

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

	)	
In the Matter of	)	
	)	ORDER TO
BANK OF LENOX	)	CEASE AND DESIST
LENOX, GEORGIA	)	
	)	FDIC-08-162b
(Insured State Nonmember Bank)	)	
	)	

Bank of Lenox, Lenox, Georgia ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and/or regulations 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 counsel for 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 11 day of December, 2008, 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 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 law and/or 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 violations of law and/or regulation:

- (a) operating with a board of directors ("Board) that has failed to provide adequate supervision over and direction to the management 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 a large volume of poor quality loans;
- (d) following hazardous lending and lax collection practices;
- (e) operating in such a manner as to produce operating losses; and
- (f) operating with inadequate equity capital and reserves in relation to the volume and quality of assets held by the Bank;
- (g) operating with inadequate routines and controls;
- (h) operating in violation of laws and/or regulations, and in contravention of statements of policy as more fully described on pages 8 through 12 of the Report of Examination of the Bank dated February 11, 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 Bank's Board shall develop and adopt an educational program for each member of the Board. The educational program shall include, at a minimum:

(i) specific training in the areas of lending, operations, and compliance with laws, rules and regulations applicable to banks chartered in the state of Georgia;

(ii) specific training in the duties and responsibilities of the Board in connection with the safe and sound operation of the Bank; and

(iii) provisions for periodic training.

(c) The Board shall document the training activities in the minutes of the next Board meeting following completion of the training. The Board's actions as required by this paragraph shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

COMPLIANCE WITH ORDER

2. 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.

MANAGEMENT

3. (a) The Bank shall have and retain qualified management. Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Each member of management shall be provided appropriate written authority from the Bank's Board, with such authority recorded in the Board minutes, to implement the provisions of this ORDER. Management shall include:

(i) a chief executive officer with proven ability in managing a bank of comparable size and complexity and in effectively implementing lending, investment and operating policies in accordance with sound banking practices;

(ii) a senior lending officer with a significant amount of appropriate lending, collection, and loan supervision experience, and experience in upgrading a low quality loan portfolio; and

(iii) a chief operations officer with a significant amount of appropriate experience in managing the operations of a bank of similar size and complexity in accordance with sound banking practices.

(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, earnings, capital adequacy, earnings, management effectiveness, risk management, liquidity and sensitivity to market risk.

(c) Within 60 days of the effective date of this ORDER, the Bank shall prepare written job descriptions for executive officers and members of senior management, including the chairman of the Board, chief executive officer, senior lending officer, and chief operations officer. The descriptions shall set forth the duties and responsibilities for each position. In addition, the descriptions shall address any lending, investment or other authorities associated with these job functions. The Bank shall also prepare an organization chart that designates lines of authority and responsibilities for each officer position of the Bank. The adequacy of the documents will be assessed by the Supervisory Authorities at future examinations and/or visitations.

(d) During the life of this ORDER, the Bank shall notify the FDIC's Atlanta Regional Office ("Regional Director") and the Commissioner (collectively, "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, as that term is defined in section 303.102 of the FDIC's Rules and Regulations, 12 C.F.R. § 102. The notification should include a description of the background and experience of the individual or individuals to be added or employed and must be received at least 30 days before such addition or employment is intended to become effective. 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

4. (a) Within 120 days from the effective date of this ORDER, the Bank shall have Tier 1 capital in such an amount as to equal or exceed seven (7%) percent of the Bank's total assets. Thereafter, during the life of this ORDER, the Bank shall maintain Tier 1 capital in such an amount as to equal or exceed seven (7%) percent of the Bank's total assets.

(b) Within 30 days from the effective date of this ORDER, the Bank shall develop and adopt a plan to meet the minimum risk-based capital requirements for a well-capitalized bank, as described in the FDIC Statement of Policy on Risk-Based Capital contained in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, Appendix A. The Plan shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

(c) The level of Tier 1 capital to be maintained during the life of this ORDER pursuant to Subparagraph 4(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 necessary to meet the requirements of Paragraph 4(a) of this ORDER may be accomplished by the following:

- (i) the sale of common stock; or
- (ii) the sale of noncumulative perpetual preferred stock; or
- (iii) the direct contribution of cash by the Board, shareholders, and/or parent holding company; or
- (iv) any other means acceptable to the Supervisory Authorities; or
- (v) any combination of the above means.

Any increase in Tier 1 capital necessary to meet the requirements of Paragraph 4(a) of this ORDER may not be accomplished through a deduction from the Bank's ALLL.

(e) If all or part of the increase in capital required by Paragraph 4 of this ORDER is accomplished by the sale of new securities, the Board shall 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 the

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, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429 and to the Commissioner, Georgia Department of Banking and Finance, 2990 Brandywine Road, Suite 200, Atlanta, Georgia 30341-5565, for review. Any changes requested by the FDIC or the Commissioner shall be made prior to their dissemination.

(f) In complying with the provisions of Paragraph 4 of this ORDER, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities, a written notice of any planned or existing development or other changes, which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within ten (10) days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

(g) For the purposes of this ORDER, the terms "Tier 1 capital" and "total assets" shall have, the meanings ascribed to them in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. §§ 325.2(v) and 325.2(x).

CASH DIVIDENDS

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

CHARGE-OFF AND REDUCTION OF CLASSIFIED ITEMS

6. (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 fifty (50) percent of all assets or portions of assets classified "Doubtful" in the ROE that have not been previously collected or charged off. (If an asset classified "Doubtful" is a loan or a lease, the Bank may, in the alternative, increase its ALLL by an amount equal to fifty (50) percent of the loan or lease classified "Doubtful.") 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 30 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 fifty (50) percent of those classified "Doubtful", unless otherwise approved in writing by the Supervisory Authorities.

(c) Within 120 days from the effective date of this ORDER, the Bank shall have reduced the assets classified "Substandard" in the Report to not more than \$2,340,000.

(d) Within 240 days from the effective date of this ORDER, the Bank shall have reduced the assets classified "Substandard" in the Report to not more than \$1,560,000.

(e) Within 360 days from the effective date of this ORDER, the Bank shall have reduced the assets classified "Substandard" in the Report to not more than \$780,000.

(f) The requirements of Subparagraphs 6(c), 6(d), and 6(e) of this ORDER are not to be construed as standards for future operations and, in addition to the foregoing, the Bank shall eventually reduce the total of all adversely classified assets. Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph. As used in Subparagraphs 6(c), 6(d), and 6(e) the word "reduce" means:

- (i) to collect;
- (ii) to charge-off; or
- (iii) to sufficiently improve the quality of assets adversely classified to warrant removing any adverse classification, as determined by the Supervisory Authorities.

NO ADDITIONAL CREDIT

7. (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" and is uncollected.

(c) Subparagraph 7(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.

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.

LOAN REVIEW

8. (a) Within 60 days of the effective date of this ORDER the Board shall develop a program of independent loan review that will provide for a periodic review of the Bank's loan portfolio and the identification and categorization for problem credits. At a minimum, the system shall provide for:

- (i) prompt identification of loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason why the loan warrants special attention; and assessment of the degree of risk that the loan will not be repaid according to its terms;
- (ii) action plans to reduce the Bank's risk exposure from each identified relationship;
- (iii) prompt identification of all outstanding balances and commitments attributable to each obligor identified under the requirements of Subparagraph 8(i), including outstanding balances and commitments attributable to related interests of such obligors, including the obligor of record, relationship to the primary obligor identified under Subparagraph 8(i), and an assessment of the risk exposure from the aggregate relationship;
- (iv) identification of trends affecting the quality of the loan portfolio, potential problem areas, and action plans to reduce the Bank's risk exposure;
- (v) assessment of the overall quality of the loan portfolio;
- (vi) identification of credit and collateral documentation exceptions and an action plan to address the identified deficiencies;
- (vii) identification and status of violations of laws or regulations with respect to the lending function and an action plan to address the identified violations;

- (viii) identification of loans that are not in conformance with the Bank's lending policy and an action plan to address the identified deficiencies;
 - (ix) identification of loans to directors, officers, principal shareholders, and their related interests;
 - (x) an assessment of the ability of individual members of the lending staff to operate within the framework of the Bank's loan policy and applicable laws, rules, and regulations; and an action plan to address the identified deficiencies; and
 - (xi) a mechanism for reporting periodically, but in no event less than quarterly, the information developed in Subparagraphs 8(a)(i) through 8(a)(viii) above to the Board and the Audit Committee.
- The report should also describe the action(s) taken by management with respect to problem credits.

The Bank shall submit the program 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 program, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the program. Upon implementation, a copy of each report shall be submitted to the Board, as well as documentation of the actions taken by the Bank or recommendations to the Board that address identified deficiencies in specific loan relationships or the Bank's policies, procedures, strategies, or other elements of the Bank's lending activities. Such reports

and recommendations, as well as any resulting determinations, shall be recorded and retained in the minutes of the meeting of the Board.

LENDING AND COLLECTION POLICIES

9. Within 60 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement a written lending and collection policy to provide effective guidance and control over the Bank's lending function, which policy shall include, at a minimum, revisions to address criticisms and recommendations enumerated on page 4 of the Report pertaining to the administration of participation loans purchased and commercial real estate lending and specific guidelines for placing loans on a nonaccrual basis. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. Such policy and its implementation shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

REDUCE CONCENTRATIONS OF CREDIT

10. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop a written plan and policy for systematically reducing the Bank's portfolio of loans or other extensions of credit advanced or committed, directly or indirectly, to or for the benefit of any borrowers noted on pages 15 through 22 of the ROE. At a minimum, the plan shall include:

- (i) amounts and percent of capital to which the Bank shall reduce each concentration;
- (ii) time-frames for achieving the reduction in dollar levels identified in response to Subparagraph 10(a)(i);

(iii) provisions for the submission of monthly, written progress reports to the Board for review and notation in the minutes of its meetings; and

(iv) procedures for monitoring the Bank's compliance with the plan.

(b) Within 90 days from the effective date of this ORDER, the Bank shall reduce each credit concentration as specified on page 22 of the Report to an amount, which shall be less than twenty-five (25) percent of the Bank's Tier 1 capital for each individual credit concentration. In addition, the Bank shall not make new extensions of credit to any borrower or associated entities, which will equal twenty-five (25) percent or more of the Bank's Tier 1 capital.

ESTABLISH/MAINTAIN ALLOWANCE FOR LOAN/LEASE LOSSES

11. Within 30 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 policy shall provide for a review of the ALLL at least once each calendar quarter. Said review should be completed at least 10 days prior to the end of each 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 should 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 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 Report

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 shall be in compliance with FDIC statements of policy, and its implementation shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

PLAN FOR EXPENSES AND PROFITABILITY

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 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 Subparagraph 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 Subparagraph 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. The plan and budget required by Subparagraph 12(a) of this ORDER shall be acceptable

to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

COMPENSATION

13. (a) Within 120 days from the effective date of this ORDER, the Bank shall adopt an employee compensation plan after undertaking a review of compensation paid to any of the Bank's executive officers. At a minimum, the review shall include the following:

- (i) a critical analysis of each individual's background, experience, duties and responsibilities, and an appraisal of each individual's performance compared to the present level of compensation;
- (ii) a comparison of each officer's total compensation with compensation received by officers with similar responsibilities in similar institutions; and
- (iii) a determination of whether present executive officers are capable of implementing Board directives and policies, operating within the constraints of laws and regulations, and operating the Bank in a prudent manner.

(b) For the purposes of this paragraph, "compensation" refers to any and all salaries, bonuses, and other benefits of every kind and nature whatsoever, whether paid directly or indirectly. The compensation plan and its implementation shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

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

14. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, which are more fully set out on pages 8 through 10 of the Report. Within 60 days from the effective date of this ORDER, the Bank shall also correct all contraventions of FDIC statements of policy which are more fully set out on pages 11 through 13 of the Report. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations and statements of policy.

POLICY FOR ROUTINE AND CONTROL

15. Within 60 days from the effective date of this ORDER, the Bank shall take all reasonable efforts to correct the internal routine and control deficiencies detailed on pages 2 and 27 of the Report. Deficiencies not corrected because of economic feasibility or other reasons shall be explained in writing and submitted to the Supervisory Authorities for comment. Additionally, the Bank shall adopt and implement policies and procedures to prevent the recurrence of any deficiencies noted. Such policies and procedures and their implementation shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

DISCLOSURE

16. 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, 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.

recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the plan.

PROGRESS REPORTS

17. Within 30 days of the end of the first quarter following the effective date of this ORDER, and within thirty (30) days of the end of each 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.

This ORDER shall become effective ten (10) days 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 12th day of December, 2008.

Mark S. Schmidt
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.

Dated this ____ of _____, 2008.

Robert Braswell
Commissioner
Department of Banking and Finance
State of Georgia