

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

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In the Matter of)	CONSENT ORDER
UNION COUNTY SAVINGS BANK)	
ELIZABETH, NEW JERSEY)	FDIC-22-0042b
(INSURED STATE NONMEMBER BANK))	
_____)	

The Federal Deposit Insurance Corporation (FDIC) is the appropriate Federal banking agency for Union County Savings Bank, Elizabeth, New Jersey (Bank), under 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 November 29, 2022, 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, among other things, management supervision, Board oversight, weaknesses in internal controls, interest rate sensitivity, and earnings, to the issuance of this Consent Order (Order) by the FDIC.

Having determined that the requirements for issuance of an Order under 12 U.S.C. § 1818(b), have been satisfied, the FDIC hereby Orders that:

BOARD AND MANAGEMENT PLAN

1. (a) Within 60 days from the effective date of this Order, the Bank must retain a third-party consultant, who is acceptable to the Regional Director of the FDIC New York Regional

Office (Regional Director) and the Commissioner of the New Jersey Department of Banking and Insurance (Commissioner), to develop a written analysis and assessment of the Bank's Board and management needs (Board and Management Report) for the purpose of ensuring appropriate director oversight and providing qualified management for the Bank.

(b) Within 30 days from the effective date of this Order, the Bank must provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the third-party consultant for non-objection or comment before it is executed.

(c) The contract or engagement letter must include, at a minimum:

- (i) a description of the work to be performed under the contract or engagement letter, the fees for each element of the engagement, and the aggregate fee;
- (ii) the responsibilities of the third-party consultant;
- (iii) 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 individual(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 consultant is not affiliated in any manner with the Bank or its directors and officers.

(d) The Board and Management Report must be developed within 60 days from receipt of non-objection or any comments from the Regional Director and the Commissioner, and must include, at a minimum:

(i) identification of both the type and number of director positions needed to properly oversee Bank management;

(ii) identification of both the type and number of officer positions needed to properly manage the activities of the Bank;

(iii) identification and establishment of such committees as are needed to provide guidance and oversight to Bank management;

(iv) evaluation of all directors and officers to determine whether these individuals possess the ability, experience, and other qualifications required to perform present and anticipated duties, including restoration and maintenance of the Bank in a safe and sound condition;

(v) evaluation of all director and officer compensation, including salaries, director fees, and other benefits; and

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

(e) Within 30 days from receipt of the Board and Management Report, the Bank must formulate a written plan (Board and Management Plan) that incorporates the findings of the Board and Management Report, and must, at a minimum:

(i) contain a plan of action to respond to each recommendation in the Board and Management Report and a time frame for completing each action;

(ii) include a process for creating or revising written position descriptions and responsibilities for director positions on the Board as identified in the Board and Management Report;

(iii) include a process for creating or revising written position descriptions and responsibilities for officer positions at the Bank as identified in the Board and Management Report;

(iv) include provisions to implement necessary training and development for all employees, including but not limited to compliance with 12 C.F.R. § 326.8(c)(4);

(v) establish procedures to periodically review and assess the performance of each director, officer, and staff member;

(vi) contain a current management succession plan; and

(vii) establish procedures to periodically review and update the Board and Management Plan.

(f) The Board and Management Plan must be submitted to the Regional Director and the Commissioner for non-objection or comment. Within 15 days from receipt of non-objection or any comments from the Regional Director and the Commissioner, the Board must review and approve the Board and Management Plan and document such approval in the minutes of the Board meeting. Thereafter, the Bank must implement and comply with the Board and Management Plan.

BOARD OVERSIGHT

2. (a) The Board must 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 expected of directors of banks with comparable size and profile.

(b) This participation must include meetings to be held no less frequently than monthly at which, at a minimum, the following areas must be reviewed and approved: reports of income and expenses; insider activity; charged off and recovered loans; investment activity; adoption or modification of operating policies; activities occurring in exception to Bank policy; individual committee reports; audit reports; internal control reviews including management's responses; and compliance with this Order.

(c) The Board must ensure that complete and accurate Board and committee meeting minutes are maintained. These minutes must, at a minimum, adequately document the reviews and approvals required by subparagraph (b) above, including the names of any dissenting directors; address the areas covered by this Order and the Consent Order Compliance Report; reflect the rationale behind key decisions and actions; and demonstrate that the directors are exercising appropriate oversight and providing effective challenge of management officials.

(d) The Bank must notify the Regional Director and the 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 12 C.F.R. § 303.101(b)) within 10 days of the event. Prior to the addition of any individual to the Board or as a senior executive officer, or any change in the title or function of a senior executive officer, the Bank must request and obtain written non-objection from the Regional Director and the Commissioner. Any notification required by this subparagraph must include a description of the background and experience of the proposed new or replacement Board member or senior executive officer and must be received at least 30 days

prior to the individual assuming the new position. The Bank must also establish procedures to ensure compliance with 12 U.S.C. § 1831i, and 12 C.F.R. Part 303, Subpart F.

AUDIT AND INTERNAL ROUTINES AND CONTROLS

3. (a) Within 60 days from the effective date of this Order, the Bank must develop and the Board must approve an internal routines and controls policy (IRC Policy) for the operation of the Bank in such a manner as to provide adequate internal routines and controls consistent with safe and sound banking practices in accordance with Appendix A to Part 364 of the FDIC Rules and Regulations. The Board must record such approval in the minutes of the Board meeting. Thereafter, the Bank must implement and comply with the IRC Policy.

(b) Within 60 days from the effective date of this Order, the Bank must retain a third-party consultant, who is acceptable to the Regional Director and the Commissioner, to develop a written analysis and assessment of Bank insider transactions from April 1, 2020 through the date of non-objection to the third-party engagement (Insider Transaction Report) for the purpose of evaluating insider activity and developing policies, procedures, and controls to ensure appropriate oversight and segregation of duties and establish an appropriate Code of Conduct. The Bank must provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the third-party consultant for non-objection or comment before it is executed.

(c) Within 30 days from receipt of the Insider Transaction Report, the Bank must formulate a written plan (Insider Transaction Plan) that, at a minimum:

- (i) incorporates the findings of the Insider Transaction Report;
- (ii) responds to each recommendation contained in the Insider Transaction Report;

- (iii) establishes time frames for completing each action; and
- (iv) is consistent with the IRC Policy developed in subparagraph (a).

(d) The Insider Transaction Plan must be submitted to the Regional Director and the Commissioner for non-objection or comment. Within 15 days from receipt of non-objection or any comments from the Regional Director and the Commissioner, the Board must review and approve the Insider Transaction Plan and document such approval in the minutes of the Board meeting. Thereafter, the Bank must implement and comply with the Insider Transaction Plan.

(e) The Bank shall provide the Regional Director and the Commissioner with a copy of all external audit reports, management letters, and qualifications in accordance with the filing time frames established by Part 363 of the FDIC Rules and Regulations. The Board shall address all findings of the external audit report(s) at its next regular meeting after receipt of the reports. Any action taken or rationale for inaction in response to the reports must be noted in the minutes of the Board meeting with each individual member's vote recorded.

STRATEGIC PLAN

4. (a) Within 90 days from the effective date of this Order, the Bank must 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 must assess the Bank's current financial condition and market area, describe the operating assumptions that form the basis for major projected income and expense components, and establish the means by which the Bank will reduce interest rate risk exposure and improve profitability.

(b) The Strategic Plan must, at a minimum:

- (i) define an optimal asset and liability mix that aligns with the Bank's desired Business Model and Board's risk appetite;
- (ii) formalize actionable initiatives to reduce interest rate risk exposure and improve operating performance;
- (iii) describe specific goals to improve the net interest margin and increase interest income;
- (iv) establish financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and
- (v) coordinate 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 must 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, the Board must review and approve the Strategic Plan and document such approval in the minutes of the Board meeting. Thereafter, the Bank must implement the Strategic Plan, regularly track and document management's progress in executing the plan, and make adjustments as needed.

(d) The Strategic Plan required by this Order must be revised 30 days after the end of each fiscal year and approved by the Board. The Board must record such approval in the minutes of the Board meeting. Thereafter, the Bank must implement and adhere to the revised Strategic Plan.

PROFIT AND BUDGET PLAN

5. (a) Within 90 days from the effective date of this Order, and within the first 30 days of each fiscal year thereafter, the Bank must formulate and submit for review as described in

subparagraph (c) a written profit and budget plan (Profit Plan) consisting of financial 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 must, at a minimum:

(i) describe the operating assumptions and interest rate expectations that form the basis for, and adequately support, material projected revenue and expense components;

(ii) allocate for specific expenses to maintain appropriate staffing levels, improve technology and facilities, and restore the internal controls environment to a satisfactory standard;

(iii) provide realistic and comprehensive budgets for all categories of income and expense; and

(iv) include 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, that incorporates qualitative and quantitative evaluation standards for the Bank's senior executive officers;

(c) The Profit Plan must 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, the Board must review and approve the Profit Plan and document such approval in the minutes of the Board meeting. Thereafter, the Bank must implement the Profit Plan.

(d) Within 30 days following the end of each fiscal quarter following completion of the Profit Plan required by this provision, the Board must evaluate the Bank's actual performance in relation to the Profit Plan, record the results of the evaluation, and document any

actions taken by the Bank in the minutes of the Board meeting at which such evaluation is undertaken.

INTEREST RATE RISK MANAGEMENT

6. (a) Within 60 days from the effective date of this Order, the Bank must revise and implement an interest rate risk policy (IRR Policy) that improves the Bank's monitoring of interest rate risk and limits its interest rate risk exposure. The Board must review and approve the revised IRR Policy and document such approval in the minutes of the Board meeting. Thereafter, the Bank must implement and comply with the IRR Policy. The IRR Policy must be reviewed and approved annually.

(b) The revised IRR Policy must, at a minimum:

- (i) address all exceptions noted in the most current Report of Examination;
- (ii) incorporate the initiatives designed to reduce interest rate risk exposure as detailed in the Strategic Plan required by this Order;
- (iii) describe the system used for identifying, measuring, and monitoring interest rate risk;
- (iv) implement appropriate limits designed to reduce the current level of interest rate risk exposure;
- (v) establish a process for verifying compliance with the established interest rate risk limits and identifying any policy exceptions in the appropriate Board or committee minutes;
- (vi) dictate lines of responsibility and authority for managing risk and staff who are responsible for identifying potential interest rate risk from current or new products

or activities and their impact on the Bank's earnings, liquidity, and capital;

(vii) describe a system of internal controls, reviews, and audits to ensure the integrity, accuracy, and validity of the overall interest rate risk management process, given the nature, scope, and complexity of the interest rate risk; and

(viii) formalize quarterly reporting to management and the Board regarding interest rate risk with adequate information provided to assess the level of risk.

INVESTMENT POLICY

7. (a) Within 60 days from the effective date of this Order, the Bank must revise the Bank's investment policy (Investment Policy) to provide effective guidelines and controls over the Bank's equity securities portfolio. The Board must review and approve the revised Investment Policy and document such approval in the minutes of the Board meeting. Thereafter, the Bank must implement and comply with the Investment Policy. The Investment Policy must be reviewed and approved annually.

(b) The revised Investment Policy must, at a minimum:

(i) develop specific investment goals as part of an overall effort to lessen market risk sensitivity and incorporate revisions to the Bank's risk management framework;

(ii) develop parameters for the types of investments permitted for purchase and retention, diversification of investments, the desired mix among those investments, and their maturity distribution;

(iii) describe procedures for equity securities risk management that include, but are not limited to, controlling volatility and assessing the impact on earnings and capital levels;

(iv) identify position limits for equity securities that appropriately consider the securities' volatility and impact on earnings and capital identified in subsection (b)(iii) and align with the Board's risk appetite;

(v) develop goals, guidelines, performance measures, and review frequencies for the equity securities portfolio;

(vi) establish standards to evaluate securities dealers and ensure custodial safekeeping arrangements allow for monitoring in accordance with the standards and time frames dictated by the revised Investment Policy;

(vii) set guidelines and standards for timely and effective Board reporting; and

(viii) establish procedures for ensuring consistent, accurate, and supported reporting of equity securities positions in the Bank's Call Reports in accordance with the instructions for those reports.

CALL REPORTS

8. (a) Within 60 days from the effective date of this Order, the Bank must have a qualified individual review its Call Reports filed with the FDIC on or after March 30, 2020, and amend said reports if necessary to accurately reflect the financial condition of the Bank as of the date of each such report. Call Reports filed after the effective date of this Order must also accurately reflect the financial condition of the Bank as of the reporting date.

(b) In connection with subparagraph (a), the Bank must establish and implement procedures that provide for maintaining business records and supporting work paper documentation for the Call Reports. This quarterly work paper documentation must provide a clear and reliable connection between source documents and regulatory financial reports.

CAPITAL

9. (a) Within 90 days from the effective date of this Order, the Bank must develop a capital plan (Capital Plan) detailing the manner in which the Bank will monitor and maintain capital adequacy. The Capital Plan should be formally approved by the Board, with such approval documented in the Board minutes.

(b) The Capital Plan must, at a minimum:

(i) establish procedures for regularly quantifying, monitoring, and reporting on risks to capital, including, but not limited to, market and interest rate risk, operational risk, reputational risk, fraud risk, and risk of financial misstatements;

(ii) demonstrate that capital levels are accurate, supported, and appropriate based on the monitoring in subsection (b)(i) and the Bank's size, risk profile, and planned strategic initiatives; and

(iii) establish capital ratio targets with specified responses;

(iv) monitor the capital ratio targets on a quarterly basis to ensure compliance with the capital ratio targets;

(v) report variations from the capital target ratios to the Board for action; and

(vi) establish procedures for regularly stress testing capital to assess the potential impacts of various adverse scenarios and the ability of current capital levels to absorb such stress.

COMPLIANCE COMMITTEE

10. (a) Within 30 days from the effective date of this Order, the Board must 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, with the responsibility of ensuring compliance with the provisions of this Order.

(b) The Compliance Committee must monitor compliance with this Order and submit a written report monthly to the entire Board, and a copy of the report and any discussion related to the report or this Order must be part of the minutes of the Board meeting. Copies of the monthly report must be submitted to the Regional Director and the Commissioner as part of the progress reports required by this Order. Nothing contained herein diminishes the responsibility of the entire Board to ensure compliance with the provisions of this Order.

CORRECTION OF VIOLATIONS

11. The Bank must 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 current Report of Examination.

PROGRESS REPORTS

12. Within 45 days from the end of each calendar quarter following the effective date of this Order, the Bank must 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 must be reviewed by the Board and made a part of the Board minutes.

The provisions of this Order will 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.

