

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	
	)	ORDER TO
GEORGIA HERITAGE BANK	)	CEASE AND DESIST
DALLAS, GEORGIA	)	
	)	FDIC-09-013b
(Insured State Nonmember Bank)	)	
_____	)	

Georgia Heritage Bank, Dallas, Georgia (“Bank”), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1818(b)(1), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with a representative for the Legal Division of the Federal Deposit Insurance Corporation (“FDIC”) and the Commissioner (the “Commissioner”) for the State of Georgia, Department of Banking and Finance (the “Department”), dated the 16th day of April, 2009, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and the Commissioner. The Commissioner may issue an order to cease and desist pursuant to section 7-1-91 of the Official Code of Georgia Annotated, GA Code Ann. Section 7-1-91(1985).

The FDIC and the Commissioner considered the matter and determined that they have reason to believe that the Bank has engaged in unsafe or unsound banking practices and has committed violations of law and/or regulations. The FDIC and the Commissioner, therefore, accepted the CONSENT AGREEMENT and issued the following:

**ORDER TO CEASE AND DESIST**

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns cease and desist from the following unsafe and unsound banking practices and violations of law and/or regulation:

- (a) operating with a board of directors (“Board”) that has failed to provide adequate supervision over and direction to the management of the Bank;
- (b) operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits;
- (c) operating with a large volume of poor quality loans;
- (d) following hazardous lending and lax collection policies and practices;
- (e) operating in such a manner as to produce operating losses;
- (f) operating with inadequate equity capital in relation to the volume and quality of assets held by the Bank;
- (g) operating with inadequate provisions for liquidity and funds management;
- (h) operating with inadequate allowance for loan and lease losses (“ALLL”);  
and
- (i) operating with an inadequate compliance management program to ensure compliance with Appendix A to Part 364 as more fully described on page

12 of the Report of Examination of the Bank dated November 17, 2008

(“Report”).

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

**BOARD OF DIRECTORS**

1. Beginning with the effective date of this ORDER, 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 banks of comparable size. 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; operating policies; and individual committee actions. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

**COMPLIANCE WITH ORDER**

2. Within thirty (30) days from the effective date of this ORDER, the Board shall establish a Board committee (“Directors’ Committee”), consisting of at least four members, to oversee the Bank’s compliance with the ORDER. Three of the members of the Directors’ Committee shall not be officers of the Bank. The Directors’ Committee shall receive from Bank management monthly reports detailing the Bank’s actions with respect to compliance with the ORDER. The Directors’ Committee shall present a report detailing the Bank’s adherence to the ORDER to the Board at each regularly scheduled Board meeting. Such report shall be recorded in the appropriate minutes of the Board’s meeting and shall be retained in the Bank’s records. Establishment of this committee

does not in any way diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

### **MANAGEMENT**

3. (a) Effective immediately, the Bank shall have and retain qualified management. Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Each member of management shall be provided appropriate written authority from the Bank's Board, with such authority recorded in the Board minutes, to implement the provisions of this ORDER. Management shall include:

(i) a chief executive officer with proven ability in managing a bank of comparable size and complexity and in effectively implementing lending, investment and operating policies in accordance with sound banking practices;

(ii) a senior lending officer with a significant amount of appropriate lending, collection, and loan supervision experience, and experience in upgrading a low quality loan portfolio; and,

(iii) a chief operations officer with a significant amount of appropriate experience in managing the operations of a bank of similar size and complexity in accordance with sound banking practices.

(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 and regulations; and,

(iv) restore all aspects of the Bank to a safe and sound condition,

including asset quality, earnings, capital adequacy, earnings, management effectiveness,

risk management, liquidity and sensitivity to market risk, decreasing classified items and decreasing exposure to interest rate risk.

(c) During the life of this ORDER, the Bank shall notify the Supervisory Authorities in writing when it proposes to add any individual to the Bank's Board or employ any individual as a senior executive officer, as that term is defined in section 303.102 of the FDIC's Rules and Regulations, 12 C.F.R. § 303.102. The notification should include a description of the background and experience of the individual or individuals to be added or employed and must be received at least 30 days before such addition or employment is intended to become effective. If the Regional Director issues a notice of disapproval pursuant to section 32 of the Act, 12 U.S.C. § 1831i, with respect to any proposed individual, then such individual may not be added or employed by the Bank.

#### **CAPITAL**

4. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall maintain a Tier 1 Leverage Capital ratio (as defined in Part 325 of the FDIC's Rules and Regulations) of not less than eight percent (8.00%).

(b) Within ninety (90) days from the effective date of this ORDER, the Bank shall maintain a Total Risk-Based Capital ratio (as defined in Part 325 of the FDIC's Rules and Regulations) of not less than ten percent (10.00%).

(c) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop and adopt a plan to meet the minimum risk-based capital requirements for a well-capitalized bank, as described in the FDIC Statement of Policy on Risk-Based Capital contained in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12

C.F.R. Part 325, Appendix A. The Plan shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

(d) The level of Tier 1 capital to be maintained during the life of this ORDER pursuant to Subparagraph 4(a) shall be in addition to a fully funded ALLL, the adequacy of which shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations. Any increase in Tier 1 capital necessary to meet the requirements of Paragraph 4(a) of this ORDER may not be accomplished through a reduction from the Bank's ALLL.

(e) Any increase in Tier 1 capital necessary to meet the requirements of paragraph 4 (a) of this ORDER may be accomplished by the following:

- (i) the sale of common stock;
- (ii) the direct contribution of cash by the Board, shareholders, and/or parent holding company; or

- (i) any other means acceptable to the Supervisory Authorities.

(f) For the purposes of this ORDER, the terms "Tier 1 capital" and "total assets" shall have, the meanings ascribed to them in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. §§ 325.2(v) and 325.2(x).

#### **ALLOWANCE FOR LOAN AND LEASE LOSSES**

5. Within thirty (30) days from the effective date of this ORDER, the Board shall review the adequacy of the ALLL and establish a comprehensive policy for determining the adequacy of the ALLL. For the purpose of this determination, the adequacy of the ALLL shall be determined after the charge-off of all loans or other items classified "Loss". The policy shall provide for a review of the allowance at least once each calendar quarter. Said review should be completed at least ten (10) days prior to the end of each quarter, in order that the findings of the Board with respect to the ALLL may be

properly reported in the quarterly Reports of Condition and Income. The review should focus on the results of the Bank's internal loan review, loan and lease loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure of significant credits, concentrations of credit, and present and prospective economic conditions. A deficiency in the ALLL shall be remedied in the calendar quarter it is discovered, prior to submitting the Reports of Condition and Income, by a charge to current operating earnings. The minutes of the Board meeting at which such review is undertaken shall indicate the results of the review. The Bank's policy for determining the adequacy of the ALLL and its implementation shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

#### **LIQUIDITY AND FUNDS MANAGEMENT**

6. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall review, revise and adopt its written liquidity, contingency funding and funds management policy to provide effective guidance and control over the Bank's funds management activities, which policy shall include, at a minimum, revisions to address all items referenced on page 8 of the Report. Such policy and its implementation shall be in a form and manner acceptable to the Supervisory Authorities. The revised policy shall provide for a periodic review of the Bank's deposit structure. Such review shall include 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, caps on large time deposits, public funds, out-of-area deposits, and any other information needed.

(b) Within sixty (60) days from the effective date of this ORDER, the Bank shall implement adequate models for managing liquidity.

(c) The Bank shall calculate monthly the liquidity and dependency ratios, following the format utilized internally, and provide the calculations to the Board for review with such review noted in the Board minutes.

### **BROKERED DEPOSITS**

7. While this Order is in effect, the Bank shall give written notice to the Supervisory Authorities at such time as the Bank intends to make use of brokered deposits or increase the amount of brokered deposits above the amount outstanding on the date of the Report. The notification should indicate how the brokered deposits are to be utilized with specific reference to credit quality or investments/loans and the effect on the Bank's fund position and asset/liability matching. The Supervisory Authorities shall have the right to reject the Bank's plan for utilizing brokered deposits and may request periodic progress reports on the level, source, and use of brokered deposits within the Bank's plan. For purposes of this ORDER, brokered deposits are defined as described in section 337.6(a)(2) of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6(a)(2), to include any deposits funded by third party agents or nominees for depositors, including deposits managed by a trustee or custodian when each individual beneficial interest is entitled to or asserts a right to Federal deposit insurance.

### **CASH DIVIDENDS**

8. The Bank shall not pay cash dividends without the prior written consent of the Supervisory Authorities.

### **CHARGE-OFF AND REDUCTION OF CLASSIFIED ITEMS**

9. (a) Effective immediately, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss." Elimination of these assets through proceeds of other loans made by the Bank is not considered collection for purposes of this paragraph.



(b) Additionally, while this ORDER remains in effect, the Bank shall immediately, upon the receipt of any official Report of Examination of the Bank from the Supervisory Authorities, eliminate from its books, by collection, charge-off, or other proper entries, the remaining balance of any assets classified "Loss" and 50 percent (50%) of those classified "Doubtful", unless otherwise approved in writing by the Supervisory Authorities.

(c) Within sixty (60) days from the effective date of this ORDER, the Bank shall formulate a written plan to reduce the Bank's risk exposure in each asset in excess of \$500,000 classified "Substandard" in the Report. For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the Supervisory Authorities. In developing the plan mandated by this paragraph, the Bank shall, at a minimum, and with respect to each adversely classified loan, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(d) In addition, the written plan mandated by this provision shall also include, but not be limited to, the following:

(i) a schedule for reducing the outstanding dollar amount of each adversely classified asset, including timeframes for achieving the reduced dollar amounts (at a minimum, the schedule for each adversely classified asset must show its expected dollar balance on a quarterly basis);

(ii) specific action plans intended to reduce the Bank's risk exposure in each classified asset;

(iii) a schedule showing, on a quarterly basis, the expected consolidated balance of all adversely classified assets, and the ratio of the consolidated balance to the Bank's projected Tier 1 capital plus the ALLL;

(iv) a provision for the Bank's submission of monthly written progress reports to its Board; and,

(v) a provision mandating Board review of the progress reports, with a notation of the review recorded in the minutes of the meeting of the Board.

(e) In addition, the written plan mandated by this provision shall further require a reduction in the aggregate balance of assets classified "Substandard" and in the ROE in accordance with the following schedule. For purposes of this paragraph, "number of days" means number of days from the effective date of this ORDER.

(i) Within one-hundred eighty (180) days, a reduction of twenty-five percent (25%) in the balance of assets classified "Substandard."

(ii) Within three-hundred sixty (360) days, a reduction of forty-five percent (45%) in the balance of assets classified "Substandard."

(iii) Within five-hundred forty (540) days, a reduction of sixty percent (60%) in the balance of assets classified "Substandard."

(f) The requirements of this paragraph are not to be construed as standards for future operations of the Bank. Following compliance with the above reduction schedule, the Bank shall continue to reduce the total volume of adversely classified assets.

Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph. As used in Subparagraphs 9(e)(i), 9(e)(ii), and 9(e)(iii) the word "reduction" means:

(i) to collect;

(ii) to charge-off; or

(iii) to sufficiently improve the quality of assets adversely classified to warrant removing any adverse classification, as determined by the Supervisory Authorities.

**NO ADDITIONAL CREDIT**

10. (a) Beginning with the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged off or classified, in whole or in part, "Loss" or "Doubtful" and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing (after collection in cash of interest due from the borrower) any credit already extended to any borrower.

(b) Additionally, during the life of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been classified, in whole or part, "Substandard" or and is uncollected.

(c) Subparagraph 10(b) shall not apply if the Bank's failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to the extending of any additional credit pursuant to this paragraph, either in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by a majority of the Board, or a designated committee thereof, who shall certify, in writing:

(i) why the failure of the Bank to extend such credit would be detrimental to the best interests of the Bank;

(ii) that the Bank's position would be improved thereby; including an explanatory statement of how the Bank's position would be improved; and,

(iii) an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

The signed certification shall be made a part of the minutes of the Board or designated committee, and a copy of the signed certification shall be retained in the borrower's credit file.

### **LENDING AND COLLECTION POLICIES**

11. Within sixty (60) days from the effective date of this ORDER, the Bank shall revise, adopt, and implement a written lending, underwriting and collection policy to provide effective guidance and control over the Bank's lending function, which policy shall include, at a minimum, revisions to address criticisms and recommendations enumerated on page 2 through 5 of the Report as well as specific guidelines for placing loans on a non-accrual basis. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. Such policy and its implementation shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

### **REDUCE CONCENTRATIONS OF CREDIT**

12. Within sixty (60) days from the effective date of this ORDER, the Bank shall develop a written plan, approved by its Board and acceptable to the Supervisory Authorities for systematically reducing the amount of loans or other extensions of credit advanced, directly or indirectly, to or for the benefit of, any borrowers listed on page 18 of the Report.

### **INFORMATION TECHNOLOGY**

13. Within sixty (60) days from the effective date of this ORDER, the Bank shall adopt and implement policies and procedures to ensure the integrity of its information systems consistent with safe and sound banking practices. Such measures shall, at a minimum,

eliminate and/or correct all associated deficiencies as more fully set forth on page 9 of the Report, and prevent the recurrence of any deficiencies noted. Such policy and its implementation shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

#### **VIOLATIONS OF LAW**

14. Within thirty (30) days after the effective date of this ORDER, the Institution shall take steps necessary, consistent with sound banking practices, to eliminate and/or correct all violations of laws, rules and regulations cited by the FDIC, on pages 12 and 13 of the Report. In addition, within thirty (30) days from the effective date of this ORDER, the Institution shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws, rules and regulations.

#### **PROGRESS REPORTS**

15. Within thirty (30) days of the end of the first quarter following the effective date of this ORDER, and within thirty (30) days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Supervisory Authorities detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Supervisory Authorities have released the Bank in writing from making further reports.

#### **DISCLOSURE**

16. Following the effective date of this ORDER, the Bank shall send to its shareholders or otherwise furnish a description of this ORDER in conjunction with the Bank's next shareholder communication and also 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, Registration and Disclosure Section, 550 17<sup>th</sup> Street, Rm. F-6066 Washington, D.C. 20429 and the Commissioner, Georgia Department of Banking and Finance, 2990 Brandywine Rd., Suite 200, Atlanta, Georgia 30341-5565, at least fifteen (15) days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and Commissioner shall be made prior to dissemination of the description, communication, notice, or statement.

This ORDER shall become effective ten (10) days from the date of its issuance. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC. Pursuant to delegated authority.

Dated at Atlanta, Georgia, this 24<sup>th</sup> day of April, 2009.

\_\_\_\_\_/s/  
Mark S. Schmidt  
Regional Director  
Atlanta Region  
Federal Deposit Insurance Corporation

The Georgia Department of Banking and Finance (“Department”), having duly approved the foregoing ORDER, and the Bank, through its Board, agree that the issuance of said ORDER by the FDIC shall be binding as between the Bank and the Georgia Commissioner of Banking and Finance to the same degree and to the same legal effect that such ORDER would be binding if the Department had issued a separate ORDER that included and incorporated all of the provisions of the foregoing ORDER, pursuant to section 7-1-91 of the Official Code of Georgia Annotated, GA Code Ann. § 7-1-91(1985).

Dated this 21<sup>st</sup> day of April, 2009.

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/s/  
Robert M. Braswell  
Commissioner  
Department of Banking and Finance  
State of Georgia