

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of	)	
	)	CONSENT ORDER
THE COASTAL BANK	)	
SAVANNAH, GEORGIA	)	FDIC-11-055b
	)	
(Insured State Nonmember Bank)	)	
	)	

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The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for The Coastal Bank, Savannah, Georgia, (“Bank”), under section 3(q) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a “STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER” (“CONSENT AGREEMENT”), dated May 26, 2011, that is accepted by the FDIC and the Georgia Department of Banking and Finance (“Department”). The Department may issue an order pursuant to section 7-1-91 of the Official Code of Georgia Annotated, GA Code Ann. Section 7-1-91 (1985). With the CONSENT AGREEMENT, 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 asset quality, management, earnings, capital, liquidity, and sensitivity to market risk, to the issuance of this Consent Order (“ORDER”) by the FDIC and the Department.

Having determined that the requirements for issuance of an order under section 8(b) of the Act, 12 U.S.C. § 1818(b) and section 7-1-91 of the Official Code of Georgia Annotated, GA Code Ann. Section 7-1-91 (1985) have been satisfied, the FDIC and the Department hereby order that:

## **BOARD OF DIRECTORS**

1. (a) As of the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank, maintaining 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 continuing to hold Board meetings to be held no less frequently than monthly at which, at a minimum, the following areas will continue to be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including management's responses; and compliance with this ORDER. Board meeting 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 Board shall establish a Board committee ("Directors' Committee"), consisting of at least five members, to oversee the Bank's compliance with the 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 Directors' Committee shall formulate and review monthly reports detailing the Bank's actions with respect to compliance with the ORDER. The Directors' Committee shall present a report to the Board at each regularly scheduled Board meeting, and such report shall detail the Bank's adherence to this ORDER. Such report shall be recorded in the appropriate minutes of the Board's meeting and shall be retained in the Bank's records. Establishment of this committee does not in any way diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

## MANAGEMENT

2. (a) Within 60 days from the effective date of this ORDER, the Bank shall have and retain qualified management with the qualifications and experience commensurate with assigned duties and responsibilities at the Bank. Each member of management shall be provided appropriate written authority from the Board to implement the provisions of this ORDER. At a minimum, management shall include the following:

(i) A chief executive officer with proven ability in managing a bank of comparable size and in effectively implementing lending, investment and operating policies in accordance with safe and 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 operating 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 based 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, but not limited to, asset quality, capital adequacy, earnings, management effectiveness, risk management, liquidity, and sensitivity to market risk.

(c) During the life of this ORDER, the Bank shall notify the Regional Director of the FDIC's Atlanta Regional Office ("Regional Director") and the Department (collectively, "Supervisory Authorities"), in writing, of the resignation or termination of any of the Bank's directors or senior executive officers. Prior to the addition of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 of the Act, 12 U.S.C. § 1831i, 12 C.F.R. §§ 303.100-303.104, and any Department requirement for prior notification and approval. If the Regional Director issues a notice of disapproval pursuant to 12 U.S.C. § 1831i, with respect to the proposed individual, then such individual may not be added to the Board or employed by the Bank.

### **CAPITAL**

3. (a) During the life of this ORDER, the Bank shall continue to maintain a Leverage Capital Ratio of at least eight percent (8%) and a Total Risk-Based Capital Ratio of at least ten percent (10%) as those capital ratios are defined in 12 C.F.R. Part 325.

(b) The level of Tier 1 Capital to be maintained during the life of this ORDER pursuant to this paragraph 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) Within 90 days from the effective date of this ORDER, the Bank shall submit to the Supervisory Authorities a written capital plan. Such capital plan shall detail the steps that the

Bank shall take to achieve and maintain the capital requirements set forth in this ORDER. In developing the capital plan, the Bank shall take into consideration:

- (i) The volume of the Bank's adversely classified assets;
- (ii) The nature and level of the Bank's asset concentrations;
- (iii) The adequacy of the Bank's ALLL;
- (iv) The anticipated level of retained earnings;
- (v) Anticipated and contingent liquidity needs; and
- (vi) The source and timing of additional funds to fulfill future capital needs.

(d) In addition, the capital plan must include a contingency plan in the event that the Bank has failed to:

- (i) Maintain the minimum capital ratios required by this paragraph;
- (ii) Submit an acceptable capital plan as required by this subparagraph; or
- (iii) Implement or adhere to a capital plan to which the Supervisory

Authorities has taken no written objection pursuant to this paragraph.

(e) The contingency plan shall include a plan to sell or merge the Bank. The Bank shall implement the contingency plan upon written notice from the Supervisory Authorities.

#### **CHARGE-OFF LOSS AND DOUBTFUL**

4. (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" in the

Report of Examination dated September 27, 2010 (the "Report"), that have not been previously collected or charged-off. Elimination of any 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 10 days from the receipt of any official Report of Examination of the Bank from the FDIC or the Department, eliminate from its books, by collection, charge-off, or other proper entry, the remaining balance of any asset classified "Loss" and 50 percent of those assets classified "Doubtful" unless otherwise approved in writing by the Supervisory Authorities.

### **CLASSIFIED ASSET REDUCTION**

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall submit a written plan to the Supervisory Authorities to reduce the remaining assets classified "Substandard" in the Report. In addition, within 60 days from receipt of any future regulatory examination report, the Bank shall submit a written plan to reduce the remaining assets classified "Doubtful" or "Substandard" in such report. The plan shall address each asset so classified with a balance of \$400,000 or greater and provide the following:

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

(b) The plan shall also include, at a minimum:

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

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

(c) 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 require the submission of monthly progress reports to the Board and mandate a review by the Board.

(d) The Bank shall present the plan to the Supervisory Authorities for review. Within 30 days from receipt of any comment from the Supervisory Authorities, the plan, including any requested modifications or amendments, shall be adopted by the Board and the approval shall be recorded in the Board minutes. The Bank shall then immediately implement the plan.

(e) For purposes of the plan, the reduction of adversely classified assets 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:

(i) Charge-off;

(ii) Collection;

(iii) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the Department; and/or

(iv) Increase in the Bank's Tier 1 Capital.

**NO ADDITIONAL CREDIT**

6. (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 credit already extended to a borrower after full collection, in cash, of interest due from the 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."

(c) The preceding limitations on additional credit 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 extension of any additional credit pursuant to this paragraph, either in the form of an 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 that:

(i) The failure of the Bank to extend such credit would be detrimental to the best interests of the Bank, including an explanatory statement of why it would be detrimental to the Bank's best interests;

(ii) 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.

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

### **CONCENTRATIONS OF CREDIT**

7. Within 60 days from the effective date of this ORDER, the Bank shall perform a risk segmentation analysis with respect to the concentrations of credit listed on the Concentrations page(s) of the Report. The analysis should incorporate applicable guidance set forth in *Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices*, FIL-104-2006 (Dec. 12, 2006). Concentrations should be identified by product type, geographic distribution, underlying collateral, or other asset groups which are considered economically related, and in the aggregate represent a large portion of the Bank's Tier 1 Capital and ALLL. A copy of this analysis and a written plan to systematically reduce the concentrations of credit identified in the Report shall be provided to the Supervisory Authorities. The analysis, plan and its implementation shall be in a form and manner acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

### **LENDING AND COLLECTION POLICIES**

8. (a) Within 60 days from the effective date of this ORDER, the Board shall ensure the full implementation of its written lending and collection policy to provide effective guidance and control over the Bank's lending and credit administration functions, which implementation shall include the resolution of those exceptions enumerated in the Report. 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 at subsequent examinations and/or visitations.

(b) The Board shall adopt procedures whereby officer compliance with the revised loan policy is monitored and exceptions are reported to the Board. The procedures adopted shall be reflected in the minutes of a Board meeting at which all members are present and the vote of each is noted.

### **ALLOWANCE FOR LOAN AND LEASE LOSSES AND CALL REPORT**

9. (a) Immediately upon the issuance of this ORDER, the Board shall make a provision to replenish the ALLL, which as of the date of the examination was underfunded as set forth in the Report.

(b) Within 30 days from the effective date of this ORDER, the Board shall review the adequacy of the ALLL and shall maintain 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 in time to properly report the ALLL in the quarterly Consolidated Reports of Condition and Income. The review shall 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. The review should include a review of compliance with ASC 450 (Topic 450, "Contingencies") and ASC 310-10-35 (Section 35, "Subsequent Measurement General," of Subtopic 310-10). The policy shall adhere to the guidance set forth in the

*Interagency Policy Statement on the Allowance for Loan and Lease Losses*, FIL-105-2006 (Dec. 13, 2006). A deficiency in the ALLL shall be remedied in the calendar quarter it is discovered, prior to submitting the next Consolidated Reports of Condition and Income, by a charge to current operating earnings. The Board meeting minutes for the 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 and its implementation shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

### **STRATEGIC PLAN**

10. (a) Within 90 days from the effective date of this ORDER, the Bank shall prepare and submit to the Supervisory Authorities an acceptable written business/strategic plan covering the overall operation of the Bank. At a minimum the plan shall establish objectives for the Bank's earnings performance, growth, balance sheet mix, liability structure, capital adequacy, and reduction of nonperforming and underperforming assets, together with strategies for achieving those objectives. The plan shall also identify capital, funding, managerial, and other resources needed to accomplish its objectives.

(b) The Board shall approve the business/strategic plan, which approval shall be recorded in the Board meeting minutes for the meeting at which the business/strategic plan was approved.

### **BUDGET**

11. (a) Within 60 days from the effective date of this ORDER, the Bank shall review and revise its written plan and a comprehensive budget for all categories of income and expense for

the calendar year ending December 31, 2011. The plan and budget required by this paragraph shall include formal goals and strategies, consistent with sound banking practices, and take into account the Bank's other written policies in order 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 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, 2011 and November 30 of each subsequent year and submit the plan and budget to the Supervisory Authorities for review and comment by December 15, 2011 and December 15 of each subsequent year. The plan and budget required by this ORDER shall be acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

(b) On a monthly basis, the Board shall continue to evaluate the Bank's actual performance in relation to the plan and budget required by 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 actual performance compared to the budget shall be submitted to the Supervisory Authorities with the quarterly progress reports required by this ORDER.

### **LIQUIDITY AND FUNDS MANAGEMENT**

12. (a) Within 60 days from the effective date of this ORDER, the Bank shall review and revise its written plan to address liquidity, contingency funding, interest rate risk, and asset liability management.

(b) The plan shall incorporate the guidance contained in *Liquidity Risk Management*, FIL-84-2008 (Aug. 26, 2008). The plan shall provide restrictions on the use of brokered and internet deposits consistent with safe and sound banking practices.

(c) A copy of the plan shall be submitted to the Supervisory Authorities and its implementation shall be in a form and manner acceptable to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

(d) Beginning with the effective date of this ORDER, the Bank's management shall review its liquidity position to ensure that the Bank has sufficient liquid assets or sources of liquidity to meet current and anticipated liquidity needs. This review shall include an analysis of the Bank's sources and uses of funds (cash flow analysis). The results of this review shall be presented to the Board for review each month, with the review noted in the Board meeting minutes.

### **ASSET/LIABILITY POLICY**

13. Within 60 days from the effective date of this ORDER, the Board shall review and revise, as necessary, the Bank's written policy and procedures for managing interest rate risk, taking into consideration examination findings. The policy shall comply with the *Joint Agency Policy Statement on Interest Rate Risk*, FIL-52-1996 (June 26, 1996), shall be consistent with the comments and recommendations detailed in the Report, and shall include, at a minimum, the means by which the interest rate risk position will be monitored, the establishment of risk parameters, and provisions for periodic reporting to management and the Board regarding interest rate risk. Such policy and its implementation shall be satisfactory to the Supervisory Authorities at subsequent examinations and/or visitations.

## **RESTRICTIONS OF CERTAIN PAYMENTS**

14. While this ORDER is in effect, the Bank shall not declare or pay dividends, bonuses, or any form of payment resulting in a reduction of capital, without the prior written approval of the Supervisory Authorities. All requests for prior approval shall be received at least 30 days prior to the proposed dividend or bonus payment declaration date (or at least 5 days with respect to any request filed within the first 30 days from the date of this ORDER) and shall contain, but not be limited to, an analysis of the impact such dividend or bonus payment would have on the Bank's capital, income, and/or liquidity positions.

## **COMPENSATION**

15. (a) Within 90 days from the effective date of this ORDER, the Board shall undertake a review of compensation paid to all of the Bank's senior executive officers, as defined in 12 C.F.R. § 303.101(b), and implement an employee compensation plan. At a minimum, the review shall include the following:

(i) An analysis of each officer's background, experience, duties and responsibilities;

(ii) An evaluation of each officer's performance compared to the present level of compensation;

(iii) A comparison of each officer's total compensation to compensation received by officers with similar responsibilities in similar institutions; and

(iv) A determination of whether present officers are capable of implementing Board directives and policies, complying with applicable 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.

### **INTERNAL AUDIT PROGRAM**

16. Within 90 days from the effective date of this ORDER, the Bank shall review and revise its internal audit program for the Bank to provide adequate internal routines and controls within the Bank consistent with safe and sound banking practices. Such program and its implementation shall, at a minimum, be comprehensive in scope to address all areas that pose an elevated risk to the Bank as more fully set forth in the Report and shall be satisfactory to the Supervisory Authorities at the initial review and at subsequent examinations and/or visitations.

### **OTHER REAL ESTATE**

17. Within 60 days from the effective date of this ORDER, the Board shall review and revise its written policy for managing the Other Real Estate of the Bank. Such policy shall be consistent with all applicable laws, regulations, and other regulatory guidelines regarding appraisals, including, but not limited to, the FDIC's appraisal regulations as described in 12 C.F.R. § 323, and *Guidance on Other Real Estate*, FIL-62-2008 (July 1, 2008). The Bank shall submit the policy to the Supervisory Authorities for review. The Bank shall approve the policy, which

approval shall be recorded in the Board meeting minutes. Thereafter, the Bank shall implement and fully comply with the policy.

### **BROKERED DEPOSITS**

18. Throughout the effective life of this ORDER, the Bank shall not accept, renew, or rollover any brokered deposit, as defined in 12 C.F.R. § 337.6(a)(2), unless it is in compliance with the requirements of 12 C.F.R. § 337.6(b) which governs the solicitation and acceptance of brokered deposits by insured depository institutions. The Bank shall comply with the restrictions on the effective yields on deposits as described in 12 C.F.R. § 337.6.

### **SPECIAL MENTION**

19. Within 60 days from the effective date of this ORDER, the Bank shall correct the cited deficiencies in the loans listed for "Special Mention" in the Report.

### **NO MATERIAL GROWTH WITHOUT NOTICE**

20. While this ORDER is in effect, the Bank shall notify the Supervisory Authorities at least 60 days prior to undertaking asset growth that exceeds ten percent (10%) or more per annum or initiating material changes in asset or liability composition. In no event shall asset growth result in noncompliance with the capital maintenance provisions of this ORDER unless the Bank receives prior written approval from the Supervisory Authorities.

### **VIOLATIONS OF LAW, REGULATION, AND CONTRAVENTION OF POLICY**

21. Within 30 days from the effective date of this ORDER, the Bank will eliminate and/or correct all violations of laws, regulations, and/or contraventions of statements of policy in the

Report and shall adopt and implement appropriate procedures to ensure future compliance with all such applicable federal and state laws, regulations, and/or statements of policy.

### **PROGRESS REPORTS**

22. Within 30 days from the end of the first full quarter following the effective date of this ORDER, and within 30 days from 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 Consolidated Reports of Condition and 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. All progress reports and other written responses to this ORDER shall be reviewed by the Board and made a part of the appropriate Board meeting minutes.

### **SHAREHOLDER DISCLOSURE**

23. Within 45 days from the effective date of this ORDER, the Bank shall provide to its shareholders or otherwise furnish a description of this ORDER, in conjunction with the Bank's next shareholder communication and in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room MB-5073, Washington, D.C. 20429 and to the Commissioner, Georgia Department of Banking and Finance, 2990 Brandywine Rd., Suite 200, Atlanta, Georgia 30341-5565 for non-objection or comment at least twenty (20) days



The Georgia Department of Banking and Finance 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 Official Code of Georgia Annotated § 7-1-91(1985).

Dated this 31st day of May, 2011.

By: \_\_\_\_\_  
/s/  
Robert M. Braswell  
Commissioner  
Department of Banking and Finance  
State of Georgia