

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

_____)	
In the Matter of)	
)	
CORNERSTONE COMMUNITY BANK)	
SAINT PETERSBURG, FLORIDA)	NOTICE OF CHARGES
)	AND OF HEARING
)	FDIC-10-801b
)	
(Insured State Nonmember Bank))	
_____)	

The Federal Deposit Insurance Corporation (“FDIC”), being of the opinion that Cornerstone Community Bank, Saint Petersburg, Florida (“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”) under 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:

1. The Bank, a corporation existing and doing business under the laws of the State of Florida and having its principal place of business at Saint Petersburg, Florida, is and has been, at all times pertinent to the charges herein, an insured State nonmember bank. The Bank is subject to the Act, 12 U.S.C. §§ 1811-1831aa, the FDIC Rules and Regulations, 12 C.F.R. Chapter III (the “Regulations”), and the laws of the State of Florida. The FDIC has jurisdiction

over the Bank, the institution-affiliated parties of the Bank, and the subject matter of this proceeding.

Financial Data

2. The FDIC conducted an examination of the Bank commencing November 15, 2010 (“Examination”) utilizing financial information as of September 30, 2010, and it was determined:

- (a) The Bank's total deposits equaled \$277,503,000;
- (b) The Bank's total loans and leases equaled \$228,752,000;
- (c) The Bank's total assets, as defined in section 325.2(x) of the Regulations, equaled \$306,168,000;
- (d) The Bank's Tier 1 Capital, as defined in section 325.2(v) of the Regulations, equaled \$20,988,000; and
- (e) The Bank's allowance for loan and lease losses (“ALLL”), as defined in section 325.2(a) of the Regulations, equaled \$5,615,000.

Asset Quality

3. The Bank has engaged in unsafe or unsound banking practices in that the Bank has engaged in lax loan administration and underwriting. Without limiting the generality of the foregoing allegations, it is further alleged:

- (a) The Bank made an excessive amount of loans to borrowers with common risk characteristics or sensitivities to economic, financial, or business developments (“concentrations”) without adequate capital. Specifically, the Bank has an excessive concentration of commercial real estate (“CRE”) loans consisting of construction and land development, multi-family residential, and other nonfarm nonresidential properties. As of the

Examination, CRE loans represented 571 percent of Total Risk-Based Capital and approximately 60 percent of the Bank’s loan portfolio.

(b) The Bank’s loans exhibited loan documentation deficiencies and underwriting problems as the Bank did not obtain rent rolls and vacancy figures for loans secured by CRE on an ongoing basis.

(c) The Bank has not performed and documented periodic market analyses for the various property types and geographic markets represented in its loan portfolio.

4. As a result of lax loan administration and underwriting practices, the Bank has an excessive volume of poor quality loans and other assets in relation to its total assets and in relation to its Tier 1 Capital and ALLL, as evidenced by the following:

(a) The Bank has an excessive volume of adversely classified assets. As of the Examination, the Bank had adversely classified assets that totaled \$49,686,000 and comprised 171 percent of Tier 1 Capital plus the ALLL. Adversely classified assets included adversely classified owned real estate (“ORE”) of \$2,687,000.

(b) In particular, the classified assets were as follows:

Substandard	\$ 44,060,00
Loss	\$ 1,590,000
TOTAL	\$ 45,650,000

(c) In addition, as of the Examination, assets aggregating \$5,510,000 were detailed for Special Mention because they exhibited weaknesses, which if left uncorrected, could result in the deterioration of the repayment prospects for the asset or the Bank’s credit position at some future date.

Capital

5. The Bank has engaged in unsafe or unsound banking practices in that the Bank has operated with insufficient capital in relation to the kind and quality of assets held by the Bank as follows:

(a) The Bank's capital ratios were overstated as a result of the incorrectly calculated value of its net deferred tax asset. Following the correct calculation of this asset, as of September 30, 2010, the Bank's Tier 1 leverage, Tier 1 risk-based capital, and Total Risk-Based Capital ratios were 6.69 percent, 8.98 percent, and 10.24 percent, respectively.

(b) Due to loan losses and additional provision expenses related to asset quality deterioration, the Bank had depleted the approximately \$4,950,000 it received as additional capital in 2010.

Earnings

6. The Bank has engaged in unsafe or unsound banking practices in that the Bank has operated with inadequate earnings to fund its operations and augment capital. For the nine month period ending September 30, 2010, the Bank reported a net loss of \$6,070,000 which included a \$534,000 gain on the sale of securities. This represented a return on average assets of negative 2.52 percent. The Bank's net interest margin of 3.17 percent was adversely affected by the volume of nonperforming assets and declining loan and investment yields. The Bank's budget did not reflect changes in its original projections following the additional provision expenses associated with the deterioration in asset quality. In addition, the Bank's poor earnings are expected to continue due to losses caused by deteriorating asset quality.

Sensitivity to Market Risk

7. The Bank has engaged in unsafe or unsound banking practices in that it has not effectively monitored or managed the Bank's interest rate risk ("IRR"). The Bank's IRR policy threshold for Economic Value of Equity is not consistent with the elevated risk profile of the Bank and the Bank's capital position. The Bank's ratio of rate sensitive assets to rate sensitive liabilities indicated that it was liability sensitive.

Management

8. (a) By reason of the allegations above, the Bank has engaged in unsafe or unsound banking practices by operating with management and a Board of Directors ("Board") whose policies and practices are detrimental to the Bank and jeopardize the safety of the Bank's deposits.

(b) The Bank failed to have an audit charter outlining the parameters for the requirements of its Audit Committee's operations and governance.

(c) By reason of the allegations above, the Bank's management and the Board have engaged in unsafe or unsound banking practices in that it has failed to provide adequate supervision over and direction of the active officers of the Bank to prevent the practices described above.

Opportunity for Hearing

9. Notice is hereby given that a hearing will be held in Saint Petersburg, Florida, within 60 days from the date of service on the Bank of this NOTICE, 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: (1) to cease and desist from the unsafe or unsound

banking practices herein specified; and/or (2) to take affirmative action to correct the conditions resulting from such practices.

10. The hearing will be held before an Administrative Law Judge to be assigned by the Office of Financial Institution Adjudication pursuant to 5 U.S.C. § 3105. The hearing will be open to the public and in all respects will be conducted in compliance with the provisions of the Act and the FDIC Rules of Practice and Procedures.

11. The Bank is hereby directed to file an answer to this NOTICE within 20 days as provided by section 308.19 of the FDIC Rules of Practice and Procedures, 12 C.F.R. § 308.19. All papers filed or served in this proceeding shall be filed upon the Office of Financial Institution Adjudication, 3501 N. Fairfax Drive, Suite VS-D8116, Arlington, Virginia 22226-3500, pursuant to section 308.10 of the FDIC Rules of Practice and Procedure, 12 C.F.R. § 308.10. The Bank is encouraged to file any answer electronically with the Office of Financial Adjudication at ofia@fdic.gov.

12. In addition, copies of all papers filed in this proceeding shall be served upon the Executive Secretary, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429-9990, A. T. Dill, III, Assistant General Counsel, Legal Division, Enforcement Unit, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429-9990 and upon Andrea Fulton Toliver, Regional Counsel (Supervision), Federal Deposit Insurance

Corporation, Atlanta Regional Office, 10 Tenth Street, N.E. Suite 800, Atlanta, Georgia 30309-3906.

Pursuant to delegated authority.

Dated at Atlanta, Georgia this 13th day of July, 2011.

/s/

Thomas J. Dujenski
Regional Director