

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

_____	)	
In the Matter of	)	
	)	ORDER TO
NORTHSIDE BANK	)	CEASE AND DESIST
ADAIRSVILLE, GEORGIA	)	
	)	FDIC-09-082b
(Insured State Nonmember Bank)	)	
_____	)	

Northside Bank, Adairsville, 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 1st day of July, 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 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 violation of regulations:

- (a) operating with a board of directors (“Board”) that has provided inadequate supervision over and direction to management for the current risk profile 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 inadequate capital for the risk profile of the Bank;
- (d) operating with excessive volume of adversely classified assets;
- (e) operating with an inadequate allowance for loan and lease losses (“ALLL”);
- (f) following weak lending policies and practices;
- (g) operating in such a manner as to produce operating losses;

- (h) operating with unsafe and unsound loan underwriting and administration practices;
- (i) operating with an inadequate asset/liability and/or funds management policy; and
- (j) operating in violation of regulations and in contravention of statements of policy as more fully described on pages 15 through 18 of the Report of Examination of the Bank dated October 27, 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. (a) 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.

(b) Within 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**

2. (a) Within 90 days from the effective date of this ORDER, the Bank shall evaluate, obtain or retain qualified management. Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Management shall include the chief executive officer, a senior lending officer, and a chief financial officer. All management officials shall have an appropriate level of experience and expertise that is needed to perform his or her duties. Each member of management shall be provided appropriate written authority from the Board to implement provisions of this Order.

- (b) The qualifications of management shall be assessed on its ability to:
  - (i) Comply with the requirements of this ORDER;
  - (ii) Operate the Bank in a safe and sound manner;
  - (iii) Comply with applicable laws and regulations; and
  - (iv) Restore all aspects of the Bank to a safe and sound condition.

(c) Within 60 days of the effective date of this ORDER, the Bank shall commission an independent third-party review and analysis of the Bank's management and staffing needs ("Management Plan") for the purpose of providing qualified management for the Bank. Such Management Plan and its implementation shall be satisfactory to the FDIC and Department (collectively, "Supervisory Authorities").

The Management Plan shall include, at a minimum:

- (i) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;
- (ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (iii) Annual written evaluations of all Bank officers, in particular of the chief executive officer, chief lending officer, and chief operating officer, and staff members qualifications required to perform present and anticipated duties, including, but not limited to, adherence to the Bank's established policies and practices, and restoration and maintenance of the Bank in a safe and sound condition;
- (iv) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer or staff member positions consistent with the needs identified in the Management Plan:
- (v) A management succession plan; and
- (vi) An organizational chart.

(d) During the life of this ORDER, the Bank shall notify the Supervisory Authorities in writing of the resignation or termination of any Bank director or senior officer within 15 days of the event. Prior to the addition of any individual as a senior

executive officer, the Bank shall comply with the requirements of Section 32 of the Act, 12 U.S.C. § 1831i and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. § 303.100 through 303.103 and any requirement of the State of Georgia for prior notification and approval. 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 amount as to equal or exceed eight percent (8%) of the Bank's total assets and total risk-based capital in such an amount as to equal or exceed ten percent (10%) or 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 eight percent (8%) and ten percent (10%), 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 subparagraph 3(a) shall be in addition to a fully funded allowance for loan and lease losses ("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 necessary to meet the requirements of Paragraph 3 of this 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," "total assets," and "total risk-weighted assets" shall have the meanings ascribed to them in Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325.

## **LIQUIDITY AND FUNDS MANAGEMENT**

4. Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement a written plan addressing liquidity, contingent funding, interest rate risk, and asset liability management, which plan shall include, at a minimum, revisions to address all items of criticism enumerated on pages 6, 7 and 12 of the Report. The plan shall incorporate the guidance contained in Financial Bank Letter (FIL) 84-2008, dated August 26, 2008, entitled *Liquidity Risk Management*. The plan shall provide restrictions on the use of brokered and Internet deposits consistent with safe and sound banking practices. The plan shall provide for monthly reporting to the Board. A copy of the plan shall be submitted to the Supervisory Authorities upon its completion for review and comment. Within 30 days from the receipt of any comments from the Supervisory Authorities, the Bank shall incorporate those recommended changes. Thereafter, the Bank shall implement and follow the plan, and its implementation shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

## **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 and/or visitations.

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

6. Within 60 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 Comprehensive Policy for determining the adequacy of the ALLL will address weaknesses discussed on pages 4, 11, 17 and 18 in the report. The policy shall provide for a review of the allowance at least once each calendar quarter. Said review should be completed at least twenty-one (21) days following the end of each quarter and any deficiency in the ALLL shall be remedied prior to submitting the Report of Condition. 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.

### **REDUCTION OF CLASSIFIED ASSETS**

7. (a) Within 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, or relationship in excess of \$750,000 classified "Substandard" or "Doubtful" in the Report. For purposes of this paragraph, "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 paragraph 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 paragraph shall further require a reduction in the aggregate balance of assets classified "Substandard" and "Doubtful" in the Report (\$17,493,000) in accordance with the following schedule.

(i) Within 180 days of the effective date of this ORDER, a reduction of 25% in the balance of assets classified "substandard" or "doubtful";

(ii) Within 360 days of the effective date of this ORDER, a reduction of 45% in the balance of assets classified “substandard” or “doubtful”;

(iii) Within 540 days of the effective date of this ORDER, a reduction of 60% in the balance of assets classified “substandard” or “doubtful”; and

(iv) Within 720 days of the effective date of this ORDER, a reduction of 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 of 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.

#### **CHARGE-OFF**

8. (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% of those assets classified as “Doubtful” in the Report that have not been previously collected or charged-off. If an asset classified “Doubtful” is a loan or lease, the Bank may, in the alternative, increase its ALLL by an amount equal to 50% of

the loan or lease. Elimination of any of these assets through proceeds of other loans made by the Bank is not considered collections for purposes of this paragraph.

(b) Additionally, as long as this ORDER remains in effect, within 10 days after the receipt of any future Report of Examination of the Institution from the FDIC and/or the Department, 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 of Examination that have not been previously collected or charged off, as approved in writing by the applicable Supervisory Authority.

**NO ADDITIONAL CREDIT**

9. (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 is listed for "Special Mention" and is uncollected.

(c) Subparagraph 9(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.
- (d) 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 POLICY**

10. (a) Within 90 days from the effective date of this ORDER, the Bank shall revise, adopt and implement a written lending policy to provide effective guidance and control over the Bank's lending function, including strengthening the underwriting, appraisal review, commercial real estate acquisition, development and construction ("ADC") lending, and loan to value reporting processes to conform with FDIC guidance and regulations. Such policies and their implementation shall address the criticisms enumerated on pages, 3, 4, 10, 11 and 12 of the Report and be 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.

### **BROKERED DEPOSITS**

11. 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 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**

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

### **BUDGET**

13. Within 60 days from the effective date of this ORDER, the Bank shall formulate and fully implement a written plan and comprehensive budget for all categories of income and expenses for the calendar year ending 2009. The plan and budget required by this paragraph 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 spending, 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. The plan shall be in a form and manner acceptable to the Supervisory Authorities. 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 by December 15 of each subsequent year.

#### **VIOLATIONS OF REGULATIONS AND POLICY**

14. Within 60 days from the effective date of this ORDER, the Bank shall consistent with sound banking practices, eliminate or correct all violations of regulations and contraventions of Statements of Policy that are contained on pages 15 through 18 of the Report. In addition, within 10 days from the effective date of this ORDER, the Bank shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws, rules and regulations.

#### **INFORMATION TECHNOLOGY**

15. Within 60 days from the effective date of this ORDER, THE Bank shall correct all Information Technology weaknesses detailed on page 8 of the Report.

#### **PROGRESS REPORTS**

16. 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

17. 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 twenty (20) 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 immediately 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 9<sup>th</sup> day of July, 2009.

/s/

---

Doreen R. Eberly  
Acting 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 2nd day of July, 2009.

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