

UNITED STATES OF AMERICA
BEFORE
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

STATE OF ALABAMA
ALABAMA STATE BANKING DEPARTMENT

_____)	
In the Matter of)	Docket No. 06-021-B-SM
)	
BANK OF YORK)	Cease and Desist Order Issued on Consent
York, Alabama)	Pursuant to the Federal Deposit Insurance
_____)	Act, as amended

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of the Bank of York, York, Alabama (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, the Bank has consented to the issuance of a Cease and Desist Order (the "Order") by the Board of Governors of the Federal Reserve System (the "Board of Governors") and the Alabama State Department of Banking (the "Superintendent");

WHEREAS, on July 11, _____, 2006, the board of directors, at a duly constituted meeting, adopted a resolution authorizing and directing J.C. McElroy, Jr. to consent to this Order on behalf of the Bank and consenting to compliance by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. 1813(u)), with each and every provision of this Order and waiving any and all rights that the Bank may have pursuant to section 8 of the FDI Act (12 U.S.C. 1818) to: (i) a hearing for the purpose of taking evidence on any matters set forth in this Order; (ii) judicial review of this Order; (iii) contest the issuance of this Order by the Board of Governors pursuant to section 8 of the FDI Act and the Superintendent pursuant to Section 5-2A-12 (1975) of the Alabama Banking Code; and (iv) challenge or contest, in any

manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provisions hereof.

NOW, THEREFORE, IT IS HEREBY ORDERED that, pursuant to section 8(b)(1) of the FDI Act, and Section 5-2A-12 of the Code of Alabama, the Bank and its institution-affiliated parties shall cease and desist and take affirmative action as follows:

Management Review

1. (a) Within 60 days of this Order, the board of directors shall conduct an analysis and assessment of the Bank’s management and staffing needs and qualifications, with particular emphasis on its loan administration, loan collection, asset/liability management, and operational needs (the “Management Review”). The primary purpose of the Management Review shall be to aid in the development of a management structure suitable to the Bank that is adequately staffed by qualified and trained personnel. The Management Review shall, at a minimum, address, consider, and include:

(i) identification of both the type and number of officer positions needed to manage and supervise properly the affairs of the Bank;

(ii) evaluation of each Bank officer to determine whether these individuals possess the ability, experience, and other qualifications required to perform competently present and anticipated duties, including adherence to the Bank’s established policies and practices, restore and maintain the Bank to a safe and sound condition, and comply with the requirements of this Order;

(iii) a plan to recruit, hire, or appoint additional or replacement personnel with the requisite ability, experience, and other qualifications required to perform competently their assigned duties; and

(iv) an organization chart.

(b) Upon completion of the Management Review, the Bank shall forward to the Federal Reserve Bank of Atlanta (the “Reserve Bank”) and the Superintendent a written report that includes findings and conclusions of the Management Review, and a description of specific actions that the board of directors proposes to take to strengthen the Bank’s management.

(c) In appointing any new officers or directors, the Bank shall:

(i) comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. 225.71 *et seq.*); and

(ii) at least 30 days prior to appointment, make a written request to the Superintendent for approval of the proposed appointment that includes a description of the background and experience of the individual to be appointed.

(d) The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation’s regulations (12 C.F.R. Part 359).

Board of Directors Oversight

2. Within 90 days of this Order, the board of directors shall submit to the Reserve Bank and the Superintendent a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over and supervision of the Bank’s senior management and major operations and activities, including, at a minimum:

(i) the credit risk management program, including loan underwriting, documentation, and administration;

(ii) internal control systems;

(iii) market and liquidity risk management;

(iv) training programs for the board of directors, management, and staff, including, but not limited to, ongoing credit administration and compliance training; and

(v) profitability and the budget process;

(b) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and applicable laws and regulations;

(c) the identification and establishment of board of directors and officer committees that are needed to provide guidance and oversight to Bank management;

(d) a description of the detailed information to be included in the periodic reports that will be reviewed by the board of directors in its oversight of the operations and management of the Bank, including information sufficient to assess management's compliance with applicable written plans, policies, procedures, and programs; and

(e) the deficiencies related to the board of directors' oversight of management noted in the report of the examination of the Bank conducted by the Reserve Bank and the Superintendent that concluded in March 2006 (the "Report of Examination").

3. Within 90 days of this Order and semi-annually thereafter, the board of directors shall review management's adherence to the Bank's written policies and procedures and shall prepare written findings and conclusions of this review and written descriptions of any management or operational changes that are made as a result of this review. The written

findings, conclusions, and descriptions shall be included in the minutes of the board of directors meetings and shall be retained for subsequent supervisory review.

Loan Policies, Procedures, and Administration

4. Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the Superintendent acceptable written loan policies and procedures that shall, at a minimum, address, consider, and include:

(a) Underwriting standards that:

(i) are appropriate for each type of loan product offered by the Bank;

and

(ii) require the Bank to document a clear source of repayment and the borrower's ability to service the debt in a timely manner;

(b) a complete description of required loan documentation and collateral for each specific type of loan, and a requirement for the maintenance of such documentation in the loan files;

(c) limits on officers' lending authority;

(d) procedures for renewing, extending, or modifying existing loans, including procedures for documenting the bases for each renewal, extension or modification;

(e) a prohibition on the capitalization of interest;

(f) controls to ensure uniform adherence to all loan policies and procedures;

and

(g) the deficiencies in loan policies and procedures noted in the Report of Examination.

5. Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the Superintendent acceptable written procedures for loan administration that shall, at a minimum, address, consider, and include:

(a) Separation of duties among the lending, credit administration, and loan operations functions;

(b) the disbursement of loan proceeds;

(c) responsibilities for exceptions tracking;

(d) release of collateral; and

(e) the deficiencies in loan operations noted in the Report of Examination.

6. (a) The Bank shall immediately take all steps necessary, consistent with generally accepted accounting principles, to reverse any previously accrued but uncollected interest on any loan that has been placed in non-accrual status, as provided in the Instructions for the Preparation of Reports of Condition and Income.

(b) The Bank shall not accrue interest on any asset that is or becomes 90 days or more past due as to principal or interest, unless such asset is “well-secured” and “in the process of collection” as those terms are used in the Instructions for the Preparation of Reports of Condition and Income.

7. (a) Within 90 days of this Order, the Bank shall take all steps necessary to correct all documentation and credit information deficiencies noted in the Report of Examination, including obtaining accurate and current financial statements and appraisals. In all cases where the Bank is unable to obtain needed documentation or credit information, it shall document in written memoranda the actions taken to secure the information and the reason the

information could not be obtained, and shall maintain such documentation in the credit file for subsequent supervisory review.

(b) The Bank shall adopt written procedures designed to reduce loan documentation exceptions. The Bank shall provide to the Reserve Bank and the Superintendent a copy of the procedures and a list of resolved technical exceptions within 60 days of this Order.

Loan Review

8. (a) Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the Superintendent an acceptable program for the independent review and grading of the Bank's loan portfolio to identify and categorize the credit quality of the Bank's loans. The program shall, at a minimum, address, consider, and include:

- (i) the scope and frequency of the loan review;
- (ii) standards and criteria for assessing the credit quality of the loans;
- (iii) application of loan grading standards and criteria to the loan portfolio;
- (iv) grouping of loans based on the varying degrees of credit and other risk that may be presented under the applicable grading standards and criteria;
- (v) assessment of the likelihood that each loan exhibiting credit and other risk will not be repaid according to its terms and conditions;
- (vi) identification of any loan that is not in conformance with the Bank's loan policy;
- (vii) identification of any loan that presents any unsafe or unsound banking practice or condition or is otherwise in violation of any law, regulation, or policy statement; and

(viii) an annual written report to the board of directors that identifies the status of those loans that are adversely graded and the prospects for full collection or strengthening of the quality of any such loans.

(b) Within 60 days of this Order, the Bank shall hire, appoint or contract with a qualified individual or firm to administer the loan review program. The qualifications of the individual or firm shall be evaluated on the bases of: training in loan review or examination procedures; knowledge of loan documentation requirements; loan review or examination experience; ability to evaluate compliance with the Bank's written loan and loan review policies, and knowledge of applicable laws, regulations and sound lending practices.

Asset Improvement

9. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated in any manner to the Bank on any extension of credit or portion thereof that has been charged-off by the Bank or classified, in whole or part, "loss" or "doubtful" in the Report of Examination or in any subsequent report of examination as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend any additional credit to any borrower whose extension of credit has been classified "substandard" in the Report of Examination or in any subsequent report of examination, without the prior approval of the board of directors, who shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank's interest in the ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank's written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified,

all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the board of directors meetings, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review.

(c) For the purposes of this Order, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. 215.2(n)).

10. (a) Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the Superintendent an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral or other means on each loan or other asset in excess of \$50,000 that (i) was past due as to principal or interest more than 90 days as of the date of this Order or was adversely classified in the Report of Examination and (ii) has not been previously been charged-off.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$50,000 becomes past due as to principal and interest for more than 90 days, is adversely classified internally by the Bank, or is adversely classified in any subsequent report of examination or visitation of the Bank, the Bank shall submit to the Reserve Bank and the Superintendent an acceptable written plan to improve the Bank's position on such loan or asset.

(c) The plan for each loan or other asset shall be formally approved by the Bank's board of directors or loan committee and shall, at a minimum, include:

(i) the current status of the loan or other asset, including book and nonbook carrying value, and the nature and value of supporting collateral;

(ii) proposed actions to improve, reduce, or eliminate the loan or other asset, time frames for such actions, and projected balance owing and value of any anticipated additional collateral; and

(iii) where appropriate, the borrower's acknowledgement of and response to the plan.

(d) Within 30 days of the end of the next calendar quarter following the due date for submission of the initial asset improvement plan, and within 30 days of the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Superintendent to update the asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset, and changes in the nature and value of supporting collateral.

Allowance for Loan and Lease Losses

11. Within 10 days 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 that have not been previously collected in full or charged off. Thereafter, the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss," unless otherwise approved in writing by the Reserve Bank and the Superintendent.

12. (a) The Bank shall maintain, through charges to current operating income, an adequate valuation reserve for loan and lease losses (the "ALLL"). The adequacy of the ALLL shall be determined in light of the volume of criticized loans, the current level of past due and

nonperforming loans, past loan loss experience, evaluation of the probable losses in the Bank's loan portfolio, including the potential for the existence of unidentified losses in loans adversely classified, the imprecision of loss estimates, the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 21, 1993, July 2, 2001, and March 1, 2004, and examiners' criticisms noted in the Report of Examination.

(b) Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the Superintendent a description of the methodology used to determine the Bank's ALLL. Thereafter, the Bank shall conduct, at least on a calendar quarterly basis, an assessment of its ALLL and, within 30 days of the end of each calendar quarter, shall submit to the Reserve Bank and the Superintendent the quarterly assessment, including the methodology used in determining the amount of ALLL for that quarter. The Bank shall maintain for subsequent supervisory review documentation to support the methodology used for each quarterly assessment.

Asset/ Liability Management

13. Within 75 days of this Order, the Bank shall submit to the Reserve Bank and the Superintendent an acceptable plan to improve risk oversight and monitoring of the Bank's asset/liability management process. The plan shall, at a minimum:

(a) Detail the revisions to the interest rate risk, liquidity, and investment policies that include risk limits, steps to address out of limit positions, and required analyses, monitoring, and reporting to the board of directors of strategic decisions made by the Bank's asset/liability committee ("ALCO");

(b) require comprehensive stress scenario analyses on borrowing and investment instruments and strategies containing embedded options; and

(c) ensure that adequate management expertise and monitoring programs are in place to manage or revise current ALCO strategies.

Capital Plan

14. (a) Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the Superintendent an acceptable written plan to maintain a sufficient capital position at the Bank. The plan shall, at a minimum, address, consider, and include:

(i) the current and future capital requirements of the Bank, including compliance with the Capital Adequacy Guidelines for Superintendent Member Banks: Risk-Based Measure and Tier I Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(ii) the asset quality, condition, and risk profile of the Bank;

(iii) the anticipated level of retained earnings and dividends of the Bank;

(iv) the source and timing of additional funds to fulfill the Bank's future capital requirements and to maintain the adequacy of the Bank's ALLL; and

(v) the Bank's projected or anticipated asset growth.

(b) The board of directors shall monitor and review the sufficiency of the Bank's capital position on a monthly basis and shall reflect such reviews in the minutes of the board of directors meetings.

Audit

15. Within 90 days of this Order, the board of directors shall submit to the Reserve Bank and the Superintendent an acceptable written internal audit program that shall, at a minimum, address, consider, and include:

- (a) Compliance with the Interagency Policy Statement on the Internal Audit Function and its Outsourcing, issued March 17, 2003;
- (b) a direct reporting line from the internal auditor to the board of directors;
- (c) procedures for management to review audit reports quarterly, respond in writing to criticisms in the audit report, and implement corrective actions that address the audit findings;
- (d) the submission to the board of directors of the quarterly audit reports and management responses; and
- (e) the internal audit deficiencies noted in the Report of Examination.

Bank Secrecy Act Compliance

16. (a) Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the Superintendent acceptable written revisions to the Bank's program to ensure compliance with applicable anti-money laundering ("AML") laws, rules, and regulations, including the Bank Secrecy Act (31 U.S.C. 5311 *et seq.*) ("BSA"); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103); and sections 208.62 and 208.63 of Regulation H of the Board of Governors (12 C.F.R. 208.62 and 208.63). The revised BSA/AML program shall, at a minimum, be designed to:

- (i) improve internal controls, particularly in the areas of transaction monitoring and currency transaction reporting exemption procedures (31 C.F.R. 103.22);
- (ii) improve the Bank's customer due diligence program to reasonably ensure the identification and timely, accurate, and complete reporting of all known or suspected violations of law or suspicious transactions at the Bank to law enforcement and supervisory authorities as required by applicable regulations;

(iii) ensure that all appropriate personnel timely complete training in all aspects of BSA/AML legal and regulatory requirements and the Bank's internal policies and procedures; and

(iv) provide adequate resources to support the BSA compliance officer, including sufficient staff levels commensurate with the Bank's size and risk profile.

Information Technology

17. Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the Superintendent an acceptable plan to address the information technology deficiencies noted in the Report of Examination, including, but not limited to, implementation of a business continuity plan and employee training.

Compliance with Laws and Regulations

18. The Bank shall immediately take all necessary steps to correct all violations of laws and regulations set forth in the Report of Examination. In addition, the board of directors shall take necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

Dividends

19. The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and the Superintendent. All requests for prior approval shall be received by the Reserve Bank and the Superintendent at least 30 days prior to the proposed dividend declaration date or stock repurchase or redemption. All requests shall contain, but not be limited to, current and projected information on earnings, cash flow, capital, asset quality, and ALLL needs of the Bank.

Strategic Plan and Budget

20. (a) Within 120 days of this Order, the Bank shall submit to the Reserve Bank and the Superintendent a strategic plan and budget for the Bank for 2007 that shall, at a minimum, address, consider, and include:

(i) the responsibilities of the board of directors regarding the definition, approval, implementation, and monitoring of the strategic plan and budget;

(ii) an identification of the major areas in, and means by which, the board of directors and Bank management shall seek to improve the Bank's earnings and operating performance;

(iii) a realistic and comprehensive budget that includes the operating assumptions that form the basis for, and adequately support, major projected income and expense components and provisions needed to establish and maintain an adequate loan loss reserve; and

(iv) a budget review process incorporating the use of pro forma income statements in the analysis of budgeted versus actual income and expenses.

(b) The Bank shall submit to the Reserve Bank and the Superintendent a strategic plan and budget for each calendar year subsequent to 2007 at least one month prior to the beginning of the calendar year.

Approval, Implementation, and Progress Reports

21. (a) The Bank shall submit written policies, procedures, plans, and programs that are acceptable to the Reserve Bank and the Superintendent within the applicable time periods set forth in paragraphs 4, 5, 8(a), 10, 13, 14, 15, 16, and 17 of this Order.

(b) The Bank shall adopt the approved policies, procedures, plans, and programs within 10 days of approval by the Reserve Bank and the Superintendent. The Bank

shall thereafter implement and fully comply with the approved policies, procedures, plans, and programs. During the term of this Order, the approved policies, procedures, plans, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Superintendent.

(c) Within 30 days after the end of each calendar quarter (September 30, December 31, March 31, and June 30) following the date of this Order, the board of directors shall submit to the Reserve Bank and the Superintendent written progress reports detailing the form and manner of all actions taken to secure compliance with this Order and the results thereof. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Reserve Bank and the Superintendent have, in writing, released the Bank from making further reports.

Communications

22. All communications regarding this Order shall be sent to:

- (a) Mr. Steve Wise
Assistant Vice President
Federal Reserve Bank of Atlanta
1000 Peachtree Street, N.E.
Atlanta, Georgia 30309-4470
- (b) Mr. John D. Harrison
Superintendent of Banks
401 Adams Avenue, Ste. 680
Montgomery, Alabama 36130-1201
- (c) Mr. J.C. McElroy
Chairman of the Board of Directors
Bank of York
Post Office Box 96
York, Alabama 36925

23. Notwithstanding any provision of this Order to the contrary, the Reserve Bank and the Superintendent may, in their joint discretion, grant written extensions of time to the Bank to comply with any provision of this Order.

24. The provisions of this Order shall be binding upon the Bank and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

25. Each provision of this Order shall remain effective and enforceable until jointly stayed, modified, terminated or suspended in writing by the Reserve Bank and the Superintendent.

26. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Superintendent, or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

27. The Alabama Superintendent of Banks, having duly approved this Order, and the Bank, through its board of directors, agree that the issuance of this Order by the Board of Governors shall be binding as between the Bank and the Alabama Superintendent of Banks to the same degree and legal effect that such Order would be binding on the Bank if the

Alabama Superintendent of Banks had issued a separate Order that included and incorporated all of the provisions of this Order pursuant to the provisions of Section 5-2A-12 of the Code of Alabama.

By order of the Board of Governors of the Federal Reserve System effective this 14th day of August, 2006.

BANK OF YORK

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: (signed)
J.C. McElroy, Jr.

By: (signed)
Jennifer J. Johnson
Secretary of the Board

ALABAMA SUPERINTENDENT
OF BANKS

By: (signed)
John D. Harrison
Superintendent of Banks
State of Alabama