

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of )

CONSENT ORDER

MARYLAND FINANCIAL BANK )  
TOWSON, MARYLAND )

FDIC-18-0061b

(INSURED STATE NONMEMBER BANK) )  

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The Federal Deposit Insurance Corporation (FDIC) is the appropriate Federal banking agency for Maryland Financial Bank, Towson, Maryland (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 April 26, 2018, 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, among other things, management, capital, earnings, liquidity, and the Bank's Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) Compliance Program, 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. At a minimum, such management shall include: a chief executive officer with proven ability in managing a bank

of comparable size and complexity and experience, and a chief financial officer with demonstrated ability in all financial areas including, but not limited to, accounting, regulatory reporting, budgeting and planning, 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 their 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.

### **BOARD PARTICIPATION**

- 2. (a) The Board shall increase its participation 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 comparable banks.
  - (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; 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; BSA/AML related activities; 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 of the FDIC's New York Regional Office (Regional Director) and the Maryland Office of the Commissioner of Financial Regulation (Commissioner) in writing of any 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. § 1831i, and Subpart F of Part 303 of the FDIC's Rules and Regulations, 12 C.F.R. Part 303.

### **CAPITAL**

3. (a) Within 60 days from the effective date of this ORDER, the Bank shall have and maintain the following capital levels after establishing an appropriate allowance for loan and lease losses (ALLL):

(i) Tier 1 Capital at least equal to 8 percent of average total assets;

(ii) Total 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 324 of the FDIC's Rules and Regulations, 12 C.F.R. Part 324.

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

(i) within 15 days shall increase capital in an amount sufficient to comply with this ORDER; or

(ii) within 45 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 within 90 days. 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

(e) The Capital Plan and the Contingency Plan 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 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 and the Commissioner as part of the progress reports required by this ORDER.

#### **PROFIT AND BUDGET PLAN**

4. (a) Within 60 days from the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the Bank shall formulate and submit for review as described in subparagraph (c), a 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.

(b) 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) specific goals to maintain appropriate provisions to the 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;

(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; and

(vii) seeking approval from the Regional Director and the Commissioner for any material or unusual operating expense item.

(c) The Profit Plan 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 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.

(d) Within 60 days following the end of each calendar quarter following adoption 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 Board meeting at which such evaluation is undertaken.

### **STRATEGIC PLAN**

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop and submit for review as required by subparagraph (c), a written strategic plan (Strategic Plan) supported by an operating budget and 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. The Strategic Plan shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The Strategic Plan shall include, at a minimum:

(i) identification of the major areas in and means by which the Bank will seek to improve operating performance;

(ii) specific goals to improve the net interest margin, increase interest income, reduce discretionary expenses;

(iii) financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and

(iv) coordination of the Bank's loan, investment, funds management, and operating policies, profit and budget plan, and ALLL methodology with the Strategic Plan.

(c) The Strategic Plan 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 Strategic Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Strategic Plan.

(d) The Strategic Plan required by this ORDER shall be revised 30 days prior to the end of each calendar year, and approved by the Board, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and adhere to the revised Strategic Plan.

## **LIQUIDITY AND FUNDS MANAGEMENT**

6. (a) Within 60 days from the effective date of this ORDER, the Bank shall revise its liquidity and funds management policy to strengthen the Bank's funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs (Liquidity and Funds Management Policy). The Liquidity and Funds Management Policy shall be submitted for review as described in subparagraph (c).

(b) The Liquidity and Funds Management Policy shall include, at a minimum, provisions that:

(i) provide a statement of the Bank's long-term and short-term liquidity needs and plans for ensuring that such needs are met;

(ii) provide for a periodic review of the Bank's deposit structure, including the volume and trend of total deposits and the volume and trend of the various types of deposits offered, the maturity distribution of time deposits, rates being paid on each type of deposit, rates being paid by trade area competition, limits on large time deposits, public funds, and out-of-area deposits, and any other information needed;

(iii) address the means by which the Bank will seek to reduce its reliance on non-core funding and high cost rate-sensitive deposits;

(iv) identify the source and use of borrowed and/or volatile funds;

(v) establish sufficient back-up lines of credit that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved to be inadequate;

(vi) require the retention of securities and/or other identified categories of investments that can be liquidated within one day in amounts sufficient (as a percentage of the



Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives;

(vii) provide for adequate cash flow analysis and appropriate stress testing;

(viii) establish a minimum liquidity ratio based on stress-testing results, and define how the ratio is to be calculated;

(ix) establish contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs; and

(x) address the use of borrowings and provide for reasonable maturities commensurate with the use of the borrowed funds; address concentration of funding sources; and address pricing and collateral requirements with specific allowable funding channels (i.e., brokered deposits, listing service deposits, Fed funds purchased and other correspondent borrowings).

(c) The Liquidity and Funds Management Policy 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 Liquidity and Funds Management Policy, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Liquidity and Funds Management Policy.

(d) The Bank shall review annually its Liquidity and Funds Management Policy for adequacy and, based upon such review, shall make necessary revisions to the policy.

### **INTEREST RATE RISK**

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop and submit for review as described in subparagraph (c), 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; and

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

(b) The IRR Policy shall address the exceptions noted in the Report of Examination.

(c) The IRR Policy shall be submitted to the Regional Director and the Commissioner for non-objection or comment. Within 30 days of 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 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.

### **BSA/AML RISK ASSESSMENT**

8. Within 60 days from the effective date of this ORDER, the Bank shall provide the Regional Director and the Commissioner with the enhanced risk assessment review that it performed of the Bank's operations (Risk Assessment). Thereafter, the Bank shall conduct periodic, but not less than annual Risk Assessments of the products, services, customer, entities,

transactions and geographic locations unique to the Bank, including the number and volume of transactions, and assess the risk factors within these categories consistent with the guidance for risk assessments set forth in the Federal Financial Institutions Examination Council *Bank Secrecy Act/Anti-Money Laundering Examination Manual* (BSA Manual), and shall establish appropriate written policies, procedures, and processes regarding Risk Assessments. The Risk Assessments shall address all pertinent risk factors that affect the overall BSA/AML risk profile of the Bank and ensure that risk ratings are accurate and well supported through qualitative and quantitative data.

### **BSA INTERNAL CONTROLS**

9. (a) Within 60 days from the effective date of this ORDER, the Bank shall review, revise and implement a system of internal controls designed to ensure full compliance with the BSA (BSA Internal Controls) taking into consideration its 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, revise and enhance its policies, procedures, processes, and systems for monitoring, detecting, and reporting suspicious activity being conducted in all areas within or through the Bank; and ensure 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: deposit/cash transactions, ACH and ATM transactions, intermediary wire transfers, money service businesses, and foreign correspondent banking activity. Any systems the Bank plans to utilize to assist in monitoring,

detecting and reporting suspicious activity should be validated, and parameters which are established should be supported through a documented analysis of appropriate information.

(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 Bank's BSA/AML risk profile, with particular attention to higher-risk customers, establish specific staff responsibilities, including who is responsible for reviewing or approving changes to a customer's risk rating or profile, ensure that the Bank possesses sufficient customer information to implement an effective suspicious activity monitoring system, document analysis associated with the due diligence process, including guidance for resolving issues when insufficient or inaccurate information is obtained, and maintain current customer information;

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

c. enable the Bank to reasonably predict the types of transactions in which a customer is likely to engage.

(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. a process to obtain and analyze a sufficient level of customer information at account opening to assist and support the risk ratings assigned;
- d. a process to document and support the CDD analysis, including a method to validate risk ratings assigned at account opening, and resolve 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 and Regulations, 12 C.F.R. Part 353.

(iv) Enhanced Customer Due Diligence: The Bank shall review and enhance 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, as described in the Report of Examination. The EDD policies, procedures and processes adopted should:

- a. consider the customer's business activity, ownership structure, anticipated or actual volume and types of transaction; 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;
- 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; and
- d. establish risk-based EDD policies, procedures, and controls when establishing, maintaining, administering, or managing a correspondent account in the United States for certain foreign banks.

(vi) The Bank shall develop a high-risk customer list, which includes, but is not limited to, identification of entities with multiple accounts, and assignment of one risk rating across related accounts (High-Risk Customer List).

(vii) The BSA Internal Controls shall operate in conjunction with each other, and be consistent with account/transaction monitoring, including arranging for the dissemination of a High-Risk Customer List to appropriate departments within the Bank.

(c) The Board shall approve the revisions and changes to 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.

#### **CORRECTION OF VIOLATIONS**

10. The Bank shall take all steps necessary, consistent with other provisions of this ORDER and safe and sound banking practices, to eliminate or correct and prevent unsafe or

unsound banking practices, and violations of law or regulation cited in the Report of Examination, and implement procedures to ensure future compliance with all applicable laws, rules and regulations.

#### **BROKERED DEPOSITS**

11. (a) The Bank shall not accept, renew, or rollover any brokered deposit, as defined by section 337.6(a)(2) of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6(a)(2), unless it is in compliance with the requirements of 12 C.F.R. § 337.6(b), governing solicitation and acceptance of brokered deposits by insured depository institutions.

(b) The Bank shall comply with the restrictions on the effective yields on deposits described in section 337.6 of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6.

#### **SHAREHOLDER DISCLOSURE**

12. Following 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, Risk Management Supervision, Accounting and Securities Disclosure 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.

#### **DIVIDEND RESTRICTION**

13. The Bank shall not declare or pay any dividend without the prior written consent of the Regional Director and the Commissioner.

### **PROGRESS REPORTS**

14. 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.

### **MISCELLANEOUS**

The provisions of this ORDER shall not bar, estop, 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 this 26<sup>th</sup> day of April, 2018.

By:

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/s/

Frank R. Hughes  
Deputy Regional Director  
New York Regional Office  
Federal Deposit Insurance Corporation