORTS

12. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director 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

13. After the effective date of this ORDER, 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 Supervision and Consumer Protection, Accounting-Registration, Disclosure and Securities Section, 550 17th Street, N.W., Washington, D.C. 20429 for non-objection or comment at least 30 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

The provisions of this ORDER shall not bar, stop, or otherwise prevent the FDIC 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: July 27, 2010

By:

/s/_____

Doreen R. Eberley
Regional Director
Division of Supervision and Consumer Protection
Federal Deposit Insurance Corporation