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[¶12,115] **In the Matter of The Patterson Bank, Patterson, Georgia**, Docket No. 03-156b (10-20-03).

A cease and desist order was issued, based on findings by the FDIC that it had reason to believe that respondent was engaged in unsafe and unsound practices.

[.1] **Management—Qualifications Specified**

[.2] **Board of Directors—Increased Participation in Bank Affairs Required**

[.3] **Capital—Maintain Tier 1 Capital**

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[.4] **Loan Loss Reserve—Establishment of or Increase Required**

[.5] **Assets—Charge-off or Collection**

[.6] **Assets—Adversely Classified Assets—Reduction Required**

[.7] **Loans—Extensions of Credit—To Borrowers with Existing Adversely Classified Credits**

[.8] **Assets—Special Mention—Eliminate Deficiencies**

[.9] **Loan Policy—Internal Review and Grading—Minimum Requirements Specified**

[.10] **Loan Policy—Preparation or Revision of Policy Required**

[.11] **Profit Plan—Preparation of Plan Required**

[.12] **Violations of Law—Corrections of Violations Required**

[.13] **Documentation Exceptions—Correction Required**

[.14] **Bank Operations—Internal Controls, Correction of Weaknesses Required**

[.15] **Dividends—Dividends Restricted**

[.16] **Progress Report—Written Report Required**

**In the Matter of
THE PATTERSON BANK
PATTERSON, GEORGIA
(Insured State Nonmember Bank)
ORDER TO CEASE AND DESIST**

FDIC-03-156b

THE PATTERSON BANK, PATTERSON, 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 the Official Code of Georgia Annotated Section 7-1-91, 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 of Banking and Finance for the State of Georgia ("Commissioner") dated October 8, 2003, 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 had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had 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 regulations:

- (a) operating with management whose policies and procedures are detrimental to the Bank and jeopardize the safety of its deposits;
- (b) operating with an inadequate level of capital protection for the kind and quality of assets held;
- (c) operating with a large volume of adversely classified loans or assets, and/or delinquent loans and/or non-accrual loans;
- (d) operating with an inadequate allowance for loan and lease losses for the volume, kind, and quality of loans and leases held;
- (e) engaging in hazardous lending and lax collection practices;
- (f) operating in such a manner as to produce operating losses;
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- (g) operating with inadequate routines and controls; and
- (h) violating laws and/or regulations as more fully described on pages 14 through 20 of the Report of Examination dated June 16, 2003 ("Report").

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

1. MANAGEMENT

[.1] (a) During the life of this ORDER, the Bank shall have and retain management having 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 of directors ("Board") to implement the provisions of this ORDER. To facilitate having and retaining qualified management, within 60 days of the effective date of this ORDER, the Board shall develop a written analysis and assessment of the Bank's management and staffing needs ("Management Plan"), which shall include at a minimum:

- (i) identification of both the type and number of officer positions needed to manage and properly supervise the affairs of the Bank;
- (ii) identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (iii) evaluation of each Bank officer, and in particular the chief executive

officer and the senior lending officer, 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 maintenance of the Bank in a safe and sound condition;

(iv) written job descriptions, including lending, investment or other authority, for executive officers and members of senior management, including the chairman of the Board, the chief executive officer, and the senior lending officer; and

(v) an organizational chart.

(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, and liquidity.

(c) Upon completion of the Management Plan, it shall be submitted to the Regional Director of the FDIC's Atlanta Regional Office ("Regional Director") and the Commissioner (collectively, "Supervisory Authorities") for review and comment. Within 30 days of the receipt of any comment from the Supervisory Authorities, and after consideration of such comment, the Board shall approve the written Management Plan and/or any subsequent modification.

(d) During the life of this ORDER, the Bank shall notify 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, as that term is defined in section 303.101 of the FDIC's Rules and Regulations, 12 C.F.R. §303.101. 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 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.

2. BOARD OF DIRECTORS

[.2] (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. Board 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,

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charged-off, and recovered loans; investment activities; operating policies; and individual committee actions. Board minutes shall fully document these reviews and approvals, including the names of any dissenting directors.

(b) Within 30 days of the effective date of this ORDER, the Bank shall develop and adopt an educational program for each member of the Board, which 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 next meeting following completion of the training. The Board's actions as required by this paragraph 3 shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

3. CAPITAL

[.3] (a) Within 60 days of 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. In the event that the Bank's Tier 1 capital ratio falls below seven (7) percent of the Bank's total assets, the Bank shall immediately notify the Supervisory Authorities and shall restore Tier 1 capital to seven (7) percent of total assets within 30 days.

(b) The level of Tier 1 capital to be maintained during the life of this ORDER 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.

(c) 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 except with the prior written consent of the Supervisory Authorities.

(d) For the purpose of this ORDER, the terms "Tier 1 capital" and "total assets" shall have the meanings ascribed to them in Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325.

4. ALLL

[.4] Within 30 days from the effective date of this ORDER, the Board shall review the adequacy of the Bank's 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 shall be completed at least ten (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 Board's 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, present and prospective economic conditions, and may include such other factors as the Board deems relevant. The minutes of the Board meeting at which such review is undertaken shall indicate the results of the review. A deficiency in the ALLL shall be remedied in the calendar quarter it is discovered, prior to submitting the Report of Condition, by a charge to current operating earnings. The Bank's policy for determining the adequacy of the ALLL and its implementation shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

5. 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" and 50 percent of those assets classified "Doubtful" in the Report 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 50 percent of the loan or lease classified "Doubtful.") Elimination of these assets through proceeds of other loans made by the
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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 50 percent of those classified "Doubtful" unless otherwise approved in writing by the Supervisory Authorities. (If an asset classified "Doubtful" is a loan or lease, the Bank may, in the alternative, increase its ALLL by an amount equal to 50 percent of the loan or lease classified "Doubtful.")

6. REDUCTION OF OTHER CLASSIFIED ASSETS

[.6] (a) Within 60 days of the effective date of this ORDER, the Bank shall submit to the Supervisory Authorities a written plan to effect the reduction and/or improvement of any lines of credit in excess of \$100,000 which were classified "Substandard" in the Report and those assets classified "Doubtful" that have not previously been charged off. In developing such plan, the Bank shall, at a minimum:

(i) review the financial position of each such borrower, including source of repayment, repayment ability, and alternative repayment sources; and

(ii) evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

(b) Such plan shall include, but not be limited to, the following:

(i) dollar levels to which the Bank shall reduce each asset by February 28, 2004, August 31, 2004, and February 28, 2005; and

(ii) provisions for the submission of monthly progress reports to the Board and notation in minutes of the meetings of the Board.

(c) The requirements of this paragraph 6 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 in these assets through the proceeds of other loans made by the Bank is not considered collection for purposes of this paragraph 6. As used in this paragraph 6, the word "reduce" means to:

(i) collect;

(ii) charge-off; or

(iii) improve the quality of such assets so as to warrant removal of any adverse classification by the Supervisory Authorities.

7. 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 7(a) 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) Paragraph 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; and

(iii) how the Bank's position would be improved.

The signed certification shall be made a part of the minutes of the meeting of the Board or designated committee, and a copy of the signed certification shall be retained in the borrower's credit file.

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8. SPECIAL MENTION ASSETS

[.8] Within 60 days from the effective date of this ORDER, the Bank shall correct the cited deficiencies in the loans listed for "Special Mention" on pages 32 and 33 of the Report.

9. INTERNAL LOAN REVIEW

[.9] Within 60 days from the effective date of this ORDER, the Bank shall review its internal loan review and grading system to ensure that the system accurately identifies the levels of risk exposure within the Bank's loan portfolio. The Board shall ensure that the system is fully implemented. The Bank's internal loan review and grading system and its implementation shall be acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

10. LENDING AND COLLECTION POLICIES

[.10] 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, including credit administration, which policy shall include, at a minimum, revisions to address all items of criticism enumerated on pages 3 and 4 of the Report, including but not limited to, adopting specific guidelines for allowing the extension of payment due dates and/or final maturity, for paying and/or charging off overdrafts, for maintaining adequate loan documentation, and for meeting the standards for real estate lending set forth in 12 C.F.R. Part 365. 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.

11. BUDGET/PROFIT PLAN

[.11] Within 60 days from the effective date of this ORDER, the Bank shall formulate and implement a written plan to improve earnings. This plan shall be forwarded to the Supervisory Authorities for review and comment and shall, at a minimum:

(a) identify the major areas in, and means by which, the Board will seek to improve the Bank's operating performance;

(b) require realistic and comprehensive budgets;

(c) require 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 monthly basis; and

(d) describe operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(e) coordinate with the Bank's loan, investment, and operating policies and budget and profit planning, with the funds management policy.

Following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plan required by this paragraph 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.

12. ELIMINATE/CORRECT ALL VIOLATIONS OF LAW AND/OR CONTRAVENTIONS OF STATEMENTS OF POLICY

[.12] Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and contravention of statements of policy identified on pages 14 through 20 of the Report. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

13. DOCUMENTATION EXCEPTIONS

[.13] Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all credit data or collateral documentation exceptions on loans listed on pages 35 through 38 of the Report.

14. INTERNAL ROUTINE AND CONTROLS

[.14] Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all the weaknesses in the Bank's system of internal controls identified on pages 11 and 12 of the Report.

15. CASH DIVIDENDS

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

16. PROGRESS REPORTS

[.16] Within 30 days of the end of the first quarter following the effective date of this ORDER, and within 30 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Supervisory
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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 Reports of Condition and 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 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 and the authority of the Commissioner under

Official Code of Georgia Annotated Section 7-1-91.

Dated at Atlanta, Georgia, this 20th day of October, 2003.

The Georgia Department of Banking and Finance, having duly approved the foregoing ORDER, and the Bank, through its Board, agree that the issuance of the ORDER by the FDIC shall be binding as between the Bank and the Commissioner to the same degree and legal effect that such ORDER would be binding on the Bank if the Commissioner had issued a separate Order that included and incorporated all of the provisions of the ORDER.

Last
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