

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of	)	
	)	CONSENT ORDER
PEOPLES STATE BANK OF COMMERCE	)	
NOLENSVILLE, TENNESSEE	)	FDIC 11-212b
	)	
(Insured State Nonmember Bank)	)	

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The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Peoples State Bank of Commerce, Nolensville, Tennessee (“Bank”), under 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting board of directors, has executed a “STIPULATION TO THE ISSUANCE OF A CONSENT ORDER” (“STIPULATION”), dated November 2, 2011, that is accepted by the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation related to operating with inadequate capital, excessive levels of adversely classified assets that include loans to insiders, inadequate earnings, violations of laws and/or regulations, and marginal liquidity, to the issuance of this CONSENT ORDER (“ORDER”) by the FDIC.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) has been satisfied, the FDIC hereby orders that:

**CAPITAL INCREASE AND MAINTENANCE**

1. (a) Within 180 days after the effective date of this ORDER and while this ORDER is in effect, the Bank, after establishing an adequate allowance for loan and lease losses (“ALLL”), shall achieve and maintain its Tier 1 Leverage Capital ratio equal to or greater than 8.50 percent of the Bank’s Average Total Assets; shall achieve and maintain its Tier 1 Risk-Based Capital ratio equal to or greater than 10.00 percent of the Bank’s Total Risk-Weighted Assets; and shall achieve and maintain its Total Risk-Based Capital ratio equal to or greater than 11.00 percent of the Bank’s Total Risk Weighted Assets. Any increase in the Bank’s Tier 1 Capital necessary to meet the capital ratios required by this ORDER may be accomplished by:

- (1) The sale of securities in the form of common stock; or
- (2) The direct contribution of cash subsequent to November 15, 2010, by the directors and shareholders of the Bank by the Bank’s holding company; or
- (3) Receipt of an income tax refund or the capitalization subsequent to November 15, 2010, of a bona fide tax refund certified as being accurate by a certified public accounting firm; or
- (4) Any other method approved by the Regional Director and the Commissioner.

(b) If any such capital ratios are less than the percentages required by this ORDER, as determined as of the date of any Report of Condition and Income or at an examination by the FDIC or the State, the Bank shall, within 30 days after receipt of a written notice of the capital deficiency from the FDIC’s Regional Director, Division of Risk Management Supervision, Dallas Regional Office (“Regional Director”), and the Commissioner,

Tennessee Department of Financial Institutions (“Commissioner”) , present to the Regional Director and the Commissioner a plan to increase the Bank’s Tier 1 Capital or to take other measures to bring all the capital ratios to the percentages required by this ORDER (“Capital Plan”). After the Regional Director and the Commissioner respond to the Capital Plan, the Bank’s board of directors shall adopt the plan, including any modifications or amendments requested by the Regional Director and the Commissioner.

(c) Thereafter, the Bank shall immediately initiate measures detailed in the Capital Plan, to the extent such measures have not previously been initiated, to increase the Bank’s Tier 1 Capital by an amount sufficient to bring all the capital ratios to the percentages required by this ORDER within 90 days after both the Regional Director and the Commissioner respond to the plan.

(d) If all or part of the increase in Tier 1 Capital required by this ORDER is to be accomplished by the sale of new securities, the Bank’s board of directors shall adopt and implement a plan for the sale of such additional securities, including soliciting proxies and the voting of any shares or proxies owned 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 Federal securities laws. Prior to the implementation of the plan, and in any event, not less than 20 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review.

Any changes requested to be made in the plan or the materials by the FDIC shall be made prior to their dissemination. If the increase in Tier 1 Capital is to be provided by the sale of non-cumulative perpetual preferred stock, then all terms and conditions of the issue shall be presented to the Regional Director and the Commissioner for prior approval.

(e) In complying with the provisions of this ORDER and until such time as any such public offering is terminated, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities written notice of any planned or existing development or other change which is materially different from the information reflected in any offering materials used in connection with the sale of the Bank's securities. The written notice required by this paragraph shall be furnished within 10 days after the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber who received or was tendered the information contained in the Bank's original offering materials.

(f) The Capital Plan must include a contingency plan ("Contingency Plan") that shall include a plan to sell or merge the Bank in the event that the Bank:

- (1) Fails to maintain the minimum capital ratios required by the Order,
- (2) Fails to submit an acceptable Capital Plan or
- (3) Fails to implement or adhere to a Capital Plan to which no written objection was provided by the Regional Director and the Commissioner.

The Bank shall be required to implement the Contingency Plan only upon written notice from the Regional Director and the Commissioner.

(g) In addition, the Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, App. A.

(h) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325.

**ALLOWANCE FOR LOAN AND LEASE LOSSES  
AND  
AMENDED CALL REPORTS**

2. (a) Prior to the end of each calendar quarter, the Bank's board of directors shall review the adequacy of the Bank's ALLL. Such reviews shall include, at a minimum, the Bank's loan loss experience, an estimate of potential loss exposure in the portfolio, trends of delinquent and non-accrual loans and prevailing and prospective economic conditions. The minutes of the Bank's board of directors' meetings at which such reviews are undertaken shall include complete details of the reviews and the resulting recommended increases in the ALLL.

(b) Within 30 days after the effective date of this ORDER, the Bank shall review Consolidated Reports of Condition and Income filed with the FDIC on or after March 31, 2011, and amend said reports if necessary to accurately reflect the financial condition of the Bank as of the date of each such report. In particular, such reports shall contain a reasonable ALLL. Reports filed after the effective date of this ORDER shall also accurately reflect the financial condition of the Bank as of the reporting date.

(c) Within 30 days after the effective date of this ORDER, the Bank must use Financial Accounting Standards Board Accounting Standards Codification ("ASC") Number

450 and Number 310 (formerly Financial Accounting Standards No. 5 and No. 114 respectively) for determining the Bank's allowance for loan and lease losses reserve adequacy. Provisions for loan losses must be based on the inherent risk in the Bank's loan portfolio. The directorate must document with written reasons any decision not to require provisions for loan losses in the board minutes.

### **REDUCTION OF ADVERSELY CLASSIFIED LOANS TO INSIDERS**

3. (a) Within 90 days after the effective date of this ORDER, the Bank shall prepare and submit to the Regional Director and the Commissioner for review and comment a written plan ("Adversely Classified Insider Loan Reduction Plan") to eliminate, to the extent not already eliminated, the amount of loans or other extensions of credit advanced, directly or indirectly, to or for the benefit of Bank directors, executive officers, principal shareholders, or their related interests which were adversely classified in the Report of Examination as of November 15, 2010 ("Report of Examination"). For purposes of the Adversely Classified Insider Loan Reduction Plan, these terms shall be defined pursuant to Section 215.2 of Regulation O, 12 C.F.R. § 215.2. No new loans or other extensions of credit shall be granted to or for the benefit of such obligors without first providing the Regional Director and the Commissioner 30 days prior written notification of the anticipated action. Such plan shall include, but not be limited to:

- (1) Dollar levels to which the Bank shall reduce each extension of credit within 12 months after the effective date of this ORDER;
- and

- (2) Provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors. As used in this paragraph, "reduce" means to:
- a. Charge-off
  - b. Collect, or
  - c. Improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and the State.

(b) After the Regional Director and the Commissioner have responded to the Adversely Classified Insider Loan Reduction Plan, the Bank's board of directors shall adopt the plan as amended or modified by the Regional Director and the Commissioner. The Adversely Classified Insider Loan Reduction Plan will be implemented immediately to the extent that such provisions are not already in effect at the Bank.

**CLASSIFIED ASSETS - CHARGE-OFF AND PLAN FOR REDUCTION**

4. (a) Within 30 days after the effective date of this ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss by the FDIC or the State as a result of its examination of the Bank as of November 15, 2010. Elimination or reduction of these assets through proceeds of loans made by the Bank shall not be considered "collection" for the purpose of this paragraph.

(b) Within 90 days after the effective date of this ORDER, the Bank shall submit a written plan to reduce the remaining assets classified Doubtful and Substandard as of November 15, 2010, ("Classified Asset Plan") to the Regional Director and the Commissioner

for review. The Classified Asset Plan shall address each asset so classified with a balance of \$100,000 or greater. The Classified Asset Plan shall include any classified assets identified subsequent to the November 15, 2010, examination by the Bank internally or by the FDIC or the Department in a subsequent visitation or examination. For each identified asset, the Classified Asset Plan should provide the following information:

- (1) The name under which the asset is carried on the books of the Bank;
- (2) Type of asset;
- (3) Actions to be taken in order to reduce the classified asset; and
- (4) Timeframes for accomplishing the proposed actions.

The plan shall also include, at a minimum:

- (1) Review the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and
- (2) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

In addition, the Bank's plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the plan shall contain a provision requiring the submission of monthly progress reports to the Bank's board of directors and a provision mandating a review by the Bank's board of directors.

(c) The Bank shall present the plan to the Regional Director and the Commissioner for review. Within 30 days after the Regional Director's and the Commissioner's response, the plan, including any requested modifications or amendments shall be adopted by the



Bank's board of directors which approval shall be recorded in the minutes of the meeting of the Bank's board of directors. The Bank shall then immediately initiate measures detailed in the plan to the extent such measures have not been initiated.

(d) For purposes of the plan, the reduction of adversely classified assets as of November 15, 2010, shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's Allowance for Loan and Lease Losses and may be accomplished by:

- (1) Charge-off;
- (2) Collection;
- (3) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the State; or
- (4) Increase in the Bank's Tier 1 Capital.

(e) While this ORDER is in effect, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss as determined at any future visitation or examination conducted by the FDIC or the Department. The Bank shall also update the Classified Asset Plan as needed to reflect any assets subsequently classified as Doubtful or Substandard by the Bank internally or by the FDIC or the Department.

#### **MANAGEMENT CLAUSE – STAFFING STUDY**

5. (a) Within 60 days after the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director and the Commissioner. The consultant shall develop a written analysis and assessment of the Bank's management and

staffing needs (“Management Plan”) for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the consultant for review before it is executed. The contract or engagement letter, at a minimum, should include:

- (1) A description of the work to be performed under the contract or engagement letter;
- (2) The responsibilities of the consultant;
- (3) An identification of the professional standards covering the work to be performed;
- (4) Identification of the specific procedures to be used when carrying out the work to be performed;
- (5) The qualifications of the employee(s) who are to perform the work;
- (6) The time frame for completion of the work;
- (7) Any restrictions on the use of the reported findings; and
- (8) A provision for unrestricted examiner access to work papers.

(c) The Management Plan shall be developed within 180 days after the effective date of this ORDER. The Management Plan shall include, at a minimum:

- (1) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;
- (2) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;

- (3) Evaluation of all Bank officers [and staff members] to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to the Bank's established policies and practices, and restoration and maintenance of the Bank in a safe and sound condition; and
- (4) 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 identified in the Management Plan.

(d) The Management Plan shall be submitted to the Regional Director and the Commissioner for review and comment upon its completion. Within 30 days from the receipt of any comments from the Regional Director and the Commissioner, and after the adoption of any recommended changes, the Bank shall approve the Management Plan, and record its approval in the minutes of the board of directors' meeting. Thereafter, the Bank, its directors, officers, and employees shall implement and follow the Management Plan and/or any subsequent modification.

### **COMPLIANCE**

6. While this ORDER is in effect, the Bank's board of directors shall have the responsibility of ensuring that the Bank complies with the provisions of this ORDER. A monthly report regarding the status of the ORDER and any discussion relating to the report or the ORDER shall be noted in the minutes of the Bank's board of directors' meetings.

**DIVIDEND RESTRICTION**

7. While this ORDER is in effect, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director and the Commissioner.

**LIQUIDITY/ASSET/LIABILITY MANAGEMENT**

8. (a) Annually, while this ORDER is in effect, the Bank shall review its Contingency Funding Plan for adequacy and, based upon such review, shall make necessary revisions to the plan to strengthen funds management procedures.

(b) Within 30 days after the receipt of any comments from the Regional Director and the Commissioner regarding the previously submitted Contingency Funding Plan, and after revising the Contingency Funding Plan as necessary, the Bank shall adopt any such revised plan, which adoption shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the revised Contingency Funding Plan.

**PROFIT PLAN**

9. (a) Within 120 days after the effective date of this ORDER, and within the first (60) days of each calendar year thereafter, the board of directors shall develop a written Profit Plan consisting of goals and strategies for improving the earnings of the Bank for each calendar year. The written profit plan shall include, at a minimum:

- (1) Identification of the major areas in, and means by, which the board of directors will seek to improve the Bank's operating performance;
- (2) Realistic and comprehensive budgets;

- (3) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections on not less than a quarterly basis; and
- (4) A description of the operating assumptions that form the basis for and support major projected income and expense components.

(b) Such written Profit Plan and any subsequent modification thereto shall be submitted to the Regional Director and the Commissioner for review and comment. Within (30) days after the receipt of any comment from the Regional Director and the Commissioner, the Bank's board of directors shall approve the written Profit Plan which approval shall be recorded in the minutes of the Bank's board of directors. Thereafter, the Bank, its directors, officers, and employees shall follow the written Profit Plan and/or any subsequent modification.

### **STRATEGIC PLAN**

10. (a) Within 120 days after the effective date of this ORDER, the Bank shall prepare and adopt a comprehensive Strategic Plan. The Strategic Plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

- (b) The written Strategic Plan shall address, at a minimum:
- (1) Strategies for pricing policies and asset/liability management;
  - (2) Plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;
  - (3) Goals for reducing problem loans;

- (4) Plans for attracting and retaining qualified individuals to fill vacancies in the lending and accounting functions;
- (5) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings;
- (6) Formulation of a mission statement and the development of a strategy to carry out that mission;
- (7) Include a planning horizon of at least three years

(c) The Bank shall submit the Strategic Plan to the Regional Director and the Commissioner for review and comment. After consideration of all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of the Bank's board of directors' meeting. Thereafter, the Bank shall implement and follow the Strategic Plan.

(d) Within 60 days after the end of each calendar quarter following the effective date of this ORDER, the Bank's board of directors shall evaluate the Bank's performance in relation to the Strategic Plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Bank's board of directors' meeting at which such evaluation is undertaken.

(e) The Strategic Plan required by this ORDER shall be revised and submitted to the Regional Director and the Commissioner for review and comment 60 days after the end of each calendar year for which this ORDER is in effect. Within 30 days after receipt of all such comments from the Regional Director and the Commissioner and after consideration of all such comments, the Bank shall approve the revised plan, which approval shall be recorded in the minutes of the Bank's board of directors' meeting. Thereafter, the Bank shall implement the revised plan.

## **CORRECTION OF VIOLATIONS**

11. (a) Within 30 days after the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and regulation noted in the Report of Examination that are capable of being eliminated or corrected.

(b) Within 60 days after the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws and regulations.

(c) Within 60 days after the effective date of this ORDER, the Bank shall address any contraventions of policy noted in the Report of Examination.

## **BUSINESS PLAN**

12. While this ORDER is in effect, the Bank shall not enter into any new line of business without the prior written consent of the Regional Director.

## **SHAREHOLDER NOTIFICATION**

13. After the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its shareholders (1) in conjunction with the Bank's next shareholder communication, and also (2) 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 Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any changes requested by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

## PROGRESS REPORTS

14. Within 45 days after the end of the first calendar quarter following the effective date of this ORDER, and within 45 days after the end of each successive calendar quarter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by the ORDER have been accomplished and the Regional Director has released the Bank in writing from making additional reports.

The provisions of this ORDER shall not bar, stop, or otherwise prevent the FDIC 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 provision has been modified, terminated, suspended, or set aside by the FDIC and the State.

Issued pursuant to delegated authority this 4th day of November, 2011.

/s/ \_\_\_\_\_  
Kristie K. Elmquist  
Acting Regional Director  
Dallas Region  
Division of Risk Management Supervision  
Federal Deposit Insurance Corporation