

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

_____)	
In the Matter of)	
)	CONSENT ORDER
THE HERITAGE BANK)	
HINESVILLE, GEORGIA)	
)	FDIC-10- 816b
(Insured State Nonmember Bank))	
_____)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for The Heritage Bank, Hinesville, Georgia (“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 to the Issuance of a Consent Order” (“Stipulation”), dated December 21, 2010, that is accepted by the FDIC and the Georgia Department of Banking and Finance (“Department”). The Department may issue an order pursuant to Section 7-1-91 of the Official Code of Georgia Annotated, GA Code Ann. Section 7-1-91 (1985).

With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulations relating to weaknesses in asset quality, capital adequacy, earnings, management effectiveness, and liquidity, to the issuance of this Consent Order (“ORDER”) by the FDIC and the Department.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and Section 7-1-91 of the Official Code of Georgia Annotated, GA Code Ann. Section 7-1-91 (1985) have been satisfied, the FDIC and the Department hereby order that:

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 the following areas, at a minimum, 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.

(c) Within 90 days from the effective date of this ORDER, the Board shall correct the Contraventions to Board Approved Policies detailed in the Report of Examination dated August 16, 2010 (the "Report"). Any contraventions in policies of the Bank shall be documented in the minutes of the Board. In addition, the Board shall thereafter implement and enforce all policies of the Bank.

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 qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Management shall include a chief executive officer, a senior credit officer, and a chief financial officer with requisite experience levels for the Bank's risk profile. Each member of management shall be provided appropriate written authority from the Board to implement the 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, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.

(c) During the life of this ORDER, the Bank shall notify the Regional Director of the FDIC's Atlanta Regional Office ("Regional Director") and the Commissioner of the Department, (hereinafter referred to as 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. The notification must be received at least 30 days before such addition or employment is intended to become effective and should include a description of the background and experience of the individual or individuals to be added or employed. The Bank may not add any individual to its Board or employ any individual as a senior executive officer if the Regional Director issues a notice of disapproval pursuant to Section 32 of the Federal Deposit Insurance Act, 12 U.S.C. § 1831i.

CAPITAL

3. (a) Within 90 days from the effective date of this ORDER, the Bank shall obtain 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. The Bank shall maintain these levels during the life of this ORDER.

(b) Within 90 days from the effective date of this ORDER, the Bank shall submit to the Supervisory Authorities a written capital plan. Such capital plan shall detail the steps that the Bank shall take to achieve and maintain the capital requirements set

(c) The level of capital to be maintained during the life of this ORDER pursuant to paragraph 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.

(d) Any increase in Tier 1 Capital and total risk based capital necessary to meet the requirements of paragraph 3(a) of the ORDER may be accomplished by the following:

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

(iv) any other means acceptable to the Supervisory Authorities;

or

(v) any combination of the above means.

(e) 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.

(f) If all or part of any necessary increase in capital required by paragraph 3 of this ORDER is accomplished by the sale of new securities of the Bank, the Board shall forthwith take all necessary steps to adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with any applicable securities laws. Prior to the implementation of a plan involving the public distribution of the Bank's securities and, in any event, not less than 15 days prior to the dissemination of the materials to be used in the public distribution, the plan and any materials to be used in a public distribution of the Bank's securities shall be submitted to the FDIC, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429, and the Commissioner, Georgia Department of Banking and Finance, 2990 Brandywine Road, Suite 200, Atlanta,

Georgia 30341, for review. Any changes requested to be made in the plan or materials shall be made prior to their dissemination.

(g) For the 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’s Rules and Regulations, 12 C.F.R. Part 325.

DIVIDENDS AND OTHER BANK PAYMENTS

4. (a) While this ORDER is in effect, the Bank shall not declare or pay dividends or bonuses without the prior written approval of the Supervisory Authorities. All requests for prior approval shall be received at least 30 days prior to the proposed dividend or bonus payment declaration date (at least 5 days with respect to any request filed within the first 30 days after the date of this ORDER) and shall contain, but not be limited to, an analysis of the impact such dividend or bonus payment would have on the Bank's capital, income, and/or liquidity positions.

(b) During the term of this ORDER, the Bank shall not make any distributions of interest, principal or other sums on subordinated debentures, if any, without the prior written approval of the Supervisory Authorities.

CHARGE-OFF

5. (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” in the Report that have not been previously collected or charged off. 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, within 10 days of 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 of those classified "Doubtful" unless otherwise approved in writing by the Supervisory Authorities.

ADVERSELY CLASSIFIED ASSETS

6. (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" 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 of 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 Board meeting.

(c) The plan mandated by this paragraph shall further require a reduction in the aggregate balance of assets classified "Substandard" 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";
- (ii) within 360 days, a reduction of forty percent (40%) in the balance of assets classified "Substandard";
- (iii) within 540 days, a reduction of sixty percent (60%) in the balance of assets classified "Substandard"; and
- (iv) within 720 days, a reduction of seventy-five percent (75%) in the balance of assets classified "Substandard".

(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 proscribed 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.

ALLOWANCE FOR LOAN AND LEASE LOSSES

7. (a) Within 10 days from the date of this ORDER, the Board shall make a provision which will replenish the ALLL for the loans charged off as a result of this examination and reflect the potential for further losses in the remaining loans or leases classified “Substandard” as well as all other loans and leases in its portfolio.

(b) Within 30 days from the effective date of this ORDER, the Board shall review the adequacy of the ALLL and revise its policy for determining the adequacy of the ALLL, ensuring that the policy is comprehensive. 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 ALLL at least once each calendar quarter. The review should include a review of compliance with FAS 5 currently codified as ASC 450 and FAS 114 currently codified as 310-10-35, Receivables – Overall – Subsequent Measurement, including the identification of and the appropriate value for collateral dependent loans. Said review shall be completed within 21 days after the end of each calendar 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 shall 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 of 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.

NO ADDITIONAL CREDIT

8. (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 "Special Mention" and is uncollected.

(c) Paragraph 8(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) why the Bank's position would be improved thereby; including an explanatory statement of how the Bank's position would be improved; and
- (iii) that 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.

SPECIAL MENTION

9. Within 90 days from the effective date of this ORDER, the Bank shall correct the cited deficiencies in the loan listed for "Special Mention" in the Report.

LIQUIDITY AND FUNDS MANAGEMENT

10. (a) Within 60 days from the effective date of this ORDER, the Bank shall review and revise its 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 in the Report.

(b) 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.

(c) 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 implementation shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

BROKERED DEPOSITS

11. (a) Throughout the effective life of this ORDER, the Bank shall not accept, renew, or rollover any brokered deposit, as defined by 12 C.F.R. § 337.6(a)(2), unless it is in compliance with the requirements of 12 C.F.R. § 337.6(b), governing solicitation and acceptance of brokered deposits by insured depository institutions.

(b) The Bank shall comply with the restrictions on the effective yields on deposits described in 12 C.F.R. § 337.6.

BUDGET

12. (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 calendar year 2011 for all categories of income and expense. 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 expenses, control overhead, and improve and sustain earnings of the Bank. The plan shall include a

projected balance sheet and 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. The plan and budget required by paragraph 12(a) of this ORDER shall be acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

(b) Following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plan and budget required by paragraph 12(a) of this ORDER and shall record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken.

WRITTEN STRATEGIC BUSINESS PLAN

13. Within 90 days from the effective date of this ORDER, the Bank shall prepare and submit to the Supervisory Authorities its written strategic plan consisting of long-term goals designed to improve the condition of the Bank and strategies for achieving those goals. The plan shall be in a form and manner acceptable to the Supervisory Authorities, but at a minimum shall cover three years and provide specific objectives for asset growth, market focus, earnings projections, capital needs, and liquidity position.

NO MATERIAL GROWTH WITHOUT PRIOR NOTICE

14. While this ORDER is in effect, the Bank must notify the Supervisory Authorities at least 30 days prior to undertaking asset growth of 10 percent or more or initiating material changes in asset or liability composition. In no event shall asset growth result in non-compliance with the capital maintenance provisions of this ORDER unless the Bank receives prior written approval from the Supervisory Authorities.

**VIOLATIONS OF LAW AND
CONTRAVENTIONS OF STATEMENTS OF POLICY**

15. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and/or regulation and contraventions of statements of policy, in 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.

CONCENTRATIONS OF CREDIT

16. 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 pages of the Report. The Bank should refer to the Financial Institution Letter 104-2006 dated December 12, 2006, entitled *Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices*, for information regarding risk segmentation analysis. A copy of this analysis shall be provided to the Supervisory Authorities. The Bank 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 capital account. 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.

LENDING AND COLLECTION POLICIES

17. Within 60 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement its written lending, underwriting, collection, and use of loan interest reserve policies to provide effective guidance and control over the Bank's lending function. These policies shall include, at a minimum, revisions to address criticisms and

recommendations enumerated in the Report pertaining to credit underwriting deficiencies; specific guidelines for placing loans on nonaccrual; implementing proper loan grading systems; refraining from capitalizing interest; and appropriately utilizing single payment or interest only loan terms to ensure they coincide with the loans' stated purpose. In addition, the written policies should include requirements for appraisals and evaluations consistent with outstanding regulatory guidance and the Uniform Standards of Professional Appraisal Practice. The policies shall include requirements for re-appraising and/or re-evaluating real estate pledged as collateral on an ongoing basis that takes into consideration changing market conditions and economic factors. The Bank shall initiate and implement a program to ensure its credit files contain complete, adequate, and current documentation. Such policies and program and their implementation shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

OTHER REAL ESTATE POLICY

18. (a) Within 60 days from the effective date of this ORDER, the Board shall develop a written policy for managing the Other Real Estate ("ORE") of the Bank. At a minimum, the policy shall provide for:

- (i) review of the ORE portfolio, at least quarterly, by a committee appointed by the Board;
- (ii) documentation that taxes and insurance premiums are paid in a timely manner;
- (iii) resolution of documentation exceptions;

- (iv) realistic and comprehensive budget for each parcel with a book value in excess of \$100,000, including projections of the Bank's carrying costs (e.g., upkeep, repairs, and insurance costs) and projections of the marketing costs;
- (v) independent appraisal of each parcel at the time of foreclosure and periodically thereafter (but no more than 12 months from the date of the prior appraisal report);
- (vi) determination by the ORE committee that each parcel of ORE is listed with a real estate broker or otherwise made widely available for sale within an appropriate timeframe and at a realistic selling price;
- (vii) periodic progress reports from each real estate broker marketing the Bank's ORE, including projected sales timeframes;
- (viii) detailed report from the ORE committee to the Board at least quarterly, with a copy of the report, including documentation of the action taken to facilitate the timely sale of ORE, made part of the Board minutes; and
- (ix) requirements for accounting, documentation, resale terms, and action plans for the orderly liquidation of ORE from the Bank's books.

(b) The Bank shall submit the policy 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 policy, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the policy.

INTERNAL LOAN REVIEW

19. Within 90 days from the effective date of this ORDER, the Bank shall adopt an effective internal loan review grading system to provide for periodic review of the Bank's loan portfolio in order to identify and categorize the Bank's loans, and other extensions of credit which are carried on the Bank's books as loans, on the basis of credit quality. Such system and its implementation shall be satisfactory to the Supervisory Authorities as determined at their initial review and subsequent examinations and/or visitations.

DISCLOSURE

20. 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 earlier of the Bank's next written shareholder communication or the 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 17th Street, N.W., Room 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.

PROGRESS REPORTS

21. 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 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.

The provisions of this ORDER shall not bar, estop, or otherwise prevent the FDIC, the Department 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.

This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

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.

Issued Pursuant to Delegated Authority.

Dated at Atlanta, Georgia, this 27th day of December, 2010.

/s/

Thomas J. Dujenski
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 Section 7-1-91 of the Official Code of Georgia Annotated, GA Code Ann. § 7-1-91 (1985).

Dated this 21st day of December 2010.

/s/

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