

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	
	)	
THE BANK OF GEORGIA	)	ORDER TO CEASE AND DESIST
PEACHTREE CITY, GEORIGIA	)	FDIC-09-133b
	)	
(Insured State Nonmember Bank)	)	

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THE BANK OF GEORGIA, PEACHTREE CITY, GEORGIA ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of regulations 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 of 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 June 18, 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 Official Code of Georgia Annotated § 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

violations of 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 such 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 or unsound banking practices and violations of regulations:

- (a) operating with a board of directors (“Board”) whose supervision over and direction to the management of the Bank has not been adequate;
- (b) operating with inadequate capital for the current risk profile of the Bank;
- (c) operating with inadequate management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits;
- (d) violating regulations and/or statements of policy as more fully described on pages 13 - 15 of the FDIC Report of Examination dated June 30, 2008 (“Report”);
- (e) operating with an excessive volume of adversely classified assets;
- (f) operating with an inadequate allowance for loan and lease losses (“ALLL”);
- (g) operating with an ineffective loan review program;
- (h) following hazardous lending practices and operating with an inadequate loan policy;
- (i) operating with inadequate liquidity and funds management;
- (j) operating with excessive exposure to interest rate risk;
- (k) operating in such a manner as to produce operating losses; and
- (l) operating with inadequate policies and procedures to monitor and control risks within concentrations of credit in the Bank’s loan portfolio.

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

**DIRECTORS**

1. (a) Immediately upon 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: capital adequacy; liquidity; classified and criticized assets; 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.
- (b) Within 30 days from the effective date of the ORDER, the Board shall establish a Board committee ("Directors' Committee"), consisting of at least five members, to oversee the Bank's compliance with the ORDER. A majority of the members of the Directors' Committee shall not be officers of the Bank. The Directors' Committee shall receive from Bank management monthly reports regarding the Bank's actions with respect to compliance with this ORDER. The Directors' Committee shall present a report regarding the Bank's adherence to the ORDER to the Board at each regularly scheduled Board meeting. Such report shall be recorded in appropriate minutes of the Board's meeting and shall be retained in the Bank's records. Establishment of this Director's Committee does not in any

way diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

### **MANAGEMENT**

2. Within 60 days from the effective date of this ORDER, the Bank shall have and retain qualified management.

- (a) Each member of management shall have the 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 Board to implement the provisions of this ORDER. At a minimum management shall include:
  - (i) A chief executive officer with proven ability in managing a bank of comparable size and in effectively implementing lending, investment, and operating policies in accordance with sound banking practices; and
  - (ii) A senior lending officer with a significant amount of appropriate lending, collection, loan supervision and loan work-out experience for the type and quality of the Bank's loans, and experience in upgrading a low quality loan portfolio.
- (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, but not limited to, asset quality, capital adequacy, earnings, liquidity,

management effectiveness, risk management, and sensitivity to market risk.

- (c) During the life of this ORDER, the Bank shall provide written notice to the Regional Director (“Regional Director”) of the FDIC and the Commissioner (collectively, “Supervisory Authorities”) 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 Part 303 of the FDIC’s Rules and Regulations, 12 C.F.R. § 303.101. The notification to the Supervisory Authorities shall comply with the requirements set forth in 12 C.F.R. Part 303, Subpart F. 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 60 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**

3. (a) Within 60 days from the effective date of this ORDER, the Bank shall have Tier 1 capital in such an amount as to equal or exceed 8 percent of the Bank’s total assets and total risk-based capital in such an amount as to equal or exceed 10 percent of the Bank’s total risk-weighted assets. Thereafter, the Bank shall maintain Tier 1 capital and total risk based capital ratios equal to or exceeding 8 percent and 10 percent, respectively, during the life of this ORDER.
- (b) The level of Tier 1 capital and total risk-based capital to be maintained during the life of this ORDER pursuant to this paragraph 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.

- (c) Any increase in Tier 1 capital and total risk based capital necessary to meet the requirements of this paragraph of the ORDER may not be accomplished through a deduction from the Bank's ALLL. For purposes of this ORDER, the terms "Tier 1 capital", "total risk based capital", and "total assets" shall have the meaning ascribed to them in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325.

#### **DIVIDENDS**

4. While this ORDER is in effect, the Bank shall not declare or pay any cash dividends without the prior written approval of the Supervisory Authorities.

#### **CONCENTRATIONS OF CREDIT**

5. Within 60 days from the effective date of this ORDER, the Bank shall perform a risk segmentation analysis with respect to the Concentrations of Credit listed on the Concentrations page of the Report and any other concentration deemed important by the Bank. Concentrations should be identified by product type, geographic distribution, underlying collateral, or other asset groups which are considered economically related and in the aggregate represent a large portion of the Bank's Tier 1 Capital. A copy of this analysis shall be provided to the Supervisory Authorities and the Board agrees to develop a plan to reduce any segment of the portfolio which the Supervisory Authorities deem to be an undue concentration of credit in relation to the Bank's Tier 1 Capital. The plan and its implementation shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations or visitation.

**CHARGE-OFF**

6. (a) Within 10 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" and 50 percent of all assets or portions of assets classified "Doubtful" in the Report that have not been previously collected or charged-off unless otherwise approved in writing by the Supervisory Authorities. If an asset classified "Doubtful" is a loan or a lease, the Bank may, in the alternative, increase its ALLL by an amount equal to fifty percent (50%) of the loan or lease classified "Doubtful".
- (b) Additionally, while this ORDER remains in effect, the Bank shall, within 10 days from the receipt of any official Report of Examination of the Bank from the FDIC or the Department, eliminate from its books, by collection, charge-off, or other proper entries, the remaining balance of any asset classified "Loss" and 50 percent of those classified "Doubtful" unless otherwise approved in writing by the Supervisory Authorities.
- (c) Within 30 days from the effective date of the ORDER, the Bank shall establish a reserve for contingent liabilities and charge all contingent liabilities classified "Loss" in the Report to the reserve. Thereafter, the Bank shall maintain an adequate reserve for contingent liabilities as an "other liability" on the Bank's balance sheet.
- (d) Elimination or reduction of assets through proceeds of other loans made by the Bank is not considered collection for purposes of this provision.

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

7. Within 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 ALLL at least once each calendar quarter. Said review shall be completed within twenty-one (21) days after 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.

### **LOAN INTEREST RESERVES**

8. Within 30 days from the effective date of this ORDER, the Board shall adopt and implement a policy limiting the use of loan interest reserves. Such policy shall confine the use of interest reserves to properly underwritten construction or development loans where development or building plans have specific timetables that commence within a reasonable time of the loan's approval and that include realistic completion dates. Interest reserves shall be used only for payment of interest on development or constructions loans for projects that are progressing according to their timetables. Interest reserves may be supplemented only with the prior written approval of the Board or a committee thereof, so long as the approval documents a prudent reason for the supplement.

### **ADVERSELY CLASSIFIED ASSETS**

9. (a) Within 30 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, or relationship in excess of \$750,000 classified "Substandard" or "Doubtful" 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 or lease, 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.

- (b) In addition, the plan mandated by this provision shall also include, but not be limited to, the following:
- (i) A quarterly schedule for reducing the outstanding dollar amount of adversely classified assets;
  - (ii) 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;
  - (iii) A provision for the Bank's submission of monthly written progress reports to its Board; and
  - (iv) 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.
- (c) The plan mandated by this provision shall further require a reduction in the aggregate balance of assets classified "Substandard" (\$43,021,000) and "Doubtful" (\$816,000) in the Report in accordance with the following schedule:
- (i) Within 180 days, a reduction of twenty percent (20%) in the balance of assets classified "Substandard" or "Doubtful";
  - (ii) Within 360 days, a reduction of forty-five percent (45%) in the balance of assets classified "Substandard" or "Doubtful";

- (iii) Within 540 days, a reduction of sixty percent (60%) in the balance of assets classified “Substandard” or “Doubtful”; and
  - (iv) Within 720 days, a reduction of seventy-five percent (75%) in the balance of assets classified “Substandard” or “Doubtful.”
- (d) The requirements of this paragraph do not represent 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. The plan may include a provision for increasing Tier 1 capital when necessary to achieve the prescribed ratio.
- (e) Within 60 days of the effective date of this ORDER, the Bank shall submit the plan to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Supervisory Authorities, and after due consideration of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the plan. Such plan shall be monitored and progress reports thereon shall be submitted to the Supervisory Authorities at 90-day intervals concurrent with the other reporting requirements set forth in this ORDER.

**RESTRICTIONS ON ADVANCES TO  
ADVERSELY CLASSIFIED BORROWERS**

10. (a) While this ORDER is in effect, 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 or obligation with the Bank that has been, in whole or in part, charged off or classified "Loss" or "Doubtful" and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing, after

collecting in cash all interest and fees due from a borrower, any credit already extended to the borrower.

- (b) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loans are adversely classified by the Supervisory Authorities as "Substandard" 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 extending additional credit pursuant to subparagraph 10(c) , whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Bank's Board, or a designated committee thereof, who shall certify, in writing:
  - (i) Why failure of the Bank to extend such credit would be detrimental to the best interests of the Bank;
  - (ii) Why the extension of such credit would improve the Bank's position, including an explanatory statement of how the Bank's position would improve;
  - (iii) That an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended; and
  - (iv) The signed certification shall be made a part of the minutes of the Board meeting, or designated committee, with a copy retained in the borrower's credit file.

**VIOLATIONS OF REGULATIONS AND CONTRAVENTIONS  
OF STATEMENTS OF POLICY**

11. Within 60 days from the effective date of this ORDER, the Bank shall, consistent with sound banking practices, eliminate and/or correct all violations of regulations and contraventions of statements of policy, which are more fully set out on pages 13 through 15 of the Report. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws, regulations, statements of policy, and regulatory guidance.

**LENDING AND COLLECTION POLICIES**

- 12 (a) Within 60 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement a written lending and collection policy to provide effective guidance and control over the Bank's lending function, including strengthening the underwriting, appraisal review, and loan-to-value reporting processes to conform with FDIC guidance and regulation. Such policy shall provide for the establishment of an asset/liability committee and define its membership, responsibilities, and authorities, minimum frequency of meetings, reporting from management, and reporting to the Board. In addition, such policy and its implementation shall address the criticisms enumerated on pages 9 - 12 of the Report and be in a form and manner acceptable to the Supervisory Authorities.
- (b) The Board shall adopt procedures whereby officer compliance with the revised loan policy is monitored and responsibility for exceptions thereto assigned. The procedures adopted shall be reflected in the minutes of a Board meeting at which all members are present and the vote of each is noted.

## LOAN REVIEW

13. Within 30 days from the effective date of the ORDER, the Board shall enhance its independent loan review program to provide for a periodic review of the Bank's loan portfolio and the identification and categorization of problem credits. At a minimum, the program shall provide for:

- (a) Prompt identification of loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason why the loan warrants special attention, and assessment of the degree of risk that the loan will not be fully repaid according to its terms;
- (b) Action plans to reduce the Bank's risk exposure from each identified relationship;
- (c) Prompt identification of all outstanding balances and commitments attributable to each obligor identified under the requirements of subparagraph 13(a), including outstanding balances and commitments attributable to related interests of such obligors, including the obligor of record, relationship to the primary obligor identified under subparagraph 13(a), and an assessment of the risk exposure from the aggregate relationship;
- (d) Identification of trends affecting the quality of the loan portfolio, potential problem areas, and action plans to reduce the Bank's risk exposure;
- (e) Assessment of the overall quality of the loan portfolio;
- (f) Identification of credit and collateral documentation exceptions including loan covenant exceptions, and action plans to address the identified deficiencies;
- (g) Identification and status of violations of laws and/or regulations with respect to the lending function and an action plan to address the identified violations;

- (h) Identification of loans that are not in conformance with the Bank's lending policy and action plans to address the deficiencies; and
- (i) A mechanism for reporting periodically, but in no event less than quarterly, the information developed in subparagraphs 13(a) through 13(h) above to the Board. The report should also describe the actions taken by management with respect to problem credits.

### **BUDGET**

14. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and fully implement a written plan and a comprehensive budget for all categories of income and expense for the calendar year ending 2009. The plan and budget required by this paragraph 14 shall include formal goals and strategies, consistent with sound banking practices and taking into account the Bank's other written policies, to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings of the Bank. The plan shall include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components. Thereafter, the Bank shall formulate such a plan and budget by November 30 of each subsequent year and submit the plan and budget to the Supervisory Authorities for review and comment by December 15 of each subsequent year.
- (b) The plan and budget required by subparagraph 14 (a) of this ORDER shall be acceptable to the Supervisory Authorities.

## LIQUIDITY

15. (a) Within 30 days from the effective date of this ORDER, the Bank shall review and revise its written plan addressing liquidity, contingent funding, and asset liability management. A copy of the plan shall be submitted to the Supervisory Authorities upon its completion for their review and comment. Within 30 days from the receipt of any comments from the Supervisory Authorities, the Bank shall incorporate any recommended changes. Thereafter, the Bank shall implement and follow the plan. Annually during the life of this ORDER, the Bank shall review this plan for adequacy and, based upon such review, shall make appropriate revisions to the plan that are necessary to strengthen funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs.
- (b) The initial plan shall include, at a minimum:
- (i) A limitation on the ratio of the Bank's total loans to assets;
  - (ii) A limitation of the ratio of the Bank's total loans to funding liabilities;
  - (iii) Identification of a desirable range and measurement of dependence on non-core funding including brokered funds;
  - (iv) Establishment of lines of credit that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved inadequate;
  - (v) A requirement for retention of sufficient investments that can be promptly liquidated to ensure the maintenance of the Bank's liquidity posture at a level consistent with short-term and long-term objectives;
  - (vi) Establishment of contingency plans to restore liquidity to that amount called for in the Bank's liquidity policy; and

- (vii) Establishment of limits for borrowing federal funds and other funds, including limits on dollar amounts, maturities, and specified sources/lenders.

### **BROKERED DEPOSITS**

- 16. (a) During the life of this ORDER, the Bank shall not accept, renew, or rollover brokered deposits without obtaining a brokered deposit waiver approved by the FDIC pursuant to Section 29 of the Act, 12 U.S.C. § 1831f. 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 depositors managed by a trustee or custodian when each individual beneficial interest is entitled to a right to federal deposit insurance.
- (b) The Bank shall comply with the restrictions on the effective yields on deposits described in 12 C.F.R. § 337.6(b)(4).

### **CALL REPORTS**

- 17. During the life of this ORDER, the Bank shall file with the FDIC Consolidated Reports of Condition and Income that accurately reflect the financial condition of the Bank as of the end of the period for which the Reports are filed, including any adjustment in the Bank's books made necessary or appropriate as a consequence of any FDIC or Department examination of the Bank during that reporting period.

### **PROGRESS REPORTS**

- 18. Within 30 days of the end of the first calendar quarter following the effective date of this ORDER, and within 30 days of the end of each calendar 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 shall include a copy of the Bank's Report of Condition and the Bank's Report of Income. 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 TO SHAREHOLDERS**

19. Following the issuance of this ORDER, the Bank shall provide to its shareholders or otherwise furnish a description of this ORDER (i) in conjunction with the Bank's next shareholder communication or (ii) 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 and Securities Disclosure Section, 550 17<sup>th</sup> Street, N.W., Room F-6066, Washington, D.C. 20429 and to the Commissioner, Georgia Department of Banking and Finance, 2990 Brandywine Road, Suite 200, Atlanta, Georgia 30341-5565, to review at least twenty (20) days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and the Department shall be made prior to dissemination of the description, communication, notice, or statement.

This ORDER shall become effective immediately upon 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 in writing by the Supervisory Authorities.

Pursuant to delegated authority.

Dated this 30th day of June, 2009.

/s/ \_\_\_\_\_

Doreen R. Eberley  
Acting Regional Director  
Division of Supervision and Consumer  
Protection  
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 Official Code of Georgia Annotated § 7-1-91(1985).

Dated this \_\_\_\_\_ of June, 2009.

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