

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	
	)	CONSENT ORDER
CENTRAL BANK	)	
SAVANNAH, TENNESSEE	)	FDIC-12-537b
	)	
(Insured State Nonmember Bank)	)	
_____	)	

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for CENTRAL BANK, SAVANNAH, TENNESSEE, ("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 14, 2012, 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, relating to weaknesses in capital, asset quality, liquidity, and earnings, 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) have been satisfied, the FDIC hereby orders that:

**MANAGEMENT – BOARD SUPERVISION**

1. Within 30 days after the effective date of this ORDER, the Bank's Board shall increase its participation in the affairs of the Bank by assuming full responsibility for the

approval of the Bank's policies and objectives and for the supervision of the Bank's management, including all the Bank's activities. The Board's participation in the Bank's affairs shall include, at a minimum, monthly meetings in which the following areas shall be reviewed and approved by the Board: reports of income and expenses; new, overdue, renewed, insider, charged-off, delinquent, nonaccrual, and recovered loans; investment activities; operating policies; and individual committee actions. The Bank's Board minutes shall document the Board's reviews and approvals, including the names of any dissenting directors.

### MANAGEMENT

2. (a) The Bank shall have and retain qualified management. Each member of management shall possess qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management personnel shall be evaluated on their ability to:

- (1) Comply with the requirements of the ORDER;
- (2) Operate the Bank in a safe and sound manner;
- (3) Comply with applicable laws and regulations; and
- (4) Restore and manage all aspects of the Bank to a safe and sound condition, including improving the Bank's asset quality, capital adequacy, earnings, management effectiveness, liquidity, and its sensitivity to market risk.

(b) While this ORDER is in effect, the Bank shall notify the Regional Director of the FDIC's Dallas Region ("Regional Director") and the Commissioner of the Tennessee Department of Financial Institutions ("Commissioner") in writing of any changes in

management. The notification must include the name(s) and background(s) of any such personnel and must be provided 30 days prior to the individual(s) assuming the new position(s).

### **CAPITAL INCREASE AND MAINTENANCE**

3. (a) Within 180 days after the effective date of this ORDER, the Bank, after establishing an Allowance for Loan and Lease Losses (“ALLL”) consistent with accounting and regulatory guidelines, shall increase and maintain its Tier 1 Leverage Capital ratio equal to or greater than 8 percent; its Tier 1 Risk-Based Capital ratio equal to or greater than 10 percent; and its Total Risk-Based Capital ratio equal to or greater than 12 percent. 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 Bank stock; or
- (2) Receipt of an income tax refund or the capitalization of a bona fide tax refund certified as being accurate by a certified public accounting firm; or
- (3) 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 (“Call Report”) or at an examination by the FDIC or the Tennessee Department of Financial Institutions (“State”), the Bank shall, within 30 days after receipt of a written notice of the capital deficiency from the Regional Director and the Commissioner, present to the Regional Director and the Commissioner a capital 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. After the Regional Director and the Commissioner respond to the capital plan, the Bank's Board 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 30 days after the Regional Director and the Commissioner respond to the capital 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 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.

#### **DIVIDEND RESTRICTION**

4. As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director and the Commissioner.

#### **LOAN UNDERWRITING AND ADMINISTRATION**

5. (a) Within 60 days after the effective date of this ORDER, and annually thereafter, the Bank's Board shall review the Bank's loan policy and procedures for effectiveness and, based upon this review, shall make all necessary revisions in order to strengthen the Bank's lending procedures and abate additional loan deterioration.

(b) The Bank's loan underwriting and administrative procedures as required by this paragraph, at a minimum, shall include provisions:

- (1) Establishing review and monitoring procedures to ensure that all lending personnel are adhering to established lending procedures and that the directorate is receiving timely and fully documented reports on loan activity, including any deviations from established policy;

- (2) Requiring that all extensions of credit originated or renewed by the Bank be supported by current credit information and collateral documentation, including lien searches and the perfection of security interests; have a defined and stated purpose; and have a predetermined and realistic repayment source and schedule. Credit information and collateral documentation shall include current financial information, profit and loss statements or copies of tax returns, and cash flow projections, and shall be maintained throughout the term of the loan;
- (3) Requiring loan committee review and monitoring of the status of repayment and collection of overdue and maturing loans, as well as all loans classified “Substandard” in the June 25, 2012 Report of Examination;
- (4) Requiring a written plan to lessen the risk position in each line of credit identified as a problem credit on the Bank’s internal loan watch list;
- (5) Requiring prior written approval by the Bank’s Board for any extension of credit, renewal, or disbursement in an amount which, when aggregated with all other extensions of credit to that person and related interests of that person, exceeds \$500,000. For the purpose of this paragraph “Related Interest” is defined as in Section 215.2(n) of Regulation O, 12 C.F.R. § 215.2(n);

- (6) Requiring accurate reporting of past due loans to the Bank's Board on at least a monthly basis;
- (7) Addressing concentrations of credit and diversification of risk, including goals for portfolio mix, establishment of limits within loan and other asset categories, and development of a tracking and monitoring system for the economic and financial condition of specific geographic locations, industries, and groups of borrowers;
- (8) Establishing standards for extending unsecured credit;
- (9) Establishing standards for initiating collection efforts;
- (10) Establishing officer lending limits and limitations on the aggregate level of credit to any one borrower which can be granted without the prior approval of the Bank's Board;
- (11) Requiring that collateral appraisals be completed prior to the making of secured extensions of credit, and that periodic collateral valuations be performed for all secured loans listed on the Bank's internal watch list, criticized in any internal or outside audit report of the Bank, or criticized in any Report of Examination of the Bank by the FDIC or the State;
- (12) Prohibiting the issuance of standby letters of credit unless the letters of credit are well secured and/or are supported by current and complete financial information;
- (13) Prohibiting the payment of any overdraft in excess of \$5,000 without the prior written approval of the Bank's loan committee;

- (14) Establishing limitations on the maximum volume of loans in relation to total assets; and
- (15) Establishing review and monitoring procedures to ensure compliance with FDIC's regulation on appraisals pursuant to Part 323 of the FDIC's Rules and Regulations, 12 C.F.R. Part 323.

(c) The Bank shall submit the loan policies containing the revised procedures to the Regional Director and the Commissioner for comment. After the Regional Director and the Commissioner have responded to the policies with the revised procedures, the Bank's Board shall then adopt the revised policies as amended or modified by the Regional Director and the Commissioner. The Bank shall then immediately implement the revised policies to the extent that they are not already in effect at the Bank.

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

6. (a) Within 60 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 June 25, 2012, ("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 \$250,000 or greater. The Classified Asset Plan shall include any classified assets identified subsequent to the June 25, 2012 examination by the Bank internally or by the FDIC or the State 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) Time frames for accomplishing the proposed actions.

The Classified Asset Plan shall also include, at a minimum:

- (5) A review of the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and
- (6) An evaluation of the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

Further, the Classified Asset Plan shall contain a provision requiring the submission of monthly progress reports to the Bank's Board and a provision mandating a review by the Bank's Board.

(b) The Bank shall present the Classified Asset Plan to the Regional Director and the Commissioner for review. Within 30 days after the Regional Director's and the Commissioner's response, the Classified Asset Plan, including any requested modifications or amendments shall be adopted by the Bank's Board, which approval shall be recorded in the meeting minutes of the Bank's Board. The Bank shall then immediately initiate measures detailed in the Classified Asset Plan to the extent such measures have not been initiated.

(c) For purposes of the Classified Asset Plan, the reduction of adversely classified assets as of June 25, 2012, shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's ALLL 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.

(d) 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 State. 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 State.

#### **LOAN COMMITTEE AND LOAN REVIEW REQUIREMENTS**

7. (a) Within 30 days after the effective date of this ORDER, the Bank's Board shall establish a loan review committee to periodically oversee the process of identifying, reviewing, and categorizing problem credits in order to ensure grading accuracy. The committee shall review and approve the Bank's internal problem loan report and cause such report to be filed with the Bank's Board at each Board meeting. This report shall include the following information:

- (1) The overall quality of the loan portfolio;
- (2) The identification, by type and amount, of each problem or delinquent loan; and
- (3) The identification of all loans not in conformance with the Bank's lending policy.

(b) At least two members of the loan review committee shall be directors not employed in any capacity by the Bank other than as a director.

(c) Within 60 days after the effective date of this ORDER, the Bank's internal watch list shall be reviewed by the loan review committee to assure loans are graded consistent with regulatory definitions for Substandard and Doubtful. Thereafter, the watch list shall be reviewed and updated at least monthly. The watch list shall be submitted to the Board on a monthly basis for review.

#### **RESTRICTION ON ADVANCES TO CLASSIFIED BORROWERS**

8. (a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose existing credit has been classified Loss by the FDIC or the State as the result of its examination of the Bank, either in whole or in part, and is uncollected, or to any borrower who is already obligated in any manner to the Bank on any extension of credit, including any portion thereof, that has been charged off the books of the Bank and remains uncollected.

(b) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose extension of credit is classified Doubtful and/or Substandard by the FDIC or the State as the result of its examination of the Bank, either in whole or in part, and is uncollected, unless the Bank's Board has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the best interests of the Bank. The statement shall be placed in the appropriate loan file and included in the minutes of the applicable Board meeting. The requirements of this paragraph

shall not prohibit the Bank from renewing credit already extended to a borrower after full collection, in cash, of interest due from the borrower.

**SPECIAL MENTION AND TECHNICAL EXCEPTIONS**

9. (a) Within 90 days after the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed for Special Mention in the Report of Examination as of June 25, 2012. Where efforts are unsuccessful, the Bank shall document the loan file to memorialize the corrective efforts attempted.

(b) Within 90 days after the effective date of this ORDER, the Bank shall correct the technical exceptions listed in the Report of Examination as of June 25, 2012. Where efforts are unsuccessful, the Bank shall document the loan file to memorialize the corrective efforts attempted.

(c) Within 120 days after the effective date of this ORDER, the Bank shall implement a system of monitoring and correcting loan documentation exceptions identified either by the Bank internally or by the FDIC or the State in subsequent visitations or examinations to reduce the occurrence of such exceptions in the future.

**CONCENTRATIONS – PLAN FOR REDUCTION**

10. (a) Within 90 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and comment a written plan (“Concentration Reduction Plan”) to reduce the Construction and Development loan concentration of credit identified in the Report of Examination as of June 25, 2012, to comply with the joint Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk

Management Practices (December 12, 2006) (“CRE Guidance”). Such Concentration Reduction Plan shall specify the Bank’s procedures for making any additional advances that would increase the concentration or create new concentrations and shall include, but not be limited to:

- (1) Dollar levels to which the Bank shall reduce the concentration; and
- (2) Provisions for the submission of monthly written progress reports to the Bank’s Board for review and notation in the meeting minutes of the Bank’s Board.

(b) For purposes of the Concentration Reduction Plan, “reduce” means to:

- (1) Charge-off;
- (2) Collect;
- (3) Increase Tier 1 Capital; or
- (4) Convert to another category of loans provided such conversion complies with all applicable loan underwriting standards and loan policy and procedures.

(c) After the Regional Director and the Commissioner have responded to the Concentration Reduction Plan, the Bank’s Board shall then adopt the Concentration Reduction Plan as amended or modified by the Regional Director and the Commissioner. The Concentration Reduction Plan shall be implemented immediately to the extent that the provisions of the Concentration Reduction Plan are not already in effect at the Bank.

#### **LIQUIDITY/ASSET-LIABILITY MANAGEMENT**

11. (a) Within 60 days after the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Commissioner for review and comment a

written plan addressing liquidity (“Liquidity Plan”). Annually thereafter, while this ORDER is in effect, the Bank shall review the Liquidity Plan for adequacy and, based upon such review, shall make necessary revisions to the Liquidity Plan to maintain adequate provisions to meet the Bank’s liquidity needs. The initial Liquidity Plan shall include, at a minimum, provisions:

- (1) Establishing limitations on the net loans to total assets ratio which, within 180 days after the effective date of this ORDER, shall be reduced to not more than 70 percent. The requirements of this paragraph shall not be construed as standards for future operations, and the Bank’s total loan to total assets ratio shall be monitored on a monthly basis and maintained at a level consistent with safe and sound banking practices;
- (2) Identifying the source and use of borrowed and/or volatile funds;
- (3) Establishing lines of credit at correspondent banks, including the Federal Reserve Bank, that would allow the Bank to borrow funds to meet depositor demands if the Bank’s other provisions for liquidity proved to be inadequate;
- (4) Requiring the retention of securities and/or other identified categories of investments that can be liquidated within one day in amounts sufficient (as a percentage of the Bank’s total assets) to ensure the maintenance of the Bank’s liquidity posture at a level consistent with short- and long-term liquidity objectives;
- (5) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;

- (6) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;
- (7) Addressing the use of borrowings (i.e., seasonal credit needs, match funding mortgage loans, etc.) and providing for reasonable maturities commensurate with the use of the borrowed funds; addressing concentration of funding sources; and addressing pricing, collateral requirements, and potential regulatory restrictions with specific allowable funding channels (i.e., brokered deposits, internet deposits, Federal funds purchased and other correspondent borrowings); and
- (8) Establishing procedures for managing the Bank's interest rate risk which comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996), and the Supervisory Policy Statement on Investment Securities and End-user Derivatives Activities (April 23, 1998).

(b) Within 30 days after the receipt of all such comments from the Regional Director and the Commissioner, and after revising the Liquidity Plan as necessary, the Bank shall adopt the Liquidity Plan, which adoption shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement the Liquidity Plan.

#### **BUDGET AND PROFIT PLAN**

12. (a) By February 15, 2013, or 60 days after the effective date of this ORDER, whichever is later, the Bank shall formulate and submit to the Regional Director and the

Commissioner for review and comment a written profit plan ("Profit Plan") and a realistic, comprehensive budget for all Call Report (Schedule RI) categories of income and expense for calendar year 2013. The Profit Plan required by this paragraph shall contain formal goals and strategies, be consistent with sound banking practices, reduce discretionary expenses, improve the Bank's overall earnings and net interest income, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) Within 30 days after the end of each calendar quarter following completion of the Profit Plan and budget required by this paragraph, the Bank's Board shall evaluate the Bank's actual performance in relation to the written Profit Plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the Board meeting when such evaluation is undertaken.

(c) A written Profit Plan and budget shall be prepared for each calendar year for which this ORDER is in effect and shall be submitted to the Regional Director and the Commissioner for review and comment within 45 days after the end of each year. Within 30 days after receipt of all such comments from the Regional Director and the Commissioner and after adoption of any recommended changes, the Bank shall then approve the written Profit Plan and budget, which approval shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement and follow the Profit Plan.

#### **CORRECTION OF VIOLATIONS**

13. (a) Within 90 days after the effective date of this ORDER, the Bank shall eliminate and/or correct, to the extent possible, all violations of law and regulation noted in the June 25, 2012 Report of Examination.

(b) Within 90 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 90 days after the effective date of this ORDER, the Bank shall address any contraventions of policy noted in the June 25, 2012 Report of Examination.

### **NOTIFICATION TO SHAREHOLDERS**

14. 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.

### **BUSINESS PLAN**

15. 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 and the Commissioner.

### **COMPLIANCE COMMITTEE – NON-EMPLOYEE DIRECTORS REQUIRED**

16. No later than the next regularly scheduled Board meeting, the Bank's Board shall establish a committee of the Bank's board of directors charged with the responsibility of

ensuring that the Bank complies with the provisions of this ORDER. At least four of the members of such committee shall be directors not employed in any capacity by the Bank other than as a director. The committee shall report monthly to the full Bank's Board, and a copy of the report and any discussion relating to the report or the ORDER shall be noted in the minutes of the Bank's Board meetings. The establishment of this subcommittee shall not diminish the responsibility or liability of the entire Bank's Board to ensure compliance with the provisions of this ORDER.

### **PROGRESS REPORTS**

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

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

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.

Dated this 14<sup>h</sup> day of December, 2012.

/s/

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Kristie K. Elmquist  
Regional Director  
Dallas Region  
Division of Risk Management Supervision  
Federal Deposit Insurance Corporation