

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

_____)	
In the Matter of)	
)	
)	NOTICE OF CHARGES
)	AND OF HEARING
COMMUNITY SOUTH BANK)	
PARSONS, TENNESSEE)	
)	
)	FDIC-10-264b
(Insured State Nonmember Bank))	
_____)	

The Federal Deposit Insurance Corporation (“FDIC”) having determined that Community South Bank, Parsons, Tennessee (“Bank”), has engaged in unsafe or unsound banking practices institutes this proceeding to determine whether an appropriate order should be issued against the Bank under the provisions of section 8(b)(1) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1818(b)(1). The FDIC hereby issues this NOTICE OF CHARGES AND OF HEARING (“NOTICE”) pursuant to the provisions of the Act, 12 U.S.C. §§ 1811-1831aa, and the FDIC Rules of Practice and Procedures, 12 C.F.R. Part 308, and alleges as follows:

JURISDICTION

1. The Bank is a corporation existing and doing business under the laws of the State of Tennessee and has its principal place of business in Parsons, Tennessee. At all times pertinent to the charges herein, the Bank is and has been an insured state nonmember bank within the meaning of section 3(e)(2) of the Act, 12 U.S.C. § 1813(e)(2), an insured depository institution within the meaning of section 3(c)(2) of the Act, 12 U.S.C. 1813(c)(2), and subject to the Act,

12 U.S.C. §§ 1811-1831aa, the Rules and Regulations of the FDIC, 12 C.F.R. Chapter III (“Rules”), and the laws of the State of Tennessee.

2. The FDIC has jurisdiction over the Bank, institution-affiliated parties of the Bank, and the subject matter of this proceeding.

2010 EXAMINATION

3. The FDIC examined the Bank with a start date of January 11, 2010, and utilized financial information as of September 30, 2009, that detailed the following:

- (a) Total Risk-Based Capital Ratio was 9.76%;
- (b) Tier 1 Risk-Based Capital Ratio was 8.67%;
- (c) Tier 1 Leverage Capital Ratio was 7.72%;
- (d) Total Commercial Real Estate Loans were 504% of Total Risk-Based Capital;
- (e) Adversely Classified items totaled \$64,934,000;
- (f) Total Loans Classified as Doubtful totaled \$1,000;
- (g) Total Assets Classified as Loss totaled \$1,550,000;
- (h) Total Nonaccrual Loans totaled \$29,017,000;
- (i) Total Single-Family Residential Construction, Land Development, and Other Loans totaled \$63,090;
- (j) Net Income totaled \$3,235,000;
- (k) Net Interest Income Margin was 3.87%;
- (l) Net Loan-To-Deposit Ratio was 97.03%;
- (m) Net Non-Core Funding Dependence Ratio was 56.77%;
- (n) Net Loans and Leases to Total Assets Ratio was 86.03%;
- (o) Brokered Deposit Maturities for 2010 totaled \$155,369,000;
- (p) Federal Home Loan Bank Advances totaled \$15,332,000; and
- (q) On-Hand Liquidity totaled \$22,706,000.

UNSAFE OR UNSOUND PRACTICES
INADEQUATE CAPITAL

4. The Bank received a less than satisfactory Capital rating in the January 11, 2010 Report of Examination, which utilized financial information as of September 30, 2009 (“2010 ROE”).

5. The Bank has engaged in the unsafe or unsound practice of operating with an inadequate level of capital protection for the kind and quality of assets held by the Bank. The 2010 ROE provides that the Bank had the following capital ratios:

- (a) Total Risk-Based Capital Ratio was 9.76%;
- (b) Tier 1 Risk-Based Capital Ratio was 8.67%; and
- (c) Tier 1 Leverage Capital Ratio was 7.72%.

6. Based on these capital ratios, the FDIC determined that the Bank was inadequately capitalized in light of the following:

- (a) Commercial real estate (“CRE”) loans constituted 504% of Total Risk-Based Capital;
- (b) Adversely classified items increased over a one-year period from \$28,184,000 as identified in the November 11, 2008 Report of Examination, utilizing financial information as of as of September 30, 2008 (“2008 ROE”), to \$64,934,000. Adversely classified items represent 108% of Tier 1 Capital plus the Allowance for Loan and Lease Losses (“ALLL”) as of September 30, 2009; and
- (c) The Bank has an elevated reliance on potentially volatile liabilities to fund longer-term earning assets, as reflected by the fact the non-core funding dependence ratio equals 56.77%, and this practice by the Bank constitutes an unsafe or unsound practice.

EXCESSIVE LEVEL OF POOR QUALITY AND ADVERSELY CLASSIFIED ASSETS

7. The Bank received a less than satisfactory Asset Quality rating in the 2010 ROE.
8. The Bank has engaged in the unsafe or unsound practice of operating with an excessive level of poor quality and adversely classified assets as demonstrated by the following:
 - (a) The 2010 ROE indicated the Bank had a total of \$64,934,000 of adversely classified items, including \$1,000 of Doubtful assets, and \$1,550,000 of assets classified as Loss; and
 - (b) The 2010 ROE identified Adversely Classified items equal to 108% of Tier 1 Capital plus ALLL as of September 30, 2009.
9. Further, the Bank has engaged in hazardous lending practices which resulted in adverse classifications and charge-offs as reflected by the following:
 - (a) The Bank modified loans without adequate analysis or consideration of borrower financial capacity or repayment ability;
 - (b) The Bank continued to accrue interest on loans over 90 days past due and not in the process of collection; and
 - (c) The Bank had high levels of documentation exceptions.
10. At the Bank's Board of Directors meeting of March 31, 2010, the FDIC notified the Bank that its asset quality was deficient and that this deficiency presented a threat to the Bank's viability.
11. The FDIC determined that the level of classified assets is unacceptable given the Bank's capital and liquidity positions.

CONCENTRATIONS OF CREDIT

12. The Bank has engaged in unsafe or unsound practices by creating concentrations of credit in Small Business Administration (“SBA”) 504 commercial real estate loans. As set forth in the 2010 ROE, SBA 504 commercial real estate loans represented 352% of Tier 1 Capital.

INADEQUATE LIQUIDITY

13. The Bank received a less than satisfactory Liquidity rating in the 2010 ROE.

14. The Bank has engaged in unsafe or unsound practices by operating without adequate liquidity or proper regard for funds management in light of the Bank’s asset and liability mix as demonstrated by the following:

(a) Brokered deposits, as of September 30, 2009, totaled \$279,974,000;

(b) The net non-core funding dependence ratio was 56.77% as of September 30, 2009;

(c) The net loans and leases to total deposits ratio was 97.03% as of September 30, 2009; and

(d) The net loans and leases to total core deposits ratio was 106.92% as of September 30, 2009.

15. The unsafe and unsound practice of operating without adequate liquidity or proper regard for funds management in light of the asset and liability mix is also demonstrated by the determination that brokered deposits maturing in 2010 will exhaust liquid assets during 2010 based on the following:

(a) Brokered deposits that mature during 2010 total \$155,369,000; and

(b) On-hand liquidity at the Bank as of December 31, 2009, totaled \$14,803,000.

INADEQUATE EARNINGS

16. The Bank received a less than satisfactory Earnings rating in the 2010 ROE.

17. The Bank has engaged in unsafe or unsound practices by operating with inadequate earnings to augment capital as demonstrated by the following:

(a) Earnings are being adversely affected by increasing provision expenses, overhead expenses and increasing non-earning assets;

(b) Subchapter S return on average assets declined from 0.66% as of September 30, 2008, to 0.44% as of September 30, 2009;

(c) Provision expenses increased over 100% since the last examination due to loan losses;

(d) Additional provisions of \$1,217,000 were allocated at year end due to further asset quality deterioration;

(e) Net interest margin of 3.87% is steadily declining; and

(f) Overhead expenses are above peer.

INADEQUATE SUPERVISION BY BOARD OF DIRECTORS

18. The Bank received a less than satisfactory Management rating in the 2010 ROE.

19. The Bank has engaged in the unsafe or unsound practice of operating with a Board of Directors who did not provide adequate supervision and direction over management to prevent the unsafe or unsound practices set forth above in paragraphs 3-19, inclusive.

OPPORTUNITY FOR HEARING

20. Notice is hereby given that a hearing will be held in Memphis, Tennessee, within 60 days from the date of service of this NOTICE on the Bank, or on such date as may be set by the Administrative Law Judge appointed to hear this matter, for the purpose of taking evidence on the above-mentioned charges in order to determine whether an Order should be issued under the Act requiring the Bank:

(a) To cease and desist from the unsafe or unsound banking practices herein specified; and/or

(b) To take affirmative action to correct the conditions resulting from such practices.

21. The hearing is to be held before an Administrative Law Judge to be appointed by the Office of Financial Institution Adjudication pursuant to 5 U.S.C. § 3105. The hearing will be open to the public, unless the FDIC shall determine that an open hearing would be contrary to the public interest, and in all respects will be conducted in compliance with the provisions of the Act and the FDIC Rules of Practice and Procedures.

22. The Respondent Bank is directed to file an answer to this NOTICE with the Office of Financial Institution Adjudication (“OFIA”), 3501 N. Fairfax Drive, Suite VS-D8116,

Arlington, VA 22226-3500; the Executive Secretary, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Room F-1058, Washington, D.C. 20429; A. T. Dill, Assistant General Counsel, Enforcement Section, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429; and Stephen C. Zachary, Regional Counsel (Supervision), Federal Deposit Insurance Corporation, Dallas Regional Office, 1601 Bryan Street, 37th Floor, Dallas, Texas 75201, within 20 days from the date of service of this NOTICE, in accordance with 12 C.F.R. § 308.19. Pursuant to 12 C.F.R. 308.10(b)(4), all documents required to be filed, excluding documents produced in response to a discovery request pursuant to 308.25 and 308.26, shall be filed electronically with the OFIA. Respondent Bank is hereby directed to file any answer electronically with OFIA at ofia@fdic.gov. Failure to answer within the 20-day time period shall constitute a waiver of the right to appear and contest the allegations contained in this NOTICE and shall, upon the FDIC's motion, cause the Administrative Law Judge or the FDIC to find the facts in this NOTICE to be as alleged and to issue an appropriate ORDER.

Pursuant to delegated authority.

Dated at Dallas, Texas, this 10th day of September 2010.

/s/

Kristie K. Elmquist
Acting Regional Director
Dallas Regional Office
Federal Deposit Insurance Corporation

CERTIFICATE OF SERVICE

I certify that an original and one copy of the Notice of Charges and of Hearing was sent on this _____ day of September 2010 by delivering the papers via United Parcel Service (UPS) overnight delivery or electronically by email to:

Board of Directors
Community South Bank
51 West Main Street
Parsons, Tennessee 38363

and that copies were also sent to the following:

A.T. Dill, III Esq.
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